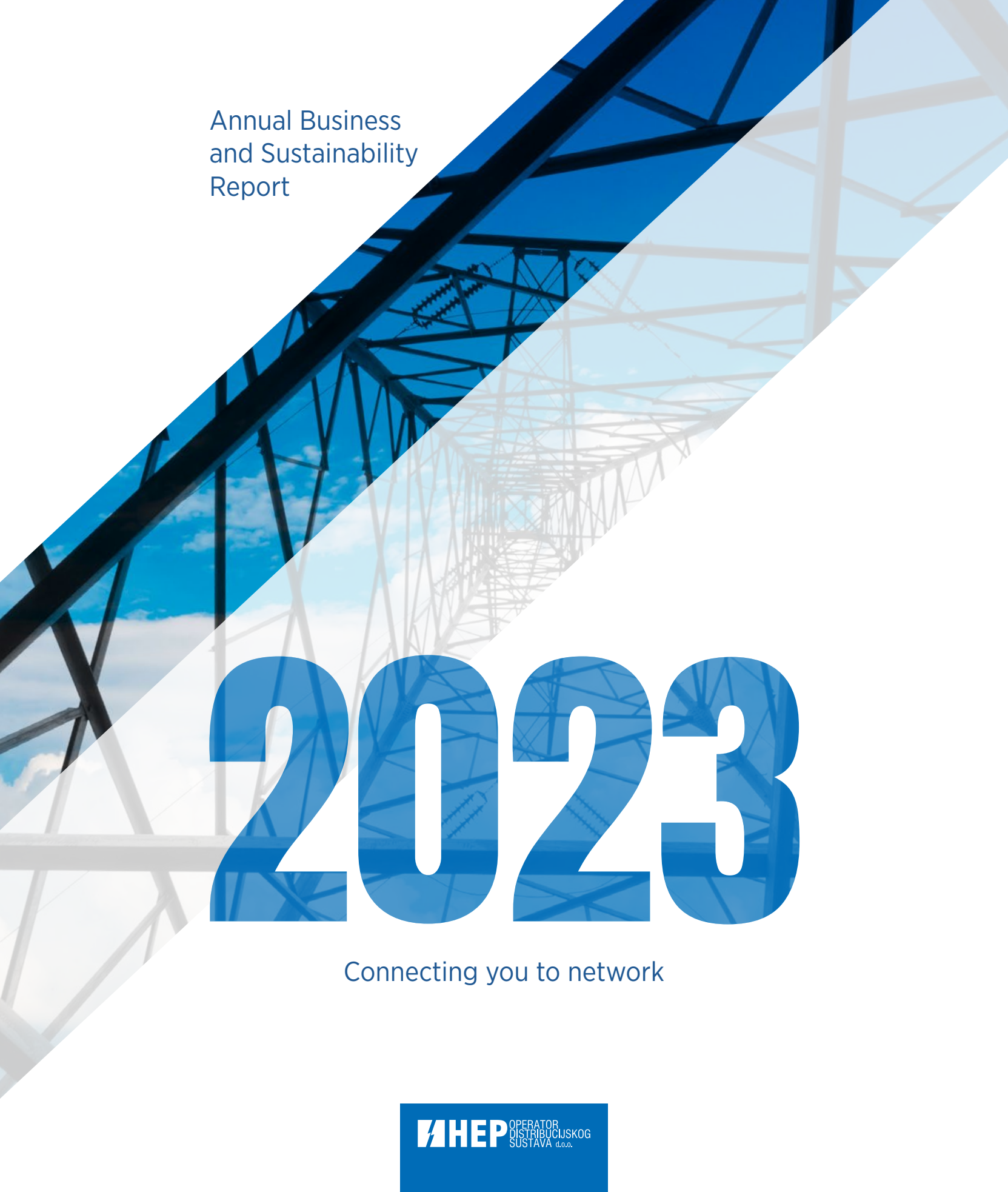


Annual Business and Sustainability Report

2023

Connecting you to network

HEP OPERATOR DISTRIBUCIJSKOG SUSTAVA d.o.o.

Content

1

A word from the managing director

Dear readers,

The past business year was marked by dynamic business changes during which HEP–Distribution System Operator d.o.o. (HEP ODS) successfully responded to all challenges, not only maintaining the stability and quality of electricity supply, but also actively contributing to sustainable development and environmental awareness. Our commitment to infrastructure modernization, technological process improvement, and implementation of advanced solutions has enabled us to retain our position of a reliable partner to our customers and the community.

Threats to global security, which has largely characterized business operations in previous years, continued in 2023. The energy sector was exposed to high levels of uncertainty arising from a number of factors, while the energy market faced extreme volatility. In addition, Croatia completed the process of monetary integration in early 2023, the year in which the EU and the eurozone were both affected by high inflation rates.

Having recognized the continuation of an unstable and challenging environment, the Government of the Republic of Croatia extended the implementation of the package of measures adopted in 2022. The Regulation on the Elimination of Disturbances in the Domestic Energy Market has prevented the spillover trend of increasing market prices of electricity onto households and the economy. In implementing the aforementioned measures to mitigate the impact of rising energy prices for citizens and the economy, HEP ODS has made a significant contribution. We have enabled network users to gain insight into their consumption and control their electricity consumption in appropriate periods in order for the Regulation to achieve its purpose – to preserve the standard or our citizens as well as the economic growth.

Weather conditions in 2023 were extremely unfavourable compared to previous years, resulting in an increased number of unplanned power outages. Years of extreme weather events teach us how important it is to plan for climate risks, including weather-related events such as drought, wildfires, temperature extremes and storms, as well as transition risks, such as regulatory and technological changes. Assessing these climate-related risks is essential in order to neutralize their financial impact on business operations.

Years of extreme weather events teach us how important it is to plan for climate risks, including weather-related events such as drought, wildfires, temperature extremes and storms, as well as transition risks, such as regulatory and technological changes. Assessing these climate-related risks is essential in order to neutralize their financial impact on business operations.

As HEP ODS sees opportunities even during challenging circumstances, we are persistent in our task of ensuring a high-quality and stable electricity supply to all network users. Development of the distribution network, investments in network infrastructure, increasing its efficiency and maintaining a high level of security, successful implementation of projects and investment plans, monitoring and improving the quality of supply – all these are the activities that we continuously carry out.

In addition to planned and regular reconstructions and expansions, as well as substation transformation capacity increases, a multi-year project of distribution network modernization continued with the aim of equipping all billing and metering points with advanced meters by 2030. As part of this project, 647,202 advanced meters were installed by late 2023. A series of activities related to the digitalization of business, the protection of personal data and increasing the cybersecurity of information and communication systems was carried out. At the end of 2023, a five-year EU co-funded EUR 23.5 m pilot project for the introduction of advanced networks was also completed.

In mid-2023, the new Rules on connection to the distribution network were published, which, in addition to user connection, also regulate the processes of connecting producers and energy storage operators, participants in the electricity market, who will certainly play an important role in strengthening the share of renewable sources in the years to come.

Our fundamental business goals in the upcoming period and circumstances remain unchanged – to ensure a stable system, efficient and reliable electricity supply and satisfaction of network users. Within the framework of the regulated activities that HEP ODS carries out, we also want to continue publishing regular and transparent reports so that all our stakeholders can monitor our progress and contribution to sustainable development goals.

Our focus on responsible business operations and sustainable practices is reflected, among other things, in our efforts to get acquainted with the EU Directive on Corporate Sustainability Reporting (CSRD) in order to be fully prepared to respond to the reporting obligation according to the significantly more demanding methodology of the European Sustainability Reporting Standards (ESRS), which should come into effect and be implemented by HEP ODS as of 2025.

I would like to thank our employees for their dedication and innovation, and all our stakeholders for their continued support. Together, we are building a sustainable and bright future.

Director
Nikola Šulentić

BUSINESS OPERATIONS

Business operations of HEP ODS in 2023 were characterized by business stabilization despite the still present global political uncertainty caused by the Russian aggression against Ukraine with consequent disruptions in supply chains and high prices of goods, works and services. Although the inflationary effects on the prices of all goods and services, especially visible in 2022, spilled over into 2023, the volatility of energy prices in 2023 partially stabilized. This had a positive impact on operating costs. The business operational performance was adversely affected by the climate change characterized by severe droughts, devastating floods and hurricane-force winds.

According to the financial indicators, total revenues and total expenses in the amount of EUR 537.3 million and EUR 524.0 million, respectively were recorded, which resulted in profit before taxes of EUR 13.3 million. The profit earned was by EUR 5.4 million higher than in 2022. EUR 171.0 million was invested in fixed assets, and EUR 39.5 million in the maintenance of existing assets.

The consumption trend shows an evident decrease in electricity consumption in 2023 compared to 2022. Despite the above mentioned, the revenue generated from the fee for the use of the distribution network corresponds to the revenue from 2022 as a result of the increase in the prices of tariff items for electricity distribution set under the Decision of the Croatian Energy Regulatory Agency (HERA) of 1 April 2022.

Business operations in 2023 were additionally affected by the introduction of the euro as the official currency and the accession to the European Stability Mechanism. HEP ODS successfully implemented the adjustment based on all positive legal provisions.

The year 2024 will be marked by an uncertain geopolitical situation and a period of extremely high marked-based prices of goods and works, as well as a further adjustment of business operations to Croatia's entry into the eurozone. HEP ODS is continuously facing new regulatory, organizational and technological challenges. In the next medium-term period, HEP ODS's operations will be conducted in accordance with the business policy and strategic guidelines, depending on the business environment. Developments are continuously monitored, risks and possibilities for their mitigation assessed, and despite the aforementioned challenges, HEP ODS will make maximum efforts to achieve good financial results.

INVESTMENTS

HEP ODS is responsible for the development of the distribution network to ensure its long-term ability to meet reasonable electricity distribution requirements and for maintaining the distribution network to ensure a high level of reliability and quality of electricity supply to users. HEP ODS communicates its business objectives and investment strategy for the development of the distribution network through publicly available Ten-Year Distribution Network Development Plans. The currently valid Ten-Year Distribution Network Development Plan for the period 2024-2033 is available on the HEP ODS website.

The investment year 2023 was marked by the transition to the euro, which, along with the continuation of market disruptions after the COVID pandemic, led to an increase in the prices of equipment and works. At the same time, the implementation of the measures of the Government of the Republic of Croatia from the package of assistance to citizens and the economy continued, which included, among other things, limiting the increase of the price of electricity. In such difficult financial business conditions, regular investments in the reconstruction and development of the network and extraordinary investments in the repair of damage caused by the earthquake in the Petrinja, Sisak and Zagreb areas continued. In the second half of the year, investments in the repair of damage caused by the storm that hit central and eastern Croatia were prepared and launched. During 2023, project preparation was completed and investments were structured by project activities planned to be co-funded through the 2021-2026 National Recovery and Resilience Plan.

In 2023, increased investments in tourism continued including distributed energy sources, which led to a significant increase of activities on network expansion and user connections in tourist areas, as well as to a significant increase of activities on the preparation of budgets, projects and other technical documentation for connecting new electricity producers.

RELIABILITY OF ELECTRICITY SUPPLY

The reliability of electricity supply is a key aspect of electricity supply for all network users, which is why improving the reliability of supply indicators is of utmost importance. These indicators are used as a basis for the operation, planning, construction, maintenance and renovation of the distribution network to ensure stable and continuous supply of electricity to network users.

HEP ODS continuously improves the reliability of electricity supply in the distribution network. Special efforts have been made in improving the software support for monitoring the reliability of power supply, integrating the DISPO application with information systems in HEP ODS, and conducting detailed analysis of supply interruptions to improve indicators. Since 2023, the System Operation Application, which simplifies and automates the distribution network operation process, has been actively used, especially for the tasks of operating energy and dispatching centres. Focused on creating the prerequisites for advanced distribution system operation and control, HEP ODS continuously invests in process, information and communication systems.

In 2023, the SAIFI indicator values of 2.88 interruptions/user and the SAIDI indicator of 394.71 min/user were achieved. Weather conditions in 2023 were extremely unfavourable compared to previous years, which resulted in an increased number and duration of unplanned supply interruptions, especially those caused by force majeure.

HEP ODS actively cooperates with the transmission system operator and network users to ensure the prerequisites for the use of distribution flexibility and the provision of ancillary system services, which will further improve the reliability of electricity supply. Two studies conducted in 2023 served as the basis for the preparation of the Rules on Non-Frequency Ancillary Services for the Distribution System and the Rules on Congestion Management in the Distribution System.

REDUCTION OF LOSSES

Reduction of electricity losses is one of the key factors that shows the efficiency and quality of electricity distribution in HEP ODS.

By using an advanced approach to reducing losses in the distribution network, significant funds were invested in the modernization and maintenance of the network, as one of the strategic goals of HEP ODS.

Losses generated in 2023 amounted to 1,349 GWh or 8.16% of the total energy input in the distribution network, while the total cost of electricity purchase for covering losses amounted to EUR 80.7 million. The average unit price of electricity purchase for covering losses in the distribution network for 2023 was EUR 59.85/MWh. Comparing the realized monthly prices on the electricity market and the realized total costs of losses in 2023, HEP ODS achieved significant financial savings of around EUR 62 million.

USERS AND INFORMATION DISTRIBUTION

HEP ODS has been continuously planning and implementing communication activities as well as providing clear and up-to-date information related to the use of the network and distribution of electricity to over 2.5 million network users.

Direct user communication is carried out daily by free info phones and e-mails, as well as by user's personal visits to counters in almost 80 locations on the territory of the Republic of Croatia.

The HEP ODS website provides access to the following:

- information and forms necessary for accessing the network,
- information and forms necessary for the implementation of services at existing metering points,
- information for customers with own production,
- information on the supplier switch process,
- information about planned network works that may lead to a temporary interruption in the supply of electricity - No Electricity,
- tips for electricity savings and recommendations for the safe use of electrical appliances directed at customers.

The needs of network users in the power sector are changing, whereby the digital transformation of business operations is a necessary response to new challenges. Apart from the primary element ie the quality of electricity distribution, the satisfaction of network user communication is another important goal of HEP ODS. By placing importance on our users, we included network users from all consumption categories in the survey conducted as part of double materiality during the process of creating the Business and Sustainability Report for 2023 to an even greater extent.

By improving the customer support segment, specialized workers were educated and trained for this type of work according to clearly formed rules, thereby standardizing the procedure and harmonizing the access practice in all distribution areas, as well as improving the quality of communication with network users, which is extremely important in HEP ODS activities.

User communication with household customers is carried out via the My Network application, while household users whose connection capacity (demand side) exceeds 20 kW, all business users with an installed interval meter, and all electricity producers on the distribution network are provided a communication channel via the Meter Data portal. The HEP ODS My Network application allows users who register through the e-Citizens system to receive meter readings, review readings and consumption (kWh) in the previous periods, receive information about the expected date of the next regular calculation, information about temporary interruptions in electricity supply, and submit requests, while meter readings can be submitted via the application without registration.

At the end of 2023, two additional communication channels for the submission of meter readings were opened for household customers, ie via SMS messages and the Viber application.

SAP IMPLEMENTATION

The SAP system represents a fundamental tool for HEP ODS in the electricity market in the Republic of Croatia, playing a key role in ensuring the efficiency and compliance of all participants in the electricity market. The implementation of SAP has enabled application compatibility between different stakeholders in the market, thus achieving greater connectivity and efficiency. The introduction of the SAP system in HEP ODS has replaced multiple business applications with a single, unified platform, resulting in better quality support in the implementation of complex business processes.

Through the SAP system, HEP ODS encompasses key business processes from various functional areas. This includes network access, coordination and monitoring of field activities, operation, metering and control of metering devices, as well as load curve management. In addition, SAP supports the exchange of messages required for the electricity market, calculation of network usage fees, storage operations, customer relations, economic affairs, and asset management.

This integrated system significantly contributes to better organization, precision, and efficiency both in the electricity market and within HEP ODS, enabling optimal management of resources and business processes in all phases of operations.

SAFETY AT WORK

HEP ODS pays special attention to achieving safe and healthy working conditions, health protection and safety at work. The goals of health and safety at work, based on the improvement of the Worker Health and Safety Management System (SUZZS), the acquisition and maintenance of the workers' SUZZS necessary competences, and the acquisition of equipment for eliminating or reducing work-related risks have been defined in order to reduce the number of work-related injuries, occupational illnesses and other work-related illnesses.

The Occupational Health and Safety Management System is based on the requirements of the international ISO 45001:2018 standard, under which a strong mechanism for continuous improvement of good practices in terms of a systematic management of occupational health and safety has been established.

The year 2023 was characterized by adapting to and overcoming the challenges of severe weather conditions that caused breakdowns in power facilities resulting in interruptions of electricity supply in several distribution areas during winter and summer months. HEP ODS workers performed well in extreme conditions during the year, adhering to all work safety-related rules, measures and instructions during interventions, thus not experiencing nor recording any work-related injuries.

ENVIRONMENTAL PROTECTION

In accordance with the current laws, environmental protection and reduction of the negative impacts of electric power infrastructure on biodiversity are part of the Company's business strategy. The workers in charge of environmental protection were active in taking care of all parts of the environment, especially the protection of birds, waste and water management, and the prevention of accidents with a potential adverse effect on the environment. With another certification awarded by the international Environmental Management System according to the ISO 14001 standard, HEP ODS continued to invest significant resources in environmental protection and biodiversity conservation, which further strengthened its status as a modern and socially responsible company.

2

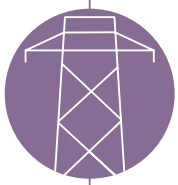
About us

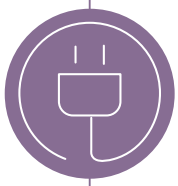
HEP ODS AT A GLANCE

COMPANY DATA

HEP ODS	**21** distribution areas
Surface area	**56,594** km²
Company head office	Ulica grada Vukovara **37**, Zagreb
Equity and reserves	EUR **252.7** m
Total assets	EUR **2,539.3** m
Profit before tax	EUR **13.3** m
Total income	EUR **537.3** m
Total expenditures	EUR **524.0** m
Number of workers	**6,789**

BASIC INFORMATION ABOUT DISTRIBUTION NETWORK





Length of network	**143,130** km
Transformer stations	**27,178**
Installed transformation capacity	**23,786** MVA
Billing metering points (OMM)	**2,543,982**
Distributed sources	**15,748**
Connection capacity of distributed sources	**839.482** MW
Sale of electricity	**15,179** GWh
Electricity losses	**8.16** %
Peak load	**3,061** MW
Electricity production	**1,768** GWh
SAIDI	**394.71** min/user
SAIFI	**2.88** interruptions/user

COMPANY PROFILE

HEP-Distribucija d.o.o. (HEP Distribution), a company for the distribution and supply of electricity, was founded on 21 June 2002, with its head office at 37 Ulica grada Vukovara in Zagreb. On 19 December 2005, HEP-Distribucija d.o.o. changed its name to HEP-Operator distribucijskog sustava d.o.o. (HEP ODS) (HEP Distribution System Operator - DSO).

HEP ODS, as a key entity on the electricity market in the Republic of Croatia, carries out the regulated activity of electricity distribution. HEP ODS is responsible for the operation, maintenance, construction and development of the distribution network, from the interface with the transmission network to all network user's billing and metering points. In addition to the above-mentioned tasks, HEP ODS also fulfills the obligations of the system operator related to the operation of the retail electricity market, in an impartial, objective and transparent manner.

In accordance with the Electricity Market Act, HEP ODS is in particular responsible for the following:

- keeping a register of billing metering points of each balance group for delivery points on the distribution network;
- maintaining metering equipment and collecting and processing metering data from the network users' metering points;
- managing and maintaining, building and modernizing, improving and developing the distribution network with the aim of safe, reliable and efficient operation of the distribution system and distribution of electricity;
- undertaking prescribed safety measures while using the distribution network;
- ensuring impartiality towards distribution network users, and especially towards associated undertakings within a vertically integrated entity;
- providing clear and precise information to distribution network users necessary for efficient access to the network and the use of the distribution network, while protecting confidential information and data; ensuring access to the network and the use of the distribution network according to regulated, transparent and impartial principles;
- adopting the rules and price list of non-standard distribution system operator services and publishing them in an appropriate manner;
- analyzing the losses in the distribution network on an annual basis, including the assessment of technical losses and of unauthorized electricity consumption and, if necessary, creating and implementing measures to reduce losses;
- providing electricity to cover losses in the distribution network under market principles.

At the end of 2016, the activity of electricity supply was unbundled from HEP ODS by establishing HEP Elektra d.o.o. for electricity supply. Public electricity supply of customers was taken over by a new company within HEP Group – HEP Elektra d.o.o., while HEP ODS continues to carry out the activity of electricity distribution.

HEP ODS COMPETENCES

- Complaints about read/consumed kWh quantities
- Request for change of kWh quantities of planned semi-annual consumption (advance payments)
- Self meter reading requests
- Requests for issuing energy approvals
- Customer switch request
- Network connection request
- Change of tariff model request
- Meter-related requests (assembly/disassembly/replacement, installation)
- Request for limitation/increase of connection capacity
- Request for relocation of OMM (metering point)
- Request for verification of meter and measuring equipment accuracy
- Remote metering request
- Extraordinary meter reading request
- Request for temporary suspension of electricity supply

SUPPLIER COMPETENCES

- Equipment, interest, unrecognized charges-related complaints
- Bill information
- Debt balance information
- Issuance and printing of electricity bills
- Request for concluding an electricity supply contract
- Advance refund request
- Request for debt payment rescheduling
- Request for termination of a network use contract
- Network user request for contract transfer.

MEMBERSHIP ASSOCIATIONS

HO CIRED - Croatian branch of the International Electricity Distribution Conference
HRO CIGRE - International Council for Large Power Systems
HGK - Croatian Chamber of Commerce
MIPRO - International Conference for Information, Communication and Electronic Technology
IPMA Croatia - member of the international project management organization
EU DSO Entity - Association of European Distribution System Operators
EURELECTRIC - Union of the Electricity Industry

MISSION

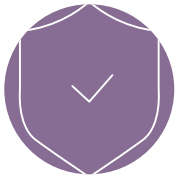
Reliable and high-quality distribution of electricity to all network users, with a high degree of social responsibility and sustainable economic growth.

VISION

Transformation of the distribution network into a flexible and smart network that ensures environmentally friendly operation of the distribution system, enabling the provision of high-quality and modern energy services with an emphasis on renewable energy sources.

VALUES

Guided by a number of new challenges that include the sustainable development and integration of distributed energy sources as well as the increasing expectations of network users, we have established a set of positive beliefs that include principles of business management. By providing workers with a sense of importance and purpose, we have strengthened the dissemination of social goals, making them a part of everyday decisions and work.



RESPONSIBILITY

HEP ODS ensures reliable distribution of electricity to all its users. Constant investments in the network construction, operation and maintenance have resulted in efficiency with a high level of safety and reliability across the entire territory of the Republic of Croatia while taking care of our workers, the environment and energy efficiency.

INNOVATION

Safe operation of the advanced network and system stability are the core tasks of the Company that lead to green energy by planning to link the electric vehicle charging infrastructure and integrate local storage capacities, while achieving system flexibility, and the operation of advanced network as well as advanced metering system.

CHALLENGES

Faced with the changes brought about by the energy transition, in order to ensure a reliable and safe development of the distribution network, we are faced with ever-increasing demands that must be met in a short period of time. The requirements relate to regulatory changes, the growing number of shares of distributed renewable production connected to the distribution network, and the growing number of active customers interested in new services on the electricity market.

COMPANY POSITION WITHIN HEP GROUP

Hrvatska elektroprivreda d.d. is a national energy company, which has been engaged in the production, distribution and supply of electricity for more than a century, while also taking on the distribution and supply of heat and natural gas in the last few decades.

HEP Group is a group of related subsidiaries (daughter companies) and HEP d.d. as the parent company.

HEP d.d. as the parent company performs the function of corporate governance and exercises a leading supervisory and advisory role in the subsidiaries of HEP Group, through its direct and indirect predominant influence on the subsidiaries within the framework of the given positive legal regulations in the Republic of Croatia.

HEP ODS is the largest subsidiary within HEP Group, and the companies are connected by ownership and management structure.

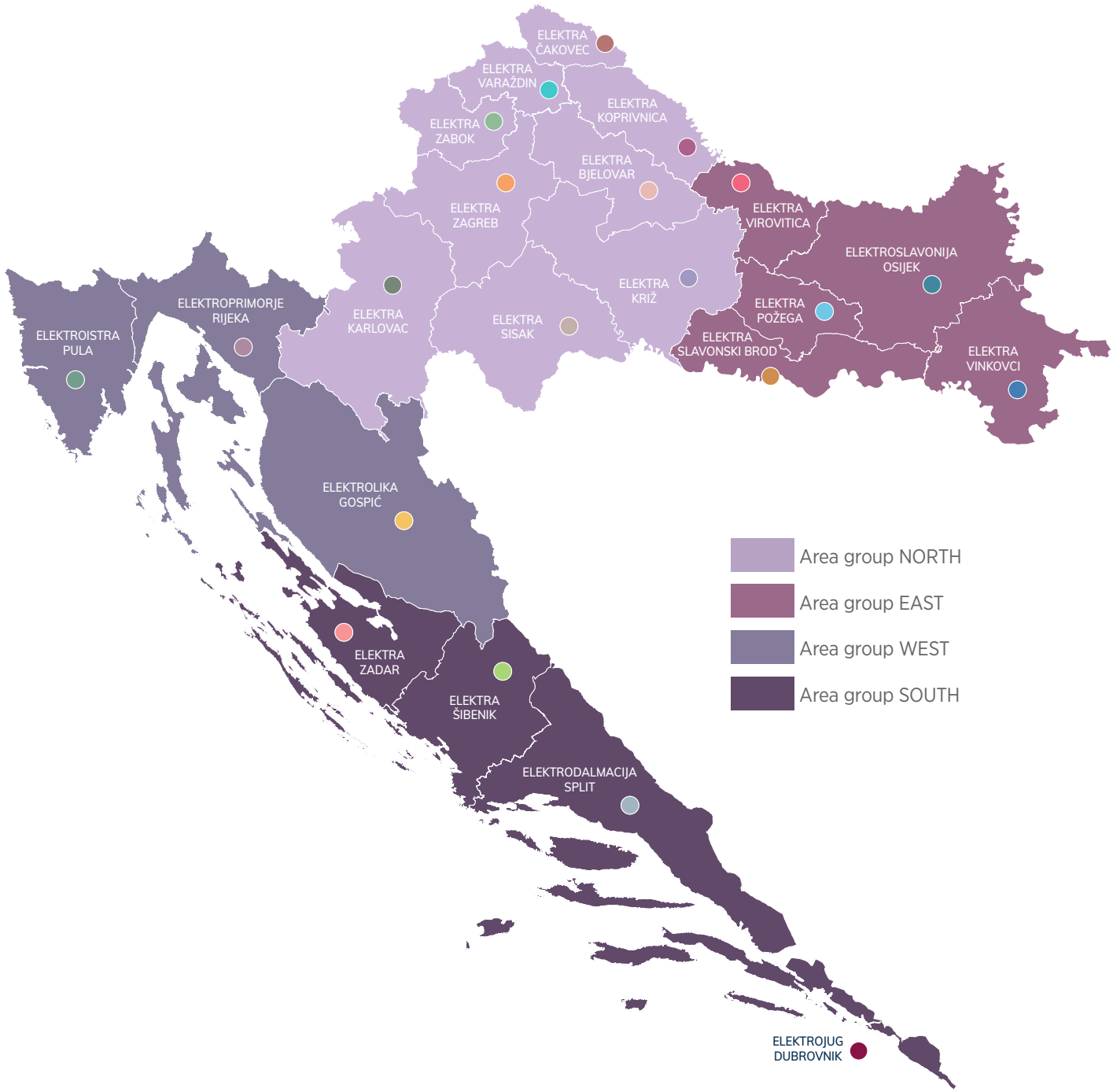
HEP ODS, as a company engaged in the distribution of electricity, is a key stakeholder in the Group that fulfills the purpose of its activity for its users and the market in accordance with market dynamics and upcoming changes.

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
Name, legal form, form of ownership and markets		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 owns assets that are contractually transferred to dependent companies for management
	Companies owned by HEP d.d.	HEP-Proizvodnja d.o.o. Republic of Croatia	Production of electricity and heat energy
		CS Buško Blato d.o.o. Bosnia and Herzegovina	Maintenance of hydropower plant 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	Education, professional development and accommodation
		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 heat energy
		HEP-Plin d.o.o. Republic of Croatia	Distribution and supply of gas
		HEP-ESCO d.o.o. Republic of Croatia	Management and funding of energy efficiency projects
		HEP-Trgovina d.o.o. Republic of Croatia	Trade of electricity, natural gas, 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	Production of electricity
		Sunčana elektrana Vis d.o.o. Republic of Croatia	Production of electricity
		Energetski park Korlat d.o.o. Republic of Croatia	Production of electricity
		HEP-Telekomunikacije d.o.o. Republic of Croatia	Telecommunication services
	Joint ventures	NE Krško d.o.o.[1] 50% HEP d.d. and 50% GEN Energija Republic of Slovenia	Production of electricity
		LNG Hrvatska d.o.o.[2] 75% HEP d.d. and 25% Plinacro d.o.o. Republic of Croatia	Liquefied natural gas operations
	Independent transmission operator	Hrvatski operator prijenosnog sustava d.d.[3] Republic of Croatia	Transmission of electricity
HEP Group registered office		Ulica grada Vukovara 37, 10000 Zagreb	

1. In consolidated financial statements, the share of Krško nuclear power plant (NE Krško d.o.o.) is shown by the method of joint asset and liability management. The share of HEP Group is shown for each asset and liability as well as income and expenses.
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)

DISTRIBUTION AREAS OF HEP ODS



BASIC DATA ABOUT DISTRIBUTION AREAS

ELEKTRA ZAGREB	
Number of metering points	**584,629**
Peak load	**700 MW**
Length of network	**18,641 km**
Number of transformer stations	**3,829**
Installed transformation capacity	**4,881 MVA**
Number of connected distributed sources	**2,718**
Connection capacity of distributed sources	**70,907 kW**
Number of workers	**839**

ELEKTRA KOPRIVNICA	
Number of metering points	**55,171**
Peak load	**73 MW**
Length of network	**4,949 km**
Number of transformer stations	**744**
Installed transformation capacity	**488 MVA**
Number of connected distributed sources	**597**
Connection capacity of distributed sources	**34,126 kW**
Number of workers	**160**

ELEKTRA ZABOK	
Number of metering points	**69,537**
Peak load	**74 MW**
Length of network	**5,531 km**
Number of transformer stations	**945**
Installed transformation capacity	**574 MVA**
Number of connected distributed sources	**592**
Connection capacity of distributed sources	**22,412 kW**
Number of workers	**199**

ELEKTRA BJELOVAR	
Number of metering points	**51,312**
Peak load	**49 MW**
Length of network	**4,403 km**
Number of transformer stations	**812**
Installed transformation capacity	**384 MVA**
Number of connected distributed sources	**535**
Connection capacity of distributed sources	**35,457 kW**
Number of workers	**150**

ELEKTRA VARAŽDIN	
Number of metering points	**73,887**
Peak load	**95 MW**
Length of network	**4,387 km**
Number of transformer stations	**947**
Installed transformation capacity	**758 MVA**
Connection capacity of distributed sources	**924**
Connection capacity of distributed sources	**38,641 kW**
Number of workers	**195**

ELEKTRA KRIŽ	
Number of metering points	**79,209**
Peak load	**73 MW**
Length of network	**5,569 km**
Number of transformer stations	**1,400**
Installed transformation capacity	**692 MVA**
Number of connected distributed sources	**566**
Connection capacity of distributed sources	**32,486 kW**
Number of workers	**256**

ELEKTRA ČAKOVEC	
Number of metering points	**49,340**
Peak load	**75 MW**
Length of network	**3,193 km**
Number of transformer stations	**549**
Installed transformation capacity	**446 MVA**
Number of connected distributed sources	**714**
Connection capacity of distributed sources	**39,497 kW**
Number of workers	**128**

ELEKTROSLAVONIJA OSIJEK	
Number of metering points	**156,101**
Peak load	**148 MW**
Length of network	**8,547 km**
Number of transformer stations	**1,657**
Installed transformation capacity	**1,554 MVA**
Number of connected distributed sources	**1,329**
Connection capacity of distributed sources	**82,119 kW**
Number of workers	**443**

ELEKTRA VINKOVCI

Number of metering points	**82,964**
Peak load	**83 MW**
Length of network	**5,031 km**
Number of transformer stations	**874**
Installed transformation capacity	**794 MVA**
Number of connected distributed sources	**764**
Connection capacity of distributed sources	**46,864 kW**
Broj radnika	**199**

ELEKTRA SLAVONSKI BROD

Number of metering points	**66,779**
Peak load	**70 MW**
Length of network	**3,736 km**
Number of transformer stations	**774**
Installed transformation capacity	**636 MVA**
Number of connected distributed sources	**503**
Connection capacity of distributed sources	**26,288 kW**
Broj radnika	**191**

ELEKTROISTRA PULA

Number of metering points	**176,393**
Peak load	**304 MW**
Length of network	**9,023 km**
Number of transformer stations	**2,186**
Installed transformation capacity	**1,721 MVA**
Number of connected distributed sources	**1,042**
Connection capacity of distributed sources	**25,281 kW**
Number of workers	**332**

ELEKTROPRIMORJE RIJEKA

Number of metering points	**227,050**
Peak load	**296 MW**
Length of network	**11,085 km**
Number of transformer stations	**2,023**
Installed transformation capacity	**2,105 MVA**
Number of connected distributed sources	**1,312**
Connection capacity of distributed sources	**49,031 kW**
Number of workers	**414**

ELEKTRODALMACIJA SPLIT

Number of metering points	**316,304**
Peak load	**456 MW**
Length of network	**13,939 km**
Number of transformer stations	**2,801**
Installed transformation capacity	**3,349 MVA**
Number of connected distributed sources	**1,331**
Connection capacity of distributed sources	**55,722 kW**
Number of workers	**773**

ELEKTRA ZADAR

Number of metering points	**143,920**
Peak load	**210 MW**
Length of network	**9,559 km**
Number of transformer stations	**1,303**
Installed transformation capacity	**1,326 MVA**
Number of connected distributed sources	**703**
Connection capacity of distributed sources	**54,479 kW**
Number of workers	**271**

ELEKTRA ŠIBENIK

Number of metering points	**93,840**
Peak load	**118 MW**
Length of network	**7,428 km**
Number of transformer stations	**1,109**
Installed transformation capacity	**912 MVA**
Number of connected distributed sources	**548**
Connection capacity of distributed sources	**113,282 kW**
Number of workers	**234**

ELEKTROJUG DUBROVNIK

Number of metering points	**58,506**
Peak load	**117 MW**
Length of network	**3,910 km**
Number of transformer stations	**576**
Installed transformation capacity	**792 MVA**
Number of connected distributed sources	**229**
Connection capacity of distributed sources	**4,051 kW**
Number of workers	**182**

ELEKTRA KARLOVAC	
Number of metering points	**89,256**
Peak load	**95 MW**
Length of network	**7,484 km**
Number of transformer stations	**1,550**
Installed transformation capacity	**731 MVA**
Number of connected distributed sources	**511**
Number of connected distributed sources	**37,756 kW**
Number of workers	**222**

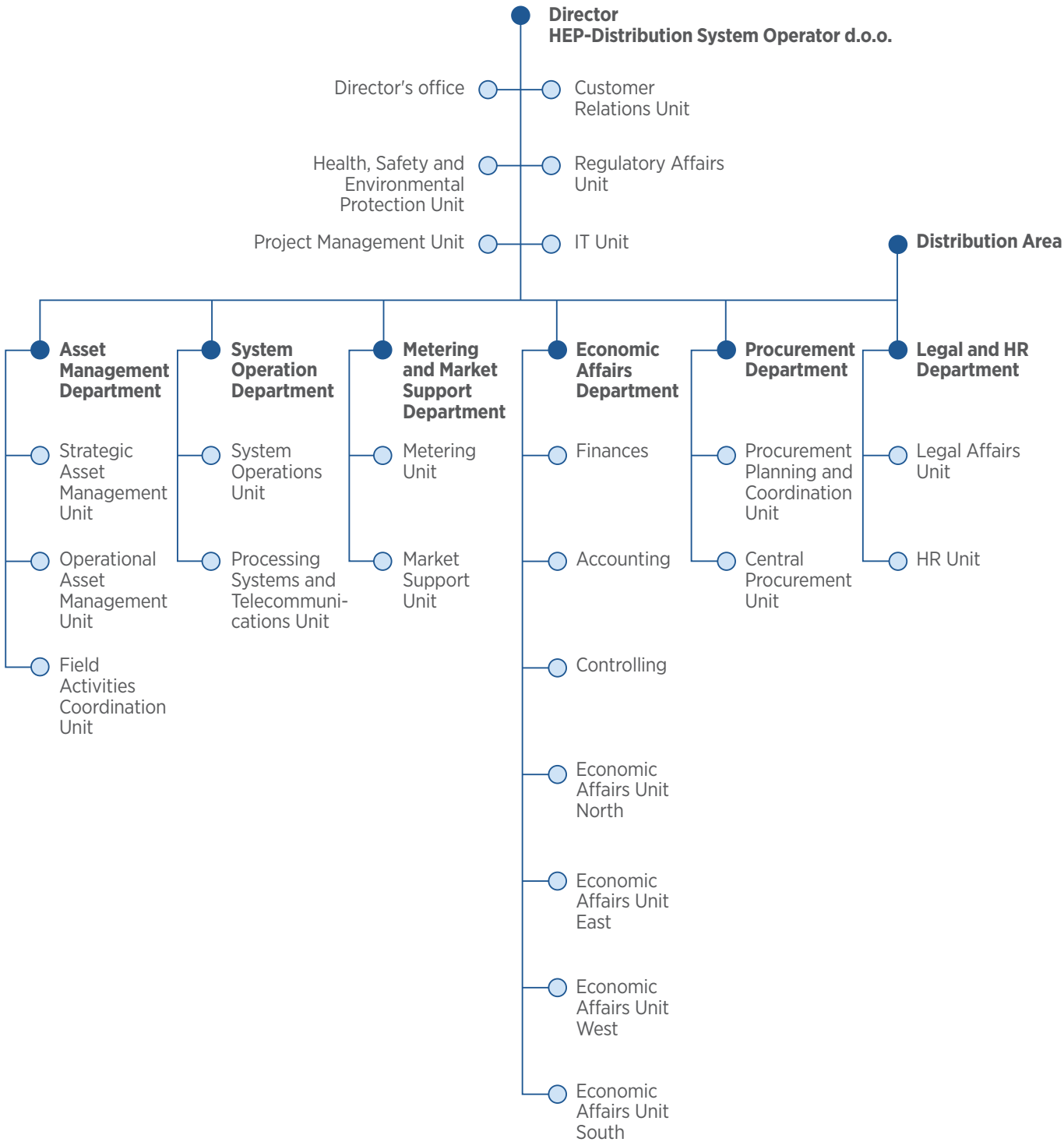
ELEKTRA SISAK	
Number of metering points	**60,211**
Peak load	**58 MW**
Length of network	**5,600 km**
Number of transformer stations	**1,016**
Installed transformation capacity	**507 MVA**
Number of connected distributed sources	**266**
Connection capacity of distributed sources	**16,544 kW**
Number of workers	**219**

ELEKTROLIKA GOSPIĆ	
Number of metering points	**51,372**
Peak load	**76 MW**
Length of network	**6,396 km**
Number of transformer stations	**1,132**
Installed transformation capacity	**571 MVA**
Number of connected distributed sources	**158**
Connection capacity of distributed sources	**15,071 kW**
Number of workers	**237**

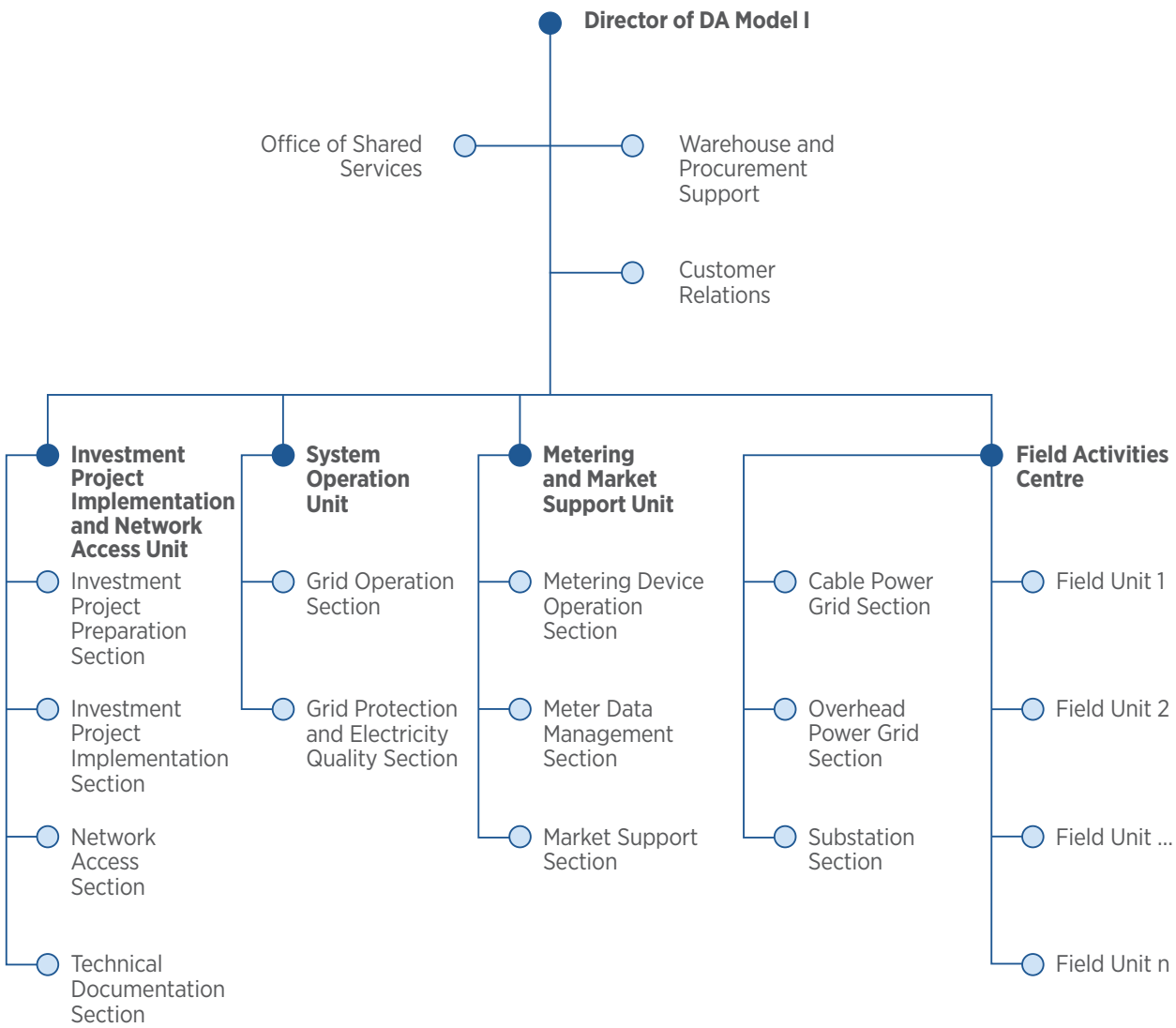
ELEKTRA VIROVITICA	
Number of metering points	**30,643**
Peak load	**31 MW**
Length of network	**2,617 km**
Number of transformer stations	**504**
Installed transformation capacity	**335 MVA**
Number of connected distributed sources	**221**
Connection capacity of distributed sources	**32,979 kW**
Number of workers	**109**

ELEKTRA POŽEGA	
Number of metering points	**27,558**
Peak load	**22 MW**
Length of network	**2,102 km**
Number of transformer stations	**447**
Installed transformation capacity	**232 MVA**
Number of connected distributed sources	**185**
Connection capacity of distributed sources	**6,488 kW**
Number of workers	**117**

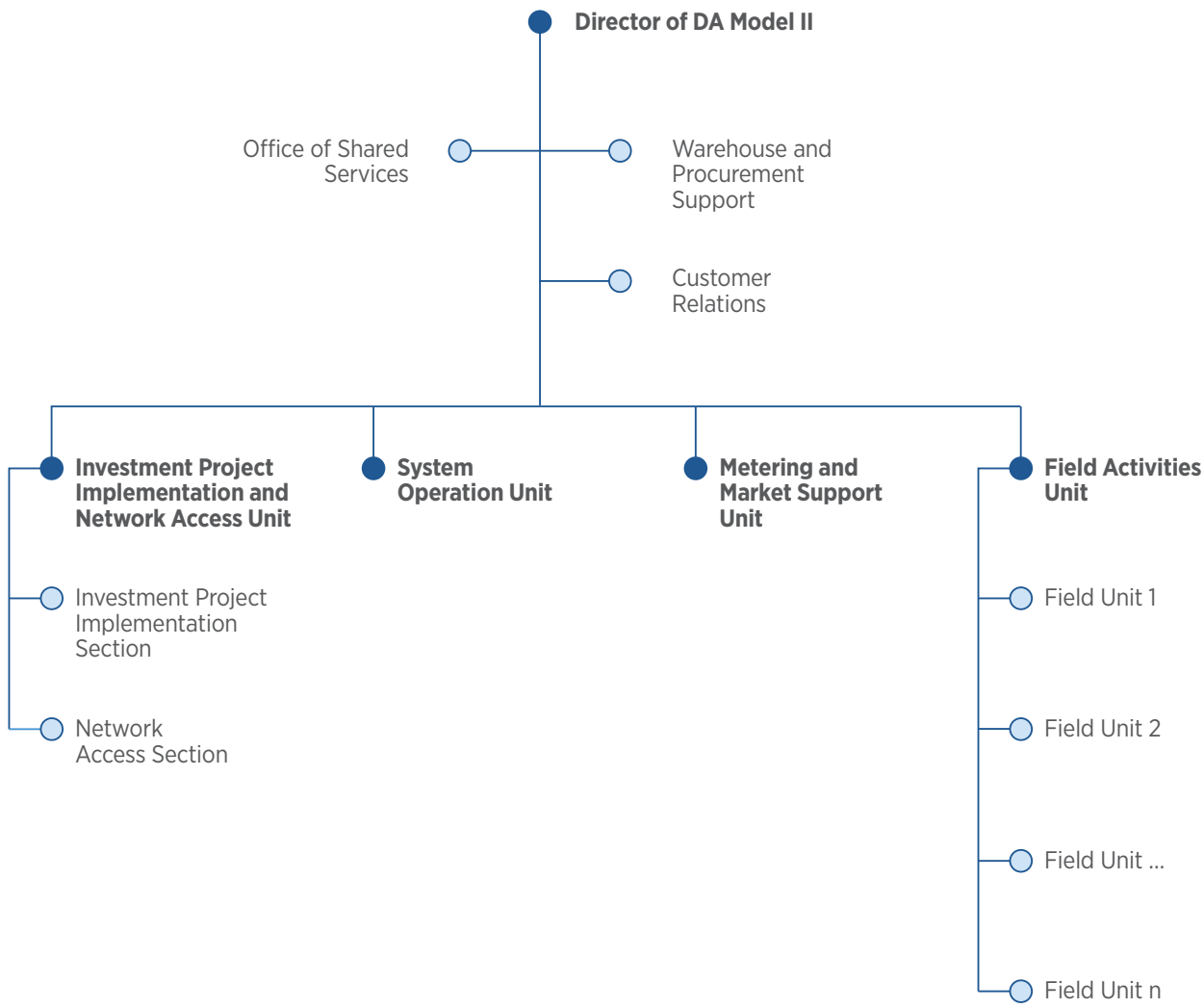
ORGANIZATIONAL STRUCTURE



ORGANIZATIONAL STRUCTURE OF DISTRIBUTION AREA MODEL I



ORGANIZATONAL STRUCTURE OF DISTRIBUTION AREA MODEL II



LEGISLATIVE FRAMEWORK

As a key participant in the retail electricity market in the Republic of Croatia, HEP ODS is obligated to harmonize its operations with the new regulatory framework in a timely manner, including further development of the distribution network and improvement of service quality.

The Electricity Market Act (ZOTEE), which entered into force in late October 2021, transposes all the provisions of Directive (EU) 2019/944 of the European Parliament and of the Council on common rules for the internal electricity market and amending Directive 2012/27/EU. Following its entry into force, a number of by-laws was adopted. Another piece of legislation important for the implementation of green transition is the Act on Renewable Energy Sources and High-Efficiency Cogeneration, which was adopted in accordance with Directive (EU) 2018/2001 of the European Parliament and of the Council on the promotion of the use of energy from renewable sources.

The relations with the electricity market participants will become increasingly complex and demanding in the coming period and will have a direct or indirect impact on all business areas. HEP ODS will face one of the most demanding periods, i.e. the obligation of accelerated business adjustment, at the technological, organizational and personnel levels. Special attention will need to be paid to the definition and establishment of mutual relations with new entities (aggregators, active customers, energy communities of citizens, operators of electric vehicle charging stations, operators of electricity storage facilities and operators of closed distribution systems) and to a timely harmonization of IT systems.

HEP ODS is facing a challenging and interactive period of responding to new changes and securing its potential in the energy transition.

KEY REGULATIONS

Business operations of HEP ODS are regulated by key legislative, secondary and internal acts:

- The Energy Act
- The Electricity Market Act
- The Act on the Regulation of Energy Activities
- The Act on Renewable Energy Sources and High-Efficiency Cogeneration
- The Energy Efficiency Act
- The Act on Cybersecurity of Essential Service Operators and Digital Service Providers
- General EU regulation on personal data protection
- Methodology for setting the amount of tariff items for electricity distribution
- Decision on the amount of tariff items for electricity distribution
- Rulebook on general conditions for the use of the network and electricity supply
- Rulebook on quality conditions of electricity supply
- Rules on supplier and aggregator switching
- Ordinance on issuing energy consents and determining conditions and deadlines for power grid connection
- Methodology for determining the power grid connection charge
- Rules on electricity market organization
- Balancing Rules

- Grid Code
- Rules on the connection to the distribution network
- Rules for the application of standard load curves
- Rules of distribution system operator's non-standard services

Primary and secondary pieces of legislation relevant to electricity distribution and adopted during 2023 include the following:

ENERGY LAWS

1. Electricity Market Act
   (Official Gazette nos. 111/21, 83/23)
2. Act on Renewable Energy Sources and High Efficiency Cogeneration
   (Official Gazette nos. 138/21, 83/23)
3. Act on the Implementation of Council Regulation (EU) 2022/1854 on an emergency intervention to address high energy prices
   (Official Gazette no. 71/23)

OTHER ENERGY-RELATED REGULATIONS

1. Rulebook on the system for monitoring, measuring and verifying energy savings
   (Official Gazette nos. 98/21, 30/22, 96/23)
2. Regulation on Elimination of Disturbances on Domestic Energy Market
   (Official Gazette nos. 31/23, 74/23, 107/23, 122/23)

REGULATIONS - ELECTRICITY

1. Electricity Market Act
   (Official Gazette nos. 111/21, 83/23)
2. Act on the Implementation of Council Regulation (EU) 2022/1854 on an emergency intervention to address high energy prices
   (Official Gazette no. 71/23)
3. Decision on tariff item amounts for guaranteed electricity supply
   (Official Gazette no. 143/23)
4. Ordinance on the use of renewable energy sources and high-efficiency cogenerations
   (Official Gazette no. 28/23)
5. Decision on the fee for renewable energy sources and high-efficiency cogeneration
   (Official Gazette no. 31/23)
6. Regulation on the system of guarantees of origin of energy
   (Official Gazette no. 28/23)
7. Balancing Rules
   (HOPS, 12/2023)
8. Rules on non-frequency ancillary services for the transmission system
   (HOPS, 12/2023)

9. Rules of ODS non-standard services and the Pricelist of ODS non-standard services (HEP-ODS, 12/2023, HEP-ODS, 12/2023)
10. Rules on the connection to the distribution network (HEP-ODS, 7/2023)
11. Rules on the connection to the transmission network (HOPS, 7/2023)
12. Regulation on stimulating the production of electricity from renewable energy sources and high-efficiency cogeneration (Official Gazette no. 70/23)
13. Regulation on the share of net electricity supplied by eligible producers which electricity suppliers are obliged to take over from the electricity market operator for 2024 (Official Gazette no. 158/23)
14. Regulation on criteria for payment of reduced fee for renewable energy sources and high-efficiency cogeneration (Official Gazette no. 31/23)
15. Regulation on the criteria for conducting a public tender for issuing an energy permit and the conditions for the issuance thereof (Official Gazette no. 70/23)

REGULATORY FRAMEWORK

HEP ODS is subject to laws and regulations, tariffs and other regulatory aspects of its business activities in conducting its operations. The introduction of new legislative and secondary regulations, or amendments to the existing ones, affects operations, annual results and key performance indicators. We are monitoring priority regulatory topics in the electricity market and coordinate the making of and the submission of required reports to the regulatory agency.

NEW REGULATIONS

During 2023, the following acts within the jurisdiction of HEP ODS were adopted:

- Rules on connection to the distribution network
- Rules and price list of non-standard services of the distribution system operator.

The draft of the

- Rules for the application of alternative load curves

has been submitted to HERA for approval.

Intensive work continued on the adoption of other rules under the jurisdiction of HEP ODS:

- Distribution System Grid Rules
- Rules on Non-Frequency Ancillary Services for the Distribution System
- Rules on Congestion Management in the Distribution System.

REPORTS SUBMITTED TO HERA

REPORT ON THE IMPLEMENTATION OF ACTIVITIES, RESPONSIBILITIES AND DUTIES UNDER THE ELECTRICITY MARKET ACT

HEP ODS is a regulated energy entity which carried out the energy activity of electricity distribution during 2023 in accordance with the responsibilities and duties set under the Electricity Market Act. Through its 21 distribution areas HEP ODS is responsible for the operation, maintenance, development and construction of the distribution network in the Republic of Croatia

In accordance with HERA's instructions, a 28 chapter report on the implementation of all its activities, responsibilities and duties set under the Electricity Market Act was made. It provides a detailed overview of business indicators regarding:

- the consumption of end customers' metering points,
- the number of metering points and the sale of electricity across suppliers,
- completed investments,
- lines and transformer stations data,
- power plants connected to the distribution network,
- data on the connection and disconnection of billing metering points of end customers
- the work of the consumer complaints committee,
- meter data,
- revenues generated by the application of valid tariff items,
- the number and consumption of metering points by category and tariff model by distribution area,
- the number of supplier switching instances,
- temporary disconnection of power supply due to non-payment,
- the number of self-supply facility users,
- energy communities, collective active customers and closed distribution systems.

In conclusion, a special overview of the 2023 operations and expectations for the next period is given. The report was submitted to HERA and published on the HEP ODS website.

REPORT ON THE REALIZATION OF THE ANNUAL ENERGY PURCHASE PLAN TO COVER LOSSES IN THE DISTRIBUTION NETWORK

HEP ODS is systematically working on the improvement of all processes related to the planning and procurement of electricity to cover losses, including the monitoring of price trends on the electricity market, in order to initiate the procurement process at the most favourable moment.

Article 70, paragraph 13 of the Electricity Market Act stipulates that HEP ODS shall submit to the Croatian Energy Regulatory Agency for its approval an estimate of the amount and total cost of electricity purchased for covering electricity losses in the distribution network for the following year by 30 September of the current year together with the following data and information:

- the estimated amount of electricity losses and the method of its determination,
- purchased quantities and the method, rate, unit prices and other related procurement costs together with concluded contracts,
- planned quantities and the method, rate, unit prices and other associated procurement costs,
- method of setting the planned unit price,
- total planned cost for covering electricity losses.

In line with the above, the losses recorded in 2023 amounted to 1,349 GWh, higher than planned for 2023 ie 1,298 GWh. The total cost of energy purchase for covering losses in 2023 was EUR 80.7 million.

REPORT ON THE IMPLEMENTATION OF ACTIVITIES FROM ARTICLE 73, PARAGRAPH 1 OF THE ELECTRICITY MARKET ACT

The energy activity of electricity distribution is carried out as a public service, which must be available at all times to all customers and energy entities at a regulated price and under regulated conditions of access and use of service, adhering to safety, regularity and quality of service, environmental protection, efficiency of energy use and climate protection. It is carried out in accordance with legally set principles of public work and under the supervision of authorities.

HEP ODS shall act in a transparent, objective and impartial manner towards all participants on the electricity market and network users.

The 2023 Report on the implementation of its activities from Article 73, paragraph 1 of the Electricity Market Act was prepared in accordance with the principles of transparency, objectivity and impartiality.

REPORT ON COMPLIANCE PROGRAMME MONITORING

HEP ODS adopted the Compliance Programme in accordance with the provisions of the Electricity Market Act. Under the decision of the Company's director, a Committee was appointed to monitor the HEP ODS Compliance Programme.

The Programme establishes measures that exclude the possibility of biased management, as well as measures for appropriate monitoring of its compliance. Also, the Programme establishes special obligations of the Company employees and the Commission.

The Company shall ensure impartiality towards all electricity market participants, in particular towards associated entities within a vertically integrated entity, in accordance with applicable regulations. In terms of organization, and in relation to HEP d.d. as the governing company, HEP ODS is a dependent, but in terms of its legal form, organization and structure it is independent from HEP d.d., as well as from other dependent companies within HEP Group.

The Report on the monitoring of the HEP ODS compliance programme for 2023 was prepared. The Report was submitted to HERA and published on the HEP ODS website.

The Report findings state that in 2023 the Company acted in accordance with the Compliance Programme.

ANNUAL REPORT ON SECURITY OF SUPPLY IN DISTRIBUTION SYSTEM

Pursuant to the provisions of the Electricity Market Act, HEP ODS publishes the Annual Report on Security of Supply in the Distribution System.

The 2023 Report contains:

- description of basic features of the distribution power system,
- provision of necessary energy volumes,
- production overview of power plants connected to the distribution network,
- flexibility of distribution network users and provision of ancillary services to the system,
- achieved indicators of power supply reliability in the distribution network,
- data on major interruptions in the supply of electricity,
- security of supply measures,
- mechanism for KPI monitoring,
- cybernet security,
- a view at security of supply in the future period.

In conclusion, it was stated that HEP ODS continuously monitors key indicators of power supply reliability in the distribution system (KPI) in order to monitor and improve its performance in increasing the reliability of power supply in the distribution system.

The annual report on security of supply in the distribution system for 2023 was submitted to HERA and published on the HEP ODS website.

REPORT ON QUALITY OF ELECTRICITY SUPPLY

In 2022, HERA adopted the Rulebook on the quality of electricity supply regarding the quality of supply in the area of service quality, power supply reliability and voltage quality, under which the following has been regulated:

- indicators of electricity supply quality,
- the method of measuring, collecting and publishing electricity supply quality indicators,
- exceptional events in terms of the quality of electricity supply,
- general, minimum and guaranteed quality standards of electricity supply,
- the method of regulating the quality of electricity supply depending on the selected method of tariff regulation,
- financial compensation (hereinafter: remuneration) based on guaranteed quality standards of electricity supply,
- the method, rate and scope of reporting and submitting data to the Croatian Energy Regulatory Agency (hereinafter: the Agency) on the quality of electricity supply,
- content of the transmission system operator's annual report on the quality of electricity supply,
- content of the distribution system operator's annual report on the quality of electricity supply, and
- content of the supplier's annual report on the quality of services.

The quality conditions set an obligation for the distribution system operator in terms of keeping electronic records in which all data and documents on the quality of services necessary for the calculation and verification of service quality indicators are entered and stored, as well as data on service quality complaints, remuneration requests, and paid remuneration due to failure to reach the level of guaranteed service quality standards. Service quality indicators are calculated based on data from electronic records.

The Company publishes an annual report on the quality of electricity supply on its website by 30 April of the current year for the previous calendar year.

The report on the quality of electricity supply for 2023 was prepared and published on the HEP ODS website. The Report contains maximum available data, in accordance with the valid Quality Conditions. Based on the experience gained, the Company will continue with the systematic maintenance and improvement of electronic records, i.e. the improvement of the existing IT support and undertaking necessary operational and organizational measures in order to ensure the maximum credibility of data and improve the quality of electricity supply.

REPORT ON HEP ODS INVESTMENT PLAN DELIVERY

In accordance with the Methodology for setting tariff item amounts for electricity distribution, HEP ODS prepared and submitted to HERA the Report on HEP ODS investment plan delivery for the year 2022. The Report contains:

- Investment Plan funding,
- realization of the Investment Plan by activities,
- report on the execution status of key projects.

STATEMENT ON THE IMPLEMENTATION OF DUTIES PRESCRIBED BY THE ENERGY MARKET ACT

In accordance with the Energy Efficiency Act, HEP ODS carries out its duties related to systematic energy management and energy efficiency. Preservation and protection of the environment and nature, as well as efficient energy management, is part of the business strategy of HEP ODS, which has decided to establish, apply and permanently improve the environmental and energy management system according to the requirements of the international ISO 14001 and ISO 50001 standards. HEP ODS, aware of its impact on the environment, and with regard to the introduced environmental and energy management systems, has adopted the Environmental and Energy Management Policy.

A Statement on the implementation of duties set in Articles 15, 17, 18 and 22 of the Energy Efficiency Act was prepared and submitted to HERA.

FINANCIAL INDICATORS

After extremely complex business conditions in 2022, business operations in 2023 were marked by their stabilization resulting in an operating profit of EUR 13.3 million compared to the 2022 profit of EUR 7.9 million. Although the inflationary effects on the prices of all goods and services spilled over into 2023, the volatility of energy prices partially stabilized in 2023, which had a positive impact on operating costs and an increase in profits.

Despite an increasing trend of economic activities in 2023, total electricity consumption decreased compared to 2022. The revenue generated from the fee for the use of the distribution network was maintained at the 2022 level due to the increase in tariff items for electricity distribution adopted by the HERA Decision of 1 April 2022.

The Government of the Republic of Croatia has repeatedly extended the Regulation on the Elimination of Disturbances in the Domestic Energy Market in 2023, i.e., extended the measures that have ensured unchanged electricity prices. The aim of the adopted measures is to further protect the standard of living of citizens, ensure the functioning of public institutions and enable economic growth. However, the continued implementation of the Regulation represents an additional challenge in the organization of work in various business areas and directly affects the amount of revenue from the fee for the use of the distribution network.

Activities in the business area of distribution network development were marked by an increase in economic activities, which resulted in an increased number of payments for new network connection fees and an increase of connection capacity, as well as investments in the reconstruction of the electric power distribution network after the earthquake.

FINANCIAL PERFORMANCE

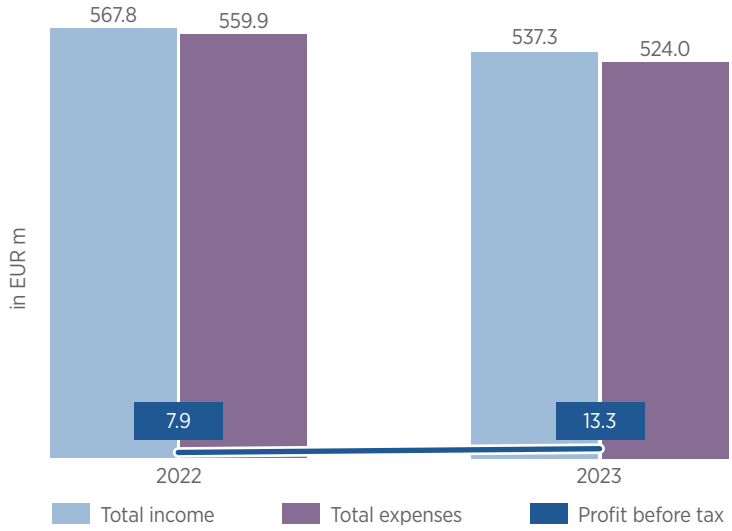
Total revenue of HEP ODS in 2023 amounted to EUR 537.3 million, which was a decrease by EUR 30.5 million, or 5.4%, compared to 2022. Total expenses amounted to EUR 524.0 million, a decrease by EUR 35.9 million, or 6.4%. A significant decrease in total expenses compared to revenues led to a higher profit before tax of EUR 13.3 million.

BASIC OPERATING INDICATORS

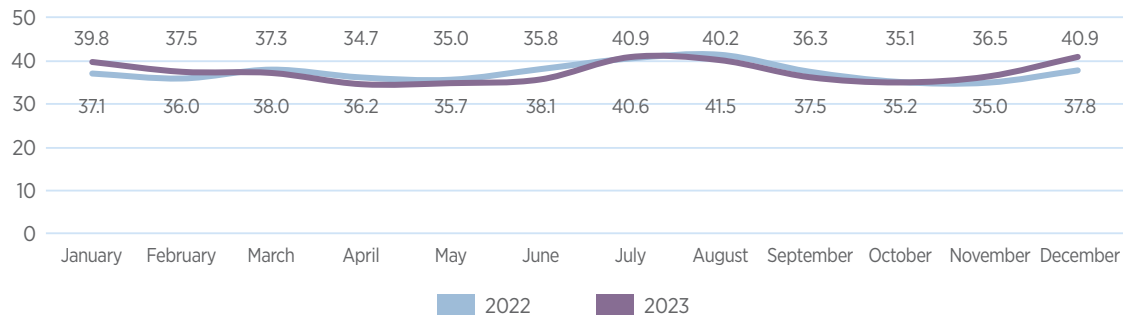
DESCRIPTION	unit	2022	2023	% 23/22
Total revenue	EUR m	567.8	537.3	-5.4%
Total expenses	EUR m	559.9	524.0	-6.4%
Profit/loss before taxes	EUR m	7.9	13.3	69.0%
Electricity distribution	GWh	15,617	15,179	-2.8%
Number of metering points		2,514.048	2,543,982	1.2%
Receivables from network users	EUR m	16.9	17.1	1.2%
Trade liabilities	EUR m	84.2	84.0	-0.3%
Reserves	EUR m	79.1	92.5	16.9%
No. of workers		6,879	6,789	-1.3%
Investments	EUR m	151.2	171.0	13.1%

Note: total revenue and expenses include financial income and expenses

OPERATING PERFORMANCE

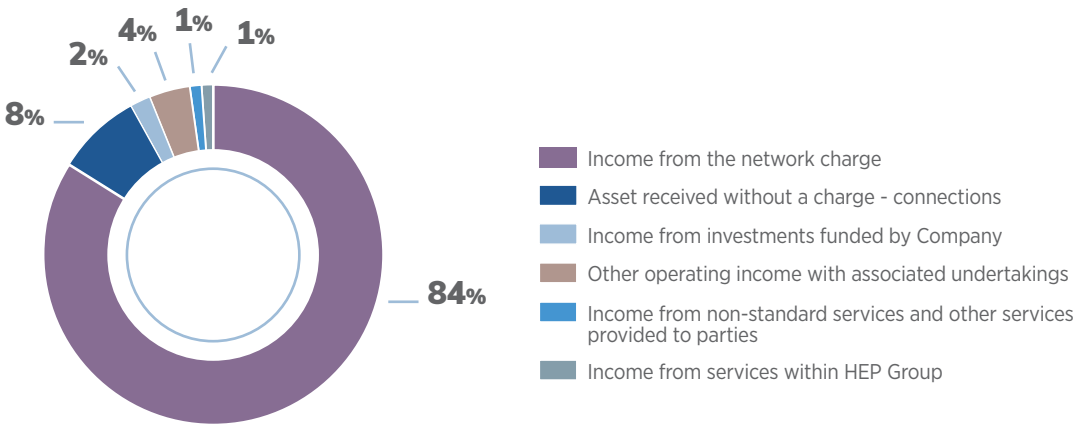


INCOME FROM THE DISTRIBUTION NETWORK USAGE FEE (in EUR million)



Income from the connection charge, as the second highest income of HEP ODS, increased by 3.6% compared to 2022 amounting to EUR 46.0 million.

SHARE OF INCOME BY SEGMENTS IN TOTAL REVENUE



EXPENSES

Total operating expenses amounted to EUR 524.0 million, a decrease by EUR 35.9 million (6.4%) compared to 2022.

Among financially significant costs in the total expenses of HEP ODS, the costs of electricity for covering losses stand out. The physical losses of electricity in the distribution network, measured in kWh, increased by 12.5% compared to 2022.

The cost of electricity for covering losses consists of the supply of base electricity for covering losses in the distribution network and the supply of remaining electricity for covering losses in the distribution network.

Due to the geopolitical situation and the related energy crisis in Europe, extraordinary circumstances occurred on the electricity market, which caused a large increase and volatility in electricity prices. The high price volatility was particularly pronounced during 2022, while the situation partially stabilized during 2023. Therefore, the financial value of the cost of electricity losses decreased by EUR 68.2 million (45%) compared to 2022.

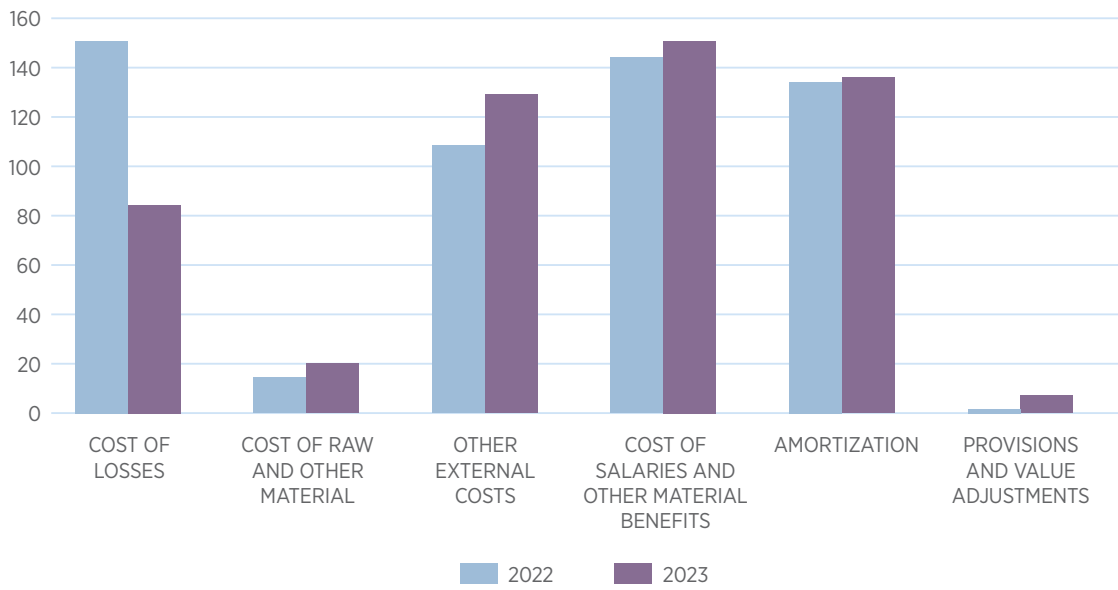
Compared to 2022, the cost of staff, including workers' material rights, increased by EUR 18.1 million in accordance with the provisions of the Collective Agreement for Hrvatska elektroprivreda and the Agreement concluded between the Trade Unions and the Employer on increasing the amount of material rights up to the maximum amounts set under the Income Tax Ordinance.

Other materially significant costs are the costs of regular and emergency maintenance of the electric power network, which are regulated under the provisions of the Rules on maintenance of the electric distribution network, in accordance with valid regulations of the Republic of Croatia regarding electric power, occupational safety, fire protection, environmental and nature protection, and alike. In 2023, the cost of energy facilities maintenance amounted to EUR 39.5 million, an increase by 18.6% compared to 2022, in line with the expressed needs of HEP ODS to increase the maintenance plan. The cost increase was also influenced by the cost of repairing damage caused by summer storms of EUR 12 million.

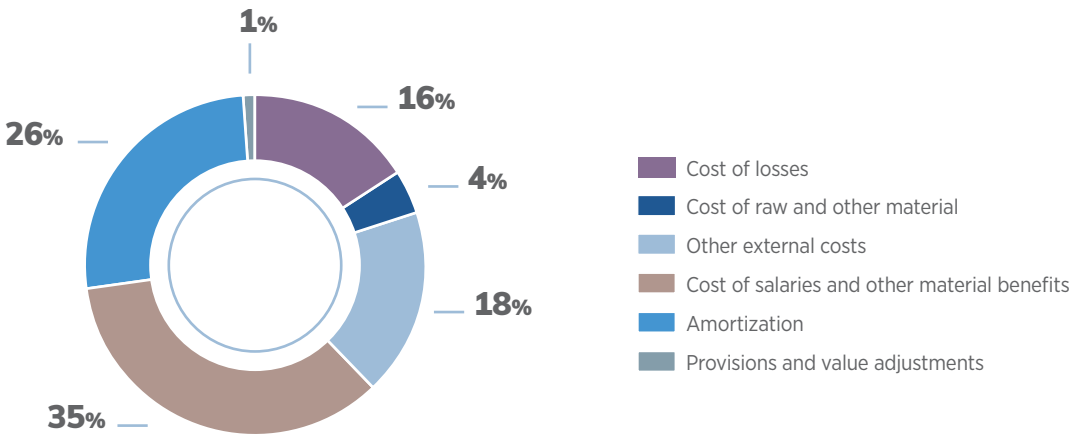
In accordance with the Agreement on Mutual Relations concluded with HEP ODS, HEP d.d. as a parent company manages the financial policy of HEP ODS and implements the borrowing strategy. Financial expenses were reduced from EUR 4.7 million in 2022 to EUR 1.3 million in 2023. HEP d.d. repaid its bond-related debt in 2022.

Under the conclusions of the Government of the Republic of Croatia, HEP ODS wrote off receivables for the distribution network usage fee in the earthquake-affected areas of Sisak-Moslavina, Zagreb and Karlovac Counties, which was recorded as an extraordinary expenditure of EUR 1.9 million.

COMPARISON OF OPERATING COSTS BY SEGMENTS (in EUR m)



SHARE OF COST IN TOTAL EXPENSES



INCOME STATEMENT

	2022 EUR m	2023 EUR m
OPERATING INCOME		
Income from sale	453.7	454.5
Income from sale – associated companies	43.7	7
Other operating income – associated companies	0.2	0.2
Other operating income	70.2	74.8
Total operating income	**567.8**	**536.5**
OPERATING EXPENSES		
Cost of network losses and procurement of balancing energy	151.5	83.2
Cost of services	40.3	44.5
Cost of staff	142.6	148.7
Amortization cost	135.8	137.1
Administrative costs – associated companies	25.3	28.7
Other operating cost	59.8	80.6
Total operating expenses	**555.3**	**522.8**
Operating profit	**12.5**	**13.7**
Financial income	0	0.8
Financial expenses	4.6	1.2
Net financial loss	**-4.6**	**-0.4**
Profit before taxes	**7.9**	**13.3**
Corporate tax	1.4	2.5
Profit for the current year	**6.5**	**10.8**

FINANCIAL POSITION OF THE COMPANY

BALANCE SHEET - ABRIDGED	31 December 2022		31 December 2023		change 2022%
	EUR m	share	EUR m	share	
Fixed assets	2,064.1	81.7%	2,110.7	83.1%	2.3%
Current assets	460.9	18.7%	428.6	16.9%	-7.0%
TOTAL ASSETS	**2,525.1**	**100.00%**	**2,539.3**	**100.0%**	**0.6%**
Equity and reserves					
Long-term provisions	248.5	9.8%	252.7	10.0%	1.7%
Long-term liabilities and deferred income	63.4	2.5%	66.0	2.6%	4.2%
Short-term liabilities	1,653.1	65.5%	1,707.8	67.3%	3.3%
TOTAL LIABILITIES AND EQUITY	**560.2**	**22.2%**	**512.8**	**20.2%**	**-8.4%**

ASSETS

As of 31 December 2023, total assets amounted to EUR 2,539.3 million, an increase by EUR 14.2 million compared to 2022. Fixed assets accounted for 83% of asset value.

A decrease in current assets was, for the most part, impacted by a decrease in cash and cash equivalents by EUR 47.2 million, while the inventory increased by EUR 13.4 million.

EQUITY AND LIABILITIES

The equity of HEP ODS at the end of 2023 in the amount of EUR 252.7 million consists of:

- subscribed capital in the amount of EUR 92.8 million;
- share in the associated undertaking HEP Telekomunikacije d.o.o. of EUR 2.1 million;
- capital reserves based on the transfer of ownership of buildings and equipment taken over from Hrvatske autocesta d.o.o. in the amount of EUR 144.2 million;
- revaluation reserves based on the revaluation of fixed assets in the amount of EUR 2.8 million;
- realized profit of the current year (after taxes) in the amount of EUR 10.8 million.

Long-term provisions amounted to EUR 66.0 million, which was an increase by EUR 2.6 million due to an increase in severance provision, in accordance with accounting policies.

Long-term liabilities, including deferred income, amounted to EUR 1,707.8 million accounting for 67% of total liabilities and equity of HEP ODS. Long-term liabilities include, for the most part, liabilities to HEP d.d. based on the financial lease of real property, plants and equipment. Long-term rental obligations increased by EUR 16.7 million compared to 2022 as a result of changes in fixed assets - real property, plants and equipment.

Short-term liabilities amounted to EUR 512.8 million. The largest share of short-term liabilities in the amount of EUR 253.4 million consists of:

- liabilities to associated undertakings under the Mutual Relations Agreement;
- liabilities under the Agreement on the purchase and sale of electricity to cover losses, concluded between HEP d.d. and HEP ODS;
- liabilities arising from the laws and regulations governing the energy sector: the Electricity Market Act, Rules on Electricity Market Organization, Methodology for Determining Prices for the Calculation of Balancing Electricity and the Electricity Balancing Rules adopted by HOPS d.o.o.

Other short-term liabilities towards HEP d.d. refer to HEP ODS obligations arising for the most part from the purchase of materials, plants and equipment for investments financed by HEP d.d. After the completion of construction, the erected property is transferred to HEP ODS as a financial lease under the Lease Agreement. The decrease in short-term liabilities to associated undertakings of EUR 84.6 million compared to 2022 is related to the simultaneous decrease in receivables from associated undertakings within HEP Group.

Short-term liabilities for advances mostly include liabilities for connection charges.

Deferred income, which increased by EUR 36.9 million compared to 2022, mostly refers to income from property financed from the connection charge. Income from the distribution network connection charge is systematically distributed over the useful life of the connection asset, and the fee received from customers for connection to the distribution network is recorded as deferred income and recognized as income for the period simultaneously with the depreciation of the connection to which it refers.

REPORT BY INDEPENDENT AUDITORS

To the owner of HEP-Operator distribucijskog sustava d.o.o.
Audit report on annual financial statements

OPINION

We have audited the annual financial statements of HEP-Operator distribucijskog sustava d.o.o., Zagreb, Ulica grada Vukovara 37 ("the Company") for the year ended 31 December 2023, which consist of the Statement of financial position as at 31 December 2023, Statement of profit or loss, Statement of other comprehensive income, Statement of cash flows and Statement of changes in equity for the year then ended, as well as the corresponding Notes to financial statements, including a summary of significant accounting policies.

In our opinion, the attached annual financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS).

BASIS FOR OPINION

We conducted our audit in accordance with International Auditing Standards (IAS). Our responsibilities under these standards are further described in our Auditor's Report under section Auditor's Responsibilities for the Audit of Financial Statements. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants, including the International Standards of Independence issued by the International Ethics Standards Board for Accountants (IESBA) (IESBA Code) and ethical requirements relevant to our audit of the financial statements in the Republic of Croatia. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of the highest significance in our audit of the current period's annual financial statements and include the most significant recognized risks of material misstatement due to error or fraud with the greatest impact on our audit strategy, the allocation of our available resources and the time spent by the engaged audit team.

These matters were addressed in the context of our audit of the annual financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below as key audit matters to be communicated in our Independent Auditor's report.

Key audit matter	How the key audit matter was addressed
In the statement of comprehensive income, sales revenue is reported in the amount of EUR 454,526 thousand (31 December 2022 in the amount of EUR 453,719 thousand). For more detailed information, see Note 2. Revenue recognition, Note 4. Sales revenue and Note 28. Relationships with associated companies.	
Recognition of operating income from sale Operating income is mostly generated based on the distribution network usage fee and connection charges. Income consists of the fair value of compensation received or receivables for products sold, goods and services performed in the regular course of business. The Company recognizes revenue when the amount of revenue can be reliably measured, when the Company has future economic benefits and when specific criteria for the Company's activity are met. Income is subject to significant risk due to the complexity of the system for recording, identifying and recognizing income. In our opinion, given the materiality of the amount and the complexity of the accounting records, which indicate significant risks, the presentation and valuation of this item in the Statement of Profit or Loss is a key audit matter.	**Our audit procedures included:** • Examination of design, implementation and effectiveness of internal controls related to the cycle of revenue recognition and evaluated controls in IT systems that support revenue entries; • Assessing the revenue recognition policy, including whether the policy is consistent with IFRS 15; • Testing income account entries with the aim of identifying unusual or irregular items; • Conduct of detail tests on the selected sample, in order to make sure of the accuracy of income calculation and the correctness of their recognition in the accounting period; • We considered the security and consistency of the transfer of financial information to the business books and conducted tests of controls of operating income; • Checking, on the basis of the sample, the correctness of the statement of income for the corresponding periods; • Comparison of received external confirmations of the amount of open trade receivables on the reporting date and the balance shown in the Company's business books on the same date; Through our audit procedures, we have made sure that sales revenues in all materially significant terms have been recorded and published in accordance with International Financial Reporting Standards.
In its annual financial statements as of 31 December 2023, the Company reported assets under construction and advances in the amount of EUR 166,512 thousand (31 December 2022 in the amount of EUR 166,584 thousand) (see Note 14). For more detailed information, see Note 2 Property, plant and equipment, 3 Key accounting judgments and estimates and Note 14 Assets under construction and advances.	
Valuation of assets under construction and advances One of the basic tasks of the Company is the maintenance, development and construction of the distribution network for reliable and sufficient supply of users. Investments in the distribution network are based on the ten-year development plan. These are multi-year, technically complex projects of great financial value, the completion of which within the planned time and financial framework depends, among other things, on coordination with HEP d.d. and the Croatian transmission system operator d.o.o., Zagreb regarding the dynamics of construction and financing. This also affects the complexity of activating the investment and the start of the depreciation calculation. In our opinion, given the materiality of the amount and the complexity of these assets as a key material resource in Company operations and the complexity of accounting records (procurement, depreciation calculation, metering. Capitalizatio of maintenance costs, etc.), the valuation of this item in the Statement of Financial Position represents a key audit matter.	**Our audit procedures included, among others:** • The analysis of the minutes of the Management Board and the Supervisory Board meetings regarding information related to investment plans and decisions on investment projects; • Assessment of compliance of the policy of recognition of real property, plants and equipment with relevant financial reporting standards; • Review of investment projects according to the selected sample by reviewing contracts, incoming invoices and records of deliveries; • The anysis of the explanations of expert departments on the current status and expected completion of ongoing investment projects; • The review of the required disclosures related to property, plants and equipment in the financial statements to determine their accuracy and completeness Through our audit procedures, we have made sure that the asset in preparation in all materially significant terms have been recorded and published in accordance with International Financial Reporting Standards.

OTHER INFORMATION IN THE ANNUAL REPORT

The Management is responsible for other information. Other information include information contained in the Annual Report, but do not include the annual financial statements and our Independent auditor's report thereon, which we received before the date of this Independent Auditor's Report. Our opinion on the annual financial statements does not include other information.

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

Regarding the Management Report, we also carried out the procedures prescribed by the Accounting Act. These procedures verify the harmonization of the Management Report with Article 21 of the Accounting Act.

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

information in the attached Management Report is harmonized, in all significant aspects, with the attached financial statements;

the Management Report prepared in accordance with Article 21 of the Accounting Act is attached, and

based on the knowledge and understanding of the Company's operations and its environment acquired within the framework of the audit of financial statements, we are obliged to report if we have established any significant misstatements in the attached Management Report and Non-Financial Report. In this sense, we have nothing to report.

RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR ANNUAL FINANCIAL REPORTS

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

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

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

RESPONSIBILITIES OF AUDITOR FOR THE AUDIT OF ANNUAL FINANCIAL STATEMENTS

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

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

identify and assess the risks of material misstatement of the consolidated annual financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls;

evaluate the appropriateness of accounting policies used and prudence of accounting estimates and related disclosures made by the Management;

conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

evaluate the overall presentation, structure and content of the consolidated annual financial statements, including disclosures, and whether the consolidated annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement of our compliance with relevant ethical requirements regarding independence, and we commit to communicate with them on all relationships and other matters that may reasonably be considered to influence our independence, and where applicable, related safeguards.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Based on the proposal of the Supervisory Board, we were appointed auditors of the 2023 annual financial statements by the Company's Assembly on 28 September 2023, which represents our second year of engagement.

Apart from the matters that we have stated in our Independent Auditors' Report as key audit matters under the subtitle Report on the Audit of the Annual Financial Statements, we have nothing to report in relation to point (c) of Article 10 of Regulation (EU) No. 537/2014.

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

During the period between the initial date of the Company's audited financial statements for the year 2023 and the date of this Report, we did not provide prohibited non-audit services to the Company, and we did not provide design and implementation services for internal control procedures or risk management related to the preparation and/or or the control of financial information or the design and implementation of technological systems for financial information, and in performing the audit we preserved independence in relation to the Company.

In Zagreb, 14 June 2024

PKF FACT revizija d.o.o.
Zadarska ulica 80
10000 Zagreb

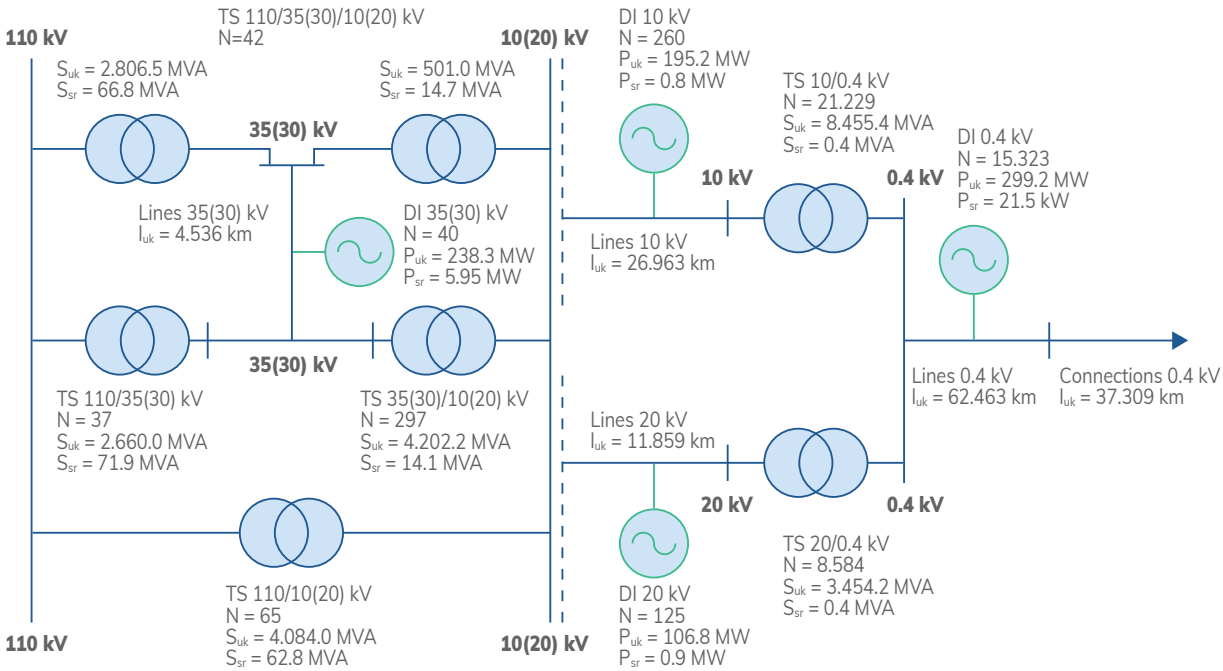
Moore Audit Croatia d.o.o.
Trg Johna Fitzgeralda Kennedyja 6B
10000 Zagreb

3

Network and users

KEY PERFORMANCE INDICATORS OF DISTRIBUTION NETWORK

DISTRIBUTION NETWORK OF THE REPUBLIC OF CROATIA



* Data on transformers owned by HOPS and network users is not shown in the picture

The distribution network of HEP ODS consists of transformer stations at the interface with the transmission network, medium-voltage lines, medium- and low-voltage transformer stations, the low-voltage network and connections to including billing metering points at the interface with users of the distribution network.

DATA ON DISTRIBUTION NETWORK

HEP ODS is responsible for the operation, development, maintenance and management of the distribution network in the Republic of Croatia, which includes:

- 56,594 square kilometres of surface area,
- 3,888,529 inhabitants (according to the 2021 census),
- 555 local self-government units organized in 20 counties, 127 cities and 428 municipalities.

Due to the geographic location of the Republic of Croatia, the distribution network is characterized by a large difference between individual distribution areas, in terms of the number of users, the amount and nature of electricity demand, spatial distribution, level of construction and a degree of technological development of plants and networks.

HEP ODS is organized within 21 distribution areas divided into 129 field units and four regional groups: North, East, West and South.

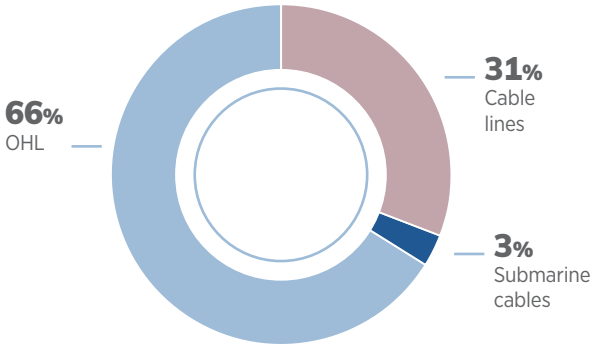
The distribution network of HEP ODS consists of 4,535.8 kilometres of 35(30) kV power lines, 38,822.6 kilometres of 10(20) kV power lines, 62,462.8 kilometres of 0.4 kV power lines and 37,309.4 kilometres of household connections.

There is a total of 27,178 transformer stations in the distribution network, including facilities jointly owned by HOPS and network users, with a total installed capacity of 23,785.8 MVA.

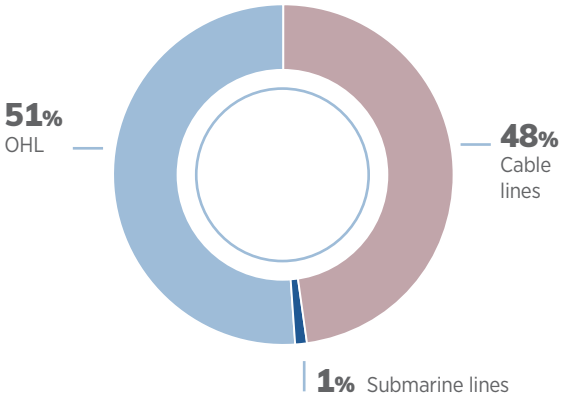
LENGTH OF DISTRIBUTION NETWORK

VOLTAGE LEVEL	OVERHEAD LINES (km)	CABLE LINES (km)	SUBMARINE CABLES (km)	TOTAL (km)
35(30) kV lines	2,966.9	1,423.8	144.7	4,535.4
20 kV lines	4,990.0	6,869.4		11,859.4
10 kV lines	14,951.1	11,755.7	256.4	26,963.2
Low voltage network	43,341.3	19,121.5		62,462.8
Household connections	23,174.6	14,134.8		37,309.4
TOTAL	**89,424.1**	**53,305.2**	**401.0**	**143,130.3**

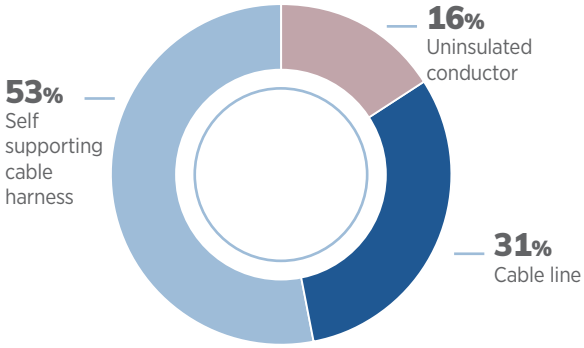
35(30) kV NETWORK – 4,535.4 km



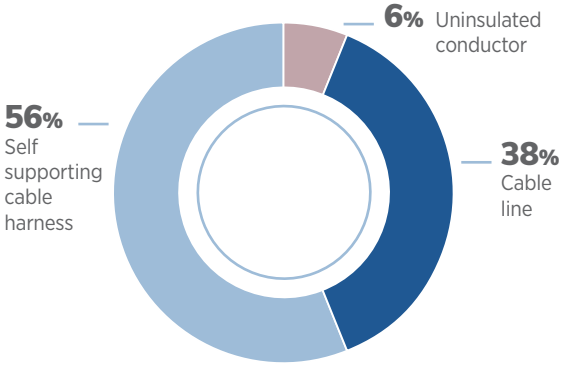
10(20) kV NETWORK – 38,822.6 km



LOW VOLTAGE NETWORK – 62,462.8 km



HOUSEHOLD CONNECTIONS – 37,309.4 km

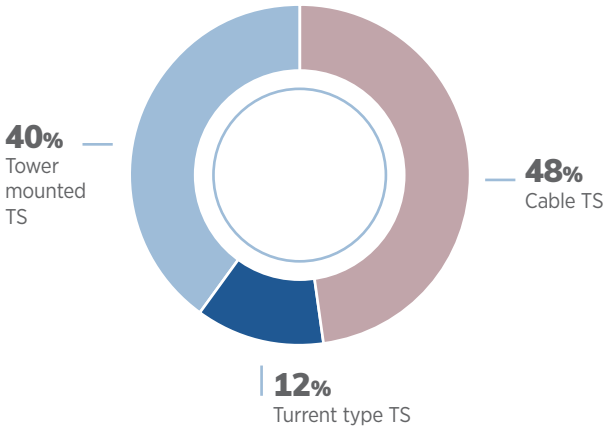


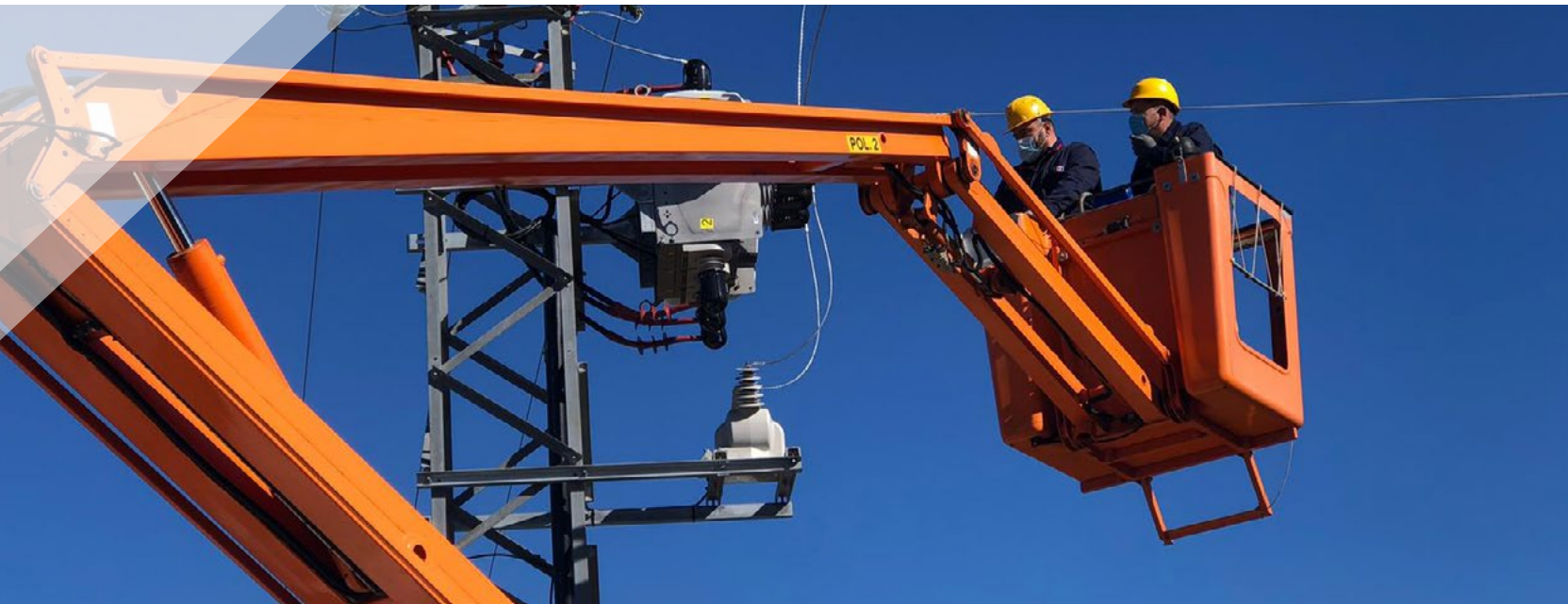
TRANSFORMER STATIONS

VOLTAGE LEVEL	NO. of TS	INSTALLED TRANSFORMATION CAPACITY (MVA)
TS 110/35(30) kV	37	2,660.0
TS 110/35(30)/10(20) kV	42	3,307.5
TS 110/10(20) kV	65	4,084.0
TS 35(30)/10(20) kV	297	4,202.3
TS 10(20)/0.4 kV	26,737	9,532.0
TOTAL	**27,178**	**23,785.8**

The table shows data on the supply points of the distribution network, i.e. transformer stations in operation, higher 110 and 35 kV voltage levels, owned by HEP ODS or jointly owned with another system operator or network users, as well as data on 10(20)/0.4 kV substations in operation, owned by HEP ODS or jointly owned with network users, excluding facilities not owned by HEP ODS.

10(20)/0.4 kV SUBSTATIONS – 26,737





ASSETS AND INVESTMENTS

INVESTMENTS

HEP ODS is obligated to operate and maintain, build and modernize, improve and develop the distribution network, with the aim of safe, reliable and efficient operation of the distribution system and distribution of electricity.

HEP ODS communicates its business objectives and investment strategy for the development of the distribution network through the published Ten-Year Distribution Network Development Plans. The currently valid Ten-Year Distribution Network Development Plan for the period 2024-2033 is publicly available on the HEP ODS website.

The investment year 2023 was marked by the transition to the euro, which, along with the continuation of market disruptions after the COVID pandemic, affected the increase in the prices of equipment and works. At the same time, the implementation of the measures of the Government of the Republic of Croatia from the package of support measures to citizens and the economy continued, which included, among others, limiting changes in the price of electricity. In such difficult financial operating conditions, regular investments in the reconstruction and development of the network and extraordinary investments in the repair of damage caused by the earthquake in the Petrinja, Sisak and Zagreb areas continued.

In the second half of 2023, investments were prepared and launched to repair the damage caused by the storm that hit central and eastern Croatia. During 2023, significant financial resources were invested through EU co-funded investment projects and programmes. Among other things, investments were completed within the framework of the multi-year Advanced Grid Pilot Projects (2018-2023) as well as structured and launched according to project activities planned to be co-funded through the National Recovery and Resilience Plan 2021-2026.

In 2023, the trend of increased investor activity in tourism activities and in the field of distributed energy sources continued, which led to an increase in activities to expand the network and connect users in tourist areas, as well as to a significant increase in activities related to preparing budgets, projects and other technical documentation in the procedure of conencting new electricity producers.

Total investments in the electricity distribution network and business infrastructure necessary for the performance of electricity distribution activities in 2023 were realized in the amount of EUR 171.0 million.

In July 2021, the European Commission adopted a positive assessment of the Croatia's National Recovery and Resilience Plan for the period 2021-2026, under which the Republic of Croatia secured financial resources in the amount of almost EUR 9.9 billion for its National Plan within the Recovery and Resilience Mechanism.

The National Plan recognizes three areas of HEP ODS investment: Modernization of the Croatian Electric Power Network. Within this area, HEP ODS has prepared project proposal activities: modernization and development of the advanced network, modernization of the network in Natura 2000 areas and investments in submarine cables at the distribution level. During 2021-2023, project documentation and

cost-benefit analyses for project activities were prepared. At the end of 2023, the project was submitted after the call of the Environmental Protection and Energy Efficiency Fund, and the contract on the implementation and co-financing of project activities was signed in February 2024. The co-funding of project activities for the modernization of the electricity distribution network in the amount exceeding EUR 285.6 million was agreed until 30 June 2026.

CAPITAL INVESTMENTS

Capital investments in HEP ODS are strategically important, multi-year complex projects of great financial value that create the prerequisites for long-term development, capacity increase and reliable operation of the electricity distribution network. The projects include the revitalization, reconstruction or construction of individual MV transformer stations and main medium-voltage lines.

The focus of the 2023 capital investments was on the continuation of projects for the construction and equipping of important transformer stations and on the completion of several complex projects for the reconstruction of transformer stations - connection points of the medium-voltage network. The following capital projects must be highlighted:

- 110/10(20) kV Kutina substation – completion of the construction and equipping of the new 20 kV electric power facility
- 110/20 kV Petrinja substation – completion of the overall reconstruction following major damage caused by the earthquake
- 110/30(20) – 30/10(20) kV Kapela substation – continuation of the construction and equipping of the new transformer station for the purpose of ensuring supply of Murter, Pirovac, part of Šibenik hinterland and the support to electricity supply of Vodice; it has been fully reconstructed by expanding the 10(20) kV facility and increasing the transformation capacity
- 110/10(20) kV Terminal (Split) substation – continuation of the construction and equipping of the new transformer station for the purpose of supply of the customers in the east part of Split
- 110/10(20) kV Poličnik substation – continuation of the construction and equipping of the new transformer station in Zadar hinterland for the needs of network users and to unburden the load of Zadar substations.

During 2023, two important capital reconstruction projects were completed within the scope of the Programme for the Reconstruction of the Utility and Energy Infrastructure of the town of Vukovar:

- complete reconstruction of 35/10(20) kV Vukovar 3 TS,
- 110/35/10 kV Vukovar 1 TS – 35/10(20) kV Vukovar 3 TS 35 kV CB.

An important capital project in southern Croatia is the construction of a new 110/10(20) kV Zamošće TS. It is important to ensure reliable power supply to the mainland – Pelješac bridge and access roads, but also to increase the safety and reliability of power supply for the Pelješac – Korčula area. The project was undergoing the public procurement implementation phase in 2023.

Total investments in capital projects in 2023 amounted to more than EUR 22.4 million.

OTHER INVESTMENTS

Due to the great length of the electricity distribution network, the large number of transformer stations and more than 2.5 million users (according to the number of billing metering points), HEP ODS carries out a large number of activities every year to develop and maintain the network and the necessary business infrastructure. A large number of individual projects included in the annual investment plan are organized into investment programmes. Investment programmes are grouped according to the business goals to which the investments in question contribute the most. In 2023, more than EUR 53.6 million was invested in regular investment programmes in the electricity distribution network and business infrastructure.

Activities on other investments were carried out as part of the following programmes and groups of programmes:

- the programme for the construction of medium and low-voltage facilities with the aim of increasing capacity, rehabilitating voltage conditions and increasing power supply security,
- revitalization programme of worn-out equipment,
- medium voltage network transition programme to the 20 kV operating voltage - final phase,
- programme of rehabilitation and reconstruction of metering points and connections,
- investments in metering devices and infrastructure,
- investments in the implementation of Advanced Network,
- investments in business infrastructure.

Additional investment programmes are introduced as the need arises and in line with business circumstances. During 2023, more than EUR 14.5 million was invested in the following special programmes:

- the Vukovar programme – the electric power part of the wider Vukovar infrastructure reconstruction programme,
- elimination of damage caused by earthquakes in Zagreb and Sisak-Mioslavina County,
- EU co-funded projects.

In total, more than 1,500 investment projects and activities in the electrical distribution network and business infrastructure were realized. More than EUR 68.0 million was invested in 2023.

INVESTMENTS IN ELECTRICITY CONDITIONS AND CONNECTIONS

Investments in electric power conditions and connections account for the average of 30% and 40% of HEP ODS planned annual investments. These investments are specific because they are prepared and launched according to the current needs of network users, and strongly depend on economic trends, circumstances in the business environment, state strategy and policy execution mechanisms.

In 2023, a significant increase in the number of requests for connection to distributed energy sources (as a result of the government's policy to encourage energy production from renewable sources) and an increase in the number of requests for increasing the connection capacity or building a new connection (as a result of intensive development of tourist areas) was noticed.

During 2023, HEP ODS invested EUR 72.3 million in electricity connections and conditions, replacing and reconstructing:

- LV lines (network anf undergtround cable) 23.0 km
- MV lines (network and underground cable) 1.8 km
- 10(20)/0.4 kV substations 10

and constructing:

- LV lines (network and underground cable) 769.8 km
- MV lines (OHL and 10(20) kV underground cable) 242.2 km
- 10(20)/0.4 kV substations 183

Compared to 2022, there was a slight increase in the total number of billing metering points at the end of 2023, resulting in an increase of the total number of billing metering points on the distribution network by 1.19%, or by 29,934 billing metering points.

PLANNING AND DEVELOPMENT OF DISTRIBUTION NETWORK

STUDIES OF LONG-TERM DEVELOPMENT OF DISTRIBUTION NETWORK

HEP ODS prepares studies of long-term development of the distribution network, taking the 20-year period as a basis for making multi-year development plans, which further analyze the current state of the network and, based on the load increase projection, propose long-term network development in accordance with the adopted criteria and approach to development planning.

Development studies are made systematically in line with the adopted procedure and a uniform study task for each distribution area or, depending on the size and complexity of the distribution network, a section of the distribution area.

The first cycle of 26 development studies was carried out in the period from 2009 to 2021. This was a deep and planned uniform approach to long-term development of the entire distribution network in Croatia.

Before launching a new cycle of network development studies, based on the experiences gained through these 26 study documents and the knowledge obtained through several systematic studies to improve the planning process, the study procedure will be adjusted and improved, and newly developed methodologies and models included in the study task.

During 2023, research was conducted as part of several studies, the results of which are very important for the future operations of HEP–Operator distribucijskog sustava d.o.o.

As part of the "Expert and scientific support for improving the making of development plans" research, several studies were prepared, the most important of which are:

- The impact of changes in EU regulations (2023/2024) on the operations of DSO,
- Development of a methodology for implementing a cost-benefit analysis of the viability of investments at the interface of the transmission and distribution network - transformer stations with network connection lines at higher and lower voltage levels,

- Planning the use of flexible network user services,
- Basis for the implementation of new methodologies in studies of long-term distribution network development - a new cycle of studies.

With the implementation of EU directives, EU regulations and the adoption of the revised National Energy and Climate Plan 2020-2030, HEP ODS gets an even bigger role as well as tasks in achieving the demanding goals of the green transition. New tasks require greater agility and proactivity on the part of HEP ODS, both in improving the planning and implementation of network development, and in communication with all stakeholders whose work is important for achieving common goals (ministries, HERA, HOPS, etc.).

As part of the CBA study, a new methodology was developed for estimating the costs of electricity supply interruptions, an important input parameter for the implementation of CB analyses. The results of the methodology will be incorporated and applied as part of the creation of a new cycle of distribution network development studies.

The aim of the second important study entitled "The impact of traffic electrification on the development of the distribution network of HEP ODS“ was to determine the requirements which traffic electrification imposes on the medium-voltage and the low-voltage network by using the example of the distribution area of Elektroistra Pula, an area with the largest influx of electric and hybrid cars.

The adoption of the AFIR directive (EU 2023/1804) and the imminent adoption of the revised National Energy and Climate Plan (NECP) for the period 2022-2030 will intensify the already existing high dynamics of requests for the connection of EV charging station to the distribution network. The results of the study show the necessity of much larger investments in order to create the preconditions for connections in such intensity and range.

TEN-YEAR DISTRIBUTION NETWORK DEVELOPMENT PLAN

The Electricity Market Act clearly defines the responsibility and duty of the distribution system operator in distribution network development planning:

- HEP ODS is responsible for the development of the distribution network, which ensures the long-term ability of the distribution network to meet reasonable electricity distribution requirements.

- Duty of HEP ODS is to manage and maintain, build and modernize, improve and develop the distribution network with the aim of safe, reliable and efficient operation of the distribution system and distribution of electricity.
- Distribution system Grid Code which, with the prior consent of the Croatian Energy Regulatory Agency, is adopted by HEP ODS, sets the methodology and criteria for distribution network development planning.
- Duty of HEP ODS is to adopt and publish, with the prior approval of the Croatian Energy Regulatory Agency, an updated ten-year distribution network development plan.

HEP ODS bases ten-year distribution network development plans with a detailed elaboration for the initial three-year and one-year periods on the results of distribution network development studies of individual distribution areas, data on the current state of the network and planned investments combined in the HEP ODS Development Planning application. In doing so, the experience gained through previous multi-year plans, as well as the expert opinions of HERA, are taken into account. In 2023, a ten-year distribution network development plan proposal (2024-2032) was drafted. Having gained the approval from the Croatian Energy Regulatory Agency, said Plan was published on the HEP ODS website.

PREPARATION AND TRANSITION OF THE MV NETWORK TO 20 kV OPERATING VOLTAGE

The transition from the existing 110-35-10-0.4 kV four-voltage to the 110-20-0.4 kV three-voltage distribution system has been the subject of numerous development studies since the mid 1960s.

In the short term, the transition of the sections of the 10 kV distribution network to a 20 kV operating voltage leads to the rehabilitation of voltage conditions in the medium voltage network, thus doubling the transmission capacities and reducing capacity losses and voltage drops four times without major constructions.

In the mid 1980s, a strategic decision was made to install MV facilities with a nominal 20 kV voltage and to build 20 kV voltage lines (overhead and cables), regardless of direct 10 kV voltage operation. In late 2023, about 30% of MV lines and over 29% of MV/LV substations operate at 20 kV.

Elektra Sisak was the first area which fully introduced the operation of the medium voltage network at 20 kV abandoning the 10 kV voltage operation. The final transition activities were carried out in September 2019, accompanied by the release of a celebratory brochure.

Provided favourable operating circumstances, almost the complete network of Elektroprimorje Rijeka could make a transition from 10 kV to 20 kV operating voltage until the end of 2024.

The large sections of the following distribution area networks operate at 20 kV:
- Elektra Zagreb
- Elektra Zabok
- Elektra Vinkovci
- Elektroistra Pula.

DISTRIBUTED PRODUCTION OF ELECTRICITY

The increasing trend of power plant grid connection, especially of small solar power plants for which the connection procedure is simplified, and which are built as simple structures, continued during 2023. Among them, the users of self-supply facilities and end customers with their own production account for the major share, delivering surplus electricity to the grid.

Total electricity delivered to the distribution network by power plants during 2023 amounted to 1767.6 GWh. Electricity produced from power plants in 2023 accounted for about 11.64% of total electricity demand by distribution network customers.

The year 2023 was also characterized by the highest number of connected solar power plants in the self-supply user category (concluded purchase agreements with market off takers). In conclusion, on 31 December 2023, a total of 10,797 producers were connected to the HEP ODS network as users of self-supply facilities with a total connected capacity of 74,335 kW.

POWER PLANTS CONNECTED TO DISTRIBUTION NETWORK

PRIMARY SOURCES	NO. of CONNECTIONS		CONNECTION CAPACITY (kW)		TOTAL		ELECTRICITY PRODUCED IN 2023 (kWh)
	LV	MV	LV	MV	NO. of CONNECTIONS	CONNECTION CAPACITY (kW)	
Sun	15,281	303	287,776	174,722	15,584	462,498	278,888,467
Wind		9		95,850	9	95,850	215,979,166
Biomass	9	34	4,264	95,768	43	100,032	629,357,647
Water	18	21	3,281	73,021	39	76,302	314,048,752
Geothermal		1		10,000	1	10,000	16,492,137
Other	15	57	3,859	90,941	72	94,800	312,804,554
TOTAL	**15,323**	**425**	**299,180**	**540,302**	**15,748**	**839,482**	**1,767,570,723**

PRODUCERS CONNECTED TO DISTRIBUTION NETWORK BY VOLTAGE LEVELS

VOLTAGE LEVEL (kV)	NO. OF PRODUCERS	CONNECTION CAPACITY (kW)
0.4	15,323	299,180
6.3	1	7,200
10	259	187,994
20	125	106,777
30	3	21,618
35	37	216,713
TOTAL	**15,748**	**839,482**

PRODUCERS CONNECTED TO DISTRIBUTION NETWORK BY DISTRIBUTION AREAS

DISTRIBUTION AREA	NO. OF CONNECTED PRODUCERS	PRODUCERS' CONNECTION CAPACITY [kW]
Elektra Zagreb	2.718	70,907
Elektra Zabok	592	22,412
Elektra Varaždin	924	38,641
Elektra Čakovec	714	39,497
Elektra Koprivnica	597	34,126
Elektra Bjelovar	535	35,457
Elektra Križ	566	32,486
Elektroslavonija Osijek	1.329	82,119
Elektra Vinkovci	764	46,864
Elektra Slavonski Brod	503	26,288
Elektroistra Pula	1.042	25,281
Elektroprimorje Rijeka	1.312	49,031
Elektrodalmacija Split	1.331	55,722
Elektra Zadar	703	54,479
Elektra Šibenik	548	113,282
Elektrojug Dubrovnik	229	4,051
Elektra Karlovac	511	37,756
Elektra Sisak	266	16,544
Elektrolika Gospić	158	15,071
Elektra Virovitica	221	32,979
Elektra Požega	185	6,488
TOTAL	**15,748**	**839,482**

OPERATION OF DISTRIBUTION NETWORK

RELIABILITY OF ELECTRICITY SUPPLY

In 2023, HEP ODS continued to systematically implement activities aimed at reducing the number and duration of power outages in electricity supply. Given the extremely adverse weather conditions compared to previous years, there was an increase in the number and duration of unplanned power outages, especially those caused by force majeure.

Continuous activities are carried out to optimize operation, coordination of operation and field units, and the application of positive operating practices, which was supported in 2023 by the implementation of the System Operation Application. The analysis of power outages by using programme support (DISPO application) for monitoring the reliability of power supply, the adaptation of key performance indicator methodology for the purpose of improving the reliability of electricity supply, and connecting DISPO with HEP DSO information system in line with the digitization of the distribution management process, are also significant.

HEP ODS continuously invests in process, information and communication systems as well as active cooperation with the transmission system operator and network users, which will ensure the prerequisites for using distribution flexibility and providing ancillary system services. This will further improve the reliability of electricity supply. In 2023, two new studies served as a basis for the preparation of the Rules on Non-Frequency Ancillary Services for the Distribution System and the Rules on Congestion Management in the Distribution System. Activities were carried out to increase the level of security of the process network and to ensure communication prerequisites for the integration of process information systems. This integration represents an important project that connects and integrates process information systems for network monitoring and operation (21) into a single, modern and advanced system at the HEP ODS level. The second phase of the project was completed in 2023, which included the integration of all 10(20) kV distribution network functions. In the coming period, a gradual implementation of the MV network display for individual distribution areas is also planned.

In 2023, activities on the pilot project for the introduction of advanced networks in individual distribution areas (Zagreb, Osijek, Split, Zadar and Dubrovnik) continued, as well as the ongoing investment of automation in the network depth and the transition of the 10 kV medium-voltage network to the operating 20 kV voltage.

Stochastic changes in terms of power supply reliability indicators are possible in years characterized by exceptionally adverse weather conditions as was 2023 and in years with a higher number of equipment failures. Given the exceptionally adverse weather conditions in 2023, the total number and duration of unplanned power outages, especially those caused by force majeure, increased compared to previous years. As for planned power outages, the values were maintained at the last year level.

With continuous investment in power plants, the grid and automation systems, electricity supply reliability indicators follow a trend of improvement, despite challenging weather conditions.

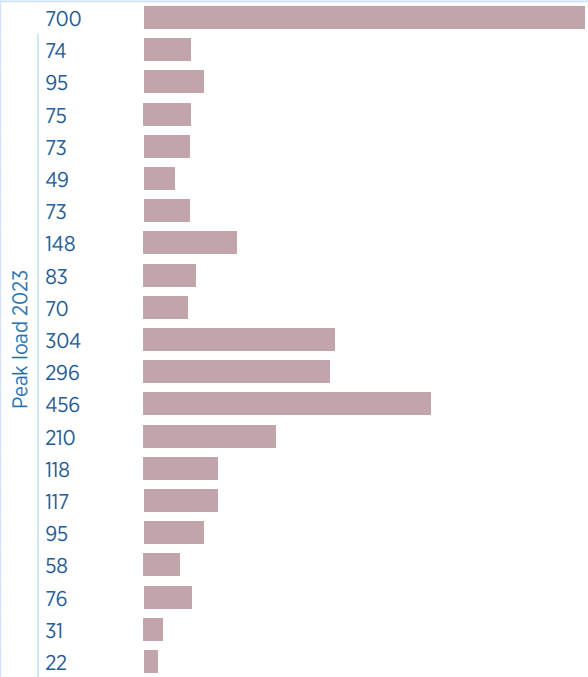
PEAK LOAD

The peak load of the distribution system, i.e. the load of system components, represents important data for optimal management of the distribution network.

The maximum total load of the distribution system in 2023 was recorded on 24 August 2023 at 1:15 p.m. amounting to 3,061 MW, of which 92% was supplied from the transmission network. Most distribution areas recorded a higher peak load compared to 2022, with a 2% higher peak load at the distribution system level. Similar to previous years, the trend characterized by distribution areas reaching peak load in summer instead of winter months has been noticeable, which was contributed by extreme summer heat and warmer winters.

PEAK LOAD OF DISTRIBUTION AREAS

DISTRIBUTION AREA	CAPACITY (MW)	REACHED ON
Elektra Zagreb	700	25/08/2023
Elektra Zabok	74	11/12/2023
Elektra Varaždin	95	06/12/2023
Elektra Čakovec	75	06/12/2023
Elektra Koprivnica	73	22/08/2023
Elektra Bjelovar	49	28/08/2023
Elektra Križ	73	23/08/2023
Elektroslavonija Osijek	148	06/12/2023
Elektra Vinkovci	83	28/08/2023
Elektra Slavonski Brod	70	30/11/2023
Elektroistra Pula	304	19/07/2023
Elektroprimorje Rijeka	296	18/07/2023
Elektrodalmacija Split	456	25/07/2023
Elektra Zadar	210	18/07/2023
Elektra Šibenik	118	25/07/2023
Elektrojug Dubrovnik	117	25/07/2023
Elektra Karlovac	95	08/02/2023
Elektra Sisak	58	09/02/2023
Elektrolika Gospić	76	22/08/2023
Elektra Virovitica	31	24/08/2023
Elektra Požega	22	24/08/2023
HEP ODS	**3.061**	**24/08/2023**



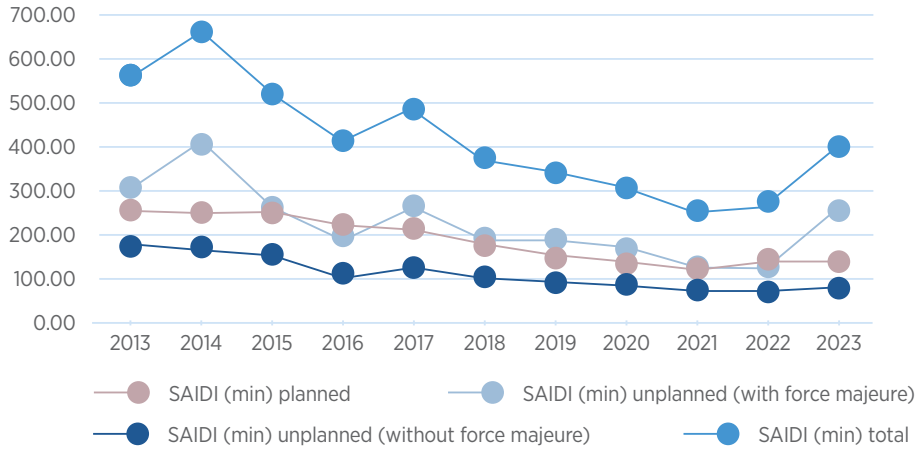
INDICATORS OF ELECTRICITY SUPPLY RELIABILITY IN DISTRIBUTION NETWORK AND OVERVIEW OF OUTAGES

Continuous investment in power plants and the network, as well as automation systems for network elements, has enabled the improvement of electricity supply reliability indicators. Special attention has been paid to the organization and coordination of works, which has been further enhanced by the introduction of the System Operation Application and the improvement of the software support for monitoring power supply reliability (DISPO application).

Despite the increased number of planned activities, in addition to quality organization and coordination of works, the number and duration of planned power outages are at the last year level, continuing the improving trend of planned power outage indicators. Weather conditions in 2023 were extremely unfavourable compared to previous years, which resulted in an increased number and duration of unplanned power outages, especially those caused by force majeure.

The graph of the multi-year trend of power supply reliability indicators shows progress.

SAIDI BY YEARS – PLANNED AND UNPLANNED

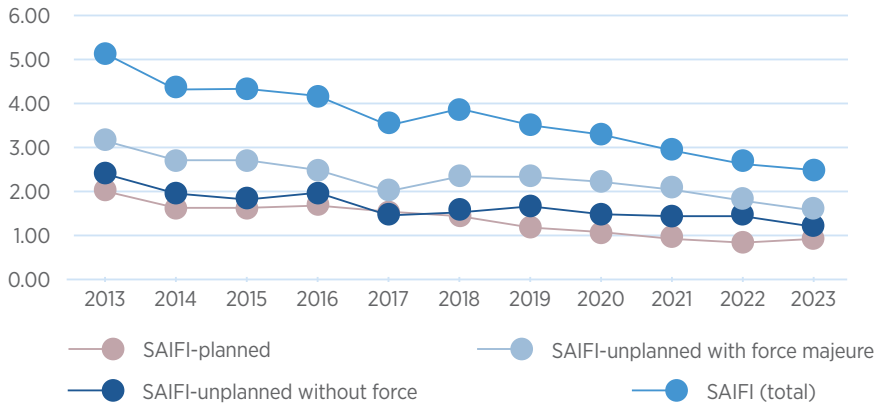


The SAIDI index represents the average duration of power outages per user. Two main classifications of power outages are observed: planned and unplanned. The graph shows the improvement of SAIDI's power supply reliability index in the observed period, while oscillations are visible during unplanned power interruptions, which are the result of weather conditions. Total SAIDI, which is continuously improving, is important for network users, amounting to 394.71 minutes in 2023.

In 2023, regular and preventive maintenance activities continued on network and facility reconstructions, and the transition to 20 kV operating voltage, as did activities within the Advanced Networks Pilot Project, which were carried out with better coordination of field units and the application of live-line work. Despite the extremely unfavourable climatic year, the planned works were carried out at the expected level, which confirms the consistency of the indicator values.

Weather conditions in 2023 were extremely unfavourable compared to previous years, which resulted in an increased duration of unplanned power outages, especially those caused by force majeure. Unplanned outages caused by equipment failures and third-party construction work also contributed to the increased values of the SAIDI index. Despite continuous investments in the network and automation activities in the network depth, as well as regular and preventive maintenance, the average duration of outages per network user in the observed period is somewhat longer as the number and simultaneity of outages exceeded the capabilities of field teams to eliminate them in a timely manner.

SAIFI BY YEARS



The SAIFI index represents the average number of interruptions per user. Two main classifications of power outages are observed: planned and unplanned. The graph shows the improvement of the SAIFI index throughout the observed period, which means that the average number of supply interruptions has continuously been decreasing. Total SAIFI in 2023 was 2.88 interruptions per user.

A slightly higher number of planned power outages compared to previous years is the result of increased activities within the Advanced Networks Pilot Project, on plant network reconstructions and switching to 20 kV operating voltage in individual distribution areas, as well as activities to eliminate the consequences of a large number of storms.

Systematic activities on regular and preventive maintenance of network components have a positive effect on the long-term reduction of the number of unplanned power outages.

DATA ON MAJOR INTERRUPTIONS

Power supply interruptions are mainly caused by planned and unplanned outages of distribution network elements. Unplanned power outages are most often caused by natural disasters or force majeure.

1st quarter

At the end of January, the island of Rab was hit by a power outage caused by salt. Failures in the main grid at the end of January on the area of Elektrodalmacija Split and at the beginning of February on the area of Elektra Zadar resulted in power outages for a large number of customers. At the beginning of February, a storm hit central Croatia, causing several power outages. Also, snow and storm hit central and mountainous Croatia on 26 February 2023, causing most outages in the Elektrolik Gospić area.

2nd quarter

Construction work on the new 110/30/10(20) kV Kapela TS on 23 May, 7 June and 13 June 2023 resulted in a planned power outage of the 30 kV VP Tisno from 220/110/30 kVBilice TS, leaving the western part of Šibenik-Knin County without power for several hours. On 30 May 2023, a tree which fell onto a transmission line caused a short-term power outage for 7,794 Elektra Zabok users.

3rd quarter

Seasonal fires in summer caused one major outage that occurred on 13 July 2023 in the Grebaštica area. Due to the proximity of the fire and the demands put on the firefighters, the Primošten substation from the 220/110/30 kV Bilice substation was disconnected at 12:15 pm, leaving the eastern part of the coast without power. After the fire had been extinguished, the Primošten substation was reconnected on 14 July 2023 around 00:30 am.

The breakdown at the 30/10 kV Tisno substation on 16 July 2023 (explosion of the 10 kV cell switch of the Plitka Vala substation) resulted in the disconnection of the 30 kV Tisno substation from the 220/110/30 kV Bilice substation, leaving the western part of the Šibenik-Knin County without power (Murter, Tisno and Stankovci).

A major storm on 19 July 2023 caused numerous outages in central Croatia, especially in the Zagreb and Slavonia areas, leaving thousands of network users without power. During this period, despite the great efforts of HEP ODS workers, temporary repairs and repeated storms made it difficult to restore power.

On 22 August 2023, due to the connection of transmission lines in Babina Greda, 3,079 network users were left without power, with a total outage duration of more than 6 hours (1,148,467 customer minutes).

On 5 September 2023, due to the outage of incoming 110 kV transmission lines in the Elektra Čakovec area, 23,716 network users were left without power.

4th quarter

At the end of November, a power outage caused by salt on the island of Rab affected 7,904 network users. On 9 December 2023, an insulation breakdown on the submarine cable between Krk and Cres affected 7,048 network users.

RESTORING THE WORKING ORDER OF INFRASTRUCTURE AND PLANTS IN THE FIELD OF ENERGY

As part of the grant awarded under the EU Solidarity Fund "Restoring the working order of infrastructure and plant in the field of energy", HEP ODS signed a series of contracts with the Ministry of Economy and Sustainable Development for restoring the working order of infrastructure and plants in the field of energy.

Repair of damage caused by the earthquake in the area of the City of Zagreb, Krapina-Zagorje County and Zagreb County

As part of the Call for the allocation of non-refundable financial contribution for the restoration of the working order of infrastructure and plants in the field of energy (Remediation of damages caused by the earthquake of 22 March 2020 on energy infrastructure and energy facilities in the area of the City of Zagreb, Krapina-Zagorje County and Zagreb County, reference code: FSEU.2021.ENERGETIKA.MINGOR) HEP ODS submitted 14 applications on the basis of which 14 contracts for the allocation of non-refundanble financial contribution for operations financed from the European Union Solidarity Fund were concluded.

The aforementioned contracts include the facilities of Elektra Zagreb distribution area (41 facilities) damaged in the earthquake that hit the wider area of Zagreb on 22 March 2020. The total grant of EUR 1,001,672.80 had a utilization deadline until 30 November 2022. Pursuant to the Amendments to the Contracts from November 2022, and in accordance with the Commission's Decision of 19 May 2022 C(2022) 3433 on the Amendment to the Commission's Implementing Decision C (2020) 8713 on the allocation of a financial contribution from the European Union Solidarity Fund, the period of cost eligibility was extended until 30 June 2023.

Repair of damage caused by the earthquake in the Banovina region

As part of the Call for the allocation of non-refundanble financial contribution for restoring the working condition of infrastructure and plants in the field of energy (Remediation of damage caused by the earthquakes on 28 and 29 December 2020 to energy infrastructure and energy plants in Sisak-Moslavina County, reference code: FSEU.2022.ENERGETIKA.MINGOR), HEP ODS submitted seven applications on the basis of which seven contracts on the allocation of non-refundable financial contribution for operations financed from the European Union Solidarity Fund were signed.

The aforementioned contracts include the facilities of Elektra Sisak distribution area that were damaged in the earthquakes of 28 and 29 December 2020: 213 20/0.4 kV transformer stations, the 110/20 kV feeder transformer station supplying the entire area of the town of Petrinja, the replacement of the 110/20 kV energy transformer in Glina, 23 medium-voltage networks, 38 low-voltage networks, and connections to residential buildings for temporary accommodation of earthquake victims in Sisak-Moslavina County. The total grant amounted to EUR 18,325,006.86, with a utilization deadline until 30 June 2023.

METERING AND MARKET SUPPORT

HEP ODS manages and carries out tasks related to metering devices and equipment, metering data, issuing invoices and collecting network usage fees, electricity market needs, energy balance and electricity losses in the distribution network, all with the goal of an efficient distribution system.

The implementation of a complex multi-year distribution network modernization project continued with the aim of equipping all network users' billing points with advanced meters by the end of 2029. With 110,807 new advanced meters installed in 2023, 549,809 meters are currently included in the remote reading system ie 21.6% of the total number of meters in the distribution network. The installation of advanced meters improves various processes: from billing, temporary suspension and recovery of electricity supply to control of excess connection capacity, consumption asymmetry, control of billing metering points and identification of unauthorized energy consumption. The modernization project is an important step towards building an advanced and sustainable energy network that will provide users with a more reliable and efficient electricity supply.

The Metering and Market Support Department manages the business process of issuing an omnibus invoice to suppliers in the electricity market for all billing metering points that are under the single account model. The total revenue from the network use fee applying tariff items for electricity transmission and distribution, which was generated through omnibus invoices in 2023, amounted to EUR 641.020 million, i.e. 73.5% of total revenue from the distribution network use fee.

Continuous work is carried out to improve business processes with market stakeholders. 75,392 supplier switch events were made through the supplier change interface in 2023, which is an increase of 151.19% compared to 2022.

268,467 requests from suppliers for temporary suspension of electricity supply were received. In total, 22,191 temporary suspension events of electricity supply were carried out in 2023. Total income from temporary electricity suspension events amounted to EUR 0.829 million.

The 2023 losses were recorded in the amount of 1.349 GWh or 8.16% of the total energy input to the distribution network, while the total cost of energy procured to cover the losses amounted to EUR 80.7 million. The average unit price of electricity procured for covering losses in the distribution network in 2023 amounted to 59.85 EUR/MWh.

NUMBER OF METERING POINTS

Distribution area	Elektra Zagreb	Elektra Zabok	Elektra Varaždin	Elektra Čakovec	Elektra Koprivnica	Elektra Bjelovar
HV – 110 kV	2	0	0	0	0	0
MV – 35 kV and 30 kV	4	2	1	4	4	2
MV – 20 kV and 10 kV	446	48	93	84	62	24
Total MV	**450**	**50**	**94**	**88**	**66**	**26**
LV – business (blue)	7,433	1,097	1,471	1,159	1,177	1,590
LV – business (white)	26,275	2,849	3,187	2,765	2,544	2,298
LV – business (red)	8,250	971	1,232	851	719	520
LV – public lighting	3,363	804	722	501	656	689
Total LV businesses	**45,321**	**5,721**	**6,612**	**5,276**	**5,096**	**5,097**
LV – households (blue)	107,075	36,392	34,963	17,591	27,188	27,456
LV – households (white)	430,976	27,355	32,169	26,359	22,797	18,728
LV – households (red)	805	19	49	26	24	5
LV – households (black)	0	0	0	0	0	0
Total LV households	**538,856**	**63,766**	**67,181**	**43,976**	**50,009**	**46,189**
Overall	**584,629**	**69,537**	**73,887**	**49,340**	**55,171**	**51,312**

Distribution area	Elektra Križ	Elektroslavonija Osijek	Elektra Vinkovci	Elektra Slavonski Brod	Elektroistra Pula
HV – 110 kV	0	0	0	0	0
MV – 35 kV and 30 kV	3	7	7	4	4
MV – 20 kV and 10 kV	96	210	122	108	253
Total MV	**99**	**217**	**129**	**112**	**257**
LV – business (blue)	1,813	1,671	729	1,829	3,034
LV – business (white)	3,159	8,848	4,828	3,148	10,494
LV – business (red)	1,244	1,961	978	809	2,664
LV – public lighting	1,207	1,331	616	638	1,966
Total LV businesses	**7,423**	**13,811**	**7,151**	**6,424**	**18,158**
LV – households (blue)	40,602	35,491	19,084	23,490	28,335
LV – households (white)	31,069	106,562	56,591	36,743	126,550
LV – households (red)	16	20	9	10	268
LV – households (black)	0	0	0	0	2,825
Total LV households	**71,687**	**142,073**	**75,684**	**60,243**	**157,978**
Overall	**79,209**	**156,101**	**82,964**	**66,779**	**176,393**

Distribution area	Elektroprimorje Rijeka	Elektrodalmacija Split	Elektra Zadar	Elektra Šibenik	Elektrojug Dubrovnik
HV – 110 kV	0	1	0	0	0
MV – 35 kV and 30 kV	16	14	5	11	0
MV – 20 kV and 10 kV	171	184	120	53	70
Total MV	**187**	**198**	**125**	**64**	**70**
LV – business (blue)	2,538	3,460	2,018	1,545	1,620
LV – business (white)	12,483	19,046	5,126	3,924	3,752
LV – business (red)	3,194	4,024	1,535	881	1,003
LV – public lighting	1,661	2,228	1,071	926	449
Total LV businesses	**20,063**	**28,957**	**9,875**	**7,340**	**6,894**
LV – households (blue)	41,567	58,928	42,988	33,420	16,270
LV – households (white)	165,049	228,014	90,985	53,044	35,112
LV – households (red)	1	0	0	0	6
LV – households (black)	370	405	72	36	224
Total LV households	**206,987**	**287,347**	**134,045**	**86,500**	**51,612**
Overall	**227,050**	**316,304**	**143,920**	**93,840**	**58,506**

Distribution area	Elektra Karlovac	Elektra Sisak	Elektrolika Gospić	Elektra Virovitica	Elektra Požega	Total
HV – 110 kV	0	1	0	0	0	**4**
MV – 35 kV and 30 kV	9	1	3	4	0	**105**
MV – 20 kV and 10 kV	136	61	60	41	39	**2,481**
Total MV	**145**	**62**	**63**	**45**	**39**	2,586
LV – business (blue)	1,500	815	992	604	701	**38,796**
LV – business (white)	4,172	2,339	2,161	2,108	1,318	**126,824**
LV – business (red)	897	580	556	466	290	**33,625**
LV – public lighting	1,308	766	674	437	328	**22,341**
Total LV businesses	**8,022**	**4,563**	**4,446**	**3,660**	**2,676**	224,176
LV – households (blue)	30,921	22,413	22,827	10,647	10,916	**688,564**
LV – households (white)	50,299	33,216	24,051	16,327	13,960	**1,625,956**
LV – households (red)	0	0	0	0	0	**2,832**
LV – households (black)	14	19	48	9	6	**2,454**
Total LV households	**81,234**	**55,648**	**46,926**	**26,983**	**24,882**	2,319,806
Overall	**89,256**	**60,211**	**51,372**	**30,643**	**27,558**	2,543,982

ELECTRICITY LOSSES

Electricity losses are indicators of business efficiency and quality of electricity distribution.

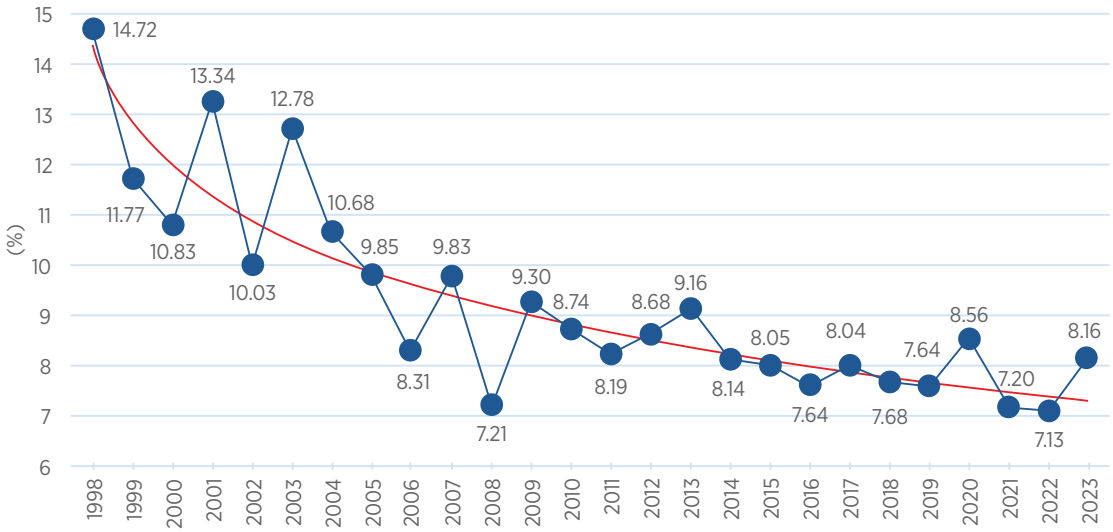
Reduction of electricity losses is one of the most important business goals for the achievement of which investment and operational measures have been implemented for a number of years. Over the years, the implementation of these measures have led to a decreasing trend in losses.

Electricity losses in the distribution network are divided into:

- technical losses, which are the result of the operating condition of the distribution network and technical characteristics of network elements, referring to the losses of core magnetization of a large number of transformers and heat losses on lines and transformers,
- non-technical losses, which are the result of unmeasured and unbilled energy consumed by network users, mostly referring to metering errors, unauthorized consumption of electricity and alike.

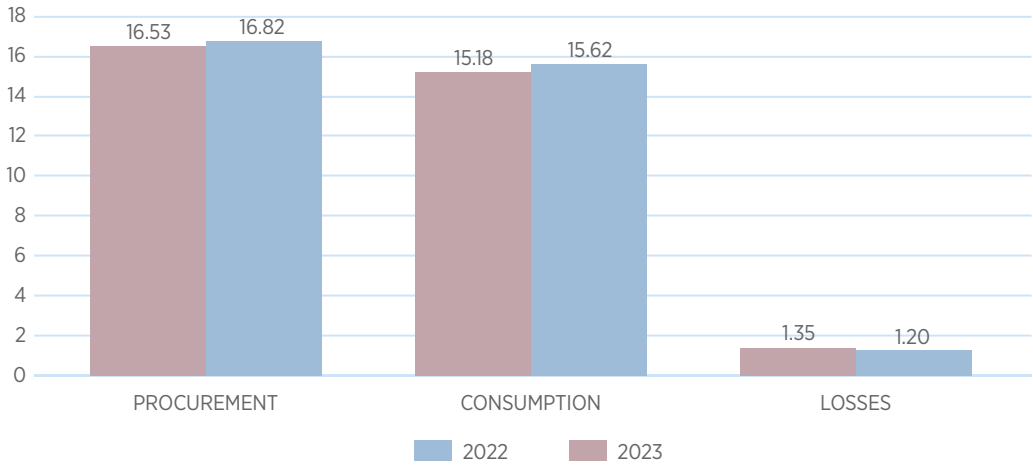
Losses are expressed as a percentage of the total energy input in the distribution network. According to the existing methodology, losses represent the difference between electricity taken from the distribution network (transmission network, other distribution networks and power plants connected to the distribution network) and the energy billed to end users. The absorbed energy in the distribution network is calculated monthly by metering, while a large part of the energy billed to customers is based on advance installments, which accounts for an error in the calculation of losses (volatile changes in the amount of losses over the years).

DISTRIBUTION NETWORK LOSSES



The share of losses in the distribution network in the period from 1998 to 2023, the red line shows a decreasing trend of losses.

TOTAL VOLUMES OF ELECTRICITY PURCHASE, CONSUMPTION AND LOSSES



HEP ODS is required to take systematic measures to reduce electricity losses in the distribution network, especially those caused by unauthorized consumption of electricity.

PROJECT MANAGEMENT

Given the growing global challenge of climate change and the need for sustainable energy solutions, HEP ODS has recognized the importance of project management as part of an efficient, development and environmentally aware business strategy. With this in mind, project management represents an important component contributing to the successful business performance of HEP ODS in 2023.

Project management at HEP ODS enables the achievement of the goals of energy stability and sustainability of the electricity distribution system of the Republic of Croatia, increasing the share of renewable energy sources and achieving Croatia's increasing energy self-sufficiency.

During 2023, HEP ODS continuously developed its project organization and successfully implemented a number of projects, achieving important results in the following areas:

- Efficiency increase: Through quality project management, optimization of the use of resources was achieved, which led to a reduction in costs and an increase in efficiency.
- Reliability of supply: Projects aimed at the modernization and improvement of the distribution network have been implemented to ensure a more stable and reliable supply of electricity.
- Sustainable development: By adding sustainable approaches to the projects, HEP ODS contributes to environmental protection and to achieving energy self-sufficiency.
- Improving the quality of service: By investing in infrastructure and technologies, users are provided with a better quality of service.

Analytical planning, organization and coordination of project activities facilitated the optimization of HEP ODS resources, project failure risk reduction, and assurance that projects are carried out in accordance with the set goals and standards, within the budget and deadlines, which has finally contributed to the achievement of financial goals and business sustainability.

SMART GRID PILOT PROJECT

HEP ODS is implementing the EU co-funded pilot project for the introduction of advanced networks. Total project value is EUR 23.5 million, of which grants allocated from the European Fund for Regional Development under the Operational Programme "Competitiveness and Cohesion 2014 - 2020", Specific Objective 4d1 account for 85% or EUR 20 million. In addition, HEP ODS will invest an additional EUR 6.9 million, reaching the total project value of EUR 30.4 million to be invested in technical solutions and the functionality of smart distribution network.

The smart grid pilot project includes the modernization of a section of the electricity distribution network in Croatia. The installed equipment will increase set preconditions for increasing the efficiency of electricity distribution and reliability of power supply, increase the number of users with access to the advanced network and create efficient integration of an increased number of new distributed sources.

The project includes three functional areas of advanced power distribution networks:

- advanced metering infrastructure: installation of summary meters in 6,125 MV/LV transformer stations and installation of advanced meters with 24,000 end users,
- development and optimization of the conventional network: replacement of 449 existing transformers with MV/LV reduced loss units in accordance with Commission Regulation no. 548/2014 on the implementation of Directive 2009/125/EC,
- automation of the medium voltage network: installation of 670 remotely controlled devices in the network depth (remotely controlled switching blocks in cable 10(20)/0.4 kV substations, remotely controlled disconnectors and switches in MV lines).

The project will enable the introduction of the advanced network concept in five of 21 distribution areas of HEP ODS: Elektra Zagreb, Elektroslavonija Osijek, Elektrodalmacija Split, Elektra Zadar and Elektrojug Dubrovnik, in order to determine the synergy effect of the implementation of proposed measures and facilitate investment decisions in other distribution areas.

The investment part of the project, the commissioning of installed devices and equipment, and the development of a platform for data collection and analysis, were completed at the end of 2023. After 2023, final project activities, which include monitoring the impact of project activities in relation to the set project objectives and regular reporting on the achievement of project objectives, will continue.

REDUCING NEGATIVE IMPACTS ON BIODIVERSITY

LIFE DANUBE FREE SKY PROJECT

After a successful application to the international competition, the Agreement of Participation in the international LIFE Danube Free Sky project, which is funded by the European Union, was signed at the end of 2020. The main goal of the project which full name is "Transnational Bird Conservation along the Danube River" is to contribute to the strategic objective of biodiversity of the European Union. By reducing bird mortality from power lines within a total of 22 Natura 2000 areas important for birds, a safer bird migration route along the Danube will be achieved and the survival rate of 19 important species will also increase. The total value of this 60-month long project is EUR 6,636,170. As many as 15 partners from seven countries of the Danube region are participating, with Slovakia as the main coordinator. HEP ODS's activities relate to the reduction of electrocution and bird collisions on power lines in Elektroslavonija Osijek within the Kopački rit Nature Park.

In 2022, significant progress was made within the LIFE Danube Free Sky project. As part of the activities in Elektroslavonija Osijek, the focus was placed on reducing the risk of birds being killed by power lines in Kopački rit Nature Park. In addition to the already known bird protection measures, such as the installation of insulating equipment, mechanical devices and optical diverters were installed on HEP ODS power lines. The diverters attract the attention of birds, thus preventing collisions with power lines. HEP ODS also plans to reconstruct existing power lines (about 30 km) by installing insulated conductors. In this reporting year, HEP ODS started installing 564 diverters to prevent bird collisions with 35 kV power lines within Kopački rit Nature Park. This undertaking will be completed in 2023, after which monitoring will be carried out to verify its effectiveness. Participation in this project is extremely important for the conservation of birds along the Danube River and for reducing the risk of power line collision.

LIFE SUPPORT PROJECT

In 2022, a consortium agreement was signed for the LIFE SUPport project. The total value of the project is EUR 2,159,598, of which 60% of the funds is allocated from the LIFE programme of the European Union. The LIFE SUPport project aims to improve the protection of the griffon vulture and the conditions for their nesting in Croatia.

The lead partner in this project is the BIOM Association. Its partners include the Public Institution "Priroda" of the Primorje-Gorski Kotar County, the Agricultural Cooperative "Otok Krk" and the Vulture Conservation Foundation. The associated partner is the Nature Protection Directorate of the Ministry of the Economy and Sustainable Development.

HEP ODS's activities are focused on the Elektoprimorje Rijeka area and include the implementation of bird protection measures on two hundred poles of the overhead medium-voltage network by installing insulation equipment or replacing uninsulated conductors with insulated ones. The project started on 1 January 2023, with the planned duration of 60 months. The first concrete activities of HEP ODS are expected in the second year of project implementation, i.e. in 2024. The total value of the project is EUR 2,159,589.61, while the activities of HEP ODS will amount to a total of EUR 323,366.84.

DINGO PROJECT

HEP ODS has been participating in a project called SOG - System for Optimization of Losses in Advanced Networks, financed from the Structural Funds IRI2 - Increasing the development of new products and services resulting from research and development activities - phase II, and based on the Operational Programme Competitiveness and Cohesion 2014 - 2020. The project leader is Helb d.o.o., while HEP ODS, the Faculty of Electrical Engineering and Computing and Sedam IT d.o.o. participate as partners. The projected duration of the project is from 1 August 2020 to 1 August 2023.

The total amount of project-related eligible expenditure for HEP ODS is EUR 106,178.25. This includes the salary costs of members of the Project Implementation Team. The highest eligible amount of EU-funded grants is EUR 53,089.12. As the financing model does not provide for pre-financing, the project holder transfers funds to HEP ODS based on submitted salary cost reports. A total of EUR 57,132.02 was paid to HEP ODS by the end of the project.

ATTEST PROJECT

HEP ODS completed the ATTEST (Advanced Tools Towards cost – efficient decarbonisation of future reliable Energy SysTems) project in August 2023. For the purpose of its implementation, HEP ODS was granted EUR 141,000, which was fully co-financed by the EU's Horizon 2020.

HEP ODS was one of the project leading industrial partners along with HOPS, ICENT and Končar Digital, as part of the Croatian consortium. The project was officially awarded the Seal of Excellence by the EU Commission at the end of November 2023.

GREEN SWITCH PROJECT

GreenSwitch is an extensive six-year project featuring the innovative and effective application of new technologies and advanced functionalities for the cross-sector and cross-border improvement of the electricity system infrastructure, which results in a greater utilization of network capacity, effective integration of new types of network users (as defined in the Electricity Market Act), by optimizing future investments and improving the security of supply and quality of service on the territory of the three member states.

The project was launched on 1 March 2023 and will last until 31 December 2028. The Grant Agreement was signed in May 2023. The total reported costs of HEP ODS amounted to EUR 3,239,264, of which EUR 1,619,632 was co-financed. During 2023, HEP ODS was paid an advance of EUR 809,816.

HEP ODS is participating in the project in two work packages (WP1 and WP4). The largest investment share and the share of HEP ODS's engagement is in WP4, under which three project activities are being implemented in the Elektroprimorje Rijeka area:

- replacement of relay protection and secondary equipment in 110/35 kV Lošinj TS, 110/20 kV Krk TS and 35/20 kV Osor TS;
- replacement of 35 kV conductors with new high-temperature low sag conductors (HTLS) between 110/35 kV Lošinj TS and 35/20 kV Osor TS;
- installation of compensating chokes in 20/0.4 kV Curak 1 TS, 35/20 kV Gerovo TS, 35/20 kV Kupjak TS and 110/20 kV Krk TS.

The benefits of the GreenSwitch project for HEP ODS, which contribute to the resolution of challenges in the abovementioned section of the distribution network are as follows:

- increasing the capacity for distributed renewable sources
- enabling the integration of new loads in the network
- optimizing investments in the network
- improving the quality of supply
- improving the visibility of the distribution network
- optimal use of the infrastructure.

USERS AND INFORMATION DISTRIBUTION

The structure of media and user inquiries during 2023 was dominated by queries related to deadlines for connection to the distribution network and solar power plant connections.

The increased number of inquiries regarding power plant connections was the result of the announcement of public calls for proposals to encourage the installation of solar power plants, under which the Environmental Protection and Energy Efficiency Fund and numerous local government units co-financed power plants built and put into operation during 2023.

The year was also marked by extreme meteorological events, especially during the summer months, which caused an increased number of inquiries due to unplanned power outages as a result of force majeure.

By continuing the implementation of the electronic mail module centralization project in order to develop better customer support by standardizing procedures and ensuring the application of a standardized user response procedure in 2023, the e-mail communication for three additional distribution areas was centralized: Elektra Križ, Elektrolika Gospić and Elektra Šibenik. In 2022, e-mail communication for Elektrojug Dubrovnik and Elektra Sisak distribution areas was also centralized. The full implementation of the project is planned for early 2025, by which time all distribution areas should switch to a centralized model of customer communication.

In coordination with the Project Management and the IT Units, activities continued on the Requests - My Network project in 2023, which facilities users the submission of all requests digitally. A user interface for entering data necessary for the implementation of requests was created and improved, the user application for submitting requests was connected to the ASEBA business application, and the first tests were conducted.

PUBLIC RELATIONS

In 2023, the Marketing Department successfully completed promotion and visibility activities under the Smart Grid Pilot Project. The final conference of this EUR 23.5 million 5-year long project was organized in October. 85% of the project or EUR 20 million was allocated as grants from the European Fund for Regional Development from the Operational Program "Competitiveness and Cohesion 2014-2020" (OPKK), Specific Objective 4d1.

The final preparations for the conclusion of the new EUR 286 m project contract titled "Modernization of the Croatian Distribution Power Network" have been completed. This project is funded from the National Recovery and Resilience Plan.

COMPLAINTS COMMITTEE

Complaints committees in HEP ODS distribution areas were established in accordance with the Consumer Protection Act. Committee members are representatives of distribution areas and consumer association.

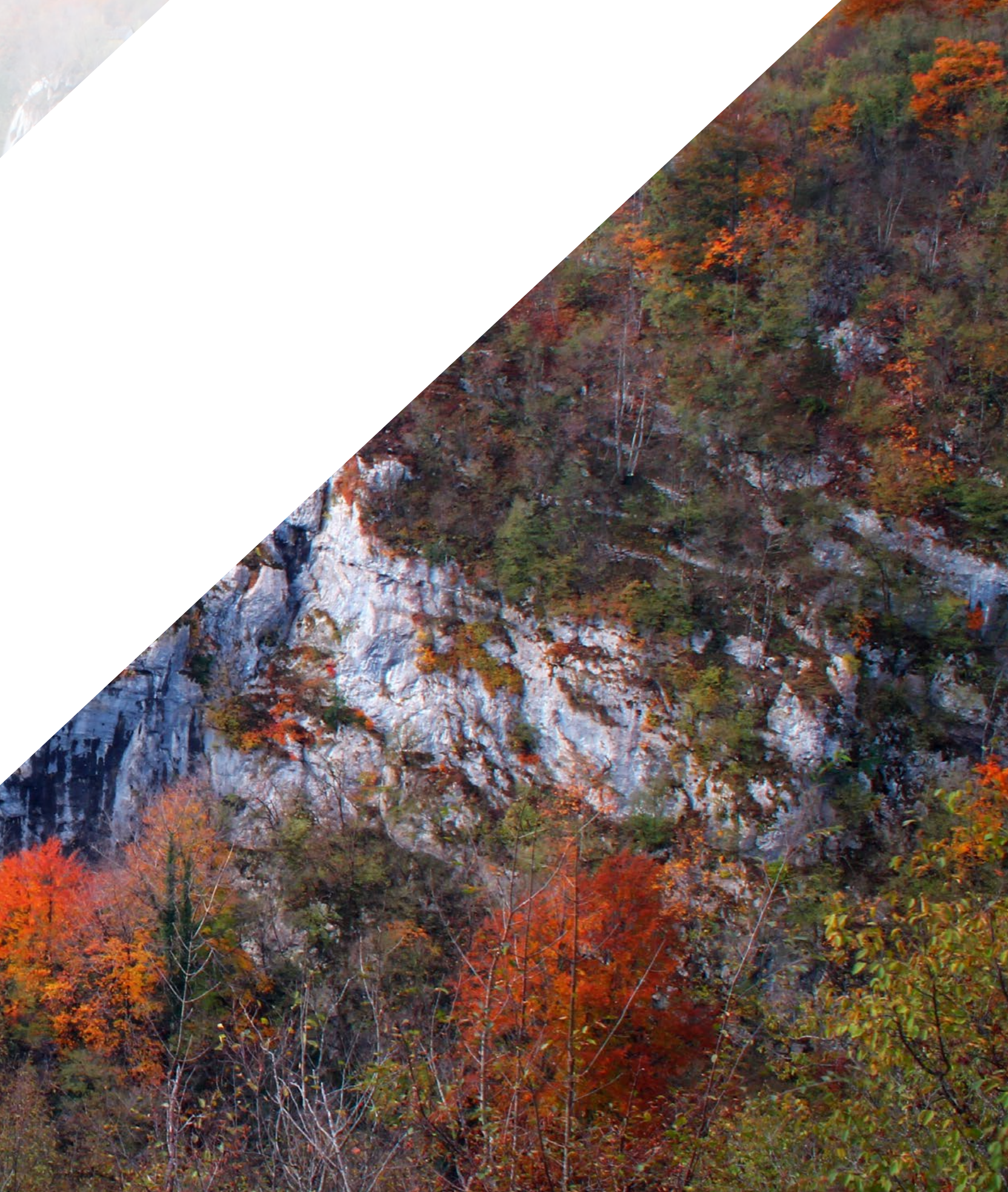
Comparing the committee work in 2023 with 2022, an increase in the total number of complaints was observed, as well as a slight increase in the percentage of legitimate complaints. The number of billing-related complaints increased significantly, and the percentage of legitimate requests increased slightly. The number of faulty meter-related complaints also increased slightly. In terms of electricity connection/disconnection related complaints, the number decreased compared to last year. There were several voltage condition-related complaints. The number of complaints classified under "miscellaneous" decreased slightly, but the ratio of upheld/unfounded complaints increased compared to 2022.

WORK OF THE CONSUMER COMPLAINTS COMMITTEE

Distribution area	Grounds for consumer complaints															Sessions held	Complaints total	Total upheld	Rejected
	Billing			Faulty meter			Connection/ disconnection			Voltage condition			Miscellaneous						
	total	upheld	rejected	total	upheld	rejected	total	upheld	rejected	total	upheld	rejected	total	upheld	rejected				
Elektra Zagreb	91	46	45	17	9	8	9	1	8	0	0	0	44	18	26	12	171	70	101
Elektra Zabok	1	0	1	2	0	2	0	0	0	0	0	0	0	0	0	3	3	0	3
Elektra Varaždin	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	2	1	0	1
Elektra Čakovec	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	1
Elektra Koprivnica	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Elektra Bjelovar	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Elektra Križ	0	0	0	0	0	1	0	0	1	0	0	0	0	0	0	3	2	0	2
Elektroslavonija Osijek	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Elektra Vinkovci	2	0	2	1	1	0	0	0	0	0	0	0	0	0	0	3	3	1	2
Elektra Slavonski Brod	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Elektroistra Pula	2	1	1	1	0	1	0	0	0	0	0	0	0	0	0	2	3	1	2
Elektroprimorje Rijeka	8	2	6	1	1	0	1	0	1	0	1	0	2	0	2	8	12	3	9
Elektrodalmacija Split	8	3	5	0	0	0	3	2	1	1	0	1	5	0	5	12	17	5	12
Elektra Zadar	8	3	5	0	0	0	0	0	0	1	0	1	0	0	0	7	9	3	6
Elektra Šibenik	3	0	3	0	0	0	0	0	0	0	0	0	1	0	1	4	4	0	4
Elektrojug Dubrovnik	1	1	0	0	0	0	0	0	0	0	0	0	1	0	1	2	2	1	1
Elektra Karlovac	10	0	10	0	0	0	0	0	0	0	0	0	1	0	1	8	11	0	11
Elektra Sisak	0	0	1	0	0	0	0	0	0	0	0	0	0	0	2	3	3	0	3
Elektrolika Gospić	2	1	1	0	0	0	8	4	4	0	0	0	1	0	1	3	11	5	6
Elektra Virovitica	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0
Elektra Požega	2	0	2	0	0	0	0	0	0	0	0	0	1	0	1	3	3	0	3
Total	**139**	**57**	**83**	**22**	**11**	**12**	**21**	**7**	**15**	**2**	**1**	**2**	**57**	**18**	**41**	**77**	**256**	**89**	**167**

4

ODS workers



The greatest value of HEP ODS is its workers - ODS employees. Workers are a key factor in the Company's success, an indispensable part of any strategy or business plan. HEP ODS employs many brave and hard-working individuals – from irreplaceable electricians and technicians who show their strength best when it is most difficult, to engineers of various profiles and other experts in their fields. Every worker of HEP ODS is important and every worker is special and dedicated to their work in their own way.

As of 31 December 2023 the Company employed a total of 6,789 workers in 21 distribution areas and the Company head office, which makes HEP ODS the single largest company within HEP Group.

Aware of the permanent need to invest in the workforce, HEP ODS is constantly looking for quality workers who enrich the company through their knowledge and innovation. With a sustainable human resource management policy, attractive working conditions, and the creation of a satisfying and motivating atmosphere, HEP ODS strives to attract quality, professional and interested individuals, people of various professional profiles, who will work together on maintaining the stable operation of the electric power system by investing their work and commitment.

The HR development of HEP ODS is regulated by the HEP Group's long-term HR Development Strategy for the period 2017 - 2030. The framework of this strategy includes employment plans and targeted trainings, thus ensuring the transfer and retention of specific knowledge for the Company. The employement development plans are primarily guided by the important determinants of the organization of the Company's core activities, i.e. the characteristics of workers engaged in key operations. The Company is trying, as much as possible, to adapt the planning and implementation of new employment and the allocation of workers within the organization to its real needs.

In the last few years, there has been a trend of employing younger workers. It is part of the natural process of a continuous generational renewal, but also of the Company's attitude focused on preserving workers as carriers of specific knowledge and expertise. Nevertheless, the average duration of working life is still high 47.1 years, which leads to a conclusion that the acquisition and preservation of knowledge is a multi-year process and that every important change takes time. The slight increase in the number of workers of younger age groups gives reason for optimism and calls for an optimal definition of employment needs, focusing primarily on hiring trainees and rejuvenating the workforce so that knowledge can be systematically, continuously and timely transferred from older to younger workers.

HEP ODS is an attractive employer with a long tradition, its recognizable individuality within HEP Group, nurturing the sense of the workers' belonging to their business environment through generations. Accordingly, we develop and take care of our employees, attract new workers and together, year after year, grow with the organization, its values and culture.

WORKERS BY AGE GROUPS

Age group (years)	No. of workers 2022	No. of workers 2023
under 20	22	16
20 – 30	661	668
30 – 40	1,117	1,153
40 – 50	1,797	1,692
50 – 60	2,221	2,207
over 60	1,061	1,053
Total	**6,879**	**6,789**

WORKING CONDITIONS

WORKERS BY GENDER AND TYPE OF CONTRACT

Type of contract	No. of workers 2022		No. of workers 2023	
	M	F	M	F
Fixed-term contract	125	24	84	7
Permanent contract	5,434	1,296	5,390	1,308
Total no. of workers	**5,559**	**1,320**	**5,474**	**1,315**

An attractive job is not always the best paid one, but the one that offers the best working conditions. In this part, HEP ODS tries to take care of workers and their needs, their health, children and families. Material benefits for workers are set and established by the Collective Agreement of HEP Group, which is implemented in HEP ODS in its entirety.

The Collective Agreement of HEP Group, a result of many years of work and efforts invested by representative trade unions on the one hand, and the sincere cooperation of the Employers' Association of HEP Group on the other, is considered by many to be one of the best collective agreements in general, guaranteeing its workers labour rights beyond those prescribed by law. Some of these rights, benefits and privileges are as follows:

- supplementary health insurance, annual medical check-up, 24-hour worker insurance;
- salary supplement based on total length of employment and continuous employment with the employer;
- severance pay upon retirement;
- financial award for many years of work with the employer;
- reimbursement of transportation costs;
- vacation bonus;
- special bonus (Christmas, Easter);
- a Christmas gift for the children of workers;
- support for the birth of a child and support during maternity/parental leave;
- various financial benefits for workers (death of immediate family members, continuous sick leave, care of a child with severe developmental disabilities, etc.);
- protection of older workers (salary retention after reaching the age of 60 and the impossibility of employment contract termination after the age of 63.5);
- longer notice period and higher severance pay for personal and business-related termination of employment;
- voluntary pension fund.

The Voluntary Pension Fund of HEP Group is a closed fund, established only for the employees of HEP Group for the purpose of collecting funds, member payments, sponsor contributions, government incentives and investing these funds with the aim of increasing the value of assets and ensuring additional pension payments to Fund members.

In addition, HEP ODS has always been known for worker involvement, i.e. for the participation of workers in the work of the Company through works councils. Regular elections for works councils in individual organizational units, the organization and operation of the Main Works Council as the most important representative of all workers, the participation of workers in the work of the Supervisory Board of HEP ODS through the elected worker's representative, clearly shows the employer's position on the importance of workers.

RATIO OF STANDARD ENTRY LEVEL WAGE COMPARED TO MINIMUM WAGE

	2022		2023	
	M	F	M	F
Ratio of entry level wage in HEP ODS and minimum wage in Croatia	1.66	1.67	1.45	1.60

DIVERSITY AND EQUAL OPPORTUNITIES

Since 2017, HEP Group has been a signatory to the Diversity Charter, the main goal of which is to encourage the implementation of the diversity policy in the business sector, supported by the Diversity and Non-Discrimination Policy of HEP Group. The goal of the aforementioned Charter and the Policy is to ensure equal opportunities for all workers during employment and professional development and to prevent any form of discrimination based on gender, age, sexual orientation, disability, ethnicity and/or religious commitment.

In this sense, HEP Group and HEP ODS undertake the following:

- to develop organizational culture in which individual differences and contributions of each worker are recognized and valued;
- to encourage cooperation, togetherness and interpersonal relations based on mutual respect and appreciation;
- to promote the values of diversity, equality and non-discrimination among management, workers and other stakeholders;
- to provide a working environment that will enable innovative thinking and creative development of each worker;
- to ensure equal opportunities for professional and personal development for all workers;
- to create a working atmosphere without violent behavior, harassment, victimization and discrimination and to empower workers to use the existing mechanisms to prevent discrimination.

RATIO OF WAGE BY GENDER

		2022 F/M	2023 F/M
Ratio	Managers	1.088	1.084
	Other employees	0.952	0.951

Based on the Guidelines of the Government of the Republic of Croatia and the Office for Gender Equality, HEP Group, in accordance with the Gender Equality Act, prepares an Action Plan for the promotion and establishment of gender equality in HEP Group every four years. The plan includes an analysis of the position of men and women in HEP Group, special measures, goals, as well as the method of implementation and monitoring thereof.

Gender equality is supported by the regulation of the prohibition of discrimination, which is especially important for the Company. The Rulebook on procedures and measures for the protection of dignity of HEP ODS workers and the Code of Ethics are only the beginning of systematic care for vulnerable and sensitive categories.

Established communication channels, organized diversity and non-discrimination educational programmes, established complaint submission mechanisms to the Committee for the Protection of the Dignity of Workers, the Ethics Commissioner and the confidential person for the submission of irregularities as well as the Data Protection Officer represent a strong support to diversity and non-discrimination.

RIGHT TO PARENTAL LEAVE

	2022		2023	
	M	F	M	F
number of employees who used the right to parental leave	64	67	107	66
number of employees who returned to work after the parental leave ended	64	67	106	65
* rate of return to work of employees who used the right to parental leave (%)	100	100	99	98.5
number of employees who returned to work after the end of parental leave, and who remained employed 12 months after returning to work	61	65	99	65
** retention rate of employees who used the right to parental leave (%)	95	97	92.5	98.5
Total number of employees entitled to parental leave	**64**	**67**	**107**	**66**

* Return to work percentage = Total number of employees who returned to work after parental leave / Total number of employees who were supposed to return to work after parental leave x 100

** Retention rate = Total number of employees who were employed 12 months after returning to work after parental leave / Total number of employees who returned from parental leave in the previous reporting period(s) x 100

EDUCATION, DEVELOPMENT AND PROMOTION OF WORKERS

HEP ODS invests continuous efforts in the professional development and education of workers, takes care of the transfer of specific knowledge and experience, and constantly works on the development of its workers in accordance with business and development goals as well as on increasing legal and regulatory obligations.

Focusing on the lifelong education of workers for the correct implementation of existing knowledge and the acquisition, development and integration of new specialized knowledge and skills remains our mission, our permanent choice. In this way, we strive to achieve better performance and improve the Company's operations.

Professional development is shaped individually and in group programmes by referring workers to various training and development courses. The Company provides numerous educations tailored to individual needs. Especially important are 'in-house' educations organized within individual organizational units, which goal is the in-house transfer of knowledge in individual business segment.

External education includes professional training, professional development and postgraduate studies aligned with the development and business goals of the Company and the educational needs of the employees.

Under the decision adopted by HEP Group on the rules of procedure for referring workers to further education at the employer's expense, further education and retraining has been subsidized. Also, the impact of new technologies on business operations and changes in the business environment are continuously monitored, and the interest in these types of education, which are primarily technology-based, is supported.

In 2023, a total of EUR 928,474 was invested in the development of the workers' skills and competencies, which is about 15% more than in 2022. In view of the regulated activity of HEP ODS, most funds were allocated to professional training closely related to the fulfillment of legal and regulatory requirements,

a total of EUR 500,813, or 55% of the total amount. The Company continued investing in the education of electrical fitters – specialists. In 2023, an additional 124 electrical fitters were trained through the basic live-line working programme, 59 electrical fitters took a refresher course, and 91 live-line working courses for managers were held.

HEP-Teaching and Training Centre

HEP-Teaching and Training Centre (HEP-NOC) is an institution for adult education in the power industry, founded in 2004 under the auspices of HEP ODS, which stands out as the founder and key player in the development of professional programmes in the energy sector. HEP-NOC represents a central gathering place for experts and professionals in the field of power engineering.

The core activity of HEP-NOC includes the organization and implementation of educational, training and development programmes with a special emphasis on professional training and development of live-line work procedures. These programmes are focused on safety and efficiency in the work with power systems and contribute to the improvement of expert competences in the power industry.

New micro-qualification programmes

In line with the needs of the industry and technological developments, HEP-NOC has introduced new micro-qualification programmes, which focus on key aspects of modern work in the electricity sector:

1. Live-line work at low voltage: the programme provides participants with theoretical and practical knowledge for the safe and efficient performance of work on low voltage live-line systems, while respecting the highest standards of safety and technical performance.
2. Servicing and maintenance of live battery systems (HEV/EV): special emphasis is placed on training for performing work with high voltage battery systems in hybrid (HEV) and electric vehicles (EV). Participants acquire specialized knowledge of battery technology, safety protocols, fault diagnostics and system maintenance, thus responding to the growing demands of the electromobility market.

Wider cooperation and contribution to science

In addition to regular activities, HEP-NOC actively participates in domestic and international professional and scientific conferences, projects in cooperation with faculties and adult education agencies, with a special emphasis on the STEM area. Daily cooperation with partners from neighbouring countries and international trainings further raise the quality of the programme and personal development.

The accredited control and testing laboratory, as an integral part of HEP-NOC, periodically performs tests of insulating poles, indicators, live-line work equipment and tools, ensuring high standards in accordance with applicable standards. Cooperation with scientists, faculties and students contributes to the development of research activities and enriches the work of the laboratory through innovative research and practical examples.

As the founder, HEP ODS proudly supports all activities of HEP-NOC, providing resources, expertise and a vision for the future of education in the electricity industry and related sectors.

SCHOLARSHIPS AND GRANTS

In order to connect theoretical knowledge and practice, the Company actively cooperates with schools and universities educating pupils and students for professions necessary for the performance of Company operations. Student scholarships create a base of young experts who represent a potential for the future development of the Company. Scholarships granted in 2023 amounted to EUR 40,209.

The Company continuously provides a monthly financial aid by awarding scholarships and grants to the children of deceased workers, until the completion of their regular education. A total of EUR 103,458 was allocated for this purpose in 2023.

SAFETY AT WORK

Safety at work is carried out in accordance with the provisions of the Occupational Health and Safety Act and related secondary legislation within the framework of the certified health and safety management system ISO 45001:2018, which is applied in all organizational units of HEP ODS. Special attention is paid to the realization of safe and healthy working conditions and the protection of health and safety at work in order to prevent work-related injuries and illnesses.

In business processes, hazards and risks associated with work activities are continuously monitored, recognized and documented in risk assessments. Necessary measures for reducing danger, harm and effort for individual workplace are taken on the basis of said risk assessments.

Care is taken continuously to acquire and maintain the necessary competences of workers to work in a safe manner and to ensure the necessary personal protective equipment to reduce risks at work.

The workers of HEP ODS are provided with occupational health services for all workplaces and jobs assessed by risk assessment. Workers' representatives participate in the work of the Occupational Safety Committee.

The implementation of occupational safety and fire protection is controlled by continuous internal supervision in all HEP ODS organizational units.

All information about rules, measures and instructions for working safely is available to workers on the HEP ODS internal portal and on notice boards.

WORK INJURIES

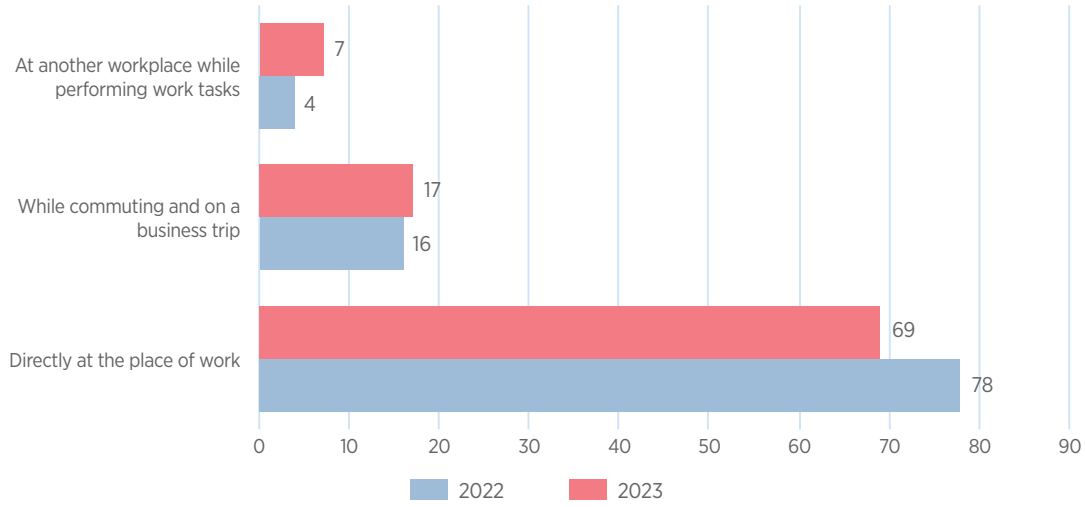
In the reporting year 2023, 93 occupational injuries and one fatal injury were recorded at Elektra Bjelovar.

The analysis of occupational injuries determined 12 serious occupational injuries, while 80 were classified as minor. The Croatian Health Insurance Institute recognized 48 occupational injuries.

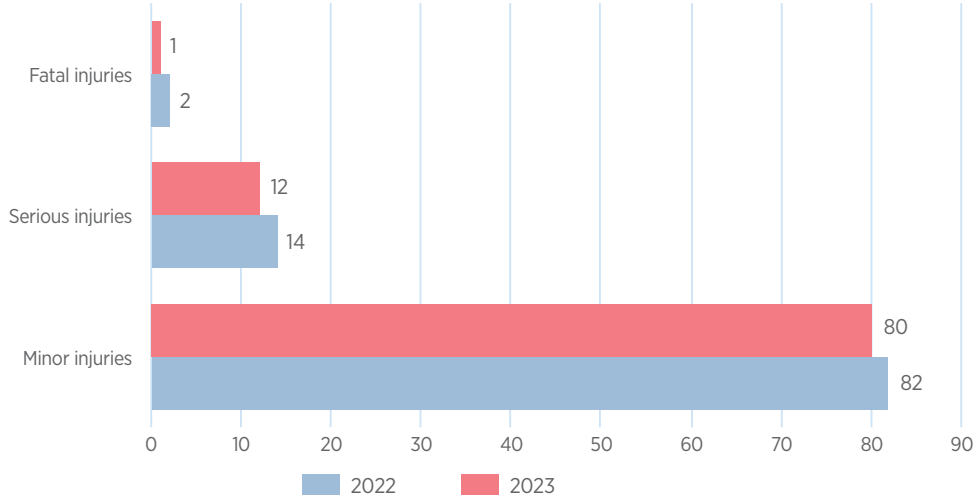
The most common cause of occupational injuries caused by electricity:

- performing work without using appropriate personal protective equipment
- using defective personal protective equipment
- performing work in a manner contrary to occupational safety regulations.

NUMBER OF WORK-RELATED INJURIES BY 'PLACE OF ORIGIN' OF SAID INJURY



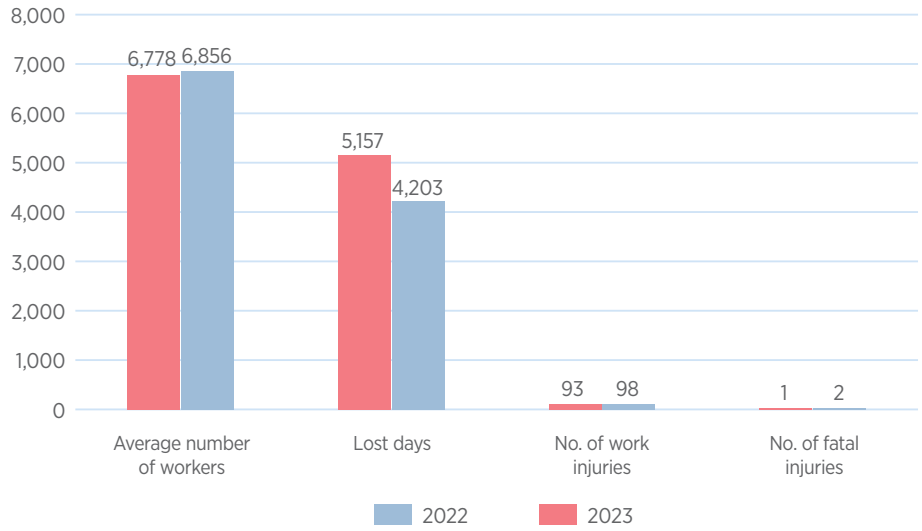
NUMBER OF WORK-RELATED INJURIES BY 'SEVERITY' OF THE WORKER'S INJURY



The cause of the fatal injury at work in Elektra Bjelovar was the performance of a work operation in a manner contrary to the rules of occupational safety, which indicates failures in complying with safety rules in everyday work. While performing the work task of connecting an overhead cable connection to a network cable in a hydraulic platform in the yard of a family house, the worker suffered an electric shock. The worker used inappropriate, uninsulated tools to perform the work activity and did not use personal protective equipment for life work. Other injuries at work which occurred in 2023 were analyzed and found not to be related to business processes and work activities. This also includes injuries that could not be prevented, avoided or eliminated by risk assessment and injuries at work that occurred as a result of faulty and clogged surfaces on which work is performed.

Occupational safety experts, in cooperation with workers and their occupational safety representatives, strive to reduce the number of injuries at work by identifying hazards, assessing risks and investigating accidents by working and participating in the Occupational Health and Safety Committee and various expert teams. By identifying hazards in a timely manner and developing a risk assessment to determine the danger, harm and effort, the risk levels for occupational injuries, occupational diseases and work-related illnesses are assessed. Risk assessment is a continuous process that is adjusted to changes in work processes and the performance of work tasks, thereby reducing the possibility of occupational injuries and/or other adverse events and improving the occupational health and safety management system.

COMPARISON OF INDICATORS OF AVERAGE NUMBER OF WORKERS, LOST NUMBER OF WORK DAYS, NUMBER OF INJURIES AT WORK AND NUMBER OF FATAL INJURIES IN THE OBSERVED PERIOD



WORK INJURIES

	2022		2023	
	No. of injured	Percentage of (%) injured in total workers	No. of injured	Percentage of (%) injured in total workers
During work	78	1.14	69	1.02
Outside of work	20	0.29	24	0.35
Total injured workers	**98**	**1.43**	**93**	**1.37**

LOST WORK TIME

	Working hours lost		Lost workdays	
	2022	2023	2022	2023
During work	29,872	33,072	3,734	4,134
Outside of work	4,752	8,184		1,023
Total	**34,624**	**41,256**	**4,203**	**5,157**

LIVE-LINE WORK

The technology of live-line work is defined by the Croatian standard HRN EN 50110-1:2023 "Operation of electrical installations" as one of three equal technologies of work, together with working in a de-energized state and working near energized parts. Live-line work is based on meeting all safety requirements: prescribed verified technology conditions, professionally trained workers and the use of special equipment and tools. Live-line work enables the maintenance and construction of electrical installations without the need for disconnection, under regular operating conditions and without causing any disruption to network users. Such work allows tasks to be performed without pressure on contractors or the management system of electrical facilities, while simultaneously enabling the verification of the quality of completed work and ensuring the fulfillment of conditions for reliable power supply to network users.

The company has established the application of live-line working in low and medium voltage electrical facilities as one of its key business objectives. In the year 2025, the company will celebrate 20 years since the introduction of live-line work and 14 years of a full membership in the European Live Working Association (LWA).

In 2023, HEP ODS employed 581 live-line working specialists, organized into 220 teams. Over 13,000 live work orders were completed, and the trend of increasing the share of live-line works in the total number of planned operations continued.

Live-line works were most frequently performed on insulated and uninsulated low-voltage overhead lines, primarily on household connections. The live-line work with the greatest impact on keeping larger sections of the network energized were carried out in 10(20)/0.4 kV transformer stations, where nearly 500 complete electrical facilities were cleaned under voltage. The average time for regular inspections and maintenance of facilities cleaned under voltage was reduced by 45 minutes.

Regular maintenance of the professional qualification of our live-working specialists and their proper equipping are critical factors for safe and high-quality work. For this reason, the company invests significant financial resources in training and the procurement of specialized equipment. The entire process of introducing and applying live-line work across all distribution areas is continuously monitored and coordinated.

In 2023, the company allocated EUR 210,000 for training its workers in live working technology. A total of 124 electrical fitters were trained in basic live-line work programmes on low and medium voltage facilities (live equipment cleaning). Additionally, 59 electrical fitters attended refresher courses as part of the educational cycle to maintain their previously acquired professional competencies in live-line work.

During the live working training course for supervisors, 91 supervisors were introduced to live working technologies.

In 2023, the company allocated EUR 410,000 for the procurement of tools and personal protective equipment for live working. A total of 130 electrial fitters were equipped with personal toolkits, while 39 teams received shared toolkits.

Additionally, 36 field inspections were conducted in 2023, 12 of which were carried out by the Director's Office. The inspection elements included:

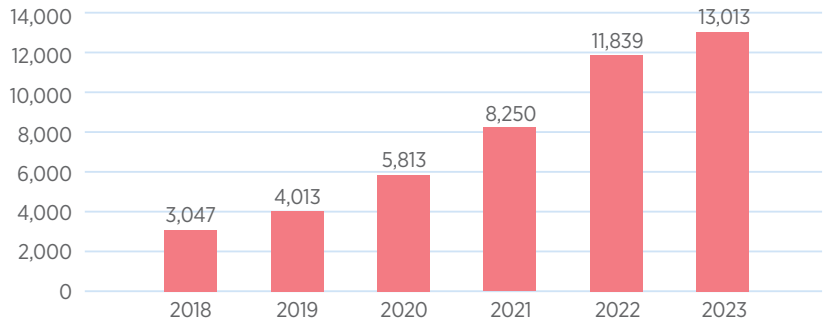
- implementation of the conditions prescribed in Live Working Bulletins nos. 505, 506, 507, 508;
- conducted training programmes;
- issued and revoked authorizations for live work;
- procurement of tools and personal protective equipment for live work;
- internal supervision systems within organizational units.

Distribution areas that lead in the organization, scope and number of live-line work orders, as well as care for updating electrical fitters' permits and conducted procurement of live-work tools and personal protective equipment are Elektra Zagreb, Elektrodalmacija Split, Elektra Virovitica and Elektra Požega.

In 2023, Elektra Zagreb, Elektrodalmacija Split, Elektra Virovitica and Elektra Požega recorded a positive shift compared to the previous year in terms of the number of live work orders performed and the scope of live work. Elektra Slavonski Brod had the largest number of live 10(20)/0.4 kV transformer station cleanings.

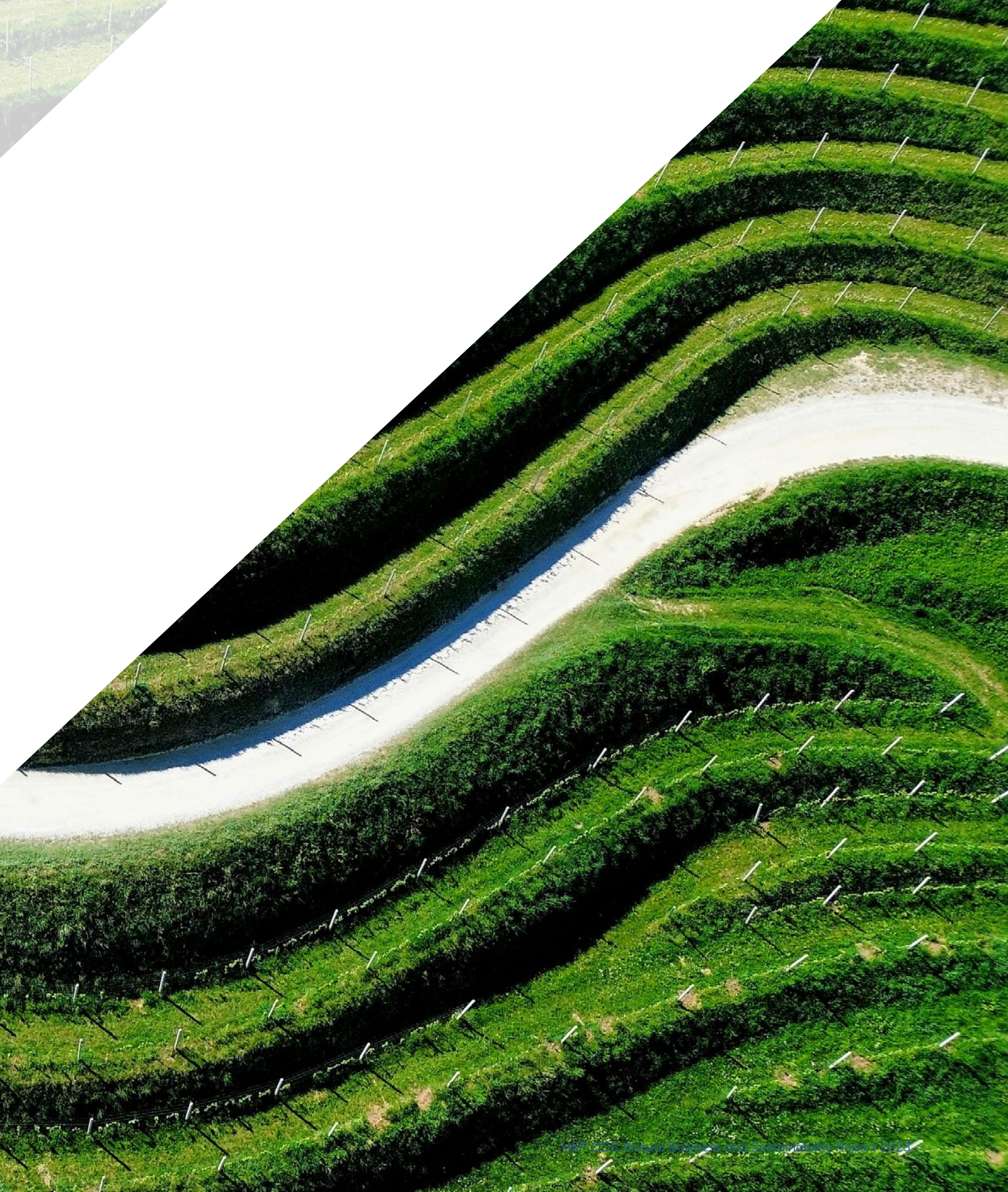
The systematic introduction, application, supervision and improvement of live-line work is expected to lead to the gradual development and typification of network elements more adapted to live work conditions.

Live-line work orders



5

Management of environmental impacts



HEP ODS is committed to sustainable business operations and environmental protection. To this end, an environmental management system according to ISO 14001 and an energy management system according to ISO 50001 have been implemented. Environmental and energy management policies have been adopted for the entire Company and aligned with the requirements of the aforementioned standards. They are publicly available on the website and notice boards of HEP ODS business premises, signed by the Company's director. The scope of the Environmental and Energy Management Policy covers the operations of the headquarters and 21 distribution areas. Its environmental management system recognizes the context of the organization that includes all stakeholders and interested parties.

In accordance with ISO 14001, all HEP ODS employees have access to the internal environmental management system website, containing information and documentation that regulate procedures in specific aspects of the environment. Environmental protection workshops are organized annually for all workers who in some way get in contact with environmental protection in their daily work both on the premises of the head office and in all distribution areas.

Environmental protection objectives are also defined as part of ISO 14001. Based on the requirements of the environmental management system, we also prepare an annual report on the condition and operation of the environmental management system, along with the implementation of the system evaluation. It is important to note that in the inspection findings for the year 2023, compliance with environmental protection laws and regulations was established. In achieving these goals, the Environmental Management System Team is comprised of members from various organizational units, including the Company's head office and distribution areas.

ENERGY MANAGEMENT

As a national energy company for the distribution of electricity, HEP ODS wants to be a leader in the field of energy efficiency and to promote energy efficiency both among its employees and in the wider economic and social environment. The core commitment of the Company in the field of energy management is to achieve permanent improvement of energy performance in all business facilities, equipment and devices, including the reduction of losses in the distribution network, through an implemented and certified energy management system according to HRN EN ISO 50001:2018.

ENERGY CONSUMPTION (kWh)/YEAR	2023	2022	2023/2022
Electricity	13,452,496	14,051,219	**-4.26**
Heat energy	2,688,517	2,930,698	**-8.26**
Gas	9,109,979	9,428,723	**-3.38**
Fuel	18,119,301	18,030,625	**+0.49**
Significant energy consumption	43,688,912	44,624,512	**-2.10**

In 2023, there was a further reduction of significant energy consumption due to good management of energy consumption, maintenance and improvement of the certified energy management system according to HRN EN ISO 50001:2018. Fuel consumption increased slightly by 0.49%, and is directly related to the volume of business activities and the investment plan. All presented data confirm good and responsible management of energy consumption and energy costs.

ENERGY EFFICIENCY INVESTMENTS

YEAR	2023	2022
Investments in EE measures (EUR)	20,863,074	848,840

In 2023, a total of 87 energy efficiency measures were implemented, with a total value of EUR 20,863,074. 24. Energy efficiency measures with a total value of EUR 654,448 were implemented on office buildings. Other energy efficiency measures reported for 2023, 62 of them worth EUR 16,638,315, are energy efficiency measures from the transport group - procurement of 74 new trucks and one passenger vehicle. An alternative measure in the distribution network worth EUR 3,570,311 was implemented, ie the replacement of old transformers with new energy-efficient ones.

ENERGY PERFORMANCE INDICATORS/EnPI

AVERAGE VALUE OF ENERGY PERFORMANCE INDICATORS/year	2023	2022
Diesel – passenger cars (l/100 km)	7.21	7.04
Diesel – commercial vehicles (l/100 km)	11.86	12.19
Gas – passenger cars (l/100 km)	9.32	8.61
Heating – gas (kWh/SDG)	77.85	75.19
Heating – gas (kWh/m^3)	33.52	34.70
Heating – electricity (kWh/SDG)	41.66	41.52
Heating – electricity (kWh/m^3)	18.70	19.65
Heating – heat energy/hot water (kWh/SDG)	71.17	69.53
Heating – heat energy/hot water (kWh/m^3)	22.44	24.20
Heating – heat energy/steam (kWh/SDG)	641.04	632.31
Heating – heat energy/steam (kWh/m^3)	18.82	20.65

The values of energy performance indicators in 2023 partly decreased and partly increased compared to 2022, which was the result of a number of factors. HEP ODS monitors and analyzes deviations in energy performance indicators equal to or greater than +/-10%, determines the causes of deviations and takes appropriate measures that affect the reduction of energy performance indicators.

Diesel fuel is used for passenger and commercial vehicles, work machinery, ships and generators, while gasoline fuel for passenger and commercial vehicles, snowmobiles and generators and others (petrol-powered lawnmowers, trimmers, chainsaws). The share of diesel fuel in total energy consumption without losses increased to 42%, even exceeding 50% in some locations. Such a high share of diesel fuel in the total significant energy consumption indicates the need for continuous analysis, additional efforts in more accurate recording and better monitoring of diesel fuel consumption, mileage and working hours, finding, proposing and implementing measures to improve and optimize the vehicle fleet. As one of the EE measures, HEP ODS is preparing a pilot project to introduce a GPS system for tracking and monitoring business vehicles.

The values of the energy performance indicators for heating in 2023 decreased or remained approximately at the 2022 level, and are significantly lower than in the energy baseline (EnB) 2019.

A significant reduction in energy consumption was also recorded in 2023 compared to the previous year 2022 by 935,600 kWh, while in comparison with the energy baseline (EnB) 2019, the consumption decreased by 2,177,704 kWh.

DECREASE – INCREASE OF ENERGY CONSUMPTION

Decrease of energy consumption in 2023 compared to the energy baseline (EnB) 2019 and the previous 2022 – excluding network losses (kwh)	2023/2019	2023/2022
Total significant energy use	-2,177,704	-935,600
Fuel consumption	-1,807,711	+88,676

A significant reduction in energy consumption for own needs was recorded in 2023 compared to the energy baseline (EnB) 2019 and the previous year 2022, while fuel consumption increased slightly compared to 2022. Fuel consumption is directly related to the volume of business activities and the investment plan. This is the result of a further improvement of the energy management system according to the HRN EN ISO 50001:2018 standard and investments in energy efficiency measures in business buildings, as well as a further renewal of the Company's outdated vehicle fleet.

GREENHOUSE GAS EMISSIONS (CO_2)

Calculation of greenhouse gas emissions in HEP ODS for Scopes 1 and 2 is shown in the table below.

Emission (t CO_2 e)	2023	%
Scope 1	10,406.3	4.8%
Scope 2	179,038.6	82.0%
TOTAL Scope 1 and 2	189,444.90	100.0%
No. of workers	6,600	
Specific emission (t CO_2e/employee)	28.7	

Scope 1 includes energy sources with fuel combustion in stationary emission sources such as boilers, furnaces, etc. and fuel combustion in mobile emission sources such as cars, trucks, ships, etc.

Scope 2 includes energy sources such as electricity consumption from the electricity grid (off-site production) and heat and cooling energy consumption from the heating/cooling grid (off-site production).

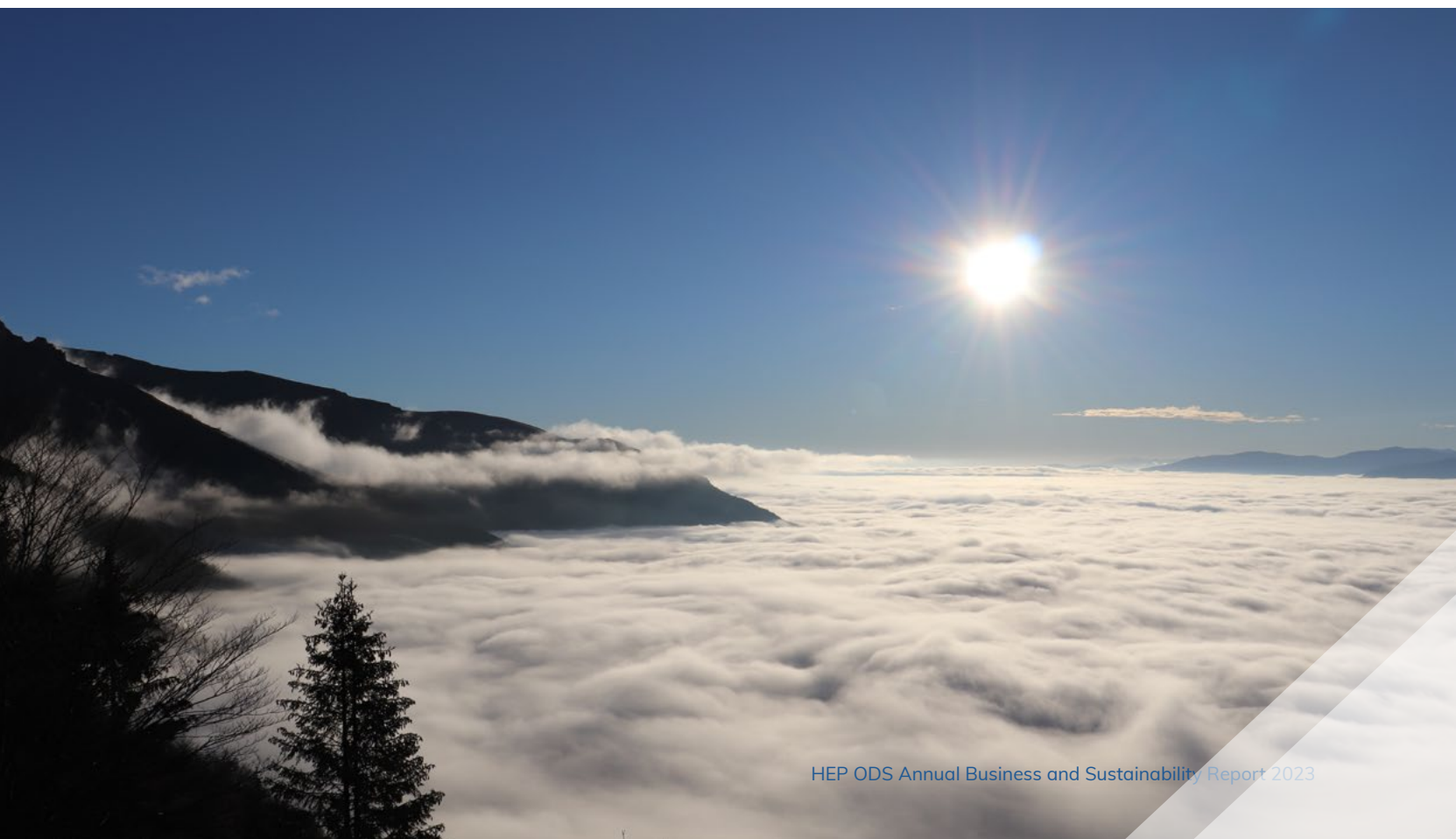
Scope 3 includes upstream indirect greenhouse gas emissions such as: purchased goods and services, capital goods, fuel and energy input (energy-related emissions not included in scopes 1 and 2), inbound transport and distribution of goods, waste generated in operations, business travel, employee arrivals at work, leased assets and other indirect input emissions, and downstream indirect greenhouse gas

emissions such as: outbound transport and distribution of products, processing of products sold, use of products sold, end of life of products sold, leased assets, franchises, investments and other indirect output emissions.

In 2023, HEP ODS started the process of calculating emissions for all three scopes. In this report, the Scope 1 and 2 emissions are presented. Data collection for Scope 3 emissions has begun, and, given the complexity and size of the HEP ODS system, is still ongoing. The data available only relate to upstream indirect greenhouse gas emissions and the input flow of fuel and energy (energy-related emissions not included in Scopes 1 and 2). Data collection for other emissions from the Scope 3 inventory is still ongoing. HEP ODS is developing a special application report in its own energy management system application (SUEn Application), which will allow the report with the calculation of greenhouse gas emissions for 2024 and all subsequent years to be generated with one click.

As the calculation of greenhouse gas emissions for 2023 is the first in-house calculation by HEP ODS, the greenhouse gas emission intensity ratio will be presented in the data and report for 2024.

Reducing greenhouse gas emissions is directly related to energy consumption; the lower the energy consumption, the lower the greenhouse gas emissions. Through the energy management system, HEP ODS sets annual targets for significant reductions in energy consumption and energy performance indicators, thus directly influencing the reduction of greenhouse gas emissions. The targets set in the energy management system are also targets for reducing greenhouse gas emissions.



WASTE AND WATER MANAGEMENT

WASTE

Waste management, in accordance with all applicable legal requirements prescribed in the Waste Management Rulebook, is defined within the environmental management system under the Waste Management Operating Procedure. All waste categories are handed over to authorized collectors with supporting documentation prescribed by law. If the authorized entities are not immediately available, the waste is temporarily stored, but not longer than one year. Waste storage is legally regulated by the Rulebook and defined within HEP ODS by measures set in the Waste Management Operating Procedure.

Waste disposal services are contracted by individual distribution areas and the company head office. Each contract stipulates an obligation on the part of the collector which must be authorized for specific categories of waste and must act in accordance with the requirements of ISO 140001.

TYPES OF WASTE

All waste materials generated within HEP Group are documented and monitored in the HEP's environmental protection information system (INFOZOK). INFOZOK is integrated with e-ONTO, an electronic waste register owned by the Ministry of Economy and Sustainable Development (MINGOR).

The volumes and types of waste generated in HEP ODS depend on investments, reconstructions and rehabilitation of distribution network in case of emergency situations. The following types of hazardous waste prevail: hydraulic, lubricating and insulating oils, paints and varnishes, waste equipment, components, vehicles and devices, glass, plastic and metal waste, sludge and water from separators and waste batteries. The most significant types of non-hazardous waste generated by HEP ODS activities include metal waste (iron, copper, aluminum, lead), construction waste (concrete, wood, glass, plastic), waste packaging, textile waste and equipment, bulky waste and printer toners. Most distribution areas do not treat used toners as waste, but hand them over to authorized companies for refilling.

QUANTITES OF GENERATED WASTE (t)	2021	2022	2023
Hazardous waste	1,612.10	1,195.27	432,70
Non-hazardous waste	1,988.70	1,984.71	2,060.15
TOTAL	**3,600.79**	**3,179.98**	**2,492.85**

WASTE DISPOSAL METHODS (t)	2021	2022	2023
Recovery	2,135.47	1,962.61	1,628.81
Preparation before recovery or disposal	28,93	-	-
Disposal	1,612.74	1,035.76	1,019.42
TOTAL	**3,777.14**	**2,998.37**	**2.648.24**

WATER

Water consumption in HEP ODS is monitored and registered within the framework of energy management systems according to HRN EN ISO 50001:2018. Processes carried out in HEP ODS utilize water from the public water supply system. In 2023, a total of 61,839 m^3 of water was captured, and the same volume of waste sanitary water discharged into public drainage systems in all counties in Croatia. During 2023, the Company digitized the energy management system by developing its own energy management system application also used for water consumption monitoring.

Water consumption is monitored for all 132 locations of the energy audit (all Company office buildings are included – 772 different facilities). The application is used for monitoring sanitary water consumption according to the m^3/worker indicator. Water consumption data registered by HEP ODS is as follows:

Year	Water consumption (m^3)	m^3/worker indicator
2020	56,867	9.33
2021	62,251	9.99
2022	59,299	9.60
2023	**61,839**	**9.92**

Water consumption in this reporting period increased compared to the previous year 2022. The evident increase in water consumption is largely due to climate change and exceptionally long warm summer periods with very high temperatures when workers consume more water and a larger amount of water is needed for watering horticulture at the Company's business building locations.

ENVIRONMENTAL PROTECTION

BIODIVERSITY

Activities of HEP ODS in relation to protected species and areas

All interventions which are not subject to the issuance of the ecological impact appropriate assessments are carried out in accordance with the set goals and procedures under the adopted and certified environmental management systems according to ISO 14001:2015. This approach supports the achievement of the goals set in the Strategy and Action Plan for the Protection of Biological and Landscape Diversity of the Republic of Croatia for the period 2017 to 2025, and the European goals set under the Biodiversity Strategy of the European Union until 2030.

The electric power sector frequently impacts habitats of many species, which is particularly true for infrastructure projects that often affect natural areas in which certain protected species can be found. The infrastructural activities of HEP ODS (on the distribution power network) often include areas of exceptional ecological importance, including the Natura 2000 areas network, national and nature parks. In this context, one of the significant challenges recognized and faced by HEP ODS is the need to reduce the incidence of electrocution of protected species of birds and other smaller animals.

The electrocution potential arises at MV OH sites where the technical design allows it. However, in accordance with the Decree on Environmental Impact Assessment (Official Gazette 61/2014), HEP ODS interventions are not subject to the environmental impact study. The aforementioned Decree foresees the preparation of environmental impact studies only for activities carried out on the 110 kV OHL and above, while HEP ODS interventions take place on medium and low voltage networks.

Measures for the protection of birds from electrocution on the existing network are carried out at locations where the injuries had been confirmed and in cooperation with competent nature protection authorities, while biodiversity protection goals are adopted by distribution areas, as necessary.

CONTRIBUTION TO THE PROTECTION OF WHITE STORK IN CROATIA

As defined by the Agreement, activities for the protection of white storks that nest on electric poles of HEP ODS were carried out pursuant to the decision of the Ministry of Environmental Protection and Energy (CLASS: UPI II-3 52-04 I 23-08 I 193) issued for the period from 1 September 20221 to 1 March 2023 (period of white stork absence). Activities included repair/replacement of supports for native nests, relocation of native nests to a safe location, removal of inactive native nests, and installation of isolation equipment to protect birds from electrocution within 14 distribution areas covered by the Agreement. In that period, about 200 activities were carried out, among which Elektra Križ and Elektra Bjelovar lead the ranks in terms of the number of protective measures and the representation of native nests. Continuing their cooperation with local public institutions for nature protection, HEP ODS workers provided professional and technical assistance in the ringing of young storks in the area of Lonjsko polje and Zagreb County.

Management of network activities within Natura 2000

All HEP ODS interventions that are carried out within the Natura 2000 area network apply technical criteria in accordance with the Rulebook on conservation goals and measures for target bird species in ecological network areas (OG 15/14 and OG 38/20). Natura 2000 is the largest coordinated network of nature conservation areas in the world with the aim of long-term preservation of important and endangered species and habitats of Europe. Within the Natura 2000 conservation area important for birds, there are more than 5,000 kilometres of overhead medium voltage lines, some of which are isolated and do not pose a threat to birds.

Within the Natura 2000 area, HEP ODS plans to develop and build a new electric power infrastructure with a special emphasis on preventing bird collisions with high-voltage power lines and bird electrocution by medium-voltage power lines. In the areas with the existing overhead lines and an increased risk to birds confirmed by monitoring, HEP ODS undertakes technical measures to prevent further bird suffering. Within the Natura 2000 area, HEP ODS plans to modernize the existing power grid by reconstruction and modification, while the construction of the new and improvements to the existing grid will be carried out in accordance with the current laws of the Republic of Croatia, taking into account the specific features of different climate regions in Croatia (alpine, Mediterranean and continental). The project will include 35(30) kV and 10(20) kV OHL, 10(20)/0.4 kV pole transformer stations and a low-voltage overhead network.

HEP ODS shall plan and build energy infrastructure in order to prevent and reduce the risk of harm to strictly protected bird species that live within the area. Natura 2000 conservation areas important for birds and related species to which energy sector measures apply have been identified. Within the Natura 2000 conservation area important for birds, there are more than 5,000 kilometres of overhead medium voltage lines, some of which are isolated and do not pose a threat to birds. According to the Rulebook on conservation goals and measures for target bird species in the areas of the ecological network, conservation measures in the field of energy include the following strictly protected bird species that are endangered by electrocution. These are: the golden eagle (Aquila chrysaetos), the Eurasian eagle-owl (Bubo bubo), the white stork (Ciconia cicionia), the short-toed eagle (Circaetus gallicus), the western marsh harrier (Circus aeruginosus), the hen harrier (Circus cyaneus), the Montagu's harrier (Circus pygargus), the merlin (Falco columbarius), the lesser kestrel (Falco naumanni), the peregrine falcon (Falco peregrinus), the red-footed falcon (Falco vespertinus), the common crane (Grus) , the griffon vulture (Gyps fulvus), the white-tailed eagle(Haliaeetus albicilla), the black kite (Milvus migrans), the osprey (Haliaetus), the European honey buzzard (Pernis apivorus), the greater spotted eagle (Aquila clanga), the lesser spotted eagle (Aquila pomarina), the black stork (Ciconia nigra), the Ural owl (Strix uralensis).

ENVIRONMENTAL INVESTMENTS

In 2023, for the purposes of improving environmental protection and reducing the risk of emergency situations with adverse consequences for the environment, a total of EUR 250,000 was secured and withdrawn under the investment programme Investments based on the requirements of the environmental and energy management system for projects and programmes from the following categories:

- organization of transformer storage (operational reserves and transformers scheduled for disposal)
- organization of temporary collection and storage locations for hazardous and non-hazardous waste (procurement of tank trucks and waste containers, organization of waste storage locations in accordance with legal regulations)
- organization of wastewater drainage systems (reduction of emissions into soil and water).

6

Corporate governance

Through corporate governance in the performance of the regulated activity of electricity distribution and supply, HEP ODS achieves its business goals adhering to the importance of the public service ethics. In order to meet distribution network user expectations and effectively connect all participants in the electricity market, current operational methods are constantly changing by developing state-of-the-art business models along with innovative technological solutions, which bring new results.

People and organizational culture play a key role in achieving strategic goals. Focusing on people and being customer-oriented, a defined corporate structure forms the basis for effective management and the development of HEP ODS's authenticity for the growth and well-being of employees and society as a whole.

GENERAL ASSEMBLY

The Assembly of HEP ODS is composed of the founder of the company, HEP d.d. Within the framework of the prescribed powers, the Assembly of the Company decides on important issues of the Company. The Assembly of HEP ODS was represented by Frane Barbarić as the President of the Management Board of HEP d.d. for most of 2023, and since 9 December 2023, it has been represented by Vice Oršulić, President of the Management Board of HEP d.d.

SUPERVISORY BOARD

HEP ODS has a Supervisory Board consisting of four members, one of whom is a worker representative. Their term is four years. The members of the Supervisory Board are elected by the Assembly, while the workers' representative is appointed by the Company workers.

The Supervisory Board supervises the management of the Company's affairs and closely cooperates with the Company's Management, mostly through holding regular Supervisory Board meetings.

During 2023, the Supervisory Board, in accordance with its prescribed powers, supervised the management of the Company's affairs within its jurisdiction. During a total of 29 Supervisory Board meetings, 12 of which were held electronically, 305 agenda items were adopted.

Members of the Supervisory Board of HEP ODS are:
Damir Pećušak, chairman
Marino Roce, deputy chairman
Snježana Barbarić, member
Ninoslav Petelin, member

MANAGEMENT BOARD

The Management Board of HEP ODS consists of one member, the director of the Company, who is appointed for a term of four years. The Management Board of HEP ODS is appointed and dismissed by the Assembly of the Company.

The Management Board of the Company manages Company affairs and informs the Supervisory Board about all important business events, the course of business, income and expenses, and the general state of the Company. It submits regular annual report on its business operations to the Supervisory Board.

In addition to set restrictions, the Management Board of the Company:

- manages the Company's affairs in accordance with defined Company strategy and goals;
- represents the Company, concludes contracts and makes decisions related to the Company's business operations;
- manages, organizes, coordinates and controls the overall work process in the Company;
- adopts Company by-laws and organizational regulations as well as manages the work of employees;
- reports to the Supervisory Board on important issues for the Company;
- participates in the making of and implements business decisions of the Founder (HEP d.d.), carries out other tasks in accordance with the law and internal acts of the Founder.

HEP ODS carries out key activities in business areas through an organizational structure that is set in a unique operating system through the Company's Management Board, departments and distribution areas, contributing to and striving for the common goal of success and effectiveness.

The procedure for selecting and appointing Company director, department/distribution area directors and other persons in positions with special powers is defined by internal regulations. It is possible to implement the selection and appointment procedure for positions with special powers by appointing HEP Group employees in accordance with the terms and conditions defined by the Company by-laws. If a HEP Group employee is not appointed to the position with special powers, said position is filled by a candidate selected through the candidate acquisition process in one of the following ways: by announcing a public tender, using an employment mediation agency, or by head hunting.

The autonomy of the members of the Management Board is ensured by complying with the provisions of the Companies Act, the corporate governance codes of the European Union member states and national autonomy recommendations. This prevents a simultaneous performance of two functions in different company bodies, thus achieving the autonomy of company members.

The Management Board of HEP ODS in 2023 consisted of:
Nikola Šulentić, Director

ASSISTANT DIRECTORS
Elizabeta Balić
Davor Sokač
Goran Slipac
Krešimir Tomasović

ORGANIZATION

DEPARTMENT DIRECTORS

Elizabeta Balić	Economic Affairs
Perica Hrnjak	Procurement
Tihana Mrazović	Legal Affairs and HR Management
Krešimir Ugarković	Asset Management
Ivan Periša	System Operations
Danijela Žaja	Metering and Market Support

DIRECTORS OF DISTRIBUTION AREAS

Anton Marušić	Elektra Zagreb
Roman Gregurović	Elektra Zabok
Zdenko Đula	Elektra Varaždin
Igor Ivković	Elektra Čakovec
Goran Pakasin	Elektra Koprivnica
Mladen Modrovčić	Elektra Bjelovar
Željko Sokodić	Elektra Križ
Danijel Ilić	Elektroslavonija Osijek
Vladimir Čavlović	Elektra Vinkovci
Branka Balašević	Elektra Slavonski Brod
Zvonko Liović	Elektroistra Pula
Vitomir Komen	Elektroprimorje Rijeka
Saša Kraljević	Elektrodalmacija Split
Tomislav Dražić	Elektra Zadar
Emil Živković	Elektra Šibenik
Zvonimir Mataga	Elektrojug Dubrovnik
Zvonko Spudić	Elektra Karlovac
Irma Matanović	Elektra Sisak
Božo Marković	Elektrolika Gospić
Dinko Begović	Elektra Virovitica
Željko Polak	Elektra Požega

CONFLICT OF INTEREST

Conflict of interest is regulated by the Act on the Prevention of Conflict of Interest, which recognizes presidents and members of company boards in which the Republic of Croatia has a majority share as relevant parties as well as the presidents and members of the boards of companies in which the majority owners are trading companies in which the Republic of Croatia has a majority share. A member of the Management Board – a director may not make decisions based on personal interests or the interests of persons with whom they are connected. The management, i.e. the director of the Company,

is responsible for the execution of plans and clear, measurable and high-quality goals for which the guidelines are set by the Supervisory Board.

REMUNERATION AND COMPENSATION POLICIES

According to the Act on the Prevention of Conflicts of Interest, the Conflit of Interest Committee issued guidelines that defined which income, in addition to salary, may not be paid to persons recognized as relevant parties under said Act, including the Management Board of HEP ODS. The compensation received by the members of the Supervisory Board is not set according to the performance contribution, it is fixed and defined by the Decision of the Assembly of HEP d.d.

MANAGEMENT AND REPORTS ON IMPACTS ON SOCIETY AND ENVIRONMENT

Management of impacts on society and the environment is the responsibility of the Company director, who in identifying impacts, management strategies and achieving results, relies on the opinions, assessments and conclusions of experts who contribute to the sustainable development of HEP ODS in accordance with their competences and duties. Responsibilities for achieving business goals are delegated to departments, teams and individual employees based on their job descriptions and appropriate regulations, ensuring that each employee understands their role in achieving these goals. Directors of HEP ODS departments regularly report to the Management Board on the achievement of business goals. Teams working on the delivery of corporate policy goals in their areas of responsibility are set up at the company level. These teams are responsible for the coordination and implementation of measures aimed at sustainability, social responsibility and economic excellence.

ODS has three certified systems according to ISO standards: for environmental and energy management, and health and safety. Also, in considering its impacts, HEP ODS collaborates with its key stakeholders, in a form of a dialogue with the aim of supporting the organization in recognizing and managing its key impacts on society and the environment, and uses the conclusions to adapt its management systems.

The competences of the Management Board or the Company's director are prescribed by the Rulebook on organization and systematization, i.e. conditions for a position with special powers. When it comes to managing sustainability issues, competences are acquired through education and participation in management and sustainable development seminars and conferences. Members of the HEP ODS reporting team and Company employees acquire their competences, skills and practical experience in their daily professional tasks, as well as during internal and external training, seminars and participation in congresses focused on business and specific sustainability issues related to the core business of HEP ODS.

The HEP ODS reporting team participated in setting and prioritizing material impacts for this first sustainability report and included stakeholders in the assessment of the external materiality perspective. After a thorough analysis and processing, the Board made a decision to accept the material issues for 2022. The management board i.e. the director of the Company, is responsible for reviewing and publishing sustainability-related information.

STRATEGIES, POLICIES AND PRACTICES

HEP ODS does not have a single codified business policy as a written act or a document that determines the framework of business, but it regulates strategy and business operations through a series of regulations and business decisions that contain elements of business policy, and refer, for example, to the management of security issues, documentation, reports of irregularities and others issues that can be considered a part of business policy.

The current business goals of HEP ODS can be grouped into three basic units:

- to increase network capacity in order to meet the increase in load and demand. When investing in capacity increase, criteria for network development planning as well as technical, economic and regulatory requirements are respected;
- to increase the quality of electricity supply: distribution system operator is obliged to systematically maintain the level of supply quality, monitor supply quality indicators and keep the records necessary to determine electricity quality indicators. The quality of the electricity supply includes the quality of services, the reliability of power supply and the quality of voltage;
- to increase business efficiency: in order to achieve better business results, business efficiency should be continuously improved. Consistency in investment and cost optimization is aimed at increasing income, i.e. increasing the value of assets and reducing costs.

In delivering its business goals, which are of strategic importance for the Republic of Croatia, HEP ODS integrates sustainability into all aspects of its operations, including procurement, resource management, stakeholder relations and innovation, and actively manages its impacts. In this regard, the Management Board of HEP ODS sets the direction, delegates responsibilities and monitors the achievement of business goals with special attention on managing the impacts on society and the environment. Furthermore, HEP ODS relies on cooperation with key stakeholders in impact management, whose perspective provides additional information on the recognized impacts of HEP ODS and how they are managed. This includes not only users of HEP ODS services but also regulatory bodies, executive authorities, employees, suppliers and academic institutions. Finally, by publishing its first sustainability report, which is an integral part of this annual report, HEP ODS is joining the community of companies that transparently report their impacts on society and the environment and conduct mitigation measures.

In creating and making business decisions, HEP ODS management takes into account internationally recognized guidelines and standards such as the Guidelines for Multinational Enterprises of the Organization for Economic Cooperation and Development (OECD) and the Guiding Principles on Business and Human Rights of the United Nations.

One of the established systems for expressing concerns and seeking advice on the implementation of corporate policies is whistleblowing as a specific channel of communication. The method of reporting irregularities has been upgraded since its original introduction, thus becoming a comprehensive tool for expressing concerns and/or seeking advice on the implementation of business policies.

In 2023, there were no cases of non-compliance with laws and regulations, nor any sanctions or fines imposed.

RESPONSIBILITY AND ETHICS

The Code of Ethics of HEP ODS defines the principles of business conduct and emphasizes the importance of consistent monitoring and application of the law and regulations on the organization of work and business operations. The Code prescribes the implementation of professional, business standards and norms, as well as ethical principles. In addition, it emphasizes professionalism, expertise, conscientiousness, objectivity, independence, transparency, impartiality and work responsibility. The Code defines a conflict of interest and calls for the protection of human rights, the development of transparent relations with all stakeholders and condemns any type of discrimination.

STRUCTURE AND NUMBER OF COMPLAINTS

	Total	Upheld	Unfounded
Number of complaints received	115	52	63
Number of resolved complaints	115	52	63
• number of anonymous complaints	1	0	1
• number of non-anonymous complaints	114	52	62
Number of non-anonymous complaints from HEP workers	2	1	1
Number of non-anonymous complaints from suppliers	0	0	0
Number of non-anonymous complaints from other interested parties	112	51	61
Number of complaints by topic/area (possible areas listed as an example)			
a) employment relationship	2	1	1
b) discrimination	1	0	1
c) corruption	0	0	0
d) conflict of interest	0	0	0
e) nepotism	1	0	1
f) public procurement	0	0	0
g) customer relation	5	3	2
h) billing and invoicing	50	17	33
i) connection to the LV network	38	22	16
j) unauthorized consumption	1	1	0
k) other	17	8	9
TOTAL	**115**	**52**	**63**

Out of a total of 115 received and processed complaints in 2023, 45.2% had merit. Billing and invoicing-related complaints prevailed, accounting for 43.5% of the total number of complaints, followed by complaints on the LV network connection, accounting for 33% in the total number of complaints.

The ethics commissioner is obligated to submit a written report to the Company director, who reviews the report and, if necessary, initiates the procedures established by law, another regulation or the Company by-laws, of which he first informs the ethics commissioner, and then writes a response.

INFORMATION SECURITY AND DATA PROTECTION

Information security at HEP is managed by the Corporate Security Department (UKS), responsible for planning, control, monitoring and coordination of all measures and regulations relevant to Company security. As part of its tasks and responsibilities, UKS participates in the preparation of policies, procedures and regulations, conducts controls and investigations, carries out risk assessments in cooperation with individual parts of the company, participates in the classification of assets, cooperates in the education and raising awareness of workers and serves as a central point to other company workers in terms of security.

The Corporate Security Department implements information security measures at the HEP Group level, while in cooperation with the IT Unit, it also carries out said measures in HEP-ODS. Some security measures are carried out in cooperation with the Departmention of Information and Communication Technologies and HEP-Telekomunikacije (telecommunications).

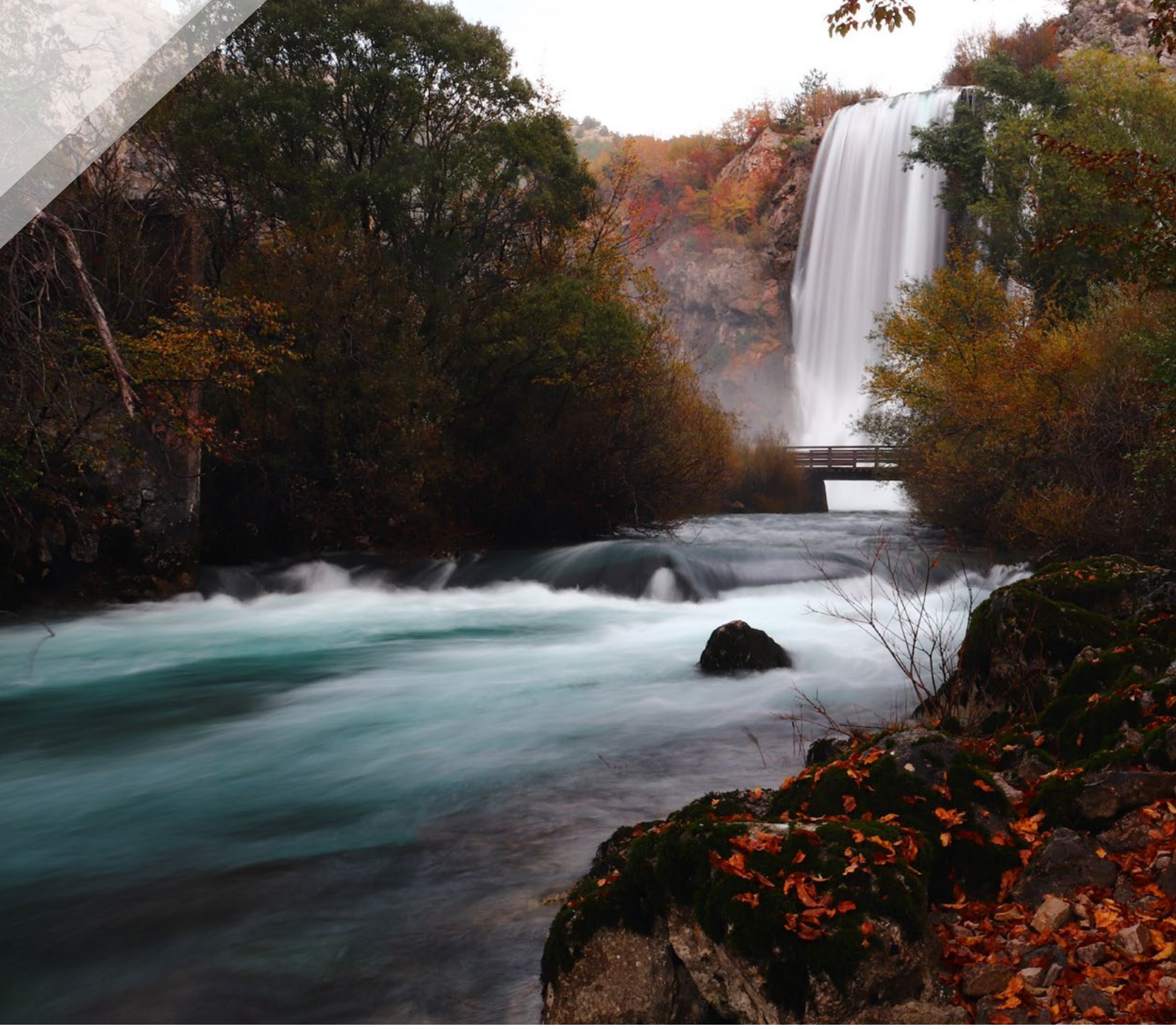
The strategic determinant is the construction, application and constant improvement of the information security management system in the jurisdiction and competence of the Management Board of Hrvatska elektroprivreda d.d. in accordance with the ISO/IEC 27001:2013. HEP d.d. takes advantage of the selected standard and strategically decides on its internal long-term application in the widest possible scope. Apart from the above standard, information security management issues are covered by the information security strategy and a series of rulebooks such as the Rulebook on the Usage of Information System, the Rulebook on the Usage of the Internet, the Confidentiality Rulebook, the Security Rulebook that includes information security and data protection, and the Confidentiality and Data Classification Rulebook.

HEP ODS, as a party to the Act on Cybersecurity of Key Service Operators and Digital Service Providers, and the Regulation on Cybersecurity of Key Service Operators and Digital Service Providers, and taking into account the importance of the electricity distribution service, the possibility of a cascading effect on other organizations, and the times and circumstances in which we live, considers it necessary to take care of the cybersecurity of its key process systems. The System Management Department is the organizational unit within HEP ODS responsible for the key process system that supports the function of remote management of the distribution network.

Continuous work is being done to increase the level of cybersecurity of the key system and reduce security risks through the implementation of adequate security controls, the adoption of internal acts for the purpose of managing cybersecurity, and raising employee awareness of its importance.

At the beginning of 2023, an authorized external auditor conducted a regular annual "Key Service Operators with the Measures of the Cybersecurity Act" compliance audit. There were no cyber incidents at the HEP ODS level in 2023.

When it comes to privacy and protection of personal data, HEP ODS complies with the Privacy Statement of HEP Group, which sets the principles of data processing, the procedure for personal data collection and processing, the rights of the subjects, the reporting procedure to the supervisory authority and handling violations, and provides data protection officer's contact details. In order to gain knowledge and raise awareness of the importance of implementation of personal data protection, HEP Academy, in



cooperation with data protection officers, established a GDPR training module for workers who sell their products or services to natural persons or systematically process large amounts of personal data in their work.

In 2023, there were no personal data violations or supervisory activities undertaken by the national personal data protection body at HEP ODS. The personal data protection rights of the subjects were resolved within the legally prescribed time limits in accordance with the Regulation.

MANAGEMENT OF PROCUREMENT PROCEDURES

The procurement of goods, services and works in HEP ODS is carried out in accordance with the Public Procurement Act (Official Gazette 120/16, 114/22) and by-laws, the internal Procurement and Contracting Rulebook in HEP Group and other internal documents. In addition, the procedures of the so-called simple procurement of goods and services with an estimated value under EUR 26,540.00 (without VAT) and works with an estimated value under EUR 66,360.00 (without VAT) are also subject to the Simple Procurement Rulebook.

In order to prepare the procurement process and inform business entities about their plans and requirements in relation thereto, HEP Group companies conduct market analysis. Said market analysis consists of gathering information about the subject of procurement, economic entities on the market and other significant circumstances that affect procurement conditions. Before starting the public procurement procedure for the procurement of works, goods or services of high value, HEP Group companies are obligated to initiate a preliminary consultation procedure with interested business entities for a minimum of five days regarding the description of the procurement subject, technical specifications, criteria and special conditions for the execution of the contract. All interested economic undertakings are invited to participate in the preliminary consultation in order to exchange information, comments, proposals and advice, which may be of importance in the planning and implementation of procurement procedures, while respecting the principles of market competition, prohibition of discrimination and transparency in public procurement procedures.

During the implementation of public procurement procedures and on the basis of the ESPD form (European Uniform Procurement Documentation), HEP Group companies, among other things, set mandatory grounds for the exclusion of economic undertakings from the procedures if:

- an economic undertaking, either a member of an administrative, management or supervisory body or a member with the power of representation, decision-making or supervision, is convicted of participation in a criminal organization, corruption, fraud, terrorism or criminal offenses related to terrorist activities, money laundering or terrorist financing , child labour or other forms of human trafficking;
- an economic undertaking has not settled its financial obligations towards due taxes and pension and health insurance contributions. When conducting simple procurement procedures, the grounds for the exclusion of economic undertakings are determined on the basis of the Certificate of Non-Convinction and the Debt Balance Certificate of the Tax Administration, which said undertaking submits as an integral part of its offer.

When conducting procurement procedures, economic undertakings must also submit a signed Integrity Declaration, which guarantees correctness in the procurement procedure, the absence of any prohibited practice in connection with the bidding process, such as corruption or fraud, offering, giving or promising any unfair advantage that may affect the actions of the worker involved in the procurement process. The economic undertaking must also submit consent for the audit of the entire procurement process by independent experts and bear responsibility as well as accept sanctions (contractual penalties, unconditional cancellation of the contract), if the prescribed rules are violated.

Since 2014, public procurement procedures that are not categorized as simple procurement have been published in the Electronic Public Procurement Bulletin of the Republic of Croatia. Information on public procurement procedures is also published on the website of HEP ODS, and includes basic information on procurement, procurement documentation for public and simple procurement procedures in accordance with the internal Simple Procurement Rulebook, procedures that are exempt from public procurement, decisions on selection and cancellation, and information on previous consultations with interested economic undertakings. In accordance with the Act on Electronic Invoicing in Public Procurement, all HEP Group companies receive e-invoices as per the EU norm (2014/55/EU) as of 1 December 2018. Information about HEP Group companies is published in the Register of e-account users on the website of the Financial Agency (FINA).

CONFLICT OF INTEREST

In order to prevent the conflict of interest, a list of economic undertakings with which HEP ODS is in a conflict of interest as an Employer in public procurement procedures is published on the HEP ODS website and, if necessary, updated. HEP ODS may not enter into contracts with economic undertakings from said list. Provisions related to the conflict of interest in public procurement procedures are prescribed by the Public Procurement Act.

SUPPLY CHAIN AND PROCUREMENT PROCEDURES IN 2023

In 2023, the supply chain of HEP ODS consisted of a total of 2,011 domestic suppliers (under concluded agreements, contracts and purchase orders). Domestic suppliers were from all Croatian counties among which the City of Zagreb, Split-Dalmatia, Primorje-Gorski Kotar, Osijek-Baranja and Zagreb counties accounted for 50%.

HEP ODS procures goods, works and services for the purpose of management, maintenance, construction and development of the distribution network. In terms of the financial volume, the most represented suppliers in the supply chain are those for the delivery of goods and the execution of works. 485 public procurement procedures were carried out in 2023. In terms of numbers, the most represented procedures were those related to the procurement of goods (76%), followed by services (14%) and works (10%).

In 2023, economic undertakings submitted 48 complaints to the State Commission for Supervision of Public Procurement Procedures (DKOM). Out of 48 appeals, 26 were rejected, the Decision was annulled in 14 cases, and tender documentation (DON) was annulled in eight appeals.

7

Responsible and sustainable

DEFINITION OF MATERIAL TOPICS

HEP ODS, as a company that carries out the regulated activity of electricity distribution in the entire territory of the Republic of Croatia, which key role is the development of the electricity distribution system, also plays an important role in the energy transition and the transition to a low-carbon economy.

The main determinants of the Company's activities on planning the development of the distribution system are set by the legislative framework of the Republic of Croatia, the National Development Strategy of the Republic of Croatia until 2030, the Energy Development Strategy of the Republic of Croatia until 2030 with a view to 2050, the Integrated National Energy and Climate Plan for the period from 2021 to 2030, as well as the international obligations that the Republic of Croatia assumed as part of its membership in the European Union and by acceding to international agreements. In addition to national and EU legislative obligations, distribution system development plans are influenced by internal factors such as the Company's strategy, mission, vision and goals, as well as a wide set of environmental factors, including economic activities and demographic trends, changes to the legislative framework in the EU and their implementation in the Croatian legislation as well as other changes to the national legislative framework that directly affect the activity of HEP ODS.

In 2023, the Company approached the determination of material topics, i.e. areas of HEP ODS's impact on the economy, environment and people, including human rights, taking into account the dynamic development of sustainability reporting regulations and standards with the intention of defining a long-term framework for reporting and managing sustainability issues. In this reporting period, HEP ODS used the guidelines of the European Sustainability Reporting Standards (ESRS) to assess material impacts, in addition to the methodology of the Global Reporting Initiative (GRI) standards from 2021. As HEP ODS business operations are specific and there are no companies in the Republic of Croatia and the European Union that perform the same activity within a comparable context, the framework for his procedure is set by analysing Company's business surrounding and the findings of materiality evaluation conducted in the previous reporting period.

Since there are still no GRI or ESRS sectoral standards applicable to the activity of HEP ODS, the analysis was carried out by using international agreements, global, EU, national and sectoral documents such as strategies, research, analyses, reports and regulations, available topic-specific GRI standards as well as older GRI sector supplement for the electric power industry (Electric Utilities – EU). In the process of reviewing the environmental, social and management aspects that could be applicable to the operations of HEP ODS, international guidelines for recognizing the organizational impact on human rights, communities and the environment along the value chain were taken into account, including the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, the International Labour Organization (ILO) Standards, and the International Corporate Governance Network (ICGN) management principles.

Based on the reporting framework established in the previous reporting period, in this reporting period the Company re-evaluated its impacts on users and society, the environment and workers, as well as impacts related to corporate governance. Following the analysis of all business aspects of HEP ODS, the impacts are divided into four areas: electricity distribution, responsible corporate governance, environment and society. A multidisciplinary team of experts composed of representatives of the Management Board and key sectors, services and departments of the Company carried out initial mapping and internal assessment of specific negative and positive impacts that HEP ODS could have in the short, medium and long term. For each impact, key sectors and departments in the organization with data and/or experts available to assess individual impacts have been determined.

Through the stakeholder mapping process conducted in the previous reporting period, the Company took a step forward in establishing a systematic dialogue on responsible business by connecting internal resources and processes into a centralized stakeholder register. Therefore, the Company conducted the stakeholder inclusion process this year as well, with a total of 135 individuals, 55 external and 80 internal stakeholders, in order to provide an informed assessment and prioritization of impacts. To reach the final assessment of individual impacts, the key external stakeholders identified were the owner, regulator, customers and suppliers, while the most significant internal stakeholders were distribution areas and workers. Stakeholder engagement also included representatives of government bodies, financial institutions, civil society, the academic and scientific community, and external consultants.

The materiality assessment was conducted using insights from departments and sections responsible for managing individual impacts and from Company experts, stakeholders whose interests are potentially or actually affected by HEP ODS, and informative views from diverse stakeholder groups. The methodology used is in line with the materiality assessment recommended by the European Sustainability Reporting Standards (ESRS), and includes an assessment of severity according to the categories of scope, prevalence and irreparability in the case of adverse impacts, scope and prevalence in the case of positive impacts, and probability for potential impacts. A materiality threshold has been defined for all impact categories, and individual impacts have been categorized within material topics in the areas of: electricity distribution, responsible corporate governance, environment and society. Compared to the previous reporting period, the Company, by conducting a materiality assessment in accordance with the recommendations of the European Sustainability Reporting Standards (ESRS), recognized the need to define two additional material topics: Climate and Information Security.

ELECTRICITY DISTRIBUTION

- Safety and resilience of the distribution system
- Reliability of power supply in the distribution system
- Integration of RES
- Flexible and smart networks
- Network customer relations

CORPORATE SOCIAL RESPONSIBILITY

- Organization and impact management
- Transparency and Code of Ethics
- Sustainable chain of procurement
- Information security

ENVIRONMENT

- Climate
- Energy efficiency
- Water and waste management
- Biodiversity

SOCIETY

- Work environment and working conditions
- Health protection and safety at work

In the final step of determining materiality, the reporting team of HEP ODS, in cooperation with expert associates, defined three priority categories of recognized material topics with regard to the level of the Company's impact on the economy, environment and society: material topics with the highest estimated level of potential and actual impacts of HEP ODS on the interests of stakeholders and the community; material topics for which it was estimated that HEP ODS in cooperation with stakeholders has or could have a significant impact on the interests of stakeholders or communities are classified in the category of a high level of impact; the remaining material topics for which the need for HEP ODS to actively manage potential and actual impacts on people and the environment is recognized, are classified in the "material impact" category.

Taking into account the strategic determinants of the Company, the materiality assessment carried out in line with the GRI standards and recommendations of the European Sustainability Reporting Standards, and the impact classification within material topics, the Management Board of HEP ODS made the final decision on the prioritization of Company material topics.

PRIORITIZATION OF MATERIAL TOPICS

THE HIGHEST LEVEL OF IMPACT

- Safety and resilience of the distribution system
- Reliability of power supply in the distribution system
- Integration of RES

HIGH LEVEL OF IMPACT

- Network customer relations
- Health protection and safety at work
- Flexible and smart networks
- Transparency and Code of Ethics
- Information security
- Sustainable chain of supply
- Organization and impact management

MEDIUM LEVEL OF IMPACT

- Climate
- Work environment and conditions
- Water and waste management
- Biodiversity
- Energy efficiency

8

A word by the editor

Dear readers,

it is my great pleasure to address you as the Editor of the Report and the Leader of the Sustainability Team of HEP ODS and to present the Annual Business and Sustainability Report for 2023. This document is not only an overview of the achievements and challenges we have faced, but also a reflection of our commitment to sustainable development, energy efficiency initiatives and distribution network modernization projects. Our efforts are focused on increasing the capacity of distributed renewable energy sources by investing in smart grids and advanced systems, and on developing demand flexibility to ensure the reliability and efficiency of the distribution network in the coming years.

In preparing this Report, we applied the Global Reporting Initiative (GRI) methodology, which provides a comprehensive view of economic, environmental and social impacts. We are particularly proud of having improved the assessment of impact materiality this year by using the guidelines of the European Sustainability Reporting Standards (ESRS). Following the requirements of both methodologies, we have included our key stakeholders in the impact assessment based on the evaluation of the severity and likelihood of impacts in the value chain. In the process of assessing impact materiality, we have conducted a mapping and initial assessment of business risks and opportunities related to sustainability aspects, which is the basis for the dual materiality assessment according to ESRS standards that we plan to conduct in the upcoming reporting periods. The project activities lasted nine months and included a multidisciplinary team of experts who analyzed and reviewed in detail all aspects of impact materiality in the value chain. The team conducted an analysis of material impacts – social and environmental factors that affect people and the environment.

The new regulation requires not only reporting, but also long-term integration of ESG topics into all aspects of business (ESG – Environmental, Social and Governance). This means openness to change, acceptance of new ways of looking at impacts, risks and opportunities, and a desire to integrate business goals with sustainability objectives. This is especially important in the context of the ESRS standards and the application of the new CSRD directive that came into force in early 2023, and which require consideration of double materiality with regard to essential business risks, sustainability opportunities and the management of important environmental and social impacts of HEP ODS.

The perspective of the ESG criteria integration enables long-term sustainable growth and resilience, improvement of reputation, trust of network users and stakeholders, significant investment in network infrastructure, compliance with regulations, greater engagement and retention of employees, positive impact on the community, operational efficiency and in particular environmental preservation for generations to come.

HEP ODS is committed to integrating sustainability factors into its operations with the intention of adequately preparing for the development of climate goals, a transition plan and risk management for future periods. With this comprehensive approach, we are creating the foundations for a modern, reliable and sustainable distribution network that can meet the challenges of the future.

The Report provides an overview of the entire operational business of HEP ODS, provides insight into the strategy, goals, key values and financial results approved by the Supervisory Board and the Company Assembly at the meeting held on 15 June 2024. This data testifies to the success and synergy within the Company. Part of this Report is also the report of the independent auditors, ie the audit of the annual financial statements of HEP–Operator distribucijskog sustava d.o.o. The audit opinion in question is given in its original form.

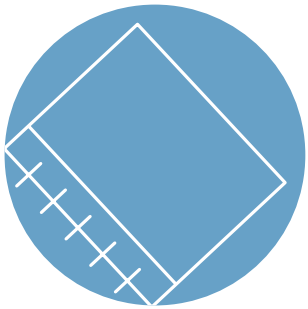
Our vision for the future is clear - we will continuously improve sustainable practices and set higher standards in corporate management and all business processes. HEP ODS will continue to drive the global green transition by investing in advanced networks, human capital, corporate culture and sustainability. In addition to improving financial performance, we will do our best to gain the trust of our users and all interested parties in managing environmental, social and management impacts.

The Annual Business and Sustainability Report is prepared in a printed and a PDF format. It is also available on the HEP ODS website.

I would like to thank all our employees, partners and other stakeholders for their contribution and support. Special thanks to our Sustainability Team and all contributors to this Report. Their work and commitment allowed us to present our activities and achievements transparently and thoroughly, and their expertise, commitment and cooperation were key in creating this comprehensive document.

Together we build a better and sustainable future for everyone.

ESG adviser
Lidija Pecotić



9

Report profile

The Business and Sustainability Report of HEP ODS presents company business operations and activities for the year 2023 (1 January to 31 December 2023). It was prepared in accordance with the Global Reporting Initiative (GRI) Standards. The parts of the Report related to the management of sustainability issues are not subject to external verification. All queries and proposals related to this Report can be sent to ods-regulatorni.poslovi@hep.hr or by post to HEP ODS, Department for Regulatory Affairs, Ulica grada Vukovara 37, 10 000 Zagreb.

10

GRI content index

GRI Standard	Disclosure	Page
GRI 1 Foundation 2021		
GRI 2 General Disclosures 2021		
The organization and its reporting practices		
2-1	Organizational details	18-19
2-2	Entities included in the organization's sustainability reporting	18-19
2-3	Reporting period, frequency and contact point	129
2-4	Restatement of information	/
2-5	External assurance	129
2-6	Activities, value chain and other business relationships	16-17, 22-26
2-7	Employees	84-85
2-8	Workers who are not employees	/
2-9	Governance structure and composition	27, 108-110
2-10	Nomination and selection of the highest governance body	109
2-11	Chair of the highest governance body	109
2-12	Role of the highest governance body in overseeing the management of impacts	111
2-13	Delegation of responsibility for managing impacts	111, 126-127
2-14	Role of the highest governance body in sustainability reporting	111
2-15	Conflict of interest	110-111, 113, 117
2-16	Communication of critical concerns	112-113
2-17	Collective knowledge of the highest governance body	111
2-18	Evaluation of the performance of the highest governance body	/
2-19	Remuneration policies	111
2-20	Process to determine remuneration	111
2-21	Total annual remuneration ratio	/
Strategies, policies and practices		
2-22	Statement on sustainable development strategy	8-9
2-23	Policy commitments	112, 120
2-24	Embedding policy commitments	112
2-25	Processes to remediate negative impacts	80-81, 87, 103-105, 111-114, 117
2-26	Mechanisms for seeking advice and raising concerns	80-81, 87, 112-113, 117
2-27	Compliance with laws and regulations	112
2-28	Membership associations	19
Stakeholder engagement		
2-29	Approach to stakeholder engagement	121
2-30	Collective bargaining agreements	85

GRI Standard	Disclosure	Page
GRI 3: Material topics 2021	3-1 Process to determine material topics	120-123
	3-2 List of material topics	122-123
	3-3 Management of material topics	57, 60, 65, 76, 84, 87, 88, 91, 98, 102, 103, 108, 113, 114, 116
Economic impacts and electricity distribution		
GRI 201: Economic performance 2016	201-1 Direct economic value generated and distributed	39-45
	201-4 Financial assistance received from government	57, 59, 70, 76-79, 105
	203-1 Infrastructure investments and services supported	10, 57-59, 76-79, 99
GRI 203: Indirect economic impacts 2016	203-2 Significant indirect economic impact	63-66, 71-73
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	117
GRI Sector Supplement: Electric Utilities	EU 4 Length of above and underground transmission and distribution lines by regulatory regime	54-56
	EU 12 Transmission and distribution losses as a percentage of total energy	74-75
	EU 28 Power outage frequency	68
	EU 29 Average power outage duration	67

GRI Standard	Disclosure	Page
Corporate Social Responsibility		
GRI 205: Anti-Corruption 2016	205-3 Confirmed incidents of corruption and actions taken	112-113
GRI 418: Customer privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	113, 115
Society		
GRI 201: Ekonomski učinak 2016.	201-3 Obveze organizacije koje se odnose na definirani mirovinski plan	85
GRI 202: Prisutnost na tržištu 2016.	202-1 Omjer standardne početne plaće prema spolu i u odnosu na lokalnu minimalnu plaću	86
GRI 401: Employment 2016	401-3 Parental leave	88
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	91, 93, 94
	403-2 Hazard identification, risk assessment and incident investigation	91, 93, 94
	403-3 Occupational health services	85, 91
	403-4 Worker participation, consultation, and communication on occupational health and safety	93
	403-5 Worker training on occupational health and safety	91, 94-95
	403-6 Promotion of worker health	91
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	93
	403-8 Workers covered by an occupational health and safety management system	85, 91
	403-9 Work-related injuries	91-94
	403-10 Work-related illnesses	92-94
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	85, 109
	405-2 Ratio of entry level wage and remuneration by gender	87
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	113
GRI 413: Local communities 2016	413-1 Operations with local communities, impact assessments, and development programs	104
Environment		
GRI 302: Energy 2016	302-1 Energy consumption within the organization	98
	302-3 Energy intensity	99
	302-4 Reduction of energy consumption	98-100
GRI 303: Water and Effluents 2018	303-1 Interactions with water as a shared resource	103
	303-5 Water consumption	103
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	103-105
	304-2 Significant impacts of activities, products, and services on biodiversity	103-105
	304-3 Habitats protected or restored	104-105
	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	105
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	100
	305-2 Energy indirect (Scope 2) GHG emissions	100
	305-4 GHG emissions intensity	100
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impacts	102
	306-2 Management of significant waste-related impacts	102
	306-3 Waste generated	102
	306-4 Waste diverted from disposal	102
	306-5 Waste directed to disposal	102

SUSTAINABILITY TEAM

Team leader
Lidija Pecotić

Deputy team leader
Pero Josipović

REPORTING TEAM

Iva Nujić
Marta Malenica
Ivana Rendulić
Eva Vrdoljak
Senka Masnjak
Ivana Peša
Dora Šteher
Sanja Srnec-Pekas
Goran Bogdanović
Ivica Penić
Igor Žarkić
Vedran Mladinić
Igor Đurić
Anđelko Tunjić
Roko Ivković
Zlatan Kos
Goran Strmečki
Željko Škrinjar
Vladimir Caha
Nikola Veić

EXPERT ASSOCIATE

Željko Cerovečki

IMPRESUM

Publisher:
HEP–Operator distribucijskog sustava d.o.o. (HEP ODS d.o.o.) Zagreb
Ulica grada Vukovara 37
phone: +385 16322111
web: http://www.hep.hr/ods

For the publisher:
Nikola Šulentić

Editor:
Lidija Pecotić

Production:
HEP ODS

Reporting consultants:
Spring+shift d.o.o.

Layout:
Hand Studio d.o.o.

Photographs:
Dražan Jurišić, Lucija Migles, Tomislav Veić

Print:
ZNANJE d.o.o.