DOCUMENT OF THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 11 September 2024^1

CROATIA

HEP GOGREEN

[Redacted in line with the EBRD's Access to Information Policy]

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¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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ABBREVIATIONS / CURRENCY CONVERSIONS

BAT	Best Available Techniques
CAGR	Compound Annual Growth Rate
CGAP	Corporate Governance Action Plan
CfD	Contract for Differences
CHP	Combined Heat and Power
CPI	Consumer Price Index
DG REFORM	Directorate-General for Structural Reform Support
DSCR	Debt Service Coverage Ratio
EBIT	Earnings before Interest and Taxes
EBITDA	Earnings before Interest, Taxes, Depreciation and
	Amortisation
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ESAP	Environmental and Social Action Plan
EU	European Union
EUR	Euro
EURIBOR	European Interbank Offered Rate
FiP	Feed-in Premium
FiT	Feed-in Tariff
GET	Green Economy Transition
GoC	Government of Croatia
HEP	Hrvatska Elektroprivreda
HPP	Hydroelectric Power Plant
HRK	Croatian Kuna, the currency of Croatia
IED	Industrial Emissions Directive
IFI	International Financial Institution
NPP	Nuclear Power Plant
NOx	Mono-nitrogen Oxides
PPA	Power Purchase Agreements
PIP	Project Implementation Plan
PIU	Project Implementation Unit
PP&Rs	Procurement Policies and Rules of EBRD
PV	Photovoltaic
RE	Renewable Energy
SPP	Solar Power Plant
TI	Transition Impact
TPP	Thermal Power Plant

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Hrvatska Elektroprivreda d.d. ("HEP", or the "Company"), a joint stock company incorporated in Croatia, are submitted for consideration by the Board of Directors.

The facility will comprise of a corporate loan of up to EUR 31.62 million, divided into two tranches. [REDACTED].

The project will be co-financed by the European Investment Bank (the "EIB") that will provide a parallel loan facility of up to EUR 30.38 million.

The operation will enable the Company to construct and operate a solar power plant with total installed capacity of up to 99 MW. This will not only support HEP's decarbonization plans but also enhance its resilience against energy crises by diversifying its electricity supply. Furthermore, the project contributes to the country's green energy transition goals by expanding its renewable energy capacity, thereby playing a crucial role in achieving Croatia's 2030 green targets and commitments. With a focus on green transition quality, the project is entirely Green Energy Transition (GET) certified and has been rated via the GET Direct Track methodology. The operation will lead to a substantial increase in renewable electricity generation and avoidance of CO2 emissions of c.a. 28,900 tonnes per year.

I am satisfied that the operation is consistent with the Bank's Strategy for Croatia, the Energy Sector Strategy, the Green Economy Transition approach 2021-2025 and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

CROATIA – HEP GOGREEN – DTM 52803			
Transaction / Board Decision	Board approval ² is sought for a corporate loan of up to EUR 31.62m to Hrvatska Elektroprivreda d.d. (the "Company" or the "HEP"), to support construction and operation of a 99 MW solar power plant "Korlat" in Croatia. The EBRD facility will comprise of two traches [REDACTED]. In addition to the EBRD Loan, the European Investment Bank will provide a parallel facility of up to EUR 30.38m for the financing of the Project under the same arrangement. Procurement of goods & works will be conducted under the EBRD Procurement Policies & Rules.		
Client	Hrvatska Elektroprivreda is a joint stock company established in Croatia and 100% owned by the Government of Croatia. Main activities of HEP include generation, transmission and distribution of electricity, provision of district heating and gas distribution services. HEP is rated BBB/negative by S&P from May 2023, and Baa2/positive by Moody's from November 2023. HEP has the installed generation capacity of 3,451 MW, which is dominated by hydro with 60% share, thermal with 27% share (o/w coal-fired thermal with 8% share [REDACTED]), nuclear with 10% and other RES with less than 3%. In 2022, electricity generation in HEP owned power plants stood at 12.4 TWh, which represented approximately 68% of the national gross consumption. [REDACTED].		
Main Elements of the Proposal	<u>Transition impact</u> The Project is 100% GET. It is rated via the GET Direct Track Methodology. The Project supports implementation of new renewables capacities, which is expected to lead to ca. 117,050 MWh/annum of additional RE generation and the avoidance of CO2 emission of ca. 28,900 tonnes per annum. [REDACTED] <u>Additionality</u> - The Bank is additional due to its ability to offer tenor and funding amount that are currently not available to the Borrower on the market under reasonable terms [REDACTED]. EBRD is also additional due to (i) setting high E&S standards with focus on the solar PV supply chain and (ii) application of the best international procurement standards in line with the EBRD PP&Rs. <u>Sound banking</u> - Given the strategic importance of HEP for the country as well as considering the guarantee from the Republic of Croatia, the Project satisfies the sound banking criteria.		
Key Risks	[REDACTED]		
Strategic Fit Summary	The Project is aligned with the Bank's strategy for Croatia, that promotes acceleration in Croatia's green economy transition by increasing renewable energy capacities. Also, it is fully aligned with the Energy Sector Strategy that envisages focusing on scaling-up renewable energy, which remains at the centre of the Bank's market-oriented low-carbon transition agenda as well as of the Green Economy Transition Approach 2021-2025.		

 $^{^2}$ Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A corporate loan of up to EUR 31.62m to the Borrower (the "Transaction"), to finance construction and operation of a 99MW solar power plant "Korlat" in Croatia. Export capacity to the grid is limited at 75 MW. [REDACTED]. The European Investment Bank will provide a parallel facility of up to EUR 30.38m for the financing of the Project under the same arrangement.			
Existing Exposure	[REDACTED]			
Maturity / Exit / Repayment	Up to 15 years tenor [REDACTED].			
Potential AMI eligible financing	None.			
Use of Proceeds	EBRD loan proceeds will finance construction and operation of a 99MW solar power plant "Korlat" in Croatia [REDACTED]. Procurement of goods & works will be conducted under the EBRD Procurement Policies & Rules.			
Investment Plan	Total project costs are estimated at up to EUR 62m. For details, please see Financing Plan section below.			
Financing Plan	[REDACTED]			
Key Parties Involved	Borrower:Hrvatska Elektroprivreda d.d.Guarantor:Republic of CroatiaParallel Lender:European Investment Bank (EIB)[REDACTED]			
Conditions to subscription / disbursement	[REDACTED]			
Key Covenants	[REDACTED]			
Security / Guarantees	80% guarantee from the Republic of Croatia			
Other material agreements	EPC Agreement Loan Agreement between the Borrower and EIB Guarantee Agreement			
Associated Donor Funded TC and co-investment grants/concessional finance	None			

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

In November 2018, the EU adopted the Renewable Energy Directive 2018/2001/EU ("Red II directive"), establishing a 32% target for renewable energy in final consumption by 2030, with individual national targets. Consequently, the Croatia's National Energy and Climate Plan (NECP) set a national target for renewables' share in gross final energy consumption to 36.4% by 2030. Additionally, a December 2020 agreement increased the EU's 2030 emissions reduction target from 40% to at least 55% on the path to achieving climate neutrality by 2050. These environmental goals were further increased in November 2023 with adoption of the new EU directive 2023/2413 ("Red III directive"), which set a goal to produce 42.5% of the energy from renewable sources by 2030. Each member state shall implement these new goals in its national law by 21 May 2025. Croatian draft NECP had been updated mid-2023 to include more ambitious green goals as set in the EU 2050 net-zero strategy. For renewable energy, updated NECP set a contribution of 42.5% of the national final energy consumption in 2030 (vs. 31.7% achieved in 2021) and 73.6% of final consumption of electricity (vs. 53.5% in 2021). Following EC's recommendations, final updated NECP was due by 30 June 2024, but has been delayed.

The Energy Development Strategy for Croatia (adopted in Feb 2020 by the GoC) aims to achieve self-sufficiency in electricity production by 2030 through significant increase in renewable generation capacities. More concretely, it envisaged an increase in share of electricity generation from wind and solar from 14.5% in 2021 (or 2.2 TWh) to 27.4% in 2030 (4.6 TWh) and 44.9% (i.e. 11.5TWh) by 2050 under moderate energy transition scenario. Translated into new capacities, compared to end-2021, photovoltaics were expected to increase by min. ca. 630 MW by 2030 and ca. 2,500 MW by 2050, whereas wind capacities were to increase by min. 370 MW by 2030 and 1,800 MW by 2050.

The unprecedented global energy crisis caused by Russian aggression on Ukraine negatively impacted the operating performance of HEP as a result of extreme price increases on global energy markets and the delay in price adjustments for HEP's customers [REDACTED]. These developments raised countrywide concerns related to the security of energy supply amplifying the need for the accelerated roll-out of RES as the only sustainable path for the replacement of fossil fuels and reaching the energy independence. In line with the key strategic goals of the EU, including the most recently the EU's REPowerEU, the GoC remains committed to further development of the RES leveraging the country's geographic position and excellent natural preconditions.

Given HEP's size and importance for the local economy, as well as its sizeable TPP generation portfolio entering the final stages of its useful life, the Company is expected to lead the country's green transition. [REDACTED].

The proposed Project is expected to contribute to national energy strategy goals, such as: (i) increase the share of non-hydro RES in HEP's connection capacities (as of end-2022) from around 2.4% to 4.6%, thus creating the basic preconditions for the planned decarbonisation process and gradual decommissioning of the TPPs (including Croatia's only coal-fired TPP Plomin 2 [REDACTED]), (ii) in the context of the on-going energy crisis, further improve the local RES generation capacities and reduce dependence on the expensive and often "thermal-linked" imports from neighbouring markets.

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In line with the European Green deal, the project contributes to recognising renewable energy as an overriding public interest, while preserving a high level of environmental protection. With the projected reduction of the CO2 emissions by ca. 28,899 tonnes per annum, the Project is 100% GET eligible and fully aligned with the Paris Agreement goals.

The Bank is actively engaged with Croatian authorities to support the country's decarbonisation agenda. The most recent engagement is focused on exploring the country's potential for developing offshore wind capacities, which will include a comprehensive analysis of the existing legal and regulatory RES framework, as well as recommendations to streamline current permitting procedures for renewable developments, which frequently pose obstacles for private developers. Building upon these findings and in collaboration with the authorities, EBRD will develop a prefeasibility study and a roadmap with concrete steps to develop offshore wind in Croatia and unlock private investments in this sector. The latter engagement is supported by EU Commission via DG Reform's Technical Support Instrument.

The Project is aligned with the Bank's strategy for Croatia that promotes acceleration in Croatia's green economy transition by increasing renewable energy capacities, but also increasing operational efficiencies of the public companies. Also, it is fully aligned with the Energy Sector Strategy that envisages focusing on scaling-up renewable energy, which remains at the centre of the Bank's market-oriented low-carbon transition agenda as well as of the Green Economy Transition Approach 2021-2025.

Obj. No.	Objective	Details
1.1	The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance exceeds 60%.	The project is 100% GET.
1.2	The project results in new renewable energy generation equivalent to at least 0.3% of annual electricity generation, so significantly contributes to greening the electricity grid.	The project results in new renewable energy generation equivalent to at least 0.8 % of annual electricity generation, so significantly contributes to greening the electricity grid.

1.2 **TRANSITION IMPACT**

Primary Ouality: Green

Risk to the delivery of the TI indictors

The Risk to delivery of the TI indicators are mitigated by the Borrower's experience in implementation of complex energy project as well as by the appointment of an experienced PC contractor under turn-key model.

1.3 **ADDITIONALITY**

Identified triggers	Description		
A subsequent/consecutive transaction with the same client/group either with	This is the Bank's second project with HEP. In July 2018, the Bank concluded a debt transaction with HEP to finance CHP power plant EL.		
the same use of proceeds or in the	TO Zagreb (OPID 47748) where the Bank has committed EUR 87m via		
same country (repeat transaction).	A/B loan in co-financing arrangement with the EIB that provided another		
	EUR 43m via a parallel loan.		
	Bank's additionality in this transaction is closely linked to the limited		
	access to debt financing [REDACTED] for the Borrower.		
	[REDACTED]		

[REDACTED]	[REDACTED]

Additionality Sources	Evidence of additionality sources		
Financing structure - EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions	The EBRD financing is essential for to structure a project within the demanding market conditions, providing a longer tenor than what is available in the market, through the support of EBRD and EIB. This financing will empower the company to navigate effectively through unprecedented energy markets challenges by increasing its renewable capacities and resilience to market shocks.		
Standard-setting: helping projects and clients achieve higher standards	The Client will benefit from compliance with EBRD environmental and social requirements, in particular with application of the EBRD solar supply chain provisions/standards in its procurement documentation.		
 Client seeks/makes use of EBRD expertise on higher environmental standards, above 'business as usual' Client seeks/makes use of EBRD expertise on best international procurement standards. 	The implementation of the Project will promote the highest technical, environmental, social and procurement standards by conducting the procurement under the EBRD Procurement Policies & Rules.		

1.4 SOUND BANKING - KEY RISKS

B		
	Probabil	
Risks	ity /	Comments
	Effect	
Borrower's	[REDA	• The proposed financing of the Project will benefit from an 80%
financial capacity	CTED]	sovereign guarantee, but the debt repayment is expected to be fully
	_	reliant on the HEP's financial performance [REDACTED].
		· -
Guarantor's risk	[REDA	• The proposed financing of the Project will benefit from 80%
	CTED1	sovereign guarantee to be provided by Government of Croatia.
	1	• Croatia's fiscal/macro-economic risk is mitigated by country's
		improved macroeconomic performance in recent years. Croatia
		recorded the highest post-pandemic recovery of all EU member
		states (apart from Ireland).
		• According to the European Commission, Croatia's real GDP is
		expected to grow by 3.3% in 2024 mainly driven by domestic
		demand, while public debt-to-GDP ratio is forecasted to continue
		decreasing, reaching 59.5% in 2024 and 59.1% in 2025.
		• The current sovereign ratings of Croatia are as follows: S&P:
		BBB+/ positive outlook (from September 2023), Moody's: Baa2 /
		positive outlook (from November 2023), and Fitch: BBB+ /
		positive outlook (from October 2023)
[REDACTED]	[REDA	[REDACTED]
	CTED	

2. MEASURING / MONITORING SUCCESS

Transition Impact Monitoring Indicators

Primary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Renewable energy -	Up to 117.000 MWh /	0	117000	[REDACTED]
	(MWh/year)	year envisaged.			
1.2	Renewable energy capacity installed (MW)	Up to 99 MW installed capacity envisaged.	0	99	[REDACTED]
1.3	CO2e emissions reduced	- 28,899 tCO2/per annum	0	28899	[REDACTED]
	(tonnes/year)	envisaged			

3. KEY PARTIES

3.1 BORROWER

- Hrvatska Elektroprivreda (the "Company" or the "HEP") is a joint stock company established in Croatia and 100% owned by the Government of Croatia. Main activities of HEP include nationwide generation, transmission and distribution of electricity, provision of district heating for 6 major cities and gas distribution services in 6 Croatian counties. HEP is rated BBB (negative outlook) by S&P from May 2023 and Baa2 (positive outlook) by Moody's from November 2023.
- HEP is organized as a holding with a number of subsidiaries. [REDACTED]The Borrower's operations are primarily present in Croatia (ca. 90% of sales revenues). In terms of business segments, the vast majority of the revenues come from electricity (90.4%), with a modest contribution from gas distribution and supply and heat activities (6.0% and 3.6% in 2022, respectively). As of end-2022, the Company employed 11,782 people.
- In the area of power generation, the Company owns and operates the following capacities:
 - Electricity: 3,451 MWe of available capacity, with 28 hydro power plants (2,072 MWe), 4 thermal power plants (275 MWe), 4 combined heat and power plants (672 MWe), 2 biomass fired cogeneration plants (5 MWe), solar PVs (21 MW), 1 wind PP (58 MW) and 50% share in 1 nuclear power plant (348 MWe allocated to HEP).
 - Thermal energy: 932.5 MWth of available capacity in 4 thermal power plants for heat energy generation and 130.9 MWth in district heating boiler rooms.
- The focus of HEP's green transition, besides modernisation and construction of new hydro capacities, is on development of wind farms, solar power plants and other RES projects. HEP's first windfarm Korlat (58 MW) was commissioned in 2021, whereas the investment cycle in solar power plants was visible in construction of several small non-integrated solar power plants such as SPP Stankovci (2.5 MW) and SPP Obrovac (7 MW) that were commissioned in 2022 and commissioning of 3 smaller solar power plant in 2023 with total connection capacity of 25 MW.
 [REDACTED].

• The Management Board of the Company currently consists of 3 members, including Mr Vice Oršulić (CEO), Mr Petar Sprčić (Member) and Mr Tomislav Šambić (Member), whereas the Supervisory Board consists of 5 professional and independent members.

4. MARKET CONTEXT

- As an EU member state, Croatia has a liberalised electricity sector. The Croatian Energy Regulatory Agency (HERA) was established in 2004 as an independent regulatory body. To comply with the EU Third Energy Package, the country has unbundled the transmission system operator HOPS (previously HEP OPS) from the state-owned electricity utility HEP Group in 2013. The country's electricity wholesale market CROPEX was established in 2014 and Croatia has functioning day-ahead and intraday markets. The Croatian Energy Market Operator (HROTE) separately performs activities of organising electricity and gas markets as a public service.
- The new Electricity Market Act was passed in October 2021, transposing all determinants of Directive (EU) 2019/944, while the Act on RES and high-efficiency cogeneration, was approved in December 2021, introducing a two-way premium scheme. The new support scheme was also endorsed by the EU Commission that approved EUR 783 million Croatian state aid scheme for renewable energy from 2021-2023. [REDACTED].
- Following the Russian invasion on Ukraine, EU set the bar higher for climate and energy goals, and presented them in the REPowerEU plan, in May 2022. Additionally, the revised EU Renewable Energy Directive, adopted in 2023, raised the EU's binding renewable energy target for 2030 to a minimum of 42.5%. It became effective across all EU member states on November 20, 2023. Most of the directive's stipulations are to be incorporated into national law within an 18-month timeframe, while certain provisions concerning renewables permitting have a shorter deadline of July 2024. Consequently, Croatia's 2021-2030 National Energy and Climate Plan (NECP) draft from June 2023 provided the share of RES in the country's gross energy consumption to increase from previously envisaged 36.4% to 42.5% (in 2022, Croatia achieved the 29.4% share).

While it represents a relatively moderate increase from current levels, the high reliance on hydro, which is relatively difficult to predict and can be volatile between years and where there is no or limited scope for further increase, means that meeting ambitious RES targets will require significant further efforts and investments in the non-hydro RES sector, including solar. This is why the Croatian energy strategy prioritizes both wind and solar energy. Additionally, in light of the decarbonisation targets, Croatia's COP26 announcement of a reduction in carbon emissions by 45% by 2030 and a plan to abandon the use of coal [REDACTED] are strategically important for HEP, as the Company works towards the closure of the country's only coal-fired thermal power plant Plomin 2, which in 2022 was responsible for around 38.4% of total CO2 emissions from HEP [REDACTED].

• Croatia is in most years a net importer of electricity and Croatian electricity market is fully coupled with Hungary and Slovenia. In 2023, the country's gross electricity consumption was 18.4 TWh (+0.4% yoy) and was covered by local electricity production (17.3 TWh) and Croatia's share of production in nuclear power plant Krško in Slovenia (2.7 TWh in 2023; statistically treated as import). Due to the favourable hydrological conditions in 2023, the country recorded net export of electricity (1.1 TWh or 6% of gross electricity consumption vs 2 TWh net import in 2022).

In 2023, domestic renewable energy sources comprised 69.7% of the total electricity generated (incl. large hydro power plants and thermal power plants powered by geothermal, biogas and biomass). However, only 16.5% (2.8 TWh vs 2.4 TWh in 2022) of electricity was generated from wind energy and photovoltaic systems. Due to much more favourable hydrological conditions compared to 2022, hydro comprised

47% of the total electricity generated, a significant increase from the 39% in 2022. Apart from large hydro, wind is a dominant renewable source in Croatia with installed capacity of 834 MW in 25 operational wind farms + 326 MW of installed capacity in 3 windfarms in the trial phase (as of Dec 2023). Solar power plants constituted only 1.8% of gross electricity produced in 2023. Due to the very variable and unreliable hydrologic conditions, the country often relies on extra imports from neighbouring countries (and to a lesser extent extra generation from local sources) when these conditions are poor. Solid share of renewables in heating and cooling (37% in 2022) also compensated for lower share of renewables in transport (2.4% in 2022, standing last among EU countries).

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS [REDACTED]

5.2 SENSITIVITY ANALYSIS [REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK [REDACTED]

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6. OTHER KEY CONSIDERATIONS

6.1 **ENVIRONMENT**

Categorised B (2019 ESP). The Project involves construction of a solar power plant with total capacity of 99 MW. The project is located next to the existing WPP and outside of the inhabited or protected areas, there are no sensitive receptors in the vicinity. The Project does not require EIA under national legislation.

ESDD was undertaken by an independent consultant retained by the Bank and included corporate E&S audit and review of the management capacity, impact management and monitoring controls, as well as assessment of E&S impacts of the project. HEP is an existing client of the Bank and has certified Environmental (ISO 14001), Health and Safety (ISO 45001), energy management (ISO 50001) and Quality (ISO 9001) management systems in place, including dedicated E&S staff, policies and procedures, which will be implemented at the Project level by the Borrower and cascaded down to contractors.

Key issues that were assessed are SPV site sensitivity and biodiversity, construction H&S management and supply chain; land acquisition issues; visual and other social impacts. It has been confirmed that the E&S risks for the project are low and can be addressed through the implementation of good E&S management and monitoring program.

Independent ESDD has confirmed that the Project is compliant with the country's EHS legislation and can be structured to meet the Bank's Performance Requirements (PRs) through employment of good E&S management practices and management systems, implementation of the ESAP and ongoing monitoring. The project is located on non-agricultural state land and there is no physical resettlement associated with the Project. The Client will be required to identify and engage with any formal or informal users at the site, including current holders of hunting rights, and develop a Livelihood Restoration Plan if necessary. The site is not located in close proximity to residential areas, and it is expected that existing access roads, sub-station and grid connection to the adjacent wind farm will be used by the Project. The Client will require the contractor to comply with PR2 and 4 requirements for its workforce and that of sub-contractors and develop appropriate labour and health and safety management plans for the construction phase.

Appropriate provisions have been included in the procurement documents and will be included in financing agreements in accordance with the Management Approach for Solar Supply Chain Risk Management and will ensure that risks of forced labour with the selected module supplier and supply chain are identified and mitigated. Enhanced supply chain due diligence has been conducted by ESD as far as possible considering the ongoing nature of the Engineering Procurement and Construction (EPC) contractor procurement process in accordance with Bank's Procurement Policies and Rules (PP&Rs), as the EPC will source the solar modules. The Client will ensure that all proposed module suppliers have completed self-declarations regarding forced labour, provided a preliminary supply chain map and the proposed suppliers are acceptable.

The selected EPC will be required to provide a final supply chain map, and satisfactory supply chain risk assessment, prior to module procurement. Moreover, the Supervision Engineer will control and certify during the implementation of the project, that the approved solar equipment is in line with the proposed and evaluated suppliers. In the event of any replacement or change of the supply chain map, the newly proposed supplier will be subject to a satisfactory supply chain risk assessment.

An ESAP has been agreed with the Company to structure the Project in line with the PRs. A number of the environmental and social management improvements were included in the ESAP, inter alia: maintenance of the robust EHS structure and implementation of the E&S management systems, waste management, adequate working and welfare conditions for the workforce, livelihood restoration as necessary, supply chain management, fire and emergency response, and grievance mechanism. Additionally, Stakeholder Engagement Plan (SEP) and Non-technical Summary (NTS) have been developed in both Croatian and English for Client's disclosure.

The Borrower will be required to maintain adequate capacity to implement and monitor the Project and independent consultant provision have been included into the Project documentation. Overall E&S performance will be monitored by the Bank via Annual Environmental and Social Reports and site visits if required.

6.2. INTEGRITY

In conjunction with OCCO, internal integrity due diligence was undertaken on HEP, its key management and subsidiaries. [REDACTED]. The use of proceeds of this loan is clearly defined and the Bank's PP&Rs will apply.

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

ANNEX 1	Shareholding and Organisational Structure
ANNEX 2	Historical Financial Statements
ANNEX 3	Green Assessment Summary
ANNEX 4	Project Implementation
ANNEX 5	Transition Impact Monitoring Review

ANNEXES TO OPERATION REPORT

OFFICIAL USE

Annex 1 - Shareholding and Organisational Structure

The Company is 100% owned by Republic of Croatia

The jurisdiction of the Borrower is Croatia and there are no third jurisdictions involved.



OFFICIAL USE

HEP Group Companies

The Company has the following companies in its ownership:

Subsidiary	Country	Ownership interest in	Principal activity
HEP-Proizvodnja d.o.o. Hrvatski operator	Croatia	100	Electricity generation and heating
prijenosnog sustava d.o.o. ³ HEP-Operator	Croatia	100	Electricity transmission;
distribucijskog sustava d.o.o.	Croatia	100	Electricity distribution
HEP ELEKTRA d.o.o.	Croatia	100	Electricity supply
HEP Opskrba d.o.o.	Croatia	100	Electricity supply
HEP-Toplinarstvo d.o.o.	C aractic	100	Thermal power generation and
	Croatia	100	distribution Cas distribution
HEP-Plin d.o.o.	Croatia	100	Gas distribution
HEP ESCO d.o.o.	Croatia	100	Financing of energy efficiency projects
Plomin Holding d.o.o.		100	Development of intrastructure in
	Croatia	100	area around Plomin
CS Busko Blato d.o.o.	BIH	100	Maintenance of hydro power plants
HEP-VHS Zapresic d.o.o.	Croatia	100	bidraulics
HEP-Upravljanje imovinom	Croutiu	100	Accommodation and recreation
d.o.o.	Croatia	100	services
HEP NOC Velika Gorica	Croatia	100	Accommodation and training Electrical energy trading and
HEP-Trgovina d.o.o.			optimization of power plants
C	Croatia	100	production
HEP Energija d.o.o.			
Ljubljana	Slovenia	100	Electricity trading
HEP Energija d.o.o. Mostar	BiH	100%	Electricity trading
HEP Energija sh.p.k. Pristina	Kosovo	100	Electricity trading
HEP Energija d.o.o. Beograd HEP-Telekomunikacije	Serbia	100	Electricity trading
d.o.o.	Croatia	100	Telecommunication services
Energetski Park Korlat d.o.o.	Croatia	100	Electricty generation
SUNČANA ELEKTRANA POREČ d.o.o. SUNČANA ELEKTRANA	Croatia	100	Electricity generation
v15 0.0.0.	Croatia	100	Electricity generation
LNG Hrvatska d.o.o.	Croatia	75	LNG terminal operations
NE Krško d.o.o.	Slovenia	50	Electricity generation

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³ In accordance with the European Commission's Third Energy Package and Croatian Electricity Market Act, Hrvatski operator prijenosnog sustava d.d. (Croatian TSO) operates under the independent transmission operator model but is a part of the consolidated HEP group.

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Annex 2 - Historical Financials

[REDACTED]

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Annex 3 - Green Assessments

Summary

- The Project is a corporate loan to support the development, construction, and operation of a solar photovoltaic power plant "Korlat" in Dalmatia, with up to 99 MW installed capacity.
- The Project is determined aligned with both mitigation and adaptation goals of the Paris Agreement.
- The Project is attributed 100% **GET.** [REDACTED]

Paris alignment assessment

Alignment with the mitigation goals of Paris Agreement

The project is determined as aligned with the mitigation goals of the Paris Agreement based on the application of the Bank's Paris alignment approach for direct finance.

- The projects activity is included in the 'MDBs' aligned list' under the category 'Generation of renewable energy from solar, wind, wave power, run-of-theriver hydro, or geothermal with negligible lifecycle GHG emissions'.
- There are no activities included in the 'non-aligned list'.

Alignment with the adaptation goals of Paris Agreement

The project is determined as aligned with the adaptation goals of the Paris Agreement as it satisfies all three steps of the assessment. No material physical climate risks have been identified. [REDACTED].

GET attribution

The Project is attributed 100% GET due to financing of solar PV plant (clause 2.1 of the GET Handbook). Technical due diligence estimates the conservative expected annual electricity production at 117,050 MWh/annum, resulting in c. 28,899 tCO₂/per annum. [REDACTED].

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Annex 4 - Project Implementation

Procurement classification – Public sovereign

[REDACTED]. The capacity of HEP to implement the Project was assessed as part of the due diligence and through several meetings with representatives of HEP, the nominated project implementation unit and the procurement department together with the Bank's Project Implementation advisor. [REDACTED]

The Contract's Risk assessment: Moderate Low

The expected contracts to be financed from the Bank's loan is detailed in the presented Procurement Plan below. The support of the experienced consultant together with the current in-house expertise will ensure that technical specifications and tender documentation are suitable for international open tendering, and that any procurement and contractual issues that may arise are addressed in a professional and timely manner in compliance with Bank's latest PP&R. The nature of the solar plant contract is generally considered of low complexity and has a relatively medium to low degree of implementation risk. This risk is mitigated by appointing a Supervision Engineer and an independent consultant that will reinforce the Bank's monitoring and controlling mechanism. Moreover, it is expected that the consultants will also support the Client with the review of the technical specifications.

Project implementation arrangements:

The PIU has been established within the Company and it will have overall responsibility for the implementation of the Project. The PIU has mobilized a consultant who will support the PIU in drafting the Employer's requirements and contract conditions, procurement and contracting in accordance with the Bank's policies and support the PIU in meeting the requirements of the financing documents.

The Client will also mobilize external supervision consultants that will act on behalf of the Client as Employer's representative throughout the entire project implementation including defects liability period of the solar photovoltaic plants. [REDACTED].

Procurement arrangements:

There is envisaged one photovoltaic plant [REDACTED]. The works are being procured following multi stage tendering procedure with prequalification in accordance with the requirements of the Bank's Procurement Policies and Rules (PP&R) for public sector operations [REDACTED]

The Contracts will be tendered via the ECEPP. [REDACTED].

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Annex 5 – Transition Impact Monitoring Review

[REDACTED]