Petrokemija d.d. and its subsidiaries, Kutina

Consolidated Annual Report
for the year 2019

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Consolidated Annual Report for the year 2019

Content

Petrokemija d.d. and its subsidiaries
Management Report on the Group for the year 2019
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Petrokemija Group (ZB: PTKM-R-A; petrokemija.hr) announced its 2019 results today. This report contains audited financial statements [1] for the period ending on 31st of December 2019 as prepared by the management in accordance with the International Financial Reporting Standards.

Petrokemija Group financial results [2] (IFRS)

HRK mln	**2018**	**2019**	**%**
Sales revenues	1,817	2,120	17
EBITDA [3]	(325)	263	n.a.
EBITDA excl. special items [4]	**(213)**	**331**	**n.a.**
Profit/(loss) from operations	(416)	162	n.a.
Operating profit excl. special items [4]	**(304)**	**231**	**n.a.**
Net result from financial activites	(58)	(22)	(62)
Net profit/loss	(474)	141	n.a.
Net profit/loss for the period excl. special items [4]	**(361)**	**209**	**n.a.**
Simplified Free Cash Flow [5]	**(333)**	**307**	**n.a.**
Net debt [6]	529	396	(25)
Net gearing (%) [7]	70	52	(26)
CAPEX	**120**	**24**	**(80)**
EUR mln [8]	**2018**	**2019**	**%**
Sales revenues	245	286	17
EBITDA [3]	(44)	35	n.a.
EBITDA excl. special items [4]	**(29)**	**45**	**n.a.**
Profit/(loss) from operations	(56)	22	n.a.
Operating profit excl. special items [4]	**(41)**	**31**	**n.a.**
Net financial result	(8)	(3)	(62)
Net profit/loss	(64)	19	n.a.
Net profit/loss for the period excl. special items [4]	**(49)**	**28**	**n.a.**
Simplified Free Cash Flow [5]	**(45)**	**41**	**n.a.**
Net debt [6]	71	53	(25)
Net gearing (%) [7]	70	52	(26)
CAPEX	**16**	**3**	**(80)**

[1] After Petrokemija d.d. announced its unaudited results, the company received a tax decision from the Tax Administration in which the VAT is contested in the amount of HRK 13.3 million, previously recognized as a VAT exemption for intra-EU supplies of goods and default interest in the amount of HRK 0.4 million. The decision was appealed. In this moment it is not possible to assess whether the appeal will be upheld. According to the decision, at the reporting date the Company recognized the liability for the determined VAT liability and default interest within other liabilities and the associated expense within other operating expenses

[2] During 2019 Petrokemija d.d. adjusted its accounting policy for the treatment of the fee for greenhouse gas emission and related items of assets and liabilities adopting the gross principle. This change in accounting policy had no effect on the net result, net assets or the cash flow statement and statement of changes in the equity for the previous period; restatement of comparable previous periods was made – see on page 8

[3] EBITDA = EBIT + Depreciation and amortization

[4] In 2019 EBITDA, Operating and net profit were negatively impacted by HRK 66 mln of special items related to severance payments and HRK 2 mln value adjustment of liabilities for CO2 emission charges, in 2018 EBITDA, Operating and net loss was negatively impacted by HRK 112 mln value adjustment of liabilities for CO2 emission charges

[5] Simplified free cash flow = EBITDA excluding special items - capital expenditures

[6] Net debt = Long and short term financial loans + Liabilities for received advances + Accruals + Provisions – Cash and cash equivalents – Given loans and deposits – Other financial assets; restatement of comparable previous periods was made – see on page 8

[7] Net gearing = Net debt / (net debt plus equity)

[8] In converting HRK figures into EUR, the following average CNB (HNB) rates were used: for 2018 – 7.41 HRK/EUR; 2019 – 7.41 HRK/EUR; as at December 31st, 2018 – 7.42 HRK/EUR; as at December 31st, 2019 – 7.44 HRK/EUR

Group Status report for the year 2019

Petrokemija Group increased its sales revenues in 2019 by 17% to HRK 2,120 mln, mainly driven by significantly higher sales on domestic and regional market. EBITDA excluding special items increased to HRK 331 million due to higher production, higher sales volumes on more profitable markets and lower gas prices in European markets.

CAPEX amounted to HRK 24 million, which is lower compared to 2018 as two-year overhaul was performed in 2018. Net debt significantly decreased and amounted to HRK 396 million at the end of 2019 with the gearing rate at 52%, as a result of financial result in 2019.

Production and sales

Fertilizers production (kt)	**2018**	**2019**	**%**
Fertilizers	1,034	1,135	10
Fertilizers sales (kt)	2018	2019	%
Domestic market	292	340	16
Export	737	788	7
Total fertilizers sales (kt)	**1,029**	**1,128**	**10**

Main external parameters

	2018	**2019**	**%**
Natural gas price* (EUR/MWh)	23.01	14.75	(36)
CO2 European Emission Allowances-EUA** (EUR/unit)	24.63	24.93	1
HRK/USD average	6.28	6.62	5
HRK/USD closing	6.47	6.65	3
HRK/EUR average	7.41	7.41	0
HRK/EUR closing	7.42	7.44	0

**CEGH market data – period average*

*** EEX market data – period closing*

Performance 2019 vs. 2018

KEY DRIVERS

- Plant operated with high utilization of all units, achieving 101 kt higher total production compared to 2018 in which two-year overhaul was performed
- Higher total sales volumes on domestic market (16%) and export markets (7%) with increasing sales on regional and decreasing sale on spot market
- Lower natural gas price as a result of lower gas prices in European markets

Performance 2019 vs. 2018 (continued)

In 2019 Petrokemija Group posted one of the strongest results in its history. We demonstrated our ability to transform into a sales driven company and capture the benefit of low gas prices in European markets delivering net profit in the amount of HRK 141 mln compared to HRK 474 mln net loss realized in the same period last year.

Considering results without special items, net profit for 2019 was HRK 209 mln as opposed to HRK 361 mln net loss in 2018. Special items imply, HRK 2 mln in 2019 and HRK 112 mln in 2018, negative effect of value adjustment of liabilities for CO2 emission charges, together with 2019 HRK 66 mln for severance payments.

Petrokemija Group operations in 2019 are positively impacted by both external and internal factors. Internally, strong sales on Croatian and regional markets, high production and implemented efficiency measures had positive impact on result. Externally, low gas prices in European markets had major impact, partially offset with higher CO2 emission charges. Fertilizers prices recorded no significant change compared to the same period last year.

We significantly improved our financial position bringing net debt and gearing to its lowest level in recent years, a lot of effort is made to be continually prepared for quick adjustments and to be able to successfully manage business in the environment of uncertainty and volatility.

Petrokemija Group Consolidated Statement of Profit or Loss

For the period ended 31 December 2018 and 2019

(HRK millions)

HRK mln	Note	2018	2019	%
Sales revenue	1	**1,817**	**2,120**	**17**
Income from own consumption of products and services		23	3	(89)
Other operating income		25	22	(15)
Total operating income		**1,866**	**2,145**	**15**
Inventory change of finished prod. and work in progress		5	67	1,297
Cost of raw materials and consumables	2	1,689	1,335	(21)
Depreciation and amortization	5	91	100	11
Other material costs	2	72	52	(27)
Staff costs	6	199	188	(5)
Cost of other goods sold		10	20	105
Other costs	4	184	204	11
Impairment and charges		25	11	(55)
Provisions for charges and risks	3	7	5	(34)
Operating expenses		**2,281**	**1,982**	**(13)**
Profit/(Loss) from operations		**(416)**	**162**	**n.a.**
Finance income		16	3	(82)
Finance costs		73	25	(67)
Net (loss) / profit from financial activities	7	**(58)**	**(22)**	**(62)**
Profit/(Loss) before tax		**(474)**	**141**	**n.a.**
Profit/(Loss) for the year		**(474)**	**141**	**n.a.**

Petrokemija Group Consolidated Statement of Financial Position

At 31 December 2019
(HRK millions)

HRK mln	Note	31 Dec 2018	31 Dec 2019	%
Assets				
Non-current assets				
Intangible assets		3	2	(35)
Property, plant and equipment	9	699	625	(11)
Investment in subsidiaries		0	0	0
Other investments		0	0	0
Long-term receivables		0	0	0
Deferred tax		0	0	0
Total non-current assets		**702**	**627**	**(11)**
Current assets				
Inventories	10	300	226	(25)
Trade receivables net	11	16	40	155
Other receivables		65	36	(45)
Given loans and deposits		348	343	(1)
Other current assets		27	98	262
Prepaid expenses and accrued income		16	38	143
Cash and cash equivalents		11	42	287
Total current assets		**783**	**823**	**5**
Total assets	8	**1,485**	**1,450**	**(2)**
Equity and liabilities				
Capital and reserves				
Share capital		550	550	0
Capital reserves		154	(0)	n.a.
Other reserves		(0)	(0)	0
Retained earnings / (Deficit)		(2)	(321)	n.a.
Current earnings / (Deficit)		(474)	141	n.a.
Non-controlling interests		2	1	(34)
Total equity		**231**	**371**	**61**
Non-current liabilities				
Long-term loans		460	183	(60)
Other non-current liabilities		0	0	0
Employee benefits provisions		12	13	2
Other provisions		8	10	18
Total non-current liabilities		**480**	**205**	**(57)**
Current liabilities				
Bank loans and overdrafts		133	384	188
Trade payables	13	310	145	(53)
Taxes and contributions		8	21	160
Other current liabilities	14	114	66	(42)
Accruals and deferred income		197	233	19
Employee benefits obligation		12	25	118
Total current liabilities		**774**	**875**	**13**
Total liabilities	12	**1,254**	**1,080**	**(14)**
Total equity and liabilities		**1,485**	**1,450**	**(2)**

Petrokemija Group Consolidated Statement of Cash Flow

For the period ended 31 December 2018 and 2019
(HRK millions)

HRK mln	Note	2018	2019	%
Profit for the year		**(474)**	**141**	**n.a.**
Adjustments for:				
Depreciation and amortization		91	100	11
Gain on sale of property, plant, equipment and impairments		4	2	(51)
Other finance expense/(income) recognized in profit		64	21	(68)
(Decrease)/increase in provisions		(0)	2	n.a.
Foreign exchange loss/(gain)		(6)	(2)	(71)
Other non-cash items		21	7	(67)
Operating cash flow before working capital changes	15	**(300)**	**271**	**n.a.**
Movements in working capital	16	485	(106)	n.a.
Decrease/(increase) in inventories		(32)	67	n.a.
Decrease/(increase) in receivables and prepayments		(9)	2	n.a.
(Decrease)/increase in trade and other payables		526	(175)	n.a.
Cash generated from operations		**185**	**165**	**(11)**
Interest expense (net)		(64)	(17)	(74)
Net cash inflow from operating activities		**121**	**148**	**22**
Cash flows used in investing activities				
Capital expenditures		(118)	(26)	(78)
Interest on loans, net		0	0	0
Investments and loans to third parties, net		0	2	n.a.
Net cash used for investing activities	17	**(118)**	**(24)**	**(80)**
Cash flows from financing activities				
Issuing of own and debt financial instruments		450	0	n.a.
Repayment borrowings, net		(103)	(28)	(73)
Other financing activities		0	0	0
Net cash used in financing activities		**347**	**(28)**	**n.a.**
Net (decrease)/increase in cash and cash equivalents*		351	97	(72)
At 1 January		35	386	1,001
Effect of foreign exchange rate changes		0	0	0
At the end of period		386	483	25

**Cash equivalents include short-term deposits (under 3 months)*

Financial overview and notes

STATEMENT OF PROFIT OR LOSS

Notes **2019 RESULTS** (1)

1 **Total sales revenues** in 2019 amounted to HRK 2,120 million and were 17% higher than 2018, triggered mainly by higher sale volumes on domestic and regional market, partially offset with lower sales on spot market.

2 **Costs of raw materials, consumables and other material costs** were 21% lower than in 2018, at HRK 1,388 million, mainly due to lower natural gas cost.

3 **Provisions** in 2019 were recorded in the amount of HRK 5 mln, while in 2018 provisions in the amount of HRK 7 mln were made and refer mainly to remediation and staff cost.

4 Other **operating costs** realized in 2019 are 11% above the 2018 level. Among them in 2019 most significant are the cost of severance payments and the cost of CO_2 emissions (EUA), while in 2018, the most significant cost is the value adjustment for CO_2 emission fees.

5 **Depreciation** in the amount of HRK 100 million was 11% higher compared to 2018.

6 **Staff costs** in the amount HRK 188 million were 5% lower compared to 2018.

7 **Net result from financial activities** is negative in 2019 and amounts to HRK 22 million while in 2018 it was negative by HRK 58 million.

- Net foreign exchange loss was HRK 2 million in 2019 while in 2018 net foreign exchange gain was HRK 6 million.
- Net interest payable amounted to HRK 20 million in 2019 while in 2018 net interest payable amounted to HRK 64 million.

STATEMENT OF FINANCIAL POSITION

Notes

8 As at 31st December 2019 Petrokemija Group **total assets** amounted to HRK 1,450 million, 2% lower compared to 31st December 2018.

9 In the period ended 31st December 2019, Petrokemija invested HRK 24 million in **property, plant and equipment**. The effect of depreciation reduced net book value of property, plant and equipment to amount of HRK 625 million.

10 **Inventories** amounted to HRK 226 million, and have decreased by 25% compared to 31st December 2018 mainly as a result of higher finished product sales compared to production.

11 **Trade receivables** increased to HRK 40 million.

12 As at 31st December 2019. **total liabilities** amounted to HRK 1,080 million which is 14% or HRK 175 million lower compared to 31st December 2018. Petrokemija Group **net debt** (2) decreased by 25% compared to 31st December 2018 and amounted to HRK 396 million. **Gearing ratio** decreased from 70% as at 31st December 2018, to 52% as at 31st December 2018.

13 **Trade payables** decreased by 53% to HRK 145 million, as a result of lower liabilities for raw materials and consumables.

14 **Other current liabilities** decreased by 42% to HRK 66 million, out of which liabilities for advance payments decreased from HRK 105 mln to HRK 57 mln.

Financial overview and notes (continued)

CASH FLOW

Notes

15 The **operating cash-flow before changes in working capital** amounted to HRK 271 million in 2019 representing an increase of HRK 571 million compared to 2018, which is in line with the change in EBITDA performance compared to the previous year.

16 **Changes in working capital** affected the operating cash flow negatively by HRK 106 million in 2019, due to:

- decreased value of inventories by HRK 67 million mainly related to higher sales then production and consequently lower inventories of finished products
- decrease in receivables by HRK 2 million
- decrease in trade and other payables by HRK 175 million as a result of lower liabilities for raw materials and consumables.

17 **Net outflows from investing activities** amounted to HRK 24 million, which is lower compared to 2018 as two-year overhaul was performed in 2018.

Restatement

(1) During 2019, Petrokemija adjusted its accounting policy for the treatment of greenhouse gas emission allowances and related items of assets and liabilities, adopting the gross presentation principle. According to the new policy and a gross basis presentation, obligation to buy emission allowances are reported separately from the amount of purchased allowances that are on standby at the reporting date, which is shown as short-term assets. Furthermore, changes in the unit prices of emission units are recorded in the Profit and Loss account within operating costs while previously shown within the financial costs.

The specified change in accounting policy resulted in a correction of the previous year 2018 in the form of reclassification of amount of HRK 112 million from financial costs in the operating costs and simultaneous recognition of short-term assets related to purchased emission allowances in the amount of HRK 16 million and increase of short-term liability for the purchase of emission units in the same amount. On 31 December 2019, Petrokemija has recognized a total of HRK 38 million of assets on the basis of purchased allowances within prepaid expenses and accrued income. Comparative amounts for the Profit and Loss account the fourth quarter of 2018 have also been restated to the amount of HRK 20 million reclassified from financial to operating costs. This change in accounting policy had no effect on the net result, the net assets, nor the cash flow statement and statement of changes in equity for the previous period.

(2) Petrokemija adjusted its Net debt methodology to better align the reporting to standard of company owners and other listed companies, with Net debt now being calculated as Long and short term financial loans + Liabilities for received advances + Accruals + Provisions – Cash and cash equivalents – Given loans and deposits – Other financial assets

Special items in EBITDA, operating and net profit

In addition to international accounting standards, international reporting standards and regulatory requests the company discloses special items to achieve a higher level of transparency and to provide better understanding of the usual business operations. Business events not occurring regularly and having significant effect on operations and results are considered as special items. Furthermore, in accordance with the adopted accounting policies and IFRS 36 – Impairment of Assets, Petrokemija Group performs impairment testing at the end of each reporting period if impairment indicators are assessed to be significant.

In 2019 EBITDA, Operating and net profit were negatively impacted by HRK 66 mln of special items related to severance payments and by HRK 2 mln value adjustment of liabilities for CO2 emission charges, in 2018 EBITDA, Operating and net loss was negatively impacted by HRK 112 mln value adjustment of liabilities for CO2 emission charges.

Financial instruments

As of 31st December 2019 Petrokemija, had credit debt of HRK 564 million, out of which HRK 383 million is related to short-term debt and HRK 181 million relates to long-term debt, HRK 125 million relates to Banks and others, while HRK 439 million relates to debt to gas suppliers (HEP, INA and PPD). Average interest rate during the 2019 was 3.56% per annum.

Risks

The Management is closely watching the development of the COVID-19 situation and implements the relevant recommendations of the Croatian Institute for Public Health to preserve the health and safety of the Company's employees. The Management is also continuously working to assess the impact of the pandemic on the Company's operations.

During the first three months the demand for mineral fertilizers was in line with the initial plan for Q1-2020. The market price of the primary input, natural gas, is lower than expected for Q1-2020, similar to the reduction in the price of CO2 emissions per EEX. All these factors combined with the prices of mineral fertilizers which are relatively constant during Q1-2020 because of the expected inelasticity of food consumption and agricultural production suggest that the Company may be able to improve its liquidity and stabilize its financial position. The main risk posed by the COVID-19 pandemic relates to the potential destabilization of the distribution of fertilizers to customers given the quarantine and general disruptions in supply chains. But since pandemic measures include an exemption from general restrictions on the agricultural sector the Management does not expect to have a significant impact on the ability to distribute products to customers.

Currently the Management does not expect a significant drop in turnover given current demand and exemption from general restrictions on the agricultural sector, but the Management will re-examine this if new and more stringent import and export restrictions emerge in the near future.

Other risks are described in detail in audited Petrokemija Group Financial Statements for the year ended on 31st of December 2019.

Management representation

Petrokemija financial statements for 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS), i.e. they present fairly, in all material aspects, the financial position of the company, results of its operations and cash flows.

Mr. Krešimir Rendeli's mandate as MB member ceased on January 31st of 2019. Mr. Željko Marić, has been appointed member of the management board in charge of production and operations as of February 1st, 2019.

Mr. Goran Pleše's mandate as MB member ceased on December 31st of 2019. Mr. Juraj Kojundžić, has been appointed member of the management board in charge of finance as of January 1st, 2020.

Davor Žmegač *President of the Management Board*	**Željko Marić** *Member of the Management Board*	**7 April 2020** Aleja Vukovar 4 Kutina, Croatia
Juraj Kojundžić *Member of the Management Board*	**Peter Suba** *Member of the Management Board*	PETROKEMIJA, d. d. KUTINA, Aleja Vukovar 4 (1)

Petrokemija d.d. and its subsidiaries
Corporate Governance Statement

General information

The Group and its subsidiaries adhere to the objectives and guidelines of the corporate governance code and the principles contained therein in accordance with laws and regulations of the Republic of Croatia and national best practices. The aim of such corporate governance is to ensure effective and transparent distribution of the roles and responsibilities of its corporate bodies, proper balance of strategic supervision, management and control functions with emphasis on risk management, protection of assets and reputation. The business strategy, corporate policy, key corporate regulations and business practice are all geared towards creating a transparent and efficient operations while forging solid bonds with the local community.

The Group's shares are listed on the official market of the Zagreb Stock Exchange, and the Group has complied with the Zagreb Stock Exchange Corporate Governance Code. The Group adheres to and implements the prescribed corporate governance measures (as reported in detail in the published annual questionnaire of the Zagreb Stock Exchange). The major shareholders according to the Central Depository and Clearing Company data are listed in the table "Ownership structure" in the Share capital note.

The Companies Act and the Company's Articles of Association define the General Assembly's authority and prescribe how it meets and works. The meeting invitation, proposed and adopted resolutions are made public according to the provisions of the Group's Articles of Association, Companies Act, Capital Market Act and the Zagreb Stock Exchange Rules. There is a time limit related to the voting right at the General Assembly: pursuant to the provisions of the Companies Act, shareholders are required to register their participation within the prescribed time limit in order to attend the General Assembly. Under no circumstances can the rights arising from securities be separated from holding the securities. There are no securities with special rights nor are there any limitations to voting rights (one share, one vote).

The Group's Articles of Association comply with the Croatian Companies Act and they define the procedure of appointing and recalling members of the Management Board and Supervisory Board. There are no limitations based on gender, age, education and profession or similar. The Management Board' authority fully complies with the Companies Act.

Corporate governance structure

In accordance with the Companies Act and the Group's Articles of Association, the bodies of the Group are the General Assembly, the Supervisory Board, and the Management Board. The mentioned acts also regulate their duties and responsibilities.

General Assembly

The Group's General Assembly decides on issues stipulated by law and by the Group's Articles of Association and, inter alia, it adopts the Articles of Association, decides on the allocation of profits, decides on the increase and reduction of share capital, appoints and relieves of duty members of the Supervisory Board, relieves of duty members of the Management Board and of the Supervisory Board, appoints the external auditor of the Company, and also performs other tasks in compliance with the law and the Group's Articles of Association.

Supervisory Board

The Supervisory Board of the Group supervises the conduct of business affairs in the Group. With this end in view, it reviews and examines the Group's business accounts and documentation. The Supervisory Board submits to the General Assembly a written report on the supervision exercised with respect to the conduct of business affairs in the Group. The Supervisory Board consists of seven members. As a general rule, regular Supervisory Board meetings are held quarterly. The Supervisory Board may decide on important and urgent matters in meetings held by letter. As at the date of preparation of this report and as at 31/12/2019, Members of the Supervisory Board are as follows:

Sandor Fasimon, President

Sabina Škrtić, Vice-president

Gabor Horvath, Member

Pavao Vujnovac, Member

Tomislav Pokaz, Member

Mijo Šepak, Member

Željko Klaus, Member

During 2019 there have been no changes to the Supervisory Board membership structure.

Audit Committee

In line with the Group's Articles of Association, the Group's Supervisory Board established the Audit Committee whose work is governed by the Audit Committee Charter.

The Audit Committee, appointed in accordance with the law, consisted of three members during the previous year, all of whom were also members of the Supervisory Board. During 2019, six meetings of the Audit Committee were held. The Audit Committee assisted the Supervisory Board in carrying out its duties related to the supervision of the financial reporting process, the audit process (including the recommendation of the General Assembly for the election of the external auditor), as well as compliance with laws, regulations, rules and the code of ethics.

The Supervisory Board, with the help of the Audit Committee, monitored the adequacy of the internal control system, which is achieved through three independent control functions (internal audit, risk control, compliance), and in order to establish such a system of internal controls that will enable early detection and monitoring of all risks to which the Group is exposed in its operations.

During the whole year 2019, the Audit Committee had the following membership:

Sabina Škrtić	President
Gabor Horvath	Member
Tomislav Pokaz	Member

Management Board

The Management Board conducts business operations of the Group. The Management Board consists of four members. Members are generally appointed to office for up to five years and entrusted with the responsibility for a specific business area. The Management Board regularly meets to reach management decisions. Members of the Management Board as at the date of this Annual Report and during the reporting period are as follows:

Davor Žmegač	President
Krešimir Rendeli	Member until 31 January 2019
Goran Pleše	Member until 31 December 2019
Peter Suba	Member
Željko Marić	Member from 1 February 2019
Juraj Kojundžić	Member from 1 January 2020

Petrokemija d.d. and its subsidiaries
Corporate Governance Statement (*continued*)

Key elements of the systems of internal controls and risk management relating to financial reporting for the Company and the Group

The Company's and the Group's overall control systems include:

- appropriate organizational structure at all levels with segregation of duties and defined authority limits and reporting mechanisms to higher levels of management;
- internal controls integrated into business processes and activities;
- accounting and administrative policies and procedures within the scope of the control functions relating to key risks;
- corporate governance model consisting of a Management Board and Supervisory Board;
- Management Board with responsibility for policies in core business areas;
- reconciliation of data, consolidated into the Group's financial statements, giving a true and fair view of the financial position of the Company and the Group. A review of the consolidated data is undertaken by the Management Board to ensure that the financial statements have been prepared in accordance with relevant legislation and approved accounting policies;
- Code of Conduct establishing the basic standards of conduct of the members of the Management Board and supervisory bodies, as well as employees and external collaborators who are, within their roles, obliged to perform their duties in the interest of the Company and the Group, and their shareholders in a diligent, proper, just and professional manner.

The basis of the Company's and the Group's internal control system is the internal policy that defines the basic principles and structure of internal control and duties of those responsible for internal control, which contributes to proper corporate governance and improved business transparency ensuring safe and stable operations in accordance with regulatory requirements.

The main features are as follows:

- comprehensive set of accounting policies and procedures relating to the preparation of the annual financial statements in line with International Reporting Standards adopted by the EU;
- the Group's Internal Audit that oversees the overall operations in order to assess the adequacy of the established system of internal controls;
- Department for Administrative and Financial Management that ensures the reliability of accounting and financial reporting, and of controlling and protecting the system of internal controls for the preparation of financial information;
- Annual Report subject to detailed review and approval through a structured governance process involving senior and executive finance personnel.

The Group defined the process of preparing and disclosing financial statements in a detailed internal document. In order to monitor and mitigate the said risks, the Group uses the measures described in the *Risk Management* note to the financial statements.

Davor Zmegač
President of the Management Board

Željko Marić
Member of the Management Board

Juraj Kojundžić
Member of the Management Board

Peter Suba
Member of the Management Board

7 April 2020
Aleja Vukovar 4
Kutina, Croatia

PETROKEMIJA, d. d.
KUTINA, Aleja Vukovar 4 (1)

Petrokemija d.d. and its subsidiaries
Statement of Management's responsibility

The Management Board of Petrokemija d.d. ("the Company") is required to prepare the consolidated financial statements for each financial year which give a true and fair view of the financial position of the Company and its subsidiaries ("the Group") and of the consolidated results of its consolidated operations and its cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform to applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent and prepare the separate financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

As described in detail in note 2.4, the Management Board expects that the Group will ensure adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board adopts the going concern basis in preparing consolidated financial statements.

If for any reason the Group is unable to continue as a going concern, then this could have an impact on the Group`s ability to realize assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the separate financial statements. These financial statements do not include the possible effects, which would result from the Group's inability to continue operating as a going concern.

The Management Board is also responsible for the preparation and content of the Management Report and the Statement on the implementation of corporate governance code, as required by the Croatian Accounting Act.

The consolidated financial statements were authorised for issue and signed by the Management Board on 7 April 2020 and submitted to the Supervisory Board for adoption. The annual consolidated financial statements were then submitted to the General Assembly for approval.

The separate financial statements of the Company and the Annual Report on the Company are published separately and issued simultaneously with the annual consolidated financial statements. The Company will separately issue a Non-financial statement relating to the same period which will include information mandatory by the Accounting Act.

Davor Zmegač
President of the Management Board

Željko Marić
Member of the Management Board

Juraj Kojundžić
Member of the Management Board

Peter Suba
Member of the Management Board

7 April 2020
Aleja Vukovar 4
Kutina, Croatia

PETROKEMIJA, d. d.
KUTINA, Aleja Vukovar 4 1

Independent Auditors' Report to the Shareholders of Petrokemija d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Petrokemija d.d. ("the Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position of the Group as at 31 December 2019, and the consolidated statements of comprehensive income, cash flows and changes in equity of the Group for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - comparative information

We draw attention to Note 7 to the financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2018 has been restated. Our opinion is not modified in respect of this matter.

Other Matter relating to comparative information

The financial statements of the Group as at and for the year ended 31 December 2018, excluding the adjustments described in Note 7 to the financial statements, were audited by another auditor whose report dated 3 April 2019 included an unqualified audit opinion on those financial statements.

As part of our audit of the financial statements as at and for the year ended 31 December 2019, we audited the adjustments described in Note 7 that were applied to restate the comparative information presented as at and for the year ended 31 December 2018 and the statement of financial position as at that date. We were not engaged to audit, review, or apply any procedures to the financial statements for the year ended 31 December 2018, other than with respect to the adjustments described in Note 7 to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 7 are appropriate and have been properly applied.

This version of the auditors' report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the auditors' report takes precedence over this translation

Independent Auditors’ Report to the Shareholders of Petrokemija d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Carrying amounts of property, plant and equipment

The carrying amount of property, plant and equipment (PPE) as at 31 December 2019 is HRK 625,065 thousand with related depreciation charge for the year of HRK 99,224 thousand.

Refer to accounting policy 3.5 and note 15 to the financial statements.

Key audit matter	How we addressed the matter
The Group’s reported property, plant and equipment with a total carrying amount of HRK 625 million comprises mostly the main production facility in Kutina. During the year ended 31 December 2019, additions to PPE of HRK 28 million included HRK 3 million relating to capitalized own costs. Identification of such costs and their amount as well as the determination of whether they satisfy the capitalization criteria generally involves more complex assumptions. Depending on its nature, expenditure relating to fixed assets may be capitalised as PPE or expensed as incurred. In making this decision management have to consider, inter alia, whether the expenditure will generate future economic benefits which necessarily involves judgment, for example in determining whether activities or items are adding value or maintaining existing assets. Useful lives of PPE are reviewed annually and judgement is applied primarily taking into consideration technical factors which may affect the useful life expectancy of assets.	With respect to capitalisation of PPE, we have performed the following procedures, amongst others: ▪ Assessed the capitalisation policies for compliance with relevant accounting standards ▪ On a sample of items, we traced capitalised amounts to underlying supporting documentation (e.g. invoices). ▪ Assessed the reasonableness of useful lives applied by the Group by reference to useful lives applied by companies in the same industry, as well as through inquiries with relevant technical personnel. ▪ Inspected a sample of transactions for disposal of PPE in order to assess whether significant gains or losses on disposal were recognised and whether such gains or losses are indicative of the depreciation rates not reflecting the actual useful lives of those assets. ▪ Challenged the amounts of own costs capitalised by reference to budgeted figures and our understanding of the nature of the work performed.

Carrying amounts of property, plant and equipment *(continued)*

Key audit matter	How we addressed the matter
Furthermore, the volatility of the industry segment the Group operates and its significant dependence on changes in several key factors (such as market prices of fertilizers and natural gas), increases uncertainty in assessing whether the carrying amounts of the property, plant and equipment are recoverable. As required by relevant financial reporting standards, individual items of property, plant and equipment or cash generating units (CGUs) for which impairment indicators exist are required to be tested by the Group for potential impairment. Any such impairment would be recognised in the amount by which the carrying amount of the asset (or a related CGU) exceeds its recoverable amount. The estimation of the recoverable amount of these assets, which is generally considered to be their value in use (based on discounted cash flow models) or, in some cases fair value less costs to sell, relies on significant judgments and assumptions about the future, including: future profitability growth, capital expenditure, working capital, inflation and the most appropriate discount rate. These projections are exposed to significant variability due to changing market conditions. Therefore, assessments related to useful lives of assets, capitalisation policies, fair values and impairment testing of property, plant and equipment are determined to be a key audit matter.	With respect to impairment risk, we have performed the following procedures, amongst others: ▪ Reviewed the Group's controls over the identification of impairment triggers; ▪ Assessed the appropriateness of the Group's judgments regarding identification of assets or CGUs which may be impaired; ▪ Assessed the appropriateness of allocation of assets to CGUs; ▪ Critically assessed the Group's assumptions and estimates used to determine the recoverable amounts of property, plant and equipment and any impairment losses recognised, using our own valuations specialists. This included: - challenging management's assessment of the projected financial performance by comparing actual results to the prior periods' budgeted figures as well as to forecasts for future periods; - testing the integrity of the model, including its mathematical accuracy, and evaluating the key assumptions applied (such as forecast sales volumes, market prices of fertilizers and natural gas in the forthcoming period) for reasonableness compared to both externally derived data and historical financial performance; - compared key assumptions made by management with respect to expected capital expenditure included in the model with the existing capital commitments and historical capital expenditure levels; ▪ Assessed the Group's analysis of the sensitivity of the impairment tests' results, in particular in respect of the assumptions with the greatest potential effect on the test results, e.g. those related to discount rates; ▪ Evaluated the adequacy and completeness of disclosures in respect of impairment.

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Independent Auditors' Report to the Shareholders of Petrokemija d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Other Information

Management is responsible for the other information. The other information comprises the Management Report and Corporate Governance Statement included in the Annual Report of the Group, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report and Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Articles 21 and 24 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

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

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

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

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

Independent Auditors’ Report to the Shareholders of Petrokemija d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ 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 International Standards on Auditing 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 financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the 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 auditors’ report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors’ Report to the Shareholders of Petrokemija d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors’ Responsibilities for the Audit of the Financial Statements (continued)

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 4 June 2019 to audit the consolidated financial statements of Petrokemija d.d. for the year ended 31 December 2019. Our total uninterrupted period of engagement is one year, covering the period ending 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 7 April 2020;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors’ report is Igor Gošek.

KPMG

KPMG Croatia d.o.o. za reviziju **7 April 2020**
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

KPMG Croatia d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
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Petrokemija d.d. and its subsidiaries

Consolidated statement of comprehensive income

for the year ended 31 December 2019

(in thousands of HRK)	*Note*	**2019**	*Restated** 2018
Revenue from sales	*8*	**2,120,455**	1,817,159
Other income	*9*	**24,315**	48,571
Total operating income		**2,144,770**	1,865,730
Change in inventory of finished goods and work in progress		**(66,979)**	(4,795)
Raw materials, consumables and services used	*10*	**(1,407,208)**	(1,770,554)
Staff costs	*11*	**(188,362)**	(199,271)
Depreciation and amortisation	*15, 16*	**(100,474)**	(90,874)
Other operating expenses	*12*	**(219,466)**	(215,866)
Total operating expenses		**(1,982,489)**	(2,281,360)
Operating profit/(loss)		**162,281**	(415,630)
Finance income	*13*	**2,816**	15,579
Finance expenses	*13*	**(24,567)**	(73,451)
Net finance costs		**(21,751)**	(57,872)
Profit/(loss) before tax		**140,530**	(473,502)
Income tax	*14*	**5**	(9)
Profit/(loss) for the period		**140,535**	(473,511)
Other comprehensive income:			
Exchange differences on translation of foreign operations		**-**	39
Total comprehensive profit/(loss)		**140,535**	(473,472)
Profit/(loss) attributable to:			
Equity holders of the parent		**141,203**	(472,490)
Non-controlling interests		**(668)**	(1,021)
Total comprehensive profit/(loss) attributable to:			
Equity holders of the parent		**141,203**	(472,451)
Non-controlling interests		**(668)**	(1,021)
Profit/(loss) per share (in HRK):			
- Basic and diluted	*24*	**2.57**	(16.51)

*For restatement details see Note 7.

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

Petrokemija d.d. and its subsidiaries

Consolidated statement of financial position

as at 31 December 2019

(in thousands of HRK)	*Note*	**31/12/2019**	*Restated** 31/12/2018
ASSETS			
Non-current assets			
Property, plant and equipment	*15*	**625,065**	698,909
Intangible assets	*16*	**2,182**	3,375
Deferred tax assets		**150**	142
Non-current financial assets	*18*	**10**	10
		627,407	702,436
Current assets			
Inventories	*19*	**225,579**	299,849
Trade and other receivables	*20*	**77,067**	81,351
Current financial assets	*18*	**440,808**	375,135
Other current assets	*21*	**37,556**	15,544
Cash and cash equivalents	*22*	**42,054**	10,872
		823,064	782,751
Total assets		**1,450,471**	1,485,187
EQUITY AND LIABILITIES			
Equity			
Share capital	*23*	**550,287**	550,287
Reserves		**(238)**	153,547
Accummulated losses		**(180,450)**	(475,088)
Attributable to owners of the Company		**369,599**	228,746
Non-controlling interest		**1,280**	1,948
		370,879	230,694
Non-current liabilities			
Loans and borrowings	*25*	**182,579**	459,642
Provisions	*26*	**22,423**	20,653
		205,002	480,295
Current liabilities			
Loans and borrowings	*25*	**383,789**	133,401
Trade and other payables	*27*	**266,565**	450,762
Other current liabilities	*28*	**224,236**	190,035
		874,590	774,198
Total equity and liabilities		**1,450,471**	1,485,187

*For restatement details see Note 7.

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

Petrokemija d.d. and its subsidiaries

Consolidated statement of changes in equity

for the year ended 31 December 2019

(in HRK thousands)	Share capital	Other reserves	Accumulated losses	Foreign currency translation reserve	Attributable to owners of the Company	Non-controlling interest	Total equity
As at 1 January 2018	**42,904**	**3,912**	**(245,126)**	**-**	**(198,310)**	**2,969**	**(195,341)**
Comprehensive income							
Loss for the period	**-**	-	(472,489)	-	**(472,489)**	(1,021)	**(473,510)**
Other comprehensive income	**-**	-	-	39	**39**	-	**39**
Total comprehensive income	**-**	**-**	**(472,489)**	**39**	**(472,450)**	**(1,021)**	**(473,471)**
Adjustment	**-**	**-**	(90)	-	(90)	-	(90)
Increase in share capital by transfer of CERP/RH (Note 23)	450,000	-	-	-	450,000	-	450,000
Simplified transfer (Note 23)	(392,617)	150,000	242,617	-	-	-	-
Increase in share capital by issue of shares (Note 23)	450,000	-	-	-	450,000	-	450,000
Recapitalisation costs	-	(401)	-	-	(401)	-	(401)
Profit reserves	-	(3)	-	-	(3)	-	(3)
As at 31 December 2018	**550,287**	**153,508**	**(475,088)**	**39**	**228,746**	**1,948**	**230,694**
As at 1 January 2019	**550,287**	**153,508**	**(475,088)**	**39**	**228,746**	**1,948**	**230,694**
Comprehensive income							
Profit for the period	**-**	**-**	**141,116**	**87**	**141,203**	**(668)**	**140,535**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income	**-**	**-**	**141,116**	**87**	**141,203**	**(668)**	**140,535**
Transfers	-	(153,522)	153,522	-	-	-	-
Recapitalisation costs	-	(350)	-	-	(350)	-	(350)
As at 31 December 2019	**550,287**	**(364)**	**(180,450)**	**126**	**369,599**	**1,280**	**370,879**

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

Petrokemija d.d. and its subsidiaries

Consolidated statement of cash flows

for the year ended 31 December 2019

(in thousands of HRK)	***Note***	**2019**	2018
Profit/(loss) before tax		**140,530**	(473,502)
Depreciation and amortization	*15, 16*	100,474	90,874
Gains and losses on sale and impairment of tangible and intangible assets		1,945	4,066
Gains and losses on sale and impairment of financial assets	*12*	55	61
Impairment of inventory	*12*	6,935	20,853
Interest and dividend income	*13*	(125)	(2)
Interest expense	*13*	20,745	64,054
Net increase/(reversal) of provisions		1,770	(213)
Foreign exchange differences - net		(1,772)	(6,015)
Other adjustments for non-cash transactions and unrealized profits and losses		-	(39)
Changes in working capital:		**270,557**	(299,863)
Decrease in inventories		67,335	(32,058)
Decrease/(increase) in trade and other receivables		1,993	(8,507)
Increase in trade and other payables		(174,940)	525,541
Cash generated from operations		**164,945**	185,113
Income tax paid		-	-
Interest paid		(16,718)	(63,674)
Net cash from operating activities		**148,227**	121,439
Cash flows from investing activities			
Purchase of property, plant, equipment and intangibles	*15, 16*	(25,734)	(117,639)
Interest and dividend received		460	70
Proceeds from sale of property, plant, equipment		1,655	-
Net cash from investing activities		**(23,619)**	(117,569)
Cash flows from financing activities			
Proceeds from borrowings		-	996
Repayment of borrowings		(28,041)	(103,920)
Other cash inflows from financing activities		288	-
Issue of shares	*23*	-	450,000
Net cash from financing activities		**(27,753)**	347,076
Net increase /(decrease) of cash and cash equivalents		**96,855**	350,946
Cash and cash equivalents at beginning of year		10,872	29,311
Short term deposits and money market funds at beginning of year		375,135	5,750
Total at beginning of year for purposes of cash flow statement		**386,007**	35,061
Cash and cash equivalents at end of year		42,054	10,872
Short term deposits and money market funds at end of the year		440,808	375,135
Total at the end of year for purposes of cash flow statement	*22*	**482,862**	386,007

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

1 General information

The Petrokemija d.d. Fertilizers Factory (hereinafter “the Company”) was founded in 1965, although the beginning of the sooth production dates back to 1926. Today the Group is registered at the Commercial Court in Zagreb under registration number 080004355 and personal identification number 24503685008. As at 31 December 2019, the Company’s share capital amounts to HRK 550,287 thousand and it is divided into 55,028,701 non-materialized ordinary shares at a nominal value of HRK 10 each. The Company’s shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in Note 23.

The Company and its subsidiaries as disclosed in note 17 together form the Group. The principal activities of the subsidiaries relate to port related services (Luka Šibenik d.o.o.), sale of fertilizers (Petrokemija Novi Sad d.o.o.), sale of clay produce (Tvornica Gline d.o.o.) and sale of industrial palettes (Tvornica paleta d.o.o.). Pursuant to the national classification of activities and along with the basic activity of producing mineral fertilizers registered at the Commercial Court Register in Sisak, the Group’s main activities are: production of feed additives, production of chemicals and chemical products, production of other rubber products, metal products, supply of electricity, gas, steam and hot water, collecting, purifying and distributing water, research and development in natural, technical and technological sciences. As at 31 December 2019, the Group employed 1,432 employees *(31 December 2018: 1,726 employees)*.

Company bodies

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

Management Board

Members of the Management Board during the reporting period and up to the date of approval of these financial statements were:

Davor Žmegač	President
Krešimir Rendeli	Member until 31 January 2019
Goran Pleše	Member until 31 December 2019
Peter Suba	Member
Željko Marić	Member from 1 February 2019
Juraj Kojundžić	Member from 1 January 2020

Supervisory Board

Members of the Supervisory Board of the Company are the following:

Sandor Fasimon,	President
Sabina Škrtić,	Vice-president
Gabor Horvath,	Member
Pavao Vujnovac,	Member
Tomislav Pokaz,	Member
Mijo Šepak,	Member
Željko Klaus,	Member

The General Assembly is the Company body in which shareholders realize their rights in the Company’s operations unless regulated differently under the law or the Company's Articles of Association. The General Assembly members are shareholders with voting rights.

2 Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

These consolidated financial statements represent those of the Group. The financial statements of the Group comprise the consolidated financial statements of the Group and its subsidiaries. The separate financial statements of the Company are also prepared in line with EU IFRSs and are published separately, on the same date as the consolidated financial statements.

These consolidated financial statements were authorised for issue by the Management Board on 7 April 2020.

2.2 Basis of measurement

The financial statements are prepared on the historical cost basis except where otherwise stated.

2.3 Functional and presentation currency

The financial statements are presented in the Croatian currency kuna ("HRK"), which is the Group's functional currency. All financial information presented is rounded to the nearest thousand.

2.4 Going concern

In the year ended 31 December 2019, the Group recognised a net profit after tax of HRK 140,535 thousand (*2018: net loss after tax of HRK 473,511 thousand*).

The Group has been continually carrying out a comprehensive set of measures of operational and financial restructuring in the context of a wider restructuring plan approved by the Supervisory Board. The restructuring plan which was aimed at long-term stabilisation and updated on several occasions, included, amongst other measures, the recapitalisation of the Group by strategic investors. As a result, the Group was successfully recapitalised in October 2018 via an increase of share capital by issuing new shares paid in cash in the amount of HRK 450,000 thousand with the most significant part relating to recapitalisation by Terra mineralna gnojiva d.o.o., the majority owner of the Group co-owned by Ina d.d. and PPD d.o.o. This increase in share capital ensured conditions required for the financial consolidation and stabilisation of business operations of the Group.

Favourable market conditions have further strengthened and stabilised the Group's liquidity position and profitability, particularly due to the fact that market prices of the Group's main production input, natural gas, remained at relatively low levels throughout 2019 while market prices of nitrogen-based fertilizers remained more or less constant. This favourable input/output price mix, resulted in the Group realising a substantial EBITDA and net profit in 2019. Based on this year's performance and market outlook, in respect of price expectation for both natural gas and nitrogen-based fertilizers, management concluded that there are no indications that the use of the going concern assumption in the preparation of the financial statements is inappropriate as at 31 December 2019. However, management still drives efforts to further increase operational efficiency and to ensure a long-term stable and robust financial position less dependent on changes in external factors. In this respect, management continues to closely monitor changes in key drivers of operational profitability, such as natural gas prices and prices of nitrogen-based fertilizer, and implement measures aimed at optimisation of business processes which include:

- Measures aimed optimising the sales structure such as:
    - increase in prices and exports to regional markets,
    - decrease in export to Mediterranean markets,
    - increase in sales of technical products (ADBlue, ammonia water and technical urea),
    - increase in sales of KAN/UAN in the region (more profitable products),
    - strengthening connections with farmers,

- Measure aimed at optimising operating expenses such as:
    - stricter controls and savings in the procurement process (lower prices),
    - more efficient processes by introducing IT systems in certain work processes,
    - changes in employee age structure and decrease in number of employees,
    - increase in production efficiency by investing in production plants.

2 Basis of preparation (continued)

2.4 Going concern (continued)

Although the Group has an excess of current liabilities over current assets in the amount of HRK 51,526 thousand as at 31 December 2019, a significant part of these short-term liabilities, HRK 224,236 thousand, relates to the liability for emission units that are mostly settled by units granted free of charge and thus do not affect the Group's short-term liquidity. Also, after the reporting date, the emission unit market prices have decreased which is expected to have a positive impact on the operations in 2020.

Furthermore, the current situation with the COVID 19 pandemic, based on the Group specific operations segment and the continuing favourable trends with natural gas and nitrogen fertilizer price and their demand, does not preliminary indicate changes in the operations that would affect the use of the going concern assumption. See note 33 for more details.

3 Significant accounting policies

The Group and all its subsidiaries have applied the accounting policies set out below consistently to all periods presented in these financial statements.

3.1 Basis of consolidation

The consolidated financial statements comprise the Group and its subsidiaries (together “the Group”).

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Negative goodwill that arises in case of a bargain purchase is recognised immediately in the profit and loss account. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss. If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree’s employees (acquiree’s awards), then all or a portion of the amount of the acquirer’s replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree’s awards and the extent to which the replacement awards relate to pre-combination service.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which the control was transferred to the Group until the date on which control ceases.

In its separate financial statements, the Group accounts for its investments in subsidiaries at cost less any impairment.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition. Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interests in subsidiaries are included in the total equity of the Group.

3 Significant accounting policies *(continued)*

3.1 Basis of consolidation(continued)

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity and reserves. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business, less accumulated impairment loss, if any. For the purposes of impairment testing, goodwill is allocated to each cash-generating unit (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.3 Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated into the functional currency at the foreign exchange rate ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and items that are measured in terms of historical cost of a foreign currency are retranslated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency at foreign exchange rates prevailing at the dates the fair values were determined.

Group companies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Income and expense items and cash flows of foreign operations are translated into the Group's presentation currency at rates approximating the foreign exchange rates ruling at the dates of transactions (average exchange rates for the year) and their assets and liabilities are translated at the exchange rates ruling at the year end. All resulting exchange differences are recognised in equity.

3 Significant accounting policies *(continued)*

3.4 Intangible assets

(i) Software licences and project documentation

Licences and project documentation are depreciated over their estimated useful lives. Estimated useful lives are reviewed annually and impairment reviews are undertaken if events occur which call into question the carrying values of the assets.

(ii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when they increase the future economic benefits embodied in the specific asset to which it relates and if these benefits will flow to the Group. All other expenditure is recognised in the profit or loss as an expense is incurred.

(iii) Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful life of each item of assets. Intangible assets are depreciated from the date on which they are available for use. The estimated useful lives of intangible assets are as follows:

Software and project documentation	3 – 5 years

3.5 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use, including the proportion of the related borrowing costs for property, plant and equipment incurred during the period of their construction.

Subsequent expenditure is recognised in the carrying amount of items of property, plant and equipment only when it increases the future economic benefits embodied in the item and if these benefits will flow to the Group. All other expenditure is recognised in the profit or loss as an expense is incurred.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment. Land and assets under construction are not depreciated. The estimated useful lives as follows:

Buildings	15 – 50 years
Plants and equipment	5 – 25 years
Tools and fittings	5 – 25 years

Depreciation methods and useful lives, as well as residual values, are reassessed annually.

3 Significant accounting policies *(continued)*

3.6 Financial instruments

Financial assets and financial liabilities disclosed in the accompanying financial statements consist of cash and cash equivalents, trading securities, trade and other receivables, trade and other payables, non-current receivables, loans, borrowings and investments. The accounting methods for the recognition and valuation of these items are disclosed in relevant accounting policies. Investments are recognised or derecognised on the transaction date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through the profit or loss. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables
Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at depreciated cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Effective interest method
The effective interest method is a method of calculating the depreciated cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash inflows through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Cash and cash equivalents
Cash and cash equivalents comprise bank balances, cash on hand and deposits and securities payable on demand or at the latest within a period of three months.

3 Significant accounting policies *(continued)*

3.7 Inventories

Inventories of raw materials and finished goods are stated at the lower of cost, determined using the weighted average cost method, and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of work in progress and finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Trading goods are carried at the lower of purchase cost and selling price (less applicable taxes and margins). Small inventory and tools are expensed when put into use.

Spare parts which are considered strategic are held as inventory until the date of installation when they are recognised as subsequent expenditure relating to respective items of plant and equipment and depreciated over their estimated useful life.

3.8 Impairment losses

(i) Financial assets

The Group recognises the allowance for expected credit losses for trade receivables. The amount of expected losses needs to be updated for every reporting date in line with the changes in credit risk in relation to those originally reported.

The expected credit losses for those financial assets are estimated with the help of a provision matrix based on the experience of credit loss from the previous period, while complying with the debtor-specific factors, general economic conditions and assessment of current and expected trend of conditions as at the reporting date, including, where appropriate, the time value of money.

When assessing whether the asset credit risk significantly increased, the Group considers both qualitative and quantitative appropriate and founded future-oriented information.

The financial asset's carrying amount is reduced following impairment through the use of an allowance account. In case of inability to collect trade receivables, these are written off against an allowance account. When receivables previously written off are collected, they are credited to income for the period.

(ii) Property, plant and equipment and intangible assets

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. If it is impossible to estimate the recoverable amount of an asset, the Group estimates the recoverable amount of the cash-generating unit the relevant amount belongs to. If it is possible to establish a real and consistent basis for allocation, the Group’s assets are also allocated to individual cash-generating units or, if this is not the case, to the smallest group of cash-generating units for which a real and consistent basis for distribution can be established.

3 Significant accounting policies *(continued)*

3.9 Employee benefits

(i) Defined pension fund contributions

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

(ii) Long-term employee benefits

The Group recognises a liability for long-term employee benefits (jubilee awards and regular retirement benefits) evenly in the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually by an independent actuary at the end of each reporting period using assumptions regarding the likely number of staff to whom the benefits will be payable, estimated benefit cost and the discount rate which is determined as the average expected rate of return on investments in government bonds.

(iii) Bonus plans

A liability for employee benefits is recognised in provisions based on the Group's formal plan and when past practice has created a valid expectation by the Management Board that they will receive a bonus and the amount can be determined before the time of issuing the financial statements.

Liabilities for bonus plans are expected to be settled within 12 months of the reporting date and are recognised at the amounts expected to be paid when they are settled.

3.10 Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.11 Revenue

Revenue from the sale of goods is recognised when the material risks and rewards of ownership are transferred to the buyer. Revenues are stated net of taxes, discounts, and volume rebates. Provisions for rebates to customers are recognised in the same period that the related sales are recorded, based on contract terms.

Revenue from services is recognised in the period in which services are provided in proportion to the stage of completion of the transaction at the reporting date.

3.12 Financial income and expenses

Financial income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains.

Interest income is recognised as it accrues, using the effective interest method.

Financial expenses comprise interest expense on borrowings, foreign exchange losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses from financial assets.

3 Significant accounting policies *(continued)*

3.13 Accounting for leases – where the Group is the lessee

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed below the new accounting policy for leases.

Policy applicable from 1 January 2019 under IFRS 16

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise of fixed payments, including in-substance fixed payments, variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date, amounts expected to be payable under a residual value guarantee, the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT and other office equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3 Significant accounting policies *(continued)*

3.13 Accounting for leases – where the Group is the lessee (continued)

Policy applicable until 1 January 2019 under IAS 17

Leases of property, plant and equipment and intangible assets where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other non-current liabilities. The interest element of the finance charge is charged to profit or loss over the lease period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the useful life of the asset.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

3.14 Share capital

Share capital consists of ordinary shares. Costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

3.15 Dividends

Dividends are recognised in the statement of changes in equity and recorded as liabilities in the period in which they are approved by the Group's owners.

3.16 Segment information

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group does not report segment information as internal reporting is not based on segmental information other than revenues per geographic market and products.

3 Significant accounting policies *(continued)*

3.17 CO_2 emission allowances

Emission allowances are classified as other current assets when they are intended for the settlement of current CO_2 emission obligations or are held as current assets held for trading if designated as such. Both purchased and granted emission units are recognised at fair value at initial purchase/grant date and are subsequently measured at amortised cost less impairment.

For emission units purchased on the ETS market are (EU's trading System for CO_2 emission allowances), the ETS market price at the purchase date represents their fair value at initial recognition. For emission units granted by the government, the ETS market closing price at the grant date is deemed as their fair value at initial recognition. Granted emission units are treated as a government grant and recognised at fair value at initial recognition with a corresponding entry recognised as deferred income. Deferred income in respect of emission units granted is released to profit and loss, on a straight-line basis throughout the compliance period for which the units are granted, an set-off against operating expenses related to the recognition of for emission liabilities.

Emission allowances are tested for impairment at each reporting date whereby an impairment loss is recognised if the carrying amount of emission allowances held exceeds their fair value measured by reference to the closing ETS market price at the reporting date. Impairment losses are recognised as a deduction in the carrying amount of the asset with a corresponding entry recognised as operating costs within profit or loss.

At the date of settlement of emission liabilities, the emission units recognised as current assets are derecognised with a corresponding derecognition of the emission liability. Any losses or gains upon derecognition of emission units is recognised in profit and loss within operating expenses related to emissions.

The liability for CO_2 emissions is recognised during the reporting period on a monthly basis whereby the amount of the liability recognised is equal to the amount of CO_2 units emitted, measured at the ETS market price at each month end. The liability for CO_2 emissions presented within other current liabilities while the corresponding expense is recognised within operating expenses. The liability for CO_2 emissions is remeasured at each reporting date at the current ETS market price except to the extent that it is expected to be settled with emission units already held by the entity in which case it is measure at the cost of purchase of any such units held.

3.18 Taxation

Current tax

Income tax is based on taxable income for the year and comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the date of the statement of financial position, and any adjustments to tax payable in respect of previous years. In 2019, the corporate income tax rate amounts to 18% (2018: 18%).

Deferred tax

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, as well as differences which refer to investing into subsidiaries and joint undertakings when it is probable that the relevant situation will not change in the near future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are recognised only to the extent that it is probable that they could be utilised as a tax benefit. Each reporting date the Group reassesses the unrecognised tax assets potential and the carrying amount of deferred tax assets recognised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets.

Tax exposures

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

4 Key accounting judgements and estimates

Key judgements in applying accounting policies

The preparation of financial statements in conformity with IFRS requires the Management Board to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and related assumptions are continuously reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by the Management Board in the application of accounting policies that have significant effect on the amounts recognised in the financial statements are discussed in a separate note. Key assumptions concerning the future on which significant estimates are based and other key sources of estimation uncertainty, which involve a significant risk of causing a material adjustment in the following year are disclosed below.

(i) Actuarial estimates used in determining liabilities for employee benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see Accounting policy 3.9 and Note 26).

(ii) Consequences of certain legal actions

There are a number of legal actions which have arisen from the regular course of operations. The Management Board makes estimates of probable outcomes of these legal actions, and recognises provisions for the Group’s liabilities that may arise from these legal actions on a consistent basis.

The Group recognises a provision in the total expected amount of outflows of economic benefits as a result of the legal action, which is generally the claim amount plus the estimated related legal costs and penalty interest (if applicable), if it is more likely than not, based on the opinion of the Management Board after consultation with legal advisers, that the outcome of the court proceedings will be unfavourable for the Group. The Group does not recognise provisions for legal actions or the expected related legal costs and penalty interest (if applicable) in cases where the Management Board estimates that an unfavourable outcome of the court proceedings is less likely than a favourable outcome for the Group.

Where indications exist of a possible settlement in relation to a particular legal action, a provision is recognised, based on the best estimate of the Management Board made in consultation with its legal advisers, in the amount of the expected settlement less any existing amounts already provided for in relation to that particular legal action.

Where the Group is a plaintiff in a particular legal action, any economic benefits expected to flow to the Group as a result are recognised only when virtually certain which is generally as at the date of inflow of these economic benefits.

Provisions for the Group’s obligations arising from legal actions are recognised on a consistent basis and estimated on a case by case principle.

4 Key accounting judgements and estimates *(continued)*

(iii) Accounting for capital expenditure under the concession arrangement

The Group, through its subsidiary Luka Šibenik d.o.o., has a long-term service concession arrangement for the provision of port services. As part of the concession arrangement, the local port authority of Šibenik ("Grantor") transferred the operational rights over a number of assets comprising the port infrastructure to the Group ("Operator") which is entitled to use these assets in the course of providing the services defined in the concession arrangement. In addition to fixed and variable concession fees payable by the Group, the concession arrangement also defines obligations of the Group to incur capital expenditure relating to the maintenance and replacement of port infrastructure and investments into equipment required for port operations in the concession area. The contract determines the conditions for the transfer of port infrastructure to the local port authority or a successor at its expiry.

The Group has considered relevant financial reporting standards and interpretations in determining the appropriate approach to accounting for the concession arrangement. As part of the analysis, management considered the applicability of IFRIC 12 *Service Concession Arrangements* (an interpretation governing the accounting for public-to-private service concession arrangements) and the applicability of the new standard for leases, IFRS 16 *Leases*.

Management has concluded that the current arrangement does not fall under the scope of IFRIC 12 as a result of the price regulation mechanism stipulated by the contract not being considered substantive.

On the other hand, management concluded that the concession arrangement contains both lease and non-lease components and would therefore fall under scope of IFRS 16. In this context, management concluded that the obligations relating to payment of fixed concession fees and infrastructure-related expenditure represent lease components under the standard while the remaining obligations relating to expenditure for own assets (equipment) and maintenance costs as well as payments of variable concession fees do not represent lease components.

However, since management expects to re-negotiate and align the terms of the concession agreement in the foreseeable future (including the duration of the concession period and capital expenditure requirements) with market conditions, it does not expect to incur any significant capital expenditure until that time. The concession arrangement currently in place does not prescribe penalties for early termination or non-compliance with contract terms. As a result, the Group has not recognised any right-of-use assets and liabilities with respect to the contract. Further, capital expenditure incurred thus far under the concession arrangement related to equipment while any future capital expenditure in the period up to the re-negotiation of the arrangement is expected to be minimal and also related to equipment. Such expenditure was and will continue to be accounted for as part of property, plant and equipment as specified in accounting policy 3.5 as it does not represent a lease component. Maintenance costs related to the concession arrangement are also considered a non-lease component and continue to be recognised as expenses in profit or loss as incurred.

(iv) Impairment losses on trade receivables

The recoverable amount of trade and other receivables is estimated at present value of future cash flows discounted at the market interest rate at the measurement date.

Short-term receivables with no stated interest rate are measured by the amount of original invoice if the effect of discounting is not significant.

The Group regularly reviews the ageing structure of trade receivables and monitors the average collection period. In cases where debtors with extended payment periods (generally above 120 days) are identified, the Group reduces the related credit limits and payment days for future transactions and, in cases where it deems it necessary, imposes restrictions on future transactions until the outstanding balance is repaid either entirely or in part.

In the process of regulating the collection of overdue debts, the Group actively negotiates with the respective debtors taking into account expectations of future business relations, significance of exposure to an individual debtor, possibilities of compensation, exercise of instruments of security (if any) or seizure of assets etc.

Each customer is valuated separately based on its status (i.e. customer is blocked and is cash only customer, legal procedure have been commenced), the ageing of the amount due, stage of legal case and security of payment (e.g. bill of exchange).

4 Key accounting judgements and estimates *(continued)*

(v) Impairment of non-financial assets

The Group annually reviews non-financial assets for potential indicators of impairment. Where such indicators exist, the Group performs impairment tests in order to assess whether the carrying amount of respective assets is recoverable. For the purposes of performing impairment tests, the Group has identified one cash generating unit (CGUs) which comprises the main production facility in Kutina.

For the main production, the calculation of the recoverable amount is based on a five year projection of financial performance with the primary assumption being that the Group will continue as a going concern. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period of 2%. Cash flows are discounted using the discount rate which reflects the risk of the underlying asset, and which has been approximated for the purposes of the impairment test as the weighted average cost of capital for the relevant industry segment and amounts to 8.3%. Apart from the discount rate, key variables used in the value in use model relate to expected fertilizer prices and natural gas prices obtained from relevant external sources.

Apart from the main production facility, the Group also operates a commercial port in Šibenik utilized by the Group mainly for oversees imports and exports. The calculation of the recoverable amount is based on a five year projection of financial performance and a terminal growth rate for cash flows after the projected five year period of 2%. Cash flows are discounted using the discount rate which reflects the risk of the underlying asset, and which has been approximated for the purposes of the impairment test as the weighted average cost of capital for the relevant industry segment and amounts to 8.5%. Apart from the discount rate, key variables used in the value in use model relate to expected future capital investments in port plant and equipment.

The Group also has two side facilities for which, based on low value of assets, the Group did not perform impairment tests in the current period.

During 2019, the Group recorded HRK 2,553 thousand of impairment losses with respect to property, plant and equipment. Based on impairment tests performed, Management considers the carrying amount of non-financial assets to be recoverable.

5 New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted, however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

– Amendments to References to Conceptual Framework in IFRS Standards;
– Definition of a Business (Amendments to IFRS 3);
– Definition of Material (Amendments to IAS 1 and IAS 8);
– IFRS 17 Insurance Contracts;

6 Determination of fair value

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

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

All significant issues related to fair values estimates are reported to the Supervisory Board and the Audit Committee.

Fair values are categorised into different levels in the fair value hierarchy based on the inputs used in valuation techniques as follows:

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

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the fair value estimate is included in Level 3.

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

- Note 18: Financial assets

7 Correction of prior period error / Change in accounting policy

The Group has amended its accounting treatment for CO_2 emission allowances and aligned it with requirements of relevant IFRSs.

Liability for CO_2 was previously recognised in the amount of outstanding emission allowances at each reporting date measured at the closing price on the ETS market (EU's trading system for CO_2 emission allowances), net of any emission allowances held instead of separately recognising emission allowances held at the reporting date as current assets. Emission related expenses were recognised within operating expenses in the amount of emissions in excess of free emission allowances granted for a particular compliance period and measured at the closing price on the ETS market at each quarter end. Any effects of remeasurement of liability due to changes in market price of emission allowances were previously recognised within financial expenses instead of within operating costs.

As a result of the restatement, the Group recognised all emission allowances held at the reporting date at their fair value on grant / purchase date as other current assets given its estimate that the assets will be used for settlement of liabilities for emissions in the short term. A corresponding amount was recognised as an increase in the liability of CO_2 emission allowances. Furthermore, expenses recognised as a result of changes in market prices of the emission allowances were reclassified from finance to operating expenses. The amended accounting policy for CO_2 emissions is disclosed in note 3.17.

The overview of the effects of these restatements, in respect to the above, on statements of financial position and comprehensive income are presented in the tables below. The restatement had no effect on statements of changes in equity or cash flows in prior periods.

(in thousands of HRK)	**Reported 31/12/2018**	**restatement**	**Restated 31/12/2018**
ASSETS			
Non-current assets			
Property, plant and equipment	698,909	-	698,909
Intangible assets	3,375	-	3,375
Deferred tax assets	142	-	142
Non-current financial assets	10	-	10
	702,436	**-**	**702,436**
Current assets			
Inventories	299,849	-	299,849
Trade and other receivables	81,351	-	81,351
Other current assets	-	15,544	15,544
Current financial assets	375,135	-	375,135
Cash and cash equivalents	10,872	-	10,872
	767,207	**15,544**	**782,751**
Total assets	**1,469,643**	**15,544**	**1,485,187**
EQUITY AND LIABILITIES			
Equity			
Share capital	550,287	-	550,287
Reserves	153,547	-	153,547
Accummulated losses	(475,088)	-	(475,088)
Attributable to owners of the Company	**228,746**	**-**	**228,746**
Non-controlling interest	1,948	-	1,948
	230,694	**-**	**230,694**
Non-current liabilities			
Loans and borrowings	459,642	-	459.642
Provisions	20,653	-	20.653
	480,295	**-**	**480.295**
Current liabilities			
Trade and other payables	625,253	(174,491)	450,762
Other current liabilities	-	190,035	190,035
Loans and borrowings	133,401	-	133,401
	758,654	**15,544**	**774,198**
Total equity and liabilities	**1,469,643**	**15,544**	**1,485,187**

7 Correction of prior period error / Change in accounting policy *(continued)*

(in thousands of HRK)	**Reported 2018**	**Restatement**	**Restated 2018**
Revenue from sales	1,817,159	-	1,817,159
Other income	48,571	-	48,571
Total operating income	**1,865,730**	**-**	**1,865,730**
Change in inventory of finished goods and work in progress	(4,795)	-	(4,795)
Raw materials, consumables and services used	(1,770,554)	-	(1,770,554)
Staff costs	(199,271)	-	(199,271)
Depreciation and amortisation	(90,874)	-	(90,874)
Other operating expenses	(103,815)	(112,051)	(215,866)
Total operating expenses	**(2,169,309)**	**(112,051)**	**(2,281,360)**
Operating loss	(303,579)	(112,051)	(415,630)
Finance income	15,579	-	15,579
Finance expenses	(185,502)	112,051	(73,451)
Net finance costs	(169,923)	112,051	(57,872)
Loss before tax	**(473,502)**	**-**	**(473,502)**
Income tax	(9)	-	(9)
Loss for the period	**(473,511)**	**-**	**(473,511)**
Other comprehensive income:			
Exchange differences on translation of foreign operations	39	-	39
Total comprehensive loss	**(473,472)**	**-**	**(473,472)**

Petrokemija d.d. and its subsidiaries

Notes *(continued)*

8 Revenue from sales

	2019 HRK '000	2018 HRK '000
Revenue from sale of products and merchandise	**2,097,817**	1,793,047
Revenue from services	**22,638**	24,112
	2,120,455	1,817,159

Overview of revenue from sales per market:

	2019 HRK '000	2018 HRK '000
Croatia	**689,417**	595,541
Slovenia	**99,022**	126,394
Bosnia and Herzegovina	**101,373**	145,932
Serbia, Montenegro and Macedonia	**198,169**	114,176
Italy	**204,549**	228,298
Other countries	**827,925**	606,818
	2,120,455	1,817,159

9 Other income

	2019 HRK '000	2018 HRK '000
Own consumption	**2,564**	30,990
Sale of manufactured packaging	**4,967**	5,768
Manufacture of spare parts	**364**	105
Sale of raw materials	**320**	636
Insurance reimbursements	**6,028**	3,539
Inventory surplus	**3,888**	2,180
Reversal of provisions	**1,531**	-
Sale of plant and equipment	**186**	1,915
Other income	**4,467**	3,438
	24,315	48,571

Own consumption mostly relates to staff and other expenses that have been included in the capital expenditure. Sale of manufactured packaging relates to income from the production of pallets for packaging finished products.

10 Raw materials, consumables and services used

	2019 HRK '000	2018 HRK '000
Raw materials and consumables used	**1,335,275**	1,688,907
Cost of production services	**52,249**	72,044
Cost of wholesale and retail goods sold	**19,684**	9,603
	1,407,208	1,770,554

11 Staff costs

	2019 **HRK '000**	2018 HRK '000
Salaries	**119,402**	128,433
Contributions on salaries	**26,306**	28,944
Other staff costs	**42,654**	41,894
	188,362	199,271

As at 31 December 2019, the Group had 1,432 employees *(2018: 1,726)*.

12 Other operating expenses

	2019 **HRK '000**	*Restated** 2018 HRK '000
Other fees and taxes	**94,817**	159,998
Impairment of inventories	**6,935**	18,370
Impairment of tangible assets	**2,553**	2,201
Net book value of disposed tangible assets	**93**	2,482
Other employee costs	**79,590**	12,532
Insurance	**9,517**	9,609
Increase in provision	**4,846**	1,293
Bank charges	**2,346**	2,580
Inventory loss	**1,960**	1,623
Impairment of trade receivables	**55**	61
Intellectual services	**3,763**	835
Travel expenses	**702**	591
Other	**12,289**	3,691
	219,466	215,866

*For restatement details see Note 7.

Other taxes, fees and charges include HRK 60,358 thousand (2018: HRK 139,209 thousand) of fees for greenhouse gas emissions. The amount also includes VAT and respective interest in the amount of HRK 13.727 thousand assessed as non-deductable by the Tax Authority resolution (see note 33).

The Group regularly reviews the state of its short-term spare parts and raw materials and performs regular write offs each year. During 2019 the amount of impaired spare parts and raw materials was HRK 5,951 thousand (2018: HRK 16,023 thousand) forming part of the total amount of inventories impaired.

The Group continued to restructure its workforce and carry out its labour surplus support scheme in the course of which, in 2020, it also expects to pay incentive termination benefits. In 2019, termination benefits were paid in the amount of HRK 51,476 thousand (2018: HRK 304 thousand), which were included in other employee costs.

The intellectual services item comprises the costs of the independent consultant in connection with the analysis of the current position and the process of operational restructuring. Included within intellectual services are audit expenses in the amount of HRK 230 thousand.

13 Financial income and financial expenses

	2019 HRK '000	*Restated** 2018 HRK '000
Interest income	**125**	78
Foreign exchange differences	**2,050**	15,471
Other finance income	**641**	30
Total finance income	**2,816**	15,579
Interest expense	**(20,745)**	(64,114)
Foreign exchange losses	**(3,822)**	(9,337)
Total finance costs	**(24,567)**	(73,451)
Net finance costs	**(21,751)**	(57,872)

*For restatement details see Note 7.

14 Income tax

Recognised in statement of comprehensive income:

	2019	2018
	HRK '000	HRK '000
Current income tax	**3**	9
Deferred tax, net	**(8)**	-
	(5)	9

Effective tax rate reconciliation

A reconciliation of tax expense per the statement of comprehensive income and taxation at the statutory rate is detailed in the table below:

	2019	2018
	HRK '000	HRK '000
Gain / (loss) before taxation	**140,530**	(473,502)
Tax calculated at 18% *(2018: 18%)*	**25,295**	(85,230)
Non-deductible expenses and non-taxable income	**1,754**	2,356
Temporary differences for which no deferred tax was recognised	**5,875**	-
Utilisation of temporary differences previously not recognised as deferred tax assets	**(33,665)**	-
Tax losses not recognised as deferred tax assets	**698**	82,883
Effect of different tax rates	**38**	-
Income tax expense	**(5)**	9
Effective tax rate	**-%**	-%

Temporary tax differences for which no deferred tax asset was recognised relate to a demerger of assets from the parent company to newly formed subsidiaries during the year, which for tax purposes have been performed at fair value, that the management does not expect to be utilised.

At the reporting date, carry forward gross tax losses of the Group amounted to HRK 786.223 thousand *(31 December 2018: HRK 1,143,839 thousand)* have not been recognised as a deferred tax asset as the Management Board believes it is not probable that a trend of future taxable profits will be available to utilise these accumulated tax losses. Based on the same expectations the Group did not recognise deferred tax assets on temporary tax differences.

The tax value of tax losses carried forward is as follows:

	2019	2018
	HRK '000	HRK '000
Tax loss from 2014 - expires on 31 December 2019	**-**	64.954
Tax loss from 2015 - expires on 31 December 2020	**15.992**	15.992
Tax loss from 2016 - expires on 31 December 2021	**15.735**	15.735
Tax loss from 2017 - expires on 31 December 2022	**26.327**	26.327
Tax loss from 2018 - expires on 31 December 2023	**82.883**	82.883
	583	-
	141.520	205,891

Petrokemija d.d. and its subsidiaries

Notes *(continued)*

15 Property, plant and equipment

(in thousands of HRK)	Land	Buildings	Plant and equipment	Equipment and fittings	Spare parts	Assets under construction	Prepayments	Total
Cost								
As at 1 January 2018	48,713	581,879	1,441,381	76,276	11,149	80,948	4,842	2,245,188
Adjustment	-	-	(1,282)	(615)	-	1,029	-	(868)
Additions	-	-	1,942	125	7,195	86,227	18,857	114,346
Transfer from intangible assets	-	-	5,136	-	-	-	-	5,136
Transfers	-	4,624	130,063	521	(2,283)	(113,343)	(19,582)	-
Disposals	(417)	(2,331)	(3,685)	(1,658)	-	-	-	(8,091)
	(3,920)	(361)	(965)	-	-	-	-	(5,246)
As at 31 December 2018	**44,376**	**583,811**	**1,572,590**	**74,649**	**16,061**	**54,861**	**4,117**	**2,350,465**
Accumulated depreciation								
As at 1 January 2018	5,266	377,974	1,128,449	54,819	5,120	345	-	1,571,973
Adjustment	-	2,129	(3,493)	(273)	(814)	(345)	-	(2,796)
Charge for the year	-	17,758	68,545	3,224	-	-	-	89,527
Disposals	-	(811)	(1,742)	(1,659)	-	-	-	(4,212)
Impairment loss	-	-	2,201	-	-	-	-	2,201
Disposal of Petrokemija Agro Trade d.o.o.	(5,266)	20	109	-	-	-	-	(5,137)
As at 31 December 2018	**-**	**397,070**	**1,194,069**	**56,111**	**4,306**	**-**	**-**	**1,651,556**
Carrying amount								
As at 31 December 2018	**44,376**	**186,741**	**378,521**	**18,538**	**11,755**	**54,861**	**4,117**	**698,909**

15 Property, plant and equipment *(continued)*

(in thousands of HRK)	Land	Buildings	Plant and equipment	Equipment and fittings	Spare parts	Assets under construction	Prepayments	Total
Cost								
As at 1 January 2019	44,376	583,811	1,572,590	74,649	16,061	54,861	4,117	2,350,465
Recognition of right of use asset - IFRS 16	-	-	-	1,858	-	-	-	1,858
Additions	-	303	6	-	1,684	23,884	2,960	28,837
Transfers	-	5,914	67,983	522	(6,331)	(68,088)	-	-
Disposals	-	-	(1,935)	(1,680)	-	-	(2,762)	(6,377)
As at 31 December 2019	**44,376**	**586,505**	**1,625,134**	**72,127**	**11,204**	**10,724**	**4,315**	**2,354,385**
Accumulated depreciation								
As at 1 January 2019	-	397,070	1,194,069	56,111	4,306	-	-	1,651,556
Charge for the period	-	16,983	77,112	4,121	1,008	-	-	99,224
Disposals	-	-	-	(1,935)	(1,680)	-	-	(3,615)
Impairment losses	-	810	1,743	-	-	-	-	2,553
As at 31 December 2019	**-**	**414,863**	**1,272,924**	**58,297**	**3,634**	**-**	**-**	**1,749,718**
Carrying amount								
As at 31 December 2019	**44,376**	**175,030**	**368,095**	**16,635**	**5,890**	**10,724**	**4,315**	**625,065**

Assets under construction relate primarily to equipment for reconstruction and overhaul of production facilities.

The Group's property amounting to HRK 37,190 thousand *(2018: HRK 41,589 thousand)* is mortgaged as security for loans and borrowings.

The Group recognised right of use asset in the amount of HRK 1,858 thousand for new leases contracts for vehicles that originated in the current year. There have been no other right of use assets recognised as consequence of first time adoption of IFRS 16.

16 Intangible assets

(in thousands of HRK)	**Assets under construction**	**Software and project documentation**	**Total**
Cost			
As at 1 January 2018	5,403	27,301	32,704
Additions	1,367	-	1,367
Transfers	(5,136)	5,136	-
Transfer to tangible assets	-	(5,136)	(5,136)
Disposals	-	(281)	(281)
As at 31 December 2018	**1,634**	**27,020**	**28,654**
Accumulated amortisation			
As at 1 January 2018	-	24,213	24,213
Charge for the year	-	1,347	1,347
Disposals	-	(281)	(281)
As at 31 December 2018	**-**	**25,279**	**25,279**
Carrying amount			
As at 31 December 2018	**1,634**	**1,741**	**3,375**
Cost			
As at 1 January 2019	1,634	27,020	28,654
Additions	57	-	57
Transfers	(1,691)	1,691	-
As at 31 December 2019	**-**	**28,711**	**28,711**
Accumulated amortisation			
As at 1 January 2019	-	25,279	25,279
Charge for the year	-	1,250	1,250
As at 31 December 2019	**-**	**26,529**	**26,529**
Carrying amount			
As at 31 December 2019	**-**	**2,182**	**2,182**

17 Subsidiaries

As at the reporting date, the Group holds ownership interests in subsidiaries consolidated in this statement:

Name of subsidiary	Ownership interest in % **31/12/2019**	Ownership interest in % 31/12/2018	Investment **31/12/2019 HRK '000**	Investment 31/12/2018 HRK '000
Tvornica paleta Kutina d.o.o.	**100%**	-	**2,259**	-
Tvornica gline Kutina d.o.o.	**100%**	-	**11,864**	-
Luka Šibenik d.o.o.	**80%**	80%	**8,467**	13,195
Petrokemija Agro Trade d.o.o.	**-**	-	**-**	-
Petrokemija d.o.o., Novi Sad	**100%**	100%	**259**	259
			22,849	13,454

By selling its shares on 31 October 2018, the Group lost control of all shares in the subsidiary Petrokemija Agro Trade d.o.o. By doing so, the Group is entitled exclusively to profit and losses of Petrokemija Agro Trade d.o.o., up to the day the control is lost. During the year the Group started the process of liquidation for one of its subsidiaries Petrokemija d.o.o., Novi Sad. As at 1 November 2019 the Company demerged two independent business units and in doing so founded two new companies Tvornica paleta Kutina d.o.o. and Tvornica gline Kutina d.o.o.

18 Financial assets

	31/12/2019 HRK '000	31/12/2018 HRK '000
Non-current financial assets		
Investments in other equity instruments	**10**	10
Current financial assets		
Deposits	**343,133**	348,133
Financial assets held for trading	**97,675**	27,002
	440,808	375,135

Financial assets held for trading relate to investments in money market funds. Investment in other equity instruments relates to a minority share in TV Moslavina, Kutina and acquired shares of the company Pounje d.d., Hrvatska Kostajnica. Deposits relate to deposits in banks with original maturity less than 3 months and an interest rate of 0,13% per annum.

19 Inventories

	31/12/2019 HRK '000	31/12/2018 HRK '000
Finished goods	**76,368**	152,807
Raw materials and supplies	**89,304**	102,881
Work in progress	**27,059**	14,992
Trade goods	**3,458**	4,652
Spare parts	**27,111**	23,213
Prepayments	**2,279**	1,304
	225,579	299,849

20 Trade and other receivables

	31/12/2019 HRK '000	31/12/2018 HRK '000
Current receivables		
Trade receivables	**144,479**	120,044
Less: Provisions for impairment	**(104,085)**	(104,148)
Net trade receivables	**40,394**	15,896
Receivables for taxes and contributions	**34,416**	63,123
Prepaid expenses	**391**	89
Receivables from employees	**7**	31
Other receivables	**1,859**	2,212
	77,067	81,351

Movement in the impairment allowance for trade receivables during the year was as follows:

	31/12/2019 HRK '000	31/12/2018 HRK '000
At 1 January	**104,148**	106,174
Increase	**55**	61
Foreign exchange, net	**-**	47
Amounts collected	**(45)**	(34)
Written off as uncollectible	**(73)**	(2,100)
At 31 December	**104,085**	104,148

The ageing analysis of trade receivables at the reporting date is as follows:

	31/12/2019 HRK '000	31/12/2018 HRK '000
Not yet due	**33,965**	8,062
Overdue 0-60 days	**6,410**	7,767
Overdue 61-120 days	**61**	67
Overdue 121-180 days	**1**	4
Overdue 181-360 days	**7**	6
Overdue over 1 year	**104,035**	104,138
	144,479	120,044

Petrokemija d.d. and its subsidiaries

Notes *(continued)*

20 Trade and other receivables (continued)

Trade receivables are denominated in following currencies:

	31/12/2019 **HRK '000**	31/12/2018 HRK '000
Croatia (HRK)	**137,523**	116,133
European Union (EUR)	**3,018**	3,911
USA (USD)	**3,938**	-
	144,479	120,044

21 Other current assets

	31/12/2019 **HRK '000**	*Restated** 31/12/2018 HRK '000
Acquired emission units	**37,556**	15,544
	37,556	15,544

*For restatement details see Note 7.

22 Cash and cash equivalents

	31/12/2019 **HRK '000**	31/12/2018 HRK '000
Cash with banks	**42,048**	10,863
Cash in hand	**6**	9
Cash and cash equivalents in the statement of financial position	**42,054**	10,872
Deposits with maturity date less than 3 months	**343,133**	348,133
Financial assets held for trading	**97,675**	27,002
Cash and cash equivalents as presented in the statement of cash flows	**482,862**	386,007

Cash at bank relates to cash accounts with commercial banks and bears an average interest rate of 0.01% per annum.

23 Share capital

	31/12/2019 HRK '000	31/12/2018 HRK '000
Share capital	**550,287**	550,287

The ownership structure as at the reporting date was as follows:

	31/12/2019		31/12/2018	
Structure of ownership	Number of shares	% of ownership	Number of shares	% of ownership
TERRA MINERALNA GNOJIVA d.o.o.	30,000,000	54.52%	30,000,000	54.52%
CERP/RH	9,852,828	17.90%	9,852,828	17.90%
HPB d.d./Fond za financiranje razgradnje NEK	7,006,592	12.73%	7,006,592	12.73%
JANAF d.d.	5,000,000	9.09%	5,000,000	9.09%
PBZ d.d./custody client account / Plinacro d.o.o.	3,000,430	5.45%	3,000,000	0.01%
Ćorić Božo	4,400	0.01%	-	0.00%
Pavelić Ivan	3,284	0.01%	2,574	0.00%
Ribičić Jasna	3,219	0.01%	-	0.00%
PT drvo d.o.o.	3,000	0.01%	-	0.00%
Baretić Bojan	2,955	0.01%	-	0.00%
OTP banka d.d./AZ OMF Kategorije B	-	0.00%	26,971	0.05%
Addiko bank d.d./PBZ Croatia osiguranje d.d. OMF	-	0.00%	24,851	0.05%
OTP banka d.d./Erste Plavi OMF Kategorije B	-	0.00%	22,576	0.04%
Privredna Banka Zagreb d.d /State Street Client Account	-	-	6,141	0.01%
Other shareholders	151,993	0.28%	86,168	0.16%
Total	**55,028,701**	**100.00%**	55,028,701	100.00%
Paid but unregistered shares	-		-	
Total share capital	**55,028,701**		55,028,701	

The Company’s share capital comprises 55,028,701 ordinary shares *(31 December 2018: 55,028,701 shares)* of a nominal value of HRK 10 *(31 December 2018: HRK 10)* per share.

23 Capital and reserves (continued)

(a) Based on the Decision of the General Assembly of the Group of 9 July 2018, the Group increased its share capital HRK 42,904 thousand by HRK 450,000 thousand, through the issue of 45,000 new ordinary shares to the Restructuring and Sale Centre ("RSC/Republic of Croatia"), at a nominal value of HRK 10 each. Through the relevant issuance of shares, the Group assigned the claims per third party loans in the amount of HRK 450,000 thousand. By doing so, the share capital increased to HRK 492,904 thousand.

(b) Based on the Decision of the Supervisory Board and the Decision of the Commercial Court, on 5 November 2018, the Group decreased its share capital to cover prior period losses in the amount of HRK 392,617 thousand and at the same time increased other reserves in the amount of HRK 150,000 thousand. By doing so, the share capital decreased to HRK 100,287 thousand.

(c) Based on the Decision of the Supervisory Board and the Decision of the Commercial Court, on 5 November 2018, the Group increased the share capital by registering 45,000 new ordinary shares of a nominal value of HRK 10.00 and registering a share capital increase paid in cash amounting HRK 450,000 thousand. The majority of the capital increase was made by Terra Mineralna Gnojiva d.o.o. who effectively became the majority shareholder of the Group at date of share acquisition.

24 Earnings / (loss) per share

Basic and diluted earnings / (loss) per share

Basic and diluted earnings / (loss) per share is determined by dividing the Group's net earnings or losses with the weighted average number of ordinary shares, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares.

	31/12/2019	31/12/2018
Loss attributable to equity holders of the parent (in thousands of HRK)	**141,203**	(472,489)
Weighted average number of registered shares	**55,028,701**	28,616,979
Basic and dilluted earnings / (loss) per share in HRK	**2.57**	(16.51)

25 Loans and borrowings

	31/12/2019 HRK '000	31/12/2018 HRK '000
Non-current borrowings		
Banks	**106,620**	124,849
Related party loans	**74,401**	332,889
Lease liabilities	**1,558**	449
Other loans	**-**	1,455
	182,579	459,642
Current borrowings		
Banks	**18,634**	21,000
Related party loans	**364,383**	111,295
Lease liabilities	**676**	1,106
Other loans	**96**	-
	383,789	133,401
Total borrowings	**566,368**	593,043

The maturity of loans and borrowings as at the reporting date was as follows:

	31/12/2019 HRK '000	31/12/2018 HRK '000
Up to 1 year	**383,789**	133,401
Between 1 and 2 years	**89,182**	283,427
Between 2 and 5 years	**43,313**	116,661
Over 5 years	**50,084**	59,554
	566,368	593,043

Bank loans

The interest rates for bank loans included in the table above ranged from 4% to 5%.

Related party loans

At the end of 2018, the Group converted a part of its trade payables to long-term loans by signing agreements with suppliers on debt repayment bearing an average interest rate ranging from 3% to 4.5% per annum. During the period of 2019 the Group has signed new repayment plans for part of its current loans amounting HRK 104,536 thousand that are due in 2020 and 2021.

Petrokemija d.d. and its subsidiaries

Notes *(continued)*

25 Loans and borrowings *(continued)*

Debt movement

	Balance at 31/12/2018	Increase in loans and borrowings	Repayment of borrowings	Foreign exchange differences for bank loans	**Balance at 31/12/2019**
Bank loans	**145,849**	-	(21,000)	405	**125,254**
Suppliers (Ina d.d., PPD d.o.o. and HEP d.d.)	**444,184**	-	(5,400)	-	**438,784**
Other loans (HEPESCO d.o.o.)	**1,455**	-	(1,359)	-	**96**
Lease liabilities	**1,555**	1,366	(687)	-	**2,234**
	593,043	1,366	(28,446)	405	**566,368**

As at 31 December 2019, the total debt to banks amounts to HRK 125,254 thousand, with HRK 4,500 thousand indebted to the creditor Privredna banka Zagreb (PBZ), HRK 28,163 thousand indebted to the creditor Hrvatska banka za obnovu i razvitak d.d. (HBOR), HRK 92,591 indebted to HBOR and Hrvatska poštanska banka (HPB).

26 Provisions

(in thousands of HRK)	**Jubilee awards**	**Retirement benefits**	**Court cases**	**Decommissioning provision for "Soot plant"**	**Total**
As at 31 December 2018					
Non-current	7,976	4,373	804	7,500	20,653
At 1 January 2019	**7,976**	**4,373**	**804**	**7,500**	**20,653**
Increase in provisions	1,135	129	243	1,300	2,807
Release of provisions	-	(16)	(150)	-	(166)
Utilised	(855)	(16)	-	-	(871)
As at 31 December 2019	**8,256**	**4,470**	**897**	**8,800**	**22,423**
As at 31 December 2019					
Non-current	8,256	4,470	897	8,800	22,423

Decommissioning provision for the soot plant

The Group has ceased the use of the soot plant located near the main operations facility. Based on that decision a decommissioning provision has been recognised in the amount of the expenses required for plant decommissioning and site restoration. This provision is revaluated at each reporting date.

Legal actions

There are a number of legal actions initiated against the Group for minor amounts as well as those initiated by the Group against others. A provision amounting to HRK 897 thousand was recognised in relation to legal actions. The Group's Management Board believes that no significant costs exceeding those provided for at the reporting date will occur as a result of ongoing legal actions.

Jubilee awards and termination benefits

According to the Collective Agreement, the Group has an obligation to pay jubilee awards, retirement and other benefits to employees. In accordance with the respective agreement, employees are entitled to a regular retirement benefit (without incentive retirement benefit) in the net amount of HRK 8 thousand. No other post-retirement benefits are provided.

The liability for these long-term employee benefits is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefits will be payable, estimated benefit cost and the discount rate which is determined as the average expected rate of return on investment in government bonds. Input variables for actuarial calculation of provisions for jubilee awards and retirement benefits:

	31/12/2019	31/12/2018
Discount rate	**1.50%**	2.40%
Fluctuation rate	**6.30%**	3.25%

Petrokemija d.d. and its subsidiaries

Notes *(continued)*

27 Trade and other payables

	31/12/2019	*Restated** 31/12/2018
	HRK '000	HRK '000
Trade payables	**138,740**	308,184
Contract liabilities (advances received from customers)	**57,062**	105,064
Salaries and other benefits to employees	**33,843**	17,754
Accrued interest	**15,223**	11,196
Taxes, contributions and other duties	**20,093**	6,727
Other	**1,604**	1,837
	266,565	450,762

*For restatement details see Note 7.

28 Other current liabilities

	31/12/2019	*Restated** 31/12/2018
	HRK '000	HRK '000
Liability for emission allowances	**224,236**	190,035
	224,236	190,035

*For restatement details see Note 7.

29 Risk management

Financial risk management

Categories of financial instruments are as follows:

	31/12/2019 HRK '000	31/12/2018 HRK '000
Short-term financial assets	440,808	375,135
Trade receivables	40,394	15,896
Cash and cash equivalents	42,054	10,872
Total loans and receivables	**523,256**	**401,903**
Total financial assets	**523,256**	**401,903**
Loan liabilities	566,368	593,043
Trade payables	138,740	308,184
Total financial liabilities at amortised cost	**705,108**	**901,227**
Total financial liabilities	**705,108**	**901,227**

Fair value of financial instruments

The fair value of financial assets and financial liabilities is determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices,
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models, based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Financial instruments held to maturity in the ordinary course of business are recorded at the lower of cost and net amount less the portion repaid. Fair value is determined as the amount at which a financial instrument can be exchanged between willing and knowledgeable parties in an arm's-length transaction, except in the event of forced sale or liquidation. The fair value of financial instruments is the one quoted on the securities market or obtained using the discounted cash flow method.

As at 31 December 2019, the carrying amounts of cash and cash equivalents, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair value due to the short-term nature of those assets and liabilities and due to the fact that a majority of short term assets and liabilities are at variable interest rates.

As at the reporting dates, the carrying amounts of borrowings arising from bank and other loans approximates their fair values as the majority of these borrowings bear variable interest rates or fixed interest rate approximating current market interest rates.

Petrokemija d.d. and its subsidiaries

Notes *(continued)*

29 Risk management (continued)

Financial risk management *(continued)*

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework to manage the Group's short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by monitoring the net current asset position and by addressing any expected current liquidity deficits.

Liquidity risk analysis

The following tables detail the contractual maturity of the Group's financial liabilities and financial assets presented in the consolidated statement of financial position at each reporting period end. The tables have been drawn up based on the undiscounted cash flows until maturity and include cash flows from both interest and principal. Ultimate responsibility for liquidity risk management rests with the Management Board which has built an appropriate liquidity risk management framework to manage the short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by monitoring the net current asset position and by addressing any expected current liquidity deficits. The Group has significant debt repayments scheduled in the following years. The Group is still implementing a restructuring plan, see Note 2.4 for further details. Taking into account the favourable market changes in respect of natural gas, mineral fertilizer and emission units market prices the management expects the liquidity position to strengthen in the coming year.

as at 31 December 2019	**Carrying amount**	**Contractual cash flows**	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
(in thousands of HRK)						
Non-interest bearing assets:						
Trade receivables	**40,394**	**40,394**	40,394	-	-	-
	40,394	**40,394**	**40,394**	**-**	**-**	**-**
Interest bearing assets:						
Current financial assets	**440,808**	**440,940**	440,940	-	-	-
Cash and cash equivalents	**42,054**	**42,067**	42,067	-	-	-
	482,862	**483,007**	**483,007**	**-**	**-**	**-**
	523,256	**523,401**	**523,401**	**-**	**-**	**-**

as at 31 December 2019	**Carrying amount**	**Contractual cash flows**	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
(in thousands of HRK)						
Non-interest bearing liabilities:						
Trade payables	**138,740**	**138,740**	138,740	-	-	-
	138,740	**138,740**	**138,740**	**-**	**-**	**-**
Interest bearing liabilities:						
Loans and borrowings	**566.368**	**617.561**	405.219	97.271	56.867	58.204
	566.368	**617.561**	**405.219**	**97.271**	**56.867**	**58.204**
	705.108	**756.301**	**543.959**	**97.271**	**56.867**	**58.204**

29 Risk management *(continued)*

Financial risk management *(continued)*

as at 31 December 2018 *(in thousands of HRK)*	**Carrying amount**	**Contractual cash flows**	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
Non-interest bearing assets:						
Trade receivables	**15,896**	**15,896**	15,896	-	-	-
	15,896	**15,896**	**15,896**	**-**	**-**	**-**
Interest bearing assets:						
Current financial assets	**375,135**	**375,135**	375,135	-	-	-
Cash and cash equivalents	**10,872**	**10,872**	10,872	-	-	-
	386,007	**386,007**	**386,007**	**-**	**-**	**-**
	401,903	**401,903**	**401,903**	**-**	**-**	**-**

as at 31 December 2018 *(in thousands of HRK)*	**Carrying amount**	**Contractual cash flows**	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
Non-interest bearing liabilities:						
Trade payables	**308,184**	**308,184**	308,184	-	-	-
	308,184	**308,184**	**308,184**	**-**	**-**	**-**
Interest bearing liabilities:						
Loans and borrowings	**593,043**	**671,314**	161,560	295,459	139,043	75,252
	593,043	**671,314**	**161,560**	**295,459**	**139,043**	**75,252**
	901,227	**979,498**	**469,744**	**295,459**	**139,043**	**75,252**

29 Risk management *(continued)*

Financial risk management *(continued)*

Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and variable interest rates. The variable interest rates applicable on the relevant portion of the Group's debt as at the reporting date are based on the Treasury bills of the Ministry of Finance.

Interest rate risk sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rate changes at the reporting date. For variable rate liabilities, the analysis is prepared by calculating the effect of a reasonably possible increase in interest rates on variable rate debt on the expected contractual cash flows of such debt compared to those calculated using the interest rates applicable at the current reporting period end date. A 100 basis point increase/decrease is used when reporting interest rate risk internally to key management personnel and represents the Management Board's assessment of the reasonably possible change in interest rates.

The estimated effect of the reasonably possible change in interest rates on the Group's result before tax for the reporting periods is as follows:

as at 31 December 2019	**Contractual cash flows**	up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	over 5 years
			(in thousands of HRK)			
At currently applicable interest rates	**13,745**	1,240	1,240	2,048	4,916	4,301
At currently applicable interest rates + 1%	**15,479**	1,403	1,403	2,304	5,530	4,839
Effect of increase of interest rate by 1%	**(1,734)**	**(163)**	**(163)**	**(256)**	**(614)**	**(538)**

The above contractual cash flows are presented for interest on loans with variable interest rate.

As at 31 December 2018	**Contractual cash flows**	Up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Over 5 years
			(in thousands of HRK)			
At currently applicable interest rates	**26,273**	13,996	7,749	4,528	-	-
At currently applicable interest rates + 1%	**26,422**	14,092	7,797	4,533	-	-
Effect of increase of interest rate by 1%	**(149)**	(96)	(48)	(5)	-	-

The above contractual cash flows are presented for interest on loans with variable interest rate.

The Group does not hedge interest rate risk as the estimate of the possible effect of interest rate changes on the result of operations is not deemed significant.

Petrokemija d.d. and its subsidiaries

Notes *(continued)*

29 Risk management *(continued)*

Financial risk management *(continued)*

Currency risk management

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

	Assets	
	31/12/2019	31/12/2018
	HRK '000	HRK '000
European Union (EUR)	16,339	14,786
USA (USD)	16,010	5
	32,349	**14,791**
	Liabilities	
European Union (EUR)	126,101	71,800
USA (USD)	-	84,778
	126,101	**156,578**

Foreign currency sensitivity analysis

The Group is mainly exposed to the fluctuations in the exchange rate of HRK to EUR and USD, since most of the transactions with international customers are denominated in EUR and USD. Loans and borrowings are partly denominated in EUR and partly in HRK and the Group is in part exposed to EUR currency risk in this respect. The following table shows the applicable exchange rates of HRK against EUR and USD during the reporting period:

	Spot FX rate		**Average FX rate**	
	31/12/2019	31/12/2018	**2019**	2018
EUR	7.442580	7.417575	7.413605	7.414359
USD	6.649911	6.469192	6.622347	6.283890

The following table details the Group's sensitivity to a 1% increase in HRK against the EUR and a 10% increase against the USD as the estimated reasonably possible increase in the exchange rate of the respective currencies. The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies and adjusts their translation at the period end for a percentage change in FX rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number indicates a decrease in profit where the HRK changes against the relevant currency by the percentage specified above. The weakening of the HRK against the relevant currency in the same percentage would result in an equal and opposite impact on profit.

	EUR exposure	
	31/12/2019	31/12/2018
	HRK '000	HRK '000
	(in thousands of HRK)	
Increase/(decrease) in net result	(1,098)	(570)
	USD exposure	
Increase/(decrease) in net result	1,601	(8,477)

The Group does not currently hedge currency risk with respect to the EUR as the local currency is pegged against the EUR, but is assessing the need for hedging against the USD given the recent volatility of this currency and the exposure to it arising from prices of raw materials, which are partly pegged against the USD.

29 Risk management *(continued)*

Financial risk management (*continued*)

Credit risk management

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The demographics of the customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

Total exposure to credit risk at the reporting date is as follows:

	2019	2018
	HRK '000	HRK '000
Not yet due	33,965	8,062
Overdue 0-120 days, but not impaired	6,429	7,834
Overdue over 120 days, but not impaired	-	-
Total trade receivables	**40,394**	**15,896**
Cash at bank (including deposits)	**385,181**	358,996
Total exposure to credit risk	**425,575**	**374,892**

Operational risk management

Sales concentration risk

The Group realises *33%* (*2018: 33%*) of its sales revenue from domestic customers, whereas around 67% (*2018: 67%)* of sales revenue are generated from international customers (based on the geographical location of customers). The Group determines selling prices in accordance with the macroeconomic conditions prevailing in each of the markets where the customers are located.

The Group has significant customer concentration whereby approximately 33-35% of revenue is generated by the top five customers. Consequently, the Group‘s capacity for revenue generation is highly dependent on the quality of its relationships with its key customers, their financial stability or the probability of customers switching suppliers in lieu of increased competitive pressures and inability of the Group to provide competitive pricing terms due to its stressed liquidity position.

The Group manages this risk through active and frequent communication with key customers, acquisitions of new customers, and through monitoring of relevant competitors and market conditions both locally and internationally.

Price risk

The supply of the Group’s primary raw material, natural gas, is dependent on two major suppliers and one smaller supplier who are also the Group’s largest creditors accounting for 36% of its total liabilities (*2018: 38%*). The Group aims to manage this risk by defining long-term strategic relationships with key suppliers and has contracted the natural gas quantities for the current and following year based on market price at that moment. The Group currently does not use instruments that would hedge market price fluctuation.

The Group also has investments in money market funds, which are subject to price risk. A change in market prices of shares in money market funds of 1% would decrease the Group’s profit by HRK 977 thousand (2018: HRK 270 thousand.

30 Contractual and capital commitments

Procurement of natural gas

The Group has a contractual commitment for the purchase of natural gas from the suppliers INA d.d. and Prvo plinarsko društvo d.o.o., Vukovar and MET Croatia Energy Team d.o.o., Zagreba. As per the contracts currently in force, the Group has an obligation to buy the total amount of natural required (614 million S/m3) in its production cycle from these suppliers estimated at approximately HRK 566 million.

Planned capital investments

Investments totalling approximately HRK 89 million are planned for the period up to the end of 2020, where a large portion is reserved for regular investments in production capacities and scheduled maintenance.

Regarding the fulfilment of the environmental requirements for performing the activities of the Group, the modernization of the plant is required to meet the requirements of the relevant environmental laws in the estimated amount of investment from HRK 274,6 million to 2027.

Agreement to invest in relation to the port concession

Based on the annexes of the Agreement on priority concession, concessionaire of Luka Šibenik d.o.o. has an obligation to invest in modernization and capacity of port activities in the total amount of HRK 115,725 thousand as a prerequisite for holding the concession, which expires on 1 January 2029. Dynamics and planned amounts of contractual obligations are as follows:

	31/12/2019
	HRK '000
2017 – 2020	32,745
2020 – 2025	35,780
2025 – 2026	6,000
2026 – 2029	11,100
	85,625

The Group expects to re-negotiate the terms of the concession agreement in the foreseeable future (including the duration of the concession period and capital expenditure requirements) and does not expect to incur any significant capital expenditure until such renegotiation is finalised. The concession agreement currently in place does not prescribe penalties for early termination or non-compliance with contract terms (specifically in relation to capital expenditure requirements). As a result, the Group has not recognised any right-of-use assets and liabilities with respect to the contract while the investment into Luka Šibenik d.o.o. at the Company level has been reduced to its estimated recoverable amount.

31 Related parties

The Group is in a related party relationship with its majority shareholder Terra Mineralna Gnojiva d.o.o. and its related companies (INA d.d. and PPD d.o.o.) as well as other entities under their control or influence (subsidiaries and associates); kay management personnel (see below); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 *Related Party Disclosures* ("IAS 24")

The Group is also in a significant part still owned by the Republic of Croatia directly through the Restructuring and Sale Centre ("RSC") and other companies in control or under significant influence of the Republic of Croatia (Fund for financing the decommissioning of the Krško NPP, JANAF d.d., PLINACRO d.o.o.). In that respect, the Group is in a related party relationship with state institutions and other companies where the State is a majority owner or has a significant influence. For the purpose of related party disclosures, the Company does not consider routine transactions (such as taxes, levies, etc.) with various local communal entities (directly or indirectly owned by the State) or with other state bodies to be related party transactions. More significant transactions of the Company with state-owned companies relate to purchase of gas which is the primary raw material used in the Company's production cycle, freight rail transport services and supply of electricity. The Company is also in part financed by a bank where the majority owner is the State.

31 Related parties (continued)

Transactions with owners and state-related parties (continued)

During 2019 and 2018, the Company had the following transactions with state-related parties:

	2019 **HRK '000**	2018 HRK '000
PPD d.o.o.		
Purchase of goods and services (since 30/10/2018 for comparatives)	**454,272**	121,725
Financial expenses (since 30/10/2018 for comparatives)	**1,852**	6,751
Liabilities as at 31 December	**43,981**	79,317
Loans and borrowings	**60,250**	61,001
INA d.d.		
Purchase of gas, other raw materials and services	**451,600**	186,951
Liabilities as at 31 December	**45,955**	76,518
Loans and borrowings as at 31 December	**52,534**	53,451
Interest expense	**1,596**	16,510
HBOR		
Loans and borrowings as at 31 December	**28,163**	28,068
Interest expense	**1,420**	5,848
HŽ Cargo d.o.o.		
Purchase of transport services	**36,225**	44,237
Liabilities as at 31 December	**6,423**	5,966
HEP d.d.		
Loans and borrowings as at 31 December	**326,096**	331,655
Interest expense	**9,900**	-
HEP Opskrba d.o.o.		
Purchase of electricity	**32,413**	29,954
Liabilities as at 31 December	**3,884**	8,703
HPB d.d.		
Loans and borrowings as at 31 December	**92,591**	92,280
Interest expense	**5,145**	6,326
Lučka Uprava Šibenik		
Concession liability as at 31 December	**409**	358
Concession expense for the year	**1,141**	1,095

Transactions with key management personnel and members of the Supervisory Board

Management Board remuneration relates to regular monthly payments for salaries and other benefits in kind. During 2019, remuneration expense to key management personnel amounted to HRK 3,908 thousand *(2018: HRK 2,052 thousand)* and related to 5 persons *(2018: 4 persons)*. Furthermore, during 2019, remuneration of HRK 120 thousand *(2018: HRK 201 thousand)* was paid to the members of the Supervisory Board.

32 Contingent liabilities

Legal actions

There are a number of legal actions initiated against the Group for minor amounts as well as those initiated by the Group against others. The Management Board believes that no significant costs exceeding those provided for at the reporting date will occur, as presented in Note 26.

33 Events after the reporting period

Renegotiations with workers syndicate

As at the date of signing these financial statements the renegotiations of the collective workers agreement with the workers syndicate have commenced, the effects of these negotiations on the staff expenses are currently unknown.

Resolution of the Tax Authority

As of March 5, 2020, the Group received from the Tax Administration (PU) a tax resolution that declared VAT in the amount of HRK 13,361 thousand, previously submitted as VAT exempt for supplies of goods within the EU, as non-deductible with respective interest in the amount of HRK 366 thousand. The said resolution has been appealed. However, currently an estimate of whether the appeal will be successful is not possible. Consequently, as at the reporting date the Group recognized the liability for the said amount of VAT and interest within other liabilities and the associated expense within other operating expenses.

COVID-19 pandemic

Operating as the main mineral fertilizer producer in the country, the Company is under impact of the repercussions caused by the pandemic of coronavirus infectious disease (COVID 19) caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) which spread rapidly from China to most major world economies in the first quarter of 2020.

Responding to the potentially serious threat that COVID – 19 presents to public health, the government of the Republic of Croatia has taken measures to contain the outbreak, which, in addition to a series of recommendations and guidelines from the Croatian Institute of Public Health (CIPH), include the formal restriction of movement of people within Croatian borders, restrictions on entry into Croatia, as well as the closure of certain industries and institutions, and the suspension or significant restriction of public and other transport.

In the context of the above, on 19 March 2020, the Croatian government adopted a State aid program to counteract the negative effects of COVID 19 on the economy, which include, inter alia, deferral of payment and / or instalment payment of taxes, compulsory contributions and certain non-tax benefits, incentives for job retention and the granting of new liquidity loans for companies to finance wages, overheads and other operating expenses.

Management is closely monitoring the development of the situation concerning COVID 19 and implementing relevant CIPH recommendations to preserve the health and safety of the employees of the Company and is also continuously assessing the impact of the pandemic on the Company's operations. However, the implications of COVID 19 on the operations of the Company in the foreseeable period are complex and far reaching given the variety of factors which impact the fertilizer segment and supply chains globally and regionally, as well as given the complexity of estimating how wider global and regional effects will be translated locally.

In the first three months the demand for mineral fertilizers was above the initial plan for Q1-2020, partly given certain import restrictions from China and in general. The market price of main input, natural gas, is lower than budgeted for Q1-2020 similar to the decrease in price of CO_2 emission units on EEX (European Energy Exchange). Additionally, the current market futures for gas for Q2-Q4 2020 (at CEGH – Central European Gas Hub) are below the price estimates in the Company’s budget for natural gas expenses for 2020 which indicates that the price of natural gas should decrease for the remainder of 2020 to figures below initially budgeted. All of these factors combined, together with the mineral fertilizer prices which are expected to remain relatively constant throughout 2020 due to the expected relative inelasticity of food consumption and agricultural production, indicate that the Company should be able to further improve liquidity and stabilise its financial position. The main risk arising from the COVID 19 pandemic is attributed to the potential disruption in distribution of fertilizers to customers given quarantine requirements and overall disruption in supply chains. However, since measures for containment of the pandemic include exemptions from overall restrictions for the agricultural sector, management does not expect significant impact of the ability to distribute products to customer.

33 Events after the reporting period (continued)

COVID-19 pandemic (continued)

Furthermore, significant disruption in natural gas supply is not considered a reasonable possibility as the global supply of natural gas is not that dependent on China and the supply chain itself is not labour intensive thereby mitigating most of the restrictions imposed as a result of the pandemic. Furthermore, the Company is owned by the two largest domestic distributors and producers of natural gas and is the most significant local buyer of natural gas which gives it a strategic position in the national gas distribution chain.

At present, management does not expect a significant decrease in turnover given current demand and exemptions from overall restrictions for the agricultural sector, but will re-assess this if new and more stringent restrictions on imports and exports arise in the near future. The Company also plans a major overhaul during 2020 (usually performed during the summer months). However, the timing and scope of the overhaul will be dependent on the demand for the mineral fertilizers and the restrictions on travel (as some professionals involved in the overhaul may be from foreign companies).

In addition, certain delays in collection of receivables, both due to government measures restricting debt collection and due to reduced market liquidity are expected but are not estimated to have a significant impact on the liquidity and operations of the Group given its relatively low exposure to receivables from customers and extensive use of advance payments. Although the net current position of the Group at 31 December 2019 is negative by HRK 51,526 thousand, a significant amount of liabilities relates to CO2 emission liabilities (HRK 224,236 thousand) which will be settled by already purchased units (HRK 37,556 thousand) and new units granted in Q1 2020. As such, this liability will require minimal or no cash outflow. When adjusted for CO2 emissions, the Group’s net current position is significantly positive in the amount of HRK 135,154 thousand. However, the extent and significance of the impact of the pandemic will ultimately depend on the length and severity of the health crisis. Management has analysed the current liquidity position of the Group, trends in key industry metrics (prices of gas and CO2 emissions) and prices of mineral fertilizer in the context of measures adopted to contain the pandemic. Based on this, management concluded that the range of reasonably possible outcomes considered do not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern.

Petrokemija d.d.
SUPERVISORY BOARD

Number: 2/2020

Kutina, 07 April 2020

Pursuant to Article 21 of the Articles of Association of Petrokemija d.d. and Articles 300.c and 300.d of the Companies Act, at the meeting 5/2020 held on 07 April 2020, the Supervisory Board of Petrokemija d.d. has made the following

DECISION
O GRANTING APPROVAL FOR THE 2019 ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

I

After reviewing the annual consolidated financial statements, the Supervisory Board of Petrokemija d.d. has granted approval for the 2019 Annual Consolidated Financial Statements of Petrokemija Group.

These consolidated financial statements are deemed endorsed by the Management Board and the Supervisory Board under the granted approval from the paragraph above.
The Management Board and the Supervisory Board shall convey the information about these endorsed consolidated financial statements to the Annual General Meeting for the adoption thereof.

II

The approval provided for in paragraph **I** refers to the following consolidated annual financial statements:

- Consolidated Balance Sheet
- Consolidated Profit and Loss Account
- Consolidated Cash Flow Statement
- Consolidated Statement of Changes in Equity
- Notes to Consolidated Financial Statements
- Annual Consolidated Statement

III

Assets and liabilities **in the amount of HRK 1,450,474,734.93** are recorded in the Consolidated Balance Sheet.

Consolidated operating profit after tax of Petrokemija Group in 2019 amounts to **HRK 140,534,613.11.**
Statements defined in paragraph II are enclosed to this Decision thus constituting the integral part thereof.

IV

This Decision shall enter into force on the day of its adoption.

President of the Supervisory Board:

/Sandor Fasimon/