

Petrokemija d.d., Kutina

Separate Annual Report

for the year 2019

This report is a translation from the original, which was prepared in the 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 report takes precedence over this translation.

Petrokemija d.d.

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Management Report on the Company for the year 2019

Company Status report for the year 2019

Petrokemija d.d. (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 d.d. financial results ⁽²⁾ (IFRS)

HRK mln	2018	2019	%
Sales revenues	1,805	2,107	17
EBITDA ⁽³⁾	(321)	265	n.a.
EBITDA excl. special items ⁽⁴⁾	(209)	334	n.a.
Profit/(loss) from operations	(411)	167	n.a.
Operating profit excl. special items ⁽⁴⁾	(299)	235	n.a.
Net result from financial activities	(60)	(26)	(56)
Net profit/loss	(471)	140	n.a.
Net profit/loss for the period excl. special items ⁽⁴⁾	(359)	209	n.a.
Simplified Free Cash Flow ⁽⁵⁾	(327)	311	n.a.
Net debt ⁽⁶⁾	528	397	(25)
Net gearing (%) ⁽⁷⁾	69	52	(26)
CAPEX	117	23	(80)
EUR mln ⁽⁸⁾	2018	2019	%
Sales revenues	243	284	17
EBITDA ⁽³⁾	(43)	36	n.a.
EBITDA excl. special items ⁽⁴⁾	(28)	45	n.a.
Profit/(loss) from operations	(55)	22	n.a.
Operating profit excl. special items ⁽⁴⁾	(40)	32	n.a.
Net financial result	(8)	(4)	(56)
Net profit/loss	(63)	19	n.a.
Net profit/loss for the period excl. special items ⁽⁴⁾	(48)	28	n.a.
Simplified Free Cash Flow ⁽⁵⁾	(44)	42	n.a.
Net debt ⁽⁶⁾	71	53	(25)
Net gearing (%) ⁽⁷⁾	69	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

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Petrokemija d.d. increased its sales revenues in 2019 by 17% to HRK 2,107 mln, mainly driven by significantly higher sales on domestic and regional market. EBITDA excluding special items increased to HRK 334 million due to higher production, higher sales volumes on more profitable markets and lower gas prices in European markets.

CAPEX amounted to HRK 23 million, which is lower compared to 2018 as two-year overhaul was performed in 2018. Net debt significantly decreased and amounted to HRK 397 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

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Performance 2019 vs. 2018 (continued)

In 2019 Petrokemija d.d. 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 140 mln compared to HRK 471 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 359 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.

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Petrokemija d.d. Non-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	1.805	2.107	17
Income from own consumption of products and services		31	3	(92)
Other operating income		17	21	25
Total operating income		1.853	2.131	15
Inventory change of finished prod. and work in progress		5	67	1,297
Cost of raw materials and consumables	2	1.687	1.333	(21)
Depreciation and amortization	5	89	99	10
Other material costs	2	79	59	(25)
Staff costs	6	187	177	(5)
Cost of other goods sold		2	15	583
Other costs	4	185	200	8
Impairment and charges		23	11	(51)
Provisions for charges and risks	3	7	4	(38)
Operating expenses		2.264	1.965	(13)
Profit/(Loss) from operations		(411)	167	n.a.
Finance income		16	3	(80)
Finance costs		76	29	(61)
Net (loss) / profit from financial activities	7	(60)	(26)	(56)
Profit/(Loss) before tax		(471)	140	n.a.
Profit/(Loss) for the year		(471)	140	n.a.

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Petrokemija d.d. Non-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	694	613	(12)
Investment in subsidiaries		13	23	70
Other investments		0	0	0
Long-term receivables		0	0	0
Deferred tax		0	0	0
Total non-current assets		711	638	(10)
Current assets				
Inventories	10	294	218	(26)
Trade receivables net	11	15	39	161
Other receivables		70	37	(47)
Given loans and deposits		348	343	(1)
Other current assets		27	98	262
Prepaid expenses and accrued income		16	38	0
Cash and cash equivalents		10	39	308
Total current assets		778	812	4
Total assets	8	1,490	1,450	(3)
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)		0	(317)	n.a.
Current earnings / (Deficit)		(471)	140	n.a.
Non-controlling interests		0	0	0
Total equity		233	373	60
Non-current liabilities				
Long-term loans		459	182	(60)
Other non-current liabilities		0	0	0
Employee benefits provisions		12	12	1
Other provisions		8	9	19
Total non-current liabilities		479	203	(57)
Current liabilities				
Bank loans and overdrafts		132	383	190
Trade payables	13	309	145	(53)
Taxes and contributions		8	20	166
Other current liabilities	14	122	68	(44)
Accruals and deferred income		196	233	19
Employee benefits obligation		11	24	123
Total current liabilities		778	873	12
Total liabilities	12	1,257	1,077	(14)
Total equity and liabilities		1,490	1,450	(3)

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Petrokemija d.d. Non-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		(471)	140	n.a.
Adjustments for:				
Depreciation and amortization		89	99	10
Gain on sale of property, plant, equipment and impairments		4	7	(52)
Other finance expense/(income) recognized in profit		64	20	(69)
(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	(298)	273	n.a.
Movements in working capital	16	482	(105)	n.a.
Decrease/(increase) in inventories		(29)	63	n.a.
Decrease/(increase) in receivables and prepayments		(12)	6	n.a.
(Decrease)/increase in trade and other payables		523	(174)	n.a.
Cash generated from operations		184	168	(9)
Interest expense (net)		(64)	(17)	(74)
Net cash inflow from operating activities		120	151	25
Cash flows used in investing activities				
Capital expenditures		(114)	(25)	(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	(114)	(23)	(80)
Cash flows from financing activities				
Issuing of own and debt financial instruments		450	0	n.a.
Repayment borrowings, net		0	(33)	n.a.
Other financing activities		(104)	0	0
Net cash used in financing activities		346	(33)	n.a.
Net (decrease)/increase in cash and cash equivalents*		353	95	(73)
At 1 January		32	385	1.097
Effect of foreign exchange rate changes		0	0	0
At the end of period		385	480	25

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

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Financial overview and notes

STATEMENT OF PROFIT OR LOSS

Notes **2019 RESULTS ⁽¹⁾**

- 1 **Total sales revenues** in 2019 amounted to HRK 2,107million 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 1,392 million, mainly due to lower natural gas cost.
- 3 **Provisions** in 2019 were recorded in the amount of HRK 4 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 8% above the 2018 level. Among them in 2019 most significant are the cost of severance payments and the cost of CO2 emissions (EUA), while in 2018, the most significant cost is the value adjustment for CO2 emission fees.
- 5 **Depreciation** in the amount of HRK 99 million was 10% higher compared to 2018.
- 6 **Staff costs** in the amount HRK 177 million were 5% lower compared to 2018.
- 7 **Net result from financial activities** is negative in 2019 and amounts to HRK 26 million while in 2018 it was negative by HRK 60 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.
 - Other items amount to HRK 4 million in 2019, while in 2018 they amount to HRK 2 million.

STATEMENT OF FINANCIAL POSITION

Notes

- 8 As at 31st December 2019 Petrokemija d.d. **total assets** amounted to HRK 1,450 million, 3% lower compared to 31st December 2018.
- 9 In the period ended 31st December 2019, Petrokemija invested HRK 23 million in **property, plant and equipment**. The effect of depreciation reduced net book value of property, plant and equipment to amount of HRK 613 million.
- 10 **Inventories** amounted to HRK 218 million, and have decreased by 26% compared to 31st December 2018 mainly as a result of higher finished product sales compared to production.
- 11 **Trade receivables** increased to HRK 39 million.
- 12 As at 31st December 2019, **total liabilities** amounted to HRK 1,077 million which is 14% or HRK 180 million lower compared to 31st December 2018. Petrokemija d.d. **net debt** ⁽²⁾ decreased by 25% compared to 31st December 2018 and amounted to HRK 397 million. **Gearing ratio** decreased from 69% 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 44% to HRK 68 million, out of which liabilities for advance payments decreased from HRK 105 mln to HRK 57 mln.

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Financial overview and notes (continued)

CASH FLOW

Notes

- 15 The **operating cash-flow before changes in working capital** amounted to HRK 273 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 105 million in 2019, due to:
- decreased value of inventories by HRK 63 million mainly related to higher sales than production and consequently lower inventories of finished products
 - decrease in receivables by HRK 6 million
 - decrease in trade and other payables by HRK 174 million as a result of lower liabilities for raw materials and consumables.
- 17 **Net outflows from investing activities** amounted to HRK 23 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.

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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.

Risk

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 d.d. 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.

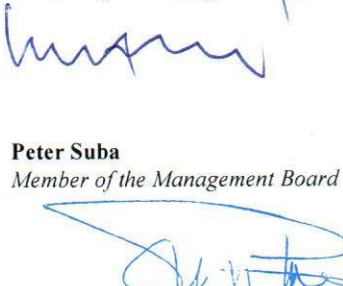
Mr. Krešimir Rendeli's mandate as MB member ceased on January 31st of 2019. Mr. Željko Marić, has been appointed member of the management board in charge of production and operations as of February 1st, 2019.

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., Kutina

Corporate Governance Statement

General information

The Company adheres 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 transparent and efficient operations while forging solid bonds with the local community.

The Company's shares are listed on the official market of the Zagreb Stock Exchange, and the Company has complied with the Zagreb Stock Exchange Corporate Governance Code. The Company 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 Company'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 Company'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 Company's Articles of Association, the bodies of the Company are the General Assembly, the Supervisory Board, and the Management Board. The mentioned acts also regulate their duties and responsibilities.

General Assembly

The General Assembly decides on issues stipulated by law and by the Company'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 Company's Articles of Association.

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Corporate Governance Statement (continued)

Supervisory Board

The Supervisory Board of the Company supervises the conduct of business affairs in the Company. With this end in view, it reviews and examines the Company'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 Company. 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 Company's Articles of Association, the Company'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 Company 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 Company. 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

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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.

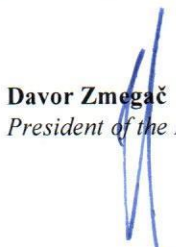
The basis of the Company's and the Group's internal control system is the internal policy that defines the basic principles and structure of internal control and duties of those responsible for internal control, which contributes to proper corporate governance and improved business transparency ensuring 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 Company'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 Company defined the process of preparing and disclosing financial statements in a detailed internal document. In order to monitor and mitigate the said risks, the Company uses the measures described in the *Risk Management* note to the financial statements.

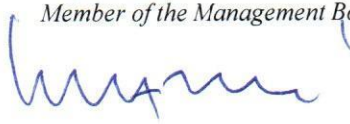
Davor Zmegač
President of the Management Board



Juraj Kojundžić
Member of the Management Board



Željko Marić
Member of the Management Board



Peter Suba
Member of the Management Board



7 April 2020
Aleja Vukovar 4
Kutina, Croatia



Petrokemija d.d., Kutina

Statement of Management's responsibility

The Management Board of Petrokemija d.d. ("the Company") is required to prepare the separate financial statements for each financial year which give a true and fair view of the financial position of the Company and of the results of its 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 Company 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 Company 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 Company is unable to continue as a going concern, then this could have an impact on the Company'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 that would result from the Company'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 separate 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 separate financial statements were then submitted to the General Assembly for approval.

The consolidated financial statements of the Group and the Annual Report on the Group are published separately and issued simultaneously with these annual separate 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





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

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Petrokemija d.d. ("the Company"), which comprise the separate statement of financial position of the Company as at 31 December 2019, and the separate statements of comprehensive income, cash flows and changes in equity of the Company 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 unconsolidated financial position of the Company as at 31 December 2019, and of its unconsolidated financial performance and its unconsolidated 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 Company 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 Company 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.



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 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 613,099 thousand with related depreciation charge for the year of HRK 97,606 thousand.

Refer to accounting policy 3.4 and note 15 to the financial statements.

Key audit matter

How we addressed the matter

The Company's reported property, plant and equipment with a total carrying amount of HRK 613 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 Company 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.

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

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Carrying amounts of property, plant and equipment (continued)

Key audit matter	How we addressed the matter
<p>Furthermore, the volatility of the industry segment the Company 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.</p> <p>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 Company 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.</p> <p>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.</p> <p>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.</p>	<p>With respect to impairment risk, we have performed the following procedures, amongst others:</p> <ul style="list-style-type: none">▪ Reviewed the Company's controls over the identification of impairment triggers;▪ Assessed the appropriateness of the Company's judgments regarding identification of assets or CGUs which may be impaired;▪ Assessed the appropriateness of allocation of assets to CGUs;▪ Critically assessed the Company'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:<ul style="list-style-type: none">- 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 Company'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 Company, 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 Article 21 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 Article 21 of the Accounting Act;
- 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company 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.

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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 separate 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 Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

7 April 2020

Petrokemija d.d.

Separate statement of comprehensive income

for the year ended 31 December 2019

<i>(in thousands of HRK)</i>	<i>Note</i>	2019	<i>Restated*</i> 2018.
Revenue from sales	8	2,107,301	1,805,294
Other income	9	23,951	48,123
Total operating income		2,131,252	1,853,417
Change in inventory of finished goods and work in progress		(66,979)	(4,795)
Raw materials, consumables and services used	10	(1,406,122)	(1,768,034)
Staff costs	11	(177,295)	(187,257)
Depreciation and amortisation	15, 16	(98,856)	(89,478)
Other operating expenses	12	(215,401)	(214,790)
Total operating expenses		(1,964,653)	(2,264,354)
Operating profit/(loss)		166,599	(410,937)
Finance income	13	3,161	16,014
Finance expenses	13	(29,359)	(75,873)
Net finance costs		(26,198)	(59,859)
Profit/(loss) before tax		140,401	(470,796)
Income tax	14	-	-
Profit/(loss) for the period		140,401	(470,796)

*For restatement details see Note 7.

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

Petrokemija d.d.
Separate statement of financial position
for the year ended 31 December 2019

<i>(in thousands of HRK)</i>	<i>Note</i>	31/12/2019	<i>Restated*</i> 31/12/2018
ASSETS			
Non-current assets			
Property, plant and equipment	15	613,099	694,361
Intangible assets	16	2,182	3,375
Investment in associate		22,849	13,454
Non-current financial assets	18	10	10
		638,140	711,200
Current assets			
Inventories	19	218,193	293,668
Trade and other receivables	20	76,132	84,577
Current financial assets	18	441,208	375,135
Other current assets	21	37,556	15,544
Cash and cash equivalents	22	38,773	9,508
		811,862	778,432
Total assets		1,450,002	1,489,632
EQUITY AND LIABILITIES			
Equity			
Share capital	23	550,287	550,287
Reserves		(364)	153,509
Accumulated losses		(176,872)	(470,796)
		373,051	233,000
Non-current liabilities			
Loans and borrowings	24	182,374	459,193
Provisions	25	21,125	19,491
		203,499	478,684
Current liabilities			
Loans and borrowings	24	383,126	138,295
Trade and other payables	26	266,090	449,618
Other current liabilities	27	224,236	190,035
		873,452	777,948
Total equity and liabilities		1,450,002	1,489,632

*For restatement details see Note 7.

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

Petrokemija d.d.
Separate statement of changes in equity
for the year ended 31 December 2019

(in HRK thousands)

	Share capital	Other reserves	Accumulated losses	Total
As at 1 January 2018	42,904	3,912	(242,617)	(195,801)
<i>Comprehensive income</i>				
Loss for the period	-	-	(470,796)	(470,796)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(470,796)	(470,796)
Increase in share capital by transfer of CERP/RH (Note 21)	450,000	-	-	450,000
Simplified transfer (Note 21)	(392,617)	150,000	242,617	-
Increase in share capital by issue of shares (Note 21)	450,000	-	-	450,000
Recapitalisation costs	-	(401)	-	(401)
Profit reserves	-	(2)	-	(2)
As at 31 December 2018	550,287	153,509	(470,796)	233,000
As at 1 January 2019	550,287	153,509	(470,796)	233,000
<i>Comprehensive income</i>				
Profit for the period	-	-	140,401	140,401
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	140,401	140,401
Transfers	-	(153,523)	153,523	-
Recapitalisation costs	-	(350)	-	(350)
As at 31 December 2019	550,287	(364)	(176,872)	373,051

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

Petrokemija d.d.
Separate statement of cash flows
for the year ended 31 December 2019

(in thousands of HRK)

	<i>Note</i>	2019	2018
Profit/(loss) before tax		140,401	(470,796)
<i>Adjustments:</i>			
Depreciation and amortization	15, 16	98,856	89,478
Gains and losses on sale and impairment of tangible and intangible assets		1,944	4,412
Gains and losses on sale and impairment of financial assets	12	4,784	55
Impairment of inventory	12	6,935	20,853
Interest and dividend income	13	(813)	(11)
Interest expense	13	20,830	64,338
Net increase/(reversal) of provisions		1,633	(267)
Foreign exchange differences - net		(1,741)	(6,073)
Other adjustments for non-cash transactions and unrealized profits and losses		21	-
Changes in working capital:		272,850	(298,011)
Decrease / (increase) in inventories		62,730	(29,148)
Decrease/(increase) in trade and other receivables		5,927	(11,751)
Increase in trade and other payables		(173,379)	522,920
Cash generated from operations		168,128	184,010
Income tax paid		-	-
Interest paid		(16,805)	(63,674)
Net cash from operating activities		151,323	120,336
Cash flows from investing activities			
Purchase of property, plant, equipment and intangibles	15, 16	(24,781)	(114,092)
Interest and dividend received		812	70
Cash receipts from given loans		(400)	-
Incorporation of a subsidiary		(200)	-
Proceeds from sale of property, plant, equipment		1,655	-
Net cash from investing activities		(22,914)	(114,022)
Cash flows from financing activities			
Proceeds from borrowings		-	104
Repayment of borrowings		(33,759)	(103,920)
Other cash inflows from financing activities		288	-
Issue of shares	23	-	450,000
Net cash from financing activities		(33,471)	346,184
Net increase /(decrease) of cash and cash equivalents		94,938	352,498
Cash and cash equivalents at beginning of year		9,508	26,387
Short term deposits and money market funds at beginning of the year		375,135	5,758
Total at beginning of year for purposes of cash flow statement		384,643	32,145
Cash and cash equivalents at end of year		38,773	9,508
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	479,581	384,643

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

Petrokemija d.d.

Notes

1 General information

The company Petrokemija d.d. Tvornica gnojiva (hereinafter "the Company") was founded in 1965, although the beginning of the sooth production dates back to 1926. Today the Company is registered at the Commercial Court in Zagreb under registration number 080004355 and personal identification number 24503685008. As at 31 December 2019, its 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.

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 Company'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 Company employed 1,262 employees (31 December 2018: 1,597 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.

Petrokemija d.d.

Notes *(continued)*

2 Basis of preparation

2.1 Statement of compliance

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

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

These 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 Company'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 Company recognised a net profit after tax of HRK 140,401 thousand (2018: net loss after tax of HRK 470,796 thousand).

The Company 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 Company by strategic investors. As a result, the Company 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 Company 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 Company.

Favourable market conditions have further strengthened and stabilised the Company's liquidity position and profitability, particularly due to the fact that market prices of the Company'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 Company 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:
 - o increase in prices and exports to regional markets,
 - o decrease in export to Mediterranean markets,
 - o increase in sales of technical products (ADBlue, ammonia water and technical urea),
 - o increase in sales of KAN/UAN in the region (more profitable products),
 - o strengthening connections with farmers,
- Measure aimed at optimising operating expenses such as:
 - o stricter controls and savings in the procurement process (lower prices),
 - o more efficient processes by introducing IT systems in certain work processes,
 - o changes in employee age structure and decrease in number of employees,
 - o increase in production efficiency by investing in production plants.

Petrokemija d.d.

Notes *(continued)*

2 Basis of preparation *(continued)*

2.4 *Going concern (continued)*

Although the Company has an excess of current liabilities over current assets in the amount of HRK 61,590 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 Company'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 Company 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 32 for more details.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 *Investments in subsidiaries and associates*

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are accounted for initially at cost and subsequently at cost less impairment losses. Investments in subsidiaries are tested annually for impairment.

(ii) Associates

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

3.2 *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.

Petrokemija d.d.

Notes (continued)

3 Significant accounting policies (continued)

3.3 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 Company. 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
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3.4 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 Company. 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.

Petrokemija d.d.

Notes *(continued)*

3 Significant accounting policies *(continued)*

3.5 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.

Petrokemija d.d.

Notes *(continued)*

3 Significant accounting policies *(continued)*

3.6 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).

Trade 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.

3.7 Impairment losses

(i) Financial assets

The Company 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 Company 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 Company 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 Company 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 Company'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.

(iii) Investments in subsidiaries

The Company annually performs impairment tests for investments in subsidiaries where indications for impairment exist, based on the results of a static analysis of the Company's exposure compared to the net assets of the subsidiary. For investments identified as such, the Company estimates the recoverable amount and compares it with the carrying amount.

The calculation of the recoverable amount is generally based on three-year business plans for the respective subsidiary. Cash flows created from such plans are discounted using the discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test as the weighted average cost of capital for the respective market and industry.

Petrokemija d.d.

Notes (continued)

3 Significant accounting policies (continued)

3.8 Employee benefits

(i) Defined pension fund contributions

In the normal course of business through salary deductions, the Company 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 Company is not obliged to provide any other post-employment benefits.

(ii) Long-term employee benefits

The Company 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 Company'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.

3.9 Provisions

A provision is recognised when the Company 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.

3.10 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.

3.11 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.

Petrokemija d.d.

Notes (continued)

3 Significant accounting policies (continued)

3.12 Accounting for leases – where the Company is the lessee

The Company 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 Company 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 Company uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

The Company 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 Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company 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 Company'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 Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company 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 Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company 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 Company 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 Company 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 Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Petrokemija d.d.

Notes *(continued)*

3 Significant accounting policies *(continued)*

3.12 Accounting for leases – where the Company is the lessee *(continued)*

Policy applicable until 1 January 2019 under IAS 17

Leases of property, plant and equipment and intangible assets where the Company 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.

3.13 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.

3.14 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 Company's owners.

3.15 Segment information

A segment is a distinguishable component of the Company 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 Company does not report segment information as internal reporting is not based on segmental information other than revenues per geographic market and products.

Petrokemija d.d.

Notes (continued)

3 Significant accounting policies (continued)

3.16 CO₂ emission allowances

Emission allowances are classified as other current assets when they are intended for the settlement of current CO₂ 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 (EU's trading System for CO₂ 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 CO₂ emissions is recognised during the reporting period on a monthly basis whereby the amount of the liability recognised is equal to the amount of CO₂ units emitted, measured at the ETS market price at each month end. The liability for CO₂ emissions presented within other current liabilities while the corresponding expense is recognised within operating expenses. The liability for CO₂ 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

3.17 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 taxes

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 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 Company 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 Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company 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.

Petrokemija d.d.

Notes *(continued)*

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.

The estimates and underlying assumptions are reviewed on an ongoing basis. 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 3.7 and Note 25).

(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 Company's liabilities that may arise from these legal actions on a consistent basis.

The Company 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 Company. The Company 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 Company.

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 Company is a plaintiff in a particular legal action, any economic benefits expected to flow to the Company 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 Company's obligations arising from legal actions are recognised on a consistent basis and estimated on a case by case principle.

Petrokemija d.d.

Notes *(continued)*

4 Key accounting judgements and estimates

(iii) Accounting for capital expenditure under the concession arrangement

The Company, 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 Company (“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 Company, the concession arrangement also defines obligations of the Company 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 Company 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 Company 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 3.4. 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 Company 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 Company 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 Company 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 valued 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).

Petrokemija d.d.

Notes *(continued)*

4 Key accounting judgements and estimates

(v) Impairment of non-financial assets

The Company annually reviews non-financial assets for potential indicators of impairment. Where such indicators exist, the Company performs impairment tests in order to assess whether the carrying amount of respective assets is recoverable. For the purposes of performing impairment tests, the Company 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 Company 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.

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

(vi) Impairment of investments in subsidiaries

The Company annually performs impairment tests for investments in subsidiaries where indications for impairment exist, based on the results of a static analysis of the Company's exposure compared to the net assets of the subsidiary. For investments identified as such, the Company estimates the recoverable amount and compares it with the carrying amount. During 2019, the Company recognized the impairment loss for investment in the subsidiary Luka Šibenik d.o.o. in the amount of HRK 4,728 thousand (*31 December 2018: HRK 2,201 thousand*). See notes 13 and 17.

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 Company has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Company's separate 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.

Petrokemija d.d.

Notes *(continued)*

6 Determination of fair value

The Company has an established control framework with respect to fair value measurement which assumes the overall responsibility of the Management Board and finance department in relation to the monitoring of all significant fair value measurements, consultation with external experts and the responsibility to report, with respect 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 Company has made the following significant fair value estimates as further explained in detail in the following notes:

- Note 18: Financial assets

Petrokemija d.d.

Notes (continued)

7 Correction of prior period error / Change in accounting policy

The Company has amended its accounting treatment for CO₂ emission allowances and aligned it with requirements of relevant IFRSs.

Liability for CO₂ 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 CO₂ 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 Company 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 CO₂ 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 CO₂ emissions is disclosed in note 3.16.

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.

<i>(in thousands of HRK)</i>	Reported 31/12/2018	Correction	Restated 31/12/2018
ASSETS			
Non-current assets			
Property, plant and equipment	694,361	-	694,361
Intangible assets	3,375	-	3,375
Investment in associate	13,454	-	13,454
Non-current financial assets	10	-	10
	711,200	-	711,200
Current assets			
Inventories	293,668	-	293,668
Trade and other receivables	84,577	-	84,577
Other current assets	-	15,544	15,544
Current financial assets	375,135	-	375,135
Cash and cash equivalents	9,508	-	9,508
	762,888	15,544	778,432
Total assets	1,474,088	15,544	1,489,632
EQUITY AND LIABILITIES			
Equity			
Share capital	550,287	-	550,287
Reserves	153,509	-	153,509
Accumulated losses	(470,796)	-	(470,796)
Attributable to owners of the Company	233,000	-	233,000
Non-current liabilities			
Loans and borrowings	459,193	-	459,193
Provisions	19,491	-	19,491
	478,684	-	478,684
Current liabilities			
Loans and borrowings	138,295	-	138,295
Trade and other payables	624,109	(174,491)	449,618
Other current liabilities	-	190,035	190,035
	762,404	15,544	777,948
Total equity and liabilities	1,474,088	15,544	1,489,632

Petrokemija d.d.

Notes (continued)

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

<i>(in thousands of HRK)</i>	Reported 2018	Correction	Restated 2018
Revenue from sales	1,805,294	-	1,805,294
Other income	48,123	-	48,123
Total operating income	1,853,417	-	1,853,417
Change in inventory of finished goods and work in progress	(4,795)	-	(4,795)
Raw materials, consumables and services used	(1,768,034)	-	(1,768,034)
Staff costs	(187,257)	-	(187,257)
Depreciation and amortisation	(89,478)	-	(89,478)
Other operating expenses	(102,739)	(112,051)	(214,790)
Total operating expenses	(2,152,303)	(112,051)	(2,264,354)
Operating loss	(298,886)	(112,051)	(410,937)
Finance income	16,014	-	16,014
Finance expenses	(187,924)	112,051	(75,873)
Net finance costs	(171,910)	112,051	(59,859)
Loss before tax	(470,796)	-	(470,796)
Income tax	-	-	-
Loss for the period	(470,796)	-	(470,796)
Other comprehensive income:			
Exchange differences on translation of foreign operations	-	-	-
Total comprehensive loss	(470,796)	-	(470,796)

Petrokemija d.d.

Notes (continued)

8 Revenue from sales

	2019 HRK '000	2018 HRK '000
Revenue from sale of products and merchandise	2,100,633	1,800,775
Revenue from services	6,668	4,519
	2,107,301	1,805,294

Overview of revenue from sales per market:

	2019 HRK '000	2018 HRK '000
Croatia	676,263	589,204
Slovenia	99,022	126,394
Bosnia and Herzegovina	101,373	98,955
Serbia, Montenegro and Macedonia	198,169	155,650
Italy	204,549	228,298
Other countries	827,925	606,793
	2,107,301	1,805,294

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	4,103	2,990
	23,951	48,123

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 of finished products, which are from 1 November 2019 being produced in the subsidiary of the Company, Tvornica paleta Kutina d.o.o.

10 Raw materials, consumables and services used

	2019 HRK '000	2018 HRK '000
Raw materials and consumables used	1,332,538	1,686,798
Cost of production services	59,024	79,105
Cost of wholesale and retail goods sold	14,560	2,131
	1,406,122	1,768,034

Petrokemija d.d.

Notes (continued)

11 Staff costs

	2019	2018
	HRK '000	HRK '000
Salaries	111,974	118,086
Contributions on salaries	24,818	27,277
Other staff costs	40,503	41,894
	177,295	187,257

As at 31 December 2019, the Company had 1,262 employees (2018: 1,597).

12 Other operating expenses

	2019	2018
	HRK '000	HRK '000
Other fees and taxes	94,817	159,998
Impairment of inventories	6,935	18,370
Impairment of tangible assets	2,553	-
Depreciated value of expensed non-current tangible assets	93	2,482
Other employee costs	79,590	12,532
Impairment of goodwill	-	-
Insurance	9,517	9,609
Increase in provision	4,434	1,107
Bank charges	2,346	2,580
Inventory loss	1,960	1,623
Impairment of trade receivables	55	55
Intellectual services	3,763	835
Travel expenses	702	591
Other	8,636	5,008
	215,401	214,790

*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 32).

The Company 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 Company 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.

Petrokemija d.d.

Notes (continued)

13 Financial income and financial expenses

	2019	<i>Restated*</i> 2018
	HRK '000	HRK '000
Interest income	460	61
Foreign exchange differences	2,060	15,407
Other finance income	641	546
Total finance income	3,161	16,014
Interest expense	(20,830)	(64,338)
Foreign exchange losses	(3,801)	(9,334)
Other financial expenses	(4,728)	(2,201)
Total finance costs	(29,359)	(75,873)
Net finance costs	(26,198)	(59,859)

*For restatement details see Note 7.

Other financial expenses relate to impairment of investment in subsidiary Luka Šibenik in the amount of HRK 4,728 thousand (31 December 2018: HRK 2,201 thousand).

Petrokemija d.d.

Notes (continued)

14 Income tax

Recognised in statement of comprehensive income:

	2019 HRK '000	2018 HRK '000
Current income tax	-	-
Deferred tax, net	-	-
	-	-

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 HRK '000	2018 HRK '000
Gain / (loss)oss before taxation	140,401	(470,796)
Tax calculated at 18% (2018: 18%)	25,272	(84,743)
Non-deductible expenses and non-taxable income	2,518	2,356
Permanent differences (demerger)	5,875	-
Utilisation of temporary differences previously not recognised as deferred tax assets	(33,665)	-
Tax losses not recognised as deferred tax assets	-	82,387
Income tax expense	-	-
Effective tax rate	-%	-%

Permanent differences relate to taxed excess of fair value to the carrying amount for assets that have been a part of a demerger from the Company to newly formed subsidiaries during the year.

At the reporting date, carry forward gross tax losses of the Company amounted to HRK 780,493 thousand (31 December 2018: HRK 1,140,385 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 Company did not recognise deferred tax assets on temporary tax differences.

The tax value of tax losses available in future periods is as follows:

	2019 HRK '000	2018 HRK '000
Tax loss from 2014 - expires on 31 December 2019	-	64,780
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	26,373	26,373
Tax loss from 2018 - expires on 31 December 2023	82,387	82,387
	140,487	205,267

Petrokemija d.d.

Notes (continued)

15 Property, plant and equipment

(in thousands of HRK)

	Land	Buildings	Plant and equipment	Tools and fittings	Spare parts	Assets under construction	Advances	Total
Cost								
As at 1 January 2018	44,793	581,221	1,442,669	75,719	11,149	81,349	4,763	2,241,663
Adjustment	-	-	(1,282)	(615)	-	1,029	-	(868)
Additions	-	-	-	-	7,195	86,222	18,424	111,841
Transfer from intangible assets	-	-	5,136	-	-	-	-	5,136
Transfers	-	4,624	129,587	521	(2,283)	(113,343)	(19,106)	-
Disposals	(417)	(2,331)	(2,533)	(1,658)	-	-	-	(6,939)
As at 31 December 2018	44,376	583,514	1,573,577	73,967	16,061	55,257	4,081	2,350,833
Accumulated depreciation								
As at 1 January 2018	-	374,769	1,136,404	56,613	5,120	-	-	1,572,906
Adjustment	-	5,211	(6,411)	(135)	(417)	-	-	(1,752)
Charge for the year	-	17,692	67,221	3,218	-	-	-	88,131
Disposals	-	(618)	(537)	(1,658)	-	-	-	(2,813)
As at 31 December 2018	-	397,054	1,196,677	58,038	4,703	-	-	1,656,472
Carrying amount								
As at 31 December 2018	44,376	186,460	376,900	15,929	11,358	55,257	4,081	694,361

Petrokemija d.d.

Notes (continued)

15 Property, plant and equipment

(in thousands of HRK)	Land	Buildings	Plant and equipment	Tools and fittings	Spare parts	Assets under construction	Advances	Total
Cost								
As at 1 January 2019	44,376	583,514	1,573,577	73,967	16,061	55,257	4,081	2,350,833
Right of use asset IFRS 16	-	-	-	1,858	-	-	-	1,858
Additions	-	303	6	-	1,684	23,024	2,960	27,977
Transfers	-	5,914	67,983	522	(6,331)	(68,088)	-	-
Disposals	-	-	(1,935)	(1,680)	-	-	(2,762)	(6,377)
Transfer to investment in subsidiaries	(429)	(4,519)	(19,846)	(3,221)	-	-	-	(28,015)
As at 31 December 2019	43,947	585,212	1,619,785	71,446	11,414	10,193	4,279	2,346,276
Accumulated depreciation								
As at 1 January 2019	-	397,054	1,196,677	58,038	4,703	-	-	1,656,472
Charge for the year	-	16,983	75,494	4,121	1,008	-	-	97,606
Disposals	-	-	(1,848)	(1,676)	-	-	-	(3,524)
Impairment losses	-	810	1,743	-	-	-	-	2,553
Transfer to investment in subsidiaries	-	(3,305)	(13,560)	(3,065)	-	-	-	(19,930)
As at 31 December 2019	-	411,542	1,258,506	57,418	5,711	-	-	1,733,177
Carrying amount								
As at 31 December 2019	43,947	173,670	361,279	14,028	5,703	10,193	4,279	613,099

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

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

The Company 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.

Petrokemija d.d.

Notes (continued)

16 Intangible assets

<i>(in thousands of HRK)</i>	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
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

Petrokemija d.d.

Notes (continued)

17 Investments in subsidiaries and associates

As at the reporting date the Company holds the following investments in subsidiaries:

Name of subsidiary	Ownership %		Investment	
	31/12/2019	31/12/2018	31/12/2019 HRK '000	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 d.o.o., Novi Sad	100%	100%	259	259
			22,849	13,454

During 2019 the Company recognised an impairment of investment in subsidiary Luka Šibenik d.o.o. in the amount of HRK 4,728 thousand (31 December 2018: HRK 2,201 thousand). During 2018 the Company sold its shares in the subsidiary Petrokemija Agro Trade d.o.o. During the year the Company 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.

Transferred net assets to new subsidiaries are as follows:

	Tvornica gline	Tvornica paleta
	1/11/2019	1/11/2019
Non-current assets	6,346	1,739
Current assets	5,975	524
Cash	100	100
Current liabilities	(560)	(104)
Net assets	11,861	2,259

18 Financial assets

	31/12/2019	31/12/2018
	HRK '000	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
Loans given	400	-
	441,208	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.

Petrokemija d.d.

Notes (continued)

19 Inventories

	31/12/2019 HRK '000	31/12/2018 HRK '000
Finished goods	74,737	152,807
Raw materials and supplies	83,615	100,758
Work in progress	27,059	14,992
Trade goods	3,458	611
Spare parts	27,111	23,213
Prepayments	2,213	1,287
	218,193	293,668

20 Trade and other receivables

	31/12/2019 HRK '000	31/12/2018 HRK '000
Current receivables		
Trade receivables	143,043	119,077
Less: Provisions for impairment	(104,085)	(104,148)
Net trade receivables	38,958	14,929
Related party trade receivables	713	4,340
Receivables for taxes and contributions	34,268	62,992
Prepaid expenses	329	14
Receivables from employees	7	31
Other receivables	1,857	2,271
	76,132	84,577

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	55
Foreign exchange, net	(4)	(8)
Amounts collected	(41)	(34)
Written off as uncollectible	(73)	(2,039)
At 31 December	104,085	104,148

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

	31/12/2019 HRK '000	31/12/2018 HRK '000
Not yet due	33,265	11,435
Overdue 0-60 days	6,387	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
	143,756	123,417

Petrokemija d.d.

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)	136,800	109,616
European Union (EUR)	3,018	13,801
USA (USD)	3,938	-
	143,756	123,417

21 Other current assets

	31/12/2019 HRK '000	<i>Restated*</i> 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	38,767	9,499
Cash in hand	6	9
Cash and cash equivalents in the statement of financial position	38,773	9,508
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	479,581	384,643

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

Petrokemija d.d.

Notes (continued)

23 Capital and reserves

	31/12/2019 HRK '000	31/12/2018 HRK '000
Share capital	<u>550,287</u>	<u>550,287</u>

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

Structure of ownership	31/12/2019		31/12/2018	
	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	5.45%
Ćorić Božo	4,400	0.01%	-	-
Pavelić Ivan	3,284	0.01%	2,574	0.00%
Ribičić Jasna	3,219	0.01%	-	-
PT drvo d.o.o.	3,000	0.01%	-	-
Baretić Bojan	2,955	0.01%	-	-
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	-	0.00%	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.

Petrokemija d.d.

Notes *(continued)*

23 Capital and reserves *(continued)*

- (a) Based on the Decision of the General Assembly of the Company of 9 July 2018, the Company 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 Company 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 Company 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 Company 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 Company at date of share acquisition.

Petrokemija d.d.

Notes (continued)

24 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	1,353	-
Other loans	-	1,455
	182,374	459,193
Current borrowings		
Banks	18,634	21,000
Related party loans	364,383	117,295
Lease liabilities	13	-
Other loans	96	-
	383,126	138,295
Total borrowings	565,500	597,488

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	383,126	138,295
Between 1 and 2 years	88,977	278,530
Between 2 and 5 years	43,313	116,661
Over 5 years	50,084	64,002
	565,500	597,488

Bank loans

The interest rates for bank loans included in the table above ranged from 4% to 5.5%.

Related party loans

Loans from related parties relate to loan's from INA d.d. PPD d.o.o. and HEP d.d. carrying a fixed interest rate of 3%.

At the end of 2018, the Company 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 Company 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.

Notes (continued)

24 Loans and borrowings

Debt movement

	Balance at 31/12/2018	Loans and borrowings	Repayment of borrowings	Foreign exchange differences	Balance at 31/12/2019
Bank loans	145,849	-	(21,000)	405	125,254
Suppliers (Ina d.d., PPD d.o.o. i HEP d.d.)	444,184	-	(5,400)	-	438,784
Related parties (Luka Šibenik d.o.o.)	6,000	-	(6,000)	-	-
Other loans (HEP ESCO d.o.o.)	1,455	-	(1,359)	-	96
Lease liabilities	-	1,865	(499)	-	1,366
	597,488	1,865	(34,258)	405	565,500

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).

Petrokemija d.d.

Notes (continued)

25 Provisions

<i>(in thousands of HRK)</i>	Jubilee awards	Retirement benefits	Court cases	Decommissioning provision for "Soot plant"	Total
As at 31 December 2018					
Non-current	6,862	4,701	428	7,500	19,491
Current	-	-	-	-	-
At 1 January 2019	6,862	4,701	428	7,500	19,491
Increase in provisions	976	-	245	1,300	2,521
Release of provisions	-	(16)	-	-	(16)
Utilised	(855)	(16)	-	-	(871)
As at 31 December 2019	6,983	4,669	673	8,800	21,125
As at 31 December 2019					
Non-current	6,983	4,669	673	8,800	21,125
Current	-	-	-	-	-
	6,983	4,669	673	8,800	21,125

Decommissioning provision for the soot plant

The Company 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 Company for minor amounts as well as those initiated by the Company against others. A provision amounting to HRK 673 thousand was recognised in relation to legal actions. The Company'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 Company 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.

Notes (continued)

26 Trade and other payables

	31/12/2019	<i>Restated*</i> 31/12/2018
	HRK '000	HRK '000
Trade payables	138,110	306,720
Related party payables	2,663	1,967
Contract liabilities (advances received from customers)	57,005	105,063
Salaries and other benefits to employees	32,775	17,025
Accrued interest	15,223	11,196
Taxes, contributions and other duties	19,232	6,216
Other	1,082	1,431
	266,090	449,618

*For restatement details see Note 7.

27 Other current liabilities

	31/12/2019	<i>Restated*</i> 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.

Petrokemija d.d.

Notes (continued)

28 Risk management

Financial risk management

Categories of financial instruments are as follows:

	31/12/2019	31/12/2018
	HRK '000	HRK '000
Short-term financial assets	441,208	375,135
Trade receivables	38,958	14,929
Cash and cash equivalents	518,354	394,151
Total loans and receivables	998,520	784,215
Total financial assets	998,520	784,215
Loan liabilities	565,500	597,488
Trade payables	138,110	306,720
Total financial liabilities at amortised cost	703,610	904,208
Total financial liabilities	703,610	904,208

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.

Notes (continued)

28 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 Company's short, medium and long-term funding and liquidity requirements. The Company 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 Company's financial liabilities and financial assets presented in the separate 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 Company manages liquidity risk by monitoring the net current asset position and by addressing any expected current liquidity deficits. The Company has significant debt repayments scheduled in the following years. The Company 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.

<i>as at 31 December 2019</i>	Carrying amount	Contractual cash flows	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
			<i>(in thousands of HRK)</i>			
<i>Non-interest bearing assets:</i>						
Trade receivables	38,958	38,958	38,958	-	-	-
	38,958	38,958	38,958	-	-	-
<i>Interest bearing assets:</i>						
Current financial assets	441,208	441,208	441,208	-	-	-
Cash and cash equivalents	38,773	38,773	38,773	-	-	-
	479,981	479,981	479,981	-	-	-
	518,939	518,939	518,939	-	-	-
<i>as at 31 December 2019</i>						
	Carrying amount	Contractual cash flows	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
			<i>(in thousands of HRK)</i>			
<i>Non-interest bearing liabilities:</i>						
Trade payables	138,110	138,110	138,110	-	-	-
	138,110	138,110	138,110	-	-	-
<i>Interest bearing liabilities:</i>						
Loans and borrowings	565,500	617,561	405,219	97,271	56,867	58,204
	565,500	617,561	405,219	97,271	56,867	58,204
	703,610	755,671	543,329	97,271	56,867	58,204

Petrokemija d.d.

Notes (continued)

28 Risk management (continued)

Financial risk management (continued)

Liquidity risk analysis (continued)

<i>As at 31 December 2018</i>	Net carrying	Contractual cash flows	Up to 1 year <i>(in thousands of HRK)</i>	1 – 2 years	2 – 5 years	Over 5 years
<i>Non-interest bearing</i>						
Trade and related party	14,929	14,929	14,929	-	-	-
	14,929	14,929	14,929	-	-	-
<i>Interest bearing assets:</i>						
Current financial assets	375,135	375,135	375,135	-	-	-
Cash and cash equivalents	9,508	9,508	9,508	-	-	-
	384,643	384,643	384,643	-	-	-
	399,572	399,572	399,572	-	-	-
<i>as at 31 December 2018</i>	Net carrying	Contractual cash flows	Up to 1 year <i>(in thousands of HRK)</i>	1 – 2 years	2 – 5 years	Over 5 years
<i>Non-interest bearing</i>						
Trade payables	306,720	306,720	306,720	-	-	-
	306,720	306,720	306,720	-	-	-
<i>Interest bearing</i>						
Loan liabilities	597,488	671,314	161,560	295,459	139,043	75,252
	597,488	671,314	161,560	295,459	139,043	75,252
	904,208	978,034	468,280	295,459	139,043	75,252

Petrokemija d.d.

Notes (continued)

28 Risk management (continued)

Financial risk management (continued)

Interest rate risk management

The Company 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 Company'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 Company's result before tax for the reporting periods is as follows:

<i>As at 31 December 2019</i>	Contractual cash flows	Up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Over 5 years
		<i>(in thousands of HRK)</i>				
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.

<i>as at 31 December 2018</i>	Contractual cash flows	Up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Over 5 years
		<i>(in thousands of HRK)</i>				
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 Company 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.

Notes (continued)

28 Risk management (continued)

Financial risk management (continued)

Currency risk management

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

	Assets	
	31/12/2019	31/12/2018
	(in thousands of HRK)	
European Union (EUR)	16,339	14,786
USA (USD)	16,010	5
	32,349	14,791

	Liabilities	
	31/12/2019	31/12/2018
	(in thousands of HRK)	
European Union (EUR)	126,101	71,800
USA (USD)	-	84,778
	126,101	156,578

Foreign currency sensitivity analysis

The Company 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 Company 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 Company'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
	(in thousands of HRK)	
Increase/(decrease) in net result	(1,098)	(570)

	USD exposure	
	2019	2018
	(in thousands of HRK)	
Increase/(decrease) in net result	1,601	(8,477)

The Company 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.

Petrokemija d.d.

Notes (continued)

28 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 Company.

The Company'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 Company 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 Company 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	33,265	11,435
Overdue 0-120 days, but not impaired	6,387	7,767
Overdue over 120 days, but not impaired	-	-
Total trade receivables	39,652	19,202
Cash at bank (including deposits)	381,900	357,632
Total exposure to credit risk	421,552	376,834

Operational risk management

Sales concentration risk

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

The Company has significant customer concentration whereby approximately 33-35% of revenue is generated by the top five customers. Consequently, the Company'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 Company to provide competitive pricing terms due to its stressed liquidity position.

The Company 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 Company's primary raw material, natural gas, is dependent on two major suppliers and one smaller supplier who are also the Company's largest creditors accounting for 36% of its total liabilities (2018: 38%).

The Company 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 Company currently does not use instruments that would hedge market price fluctuation.

The Company 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 Company's profit by HRK 977 thousand (2018: HRK 270 thousand).

Petrokemija d.d.

Notes *(continued)*

29 Contractual and capital commitments

Procurement of natural gas

The Company 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 Company has an obligation to buy the total amount of natural gas 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 Company, 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.

Petrokemija d.d.

Notes (continued)

30 Related party transactions

The Company 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); key 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 Company 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 Company 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.

Transactions with subsidiaries

	2019	2018
	HRK '000	HRK '000
Luka Šibenik d.o.o.	1,605	1,605
Petrokemija d.o.o., Novi Sad	28,719	48,558
Tvornica gline Kutina d.o.o. (from 1 November 2019 for comparatives)	224	-
Tvornica paleta Kutina d.o.o. (from 1 November 2019 for comparatives)	45	-
Petrokemija Agro Trade d.o.o. Kutina	-	4,644
Sale of goods and services	30,593	54,807

Luka Šibenik d.o.o.	-	-
Petrokemija d.o.o., Novi Sad (foreign exchange differences)	18	15
Petrokemija d.o.o., Novi Sad (income from shares)	353	516
Financial income	371	531

	31/12/2019	31/12/2018
	HRK '000	HRK '000
Luka Šibenik d.o.o.	334	334
Petrokemija d.o.o., Novi Sad	-	4,005
Tvornica gline Kutina d.o.o.	315	-
Tvornica paleta Kutina d.o.o.	63	-
Receivables as at 31 December	712	4,339

	2019	2018
	HRK '000	HRK '000
Luka Šibenik d.o.o.	8,967	13,243
Petrokemija d.o.o., Novi Sad	71	83
Tvornica gline Kutina d.o.o.	76	-
Tvornica paleta Kutina d.o.o.	799	-
Petrokemija Agro Trade d.o.o. Kutina	-	4,691
Purchase of goods and services	9,913	18,017

Petrokemija d.d.

Notes (continued)

30 Related party transactions (continued)

Transactions with subsidiaries (continued)

	31/12/2019	31/12/2018
	HRK '000	HRK '000
Luka Šibenik d.o.o.	108	300
Petrokemija d.o.o., Novi Sad	3	33
Finance expenses	111	333

	31/12/2019	31/12/2018
	HRK '000	HRK '000
Petrokemija d.o.o., Novi Sad	-	23
Luka Šibenik d.o.o.	2,242	1,944
Tvornica gline Kutina d.o.o.	93	-
Tvornica paleta Kutina d.o.o.	328	-
Liabilities as at 31 December	2,663	1,967

Luka Šibenik d.o.o.	-	6,000
Loans and borrowings	-	6,000

Tvornica gline Kutina d.o.o.	400	-
Loans given	400	-

Transactions with owners and state related.

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

	2019	2018
	HRK '000	HRK '000
PPD d.o.o.		
Purchase of goods and services (since 30/10/2018 for comparative)	454,272	121,725
Financial expenses (since 30/10/2018 for comparative)	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

Petrokemija d.d.

Notes (continued)

30 Related party transactions (continued)

Transactions with owners and state related (continued)

	2019	2018
	HRK '000	HRK '000
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

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.

31 Contingent liabilities

Legal actions

There are a number of legal actions initiated against the Company for minor amounts as well as those initiated by the Company against others. The Company's Management Board believes that no significant costs exceeding those provided for at the reporting date will occur, as presented in Note 25.

32 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 Company 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 Company recognized the liability for the said amount of VAT and interest within other liabilities and the associated expense within other operating expenses.

Petrokemija d.d.

Notes (continued)

32 Events after the reporting period

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 CO2 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. 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 Company given its relatively low exposure to receivables from customers and extensive use of advance payments. Although the net current position of the Company at 31 December 2019 is negative by HRK 61,590 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 Company's net current position is significantly positive in the amount of HRK 125,090 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 Company, 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 Company's ability to continue as a going concern.

Petrokemija d.d.
SUPERVISORY BOARD

Number: 1/2020

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
ON GRANTING APPROVAL FOR THE 2019 ANNUAL FINANCIAL STATEMENTS

I

After reviewing the annual financial statements, the Supervisory Board of Petrokemija d.d. has granted approval for the 2019 Annual Unconsolidated Financial Statements of Petrokemija d.d. prepared by the Company's Management Board.

These 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 financial statements to the Annual General Meeting for the adoption thereof.

II

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

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

III

Assets and liabilities **in the amount of HRK 1,450,003,651.21** are recorded in the Balance Sheet.

Operating profit after taxes realised in 2019 amounts to **HRK 140,401,027.66**.

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/

Petrokemija d.d.
MANAGEMENT BOARD
SUPERVISORY BOARD

Number: 3/2020

Kutina, 07/04/2020

The Management Board and the Supervisory Board propose that the Annual General Meeting make the decision as follows:

Pursuant to Article 275, in conjunction with Article 220 of the Companies Act (Official Gazette No. 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15 and 40/19) and Article 27 of the Articles of Association, the Annual General Meeting of Petrokemija d.d. hereby makes the following

DECISION

on using the Company's profit

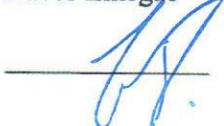
Article 1

After-tax profit generated in the business year ended 31 December 2019, in the amount of **HRK 140,401,027.66**, shall be distributed to cover a part of the previous year's loss carried forward.

Article 2

This decision shall enter into force on the date of its adoption.

President of the Management Board
Davor Žmegač



President of the Supervisory Board
Sándor Fasimon

