



ANNUAL REPORT FOR 2019

CONSOLIDATED ANNUAL REPORT FOR 2019

INDEPENDENT AUDITOR'S REPORT

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Management Board presents its Management Board's Report together with audited consolidated financial statements for the year ended 31 December 2019.

Principal activity

Prvo plinarsko društvo d.o.o. ("Company" or "PPD") is a limited liability company founded in Republic of Croatia and registered at the Commercial court in Osijek under number 030070559, PIN 58292277611. The sole owner of the Company is Energija Naturalis d.o.o. The Company was registered at the Commercial Court in Osijek on 25 June 2001 and its activity is distribution and supply of natural gas. Prvo plinarsko društvo d.o.o. Group ("the Group") comprise of subsidiaries over which the Company has direct or indirect control.

As at 31 December 2019, the Company had direct control in following subsidiaries:

- PPD d.o.o., Bosnia and Herzegovina (100%)
- PPD Hungaria Energiakereskedo Kft, Hungary (100%)
- PPD energija d.o.o. (previously: Energija Naturalis Int d.o.o.), Slovenia (100%)
- PPD Global S.A., Switzerland (100%).

As at 31 December 2019 the Company also had significant influence of 27.26% in Petrokemija d.d. through joint venture Terra mineralna gnojiva d.o.o.

Financial results

In 2019, the Group had total consolidated revenue of HRK 8.6 billion and profit after tax of HRK 260.2 million. Other financial results of Group are presented in consolidated income statement in accompanied financial statements.

Financial risk management

Group regularly reviews the currency, interest rate risk, credit risk and liquidity risks that arise from the ordinary course of business.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Trade receivables and loans given are presented net of allowance for doubtful receivables. At the reporting date, there were no significant concentrations of credit risk.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Certain assets and liabilities principally trade receivables and trade payables, and loans, are denominated in foreign currencies, which are retranslated at the prevailing exchange rate at each reporting date. The resulting differences are charged or credited to the income statement but do not affect cash flows significantly.

The Group is exposed to interest rate risk as certain loans are agreed at floating rates. The Group does not hedge this exposure to interest rate risk as the company operated with low credit indebtedness. Management expects that the effect of interest risk can not significantly influence on its business operations.

Expected development of the Group

Prvo plinarsko društvo d.o.o. is a subsidiary of Energia Naturalis d.o.o. Group ("ENNA Group") which operated as a holding company with subsidiaries in gas trading, wholesale and retail sales of gas, gas distribution, logistics and transport and other businesses. The Company will continue in following periods with activities to increase gas sales on foreign markets and to retain position of a leading importer of natural gas on a Croatian market.

Investment of the Company in Petrokemija d.d. through joint venture Terra mineralna gnojiva d.o.o. resulted with positive financial result for 2019, and the Company will continue improving administrative, production, sales and purchase models that would retain stable profitability of production in Kutina.

During 2019, Prvo plinarsko društvo – opskrba poslovnim korisnicima d.o.o. whose main activity is gas trading to businesses merged to Company. With this merger, the Group obtained a significant increase of customers on a gas distribution network and joined gas sales to companies. Further, ENNA ESCO d.o.o. who invested more than HRK 112 million in energy efficiency of Varaždin General Hospital and the Zagreb Police Academy merged to the Company during 2019.

The Company acquired business premises in Vukovar, Gospodarska zona 13 in December 2019 which includes an educational center, for HRK 14 million.

The Group continues with improvements and developments of corporate governance so that through further development of business politics, internal rulebooks and processes could transparently and efficiently manage and supervise operations. Education centre in Vukovar which was opened for all ENNA Group employees was a host to a Gas conference organised by a subsidiary and several educations (both internal and external) to employees.

Management Board

Members of the Management Board until signing of financial statements were as follows:

Pavao Vujnovac	President of the Management Board
Antonija Glavaš	Member of the Management Board
Ivana Ivančić	Member of the Management Board

Events after the reporting date

The Company incorporated PPD fueling LNG d.o.o. on 18 March 2020.

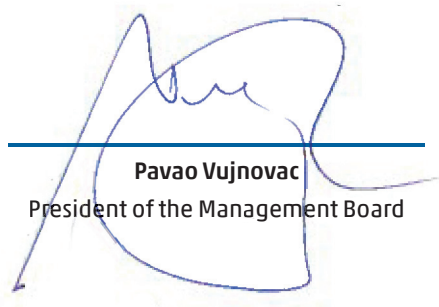
During 2020, the Group acquired additional New instruments to total of 8% shareholding.

The Group reported effect of COVID-19 pandemic in Events after the reporting date.

Other

The Company did not purchase it's own issued capital during 2019. Operations of the Group does not include research and development. The Company does not have established representative offices.

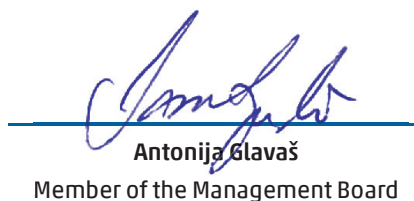
Management Board's report is authorised by Management Board and is signed below to signify this:



Pavao Vujnovac
President of the Management Board



Ivana Ivantić
Member of the Management Board



Antonija Glavaš
Member of the Management Board

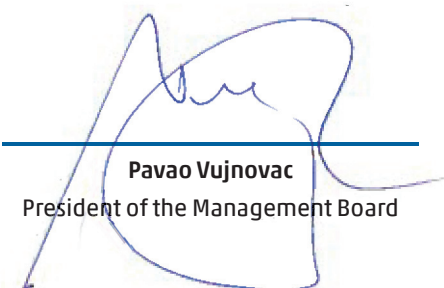
12 May 2020

Management is required to prepare consolidated financial statements for each financial year which give a true and fair view of the consolidated financial position of the Group and of the results of its consolidated operations and consolidated cash flows, in accordance with International standards of financial reporting as adopted by European Union, and is responsible for maintaining proper accounting records to enable the preparation of such consolidated financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Management is responsible for the preparation and content of the consolidated annual report in accordance with Article 21 of the Accounting Act of the Republic of Croatia.

The consolidated annual report is authorised by management and is signed below to signify this:



Pavao Vujnovac
President of the Management Board



Ivana Ivančić
Member of the Management Board



Antonija Glavaš
Member of the Management Board

Prvo plinarsko društvo d.o.o.
Gospodarska zona 13
32000 Vukovar
Croatia

12 May 2020



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INDEPENDENT AUDITOR'S REPORT

To the owner of Prvo plinarsko društvo d.o.o.

Opinion

We have audited the consolidated financial statements of Prvo plinarsko društvo d.o.o. (the Company) and its subsidiaries ("together the Group"), which comprises the consolidated statement of financial position as at 31 December 2019, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter "financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the European Union (IFRSs).

Basis for Opinion

We conducted our audit in accordance with the Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Independent auditor's report (continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the consolidated Annual Report, but does not include the consolidated financial statements and our auditor's report. Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the consolidated Management Report included in the consolidated Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report include required disclosures as set out in the Article 21 of the Accounting Act.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1. Information included in the other information is, in all material respects, consistent with the attached consolidated financial statements.
2. Consolidated Management Report has been prepared, in all material respects, in accordance with the Article 21 of the Accounting Act.

Based on the knowledge and understanding of the Group and its environment, which we gained during our consolidated audit of the financial statements, we have not identified material misstatements in the other information.

Responsibilities of Management those Charged with Governance for the consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the consolidated Financial Statements

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

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



- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 control that we identify during our audit.

Marina Tonžetić
Director

Domagoj Vuković
Certified auditor

Zagreb, 12 May 2020

Deloitte d.o.o.
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10 000 Zagreb
Croatia

	Note	2019 HRK'000	2018 HRK'000
Revenue from sale	6	8,542,284	10,540,223
Other operating income	7	21,260	16,836
Total operating revenue		8,563,544	10,557,059
Cost of goods sold and services rendered	8	(8,200,897)	(10,297,714)
Employee costs	9	(14,608)	(29,070)
Depreciation and amortization		(7,608)	(2,318)
Other operating expense	10	(70,532)	(70,354)
Total operating expense		(8,293,645)	(10,399,456)
Operating profit		269,899	157,603
Finance income	11	46,104	70,109
Finance costs	11	(54,450)	(74,025)
Net finance costs		(8,346)	(3,916)
Share of profit in equity accounted investees, net of tax	15	46,809	(21,572)
Profit before tax		308,362	132,115
Income tax expense	12	(48,167)	(26,906)
Profit after tax		260,195	105,209
Other comprehensive income		291	(283)
Total comprehensive income		260,486	104,926
Profit/(loss) after tax attributable to:			
Owners of the Company		260,195	105,489
Non-controlling interests	23	-	(280)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		260,486	104,926
Non-controlling interests		-	(280)

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

	Note	31 December 2019	31 December 2018
		HRK'000	HRK'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	27,714	5,157
Intangible assets and goodwill	14	113,392	17,482
Investment property	15	190,272	128,478
Investments	17	16,708	54,989
Derivative financial assets	19 (a)	927	8,935
Total non-current assets		349,013	215,041
Current assets			
Loans given	16	101,515	70,459
Trade and other receivables	17	941,816	1,052,611
Investments	15	292,566	-
Income tax receivables		-	17,995
Inventories	18	122,716	70,566
Derivative financial assets	19 (a)	757,089	290,688
Deposits	20	26,416	18,285
Cash and cash equivalents	21	72,409	65,354
Total current assets		2,314,527	1,585,958
Total assets		2,663,540	1,800,999
EQUITY AND LIABILITIES			
EQUITY			
Issued capital	22(a)	15,475	13,275
Foreign exchange reserves	22(d)	(286)	(584)
Capital reserves	22(b)	419	78
Retained earnings		357,030	224,862
Total equity and reserves attributable to owners		372,638	237,631
Non-controlling interest	23	-	-
Total equity and reserves		372,638	237,631
LIABILITIES			
Non-current liabilities			
Borrowings	24	79,074	122,628
Derivative financial liabilities	19 (b)	182	8,632
Total non-current liabilities		79,256	131,260
Current liabilities			
Borrowings	24	172,770	160,819
Trade and other payables	25	1,284,948	986,407
Derivative financial liabilities	19 (b)	732,146	284,882
Income tax payable		21,782	-
Total current liabilities		2,211,646	1,432,108
Total equity and liabilities		2,663,540	1,800,999

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

	Issued capital	Foreign exchange reserves	Capital reserves	Retained earnings	Total attributable to owners	Non-controlling interest	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
As at 1 January 2018	13,275	(302)	78	249,041	262,092	(5,174)	256,918
Total comprehensive income	-	-	-	105,489	105,489	(280)	105,209
Profit for the year	-	(282)	-	(1)	(283)	-	(283)
Other comprehensive income	-	(282)	-	-	-	-	-
Total comprehensive income	-	(282)	-	105,488	105,206	(280)	104,926
Transactions with owners							
Increase of non-controlling interest without change of control	-	-	-	(2,944)	(2,944)	7,144	4,200
Sale of subsidiaries	-	-	-	-	-	(1,690)	(1,690)
Dividends	-	-	-	(126,723)	(126,723)	-	(126,723)
Total transactions with owners	-	-	-	(129,667)	(129,667)	5,454	(124,213)
As at 31 December 2018	13,275	(584)	78	224,862	237,631	-	237,631
As at 1 January 2019	13,275	(584)	78	224,862	237,631	-	237,631
Total comprehensive income	-	-	-	260,195	260,195	-	260,195
Profit for the year	-	298	-	(7)	291	-	291
Other comprehensive income	-	298	-	-	-	-	-
Total comprehensive income	-	298	-	260,188	260,486	-	260,486
Transactions with owners							
Transfer to reserves	-	-	341	(341)	-	-	-
Merger (note 26)	2,200	-	-	(956)	1,244	-	1,244
Dividends	-	-	-	(126,723)	(126,723)	-	(126,723)
Total transactions with owners	2,200	-	341	(128,020)	(125,479)	-	(125,479)
As at 31 December 2019	15,475	(286)	419	357,030	372,638	-	372,638

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

	Note	2019 HRK'000	2018 HRK'000
Cash flows from operating activities	27	627,804	229,232
Interest paid		(9,053)	(12,547)
Income tax paid		(8,390)	(50,276)
Net cash from operating activities		610,361	166,409
Cash flows from investing activities			
Acquisition of property, plant, equipment and intangible assets		(18,141)	(2,598)
Proceeds from sale of property, plant, equipment and intangible assets		697	-
Sale of subsidiaries, net of cash		195	20,740
Loans given		(906,208)	(431,871)
Repayment of loans given		683,442	376,882
Net cash proceeds from merger		1,020	-
Proceeds for other investments		(303,870)	-
Investment in associates and joint venture		(100)	(150,050)
Net increase in deposits		(8,071)	10,645
Interest received		6,456	10,381
Net cash used in investing activities		(544,580)	(165,871)
Cash flows from financing activities			
Proceeds from borrowings		728,258	902,069
Repayment of borrowings		(760,666)	(955,616)
Dividends paid		(26,318)	(14,153)
Net cash used in financing activities		(58,726)	(67,700)
Net increase/(decrease) in cash and cash equivalents		7,055	(67,162)
Cash and cash equivalents at 1 January		65,354	132,516
Cash and cash equivalents at 31 December	21	72,409	65,354

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

1. GENERAL

Prvo plinarsko društvo d.o.o. ("Company") is a limited liability company founded in Republic of Croatia and registered at the Commercial court in Osijek under number 030070559, PIN 58292277611. The sole owner of the Company is Energia Naturalis d.o.o. The ultimate owner of the Company on reporting date is Pavao Vujnovac (100%). The headquarters of the Company is located at Gospodarska zona 13, Vukovar, Croatia.

The Group comprise of Prvo plinarsko društvo d.o.o. and its subsidiaries presented in note 5 ("Group").

The principal activity of the Group is trade and supply of natural gas in the Republic of Croatia, Hungary, Switzerland, Slovenia and Bosnia and Herzegovina. Additionally, Group has activities as supply of electrical energy, sale of goods and transport via railways.

At 31 December 2019 there were 46 individuals employed by the Group (31 December 2018: 42 employees).

2. BASIS OF PREPARATION

Statement of compliance

Consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS EU"). These consolidated financial statements have been presented for the Group. Financial statements of the Group comprise of consolidated financial statements of the Company and its subsidiaries. The unconsolidated statements of the Company are prepared separately and were approved and issued on 9 April 2020.

Financial statements were authorised for issue by Management on 12 May 2020.

Basis of measurement

The financial statements have been prepared on the historical cost basis, except where otherwise stated. Methods used in determining fair value are set out in note 4.

Functional and presentation currency

These financial statements are prepared in the Croatian kuna („HRK“), which is also the functional currency, rounded to the nearest thousand.

Going concern

The financial statements have been prepared under the assumption that the Group will continue to operate as a going concern. Management believes that the use of the going concern assumption in preparation of financial statements with respect to the abovementioned facts is appropriate.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS EU requires management to make judgments, 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 recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs EU that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in separate note.

Presentation of the financial statements

These financial statements are prepared on the consistent presentation and classification basis. When the presentation or classification of items in the financial statements is amended, comparative amounts are reclassified unless the reclassification is impracticable.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

A. Changes in accounting policies

The Group has initially applied IFRS 16 from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements. Except as changes as presented below, the Company has consistently applied accounting policies to all the years presented in this financial statements.

The Group applied IFRS 16 using the modified retrospective approach where the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease (note 3u).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

The effect of initial recognition of IFRS 16 on 1 January 2019 is recognition of right-of-use assets (property, plant and equipment) of HRK 662 thousand and lease liabilities of HRK 662 thousand.

B. Basis of consolidation

Consolidated financial statements include the financial statements of Prvo plinarsko društvo d.o.o. ("the Company") and the companies over which Prvo plinarsko društvo d.o.o. has control (subsidiaries) as at and for the year ended 31 December 2019. The Company and its subsidiaries together are referred as a Group. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured

initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of consideration transferred, the amount of any non-controlling interest in the acquiree and acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Company's interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

C. Investments in associates

Associates are all entities over which the Group or the Company have significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Group accounts for investments in associates using the equity method and the Company accounts for them at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Impairment testing for investments in associates is conducted on an annual basis.

D. Investments in joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Investments in joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The Group's share of its joint venture's post-acquisition profits or losses is recognised in the profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. Movements in net assets of the joint venture are adjusted against the carrying amount of the investment.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Impairment testing for investments in joint ventures is conducted on an annual basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Non-controlling interest

Non-controlling interest is initially measured as a proportionate share of net asset that can be identified at an acquisition date.

F. Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business, less accumulated impairment loss, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

G. Property, plant and equipment

Property, plant and equipment are recognised at cost, less accumulated depreciation and impairment losses. The cost comprises the purchase price of an asset, including import duties and non-refundable sales taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Maintenance and repairs are expensed as incurred. Where it is obvious that expenses incurred resulted in increase of expected future economic benefits to be derived from the use of an item of property, plant and equipment beyond the originally assessed standard performance of the asset, they are added to the carrying amount of the asset. Gains or losses on the retirement or disposal of fixed assets are recognised in profit or loss for the period in which they arise. Depreciation commences on putting an asset into use. Depreciation is provided so as to write down the cost or revalued amount of an asset, other than land and assets under development, over the estimated useful life of the asset using the straight-line method as follows:

Buildings	20 years
Tools and office equipment	2-10 years
Vehicles	4-5 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its useful life. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

If the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount.

H. Intangible assets

Intangible assets which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss when incurred.

Amortization is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, as follows:

Other intangible assets	14 years
Software	2 years

I. Investment property

Investment property is property held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

Investment property comprise land and buildings.

Investment property are initially recognized at cost, including directly attributable costs. After initial recognitions, the Company uses cost model for measurement.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss when incurred.

Amortization is recognised in profit or loss on a straight-line basis over the estimated useful life, as follows::

Buildings	20 years
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Land and assets under construction are not depreciated.

J. Impairment of assets

The carrying amounts of the property, plant and equipment, intangible assets and investment property are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash flows that largely are independent from other assets and groups of assets.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Assets held for sale

Assets are classified in the statement of the financial position as 'held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting date rather than through continuing use. Non-current assets classified as held for sale in the current period's statement of the financial position are not reclassified in the comparative statement of the financial position. Held-for-sale property, plant and equipment are measured at the lower of their carrying amounts and fair values less costs to sell. Held-for-sale property, plant and equipment are not depreciated.

L. Inventories

Inventories of gas, merchandise and raw materials are valued at the lower of cost, using the weighted average method, or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale. Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location decreased by any discounts received. The value of slow moving and obsolete stock is reduced and charged to the current year profit or loss.

M. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

N. Financial instruments

a) Recognition

Financial assets and financial liabilities are recognized in the Group's statement of financial position when the Group becomes a party to the contractual provision of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

b) Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; at fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL). The Group classifies its financial assets into following categories: at amortised cost (trade and other receivables, loans given) and at fair value through profit or loss (derivative financial assets).

Debt instruments that meet the following conditions are measured subsequently at amortised cost and if are not measured at fair value through profit or loss (FVTPL):

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVOCI) and if are not measured at fair value through profit or loss (FVTPL):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of equity investment not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is performed on an investment basis. By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Further, at initial recognition the Group may make the following irrevocable election/designation at initial recognition of a financial asset that meets other criteria for measurement at an amortised cost or FVOCI criteria, as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL, because they are not held for collection of contractual cash flows or for sales of financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets.

c) Subsequent measurement of financial assets

Financial assets at fair value through profit or loss (FVTPL)

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method.

d) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss, except for equity instruments measured at FVOCI.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Reclassification

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets.

f) Financial liabilities and equity instruments

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. The Group measures financial liabilities at amortised cost or at fair value through profit or loss (derivative financial liabilities).

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Financial liabilities

Other financial liabilities, included liabilities for loans and borrowings are initially measured at fair value less transaction costs. Other financial liabilities are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability..

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired.

g) Derivative instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. All derivative instruments are carried as assets when their fair value is positive, and as liabilities when their fair value is negative. Changes in the fair value of derivatives are reported in profit or loss for the period in which they arise.

The Group uses derivative financial instruments in order to optimally hedge exposure to foreign exchange risk and market risk arising from operating, financing and investing activities. The Group does not hold or issue derivative financial instruments for speculative purposes. Derivative financial instruments include forward contracts in foreign currency and future contracts.

Spot transactions related to buying and selling of foreign currencies and futures are recognized on trade date basis. A positive or a negative fair value of spot transactions from the trade date till the settlement date is reported in the statement of financial position under receivables and liabilities, respectively, and is included in profit or loss.

0. Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost (loans given) and trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables based on simplified approach. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors. The Group currently do not adjust ECL for general economic conditions, as the Group did not analyse influence of macroeconomic factors on historical loss rates, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Basically, the Group uses due dated in estimating an increase of credit risk. The Group estimates that an increase in credit risk occurs if a debtor is more than 90 days due.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event (see above);
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used (trade receivables).

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

P. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. When discounting is used, the reversal of such discounting in each year is recognised as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

Q. Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are

retranslated 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 not retranslated. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at fair value, are translated into functional currency at foreign exchange rates ruling at the dates at which the values were determined.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

Items included in the financial statements of each of the Group's entities are measured using the currency of the economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Croatian kuna ("HRK"), which is also the Company's functional currency.

Income and expense items and cash flows of foreign operations are translated into the Company's and Group's presentation currency at rates approximating the foreign exchange rates ruling at the dates of transactions (average exchange rates for the year) and their assets and liabilities are translated at the exchange rates ruling at the year end. All resulting exchange differences are recognised in a separate component of equity. The applicable foreign exchange rates for relevant currencies are included within currency risk disclosures.

Exchange differences arising from the translation of the net investment in foreign operations are taken to equity. When a foreign operating unit is sold, arising exchange differences are released in profit or loss as part of the gain or loss on sale.

R. Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because of items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and are accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognised on the basis of taxable temporary differences on investments in subsidiaries and associates and joint ventures.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax laws that have been enacted or substantively enacted by the statement of financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and Company intend to settle its current tax assets and liabilities.

Current and deferred tax for the period

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax and deferred tax arises from the accounting for a business acquisition, the tax effect is included in the calculation of a for the business acquisition.

S. Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are recognised in profit or loss as the related service is provided.

T. Net finance income/(costs)

Finance income and costs comprises interest income and penalty interest, and foreign currency gains and losses. Foreign currency gains and losses include gains decreased by losses from dealing in foreign currencies, calculated as the difference between the contractual and official foreign exchange rates.

Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

Finance costs comprise interest expense on borrowings, penalty interest expense and foreign currency losses. Borrowing costs are recognised in profit or loss using the effective interest rate method.

Realised gains and losses from derivative instruments include gains deducted by losses from forward trading of foreign currencies, calculated as a difference between forward FX rate and a spot currency rate.

U. Leases

Accounting policy applicable from 1 January 2019

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

i) The Group as a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and less any lease incentives received.

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

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

Lease payments included in the measurement of the lease liability comprise the following:

- 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; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'Property, plant and equipment' and lease liabilities in 'Borrowings' in the statement of financial position.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets (under USD 5,000) and short-term leases (up to one year). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii) The Group as a lessor

A Group determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. The Group recognises lease payments received under operating leases as income on a straightline basis over the lease term.

Accounting policy applicable until 31 December 2018

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Leases where the significant portion of risks and rewards of ownership are not retained by the Group are classified as operating leases. Payments

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease. To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease.

V. Dividend payment

Share in profit is recognised in the statement of changes in equity and as a liability in the period in which dividend is declared.

W. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for customer returns, rebates and other similar allowances.

Sale of natural gas, electrical energy and goods

Basic principle of IFRS 15 is that Group recognizes sales revenue for delivery of natural gas, electrical energy or goods to customer for a transaction price expected in exchange for contracted good or natural gas. Basic principle of revenue recognition is described in a five-step model.

The Group estimates if contracts include other liabilities that should be allocated over a transaction price. In determining a transaction price, the Group considers effects of variable fees, significant financing components and other fees payable to customers.

Revenue from services

Basic principle of IFRS 15 is that Group recognizes sales revenue for services rendered for a transaction price expected in exchange for contracted service. Basic principle of revenue recognition is described in a five-step model.

The Group estimates if contracts include other liabilities that should be allocated over a transaction price. In determining a transaction price, the Group considers effects of variable fees, significant financing components and other fees payable to customers.

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rent revenue

Rent revenue is allocated over a lease period using a straight-line basis.

Revenue from construction contracts

Revenue from construction contracts is recognized based on input method (incurred expenses until defined date) by measuring progress in fulfillment of a contract.

Y. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2019 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements.

4. DETERMINATION OF FAIR VALUE

The fair value is established at a price that can be realized by selling the assets or sold for the transfer of obligations in an orderly transaction between market participants at the measurement date or, in case of their absence, at a price that can be realized on the most favourable market where the Group has access at the measurement date. Usually the fair value of the financial instruments measured at fair value at reporting date can be reliably determined within a reasonable range of estimates. For certain other financial instruments, including cash and cash equivalents, deposits, loans given, trade receivables, borrowings, trade and other payables, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

Determination of fair value hierarchy

IFRS 7 Financial Instruments: Disclosures requires the determination of fair value hierarchy of financial instruments on three levels and disclosure of financial instruments which are measured in financial statements at fair value:

- Level 1: The fair value of financial instruments is based on their quoted market price available in an active market.
- Level 2: The fair value of financial instruments is estimated using valuation techniques based on observable inputs, reference to the fair value of another instrument that is substantially the same, discounted cash flow techniques, or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.
- Level 3: The fair value of financial instruments is estimated using valuation techniques based on unobservable inputs.

Financial instruments measured at fair value are as follows:

31 December 2019	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Financial assets measured at fair value				
Other investments	-	-	307,451	307,451
Future contracts	758,016	-	-	758,016
Other receivables	-	-	90,672	90,672
	758,016	-	398,123	1,156,139
Financial liabilities measured at fair value				
Future contracts	(732,328)	-	-	(732,328)

**4. DETERMINATION OF FAIR VALUE
(continued)**

Financial instruments measured at fair value are as follows (continued):

31 December 2018	Level 1	Level 2	Level 3	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Financial assets measured at fair value				
Future contracts	299,623	-	-	299,623
Financial liabilities measured at fair value				
Future contracts	(293,514)	-	-	(293,514)

As at 31 December 2019, the Group had investments in futures contracts of HRK 758,016 thousand of financial assets and HRK 732,328 thousand of financial liabilities that are measured at quoted price at an active market and are classified in Level 1.

Investments classified in Level 3 relate to investment in shares of a non-listed company of HRK 14,866 thousand and investments in depositary rights and convertible bonds of HRK 292,566 thousand. Current value of depositary rights and convertible bonds is estimated to be a reasonable estimation of their fair value as they are acquired from non-related companies around reporting date.

Other investments classified at Level 3 relate to receivables from acquired loans given held for trading of HRK 90,672 thousand. Current value of this receivables is estimated to be a reasonable estimation of their fair value as they are acquired from non-related companies around reporting date.

Trade and other receivables

The carrying value of trade and other receivables is estimated to be a reasonable estimation of their fair value.

Given loans and deposits

Carrying value of given loans and deposits is approximately equal to its fair value, based on current maturity.

Financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Derivative financial instruments

Fair value of derivative instruments traded on regulated market is determined based on publically available daily settlement price.

Other

The carrying amount of other financial assets and other financial liabilities on the reporting date approximate their fair values.

5. SUBSIDIARIES

Group consists of the Company and the following subsidiaries in which the Company has control:

Naziv ovisnog društva	Country	Ownership (%)	
		31 December 2019	31 December 2018
Indirect - in ownership of Prvo plinarsko društvo d.o.o.			
PPD Hungaria Energiakereskedo Kft	Hungary	100%	100%
Prvo plinarsko društvo d.o.o. (i)	Serbia	0%	100%
PPD Global S.A.	Switzerland	100%	100%
PPD energija d.o.o. (previously: Energija Naturalis Int d.o.o.)	Slovenia	100%	100%
PPD d.o.o.	Bosnia and Herzegovina	100%	100%
Indirect - in ownership of Energija Naturalis Int d.o.o. (Slovenia)			
Energija Naturalis dooel (ii)	Republic of North Macedonia	0%	100%

i/ Subsidiary Prvo plinarsko društvo d.o.o. (Serbia) is liquidated in December 2019.

ii/ Subsidiary Energija Naturalis dooel (Republic of North Macedonia) is liquidated in September 2019.

6. REVENUE FROM SALES

	2019	2018
	HRK'000	HRK'000
Sales of gas - companies	8,399,451	10,304,047
Sale of electricity	-	50,355
Sale of goods	139,317	98,917
Revenue from energy efficiency	3,516	-
Revenue from transports	-	86,904
	8,542,284	10,540,223

7. OTHER OPERATING INCOME

	2019 HRK'000	2018 HRK'000
Rent income	997	480
Warehouse revenue	19,093	-
Other income	1,170	16,356
	21,260	16,836

Other income in 2018 include a decrease in impairment of trade receivables of HRK 10,426 thousand.

8. COST OF GOODS SOLD AND SERVICES RENDERED

	2019 HRK'000	2018 HRK'000
Cost of purchased gas	8,066,792	10,085,192
Cost of purchased electrical energy	-	49,769
Cost of goods and services	134,105	162,753
	8,200,897	10,297,714

9. EMPLOYEE COSTS

	2019 HRK'000	2018 HRK'000
Gross salaries	13,721	25,948
Contributions on salaries	887	3,122
	14,608	29,070

Employee expenses of the Group include HRK 1,113 thousand (2018: HRK 4,588 thousand) of defined pension contributions paid into obligatory state funds. Contributions are calculated as a percentage of employees' gross salaries.

10. OTHER OPERATING EXPENSE

	2019	2018
	HRK'000	HRK'000
Sponsorships and donations	18,537	23,244
Impairment of trade and other receivables	15,381	107
Impairment of loans given	288	-
Other employees expenses	3,996	5,157
Intellectual services	7,262	12,942
Contributions and fees	6,097	5,515
Bank charges	6,788	7,217
Representation	1,448	2,636
Rent	3,197	5,436
Maintenance	2,316	1,786
Marketing	1,956	1,935
Other expenses	2,769	3,608
	70,532	70,354

11. NET FINANCE COSTS

	2019	2018
	HRK'000	HRK'000
Interest income	11,597	12,537
Net gain on sale of subsidiaries	-	9,315
Realised gains on derivative instruments	124	-
Unrealised gains on derivative instruments	-	2,069
Foreign exchange gains	34,383	46,188
Total finance income	46,104	70,109
Interest expense	(9,340)	(13,492)
Net loss on sale of subsidiaries	(7,891)	-
Realised loss on derivative instruments	(368)	(6,950)
Foreign exchange losses	(36,851)	(53,583)
Total finance costs	(54,450)	(74,025)
Net finance (cost)/income	(8,346)	(3,916)

12. INCOME TAX

Recognised in profit or loss:

	2019	2018
	HRK'000	HRK'000
Income tax expense		
Current tax expense	48,167	26,906

Reconciliation of effective tax rate is as follows:

	2019	2018
	HRK'000	HRK'000
Profit before tax	308,362	132,115
Income tax using tax rate of 18% (2018: 18%)	(55,505)	(23,781)
Non-deductible expenses	(2,350)	(321)
Non taxable income and tax incentives	575	1,769
Effect of share of profit in equity accounted investees, net of tax	8,426	(3,883)
Tax losses not recognised as deferred tax assets	(9)	(477)
Utilised tax losses previously not recognised as deferred tax assets	915	5
Effect of different tax rates	(219)	(218)
Tax expense	(48,167)	(26,906)
Effective tax rate	16%	20%

The Group's income tax calculation is prepared in accordance with the Croatian tax laws and regulations.

In accordance with tax regulations, as at 31 December 2019, the Group has unused tax losses in the gross amount of HRK 4,452 thousand (2018: HRK 6,559 thousand) which consist of tax losses in Croatia, Slovenia, Bosnia and Herzegovina and Hungary. These tax losses may be carried forward in Croatia, Bosnia and Herzegovina and Hungary for five years subsequent to the year in which they were incurred in, and can be carried forward indefinitely in Slovenia.

The Company merged during 2019 with Prvo plinarsko društvo – opskrba poslovnih korisnika d.o.o. and ENNA ESCO d.o.o. that had tax losses of HRK 4,365 thousand. The Company used this tax losses as it continued with activities of merged companies.

As at 31 December 2019, the Group has HRK 11,179 thousand of temporary differences (gross) not recognized as deferred tax assets (31 December 2018: HRK 520 thousand).

The Group did not recognise unused tax losses as deferred tax assets in the statement of financial position because it is not likely that there will be sufficient taxable profits realized to use this deferred tax assets in the originated company. Unused tax losses (gross) at the reporting date are as follows:

	2019	2018
	HRK'000	HRK'000
Tax losses - expires at 31 December 2020	418	878
Tax losses - expires at 31 December 2023	-	381
Tax losses - expires at 31 December 2024	51	-
Tax losses - no expire	3,983	5,300
	4,452	6,559

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Tools and office equipments	Vehicles	Assets under construction	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Cost					
Balance at 1 January 2018	4,627	8,140	703	-	13,470
Additions	-	306	77	-	383
Sale of subsidiaries	(4,627)	(691)	-	-	(5,318)
Disposals and write offs	-	(5)	(88)	-	(93)
Balance at 31 December 2018	-	7,750	692	-	8,442
Balance at 1 January 2019	-	7,750	692	-	8,442
Initial recognition based on IFRS 16	-	-	662	-	662
Additions	13,555	10,254	2,501	3	26,313
Disposals and write offs	-	(647)	(779)	-	(1,426)
Merger (note 26)	-	-	166	-	166
Balance at 31 December 2019	13,555	17,357	3,242	3	34,157
Accumulated depreciation					
Balance at 1 January 2018	-	1,258	235	-	1,493
Depreciation for the year	-	1,882	160	-	2,042
Sale of subsidiaries	-	(157)	-	-	(157)
Disposals and write offs	-	(5)	(88)	-	(93)
Balance at 31 December 2018	-	2,978	307	-	3,285
Balance at 1 January 2019	-	2,978	307	-	3,285
Depreciation for the year	-	3,153	673	-	3,826
Disposals and write offs	-	(189)	(540)	-	(729)
Merger (note 26)	-	-	61	-	61
Balance at 31 December 2019	-	5,942	501	-	6,443
Carrying amounts					
Balance at 1 January 2018	4,627	6,882	468	-	11,977
Balance at 31 December 2018	-	4,772	385	-	5,157
Balance at 1 January 2019	-	4,772	385	-	5,157
Balance at 31 December 2019	13,555	11,415	2,741	3	27,714

Movement of assets with right-of-use is as follows:

2019	Vehicles
in HRK thousand	
Balance as at 1 January	662
Depreciation expense	(259)
Increase of right-of-use assets	123
Balance as at 31 December	526

Carrying value of asset with right of use on 31 December 2019 amount to HRK 526 thousand in vehicles.

Overview of expenses related to implementation of IFRS 16 is presented below:

	2019	2018
	HRK'000	HRK'000
Depreciation of right of use assets	259	-
Interest expense	21	-
Short term lease and small-value assets expense	3,197	-
Variable expenses not included in lease liabilities	-	-
	3,477	-

14. INTANGIBLE ASSETS AND GOODWILL

	Software and other rights	Other intangible assets	Goodwill	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Cost				
Balance at 1 January 2018	230	-	18,394	18,624
Additions	2,218	-	-	2,218
Sale of subsidiaries	(205)	-	(2,894)	(3,099)
Balance at 31 December 2018	2,243	-	15,500	17,743
Balance at 1 January 2019	2,243	-	15,500	17,743
Additions	4	-	-	4
Disposals and write offs	-	-	(7,632)	(7,632)
Merger (note 26)	506	111,571	-	112,077
Balance at 31 December 2019	2,753	111,571	7,868	122,192
Accumulated amortization				
Balance at 1 January 2018	72	-	-	72
Charge for the year	275	-	-	275
Sale of subsidiaries	(86)	-	-	(86)
Balance at 31 December 2018	261	-	-	261
Balance at 1 January 2019	261	-	-	261
Charge for the year	485	3,297	-	3,782
Merger (note 26)	110	4,647	-	4,757
Balance at 31 December 2019	856	7,944	-	8,800
Carrying amounts				
Balance at 1 January 2018	158	-	18,394	18,552
Balance at 31 December 2018	1,982	-	15,500	17,482
Balance at 1 January 2019	1,982	-	15,500	17,482
Balance at 31 December 2019	1,897	103,627	7,868	113,392

Values included in key assumptions represent management estimates of future business in cash generating units. For details regarding impairment of goodwill, please see note 32. Other intangible assets relate to investments in other assets under the Energy Efficiency Agreement concluded with the Varaždin General Hospital and the Zagreb Police Academy.

15. INVESTMENTS

	31 December 2019 HRK'000	31 December 2018 HRK'000
Non-current investments		
Investment in joint ventures (a)	175,387	128,478
Other investments (b)	14,885	-
	190,272	128,478
Current investments		
Other investments (b)	292,566	-

a) Investment in joint ventures

Investment in joint venture Terra mineralna gnojiva d.o.o. ("TMG") was incorporated on 2 July 2018 with INA d.d. Issued capital of TMG amount to HRK 300 thousand and the Company paid in HRK 150 thousand of this issued capital. The Company and INA d.d. signed a Contract on increase of share capital of Petrokemija d.d. on 31 October 2018 and paid in HRK 150 million each, for 30,000,000 of shares of Petrokemija d.d. With this transaction, a joint venture TMG acquired a 54.52% of shareholding and voting rights in Petrokemija.

Financial information of a joint venture, together with amount of an investment in joint venture is presented below.

	31 December 2019 HRK'000	31 December 2018 HRK'000
Share of ownership in Terra mineralna gnojiva d.o.o.	50.00%	50.00%
Non-current assets	627,408	842,966
Current assets	823,068	767,284
Non-current liabilities	(205,003)	(480,296)
Current liabilities	(860,867)	(758,747)
Net assets (100%)	384,606	371,207
Investment in joint venture	175,387	128,478
	2019	2018
	HRK'000	HRK'000
Revenue	2,144,769	407,936
Profit/(loss) after tax (100%)	154,262	(43,143)
Other comprehensive income (100%)	-	-
Total comprehensive income/(loss) (100%)	154,262	(43,143)
Share of the Group in total comprehensive income/(loss) (i)	46,809	(21,572)

i) Share of profit is proportionate to the ownership % that the Company had during a year.

15. INVESTMENTS
(continued)**b) Other investments**

Other investments relate to financial assets measured at fair value through profit or loss.

Non-current other investments at 31 December 2019 of HRK 14,886 thousand relate to investment in shares where a Group owns 10% of shareholding.

Current other investment at 31 December 2019 of HRK 292,566 thousand relate to 17,795 depositary rights of Fortenova Group Stak Sticking and 71.180 convertible bonds in Fortenova Group Topco B.V. As at 31 December 2019, the Company holds 6.29% of ownership.

16. LOANS GIVEN

	31 December 2019	31 December 2018
	HRK'000	HRK'000
Loans given - related parties	91,640	52,476
Loans given - other	10,163	18,503
Impairment of loans given	(288)	(520)
	101,515	70,459

Loans given were approved at an interest rate from 4%-8% (2018: 4%-8%) and mature within one year. Loans given to third parties are secured with debenture notes and/or mortgages.

17. TRADE AND OTHER RECEIVABLES

	31 December 2019	31 December 2018
	HRK'000	HRK'000
Non-current receivables		
Trade receivables - gross	6,490	9,087
Receivables from related parties	10,218	45,902
	16,708	54,989
Current receivables		
Trade receivables - gross	711,134	897,452
Receivables from related parties	88,319	164,563
Receivables from companies of systematic importance	19,679	29,374
Interest receivables	5,897	756
Impairment of financial assets	(5,406)	(5,294)
Advances given	30,752	6,222
VAT receivables	6,349	4,587
Other receivables	101,800	9,940
	958,524	1,107,600

Trade receivables are secured with bank guarantees and debenture notes. Further, trade receivables of HRK 60,250 thousand are secured with mortgage over land, buildings and equipment of a customer. Trade receivables in the amount of HRK 49,413 thousand have been pledged as a collateral for secured bank loans.

Receivables from companies of systematic importance as at 31 December 2018 include receivables for sold goods of HRK 19,679 thousand from customers under the regulation of Law for the Extraordinary Administration for Companies with Systematic Importance for the Republic of Croatia.

Other receivables as at 31 December 2019 include HRK 90,672 thousand of receivables for acquired loans given that the Group values through profit or loss, while remaining amount relates to prepaid expenses and accrued revenue.

18. INVENTORIES

	31 December 2019	31 December 2018
	HRK'000	HRK'000
Gas in warehouse	105,504	65,410
Merchandise	17,212	5,156
	122,716	70,566

19. DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

a) Derivative financial assets

	31 December 2019	31 December 2018
	HRK'000	HRK'000
Non-current derivative financial assets		
Future contracts	927	8,935
Current derivative financial assets		
Future contracts	757,089	290,688
	758,016	299,623

Derivative financial assets as at 31 December 2019 include future contract of HRK 758,016 thousand (31 December 2018: HRK 299,623 thousand). Future contracts are classified as financial assets at fair value through profit or loss.

b) Derivative financial liabilities

	31 December 2019	31 December 2018
	HRK'000	HRK'000
Non-current derivative financial liabilities		
Future contracts	182	8,632
Current derivative financial liabilities		
Future contracts	732,146	284,882
	732,328	293,514

Derivative financial liabilities as at 31 December 2019 include future contract of HRK 732,328 thousand (31 December 2018: HRK 293,514 thousand). Future contracts are classified as financial liabilities at fair value through profit or loss.

20. DEPOSITS

	31 December 2019	31 December 2018
	HRK'000	HRK'000
Deposits in banks	10,604	5,511
Deposits in non-financial institutions	15,812	12,774
	26,416	18,285

Deposits in non-financial institutions and in banks include deposits given as a performance guarantee. Average interest rate on deposits amounts to approximately 0.1% (2018: 0.1%) and deposits mature in 2020.

21. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
	HRK'000	HRK'000
Cash in banks	72,409	65,354

Average interest rate amounts to approximately 0.1% (2018: 0.1%).

22. CAPITAL AND RESERVES

a) Issued capital

The Company was founded in 2001. The sole owner of the Company is Enerгия Naturalis d.o.o. The ultimate owner of the Company is Mr Pavao Vujnovac (100%).

b) Capital reserves

Capital reserves in the amount of HRK 419 thousand on 31 December 2019 are distributable to shareholders (31 December 2018: HRK 78 thousand).

c) Payment of dividends and other reserves

During 2019, dividends in the amount of HRK 126,723 thousand (2018: HRK 126,723 thousand) were declared.

d) Foreign exchange translation reserve

Foreign exchange translation reserve relate to foreign exchange differences on translation of share capital, reserves and retained earnings of a subsidiaries.

23. NON-CONTROLLING INTERESTS

Non-controlling interests of the Group arise from the ownership interest in the subsidiaries.

During 2018 was increased a share of ownership in a subsidiary ENNA Transport d.o.o.

Condensed financial statements of subsidiaries for the year 2018 are as follows:

2019 in HRK thousand	ENNA transport d.o.o. (i)
Revenue	87,182
Profit / (loss) after tax	350
Other comprehensive income	-
Total comprehensive income / (loss)	350
Share attributable to non-controlling interests in total comprehensive income	(280)

i) Share of non-controlling interests in total comprehensive income for ENNA transport d.o.o. include 42% share in gain/loss for the period from January 2018 until March 2018 and 21.02% for the period from April 2018 until November 2018.

Movement of non-controlling interest

in HRK thousand	2018
As at 1 January	(5,174)
Effect of increase of non-controlling interests	7,144
Effect of sales on non-controlling interests	(1,690)
Share in profit for the year	(280)
As at 31 December	-

Acquisition of non-controlling interest

The Company increased issued capital in a subsidiary ENNA Transport d.o.o. in March 2018 for HRK 15,800 thousand and non-controlling shareholders increased issued capital for HRK 4,200 thousand. The Group acquired 20.98% of non-controlling interest by this transaction. Effect of an acquisition on a non-controlling interest, together with increase for HRK 4,200 thousand, is an increase of non-controlling interest for HRK 2,944 thousand and decrease of retained earnings for HRK 2,944 thousand.

Disposal of non-controlling interest

The Company disposed a subsidiary ENNA Transport d.o.o. in December 2018 to a parent company. A non-controlling interest in sold subsidiary on a disposal date amount to HRK 1,690 thousand.

24. BORROWINGS

	31 December 2019	31 December 2018
	HRK'000	HRK'000
Non-current borrowings		
Secured bank loans	78,845	122,628
Lease liabilities	229	-
	79,074	122,628
Current borrowings		
Non-secured bank loans	7,782	36,577
Secured bank loans	164,683	124,242
Lease liabilities	305	-
	172,770	160,819
Total	251,844	283,447

Repayment terms of borrowings as at 31 December 2019 are as follows:

	Total	Until 1 year	1 to 5 years	More than 5 years
	HRK'000	HRK'000	HRK'000	HRK'000
Non-secured bank loans	7,782	7,782	-	-
Secured bank loans	243,528	164,683	78,845	-
Lease liabilities	534	305	229	-
Total	251,844	172,770	79,074	-

Borrowings are secured by lien over some trade receivables (note 18), debenture notes and bills of exchange. Carrying value of borrowings are approximate to their fair value.

24. PRIMLJENI KREDITI
(nastavak)

Contractual terms of borrowings and maturity dates are as follows:

	Currency	Maturity	Amount
HRK'000			
Secured bank loans	HRK	2019-2020	85,000
Secured bank loans	HRK	2018-2021	38,528
Secured bank loans	HRK	2019-2022	20,556
Secured bank loans	HRK	2018-2021	36,944
Secured bank loans	EUR	2019-2022	62,500
Non-secured bank loans	EUR	2020	1,500
Non-secured bank loans	EUR	2020	6,282
Lease liabilities	EUR	2019-2021	306
Lease liabilities	HRK	2019-2022	228
			251,844

Borrowings were approved with interest rate from 1.30% - 2.0%.

25. TRADE AND OTHER PAYABLES

	31 December 2019	31 December 2018
	HRK'000	HRK'000
Current liabilities		
Trade payables	579,407	809,409
Related party payables	101,111	6,880
Liabilities for VAT	141,249	82,787
Advances received	418,357	82,011
Liabilities to employees	520	333
Liabilities for taxes, contributions and levies	2,153	2,999
Deferred revenue	37,419	-
Liabilities for deposits and guarantees	2,977	-
Other liabilities	1,755	1,988
	1,284,948	986,407

26. MERGER AND SALE OF SUBSIDIARIES

Liquidation and disposal of subsidiaries

The Group liquidated a subsidiary Energia Naturalis dooel (Republic of North Macedonia) in September 2019 and a subsidiary Prvo plinarsko društvo d.o.o. (Serbia) in December 2019.

The Group disposed 100% of ownership in a subsidiary Nikolina obala d.o.o. in January 2018 to a related person and 79% of ownership in a subsidiary ENNA Transport d.o.o. to a parent company.

Effect of liquidation and sale of subsidiaries on statement of financial position of the Group is as follows:

in HRK thousand	2019	2018
Property, plant and equipment	-	(5,158)
Intangible assets and goodwill	-	(3,013)
Inventories	-	(91)
Loans given	-	-
Trade and other receivables	-	(15,280)
Deposits	-	(1,331)
Borrowings	-	470
Trade and other payables	-	11,284
Net assets and liabilities	-	(13,119)
Consideration received, in cash	195	23,046
Cash and cash equivalents, disposed of	-	(2,306)
Net inflow of cash from sale of subsidiaries	195	20,740

Results of operations of disposed subsidiaries were as follows:

	2019	2018
	HRK'000	HRK'000
Operating revenue	10	117,597
Operating expenses	(1,094)	(119,153)
Operating profit	(1,084)	(1,556)
Finance income	15	414
Finance costs	(6)	(759)
Profit before taxation	(1,075)	(1,901)
Income tax	-	-
Profit after tax from discontinued operations	(1,075)	(1,901)

26. MERGER AND SALE OF SUBSIDIARIES
(continued)**Merger**

During 2019, a part of assets, equity and liabilities of related companies under common control of parent company merged into the Company:

- Prvo plinarsko društvo – opskrba poslovnih korisnika d.o.o. (based on decision of a Commercial court in Osijek on 31 July 2019),
- ENNA ESCO d.o.o (based on decision of a Commercial court in Osijek on 31 July 2019).

This companies are not in the ownership of the Company. However, this are related companies to the Company as they have mutual owner (Energia Naturalis d.o.o.). As this transaction had been agreed between the companies under common control, a book value method was used in the merger process:

	ENNA ESCO d.o.o.	PPD - opskrba poslovnih korisnika d.o.o.	Total
	HRK'000	HRK'000	HRK'000
ASSETS			
Property, plant and equipment (note 13)	59	46	105
Intangible assets (note 14)	106,924	396	107,320
Loans given	-	250	250
Deposits	-	60	60
Trade and other receivables	2,643	4,798	7,441
Cash	126	893	1,019
Total assets	109,752	6,443	116,195
EQUITY AND LIABILITIES			
Issued capital	100	2,100	2,200
Retained earnings/(accumulated loss)	(4,003)	3,047	(956)
Loans and borrowings	75,561	-	75,561
Trade and other payables	38,094	1,296	39,390
Total tranferred equity and liabilities	109,752	6,443	116,195

27. CASH FLOWS FROM OPERATING ACTIVITIES

	2019	2018
	HRK'000	HRK'000
Cash flows from operating activities		
Profit after tax	260,195	105,209
Adjustments for:		
Income tax	48,167	26,906
Depreciation and amortisation	7,608	2,317
Interest expense	9,340	13,492
Interest income and exchange rate differences	(11,305)	(12,818)
Unrealised gain on financial instruments	(19,579)	(2,725)
Share of profit in associates and joint ventures	(46,809)	21,572
Loss from sale of subsidiaries	7,891	(5,113)
Discount on sale of receivables	2,417	3,498
Impairment and write off of financial assets	15,669	107
Reversal of impairment of financial assets	-	(10,425)
<hr/>		
Cash flows from operating activities before working capital changes	273,594	142,020
<hr/>		
(Increase)/decrease in inventory	(51,383)	1,673
(Increase)/decrease in trade and other receivables	141,317	(9,029)
Increase in trade and other payables	264,276	94,568
<hr/>		
Cash from operating activities	627,804	229,232
<hr/> <hr/>		

28. RELATED PARTY TRANSACTIONS

Related parties are those companies which have the power to exercise control over the other party or are under common control or which have a significant influence on the other party in making business or financial decisions. Transactions between the Company and its subsidiaries are eliminated through consolidation and are not presented in this note.

Transactions with related parties were as follows:

2019	Sales revenue	Other operating income	Cost of sales	Other operating expenses	Interest income	Interest expense
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Parent company	-	-	-	(3,348)	2,669	-
Subsidiaries in parent company	12,389	27	(944)	(3,881)	356	-
Associates and joint ventures	448,705	-	(5,491)	-	1,246	-
Related companies of key management and ultimate owner	184,652	-	(1,359,564)	-	768	(868)
Total	645,746	27	(1,365,999)	(7,229)	5,039	(868)

2018	Sales revenue	Other operating income	Cost of sales	Other operating expenses	Interest income	Interest expense
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Parent company	-	-	-	(5,747)	3,051	-
Subsidiaries in parent company	28,642	-	-	(3,354)	27	(5)
Associates and joint ventures	121,725	-	(9,282)	-	16	-
Related companies of key management and ultimate owner	188,878	-	(572,645)	-	740	(244)
Total	339,245	-	(581,927)	(9,101)	3,834	(249)

31 December 2019	Trade receivables	Interest receivables	Loans given	Trade payables	Interest payable
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Parent company	-	2,975	66,378	(588)	-
Subsidiaries in parent company	96	310	25,120	(645)	-
Associates and joint ventures	88,223	-	-	-	-
Related companies of key management and ultimate owner	-	615	142	(99,878)	-
Total	88,319	3,900	91,640	(101,111)	-

31 December 2018	Trade receivables	Interest receivables	Loans given	Trade payables	Interest payable
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Parent company	18,490	398	52,476	(696)	-
Subsidiaries in parent company	6,677	1	-	(6,184)	-
Associates and joint ventures	133,396	2	-	-	-
Related companies of key management and ultimate owner	6,000	55	-	-	(44)
Total	164,563	456	52,476	(6,880)	(44)

Key management

During 2019, a remuneration in the amount of HRK 2,049 thousand (2018: HRK 1,413 thousand) was paid to the key management of the Company, which during 2019 and 2018 consisted of 3 persons.

29. CONTINGENCIES

Environmental matters

The Company performs on-going monitoring and analyses of the environmental impact of its business processes. Key indicators of such impact comprise emission of air pollutants and the quantity of waste from the manufacturing process, which the Company regularly reports to the competent institutions, local self-government units and stakeholders on a timely and true basis. Staff dealing with environmental and nature conservation are trained at seminars and workshops where they are informed about the obligations and activities arising from nature conservation and environmental legislation.

The Company develops analyses and is in the process of achieving compliance with the EU regulations imposing strict caps for pollutant emissions and reduced green-house gas (GHG) emissions, GHG emission trading scheme, environmental permits, ecologically significant areas and corridors (National ecological network).

30. CLASSIFICATION OF FINANCIAL INSTRUMENTS

31. december 2019	Financial assets at FVTPL	Financial assets at amortised cost	Financial liabilities at FVTPL	Other financial liabilities	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Financial assets measured at fair value					
Other investments	307,451	-	-	-	307,451
Future contracts	758,016	-	-	-	758,016
Trade and other receivables	90,672	-	-	-	90,672
	1,156,139	-	-	-	1,156,139
Financial assets not measured at fair value					
Loans given	-	101,515	-	-	101,515
Trade and other receivables	-	847,459	-	-	847,459
Deposits	-	26,416	-	-	26,416
Cash and cash equivalents	-	72,409	-	-	72,409
	-	1,047,799	-	-	1,047,799
Financial liabilities measured at fair value					
Futures contracts	-	-	(732,328)	-	(732,328)
Financial liabilities not measured at fair value					
Borrowings	-	-	-	(251,844)	(251,844)
Trade and other payables	-	-	-	(682,793)	(682,793)
	-	-	-	(934,637)	(934,637)

**30. CLASSIFICATION OF FINANCIAL INSTRUMENTS
(continued)**

31. december 2018	Financial assets at FVTPL	Financial assets at amortised cost	Financial liabilities at FVTPL	Other financial liabilities	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Financial assets measured at fair value					
Futures contracts	299,623	-	-	-	299,623
Financial assets not measured at fair value					
Loans given	-	70,459	-	-	70,459
Trade and other receivables	-	1,151,780	-	-	1,151,780
Deposits	-	18,285	-	-	18,285
Cash and cash equivalents	-	65,354	-	-	65,354
	-	1,305,878	-	-	1,305,878
Financial liabilities measured at fair value					
Futures contracts	-	-	(293,514)	-	(293,514)
Financial liabilities not measured at fair value					
Borrowings	-	-	-	(251,844)	(251,844)
Trade and other payables	-	-	-	(818,610)	(818,610)
	-	-	-	(1,070,454)	(1,070,454)

Financial assets and financial liabilities do not include receivables from state and liabilities toward state.

31. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Detailed quantitative explanations are presented through these financial statements.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and loans given. The credit policy of the Group includes analysis of the creditworthiness of each customer before setting terms of payments and delivery through use of information prepared by companies specialised for creditworthiness in Croatia. Further, the Group diminished this risk with strict measures of collection of receivables and with received instruments for securing payments (bills of exchange and debenture notes).

Current receivables are continuously monitored and their collectivity is estimated. In case of uncertainties are recognized impairments of receivables.

The Group adopted simplified approach for measuring losses for lifetime ECL for trade receivables

Trade and other receivables

Group's exposure to credit risk is influenced by individual characteristics of customers. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

Receivables for loans given

At reporting date the Group had receivables for given loans to key management, related parties and third parties.

The Group recognises a lifetime ECL if a significant increase in credit risk occurs after initial recognition. However, if a credit risk of a financial instrument did not significantly increased since initial recognition, a Group measures a credit loss based on 12-month ECL.

(ii) Liquidity risk

Liquidity risk is managed by maintaining cash necessary for payment of current liabilities, ensuring that credit lines and deposits held are adequate (by using flexible financing by agreeing terms to be available on demand) and that all liabilities can be paid. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group pays special attention to cash flows, by daily monitoring of changes and by continued planning and comparing of planned and actual cash flows on quarterly and weekly basis, and by monitoring maturity of receivables and liabilities. All liabilities are settled on time, especially liabilities for taxes and contributions (income tax, VAT, personal income tax, levies, contributions) and liabilities to employees for salaries. The current account was not blocked during 2019 or in previous years. As the Group has not used other instruments for maintaining liquidity (bank overdraft), the Group does not expect liquidity problems in the future, especially as the current liabilities are settled on time.

**31. FINANCIAL INSTRUMENTS – RISK MANAGEMENT
(continued)****(iii) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates. The Group is not significantly exposed to market risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

Currency risk is risk of changes in value of financial instruments from changes in currencies. The Company is exposed to currency risk on purchases, trade payables, loans given and borrowings that are denominated in a currency other than the respective functional currencies of the Company. The currencies in which these transactions primarily are denominated are Euro (EUR), American dollar (USD), Hungarian forint (HUF), Serbian dinar (RSD) and convertible mark (BAM). During 2019 and 2018, the Group used derivative instruments for hedging an exposure to currency risk of changes in Euro and American dollar. Management expects that the effect of currency risk can not significantly influence on its business operations.

Interest rate risk

The Group is exposed to interest rate risk as certain loans are agreed at floating rates. The Group does not hedge this exposure to interest rate risk as the company operated with low credit indebtedness. Management expects that the effect of interest risk can not significantly influence on its business operations.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices. The Group invests in derivative financial instruments which price is linked to market index quoted on official platforms. The Group estimates and controls exposure to price risk by regular monitoring of investments, by establishing limits and approvals for investments and through various statistical methods of controlling risk. We consider that the price risk level can not significantly influence on business operations. The Group used derivative instruments (future contracts) during 2019 for hedging an exposure to changes in sales and purchase price of gas. Gain/loss on this derivative instruments is presented in Sales revenue (for hedging of sales price of gas) and Cost of sales (for hedging of purchase price of gas).

Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2019	31 December 2018
	HRK'000	HRK'000
Loans given	101,803	70,979
Trade and other receivables	943,537	1,157,074
Deposits	26,416	18,285
Cash and cash equivalents	72,409	65,354
	1,144,165	1,311,692

The maximum exposure to credit risk for trade and related party receivables at the reporting date by category of the customers:

	31 December 2019	31 December 2018
	HRK'000	HRK'000
Domestic	286,794	485,447
Foreign	512,659	576,568
	799,453	1,062,015

The Group had trade receivables of HRK 88,223 thousand as at 31 December 2019 from a most significant domestic customer (based on turnover and balance). During 2018, the Group acquired 54.52% of shares in this customer, through a joint venture with INA d.d. On issue date of financial statements remaining balance of receivables amount to HRK 60,250 thousand and has due date on 31 March 2021.

Receivables from companies of systematic importance on 31 December 2019 include net trade receivables for sold goods of HRK 19,679 thousand from customers under the regulation of Law for the Extraordinary Administration for Companies with Systematic Importance for the Republic of Croatia. The Company has a right to collect receivables if certain performance indications of Konzum plus d.d. are achieved, and which are based on available financial information for 2018 achieved.

Impairment losses

The ageing of gross trade and related party receivables at the reporting date was:

	31 December 2019	31 December 2018
	HRK'000	HRK'000
Not due	733,966	1,003,184
Due 0 to 60 days	59,481	57,888
Due 61 to 365 days	3,078	321
Due 180 to 365 days	1,900	150
Due more than 365 days	1,028	472
	799,453	1,062,015

Movement in expected credit losses of financial assets is as follows:

	31 December 2019	31 December 2018
	HRK'000	HRK'000
As at 1 January	5,814	18,966
Increase in impairment	15,381	107
Merger	16	-
Disposal of subsidiary	-	(107)
Write off	(5,758)	(2,726)
Collection of receivables	-	(10,426)
As at 31 December	15,453	5,814

31. FINANCIAL INSTRUMENTS – RISK MANAGEMENT
(continued)**Liquidity risk**

The following are contractual maturities of Group`s financial assets:

31 December 2019	Carrying amount	Contractual cash flows	Until 1 year	1 to 5 years	More than 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Non-derivative financial assets					
Loans given	101,515	113,267	113,267	-	-
Trade and other receivables	975,232	977,434	960,650	16,784	-
	1,076,747	1,090,701	1,073,917	16,784	-

31 December 2018	Carrying amount	Contractual cash flows	Until 1 year	1 to 5 years	More than 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Non-derivative financial assets					
Loans given	70,459	73,277	73,277	-	-
Trade and other receivables	1,162,589	1,165,718	1,109,621	56,097	-
	1,233,048	1,238,995	1,182,898	56,097	-

The following are contractual maturities of Group`s financial liabilities:

31 December 2019	Carrying amount	Contractual cash flows	Until 1 year	1 to 5 years	More than 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Non-derivative financial liabilities					
Borrowings	251,844	255,805	175,908	79,897	-
Trade and other payables	682,793	682,793	682,793	-	-
	934,637	938,598	858,701	79,897	-

31 December 2018	Carrying amount	Contractual cash flows	Until 1 year	1 to 5 years	More than 5 years
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Non-derivative financial liabilities					
Borrowings	283,447	290,687	165,811	124,876	-
Trade and other payables	818,610	818,610	818,610	-	-
	1,102,057	1,109,297	984,421	124,876	-

Currency risk

The Group is exposed to foreign currency risk on purchases and sales, deposits, loans given and borrowings that are denominated in a currency other than the Kuna. The currency giving rise to this risk are primarily EUR, USD and HUF. During 2019 and 2018, the Group used derivative instruments (forward contracts) for hedging an exposure to currency risk of changes in Euro and American dollar. Gain from derivative instruments is presented under finance income in note 11.

The following significant exchange rates in comparison to the Croatian kuna applied during the year:

	Average rate		Reporting date	
	2019	2018	2019	2018
EUR	7.41	7.41	7.44	7.42
100 HUF	2.28	2.33	2.25	2.31

The exposure to foreign currency risk is as follows:

31 December 2019	Currency	
	EUR HRK'000	HUF HRK'000
Cash and cash equivalents	58,425	6,029
Derivative financial assets	758,016	-
Trade and other receivables	520,299	35,895
Deposits	21,970	3,702
Derivative financial liabilities	(732,328)	-
Trade and other payables	(644,973)	(11,189)
Borrowings	(8,088)	-
	(26,679)	34,437

31 December 2018	Currency	
	EUR HRK'000	HUF HRK'000
Cash and cash equivalents	33,257	16,722
Derivative financial assets	299,623	-
Trade and other receivables	551,530	24,965
Deposits	13,899	3,925
Derivative financial liabilities	(293,514)	-
Trade and other payables	(780,925)	(11,660)
Borrowings	(66,099)	-
	(242,229)	33,952

**31. FINANCIAL INSTRUMENTS – RISK MANAGEMENT
(continued)**

The strengthening of EUR by 1% in relation to kuna at the reporting date would have decreased result of the Group before tax by HRK 267 thousand (2018: HRK 2,422 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant. A 1% percent weakening of EUR against the kuna at reporting date would have had the equal but opposite effect on equity and result, on the basis that all other variables remain constant.

The strengthening of HUF by 1% in relation to kuna at the reporting date would have increased result of the Group before tax by HRK 344 thousand (2018: HRK 340 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant. A 1% percent weakening of HUF against the kuna at reporting date would have had the equal but opposite effect on equity and result, on the basis that all other variables remain constant.

Interest rate risk**Interest rate risk sensitivity analysis**

The Group is exposed to interest rate risk as it borrows funds at variable and fixes interest rates. Secured bank loans that are agreed with variable interest rates and given loans with variable interest rate expose the Group to interest rate risk. As at reporting date, financial instruments were categorised based on interest rate risk as follows:

	31 December 2019	31 December 2018
	HRK'000	HRK'000
Instruments with fixed interest rate		
Non-secured bank loans	(6,282)	-
Secured bank loans	-	(91,975)
	(6,282)	(91,975)
Instruments with variable interest rate		
Loans given	101,803	70,979
Related party loans	-	(470)
Non-secured bank loans	(1,500)	(16,390)
Secured bank loans	(243,528)	(228,629)
	(143,225)	(174,510)

At 31 December 2019, if variable interest rates on loans given had been higher by 1%, with all other variables held constant, the profit before tax would have been HRK 1,014 thousand higher (2018: HRK 1,282 thousand). At 31 December 2019, if interest rates on secured bank loans had been lower by 1%, with all other variables held constant, the profit before tax would have the equal but opposite effect on result before tax.

At 31 December 2019, if variable interest rates on bank loans had been higher by 1%, with all other variables held constant, the profit before tax would have been HRK 2,438 thousand lower (2018: HRK 1,535 thousand). At 31 December 2019, if interest rates on secured bank loans had been lower by 1%, with all other variables held constant, the profit before tax would have the equal but opposite effect on result before tax.

Capital risk management

Capital risk management is conducted in a way that ensures a going concern of the Group while maximising return to shareholders through optimization of debt to equity balance.

The equity structure of the Group consists of share capital, reserves and retained earnings.

The Company manages the capital and for the purpose of proper capital structure, in accordance with the economic conditions on the market, decides if the retained earnings should be distributed to shareholders, wheather to increase or decrease the capital, etc.

Risk of specific instruments

Forward currency contracts

The Group makes forward contracts in foreign currency to hedge against foreign currency risk and meet its foreign currency obligations. The forward contract in foreign currency is a contract between two parties that obligates them to exchange different currencies based on a predetermined exchange rate and on a predetermined future date.

Forward contracts in foreign currency result in exposure to market risk, due to the changes of foreign currency exchange rate, which is related to the contract amounts. The market risk appears because of the possibility of exchange rate changes. Forward contracts with a positive fair value result in credit exposure towards the contract's counterparty.

The nominal amounts represent corresponding reference amounts of foreign currency on which the fair values of forward contracts that the Group trades are based. While the nominal amounts of forward contracts do not represent the present fair value of the contracts and, therefore, they do not necessarily indicate the future cash flows of forward contracts that the Group owns, the corresponding price changes, resulting from variables specified by nominal amounts, influence the fair value of these financial instruments.

At 31 December 2019 and 31 December 2018, the Group did not had significant exposure to forward contracts.

Future contracts

The Group uses future contract for long and short position exposure to base assets. Base asset of futures are market indexes of natural gas for purchase and sale of gas. Future contracts are settled in cash (cash delivery) that is exposed to changes of base assets on a specific future dates. Purchase of future contracts (long position) neutralises exposure to Group to both positive and negative changes of price of base assets. Sale of future assets (short position) neutralises both positive and negative changes of price of base assets.

Changes of market value of future contracts are recognised as a gain or loss from financial instruments.

32. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Management has made the following judgements, a part from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

Classification of financial assets and liabilities

The accounting policies represent a framework under which the Group's assets and liabilities are initially classified into different accounting categories. In classifying the financial assets and liabilities, the Group considers whether they meet the definition of assets and liabilities held for trading, as provided in Note 3: Financial instruments.

Fair value measurement

Some of the Group's financial instruments are measured at fair value and it is usually possible to determine their fair values within a reasonable range of estimates.

Determination of the fair value of financial assets and liabilities, for which market price is not available, requires the use of valuation models. For financial instruments that are rarely traded and have non transparent price, the fair value is less objective and requires a different degree of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the individual instrument.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective by nature and involve uncertainties and matters that significantly depend on judgments, such as interest rates, volatility, and estimated cash flows, and therefore cannot be determined with complete accuracy. The Company measures fair value based on the fair value hierarchy as explained in Note 4: Fair value.

Trade and other receivables

The Management uses judgement in estimating impairment of trade and other receivables. The Group assesses changes in credit risk of trade receivables for initial recognition until a reporting date for estimation of collectability of trade receivables.

Loans given

The Management uses judgement in estimating impairment of loans given. The Group assesses changes in credit risk of loans given for initial recognition until a reporting date for estimation of collectability of loans given.

Income tax

Tax calculations are performed based on the Company's interpretation of current tax laws and regulations. These calculations which support the tax return may be subjected to review and approval by the local tax authorities.

Impairment of investments

The Company annually performs impairment tests for investments in associates and joint ventures where indications exist, based on the results of a static analysis of the Company's exposure compared to the net assets of associates and joint ventures. For investments identified as such, the Company estimates the recoverable amount and compares it with the carrying amount. As a result of the impairment tests performed, except from impairments disclosed in note 10 and note 16, the Company believes that no indications for impairment of investments in associates and joint ventures exists.

Impairment of goodwill

The Company annually performs impairment tests for goodwill recognised on acquisition of subsidiaries. Recoverable cash generated unit is analysed based on calculation of value in use. As a result of the impairment tests performed, the Company believes that no indications for impairment of goodwill.

33. CONTINGENT LIABILITIES

Issued guarantees

As at 31 December 2019, the Group had issued bank guarantees as part of regular operations of EUR 46,218 thousand and HRK 55,426 thousand (31 December 2018: HUF 500,000 thousand, EUR 62,965 thousand and HRK 44,711 thousand).

34. CAPITAL COMMITMENTS

As at 31 December 2019 and 31 December 2018, the Group had no contracted capital commitments.

35. EVENTS AFTER REPORTING DATE

The Company incorporated PPD fueling LNG d.o.o. on 18 March 2020.

During 2020, the Group acquired additional New instruments to total of 8% shareholding.

In March 2020 were brought extraordinary measures due to a global pandemic of a COVID-19 virus. The Group can not quantify effect of pandemic on future operations of the Group. A most significant activity of Group is import and trade of natural gas where Group can modify purchases and sales based on changed market conditions (based on increased or decreased demand). The Group also conducts all measures that a credit risk is minimised.

