# Petrokemija d.d.

Annual Report
on the Company
for the year ended
31 December 2016

# Petrokemija d.d.
## Annual Report on the Company

## Contents

# Petrokemija d.d.
## Management report on the Company for the year ended 31 December 2016

### Key indicators for Petrokemija d.d. for 2016

- Actual total revenues of Petrokemija d.d. – HRK 1,932.1 million, 24.81% down on 2015,
- Loss in business operations – HRK 48.6 million, loss in financial operations – HRK 38.7 million, total loss – HRK 87.3 million (loss for 2015 - HRK 92.5 million),
- Earnings before interest, taxes, depreciation and amortization (EBITDA) – HRK 33.7 million,
- Actual production of fertilizers – 1,069 thousand tons, 11.7% less than in 2015,
- Compared to 2015, production of NPK fertilizers decreased by 30.9%, production of Urea decreased by 12.1%, whereas the production of CAN was 4.6% higher,
- Utilization of currently installed production capacity of the facilities - 86.4% (taking into account the month of overhaul in July and part of August).
- Actual sales of fertilizers – 1,086 thousand tons, down 5.8% on last year,
- Share of fertilizer sales in the domestic market – 27 %,
- Domestic sales - 288 thousand tons, while 798 thousand tons of mineral fertilizers sold in export,
- Capital and reserves on 31.12.2016 for Petrokemija d.d. – HRK 46.8 million,
- Invested in Petrokemija d.d. – HRK 134.5 million,
- Employed on 31.12.2016. : Petrokemija d.d. – 1,595; Petrokemija Group – 1,733.

**Management Board Report on the Company for the year ended 31 December 2016**

- In January – December 2016, Petrokemija d.d. had total income of HRK 1,932.1 million and total expense of HRK 2,019.40 million. The Company reported loss of HRK 87.3 million or 4.5% of the total revenues.
- Lower sales volumes by 5.8% and lower average sales prices by 22.4% compared to 2015;
- In the structure of income, domestic sales amounted to 30.0% or HRK 581.0 million, 18.0% lower when compared to 2015, while export accounted for 65.5% or HRK 1,264.6 million, 29.7% lower than 2015.
- In assortment, compared to 2015, higher sales in 2016 of CAN by 19.1%, lower realization of NPK fertilizer sales by 33.6% (market reasons; lower consumption caused the imbalance of phosphorus and potassium prices in relation to the NPK fertilizers), and Urea by 5.1%,
- Domestic sales 0.6% higher in volume than in 2015;
- Export sales volumes 7.9% lower than in 2015;
- Sales volumes of clay-based products and liquid fertilizers 13.6% higher than in 2015;
- Fall of fertilizer prices in the world market was transferred to a significant extent to the EU and the region, which resulted in increased imports of cheaper fertilizers.
- After high growth of USD in 2015, in the reporting period there were no significant deviations, rise or fall of the USD and EUR compared to the previous year or to the planned values. Exchange rate of USD was 0.8% lower than in 2015.
- In procurement of natural gas, the share of volumes in prices set in USD was 45%, and in those set in EUR 55% with a trend of lower dependence on the USD exchange rate, which was an individually most significant financial risk in the operations of Petrokemija d.d. in the previous period.
- Lower domestic sales were caused by the customers' liquidity problems (Petrokemija, d.d. has no sources of funding deferred payments, and banks refuse to support the long production process in agriculture), delay in payment of state incentives to domestic market and theincreasingly common principle of buying last minute before application with direct manipulation in the field (partly due to the delay of the spring sowing season and application of fertilizers, because of precipitation and low temperatures);
- Exceptionally low price of cereals and other agricultural products have resulted in the reduction of land sown with these crops, and consequently the use of mineral fertilizers per hectare, so even the largest buyers are reducing purchase of mineral fertilizers;
- Liquidity indicators are below recommended value, but significantly improved from last year (on 31.12.2016, negative working capital was HRK 44 million; on 31.12.2015 it was HRK 168 million);
- Short-term assets decreased by 10.7% compared to end 2015, and short-term liabilities increased by 6% (the effect of HBOR loan and debt rescheduling for natural gas);

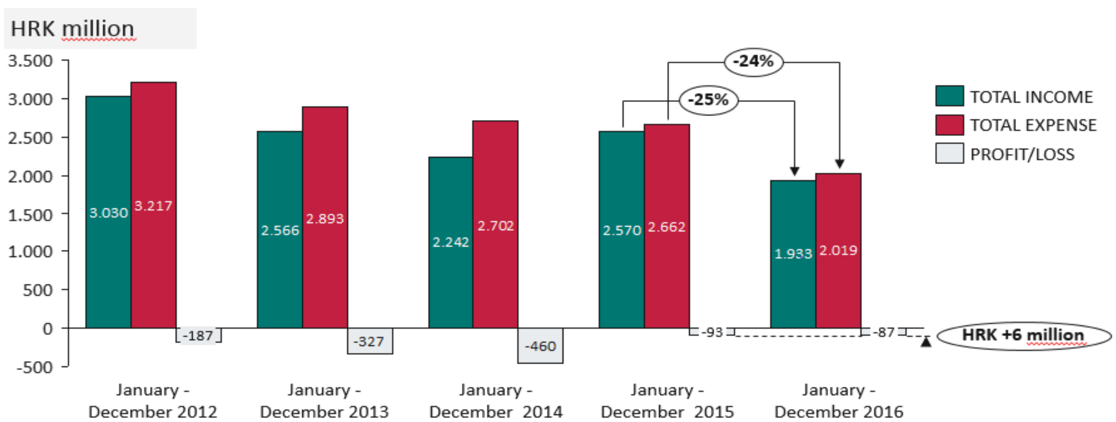
# Petrokemija d.d.
## Management report *(continued)*

**Management Board Report on the Company for the year ended 31 December 2016 *(continued)***

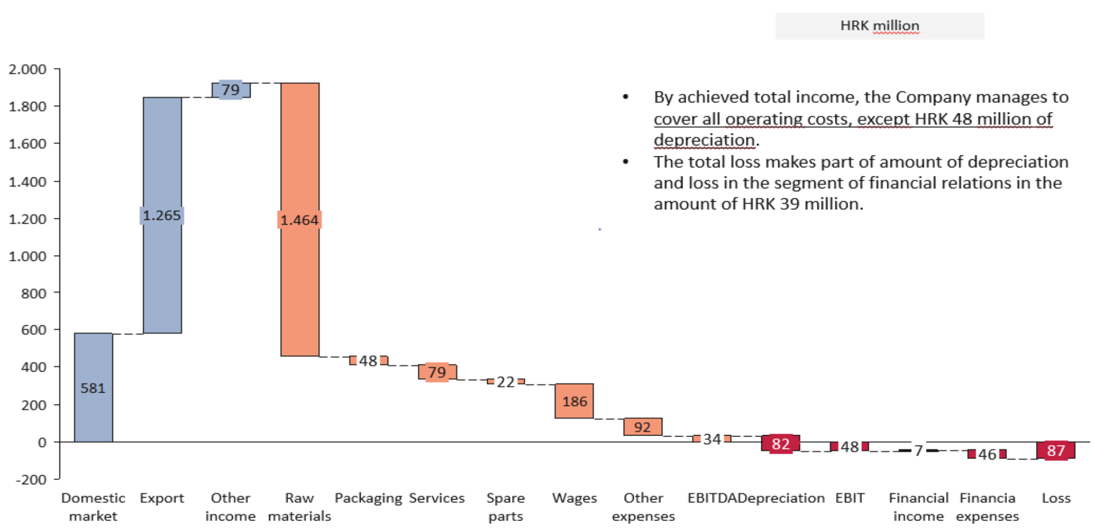
- Indicator of financial stability as well as indicators of indebtedness and own funding are below recommended values;
- Average realized natural gas price (without transport costs) was 34.7% lower in HRK and 33.8% lower in USD than in 2015, while transport costs of natural gas were 21.3% higher;
- Total number of employees of Petrokemija, d.d. is 1,595, a reduction of 22 or 1.4% as compared to 31.12. 2015;
- Achieved level of investment was HRK 134.5 million, an increase of HRK 81.2 million as compared to 2015.

*Profit and Loss of Petrokemija d.d. for 2016*

- Total income HRK 1,932.1 million,
- Total expense HRK 2,019.4 million,
- Loss before taxation HRK -87.3 million,
- **EBITDA HRK 33.7 million**

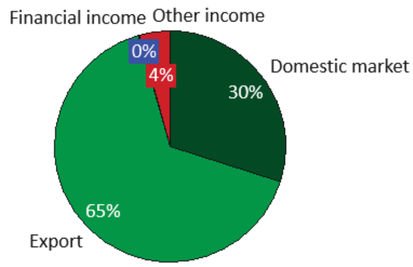


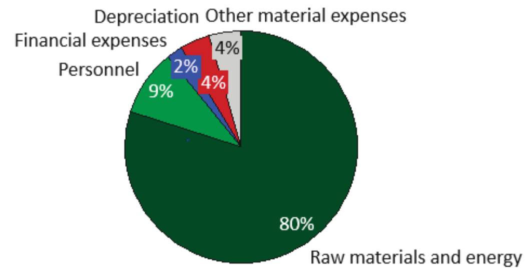

Structure of Profit and Loss for January-December 2016




In the January – December 2016 period, Petrokemija d.d. earned 30% income from domestic market, 65% from export, and 5% from financial and other income. The total expense breakdown shows a dominant 80% for raw materials and energy, 9% for personnel costs, while all other costs make 11%.

Structure of Profit and Loss for January-December 2016 *(continued)*

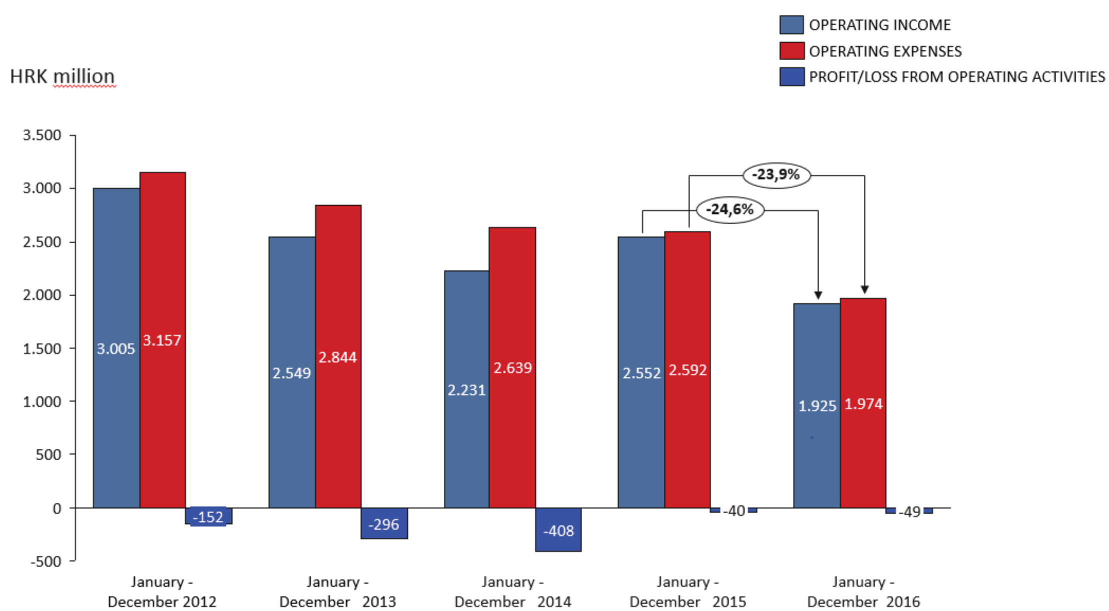



*Key financial indicators for 2016*

| ***in HRK thousands*** | **I-XII 2016** | **I-XII 2015** | **Difference** | **% change** |
|---|---|---|---|---|
| Operating income | 1,925,227 | 2,551,761 | (626,534) | (24.6%) |
| Operating expenses | 1,973,821 | 2,592,116 | (618,295) | (23.9%) |
| **EBITDA** | **33,650** | **51,888** | **(18,238)** | |
| Depreciation and amortisation | 82,244 | 92,243 | (9,999) | (10.8%) |
| Net financial result | (38,716) | (52,157) | 13,441 | 25.8% |
| **Result before tax** | **(87,310)** | **(92,512)** | **5,202** | |
| | **31.XII 2016.** | **31.XII 2015.** | **Difference** | **% change** |
| Non-current assets | 701,781 | 652,127 | 49,654 | 7.6% |
| Current assets | 532,270 | 596,095 | (63,825) | (10.7%) |
| Capital and reserves | 46,828 | 134,138 | (87,310) | (65.1%) |
| Non-current liabilities and provisions | 185,433 | 139,936 | 45,497 | 32.5% |
| Current liabilities and provisions | 1,001,790 | 974,148 | 27,642 | 2.8% |

*Profit and Loss from operating activities for 2016*

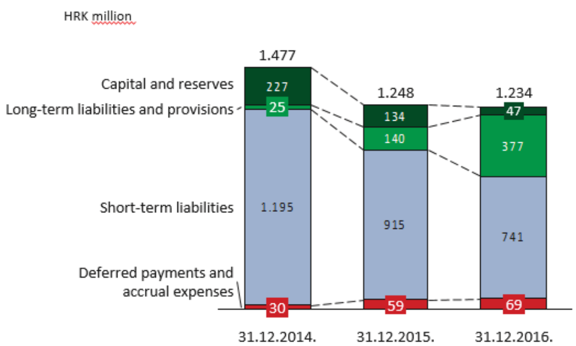


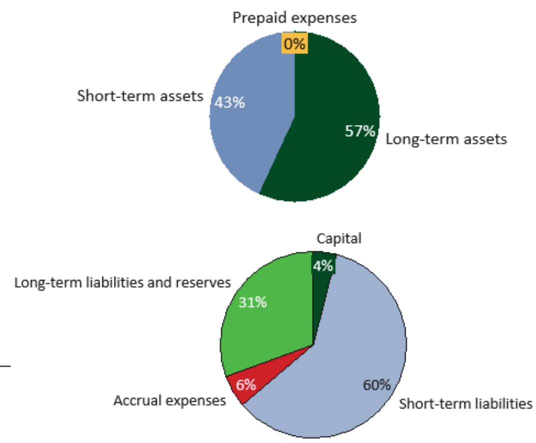
# Petrokemija d.d.
## Management report *(continued)*

*Structure of assets and liabilities at 31 December 2016*

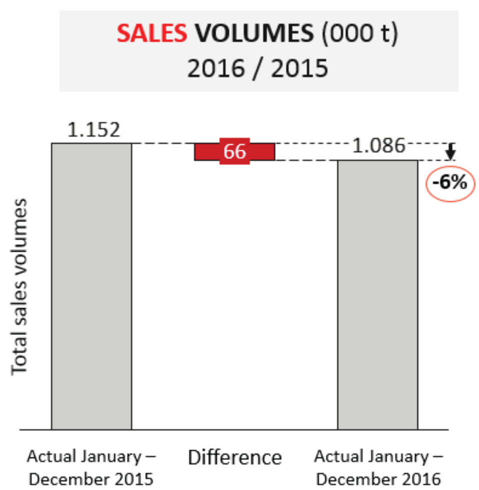
As on 31.12.2016, Petrokemija had 43% value of short-term and 57% of long-term assets.

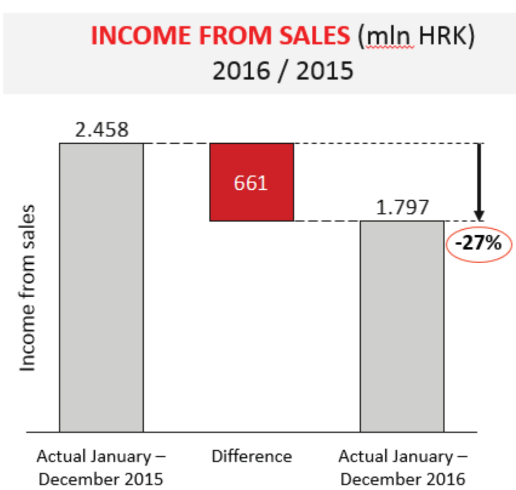
The level of capital of HRK 47 million reflects the impairment for losses reported for 2014 - 2016 period. In the structure of debt during the third quarter there was a change in the structure and approximate equalization of long- and short-term sources, as a result of rescheduling debt for gas from the previous period and approval of HRK 200 million long-term loan from HBOR. At the end of the reporting period on 31.12.2016, a part of long-term liabilities falling due in 2017 was transferred to short-term liabilities thus making short-term liabilities in excess of short term assets of HRK 469 million.




*Total fertilizer sales*



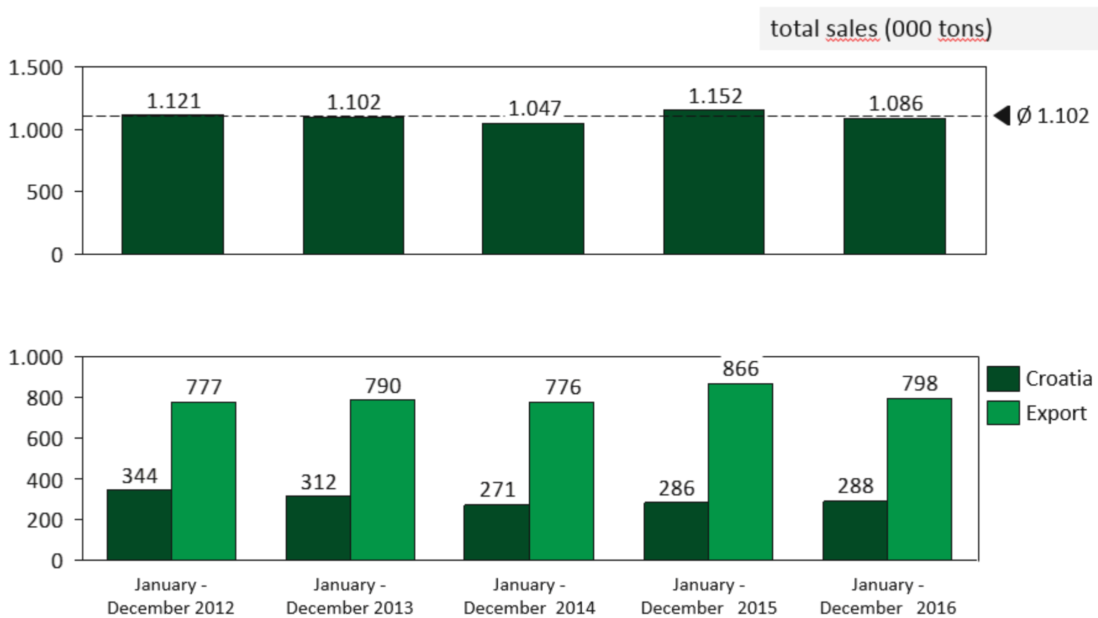




Actual fall in sales volumes of fertilizers of 6% and fall in income from sales of fertilizers of 27%, which indicates a decrease in average selling prices compared to 2015.

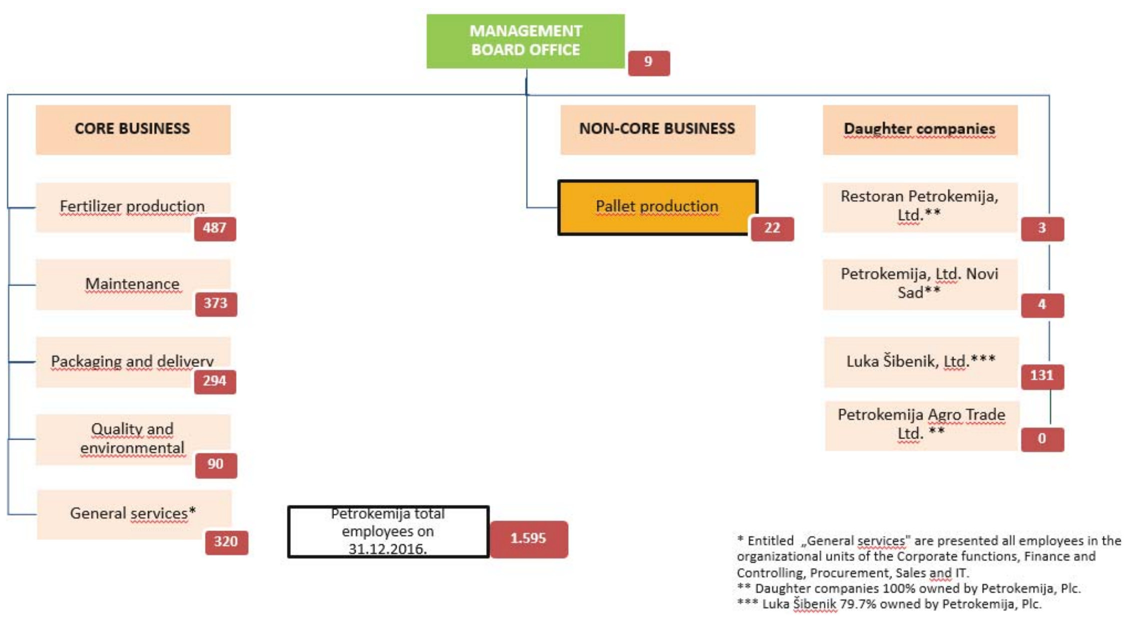
# Petrokemija d.d.
## Management report *(continued)*

*Actual fertilizer sales for 2012 to 2016*

*(000 tons)*

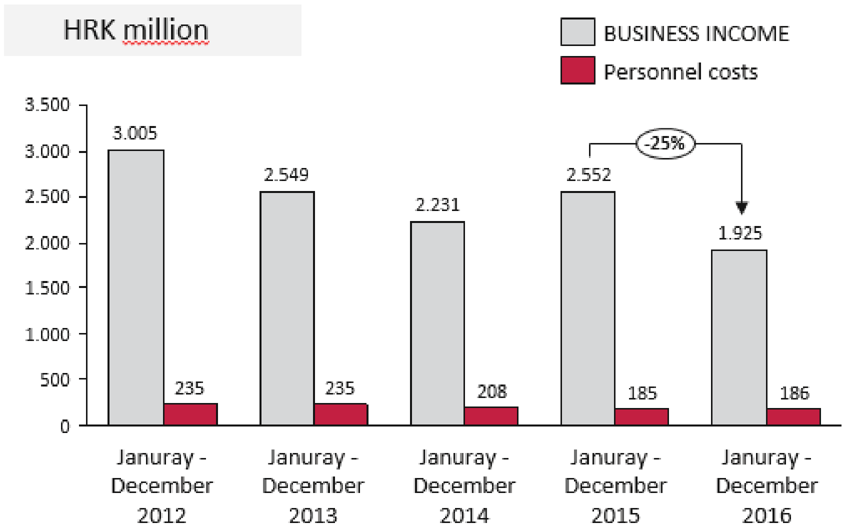


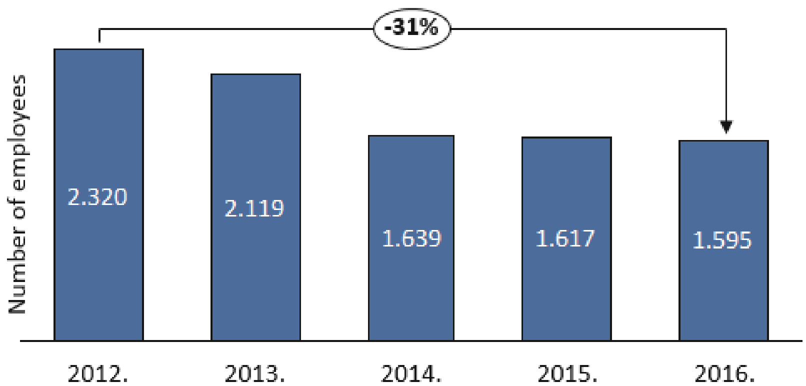

*Organization Chart of Petrokemija d.d. and Petrokemija Group*



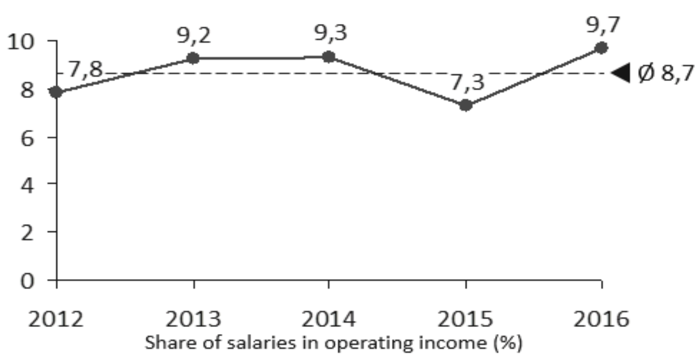
*Operational income, personnel costs and number of employees*

HRK million




*Operational income, personnel costs and number of employees (continued)*



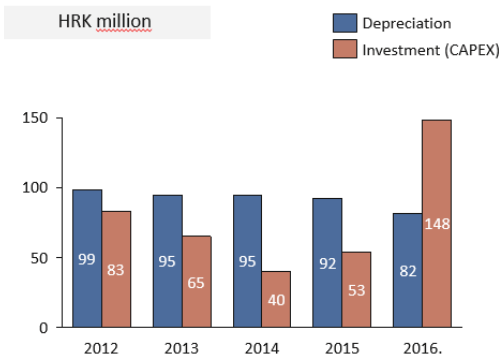

**As at 31.12.2016**, Petrokemija, d.d. had **1.595 employees**, and daughter companies - members of Petrokemija Group - had 138 employees, which is a total of 1,733 employees.
Personnel costs share in operating revenues was 9.7%.

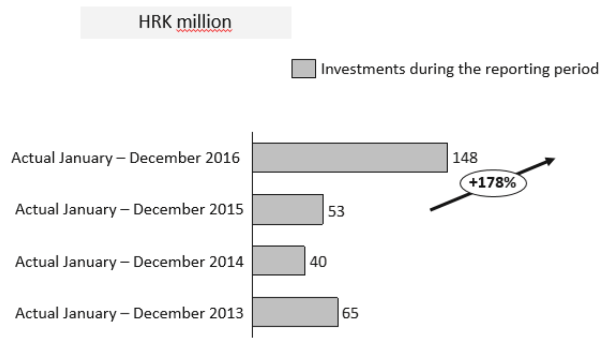
# Petrokemija d.d.
## Management report *(continued)*

*Realized investment*

Investment realized in reporting period amounted to HRK 134.5 million. Compared to the same period of 2015, it is an increase of HRK 81.2 million or 178%.

The realization of planned level of investment of HRK 173 million on an annual basis is not completely realized (index 77.7), due to limited funding opportunities, or lack of support for banks.




*Air quality in the Kutina area for <u>January to December 2016</u> period at local monitoring station (K1,K2,K6 i K7) and the state monitoring station (DMP)*

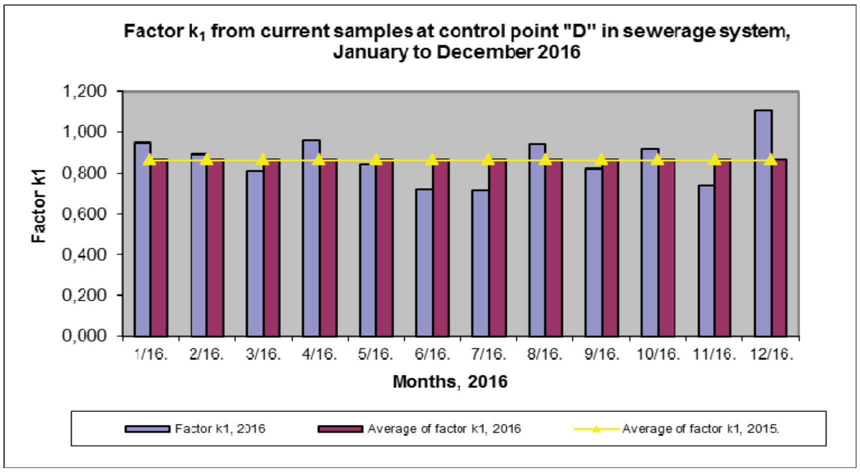

| Clean or slightly polluted air<br>1st category<br>C<LV | Polluted air<br>2nd category<br>C>LV | Pollutants |
|---|---|---|
| K2, K7, DMP | | Sulphur dioxide ($SO_2$) |
| K1, K2, K7 | | sediment |
| K6, K7 | K1, K2, DMP | Ammonia ($NH_3$) |
| K1, K2, K6, K7, DMP | | Nitrogen dioxide ($NO_2$) |
| K2, K7, DMP | | Hydrogen sulphide ($H_2S$) |
| | DMP | PM10 |

**Note:** The categorization of air quality at DMP can be changed after validation of data that has not been made by the competent institution.

*Ambient air limit value (LV) exceedance of AMMONIA in the January to December 2016 period (local network)*

| Monitoring station | *The number of limit value (LV) exceedances in the January to December 2016 period/ permitted exceedance number* |
|---|---|
| K 1 - Dom zdravlja | **32** / 7 |
| K 2 - Vatrogasni dom | **25** / 7 |
| K 6 - Husain | 6 / 7 |
| K 7 - Krč | 3 / 7 |
| ***TOTAL*** | **66** |

*Water management*




In the period from January to December 2016, the average value of k1 factor is on the same level than average value in the same period of 2015.
In the period from January to December 2016, monthly average consumption of raw water is lower than average value in the same period of 2015.

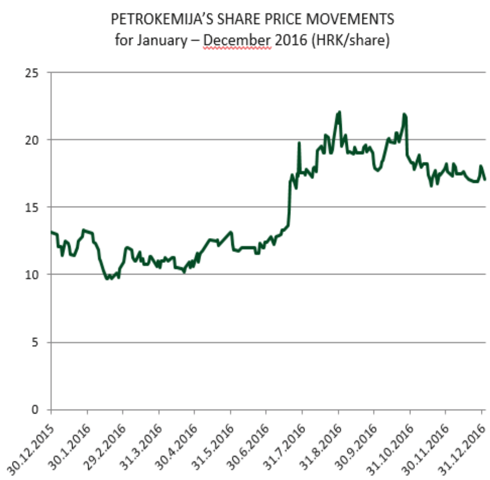
# Petrokemija d.d.
## Management report *(continued)*

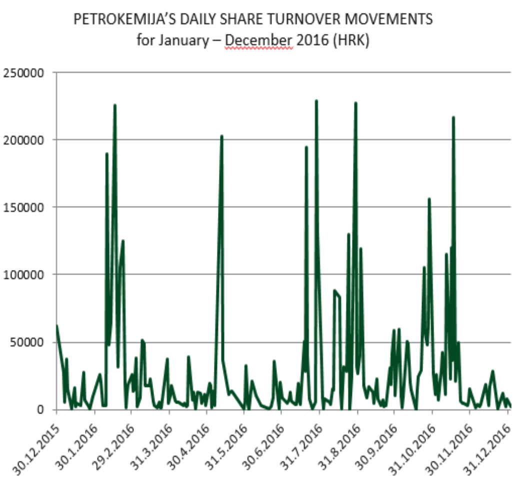
*Company share capital, market value of shares*

After the conducted increase in 2015, the Company share capital amounts to HRK 386,135,400.00 and is divided into 12,871,180 ordinary shares marked PTKM-R-A, with a nominal amount of HRK 30.00.

On 30 December 2015, the average share value was HRK 13.14, and on 30 December 2016 it was HRK 17.90 (increase of 36.22%).

*Petrokemija d.d. share price and daily turnover movements*




*Changes in Supervisory Board of Petrokemija d.d..*

Tomislav Pokaz resigned as President and member of the Supervisory Board of Petrokemija effective as of 8 February 2016, for reasons of a new position that is incompatible with membership in the Supervisory Board.

At the meeting of 19 February 2016, Branimir Fleković was appointed President and Sonja Ivoš Vice President of the Supervisory Board.

General Meeting of Petrokemija, d.d.. was held on 11 May 2016. A new Supervisory Board was appointed, consisting of Ladislav Turčinović, Marijan Kuprešak, Mladen Novak and Mijo Šepak. Željko Klaus remained appointed member of the Supervisory Board as workers' representative.

At the Supervisory Board meeting of 12 May 2016, Marijan Kuprešak was elected President and Željko Klaus Vice President of the Board.

Supervisory Board member, Mladen Novak, resigned from membership in the Supervisory Board of Petrokemija, effective as of 31 July 2016.

At the meeting of 6 February 2017, Mijo Šepak was elected President of the Supervisory Board.

At its meeting of 6 February 2017, the Supervisory Board passed a decision establishing the mandate termination as on that day of the President of the Management Board Nenad Zečević and members of the Board Antonija Perošević Galović, Tamara Pernar and Vladimir Fresl. The Supervisory Board appointed Đuro Popijač from Zagreb as President and Nenad Zečević member of the Management Board. The mandate of the appointed members of the Board began on 7 February 2017 and runs until 6 February 2021.

An Extraordinary General Assembly Meeting was held on 23 March 2017 where Robert Blažinović was appointed as new member of the the Supervisory Board.

*Key events in 2016*

- In October 2015, following the Decision of the Croatian Government of 24 September 2015 on granting authorization to the General Meeting to adopt the decision on conducting the capital increase in cash, assets and rights of Petrokemija, d.d.. Fertilizer Company, Kutina, a public call to submit indication of interest to subscribe for new ordinary shares of Petrokemija was published. After the conducted due diligence, one binding offer of a potential investor was received, which was not realized by 31.12.2016. At the time of these financial report, the Company Board has no precise knowledge of the intentions of the majority owner or potential investors.
- Due to the partial failure to achieve the assumptions of the Program of Restructuring and Financial Consolidation for the period 2015 -2019, in the first quarter of 2016, a revised Program, i.e. Business Plan for 2016 -2020 was made, which includes changes in the assumptions with regard to the change of product range and the current level of input-output prices, the new recapitalization and debt rescheduling as well as the reduction of the amount of investment.
- At the session held on 11 May 2016, the Croatian Government adopted the Decision on amending the Decision on establishing the list of companies and other legal entities of strategic and special interest for the Republic of Croatia. Petrokemija, d.d., Kutina was removed from the list of companies of special interest in which the Republic of Croatia has a majority share. Following the above mentioned Decision, on 6 July 2016, a transfer of shares of Petrokemija d.d. was made, from the State Office for State Property Management (DUUDI) to the Centre for restructuring and sale (CERP), as a legal entity with public authority which specializes in the management of shares and interests in companies whose owner is the Republic of Croatia and which are not defined as companies of strategic and special interest for the Republic of Croatia.
- Through continuous and long negotiations with two natural gas suppliers, INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar, Petrokemija, d.d. managed to revise the existing terms of natural gas supplies for gas year 2015/2016. Moreover, the Company contracted certain volumes of natural gas under new terms for the gas year 2016/2017.
- Upon an international tender, the Company concluded a new contract for supply of natural gas in the gas year 2016/2017 for the remainder of the necessary volumes. The contract was concluded with Prvo plinarsko društvo d.o.o. Vukovar, as the most favorable supplier. With this contract, Petrokemija secured sufficient volumes of natural gas for a stable planned production in the gas year 2016/2017. The contracted terms of natural gas supply are one of the preconditions for further restructuring and financial consolidation of the Company.
- According to Plans on Overhaul Works in 2016, overhauling of fertilizer production facilities was conducted in July and the first half of August. By the scope of work, it was one of the largest in the past decade. The total investment was about HRK 148 million, out of which, next to the co-financing by the Croatian Bank for Reconstruction and Development from the Loan Program for Financing Projects of Environmental Protection, Energy Efficiency and Renewable Energy Resources, 38 million kuna was invested in the construction of a new high-pressure gas pipeline, which now supplies natural gas to all production facilities of the Company. During the overhaul, Measure M7 investment was realized at Urea Plant, which will help achieve a significant improvement in environmental standards in terms of reducing pollution of waste water.
- At its 38th session held on 31 August 2016, the Croatian Government adopted the Decision on granting approval to Petrokemija, D.d., to take a loan of HRK 200 million from Croatian Bank for Reconstruction and Development for the implementation of the Company restructuring and financial consolidation and the Decision on granting state guarantee for the benefit of Croatian Bank for Reconstruction and Development for the loan . Details on the website of the Croatian Government: https://vlada.gov.hr/sjednice/38-sjednica-vlade-republike-hrvatske-19380/19380
- Following the Government Decision on granting approval to Petrokemija, d.d., for a loan of HRK 200 million, Petrokemija and the Croatian Bank for Reconstruction and Development signed a loan agreement. The loan was used for settling the due liabilities for natural gas and the implementation of the Company restructuring and financial consolidation in accordance with the Government's decisions.

*Key events in 2016 (continued)*

- The Supervisory Board of Petrokemija d.d. approved the selection of the consultant for the development of the Company Restructuring Program in accordance with the prescribed activities from the Government Decision on approval for a loan of HRK 200 million from the Croatian Bank for Reconstruction and Development. Activities on the Restructuring Program began on 15 September 2016; by the end of reporting period the first draft was made. At the date of signing the audited financial statements the management in cooperation with consultants has developed a proposed Concept of restructuring that has been sent to relevant institutions for consideration.
- Petrokemija, d.d. and HEP-ESCO d.o.o. signed the Contract on the implementation of energy efficiency project Modernization of Electric Drive Systems at Water-2 Plant, Power Plant and Pakra Pumping Station and Modernization of Part of the System of Outdoor Lighting. These investments in energy efficiency measures will achieve electricity savings of around 3.4 GWh on an annual basis, with the intended return on investment within two years. HEP-ESCO will finance and manage the project, and the investment will be returned through savings.
- On 10 November 2016, a contract was signed on the merger of the company Restoran Petrokemija, Ltd. (Transferor company) and Petrokemija, d.d. (Transferee company). The merger agreement was received on 11 November 2016 by the Commercial Court in Zagreb under number: R3-16464 / 16. In 2017 Restoran has continued its regular activities as one of the organizational units within Petrokemija, d.d.

*Significant financial risks in 2017*

The overall business position of Petrokemija, d.d. in 2017 depends on a number of factors, whose impact is very difficult to estimate. The contracted new terms of natural gas procurement and rescheduling of outstanding debt for natural gas have reduced a part of the risk transferred from the previous period.

However, according to the current market situation, it is estimated that in 2017 there will continue to be a pronounced influence of variable levels of fertilizer prices in the world market and the relatively high level of natural gas price in Europe and Croatia. Extremely high financial burden on the business of Petrokemija, d.d. is exceptionally high price of natural gas transport, which is up to three times higher than in other EU countries. Furthermore, the level of financial expenditure and operational business management will be significantly affected by the Company's insufficient liquidity and high cost of financing. The final financial result for the business year 2017 is likely to depend on the pace and scope of potential measures for restructuring of the Company and Petrokemija Group. In addition to the above, caution is still suggested due to the following risks:

- Petrokemija d.d. is highly dependent on the movements of fertilizers and their raw materials price in the global market, the exchange rate of the HRK against USD and EUR and their interrelationship. After the high growth rate of USD of on average 19.4% in 2015, in 2016 the USD exchange rate did not cause significant additional negative impacts on the business of Petrokemija, d.d. and Petrokemija Group,
- Natural gas as the most important raw material is still procured on the domestic market, according to contracts concluded with two suppliers – INA, d.d. Zagreb and Prvo plinarsko društvo d.o.o Vukovar. The price of natural gas in 2017 is linked to the EUR exchange rate and the movement of natural gas prices on the European spot market,
- The sales prices of fertilizers in the global market have grown in late 2016 and early 2017, but are still very low (short-term also influenced by cyclical and seasonal changes) and the price of nitrogen fertilizer Urea has been at a very low level for a long time now; so in case of a more pronounced growth of natural gas price on the European spot market, profitability of production may come in question at certain time intervals,
- Lower VAT in 2017 should have positive effects on mineral fertilizer sales in the domestic market.
- Purchasing prices of most primary raw materials are lower than in the previous period, but fluctuations in raw material prices on the world market, which have so far been present, will continue to have impact on material costs in the next period,
- High costs of working capital – because of insufficient own working capital, financing costs were reduced, but will continue to be significant in the next period,

*Significant financial risks in 2017 (continued)*

- In 2016, an extensive overhaul was conducted, whose implementation was partly financed from long-term sources. However, the risks in terms of providing the remaining long-term financing sources are still present in 2017, and it is very difficult to finance the continuation of the investment process from operative business. Deadlines for implementation of part of the so-called 'environmental investment' by 31.12.2017, in accordance with the Decision of Integrated Environmental Requirements, will be very difficult to meet, and some investments are likely to be transferred to 2018 due to difficulties in financing.
- By settling the debt for natural gas supplied in the previous periods and approval of loan by HBOR of 200 million HRK in the third quarter of 2016, the risk of blockade and delays in the delivery of natural gas, and consequently production, was avoided. However, the price movements of natural gas on the European spot market calls for caution,
- As mentioned earlier, funding of investment is still not covered by long-term funding sources and will depend on the key decisions of the majority owner in view of the continuing process of restructuring, recapitalization and/or finding a strategic partner.
- Higher level of realized loss in the fourth quarter of 2016, compared to the earlier part of the year, suggests caution in predicting financial and operating results in 2017. A part of this negative impact will already be transferred to the result of the first quarter of 2017, due to the liabilities for delivery of fertilizers for received advance payments from the fourth quarter of 2016.

*Other information*

The Company does not have significant research and development activities. Furthermore, as the Company comprises a large majority of the assets, liabilities, equity, income and expenses of the Group, management analysis is primarily based on the results of operations and the financial position of the Company and does not discuss individual operations of the Company's subsidiaries.

**Đuro Popijač**
*President of the Management Board*

**Nenad Zečević**
*Member of the Management Board*

**13 April 2017**
Aleja Vukovar 4
Kutina
Croatia

PETROKEMIJA, d. d.
KUTINA, Aleja Vukovar 4 15

# Petrokemija d.d.
## Statement on the implementation of the corporate governance code

### General information

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

The Company is listed on the Official market of the Zagreb Stock Exchange, and has complied with the Zagreb Stock Exchange Governance Code. The Company respects and implements the prescribed corporate governance measures (as reported in detail in the prescribed annual questionnaire and published as prescribed on the Zagreb Stock Exchange). The major direct shareholders according to the Central Depository and Clearing Company data are listed in the table for structure of ownership in the *Share Capital* note to the financial statements.

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

The Company's Articles of Association comply with the Croatian Companies Act and they define the procedure of appointing and recalling members of the Management Board and Supervisory Board. There are no limitations based on gender, age, education and profession or similar. The Companies Act determines any amendments to the Company's Articles of Association, without any additional limitations. The Management Board members' authority fully complies with the regulations prescribed by the Companies Act.

### Corporate governance structure

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

### General Assembly of the Company

The General Assembly decides on issues stipulated by law and by the Articles of Association and, among other, it adopts the Articles of Association, decides on the allocation of profits, decides on an increase and a reduction of the share capital, appoints and relieves of duty members of the Supervisory Board, grants the approval of action to members of the Management Board and of the Supervisory Board of the Company, appoints the external auditor of the Bank, and also performs other tasks in compliance with the law and the Company's Articles of Association.

In 2016, a regular Annual General Assembly Meeting was held on 11 May 2016, while an Extraordinary General Assembly Meeting was held on 23 March 2017.

# Petrokemija d.d.
## Statement on the implementation of the corporate governance code *(continued)*

**Supervisory Board**

The Supervisory Board of the Company supervises the conduct of business affairs in the Company. With this end in view, it goes through and examines the Company's business accounts and documentation. The Supervisory Board submits to the General Assembly a written report on the supervision exercised with respect to the conduct of business affairs in the Company. As at the date of this annual report, the Supervisory Board consists of four members. As a general rule, regular Supervisory Board meetings are held quarterly. The Supervisory Board may decide on important and urgent matters in meetings held by letter.

Members of the Supervisory Board as at the date of this annual report and during the reporting period are as follows:

| | |
|---|---|
| Mijo Šepak | Member from 11 May 2016 until 6 February 2017, President from 6 February 2017 |
| Marijan Kuprešak | President from 11 May 2016 until 6 February 2017, member from 6 February 2017 |
| Branimir Fleković | Vice president until 19 February 2016, President until 11 May 2016 |
| Tomislav Pokaz | President, until 8 February 2016 |
| Sonja Ivoš | Member until 19 February 2016, Vice president until 11 May 2016 |
| Željko Klaus | Member until 11 May 2016, from 11 May 2016 Vice President |
| Krešimir Huljev | Member until 11 May 2016 |
| Ladislav Turčinović | Member from 11 May 2016 |
| Mladen Novak | Member from 11 May 2016 until 31 July 2016 |
| Robert Blažinović | Member from 23 March 2017 |

**Audit Committee**

Pursuant to its Articles of Association, the Supervisory Board of the Company established the Audit Committee whose work is governed by the Audit Committee Charter.

The Audit Committee, appointed in accordance with the law, consists of four members during the previous year, all of whom were also members of the Supervisory Board. During 2016, five meetings of the Audit Committee were held, discussing the issues within the competence of the Supervisory Board. The Audit Committee helped the Supervisory Board in carrying out its duties related to the supervision of the financial reporting process, the audit process (including the recommendation of the General Meeting for the election of the external auditor), as well as compliance with laws, regulations, rules and the code of ethics.

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

| | |
|---|---|
| Marijan Kuprešak | President |
| Mijo Šepak | Member |
| Željko Klaus | Member |
| Ladislav Turčinović | Member |
| Robert Blažinović | Member |

**Management Board**

The Management Board conducts business operations of the Company. The number of Board members varies and the Board currently has two members. Board members are generally appointed in for up to four-year terms of office and entrusted with a specific area of responsibility. The Management Board regularly meets to reach management decisions. Members of the Management Board as at the date of this annual report and during the reporting period are as follows:

| | |
|---|---|
| Đuro Popijač | President from 6 February 2017 |
| Nenad Zečević | Member, President until 6 February 2017 |
| Antonija Perošević Galović | Member until 6 February 2017 |
| Tamara Pernar | Member until 6 February 2017 |
| Vladimir Fresl | Member until 6 February 2017 |

# Petrokemija d.d.
## Statement on the implementation of the corporate governance code *(continued)*

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

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

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

The basis of the Company's and the Group's internal control system is to contribute to proper corporate governance and business transparency ensuring safe and stable operations in accordance with regulatory requirements. The main features are as follows:

- a comprehensive set of accounting policies and procedures relating to the preparation of the annual financial statements in line with EU IFRS
- the Company's Internal Audit that oversees the overall operations in order to assess the adequacy of the established system of internal controls
- Department for finance and accounting ensuring the reliability of accounting and financial reporting, controlling and protecting system of internal controls for the preparation of financial information
- the Annual Report is subject to detailed review and approval through a structured governance process involving senior and executive finance personnel.

The Company defined the process of preparing and disclosing financial reports in a detailed internal document. With this, the financial reporting procedure is set within a system of internal review and risk management. Moreover, in order to monitor and mitigate the said risk, the Company uses the measures described in the *Risk Management* note to the financial statements.

**Đuro Popijač**
*President of the Management Board*
Popijač

**Nenad Zečević**
*Member of the Management Board*
Nenad Zečević

**13 April 2017**
Aleja Vukovar 4
Kutina
Croatia

PETROKEMIJA, d. d.
KUTINA, Aleja Vukovar 4 (15)

# Petrokemija d.d.
# Statement of Management's responsibilities

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

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

Management acknowledges that uncertainty remains over the Company`s ability to meet its funding requirements and to refinance or repay its liabilities as they fall due. However, as described in detail in note 2.4, management has a reasonable expectation that the Company will ensure adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the unconsolidated financial statements.

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

The Management is also responsible for the preparation and content of the Management Report and the Statement on the implementation of corporate governance code, as required by the Croatian Accounting Act. The Management Report set out on pages 1 to 12 and the Statement of implementation of the corporate governance code set out on pages 13 to 15, as well as the accompanying separate financial statements were authorised and signed by the Management Board on 13 April 2017 for issue to the Supervisory Board. The Supervisory Board is required to approve the annual separate financial statements for submission to the General Assembly of Shareholders for adoption.

The consolidated financial statements of the Company and its subsidiaries (together referred to as "the Group") and the annual report on the Group are published separately and issued simultaneously with these annual unconsolidated financial statements.

**Đuro Popijač**
*President of the Management Board*

**Nenad Zečević**
*Member of the Management Board*

**13 April 2017**
Aleja Vukovar 4
Kutina
Croatia

PETROKEMIJA, d. d.
KUTINA, Aleja Vukovar 4 (15)

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

### *Qualified Opinion*

We have audited the separate financial statements of Petrokemija d.d. ("the Company"), which comprise the separate statement of financial position as at 31 December 2016, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

### *Basis for Qualified Opinion*

As described in note 29, the Company has a legal obligation to restore its landfill site in Kutina to its original condition. In accordance with IAS 37 *Provisions, contingent liabilities and contingent assets*, the Company is required to recognize a provision for the costs of land restoration and site closure. No such provision was recognized in the separate financial statements as at 31 December 2016 and 31 December 2015. Had this provision been recognised in accordance with IAS 37, adjustments would have been made to increase non-current liabilities and decrease equity by HRK 155,356 thousand as at 31 December 2016 (31 December 2015: HRK 148,520 thousand) and decrease the net result for the year then ended by HRK 6,836 thousand (2015: HRK 6,541 thousand). Our opinion on the separate financial statements for the preceding period was also qualified in respect of this matter.

As described in note 18, as at 31 December 2016, inventory of spare parts stated at HRK 91,414 thousand (31 December 2015: HRK 93,662 thousand) includes items relating to major spare parts and stand-by equipment which the Company expects to use during more than one period. IAS 16 *Property, plant and equipment*, requires that such items are classified as part of property, plant and equipment and depreciated accordingly. We have requested the Company to prepare an assessment quantifying the adjustments with respect to this matter. No such assessment was performed.

As described in note 14, as at 31 December 2016, the Company's property, plant and equipment and related spare parts and materials include items stated at HRK 14,567 thousand and HRK 20,140 thousand, respectively (31 December 2015: HRK 16,483 thousand and 20,174 thousand), for which indications exist that their carrying amounts may not be recovered. Pursuant to IAS 16 *Property, plant and equipment* and IAS 2 *Inventories*, the Company is therefore required to assess, respectively, the recoverable amounts and net realisable values of the above assets. No such assessment was performed.

It was not practicable for us to quantify the effects of the departures from EU IFRS discussed in the preceding two paragraphs on the stated amounts of property plant and equipment, inventories, accumulated losses and provisions as at 31 December 2016 and 31 December 2015 as well as on the stated amounts of depreciation, impairment losses and net result for the years then ended. Our opinion on the separate financial statements for the preceding period was also qualified in respect of these matters.

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

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

### *Material Uncertainty Related to Going Concern*

Without further qualifying our opinion, we draw attention to note 2.4 to the separate financial statements, which indicates that the Company incurred net losses of, respectively, HRK 87,310 thousand and HRK 92,512 thousand, for the years ended 31 December 2016 and 31 December 2015. As at 31 December 2016, the Company's current liabilities exceeded its current assets by HRK 469,520 thousand. Furthermore, the Company breached financial covenants on a loan facility in the amount of HRK 191,610 thousand and has other liabilities maturing within twelve months of the reporting date in the total amount of HRK 313,848 thousand that it does not expect to have the ability to repay. In addition, capital expenditure in the amount of HRK 250,000 thousand would be required by the end of 2018 for the Company to maintain a competitive level of production costs and meet various environmental requirements. As stated in note 2.4, these events and conditions, along with other matters as set forth in note 2.4, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for Qualified Opinion* and in the *Material Uncertainty Related to Going Concern* sections, we have determined the matters described below to be the key audit matters to be communicated in our report.

**Carrying amount of property, plant and equipment**

The carrying amount of property, plant and equipment (PPE) as at 31 December 2016 is HRK 669,538 thousand with related depreciation charge for the year of HRK 80,685 thousand.

Refer to accounting policy 3.4 and note 14 to the separate financial statements.

| Key audit matter | How our audit addressed the matter |
|---|---|
| The Company's reported property, plant and equipment with a total carrying amount of HRK 669 million comprises mostly the Company's main production facility in Kutina.<br><br>During the year ended 31 December 2016, additions to PPE of HRK 133 million included HRK 37 million relating to capitalized own costs. Identification of such costs and their amount as well as the determination of whether they satisfy the capitalization criteria generally involves more complex assumptions.<br><br>Depending on its nature, expenditure relating to fixed assets may be capitalised as PPE or expensed as incurred. In making this decision management have to consider, inter alia, whether the expenditure will generate future economic benefits which necessarily involves judgment, for example in determining whether activities or items are adding value or maintaining existing assets.<br><br>Useful lives of PPE are reviewed annually and judgement is applied primarily taking into consideration technical factors which may affect the useful life expectancy of assets. | With respect to capitalisation of PPE, we have performed the following procedures, amongst others:<br><br>▪ Assessed the Company's capitalisation policies for compliance with relevant accounting standards<br><br>▪ On a sample of items, we traced capitalised amount to underlying supporting documentation (e.g. invoices).<br><br>▪ Assessed the reasonableness of useful lives applied by the Company by reference to useful lives applied by companies in the same industry, as well as through inquiries with relevant technical personnel.<br><br>▪ Inspected a sample of transactions for disposal of PPE in order to assess whether significant gains or losses on disposal were recognised and whether such gains or losses are indicative of the depreciation rates not reflecting the actual useful lives of those assets.<br><br>▪ Challenged the amounts of own costs capitalised by reference to budgeted figures and our understanding of the nature of the work performed. |

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

### *Key Audit Matters (continued)*

**Carrying amount of property, plant and equipment**

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

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

### *Key Audit Matters (continued)*

#### *Valuation of finished products*

Inventory of finished products as at 31 December amounts to HRK 164,943 thousand.
Refer to accounting policy 3.6s, and note 18 to the separate financial statements.

| Key audit matter | How our audit addressed the matter |
|---|---|
| The Company is primarily engaged in the production and distribution of fertilizers to customers in Croatia, and other countries both within and outside of the European Union. Market prices of fertilizers are significantly influenced by volatility of demand for agricultural products which may not necessarily correlate to changes in market prices of natural gas, which is the Company's key production input and the most significant component of finished goods inventory costing. Accordingly, there is a risk that market prices of fertilizers at a specific point in time may fall below their production cost.<br><br>At each reporting date, as required by relevant accounting standards, the Company determines whether the carrying amount of its inventory exceeds its net realizable value. The Company's inventory of finished products is tested for potential decline of their expected selling prices below production cost.<br><br>We focused on this area as arriving at the carrying amount of inventory requires significant management judgment, which relies on the assumptions such as, primarily, the market prices of fertilizers achievable in the future as well as the expected levels of market demand for fertilizers. Changes to these assumptions could result in a material change in the carrying value of inventory and the associated effect on the results of operations. | We have performed the following procedures, amongst others:<br><br>▪ Testing internal controls over inventory valuation and the estimation of net realisable value;<br><br>▪ Analysing gross profit margins by product to identify inventory sold at low or negative margins prior to the reporting date to give an indication of any items in the year-end balance that might be impaired;<br><br>▪ On a sample basis, considering whether the write-down to net realizable value applicable to individual items of inventory is reasonable by reference to their selling prices and estimated costs to sell after the reporting date;<br><br>▪ Assessing the adequacy of disclosures about the degree of estimation involved in arriving at the net realizable value of inventory and any related write-down. |

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

### *Other Information*

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

Our opinion on the separate financial statements does not cover the other information.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work that we have performed, we conclude that there is a material misstatement of this other information, then we are required to report that fact. Except for the misstatements of the other information with respect to items where departures from EU IFRS have been identified, as described in the *Basis for Qualified Opinion* section, we have nothing to report in this respect.

With respect to the Management Report and the Statement of implementation of corporate governance code, we have also performed the procedures required by Article 20 of the Croatian Accounting Act. These procedures include considering whether the Management Report and the Statement of implementation of corporate governance code include the disclosures required by Articles 21, 24 and 22 of the Croatian Accounting Act and obtaining evidence regarding specified information provided in the Statement of implementation of corporate governance code.

Based solely on the work required to be undertaken in the course of the audit of the separate financial statements and the procedures above, in our opinion, and taking into account the fact that our audit opinion on the separate financial statements is qualified:

- the information given in the Management Report and the parts of the Statement of implementation of corporate governance code, containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Croatian Accounting Act and Article 24 paragraph 2 (hereinafter, "extracts of Statement of implementation of corporate governance code) for the financial year for which the separate financial statements are prepared, is consistent, in all material respects, with the separate financial statements on which we have issued a qualified audit opinion; and
- the Management Report and the extracts of the Statement of implementation of corporate governance have been prepared, in all material respects, in accordance with the applicable legal requirements of the Croatian Accounting Act.
- the Statement on implementation of corporate governance code includes information required by Article 22 paragraph 1, items 2, 5, 6 and 7 of the Croatian Accounting Act.

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

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

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

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

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

***Auditors' Responsibilities for the Audit of the Separate Financial Statements***

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

### *Auditors' Responsibilities for the Audit of the Separate Financial Statements (continued)*

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

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

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

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

KPMG

***KPMG Croatia d.o.o. za reviziju***
Croatian Certified Auditors
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8

**13 April 2017**

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

# Petrokemija d.d.

## Unconsolidated statement of comprehensive income

***for the year ended 31 December 2016***

| *(in thousands of HRK)* | ***Note*** | **2016** | 2015 |
|---|---|---|---|
| Revenue from sales | *7* | **1,845,625** | 2,508,752 |
| Other income | *8* | **79,602** | 43,009 |
| **Total operating income** | | **1,925,227** | 2,551,761 |
| Change in inventory of finished goods and work in progress | | **(94,926)** | 31,676 |
| Raw materials, consumables and services used | *9* | **(1,520,909)** | (2,248,566) |
| Staff costs | *10* | **(191,875)** | (191,019) |
| Depreciation and amortisation | *14,15* | **(82,244)** | (92,243) |
| Other operating expenses | *11* | **(83,867)** | (91,964) |
| **Total operating expenses** | | **(1,973,821)** | (2,592,116) |
| **Operating loss** | | **(48,594)** | (40,355) |
| Financial income | *12* | **6,852** | 17,766 |
| Financial expenses | *12* | **(45,568)** | (69,923) |
| **Net finance costs** | | **(38,716)** | (52,157) |
| **Loss before tax** | | **(87,310)** | (92,512) |
| Income tax | *13* | **-** | - |
| **Loss for the period** | | **(87,310)** | (92,512) |
| Other comprehensive income | | **-** | - |
| **Total comprehensive loss** | | **(87,310)** | (92,512) |

The accompanying notes form an integral part of these financial statements

## Petrokemija d.d.

## Unconsolidated statement of financial position

***for the year ended 31 December 2016***

| *(in thousands of HRK)* | *Note* | **31.12.2016** | 31/12/15 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *14* | **669,538** | 620,140 |
| Intangible assets | *15* | **8,022** | 7,766 |
| Investment in subsidiares | *16* | **24,213** | 24,213 |
| Non-current financial assets | *17* | **8** | 8 |
| | | **701,781** | 652,127 |
| **Current assets** | | | |
| Inventories | *19* | **397,600** | 483,774 |
| Trade and other receivables | *20* | **78,705** | 77,355 |
| Current financial assets | *17* | **33,632** | 27,560 |
| Cash and cash equivalents | *21* | **22,333** | 7,406 |
| | | **532,270** | 596,095 |
| **Total assets** | | **1,234,051** | 1,248,222 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | *22* | **386,135** | 386,135 |
| Reserves | | **(200)** | (200) |
| Accumulated losses | | **(339,107)** | (251,797) |
| | | **46,828** | 134,138 |
| **Non-current liabilities** | | | |
| Loans and borrowings | *23* | **173,432** | 129,260 |
| Provisions | *24* | **12,001** | 10,676 |
| | | **185,433** | 139,936 |
| **Current liabilities** | | | |
| Trade and other payables | *25* | **520,030** | 728,820 |
| Loans and borrowings | *23* | **481,760** | 245,328 |
| | | **1,001,790** | 974,148 |
| **Total equity and liabilities** | | **1,234,051** | 1,248,222 |

The accompanying notes form an integral part of these financial statements

# Petrokemija d.d.

## Unconsolidated statement of changes in equity
***for the year ended 31 December 2016***

| *(in HRK thousands)* | **Share capital** | **Other reserves** | **Accumulated losses** | **Total** |
|---|---|---|---|---|
| **As at 1 January 2015** | **386,135** | **301,447** | **(460,188)** | **227,394** |
| *Comprehensive income* | | | | |
| Loss for the period | - | - | (92,512) | (92,512) |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income** | **-** | **-** | **(92,512)** | **(92,512)** |
| Transfers | - | (300,903) | 300,903 | - |
| *Transactions with owners recognised directly in equity* | | | | |
| Transaction costs for registration of paid-in share capital* | - | (744) | - | (744) |
| **Total transactions with owners recognised directly in equity** | **-** | **(744)** | **-** | **(744)** |
| **As at 31 December 2015** | **386,135** | **(200)** | **(251,797)** | **134,138** |

| *(in HRK thousands)* | **Share capital** | **Other reserves** | **Accumulated losses** | **Total** |
|---|---|---|---|---|
| **As at 1 January 2016** | **386,135** | **(200)** | **(251,797)** | **134,138** |
| *Comprehensive income* | | | | |
| Loss for the period | - | - | (87,310) | (87,310) |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income** | **-** | **-** | **(87,310)** | **(87,310)** |
| **As at 31 December 2016** | **386,135** | **(200)** | **(339,107)** | **46,828** |

The accompanying notes form an integral part of these financial statements

# Petrokemija d.d.
# Unconsolidated statement of cash flows
***for the year ended 31 December 2016***

| *(in thousands of HRK)* | ***Note*** | **2016** | 2015 |
|---|---|---|---|
| **Loss before tax** | | **(87,310)** | (92,512) |
| Depreciation and amortization | *14,15* | 82,244 | 92,243 |
| Impairment losses on trade receivables | *11* | 18 | 921 |
| Interest income | *12* | (80) | (1,662) |
| Interest expense | *12* | 32,174 | 45,773 |
| Net increase/(reversal) of provisions | | 4,409 | 2,259 |
| Profit/loss on disposal of property, plant and equipment | | (3,889) | 36 |
| Own consumption | | (37,499) | (17,381) |
| **Changes in working capital:** | | **(9,933)** | 29,677 |
| Decrease/(increase) in inventories | | 86,174 | 35,883 |
| Decrease in trade and other receivables | | (1,368) | 142,399 |
| Increase in trade and other payables | | 154,130 | 206,068 |
| Increase/(decrease)in provisions | | (3,084) | (894) |
| **Cash generated from operations** | | **225,919** | 413,133 |
| Interest paid | | (29,444) | (46,044) |
| **Net cash from operating activities** | | **196,475** | 367,089 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant, equipment and intangibles | *14,15* | (134,571) | (58,594) |
| Interest received | | 80 | 1,662 |
| Proceeds from sale of AFS financial assets | | - | - |
| Net inflows/(outflows) from bank deposits and money market funds | | (6,075) | 16,548 |
| Incorporation of a subsidiary | | - | (20) |
| Sale of property, plant, equipment and intangibles | | 6,562 | - |
| Net inflows/(outflows) from other non-current financial assets | | - | 133 |
| **Net cash from investing activities** | | **(134,004)** | (40,271) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 30,394 | 9,694 |
| Repayment of borrowings | | (77,941) | (335,495) |
| Transaction costs for share capital increase | | - | (744) |
| **Net cash from financing activities** | | **(47,547)** | (326,545) |
| **Net decrease of cash and cash equivalents** | | **14,924** | 273 |
| Cash and cash equivalents at beginning of year | | 8,420 | 8,147 |
| **Cash and cash equivalents at the end of year** | *20* | **23,344** | 8,420 |

The accompanying notes form an integral part of these financial statements

# Petrokemija d.d.

## Notes *(forming part of the financial statements)*

### 1 General information

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

As at 31 December 2016 the share capital amounts to HRK 386,135 thousand and it is divided into 12,871,180 non-materialized ordinary shares at a nominal value of HRK 30 each. The Company's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in note 21.

As at 31 December 2016 the Company employed 1,595 employees *(31 December 2015: 1,617 employees).*

Pursuant to the national classification of activities and along with the basic activity of manufacturing mineral fertilizers registered at the Commercial Court Register in Sisak, the Company's main activities are: production of food additives for animals, production of chemicals and chemical products, production of other rubber products, metal products, supply of electricity, gas, steam and hot water, collecting, purifying and distributing water, research and development in natural, technical and technological sciences.

*Company bodies*

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

*Management Board*

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

| | |
|---|---|
| Đuro Popijač | President from 6 February 2017 |
| Nenad Zečević | Member, President until 6 February 2017 |
| Antonija Perošević Galović | Member until 6 February 2017 |
| Tamara Pernar | Member until 6 February 2017 |
| Vladimir Fresl | Member until 6 February 2017 |

*Supervisory Board*

Members of the Supervisory Board are:

| | |
|---|---|
| Mijo Šepak | Member from 11 May 2016 until 6 February 2017, President from 6 February 2017 |
| Marijan Kuprešak | President from 11 May 2016 until 6 February 2017, member from 6 February 2017 |
| Branimir Fleković | Vice president until 19 February 2016, President until 11 May 2016 |
| Tomislav Pokaz | President, until 8 February 2016 |
| Sonja Ivoš | Member until 19 February 2016, Vice president until 11 May 2016 |
| Željko Klaus | Member until 11 May 2016, from 11 May 2016 Vice President |
| Krešimir Huljev | Member until 11 May 2016 |
| Ladislav Turčinović | Member from 11 May 2016 |
| Mladen Novak | Member from 11 May 2016 until 31 July 2016 |
| Robert Blažinović | Member from 23 March 2017 |

*General Assembly*

The General Assembly is the Company Body in which shareholders realize their rights in the Company's operations unless regulated differently under the law or the Constitution. The General Assembly members are shareholders with the voting rights.

### 2 Basis of preparation

#### *2.1 Statement of compliance*

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

These separate financial statements represent those of the Company only. The consolidated financial statements of the Company and its subsidiaries, which the Company has also prepared in accordance with EU IFRS, are published separately and issued simultaneously with these separate financial statements.

These financial statements were authorised for issue by the Management Board on 13 April 2017.

### *2.2 Basis of measurement*

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

### *2.3 Functional and presentation currency*

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

### *2.4 Going concern*

In the year ended 31 December 2016, the Company incurred a net loss of HRK 87,310 thousand *(31 December 2015: HRK 92,512 thousand)*. Furthermore, as at 31 December 2016, the Company's current liabilities exceeded its current assets by HRK 469,520 thousand *(31 December 2015: HRK 378,053 thousand)*.

The Company manages its liquidity through receivables financing and other working capital measures. At the present market prices of fertilizers, the Company is cash flow negative and unable to service its existing financial indebtedness. The continuing low fertilizer price environment has placed significant pressure on the Company's liquidity position and its solvency, with negative working capital of approximately HRK 44 million as at 31 December 2016 and financial indebtedness of approximately HRK 655 million.

Since 2013, the Company is continually carrying out a comprehensive set of measures of operational and financial restructuring in the context of a wider restructuring plan approved by the Supervisory Board. The restructuring plan, which was updated on several occasions, is based on the completion of the following set of measures primarily aimed at long-term stabilisation of the Company:

- optimization of procurement costs, especially cost of natural gas
- refocusing of production activities,
- optimization of workforce structure,
- divestment or repurposing of non-operational and non-core assets and
- measures of debt refinancing and recapitalization

In this respect, the Company has thus far completed several phases of the restructuring plan including the stabilization of its financial indebtedness in 2014 whereby its share capital was increased on two occasions by a total amount of HRK 253,042 thousand by issuing new shares. Furthermore, during 2014 the Company executed a workforce restructuring program whereby severances were paid to 492 employees totalling HRK 100,340 thousand, resulting in annual savings in employee expenses in the following years of some HRK 45 to 50 million.

### 2 Basis of preparation *(continued)*

### *2.4. Going concern (continued)*

During 2015, the Company was primarily focused on optimizing procurement costs in the context of which management was successful in lowering the purchase price of natural gas. In addition, following two years of continued operations, a major overhaul of production facilities was executed significantly utilizing available own resources and thus decreasing the cost of the overhaul. The overhaul, alongside general cost savings measures, contributed to the optimization of production costs. Furthermore, management also refocused part of its production process and launched a new product - granular ammonium sulphate (AS) which has had positive effects on both revenue and gross margin and which the Company expects will contribute to its efforts to move away from products with a less favourable pricing structure.

In addition to the measures implemented thus far and as described above, the Company initiated a process to introduce a strategic investor that would recapitalize the Company and enable sufficient liquidity to finalize the restructuring process and stabilize operations of the Company for the long term. This process has undergone several phases with several investors expressing interest and executing a due diligence of the Company. Ultimately, the latest round of negotiations with potential strategic investors, which took place in the first half of 2016, resulted in two binding offers being received. However, parliamentary elections in Croatia which were held twice in the last two years resulted in several changes of the Croatian Government, being the governing body of the majority shareholder (the State). As a result of the politically volatile environment, the process was significantly prolonged ultimately resulting in the expiration of the binding offers from interested strategic investors as at 31 December 2016.

The prolonged restructuring process, especially with respect to the expected recapitalization of the Company, has stressed the Company's liquidity position resulting in increased debt. The liquidity burden of the amassed debt toward suppliers of natural gas and banks further increased due to external competitive pressures and the trend of reducing market prices of fertilizers. In an urgent need to refinance its working capital, the Company secured a loan facility of HRK 200 million from the Croatian Bank for Restructuring and Development (HBOR) with the Government of Croatia as a guarantor for the loan. Upon granting of the loan, the Government of Croatia as the guarantor instructed the Company to prepare an updated restructuring plan which would include options available to the stakeholders. The HBOR loan was used mainly to refinance short term liabilities toward natural gas suppliers, fund required capital investments and to continue with the workforce restructuring. The HBOR loan includes financial covenants the Company is required to adhere to in order for the contractual maturity to remain valid. However, based on the financial position of the Group and the results of its operations, and the compliance testing done on the basis of the previous twelve months of 2016, the Group did not meet these debt requirements as at 31 December 2016 and, based on estimated quarterly financial results, is not expected to meet them at 31 March 2017, whereby the loan could become immediately repayable either by the Group or the guarantor. The Group is in regular contact with HBOR and although recent communications indicate that the lender is inclined to continue applying the initial contractual maturity and has, with this in mind, granted a waiver from penalising the Group for not adhering to debt covenants as at 31 December 2016, there is no guarantee that such a waiver will be provided in the following quarterly periods in 2017, or until the agreed financial indicators show the effects of the restructuring program of the Group which is being prepared.

Further, management recognizes that the Company has significant debt repayments scheduled in 2017 which it will, in all likelihood, not be able to meet in absence of a wider restructuring of its operations. The current forecast of financial performance indicates that, notwithstanding the steps that have been taken to date in terms of restructuring measures, the Company remains cash flow negative and requires refinancing and recapitalization. As instructed by the majority shareholder, the Company drafted a restructuring plan which includes projections of financial performance and is based on the assumptions that the Company will be re-capitalised during 2017. Negotiations with key stakeholders, the Croatian Government and natural gas suppliers, regarding the options for restructuring of the operations and funding of the Company are in progress.

### 2 Basis of preparation *(continued)*

#### *2.4. Going concern (continued)*

All stakeholders recognise that the Company's current debt structure is unsustainable and that all stakeholders (i.e. financial creditors, shareholders, government and suppliers) need to contribute to achieve a consensual restructuring solution. The restructuring options considered thus far include the possibility of a privatisation of the Company through a structured tendering process to interested strategic investors or the financial restructuring of the Company which may include extension of contractual debt maturities, conversion of existing debts into equity and a financial injection. Consequently, based on discussions held to date, management expects the ongoing negotiations to focus on restructuring involving all or a combination of extension of debt maturities, debt-to-equity swap and/or additional cash injection, together with contributions from operational stakeholders in the form of discounts/cost reductions.

Based on these steps and their assessment of the degree of commitment of the various parties to successfully negotiate and implement the restructuring plan, management is reasonably confident that an agreement will be reached by all relevant stakeholders for the restructuring of the Company that will allow the Company to meet its liabilities as they fall due over the next twelve months. However, there can be no guarantee that these negotiations will result in an agreement being reached with all relevant stakeholders in the available time (if at all) to secure the objectives described above and, even if an agreement is ultimately reached, there is no guarantee it will take the form of any terms which may currently be under discussion. Management recognises that these circumstances represent a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern and that it may be unable to realise all of its assets and discharge all of its liabilities in the normal course of business. Nevertheless, management is confident that agreements can be reached and accordingly the financial statements have been prepared on a going concern basis and do not include the adjustments that would result if the Company were unable to continue as a going concern.

### 3 Significant accounting policies

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

#### *3.1 Investments in subsidiaries and associates*

*(i) Subsidiaries*

Subsidiaries are all entities (including special purpose entities) controlled by the Company. The Company controls and 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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are accounted for initially at cost and subsequently at cost less impairment losses. Investments in subsidiaries are tested annually for impairment (accounting policy 3.7).

*(ii) Associates*

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates Investments in subsidiaries are accounted for initially at cost and subsequently at cost less impairment losses. Investments in subsidiaries are tested annually for impairment (accounting policy 3.7).

#### *3.2 Foreign currency transactions*

*Transactions in foreign currencies*

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

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

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

#### *3.3 Intangible assets*

*(i) Software licences and project documentation*

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

*(ii) Subsequent expenditure*

Subsequent expenditure on capitalised intangible assets is capitalised only if it is probable that it increases the future economic benefits embodied in the specific asset to which it relates and those benefits will flow to the Company. All other expenditure is recognised in the profit or loss as an expense as incurred.

*(iii) Amortisation*

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date on which they are available for use. The estimated useful lives of intangible assets are as follows:

| | |
|---|---|
| Software and project documentation | 3 - 5 years |

**3 Significant accounting policies *(continued)***

### *3.4 Property, plant and equipment*

*Owned assets*

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

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of plant and equipment and those benefits will flow to the Company. All other expenditure is recognised in profit or loss as an expense as incurred.

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

| | |
|---|---|
| Buildings | 6 - 50 years |
| Plant and equipment | 5 - 25 years |
| Tools and fittings | 5 - 25 years |

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

### *3.5 Financial instruments*

*Non-derivative financial instruments*

Non-derivative financial instruments comprise investments, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. Accounting for financial income and expense is discussed in a separate note within significant accounting policies.

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances, call deposits and bills of exchange. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management as well as bank deposits with original maturity up to three months are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### 3 Significant accounting policies *(continued)*

### *3.6 Inventories*

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

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

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

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

### *3.7 Impairment*

*(i) Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in companies that share similar credit risk characteristics.

All impairment losses are recognised in the statement of comprehensive income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income

*(ii) Non-financial assets*

The carrying amounts of the Company’s non-financial assets, other than inventories and deferred tax assets 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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 amortization, if no impairment loss had been recognised.

**3 Significant accounting policies *(continued)***

***3.8 Employee benefits***

*(i) Defined pension fund contributions*

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

*(ii) Long-term employee benefits*

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

*(iii) Bonus plans*

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

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

***3.9 Provisions***

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

***3.10 Revenue***

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

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

***3.11 Financial income and expenses***

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

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

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

**3 Significant accounting policies *(continued)***

***3.12 Accounting for leases – where the Company is the lessee***

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

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

***3.13 Share capital***

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

***3.14 Dividends***

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

***3.15 Segment information***

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

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

**3 Significant accounting policies *(continued)***

***3.16 Taxation***

*(i) Income tax*

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

*(ii) Deferred tax assets and liabilities*

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

*(iii) Tax exposures*

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

*(iv) Value added tax (VAT)*

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the statement of financial position on a net basis. Where a provision has been made for impairment of receivables, impairment loss is recorded for the gross amount receivable, including VAT.

**4 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 2016 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. Overview:

- *IFRS 15 Revenue from Contracts with Customers*

  IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It is not expected that this standard will have a significant effect on the separate financial statements of the Company.

**4 New standards and interpretations not yet adopted *(continued)***

- *IFRS 9 Financial Instruments*

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company currently plans to apply IFRS 9 initially on 1 January 2018. It is not expect that this standard will have a significant effect on the separate financial statements of the Company.

- *IFRS 16 Leases*

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16. So far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases.

- *Disclosure Initiative (Amendments to IAS 7)*

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. This amendments are not expected to have a significant effect on the separate financial statements of the Company.

**5 Key accounting judgements and estimates**

*Critical judgements in applying accounting policies*

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

*(i) Deferred income tax assets recognition*

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (see accounting policy 3.16 and note 13).

*(ii) Actuarial estimates used in determining obligations for employee benefits*

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see accounting policy 3.8 and note 23).

*(iii) Consequences of certain legal actions*

There are a number of legal actions which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal actions and recognises provisions for the liabilities that may arise to the Company in respect of claims.

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

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

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

Provisions for the Company’s obligations arising legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 3.9 and 23).

### 5 Key accounting judgements and estimates *(continued)*

*(iv) Trade receivables - impairment*

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

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

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

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

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

*(v) Impairment of non-financial assets*

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

For the main production, the calculation of the recoverable amount is based on a three year projection of financial performance with the primary assumption being that the Company will continue as a going concern. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected three year period of 2%. Cash flows are discounted using the discount rate which reflects the risk of the underlying asset, and which has been approximated for the purposes of the impairment test as the weighted average cost of capital for the relevant industry segment and amounts to 12%. Apart from the discount rate, key variables used in the value in use model relate to expected fertilizer prices and natural gas prices obtained from relevant external sources.

Apart from the main production facility, the Company also has two side facilities which are either temporarily non-operational or at a minimal level of capacity utilisation and where the Company is in the process of considering the feasibility of production continuation/increase which ultimately depends on the long-term strategy and is ultimately dependent on the outcome of the restructuring process, especially with respect to entry of strategic investors. The Company does not perform impairment tests on these assets.

During 2016 and 2015, the Company has not recorded any impairments with respect to property, plant and equipment. Management considers that the carrying amount of non-financial assets is recoverable taking into account its conclusions on the use of the going concern assumption (see note 2.4.).

*(vi) Impairment of investments in subsidiaries*

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

The calculation of the recoverable amount is generally based on three year business plans for the respective subsidiary. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected three year period of 2%. Cash flows created from such plans are discounted using the discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test as the weighted average cost of capital for the respective market and industry. Based on the above, the Company has performed an impairment test on its investment in Luka Šibenik d.o.o. which did not result in the Company recognising any impairment loss.

### 6 Determination of fair value

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

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

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

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

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

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

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

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

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

- Note 17: Financial assets

### 7 Revenue

| | **2016** | 2015 |
|---|---|---|
| | **HRK '000** | HRK '000 |
| Revenue from sale of products and merchandise | **1,841,841** | 2,505,238 |
| Revenue from services | **3,784** | 3,514 |
| | **1,845,625** | 2,508,752 |

An overview of revenue per market is given below:

| | **2016** | 2015 |
|---|---|---|
| | **HRK '000** | HRK '000 |
| Croatia | **580,978** | 708,767 |
| Slovenia | **205,837** | 174,017 |
| Bosnia and Herzegovina | **131,255** | 110,315 |
| Serbia and Montenegro | **143,839** | 156,405 |
| Macedonia | **20,137** | 21,117 |
| Sales in countries outside the region | **763,579** | 1,338,131 |
| | **1,845,625** | 2,508,752 |

### 8 Other operating income

| | **2016** | 2015 |
|---|---|---|
| | **HRK '000** | HRK '000 |
| Sale of raw materials | **1,256** | 2,947 |
| Manufacture of spare parts | **385** | 635 |
| Own consumption | **37,499** | 17,381 |
| Insurance reimbursements | **10,067** | 5,054 |
| Sale of manufactured packaging | **4,923** | 6,003 |
| Inventory surplus | **3,035** | 843 |
| Reversal of provisions | **3,693** | - |
| Sale of plant and equipment | **3,889** | 23 |
| Other income | **14,855** | 10,123 |
| | **79,602** | 43,009 |

### 9 Cost of goods sold

| | **2016** | 2015 |
|---|---|---|
| | **HRK '000** | HRK '000 |
| Raw materials and consumables used | **1,439,246** | 2,155,441 |
| Cost of wholesale and retail goods sold | **2,679** | 5,631 |
| Cost of production services | **78,984** | 87,494 |
| | **1,520,909** | 2,248,566 |

### 10 Personnel expenses

| | **2016** | 2015 |
|---|---|---|
| | **HRK '000** | HRK '000 |
| Salaries | **116,164** | 116,046 |
| Contributions on salaries | **27,194** | 27,073 |
| Other staff costs | **48,517** | 47,900 |
| | **191,875** | 191,019 |

The number of employees as at 31 December 2016 in the Company was 1,595 *(2015: 1,617)*.

During 2016, the Company continued to restructure its workforce in the course of which it incurred expenses of HRK 5.6 million relating to termination benefits which are included in other staff costs.

### 11 Other operating expenses

| | **2016** | 2015 |
|---|---|---|
| | **HRK '000** | HRK '000 |
| Impairment of inventories | **143** | 81 |
| Other fees and taxes | **30,972** | 51,428 |
| Other employee costs | **13,853** | 14,138 |
| Insurance | **10,015** | 10,274 |
| Increase in provision | **8,102** | 2,259 |
| Bank charges | **4,376** | 1,797 |
| Inventory loss | **2,517** | 3,048 |
| Impairment of trade receivables | **18** | 921 |
| Intellectual services | **591** | 995 |
| Travel expenses | **413** | 487 |
| Other | **12,867** | 6,536 |
| | **83,867** | 91,964 |

Other taxes, fees and charges include HRK 10,425 thousand *(2015: HRK 28,739 thousand)* of fees for greenhouse gas emissions. After the Croatian accession to the European Union, Petrokemija d.d. as a plant operator is subject to obligation to purchase emission allowances.

### 12 Financial income and financial expenses

| | **2016** | 2015 |
|---|---|---|
| | **HRK '000** | HRK '000 |
| Interest income | **80** | 1,662 |
| Foreign exchange gains | **6,697** | 6,984 |
| Other financial income | **75** | 9,120 |
| **Total finance income** | **6,852** | 17,766 |
| | | |
| Interest expense | **(32,174)** | (45,773) |
| Foreign exchange losses | **(13,394)** | (24,150) |
| **Total finance expenses** | **(45,568)** | (69,923) |
| | | |
| **Net finance costs** | **(38,716)** | (52,157) |

## 13 Income tax expense

Recognised in the statement of comprehensive income:

| | **2016 HRK '000** | 2015 HRK '000 |
|---|---|---|
| Current income tax | **-** | - |
| | **-** | - |

*Effective tax rate reconciliation*

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

| | **2016 HRK '000** | 2015 HRK '000 |
|---|---|---|
| **Loss before taxation** | **(87,310)** | (92,512) |
| Tax calculated at 20% *(2015: 20%)* | **(17,462)** | (18,502) |
| Non-deductible expenses and non-taxable income | **537** | 689 |
| Temproray differences not recognised as deferred tax assets | **89** | 448 |
| Utilisation of temporary differences previously not recognised as deferred tax assets | **(658)** | (404) |
| Tax losses not recognised as deferred tax assets | **15,735** | 17,769 |
| Effect of change in future tax rates from 20% to 18% on unrecognised temporary differences | **1,759** | - |
| Tax expense recognised in the statement of comprehensive income | **-** | - |
| **Effective tax rate** | **0.0%** | 0.0% |

At the reporting date, carry forward tax losses of the Company amounting to HRK 1,037,037 thousand *(31 December 2015: HRK 950,890 thousand)* have not been recognised as a deferred tax asset as management believes it is not probable that future taxable profits will be available to utilise the unused tax losses.

Tax rate for future taxable profits for periods ending after 31 December 2016 has changed from 20% to 18%. Tax value of tax losses available per taxable rates in future periods is as follows:

| | **31.12.2016 HRK '000** | 31.12.2015 HRK '000 |
|---|---|---|
| Tax loss from 2012 - expires on 31 December 2017 | **31,762** | 35,546 |
| Tax loss from 2013 - expires on 31 December 2018 | **58,397** | 64,885 |
| Tax loss from 2014 - expires on 31 December 2019 | **64,780** | 71,978 |
| Tax loss from 2015 - expires on 31 December 2020 | **15,992** | 17,769 |
| Tax loss from 2016 - expires on 31 December 2021 | **15,735** | - |
| | **186,666** | 190,178 |

## 14 Property, plant and equipment

| *(in thousands of HRK)* | **Land** | **Buildings** | **Plant and equipment** | **Tools and fittings** | **Assets under construction** | **Advances** | **Total** |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2015 | 49,482 | 579,083 | 1,212,164 | 70,454 | 49,380 | 8,482 | 1,969,045 |
| Additions | - | - | - | - | 51,724 | 5,289 | 57,013 |
| Transfers | - | 1,167 | 38,479 | 331 | (39,977) | - | - |
| Disposals | - | - | (1,079) | (581) | - | - | (1,660) |
| **At 31 December 2015** | **49,482** | **580,250** | **1,249,564** | **70,204** | **61,127** | **13,771** | **2,024,398** |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2015 | - | 323,325 | 946,460 | 45,729 | - | - | 1,315,514 |
| Charge for the year | - | 19,270 | 66,437 | 4,661 | - | - | 90,368 |
| Disposals | - | - | (1,063) | (561) | - | - | (1,624) |
| **At 31 December 2015** | **-** | **342,595** | **1,011,834** | **49,829** | **-** | **-** | **1,404,258** |
| **Carrying amount As at 31 December 2015** | **49,482** | **237,655** | **237,730** | **20,375** | **61,127** | **13,771** | **620,140** |
| **Cost** | | | | | | | |
| At 1 January 2016 | 49,482 | 580,250 | 1,249,564 | 70,204 | 61,127 | 13,771 | 2,024,398 |
| Additions | - | - | - | - | 132,756 | - | 132,756 |
| Transfers | - | 6,745 | 167,978 | 738 | (161,789) | (13,672) | - |
| Disposals | (975) | (2,334) | (4,800) | (349) | - | - | (8,458) |
| **At 31 December 2016** | **48,507** | **584,661** | **1,412,742** | **70,593** | **32,094** | **99** | **2,148,696** |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2016 | - | 342,595 | 1,011,834 | 49,829 | - | - | 1,404,258 |
| Charge for the year | - | 18,697 | 58,046 | 3,942 | - | - | 80,685 |
| Disposals | - | (779) | (4,657) | (349) | - | - | (5,785) |
| **At 31 December 2016** | **-** | **360,513** | **1,065,223** | **53,422** | **-** | **-** | **1,479,158** |
| **Carrying amount At 31 December 2016** | **48,507** | **224,148** | **347,519** | **17,171** | **32,094** | **99** | **669,538** |

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

The Company's property amounting to HRK 84,450 thousand *(2015: HRK 75,770 thousand)* is mortgaged as security for loans and borrowings. Property, plant and equipment of the Company include non-operational assets with a carrying value amounting to HRK 14,567 thousand (*2015: HRK 16,483 thousand*) which relates to plant for the production of phosphoric acid and a soot plant. The Company is currently in the process of considering the feasibility of continuing production in these plants which ultimately depends on the long-term strategy of the Company. The Company has not been able to make adequate impairment tests and assess the recoverable value of these non-operational assets.

## 15 Intangible assets

| *(in thousands of HRK)* | Assets under construction | Software and project documentation | Total |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2015 | 3,933 | 23,513 | 27,446 |
| Additions | 1,581 | - | 1,581 |
| Transfer from tangible assets | - | - | - |
| Transfers | (3,784) | 3,784 | - |
| **At 31 December 2015** | **1,730** | **27,297** | **29,027** |
| **Accumulated amortisation** | | | |
| At 1 January 2015 | - | 19,386 | 19,386 |
| Charge for the year | - | 1,875 | 1,875 |
| **At 31 December 2015** | **-** | **21,261** | **21,261** |
| **Carrying amount** | | | |
| **As at 31 December 2015** | **1,730** | **6,036** | **7,766** |
| **Cost** | | | |
| At 1 January 2016 | 1,730 | 27,297 | 29,027 |
| Additions | 1,815 | - | 1,815 |
| Transfers | (10) | 10 | - |
| Disposals | - | (56) | (56) |
| **At 31 December 2016** | **3,535** | **27,251** | **30,786** |
| **Accumulated amortisation** | | | |
| At 1 January 2016 | - | 21,261 | 21,261 |
| Charge for the year | - | 1,559 | 1,559 |
| Disposals | - | (56) | (56) |
| **At 31 December 2016** | **-** | **22,764** | **22,764** |
| **Carrying amount** | | | |
| **At 31 December 2016** | **3,535** | **4,487** | **8,022** |

Intangible assets under construction primarily relate to project documentation. Project documentation relates to the study on decrease of ammonia emissions at the UREA plant and the study on absorption of gases at the NPK 1 plant.

## 16 Investments in subsidiaries and associates

As at the reporting date the Company holds ownership interests in its subsidiaries as follows:

| **Name of subsidiary** | **Ownership in %** | | **Investment** | |
|---|---|---|---|---|
| | | | **31.12.2016** | 31.12.2015 |
| | **31/12/16** | 31/12/15 | **HRK '000** | HRK '000 |
| Petrokemija d.o.o., Novi Sad | **100%** | 100% | **259** | 259 |
| Restoran Petrokemija d.o.o., Kutina | **100%** | 100% | **5,338** | 5,338 |
| Petrokemija Agro Trade d.o.o. | **100%** | 100% | **20** | 20 |
| Luka Šibenik d.o.o. | **80%** | 80% | **18,596** | 18,596 |
| | | | **24,213** | 24,213 |

## 17 Financial assets

| | **31.12.2016** | 31.12.2015 |
|---|---|---|
| | **HRK '000** | HRK '000 |
| **Non-current financial assets** | | |
| Investments in other equity instruments | **8** | 8 |
| | | |
| **Current financial assets** | | |
| Deposits | **1,011** | 1,014 |
| Financial assets held for trading | **32,621** | 26,546 |
| | **33,632** | 27,560 |

Financial assets held for trading relate to investments in cash funds. Other financial assets relate to fees for greenhouse gas emissions. Investment in other equity securities relates to a minority share in TV Moslavina, Kutina. Deposits relate to deposits in banks with original maturity less than 3 months.

*Fair value measurement*

The fair value of investments in cash funds is based on market prices at the balance sheet date. In accordance with the input variables used, the assessment is categorized in the fair value hierarchy as level 1 (see note 6). Investments in other equity instruments quoted where there is no active market are carried at cost and tested for impairment regularly.

## 18 Inventories

| | **31.12.2016** | 31.12.2015 |
|---|---|---|
| | **HRK '000** | HRK '000 |
| Raw materials and supplies | **109,911** | 108,015 |
| Work in progress | **20,229** | 23,266 |
| Finished goods | **164,943** | 257,109 |
| Trade goods | **519** | 1,122 |
| Spare parts | **91,414** | 93,662 |
| Prepayments | **10,584** | 600 |
| | **397,600** | 483,774 |

Spare parts include items relating to stand-by equipment and spare parts that can only be used in connection with specific items of plant and equipment, and should thus be classified as plant and equipment. The Company is currently in the process of determining the value of spare parts which need to be re-classified from current to non-current assets as part of plant and equipment.

## 19 Trade and other receivables

| | **31.12.2016** | 31.12.2015 |
|---|---|---|
| | **HRK '000** | HRK '000 |
| **Current receivables** | | |
| Trade receivables | **122,753** | 116,535 |
| Trade receivables in factoring | **-** | 2,300 |
| Impairment allowance for trade receivables | **(106,198)** | (106,276) |
| Net trade receivables | **16,555** | 12,559 |
| | | |
| Related party trade receivables | **1,190** | 1,502 |
| Prepaid expenses | **41** | - |
| Taxes and contributions | **35,438** | 63,078 |
| Receivables from employees | **7** | 13 |
| Other receivables | **25,474** | 203 |
| | **78,705** | 77,355 |

### 19 Trade and other receivables *(continued)*

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

| | 31.12.2016 HRK '000 | 31.12.2015 HRK '000 |
|---|---|---|
| At the beginning of the period | **106,276** | 109,389 |
| Increase | **18** | 921 |
| Amounts collected | **(37)** | (149) |
| Written off as uncollectible | **(59)** | (3,885) |
| **At period end** | **106,198** | 106,276 |

Impairment losses on trade receivables are included in note 'Other operating expenses'.

Ageing analysis of trade receivables (including factoring) as at the reporting date is as follows:

| | 31.12.2016 HRK '000 | 31.12.2015 HRK '000 |
|---|---|---|
| Not yet due | **10,835** | 11,474 |
| Overdue 0-120 days | **5,699** | 1,496 |
| Overdue 121-180 days | **133** | 248 |
| Overdue 181-360 days | **355** | 1,769 |
| Overdue over 1 year | **106,921** | 105,350 |
| | **123,943** | 120,337 |

Trade receivables (including factoring) are denominated in following currencies:

| | 31.12.2016 HRK '000 | 31.12.2015 HRK '000 |
|---|---|---|
| Croatia (HRK) | **114,667** | 111,708 |
| European Union (EUR) | **7,088** | 5,251 |
| USA (USD) | **2,188** | 3,378 |
| | **123,943** | 120,337 |

### 20 Cash and cash equivalents

| | 31.12.2016 HRK '000 | 31.12.2015 HRK '000 |
|---|---|---|
| Cash with banks | **22,326** | 7,401 |
| Cash in hand | **7** | 5 |
| **Cash and cash equivalents as presented in the statement of financial position** | **22,333** | 7,406 |
| Deposits | **1,011** | 1,014 |
| **Cash and cash equivalents as presented in the statement of cash flows** | **23,344** | 8,420 |

Cash with banks relates to cash accounts with commercial banks and bears an average interest rate ranging from 0.01% to 0.1% per annum. Deposits relate to deposits in banks with original maturity less than 3 months.

### 21 Share capital

| | **31.12.2016** | 31.12.2015 |
|---|---|---|
| | **HRK '000** | HRK '000 |
| Share capital | **386,135** | 386,135 |

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

| | **31/12/16** | | 31/12/15 | |
|---|---|---|---|---|
| **Structure of ownership** | **Number of shares** | **% of ownership** | Number of shares | % of ownership |
| CERP/Republic of Croatia | **10,277,975** | **79.85%** | 10,277,975 | 79.85% |
| Societe Generale-Splitska banka d.d./AZ OMF | **399,932** | **3.11%** | 399,932 | 3.11% |
| Addiko bank d.d./PBZ Croatia osiguranje d.d. OMF | **366,431** | **2.85%** | 366,431 | 2.85% |
| Societe Generale-Splitska banka d.d. /Erste Plavi OMF | **332,883** | **2.59%** | 332,883 | 2.59% |
| HPB d.d./Kapitalni fond d.d. | **126,713** | **0.98%** | 126,713 | 0.98% |
| PBZ d.d./State street client account | **121,585** | **0.94%** | 125,804 | 0.98% |
| HPB d.d./Fond za financiranje razgradnje NEK | **97,200** | **0.76%** | 97,200 | 0.76% |
| Zagrebačka banka d.d./AZ profit dobrovoljni mirovinski fond | **-** | **0.00%** | 45,638 | 0.35% |
| Zagrebačka banka d.d./State street bank and trust company | **34,030** | **0.26%** | 43,425 | 0.34% |
| OTP banka d.d. | **31,250** | **0.24%** | - | 0.00% |
| PBZ d.d./Custodial account | **30,616** | **0.24%** | 42,062 | 0.33% |
| Other shareholders | **1,052,565** | **8.17%** | 1,013,117 | 7.87% |
| **Total registered share capital** | **12,871,180** | **100.00%** | 12,871,180 | 100.00% |
| Paid but unregistered shares | | | - | |
| **Total share capital** | **12,871,180** | | 12,871,180 | |

Share capital comprises 12,871,180 ordinary shares *(31 December 2015: 12,871,180 shares)* of a nominal value of HRK 30 *(31 December 2015: HRK 30)* per share.

Subsequent to the reduction of share capital performed during 2014, the Company increased its share capital on two occasions in the amount of HRK 253,042 thousand by issuing 8,434,733 ordinary shares with a nominal value of HRK 30 per share. Simultaneously, the Company's other reserves decreased by HRK 240 thousand with respect to the cost of issue of ordinary shares. This increase in share capital was not registered at the Commercial Court as at 31 December 2014 and related mostly to a re-capitalization from the state. As at 18 February 2015 the increase in share capital was registered at the Commercial Court, mentioned shares were registered, and registration cost in the amount of HRK 744 thousand was recorded in other reserves.

### 22 Loans and borrowings

| | **31.12.2016 HRK '000** | 31.12.2015 HRK '000 |
|---|---|---|
| **Non-current borrowings** | | |
| Banks | **77,599** | 33,427 |
| Other loans | **95,833** | 95,833 |
| | **173,432** | 129,260 |
| **Current borrowings** | | |
| Banks | **243,536** | 91,295 |
| Factoring liabilities | **3,910** | 2,300 |
| Related party loans | **9,150** | 9,150 |
| Other loans | **225,164** | 142,583 |
| | **481,760** | 245,328 |
| **Total borrowings** | **655,192** | 374,588 |

*Maturity of borrowings as at the reporting date was as follows:*

| | **31.12.2016 HRK '000** | 31.12.2015 HRK '000 |
|---|---|---|
| Up to 1 year | **481,760** | 245,328 |
| Between 1 and 2 years | **73,500** | 80,926 |
| Between 2 and 5 years | **76,533** | 48,334 |
| Over 5 years | **23,399** | - |
| | **655,192** | 374,588 |

***Bank loans***

Bank loans amounting to HRK 93,426 thousand *(2015: HRK 108,889 thousand)* have variable interest rates. The variable interest rates for bank loans included in the table above were in the range from 4.58% to 5.65%.

Bank loans amounting to HRK 227,709 thousand *(2015: HRK 15,833 thousand*) have fixed interest rates. The fixed interest rates for bank loans included in the table above were in the range from 5.40% to 8.00%.

The majority of bank loans was used to settle overdue supplier loans in the amount of HRK 170,000 thousand as well as overdue trade payables in the amount of HRK 31,268 thousand. These transactions were done by direct cash transfer from banks to suppliers and represent non-cash transactions from the Company's perspective.

***Related party loans***

Loans from related parties relate to loan from subsidiary Restoran Petrokemija d.o.o. and Luka Šibenik d.o.o. carrying a fixed interest rate in the range from 5% to 5.14%.

***Security***

Loans and borrowings are secured by mortgages over the Company's property amounting to HRK 84,450 thousand and inventories of finished products amounting to HRK 134,431 thousand as well as with bills of exchange and debentures.

***Factoring liabilities***

Factoring liabilities relate to short-term financing of operational cash flows relating to trade receivables. The factoring agreements entered into by the Company are with recourse and the risk of collection of trade receivables ultimately lies with the Company. Finance costs relating to factoring liabilities are entirely borne by the customer.

***Other loans and borrowings***

Other loans and borrowings relate to a loan from an insurance company in the amount of HRK 18,000 thousand (*2015: HRK 2,055 thousand)* carrying a fixed interest rate of 6% and loans from suppliers. As an instrument for managing current liquidity, during 2014 the Company has converted a part of its trade payables in the amount of HRK 298,725 thousand *(2015: HRK 108,525 thousand)* which fell due to short-term loans by signing agreements with suppliers on debt repayment bearing an average interest rate ranging from 6% to 9% per annum. Additionally, during the year, a total of HRK 170,000 thousand of bank loans was used to settle supplier loans by direct cash transfers from banks to suppliers. As at reporting date, the Company has loans towards suppliers in the amount of HRK 302,997 thousand *(2015: HRK 236,361 thousand).*

### 22 Loans and borrowings *(continued)*

***Debt covenants***

In June 2016 the Company secured a loan facility of HRK 200 million from the Croatian Bank for Restructuring and Development (HBOR) with the Government of Croatia as a guarantor for the loan, interest on the loan is variable and the loan is fixed to EUR. The loan is repayable in quarterly instalments beginning from 30 April 2019.

According to the loan agreement with HBOR, the Group is obligated to maintain a "Debt service cover ratio" (DSCR) at a minimum of 1.1. DSCR representing the ratio of consolidated net operating revenues (adjusted for one off income and expenses, capital expenditure, increases of capital and loan liabilities) to the aggregate amount of repayment of principal and interest on all debt. Also, the Company is obligated to maintain a ratio of consolidated Net Debt/ EBITDA at a maximum of 6.0.

Based on the financial position of the Group and the results of its operations, and the compliance testing done on the basis of the previous twelve months of 2016, the Group did not meet these debt requirements as at 31 December 2016 and, based on estimated quarterly financial results, is not expected to meet them at 31 March 2017, whereby the loan could become immediately repayable either by the Group or the guarantor. The Group is in regular contact with HBOR and recent communications indicates that the lender is inclined to continue applying the initial contractual maturity and has, with this in mind, granted a waiver from penalising the Group for not adhering to debt covenants as at 31 December 2016. However, as there is no guarantee that such a waiver will be provided in the following quarterly periods during 2017 or further until the effects of the restructuring program of the Group, which is still in progress, become evident. Accordingly, the entire loan is classified as short term in the financial statements.

## 23 Provisions

| *(in thousands of HRK)* | **Jubilee awards** | **Retirement benefits** | **Court cases** | **Total** |
|---|---|---|---|---|
| **As at 31 December 2015** | | | | |
| Non-current | 6,992 | 2,880 | 804 | 10,676 |
| At 1 January 2016 | **6,992** | **2,880** | **804** | **10,676** |
| Increase in provisions | 1,226 | 967 | 385 | 2,578 |
| Utilised | (732) | (16) | (505) | (1,253) |
| **At 31 December 2016** | **7,486** | **3,831** | **684** | **12,001** |
| **As at 31 December 2016** | | | | |
| Non-current | 7,486 | 3,831 | 684 | 12,001 |

*Court cases*

There are a number of legal proceedings initiated against the Company for minor amounts as well as those initiated by the Company against others. A provision amounting to HRK 385 thousand was recognised in relation to legal proceedings. Management believes that no significant costs exceeding those provided for at the reporting date will occur as a result of ongoing legal proceedings.

*Jubilee awards and regular retirement benefits*

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

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

Input variables for actuarial calculation of provisions for jubilee awards and retirement benefits:

| | **31/12/16** | 31/12/15 |
|---|---|---|
| Discount rate | **3.0%** | 4.0% |
| Fluctuation rate | **3.4%** | 3.7% |

## 24 Trade and other payables

| | **31.12.2016 HRK '000** | 31.12.2015 HRK '000 |
|---|---|---|
| Trade payables | **287,685** | 511,628 |
| Related party payables | **4,634** | 8,573 |
| Salaries and other benefits to employees | **22,148** | 16,493 |
| Accrued interest | **3,065** | 335 |
| Taxes, contributions and other duties | **6,171** | 6,540 |
| Advances received | **136,962** | 126,006 |
| Other | **59,365** | 59,245 |
| | **520,030** | 728,820 |

During the year, as part of its liquidity management, the Group reprogrammed and reclassified a part of its trade payables in the amount HRK 298,725 thousand (*2015: HRK 108,525 thousand*) to short-term loans by signing loan agreements with suppliers of natural gas. Other payables contain the liability for the purchase of emission units in the amount of HRK 57,851 thousand *(2015: HRK 53,443 thousand).*

### 25 Risk management

**Financial risk management**

Categories of financial instruments are as follows:

| | 2016 | 2015 |
|---|---|---|
| | *(in thousands of HRK)* | |
| Short-term financial assets | 33,632 | 27,560 |
| Trade receivables | 17,745 | 14,061 |
| Cash and cash equivalents | 22,333 | 7,406 |
| **Total loans and receivables** | **73,710** | **49,027** |
| **Total financial assets** | **73,710** | **49,027** |
| Loan liabilities | 655,192 | 374,588 |
| Trade payables | 287,685 | 511,628 |
| **Total financial liabilities at amortised cost** | **942,877** | **886,216** |
| **Total financial liabilities** | **942,877** | **886,216** |

**Fair value of financial instruments**

The fair values of financial assets and financial liabilities are determined as follows:

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

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

As at 31 December 2016, the carrying amounts of cash and cash equivalents, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair value due to the short-term nature of those assets and liabilities and due to the fact that a majority of short term assets and liabilities are at variable interest rates.

As at the reporting dates, the carrying amounts of borrowings arising from bank and other loans approximates their fair values as the majority of these borrowings bear variable interest rates or fixed interest rate approximating current market interest rates or are payable on demand (in case of covenant breach as described earlier).

### 26 Risk management *(continued)*

**Financial risk management *(continued)***

***Liquidity risk management***

Ultimate responsibility for liquidity risk management rests with the Management board which manages the Company's short, medium and long-term funding and liquidity requirements. The Company manages liquidity risk by monitoring the net current asset position and addressing any expected current liquidity deficits. As part of its loan arrangements, the Company also monitors required debt covenants at Group level.

*Liquidity risk analysis*

The following tables detail the Company's remaining contractual maturity for its financial liabilities and its financial assets presented in the statement of financial position at the each reporting period end. The tables have been drawn up based on the undiscounted cash flows until maturity and include cash flows from both interest and principal.

| *as at 31 December 2016* | **Carrying amount** | **Contractual cash flows** | up to 1 year | 1 - 2 years | 2 - 5 years | over 5 years |
|---|---|---|---|---|---|---|
| | | *(in thousands of HRK)* | | | | |
| *Non-interest bearing assets:* | | | | | | |
| Trade receivables | **17,745** | **17,745** | 17,745 | - | - | - |
| | **17,745** | **17,745** | **17,745** | **-** | **-** | **-** |
| *Interest bearing assets:* | | | | | | |
| Current financial assets | **33,632** | **33,800** | 33,800 | - | - | - |
| Cash and cash equivalents | **22,333** | **22,445** | 22,445 | - | - | - |
| | **55,965** | **56,245** | **56,245** | **-** | **-** | **-** |
| | **73,710** | **73,990** | **73,990** | **-** | **-** | **-** |

| *as at 31 December 2016* | **Carrying amount** | **Contractual cash flows** | up to 1 year | 1 - 2 years | 2 - 5 years | over 5 years |
|---|---|---|---|---|---|---|
| | | *(in thousands of HRK)* | | | | |
| *Non-interest bearing liabilities:* | | | | | | |
| Loans and borrowings | **3,910** | **3,910** | 3,910 | - | - | - |
| Trade payables | **287,685** | **287,685** | 287,685 | - | - | - |
| | **291,595** | **291,595** | **291,595** | **-** | **-** | **-** |
| *Interest bearing liabilities:* | | | | | | |
| Loans and borrowings | **651,282** | **730,031** | 505,458 | 89,716 | 108,007 | 26,850 |
| | **651,282** | **730,031** | **505,458** | **89,716** | **108,007** | **26,850** |
| | **942,877** | **1,021,626** | **797,053** | **89,716** | **108,007** | **26,850** |

Generally, the Company's objective is to ensure sufficient liquidity through the use of bank and supplier funding, receivables factoring and advance payments with the aim of meeting its obligations when they become due.

The continuing low fertiliser price environment coupled with external competitive pressures has placed significant pressure on the Company's liquidity position and its solvency. The Company has significant debt repayments scheduled in 2017 which it will, in all likelihood, not be able to meet in absence of a wider restructuring of its operations. The Company drafted a restructuring plan and is in negotiations with key stakeholders (the Croatian Government and natural gas suppliers) in order to restructure its operations and secure sufficient liquidity for sustainable operations. See note 2.4 for further details.

**26 Risk management *(continued)***

**Financial risk management *(continued)***

***Interest rate risk management***

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The variable interest rates currently applicable on the carrying values of floating rate debt as at the reporting dates are based on the following:

| *(in thousands of HRK)* | **2016** | **2015** |
|---|---|---|
| Ministry of finance's Treasury bills based bank loans | 93,426 | 108,889 |
| | **93,426** | **108,889** |

*Interest rate sensitivity analysis*

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

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

| *as at 31 December 2016* | **Contractual cash flows** | **up to 6 months** | from 6 to 12 months | from 1 to 2 years | from 2 to 5 years | over 5 years |
|---|---|---|---|---|---|---|
| | | | *(in thousands of HRK)* | | | |
| At currently applicable interest rates | **100,743** | 28,519 | 21,917 | 22,846 | 27,461 | - |
| At currently applicable interest rates + 100 basis points | **102,170** | 28,920 | 22,201 | 23,206 | 27,843 | - |
| **Effect of increase of interest rate by 100 basis points** | **(1,427)** | **(401)** | **(284)** | **(360)** | **(382)** | **-** |

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

### 26 Risk management (*continued*)

**Financial risk management *(continued)***

***Currency risk management***

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

| | Liabilites 2016 | 2015 |
|---|---|---|
| | *(in thousands* | |
| European Union (EUR) | 103,972 | 103,899 |
| USA (USD) | 148,319 | 90,203 |
| | **252,291** | **194,102** |

| | Assets 2016 | 2015 |
|---|---|---|
| | *(in thousands* | |
| European Union (EUR) | 8,208 | 19,221 |
| USA (USD) | 2,602 | 3,381 |
| | **10,810** | **22,602** |

*Foreign currency sensitivity analysis*

The Company is mainly exposed to the fluctuations in the exchange rate of Croatian kuna to Euro and US dollar, since the most of the transactions with international customers are in Euro and US dollar. Borrowings are denominated in Croatian kuna and the Company is not exposed to currency in this respect. The following table shows the applicable exchange rates of HRK against EUR and USD during the reporting period:

| | Spot FX rate 31.12.2016 | 31.12.2015 | Average FX rate 2016 | 2015 |
|---|---|---|---|---|
| EUR | 7.557787 | 7.635047 | 7.529383 | 7.609601 |
| USD | 7.168536 | 6.991801 | 6.803718 | 6.862262 |

The following table details the Company's sensitivity to a 1% increase in Croatian kuna against the EUR and a 10% increase against the USD as the estimated reasonably possible change in the exchange rate of the respective currencies. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where Croatian kuna increases against the relevant currency for the percentage specified above. The weakening of the Croatian kuna against the relevant currency in the same percentage, would result in an equal and opposite impact on net result.

| | EUR exposure 2016 | 2015 |
|---|---|---|
| | *(in thousands* | |
| Increase/(decrease) of net result | (958) | (847) |

| | USD exposure 2016 | 2015 |
|---|---|---|
| | *(in thousands* | |
| Increase/(decrease) of net result | (14,572) | (8,682) |

The Company does not currently hedge currency risk with respect to the EUR as the local currency is pegged against the EUR but is assessing the need for hedging against the USD given the recent volatility of this currency and the exposure to it arising from USD denominated natural gas prices which are determined in USD.

### 26 Risk management (*continued*)

**Financial risk management *(continued)***

***Credit risk management***

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

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company'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 Company has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

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

| | **2016** | **2015** |
|---|---|---|
| Not yet due | **10,835** | 11,474 |
| Overdue 0-120 days, but not impaired | **5,699** | 1,496 |
| Overdue more than 120 days, but not impaired | **1,211** | 1,091 |
| Total trade receivables | **17,745** | 14,061 |
| Cash in banks (including deposits) | **23,337** | 8,415 |
| **Total exposure to credit risk** | **41,082** | 22,476 |

Overdue receivables more than 120 days include HRK 723 thousand of receivables overdue for more than 360 days which have not been impaired and which Management considers recoverable.

**Operational risk management**

***Sales concentration risk management***

The Company generates approximately 32% *(2015: 28%)* of its revenue from domestic customers, whereas around 68% *(2015: 72%)* of sales are generated from international customers (based on geographical location of customers). The Company determines the selling prices in accordance with the macroeconomic conditions prevailing in each of the markets where the customers are located.

The Company has significant customer concentration whereby approximately 45-50% of revenue is generated by top five customers. Consequently, the Company's capacity for revenue generation is highly dependent on the quality of its relationships with its key customers, their financial stability or the probability of customers switching suppliers in lieu of increased competitive pressures and inability of the Company to provide competitive pricing terms due to its stressed liquidity position.

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

***Price risk***

The supply of the Company's primary production input, natural gas, is dependent on two major suppliers who are also the Company's largest creditors accounting for 33% of its total liabilities. In lieu of prolonged payments to suppliers due to the stressed liquidity position, access to supplies of natural gas at market prices is limited and exerts additional pressure on product margins.

The Company aims to manage this risk by defining long-term relationships with strategic suppliers and is in the process of negotiations for reduction of gas prices as a prerequisite for creating conditions for sustainable operations.

The Company also has investments in money market funds which are subject to price risk. A change in market prices of shares in money market funds of 1% would decrease profit or loss by HRK 326 thousand (2015: HRK 265 thousand).

## 27 Contractual and capital commitments

*Procurement of natural gas*

The Group has a contractual commitment for purchase of natural gas from the suppliers INA d.d. in which the Republic of Croatia has an ownership stake of 44.8% and from Prvo plinarsko društvo d.o.o., Vukovar. As per the contracts currently in force, the Group has an obligation to buy the total amount of natural gas required in its production cycle from these suppliers of which a part will be purchased based on a combination of the "oil index formula" and the spot price of gas while a part will be paid at a fixed price. These contractual commitments expire on 1 October 2017. At a minimum, until the contract expires the Company is required to procure at least 465.8 million m3 of natural gas which, based on spot market price as at 31 December 2016, amounts to approximately HRK 640 million.

*Capital commitments*

The Company plans significant capital investments in the production process which include legislative requirements regarding environmental protection as well as technical upgrades to key production processes (upgrade of ammonium production). In this respect, the Company is required to secure capital investments of HRK 190 million until the end of 2018 in relation to improvements of ecological efficiency of the plant as prescribed by the Resolution of combined requirements of environmental protection. In addition to this, the Company expects that further capital expenditure of HRK 60 million will be required to maintain a competitive level of production costs.

## 28 Related party transactions

The most significant shareholder of Petrokemija d.d. is the Republic of Croatia which holds 79.85% of share capital and voting rights of the Company through the Restructuring and sale canter ("RSCE").

The Company considers that it has an immediate related party relationship with its key shareholders (see note 21) and entities under their control or influence (subsidiaries and associates); key management personnel (see below); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 *Related Party Disclosures* ("IAS 24").

Furthermore, the Company has a related party relationship with State institutions and companies where the State is the majority owner or where the State has a significant influence.

*Transactions with subsidiaries*

| | **2016** | 2015 |
|---|---|---|
| | **HRK '000** | HRK '000 |
| Petrokemija d.o.o., Novi Sad | **38,027** | 104,954 |
| Restoran Petrokemija d.o.o., Kutina | **95** | 95 |
| Luka Šibenik d.o.o. | **226** | - |
| **Sale of goods and services** | **38,348** | 105,049 |
| Petrokemija d.o.o., Novi Sad | **47** | 2,262 |
| **Financial income** | **47** | 2,262 |

| | **31.12.2016** | 31.12.2015 |
|---|---|---|
| | **HRK '000** | HRK '000 |
| Petrokemija d.o.o., Novi Sad | **1,190** | 1,502 |
| **Receivables at 31 December** | **1,190** | 1,502 |

| | **2016** | 2015 |
|---|---|---|
| | **HRK '000** | HRK '000 |
| Petrokemija d.o.o., Novi Sad | **247** | 435 |
| Restoran Petrokemija d.o.o., Kutina | **159** | 193 |
| Luka Šibenik d.o.o. | **18,000** | 21,795 |
| **Purchase of goods and services** | **18,406** | 22,423 |
| Petrokemija d.o.o., Novi Sad | **48** | 213 |
| Restoran Petrokemija d.o.o., Kutina | **162** | 220 |
| Luka Šibenik d.o.o. | **300** | 111 |
| **Financial expenses** | **510** | 544 |

### 28 Related party transactions *(continued)*

*Transactions with subsidiaries (continued)*

| | **31.12.2016 HRK '000** | 31.12.2015 HRK '000 |
|---|---|---|
| Petrokemija d.o.o., Novi Sad | **39** | 2,940 |
| Restoran Petrokemija d.o.o., Kutina | **73** | 55 |
| Luka Šibenik d.o.o. | **4,522** | 5,578 |
| **Liabilities at 31 December** | **4,634** | 8,573 |
| Luka Šibenik d.o.o. | **6,000** | 6,000 |
| Restoran Petrokemija d.o.o., Kutina | **3,150** | 3,150 |
| **Loans and borrowings payable at 31 December** | **9,150** | 9,150 |

*Transactions with State related parties*

Given that the Company's majority owner is the State, the Company is also in a related party relationship with state institutions and other companies in which the State is a majority owner or has a significant influence. For the purposes of related party disclosures, the Company does not consider routine transactions (such as taxes, levies etc.) with various communal entities (directly or indirectly owned by the State) or with other State bodies to be related party transactions.

Significant transactions of the Company with such entities relate to purchase of gas which is the primary raw material used in the Company's production cycle, freight rail transport services and supply of electricity. The Company is also in part financed by a bank where the majority owner is the State. During 2016, the Company had the following transactions with State related entities:

| | **2016 HRK '000** | 2015 HRK '000 |
|---|---|---|
| ***HBOR*** | | |
| Loans and borrowings payable at 31 December | **222,701** | - |
| Interest expense | **3,098** | - |
| ***INA d.d.*** | | |
| Purchase of gas, other raw materials and services | **487,475** | 704,554 |
| Liabilities as at 31 December | **53** | 172,390 |
| Loans and borrowings payable at 31 December | **152,510** | 107,195 |
| Interest expense | **3,795** | 13,848 |
| ***HŽ Cargo d.o.o.*** | | |
| Purchase of transport services | **64,494** | 81,273 |
| Liabilities as at 31 December | **6,278** | 8,529 |
| ***HEP Opskrba d.o.o.*** | | |
| Purchase of electricity | **17,765** | 21,234 |
| Liabilities as at 31 December | **2,812** | 3,425 |
| ***HPB d.d.*** | | |
| Loans and borrowings payable at 31 December | **-** | - |
| Interest expense | **-** | 6,119 |

*Transactions with key management and Supervisory Board*

Management Board remuneration relates to regular monthly payments for salaries and other benefits in kind. During 2016, remuneration paid to key management amounted to HRK 2,670 thousand *(2015: HRK 3,506 thousand)* and related to 4 persons *(2015: 4 persons)*.

Furthermore, during 2016, a total of HRK 186 thousand *(2015: HRK 204 thousand)* was paid to the members of the Supervisory Board.

### 29 Contingencies

*Environmental provisions*

Over a number of years, the Company formed a landfill of phosphogypsum which is a by-product of a part of the Company's production cycle and for which the Company has a legal obligation for land restoration and closure in accordance with a restoration plan. Currently, the Company does not have a detailed restoration plan but has indicatively estimated the potential cost of restoration and closure of the landfill based on a study performed by a relevant specialist. However, the legislative framework is unclear and does not prescribe an exact period over which the restoration is to be performed nor does it prescribe the required method of restoration.

Additionally, as described further, the landfill itself has potential, albeit limited, for commercialization through use as a raw material in construction and the possibility for prolonging the timing of the restoration is also being considered. Accordingly, apart from the preliminary assessment of potential cost of restoration done by a specialist, the Company has not prepared a detailed plan of restoration and has not recognized any provisions in this respect.

*Limitations with respect to estimating the cost of restoration and closure*

According to current legislation on waste (OG 94/13) phosphogypsum falls into the category of non-hazardous waste for which the Company has a disposal license issued by the Ministry of Environmental Protection. With respect to the type of waste, there are currently three models, or options, available for restoration and closure, the choice of which ultimately depends on the decisions of the relevant ministries, which in the end determines the amount of restoration costs:

- *Option 1*

  This option has been applied to certain landfills in Europe and worldwide, and is more demanding in terms of larger amounts of clay and substrate foil to be placed on the landfill and in terms of required funding.

- *Option 2*

  This option is developed on the basis of scientific research presented in the report "Gradual greening of phosphogypsum waste" and is more favourable as it does not require placement of foil and substantial amounts of clay and substrate.

- *Option 3*

  This option does not predict the closure of the landfill but the use of phosphogypsum as a raw material in road building, construction, agriculture and other sectors, while the costs of land restoration would be significantly less.

Management considers that at this moment, given the ambiguity of related regulations, option 3 is the most likely option. Estimated costs of land restoration in this scenario would amount to HRK 155 million (including effects of discounting).

*Court cases*

There are a number of legal proceedings initiated against the Company for minor amounts as well as those initiated by the Company against others. Management believes that no significant costs exceeding those provided for at the reporting date will occur as a result of ongoing legal proceedings as presented in note 23.

**Petrokemija, Plc.**
**SUPERVISORY BOARD**

Number: 9/2017

Kutina, 13.04.2017

Pursuant Article 21 of the Articles of Association of Petrokemija, Plc. and Articles 300c and 300d of the Companies Act, at its 9/2017 session held on 13 April 2017, the Supervisory Board of Petrokemija, Plc. adopted

# DECISION

## ON APPROVAL TO THE FINANCIAL STATEMENTS FOR 2016

**I**

After reviewing them, the Supervisory Board of Petrokemija, Plc. approved the annual financial statements of Petrokemija, Plc. for 2016, which were down up by the Management Board.

By giving the above approval, the Management and the Supervisory Board are considered to have verified the financial statements.

The Management and Supervisory Board will send the information on the determined financial statements to the General Meeting.

**II**

The annual financial statements covered by the approval from point **I** include:

- Balance Sheet
- Profit and Loss Account
- Cash Flow Statement
- Statement of Changes in Equity
- Annual Report and Non-Consolidated Financial Reports for the year 2016 - Independent Auditor's Report to the shareholders of Petrokemija Plc., with notes

**III**

Balance sheet assets and liabilities amount to **HRK 1,234,053,689.13**.

The actual business loss for 2016 amounts to **HRK 87,310,399.21**.

Reports from point **II** are attached to this Decision and are an integral part thereof.

**IV**

This Decision shall enter into force upon its adoption.

Chairman of the Supervisory Board:

______________________

/Mijo Šepak/

**Petrokemija, Plc.**
**SUPERVISORY BOARD**

Number: 11/2017

Kutina, 13.04.2017

Pursuant to Article 21 of the Articles of Association of Petrokemija, Plc. and Article 220 through 223, and in accordance with Article 300b, paragraph 2 of the Companies Act, at its 9/2017 session held on 13 April 2017, the Supervisory Board of Petrokemija, Plc. adopted

# DECISION

## on loss coverage for 2016

### I

The proposal of the Board for the cumulative operating losses for 2016 in the total amount of HRK **87,310,399.21 HRK** to be transferred into 2016 as uncovered loss is adopted.

The Management and the Supervisory Board will jointly submit the thus determined proposal on the loss coverage to the Company General Meeting.

### II

This Decision shall enter into force upon its adoption.

Chairman of the Supervisory Board:

__________________________

/Mijo Šepak/

**Attachment 1.**

**Reported period:** **1.1.2016.** to **31.12.2016.**

# Annual financial statements GFI-POD

| | | | |
|---|---|---|---|
| Registation number (MB): | **03674223** | | |
| Registation number of subject (MBS): | **080004355** | | |
| Personal identification number (OIB): | **24503685008** | | |
| Issuer company: | **PETROKEMIJA d.d.** | | |
| Postal code and city: | **44320** | **KUTINA** | |
| Street and number: | **ALEJA VUKOVAR 4** | | |
| E-mail: | fin@petrokemija.hr | | |
| Internet address: | www.petrokemija.hr | | |
| Code and city/municipality: | **220** | **KUTINA** | |
| Code and county name: | **3** | **SISAČKO-MOSLAVAČKA ŽUPANIJA** | Nmber of employees: (at the end of the year) **1.595** |
| Consolidted Report: | **NO** | | Code of NKD: **20.15** |

| Entities in consolidation (according to IFRS): | Registered seat: | Registration umber (MB): |
|---|---|---|
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| | | |
| | | |
| | | |

| | | |
|---|---|---|
| Book-keeping office: | | |
| Contact person; | **MARINA MARIĆ** (name and surname of the contact person) | |
| Telephone number: | **044-647-829** | Fax: **044-682-795** |
| E-mail: | marina.maric@petrokemija.hr | |
| Name and surname: | **ĐURO POPIJAČ, NENAD ZEČEVIĆ** (authorized representatives) | |

**Documentation to be published:**
1. Audited annual financial statements with Independent Auditors report
2. Management Board s Report
3. Statement of person in sharge of making Financial Statements
4. Decision of the Supervisory board (proposed) on determining annual financial statements
5. Decision on propsed allocation of profit or covering loss

(seal) (signature of authorized representative)

# BALANCE SHEET

**as at 31.12.2016.**

| Petrokemija d.d. | | | |
|---|---|---|---|
| **Position** | **AOP code** | **Prethodna godina (neto)** | **Tekuća godina (neto)** |
| 1 | 2 | 3 | 4 |
| **A) RECIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL** | 001 | | |
| **B) LONG-TERM ASSETS** (003+010+020+029+033) | 002 | **652.126.997** | **701.782.032** |
| I. INTANGIBLE ASSETS (004 do 009) | 003 | **7.766.579** | **8.023.084** |
| 1. Expense for development | 004 | | |
| 2. Concessions, patents, licences, trade and service marks, software and other rights | 005 | 6.036.775 | 4.487.689 |
| 3. Goodwill | 006 | | |
| 4. Advances for intangible assets | 007 | | |
| 5. Intangible assets in progress | 008 | 1.729.804 | 3.535.395 |
| 6. Other intangible assets | 009 | | |
| II. TANGIBLE ASSETS (011 do 019) | 010 | **620.139.893** | **669.390.841** |
| 1. Land | 011 | 49.482.151 | 48.506.702 |
| 2. Buildings | 012 | 237.655.207 | 224.148.613 |
| 3. Plant and equipment | 013 | 236.606.850 | 345.925.594 |
| 4. Tools, plant inventory and transportation assets | 014 | 19.908.525 | 16.704.376 |
| 5. Biological assets | 015 | | |
| 6. Advances for tangible assets | 016 | 13.770.947 | 99.731 |
| 7. Tangibal assets in progres | 017 | 62.249.818 | 33.538.840 |
| 8. Other tangible assets | 018 | 466.395 | 466.985 |
| 9. Investments in real estates | 019 | | |
| III. LONG-TERM FINANCIAL ASSETS (021 do 028) | 020 | **24.220.525** | **24.220.525** |
| 1. Investments (shares) in related companies | 021 | 24.212.988 | 24.212.988 |
| 2. Loans given to realted companies | 022 | | |
| 3. Participating interest (shares) | 023 | 7.537 | 7.537 |
| 4. Loans given to companies with participating interest | 024 | | |
| 5. Investment in securities | 025 | | |
| 6. Loans given, deposits and similar assets | 026 | | |
| 7. Other long-term financial assets | 027 | | |
| 8. Investments accounted for using the equity method | 028 | | |
| IV. TRADE RECEIVABLES (030 do 032) | 029 | **0** | **147.582** |
| 1. Receivables from related companies | 030 | | |
| 2. Receivables for sales on loan | 031 | | |
| 3. Other receivables | 032 | | 147.582 |
| V. DIFERRED TAX ASSETS | 033 | | |
| **C) SHORT-TERM ASSETS** (035+043+050+058) | 034 | **596.093.720** | **532.230.428** |
| I. INVENTORIES (036 do 042) | 035 | **483.777.443** | **397.600.114** |
| 1. Raw and other material | 036 | 201.680.135 | 201.325.786 |
| 2. Work in progress | 037 | 23.265.819 | 20.229.445 |
| 3. Finished products | 038 | 257.109.820 | 164.942.675 |
| 4. Merchandise inventory | 039 | 1.121.455 | 518.884 |
| 5. Advances for inventories | 040 | 600.214 | 10.583.324 |
| 6. Long-term assets intended for sale | 041 | | |
| 7. Biological assets | 042 | | |
| II. TRADE RECEIVABLES (044 do 049) | 043 | **77.349.481** | **78.665.036** |
| 1. Receivables from related companies | 044 | 1.501.814 | 1.190.352 |
| 2. Receivables from customers (buyers) | 045 | 10.259.372 | 16.556.415 |
| 3. Receivables from participating interest | 046 | | |
| 4. Receivables from employees and members | 047 | 18.795 | 6.931 |
| 5. Receivables from state and other institutions | 048 | 63.071.957 | 35.436.528 |
| 6. Other receivables | 049 | 2.497.543 | 25.474.810 |
| III. SHORT-TERM FINANCIAL ASSETS (051 do 057) | 050 | **27.560.525** | **33.632.160** |
| 1. Investments (shares) in related companies | 051 | | |
| 2. Loans given to realted companies | 052 | | |
| 3. Participating interest (shares) | 053 | 26.546.147 | 32.620.660 |
| 4. Loans given to companies with participating interest | 054 | | |
| 5. Investment in securities | 055 | | |
| 6. Loans given, depsits and similar assets | 056 | 1.014.378 | 1.011.500 |
| 7. Other financial assets | 057 | | |
| IV. CASH IN BANK AND ON HAND | 058 | 7.406.271 | 22.333.118 |
| **D) PREPAID EXPESES AND ACCRUED INCOME** | 059 | | **41.229** |
| **E) TOTAL ASSETS** (001+002+034+059) | 060 | **1.248.220.717** | **1.234.053.689** |
| **F) OFF BALANCE SHEET ITEMS** | 061 | 1.175.630.879 | 1.335.568.822 |

| LIABILITIES | | | |
|---|---|---|---|
| **A) CAPITAL AND RESERVES** (063+064+065+071+072+075+078) | **062** | **134.138.298** | **46.827.900** |
| I. SUBSCRIBED CAPITAL | **063** | 386.135.400 | 386.135.400 |
| II. CAPITAL RESERVES | **064** | -200.000 | -200.000 |
| III. RESERVES FROM PROFIT (066+067-068+069+070) | **065** | **0** | **0** |
| 1. Legal reserves | **066** | | |
| 2. Reserve for treasury shares | **067** | | |
| 3. Treasury shares and invesment (deductable item) | **068** | | |
| 4. Statutory reserves | **069** | | |
| 5. Other reserve | **070** | | |
| IV. REVALUATION RESERVES | **071** | | |
| V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074) | **072** | **-159.284.780** | **-251.797.101** |
| 1. Retained earning | **073** | | |
| 2. Loss carried forward | **074** | 159.284.780 | 251.797.101 |
| VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077) | **075** | **-92.512.322** | **-87.310.399** |
| 1. Profit for the year | **076** | | |
| 2. Loss for the year | **077** | 92.512.322 | 87.310.399 |
| VII. MINORITY INTEREST | **078** | | |
| **B) PROVISIONS** (080 do 082) | **079** | **10.675.465** | **12.000.758** |
| 1. Provisions for pensions, severance pay and similar labilites | **080** | 9.870.883 | 11.316.033 |
| 2. Provisions for tax liabilities | **081** | | |
| 3. Other provisions | **082** | 804.582 | 684.725 |
| **C) LONG-TERM LIABILITIES** (084 do 092) | **083** | **129.259.259** | **365.042.685** |
| 1. Liabilities to related companies | **084** | | |
| 2. Liabilities for loans, deposits and similar | **085** | 95.833.333 | 95.833.333 |
| 3. Liabilities to banks and other financial institutions | **086** | 33.425.926 | 269.209.352 |
| 4. Liabilities for advances | **087** | | |
| 5. Liabilities to suppliers | **088** | | |
| 6. Liabilities for securities | **089** | | |
| 7. Liabilities to companies with participating interest | **090** | | |
| 8. Other long-term liabilities | **091** | | |
| 9. Deferred tax liability | **092** | | |
| **D) SHORT-TERM LIABILITIES** (094 do 105) | **093** | **914.975.693** | **740.933.779** |
| 1. Liabilities to related companies | **094** | 17.722.984 | 13.783.657 |
| 2. Liabilities for loans, deposits and similar | **095** | 142.583.026 | 225.163.666 |
| 3. Liabilities to banks and other financial institutions | **096** | 91.296.296 | 51.925.926 |
| 4. Liabilities for advances | **097** | 126.005.590 | 136.962.093 |
| 5. Liabilities to suppliers | **098** | 511.627.525 | 287.685.453 |
| 6. Liabilities for securities | **099** | | |
| 7. Liabilities to companies with participating interest | **100** | | |
| 8. Liabilities to employees | **101** | 10.764.135 | 10.757.706 |
| 9. Liabilities for taxes, contributions and other payments | **102** | 12.174.427 | 7.658.852 |
| 10. Liabilities as per share in result | **103** | | |
| 11. Liabilities as per long-tem assets intended for sales | **104** | | |
| 12. Other short-term liabilities | **105** | 2.801.710 | 6.996.426 |
| **E) ACCRUED EXPENSES AND DEFERRED INCOME** | **106** | **59.172.002** | **69.248.567** |
| **F) TOTAL LIABILITIES** (062+079+083+093+106) | **107** | **1.248.220.717** | **1.234.053.689** |
| **G) OFF BALANCE SHEET ITEMS** | **108** | 1.175.630.879 | 1.335.568.822 |
| **APPENDIX TO BALANCE SHEET (to be completed by companies that prepare consolidated financial statements)** | | | |
| **A) CAPITAL AND RESERVES** | | | |
| 1. Credited to parent company capital owners | **109** | | |
| 2. Credited to minority interest | **110** | | |

Note 1.: The appendix to the balance sheet i to be filled if consolidated financial statements are to be compiled.

## PROFIT AND LOSS ACCOUNT

**for the period 01.01.2016. to 31.12.2016.**

| Petrokemija d.d. | | | |
|---|---|---|---|
| **Position** | **AOP code** | **Previous year** | **Current year** |
| 1 | 2 | 3 | 4 |
| **I. OPERATING REVENUES** (112+113) | 111 | 2.551.763.210 | 1.925.227.744 |
| **1. Sales revenues** | 112 | 2.508.752.889 | 1.845.624.359 |
| **2. Other operating revenues** | 113 | 43.010.321 | 79.603.385 |
| **II. OPERATING EXPENSES** (115+116+120+124+125+126+129+130) | 114 | 2.592.117.309 | 1.973.822.557 |
| **1. Changes in value of work in progress and finished products** | 115 | -31.677.120 | 94.926.654 |
| **2. Material costs** (117 do 119) | 116 | 2.248.564.257 | 1.520.912.450 |
| a) Cost of raw and production materials | 117 | 2.155.441.423 | 1.439.247.783 |
| b) Cost of goods sold | 118 | 5.630.116 | 2.679.440 |
| c) Other external costs | 119 | 87.492.718 | 78.985.227 |
| **3. Employees costs** (121 do 123) | 120 | 185.151.389 | 185.984.975 |
| a) Net salaries and wages | 121 | 116.045.959 | 116.164.109 |
| b) Costs for taxes and contributions from salaries | 122 | 42.032.113 | 42.627.073 |
| c) Contributions on salaries | 123 | 27.073.317 | 27.193.793 |
| **4. Depreciation** | 124 | 92.243.845 | 82.244.182 |
| **5. Other costs** | 125 | 85.795.988 | 65.869.592 |
| **6. Value adjustments** (127+128) | 126 | 4.051.166 | 10.044.337 |
| a) of long-term assets (except for financial assets) | 127 | 34.767 | 7.509.700 |
| b) of short-term assets (except for financial assets) | 128 | 4.016.399 | 2.534.637 |
| **7. Provisions** | 129 | 7.987.784 | 13.840.367 |
| **8. Other operating expenses** | 130 | | |
| **III. FINANCIAL REVENUES** (132 do 136) | 131 | 17.765.030 | 6.851.894 |
| **1. Interest, exchange rate flucutations, dividends and similar from associated companies** | 132 | 2.261.556 | 47.496 |
| **2. Interest, exchange rate flucuations, dividends and sikilar from non-associated companies ond others** | 133 | 15.503.474 | 6.804.398 |
| **3. Part of revenue from associated companies and prticipating interests** | 134 | | |
| **4.Unrealised gains (revenues) from financial assets** | 135 | | |
| **5. Other financial revenues** | 136 | | |
| **IV. FINANCIAL EXPENSES** (138 do 141) | 137 | 69.923.253 | 45.567.480 |
| **1. Interest, exchange rate fluctuations and other costs with associated companies** | 138 | 543.878 | 508.944 |
| **2. Interest, excehange rate flucutations and other costs eith non-associated companies** | 139 | 69.379.375 | 45.058.536 |
| **3. Unrealised losses (costs) from financial assets** | 140 | | |
| **4. Other financial expenses** | 141 | | |
| **V. PORTION IN PROFIT OF ASSOCIATED COMPANIES** | 142 | | |
| **VI. PORTION IN LOSS OF ASSOCIATED COMPANIES** | 143 | | |
| **VII. EKSTRAORDINARY - OTHER REVENUES** | 144 | | |
| **VIII. EXTRAORDINARY - OTHER EXPENSES** | 145 | | |
| **IX. TOTAL REVENUES** (111+131+142 + 144) | 146 | 2.569.528.240 | 1.932.079.638 |
| **X. TOTAL EXPENSES** (114+137+143 + 145) | 147 | 2.662.040.562 | 2.019.390.037 |
| **XI. PROFIT OR LOSS BEFORE TAXATION** (146-147) | 148 | -92.512.322 | -87.310.399 |
| 1. Profit before taxation (146-147) | 149 | 0 | 0 |
| 2. Loss before taxation (147-146) | 150 | 92.512.322 | 87.310.399 |
| **XII. PROFIT TAX** | 151 | | |
| **XIII. PROFIT OR LOSS FOR THE PERIOD** (148-151) | 152 | -92.512.322 | -87.310.399 |
| 1. Profit for the period (149-151) | 153 | 0 | 0 |
| 2. Loss for the period (151-148) | 154 | 92.512.322 | 87.310.399 |

| | | | |
|---|---|---|---|
| **APPENDIX TO PLA (to be completed by companies that prepare consolidated financial statements)** | | | |
| **XIV. PROFIT OR LOSS FOR THE PERIOD** | | | |
| **1. Credited to parent company capital owners** | **155** | | |
| **2. Credited to minority interest** | **156** | | |
| **STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)** | | | |
| **I. PROFIT OR LOSS OF THE PERIOD (= 152)** | **157** | -92.512.322 | -87.310.399 |
| **II. OTHER COMPREHENSIVE GAINS/LOSS BEFORE TAXES** (159 do 165) | **158** | **0** | **0** |
| **1. Exchange rate differences from translation of foreign currency operations** | **159** | | |
| **2. Change in revaluation reserves of fixed tangible and intangible assets** | **160** | | |
| **3. Gain or loss from revaluation of financial assets held for sale** | **161** | | |
| **4. Gain or loss from effective cash flow hedge** | **162** | | |
| **5. Gain or loss from effective hedge in net investments in abroad** | **163** | | |
| **6. Portion in other comprehensive gain7loss of assocated companies** | **164** | | |
| **7. Acutaral gains7losses on defined benefit plans** | **165** | | |
| **III. TAX ON OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD** | **166** | | |
| **IV. NET OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD** (158-166) | **167** | **0** | **0** |
| **V. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD (157+167)** | **168** | **-92.512.322** | **-87.310.399** |
| **APPENDIX TO STATEMENT OF COMPREHESIVE INCOME (to be completed by companies that prepare consolidated financial statements)** | | | |
| **VI. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD** | | | |
| **1. Credited to parent company capital owners** | **169** | | |
| **2. Credited to minority interest** | **170** | | |

## CASH FLOW STATEMENT - Direct method

**for the perod 01.01.2016. to 31.12.2016.**

| Petrokemija d.d. | | | |
|---|---|---|---|
| **Position** | **AOP code** | **Previous year** | **Current year** |
| 1 | 2 | 3 | 4 |
| **CASH FLOW FROM PPERATIONG ACTIVITIES** | | | |
| 1. Cash increase from buyers | 001 | 2.891.419.545 | 1.995.150.376 |
| 2. Cash increse from royalites, fees commissions and other | 002 | | |
| 3. Cash increse from insuarance compensations | 003 | 4.883.096 | 6.914.953 |
| 4. Cash increase from tax return | 004 | 355.990.344 | 220.528.428 |
| 5. Other cash increase | 005 | 5.385.070 | 770.643 |
| **I. Total increase of cash flow from operating activities (001 do 005)** | 006 | **3.257.678.055** | **2.223.364.400** |
| 1. Expenses to suppliers | 007 | 2.283.601.501 | 2.069.461.529 |
| 2. Expenses for employees | 008 | 200.819.886 | 202.096.547 |
| 3. Expenses for insuarance compensations | 009 | 15.513.575 | 12.211.710 |
| 4. Expenses for interest | 010 | 35.991.962 | 46.054.098 |
| 5. Expenses for taxes | 011 | 117.861.148 | 45.857.144 |
| 6. Other cash decrease | 012 | 6.728.627 | 7.138.931 |
| **II. Total decrease in cash flow from operating activities (007 do 012)** | 013 | **2.660.516.699** | **2.382.819.959** |
| **A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)** | 014 | **597.161.356** | **0** |
| **A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)** | 015 | **0** | **159.455.559** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| 1. Cash proseeds from sale of non-current tangible and intangible assets | 016 | 28.750 | 1.728.206 |
| 2. Cash proceeds from sale of equity and debt security instruments | 017 | | |
| 3. Cash proceeds from interest payment* | 018 | | |
| 4. Cash proceeds of dividend payment* | 019 | 4.649.343 | |
| 5. Other cash proceeds from investing activities | 020 | | |
| **III. Total cash inflow from investing activities (016 do 020)** | 021 | **4.678.093** | **1.728.206** |
| 1. Cash outflow for acquisition of non-current tangible and intangible assets | 022 | 37.724.470 | 106.342.374 |
| 2. Cash outflow for acquisition of equity and debt financial instruments | 023 | | |
| 3. Other cash outflows from investing activities | 024 | 20.000 | |
| **IV. Total cash outflow from investing activities (022 do 024)** | 025 | **37.744.470** | **106.342.374** |
| **B1) NET CASH FLOW FROM INVESTIN ACTIVITIES (021-025)** | 026 | **0** | **0** |
| **B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)** | 027 | **33.066.377** | **104.614.168** |
| **CASH FLOW FROM FINANCIAL ACTIVITIES** | | | |
| 1. Cash infows from issuance of equity and debt financial instruments | 028 | | |
| 2. Cash inflows from loan pricipals, debentures, credits and other borrowings | 029 | 8.200.000 | 536.934.785 |
| 3. Other inflows from financial activities | 030 | 109.749.532 | |
| **V. Total cash inflow from financial activities (028 do 030)** | 031 | **117.949.532** | **536.934.785** |
| 1. Cash outflows for repayment of loan principal and bonds | 032 | 452.257.112 | 257.941.089 |
| 2. Cash outflows for dividend payment | 033 | | |
| 3. Cas outflow for financial lease | 034 | | |
| 4. Cash outflows for buybackof own shares | 035 | | |
| 5. Other cash outflows for financial activities | 036 | 229.514.082 | |
| **VI. Total cash outflow for financial activities (032 do 036)** | 037 | **681.771.194** | **257.941.089** |
| **C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)** | 038 | **0** | **278.993.696** |
| **C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)** | 039 | **563.821.662** | **0** |
| **Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)** | 040 | **273.317** | **14.923.969** |
| **Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)** | 041 | **0** | **0** |
| **Cash and cash equivalents at the begining of the period** | 042 | 8.147.332 | 8.420.649 |
| **Increase of cash and cash equivalents** | 043 | 273.317 | 14.923.969 |
| **Decrease of cash adn cash equivalents** | 044 | | |
| **Cash and cash equivalents at the end of the period** | 045 | 8.420.649 | 23.344.618 |

***Inflow from interest and dividend can be listed as operating activities (MRS 7 Appendix A)**

## STATEMENT OF CHANGES IN EQUITY

**for the perod from 1.1.2016 to 31.12.2016**

| Position | AOP code | Previous year | Current year |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1. Suscribed capital | 001 | 386.135.400 | 386.135.400 |
| 2. Capital reserves | 002 | -200.000 | -200.000 |
| 3. Reserves from profit | 003 | | |
| 4. Retained profit or loss carried forward | 004 | -159.284.780 | -251.797.101 |
| 5. Profit or loss for the year | 005 | -92.512.322 | -87.310.399 |
| 6. Revaluation of fixed tangeble assets | 006 | | |
| 7. Revaluation of intangible assets | 007 | | |
| 8. Revaluation of financial assets available for sale | 008 | | |
| 9. Other revaluation | 009 | | |
| **10. Total capital and reserves (AOP 001 do 009)** | **010** | **134.138.298** | **46.827.900** |
| 11. Exchange differences on translationof financial statements of foreign operations | 011 | | |
| 12. Curent and deferred taxes (part)) | 012 | | |
| 13.Protektion of cash flow | 013 | | |
| 14. Changes in accounting policies | 014 | | |
| 15. Adjustment of significant errors from previous period | 015 | | |
| 16. Other changes in captal | 016 | | |
| **17. Total increase or decrease of capital (AOP 011 do 016)** | **017** | **0** | **0** |
| | | | |
| 17 a. Creadited to parent company capital owners | 018 | | |
| 17 b. Creadited to minority interest | 019 | | |

Items that decrease the capital are entered with a minus sign.
Items under AOP marke 001 to 009 are entered as status on balance sheet date.