

Petrokemija d.d.

Annual Report
for the year ended 31 December
2017

Contents

Management Report on the Company for the year 2017	1 – 15
Statement of implementation of the corporate governance code	16– 18
Statement of Management's responsibility	19
Independent Auditor's Report	20 - 25
Separate statement of comprehensive income	26
Separate statement of financial position	27
Separate statement of changes in equity	28
Separate statement of cash flows	29
Notes (<i>forming part of the financial statements</i>)	30 - 68

Petrokemija d.d.

Management Report on the Company for the year 2017

Introduction

In the reporting period from January to December 2017, two main events defined the business environment of Petrokemija d.d. – the fall in selling prices of mineral fuels and the simultaneous rise in the purchase price of natural gas as the main raw material. In 2017, despite these adverse circumstances in both its immediate and wider economic environment, Petrokemija d.d. increased its production by 11.5% and its sale of mineral fertilizers by 7.5% compared to the same period of last year. Domestic sales increased by 10.1%, regional sales increased with some additional effort by 16.4%, while sales in distant markets decreased by 5.7% due to high transport costs and strong competition from big producers as well as lower selling prices. The increase of regional sales, and especially of domestic sales, comes as a result of the sales strategy adopted in 2017 that, among other positive results, strengthened the competitive position of Petrokemija on the domestic market and reduced the import of mineral fertilizers into the Republic of Croatia by 33% compared to last year.

In 2017, Petrokemija d.d. was only partially successful in responding to the challenges arising from low prices of mineral fertilizers – a crisis weighing down on European producers for three years – and to the local and regional disturbances in the agriculture and food production chain caused by the crisis in the Agrokor Group. Production and market supply continuity was maintained so as not to jeopardize the restructuring of the Company, but financial effects were still adverse due to entry-exit price imbalances and maintaining liquidity of relatively high sales volumes in overseas markets with the most unfavourable prices.

After a longer period of preparation and with limited financing of investments in modernization and increasing energy efficiency, the reporting period saw the realization of the investment in the long heralded, new product “PetroBlue – Ad Blue®”, which is used as a fuel additive for modern diesel engines in order to prevent NOx emissions in line with requirements under the Euro 5 and 6 standards. The Company believes that its market adaptability is increasing because it is directing a portion of its production of urea mineral fertilizers to a non-agricultural market segment. Moreover, important capital projects at the AS/ASN production plant have been realized in order to improve the technical and technological conditions and safety of production.

The Agrokor Group is still negatively affecting both the domestic and regional market position. It is well known that the Agrokor Group, as the largest distributor of agricultural produce, is the single most significant factor in the entire value chain from farming to processing and distribution of food, which is why its problems are consequently mirrored to numerous food producers of different profiles and sizes, from family farms to large entities. Although its effect on the region is not as significant, the disturbance in the operations of the Agrokor Group also affected buyers of mineral fertilizers on the markets of neighbouring countries, most notably Slovenia, Bosnia and Herzegovina and Serbia.

European producers of mineral fertilizers face strong competitive pressures from large global producers who have a comparative advantage in the form of cheap sources of raw materials, from natural gas to crude phosphate, potassium chloride and sulphur. In these conditions, successful European producers of mineral fertilizers, which used the last decade's favourable trend to modernize their plants and to restructure, experienced a fall in profit, then it is no surprise that Petrokemija d.d. disclosed a loss of 12,2% of total revenue since it has been struggling for years to continue as a going concern in the context of lower technological and energy efficiency compared to its European competitors. The most significant negative factor of loss is the high cost of natural gas, which in the case of Petrokemija d.d. is 20% higher compared to its competitors partly due to conditions in defining the purchase price (suppliers are also the largest creditors of the Company) and partly due to extremely high transport costs of gas, which are among the highest in the EU.

The level of loss was also affected by value adjustments of assets for which auditors expressed in the previous years “qualified opinion”. The loss due value adjustments increased by approximately HRK 95.8 million, this loss is accounted for 2017, but its roots were become much earlier and for several years they were treated as open business and accounting issues, assuming that in the coming periods may open some new market opportunities that will enable the reactivation of part of the passive assets, plant out of usage, spare parts and materials and part of the investment in the daughter company that did not have the expected effects in the previous period.

Stated pointed out the need for the Management Board and Supervisory Board of Petrokemija d.d to correct the previously unaudited financial results for 2017 in a way that “qualified opinion” are majority resolved. This satisfied, in a significant part, the requirements defined in Auditors' Reports for the previous five years in which they are through the so-called disclaimer of opinion (or “qualified opinion”) warned all the owners of the Company and the interested investors on the risks that in the future business carries certain assets and liabilities of the Company and the Petrokemija Group.

After the corrections have been made, the Management Board and the Supervisory Board estimate that the financial statements fairly present, in all significant respects, the financial position of the Company as of 31 December 2017

Petrokemija d.d.

Management Report on the Company for the year 2017

Introduction (continued)

and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards was adopted by the European Union ("IFRS"). The strategic objective of these decisions was to align the interests of the majority owner and potential investors based on a fair presentation of the financial position of the company and without the "fence in the opinions of the auditor" expressed in depth analyzes and previous bids in 2017 (except in the part of the future remediation of the phospho-gypsum which is also accepted as a long-term project that does not have a significant medium-term impact on the company's operations) and translate them into a concrete agreement, ie an intergovernmental agreement on cooperation with the aim of further development of the Company.

After years of attempting to change the ownership structure and attract large investors from the value chain – from production and trading of natural gas to the logistics of sales of mineral fertilizers to end users – during the reporting period, the current owners completed extensive and comprehensive preparations for conducting the privatization process and launching a new development cycle of the Company, which would utilize all of its existing potential – favourable location, well maintained production and logistics systems, skilled workforce, etc.

Key indicators for Petrokemija d.d. for 2017

- Actual total revenues of Petrokemija d.d. – HRK 1,996.2 million, 3.3% higher than in the same period of last year (the difference, compared to the financial statements, relates to HRK 12,5 million of revenues from the reversal of provisions for unused vacation days, disclosed in the financial statements as a net decrease in provisions within other staff costs; these were disclosed in their gross amount in the Management Report)
- Total loss – HRK 242.6 million (loss in same period in 2016 – HRK 87.3 million)
- Loss from operating activities – HRK 193.5 million, loss from financial activities – HRK 49,1 million
- Earnings before interest, taxes, depreciation and amortization (EBITDA) negative at HRK -99,7 million
- Actual production of mineral fertilizers – 1,192 thousand tons, 11,5% more than in 2016
- Compared to 2016, production of NPK mineral fertilizers increased by 16.2%, production of urea increased by 18.1%, whereas the production of CAN was 2.9% higher
- Utilization of currently installed production capacity of the facilities – 93.0%
- Actual sales of mineral fertilizers – 1,167.1 thousand tons, 7,5% increase in sales volume compared to the same period of last year
- Share of mineral fertilizer sales in the domestic market – 27.2%
- Domestic sales – 316.9 thousand tons, and 850.2 thousand tons of mineral fertilizers sold in export
- Equity as at 31 December 2017 of Petrokemija d.d. – negative at HRK 195,8 million
- Investments in assets – HRK 103.3 million
- Employees as at 31 December 2017 – Petrokemija d.d. 1,572 employees, Petrokemija Group 1,707 employees

Management Board Report on the Company for the year 2017

- In the period from January to December 2017, Petrokemija d.d. recorded total revenues of HRK 1,996.2 million and total expenses of HRK 2,238,8 million, and thus disclosed an operating loss of HRK 242.6 million or 12.2% of total revenues.
- Sales volumes of mineral fertilizers were higher by 7.5% and average selling prices were lower by 3.0% compared to 2016.
- In the structure of revenue, domestic sales amounted to 30.6% or HRK 610.6 million, which is 5.1% higher than in 2016, while export accounted for 66.3% or HRK 1,322.8 million, which is 4.6% lower than in 2016.
- Compared to 2016, sales volumes by assortment realized in 2017 were higher by 14.4% for urea, lower by 3.9% for the CAN group of fertilizers (CAN+AN+UAN+AS/ASN), and higher by 18.1% for NPK mineral fertilizers.
- Domestic sales of mineral fertilizers increased by 10.1% compared to 2016.
- Export sales of mineral fertilizers increased by 6.6% compared to 2016.
- Sales volumes of clay-based products and liquid fertilizers increased by 37.9% compared to 2016.
- The average realized natural gas price (without transport costs) was 10.1% higher in HRK and 13.9% higher in USD compared to 2016, while the average transport costs of natural gas were 22.4% lower, in line with the transmission tariff of 1 April 2017.
- Liquidity indicators are below recommended values, approximately the same as last year (31 December 2017: negative working capital of HRK 564 million; 31 December 2016: negative working capital of HRK 470 million)
- Short-term assets decreased by 27% compared to the end of 2016, and short-term liabilities decreased by 4.9%.
- The financial stability and gearing ratios are below recommended values, the equity ratio is negative, and equity is negative at HRK -195,8 million.

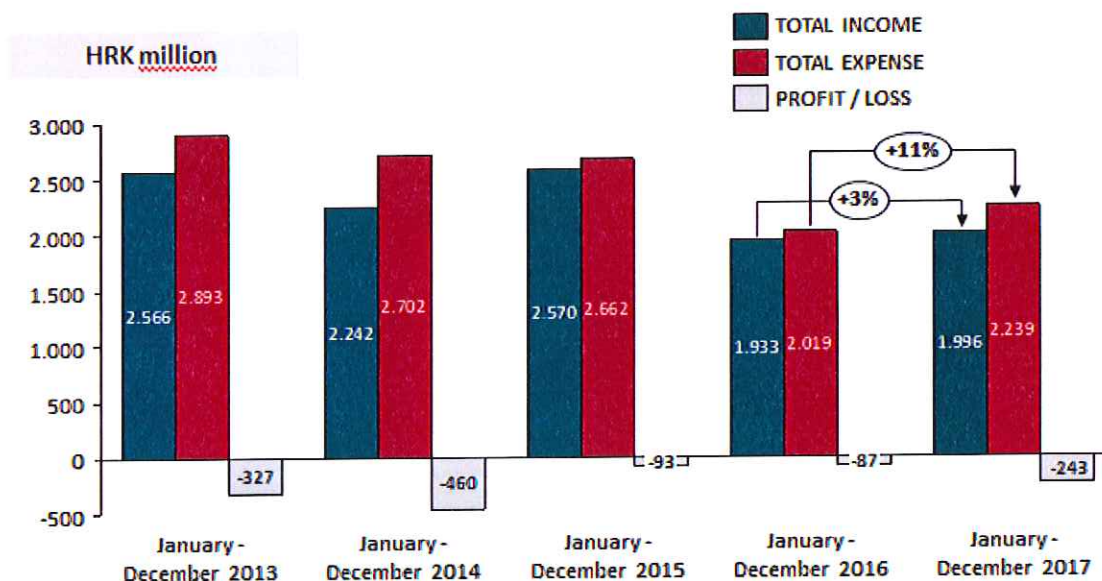
Petrokemija d.d.
Management Report on the Company for the year 2017 (continued)

Management Board Report on the Company for the year 2017 (continued)

Statement of profit or loss for 2017

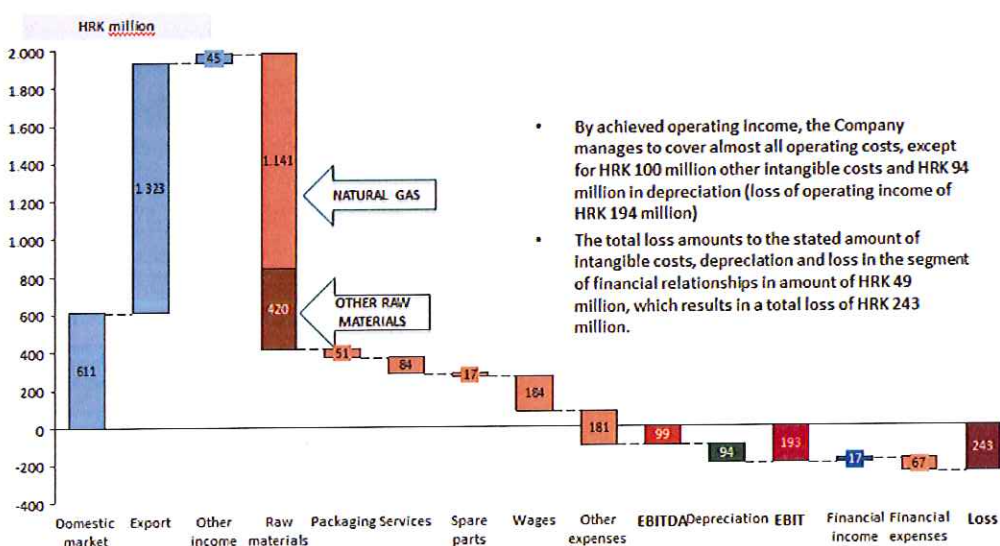
- Total income HRK 1,996.2 million
- Total expenses HRK 2,238.8 million
- Loss HRK 242.6 million
- EBITDA HRK -99.7 million

Statement of profit or loss for 2017 (continued)



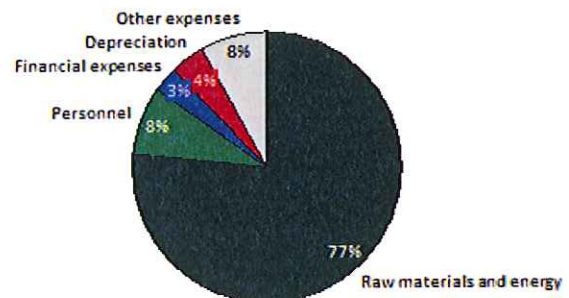
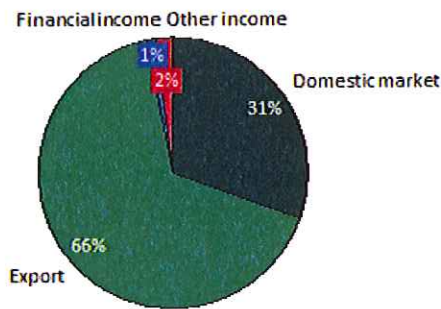
Structure of profit and loss for 2017

In the period from January to December 2017, Petrokemija d.d. realized 31% of total revenue from the domestic market, 66% from export, and 3% from financial and other income. The total expense breakdown shows a dominant 77% for raw materials, consumables and energy, 8% for staff costs, and 15% for all other expenses.



Petrokemija d.d.
Management Report on the Company for the year 2017 (continued)

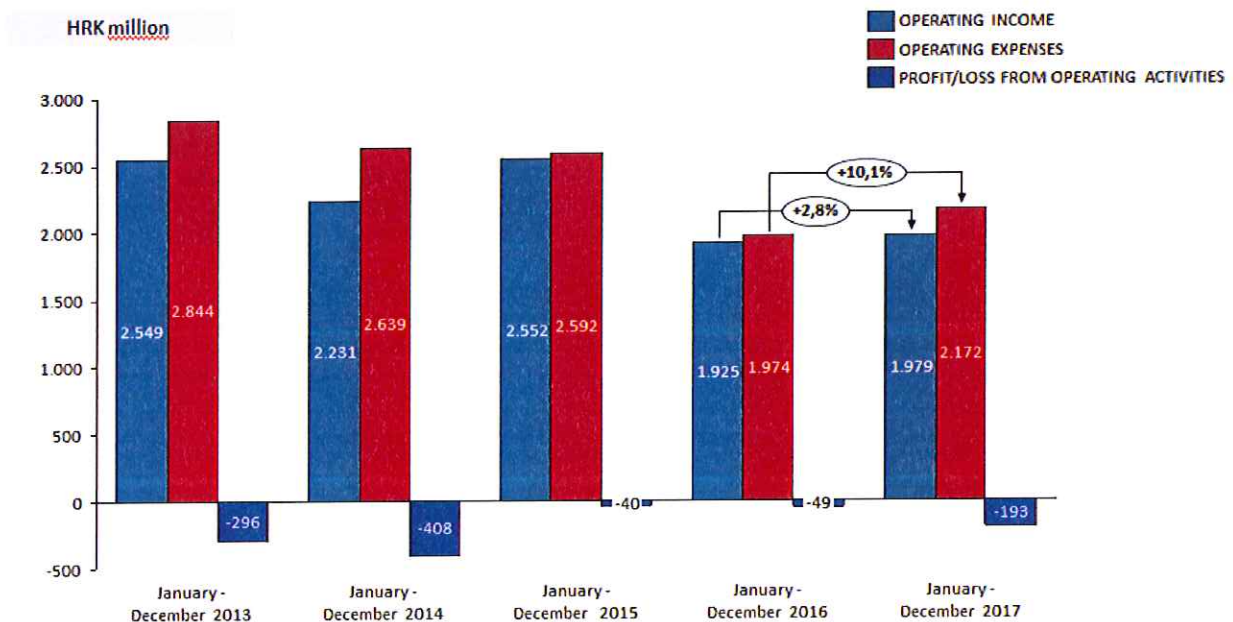
Structure of profit and loss for 2017 (continued)



Key financial Indicators for 2017

in thousands of HRK	I-XII 2017	I-XII 2016	Difference	% change
Operating income	1,978,711	1,925,228	53,483	2.78%
Operating expenses	2,172,192	1,973,822	198,370	10.05%
EBITDA	(99,664)	33,650	(133,314)	-396.18%
Depreciation and amortisation	93,817	82,244	11,573	14.07%
Net financial result	(49,136)	(38,716)	(10,420)	26.91%
Result before tax	(242,617)	(87,310)	(155,307)	177.88%
	31.12.2017	31.12.2016	Difference	% change
Non-current assets	692,911	701,781	(8,870)	1.26%
Current assets	388,545	532,270	(143,725)	-27.00%
Equity	(195,801)	46,828	(242,629)	-518.13%
Non-current liabilities + provisions	324,999	185,433	132,566	75.26%
Current liabilities + provisions	952,258	1,001,790	(49,532)	-4.94%

Profit and loss from operating activities for 2017

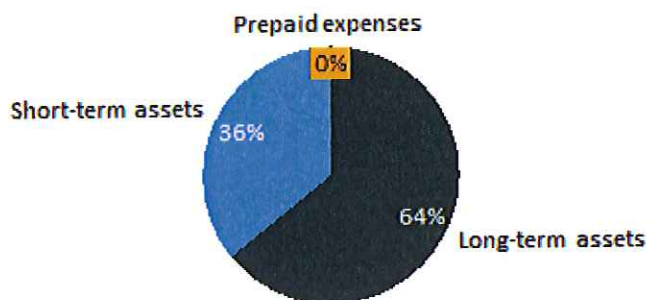


Petrokemija d.d.
Management Report on the Company for the year 2017 (continued)

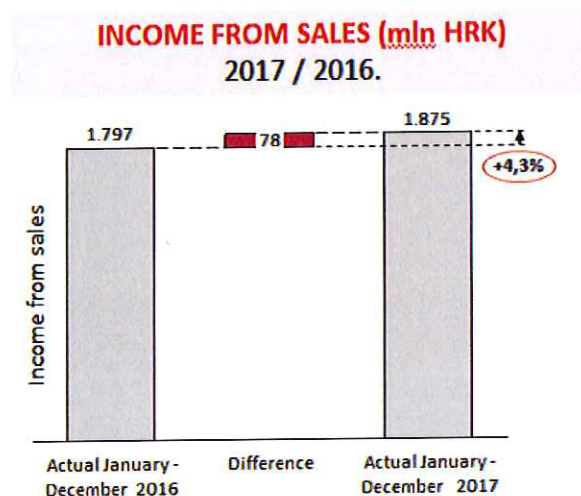
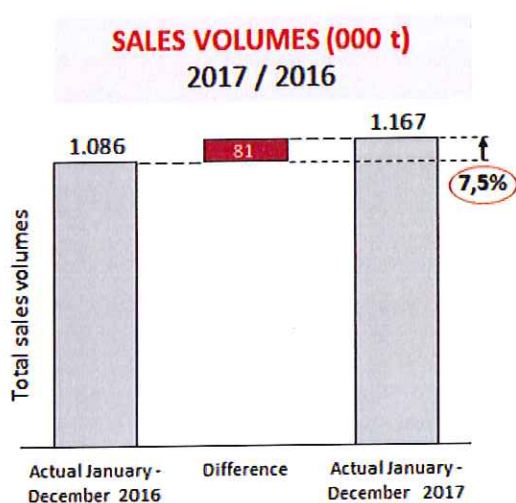
Structure of assets and liabilities as at 31 December 2017

As at 31 December 2017, Petrokemija had 36% of the value of short-term and 64% of the value of long-term assets.

Realized losses and delays in recapitalization resulted in liabilities exceeding assets, i.e. equity of HRK -195,8 million (registered capital of HRK 42.9 million plus HRK 3.9 million of capital reserves and net of HRK 242.6 million of losses disclosed in 2017). In 2017, the structure and maturity of the Company's debts changed, with a reduction in debt to natural gas suppliers and an increase in debt to banks, namely due to loans issued by HBOR and HPB and ERSTE Banka.



Total sales of mineral fertilizers



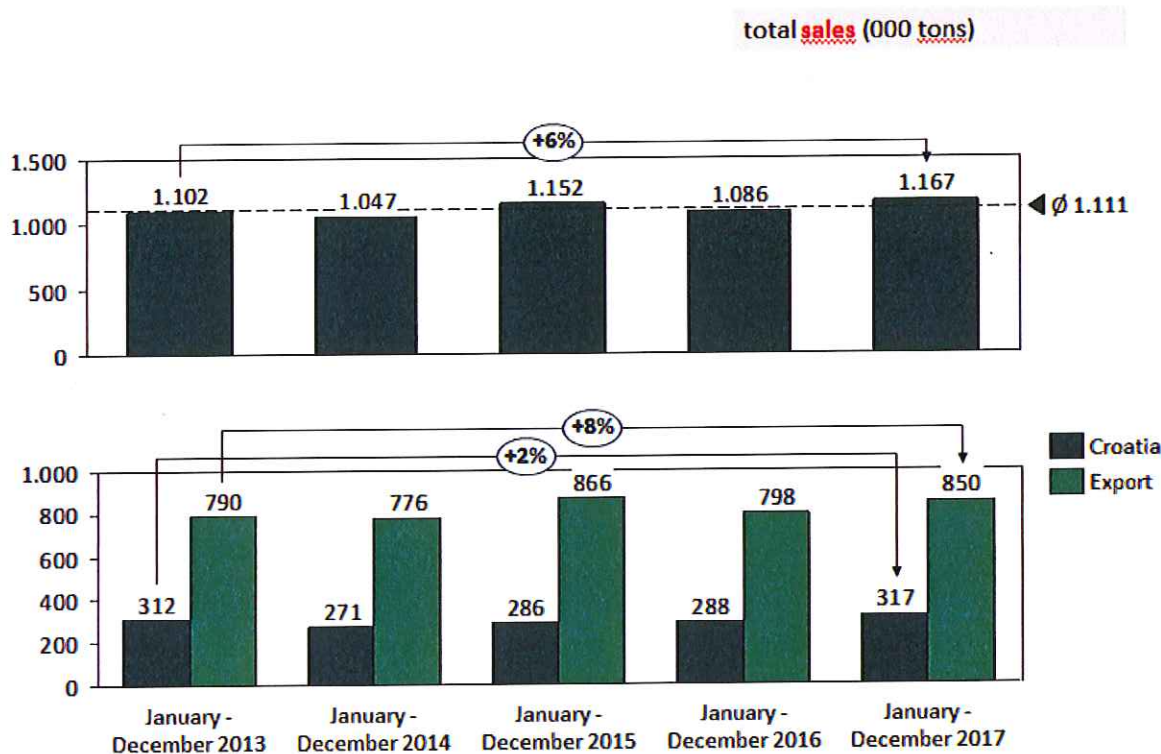
Petrokemija d.d.
Management Report on the Company for the year 2017 (continued)

Total sales of mineral fertilizers (continued)

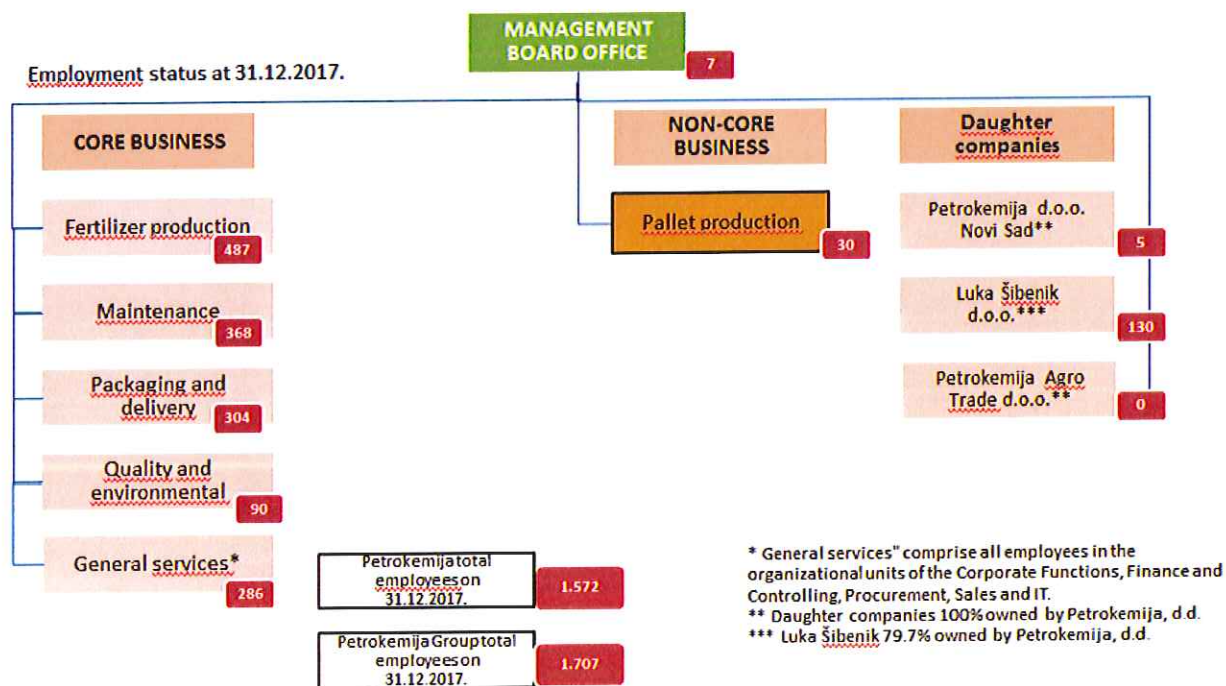
The sales volume of fertilizers increased by 7.5% and was accompanied by an increase of 4.3% in revenue from sales, indicating a fall of 3.0% in average selling prices compared to the same period in 2016.

Actual sales of mineral fertilizers for the period 2013-2017

in thousands of tons

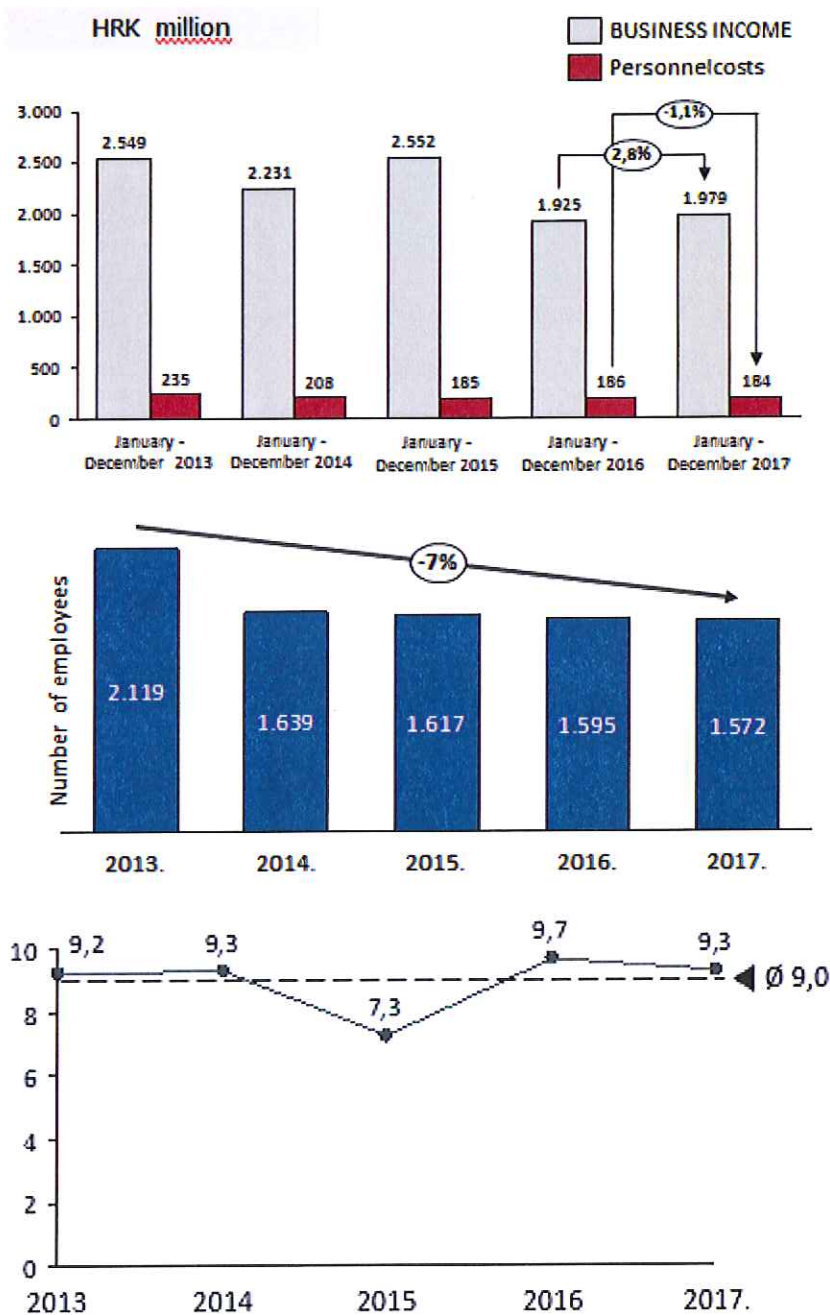


Organisation chart of Petrokemija d.d. and the Petrokemija Group



Petrokemija d.d.
Management Report on the Company for the year 2017 (continued)

Operating income, staff costs and number of employees



As at 31 December 2017, Petrokemija d.d. had 1,572 employees, while its subsidiaries – members of the Petrokemija Group – had 135 employees, which gives a total of 1,707 employees.

The staff costs share in operating income was 9.3%, which is a decrease of 0.4% compared to last year.

Petrokemija d.d.
Management Report on the Company for the year 2017 (continued)

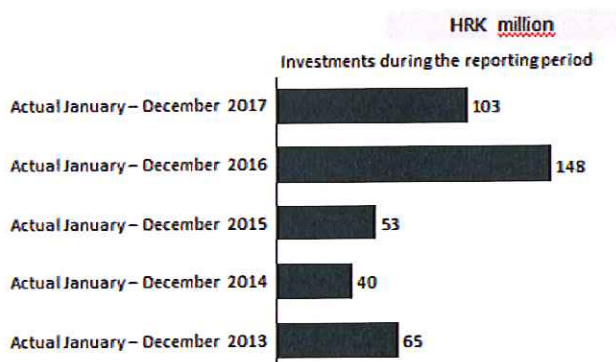
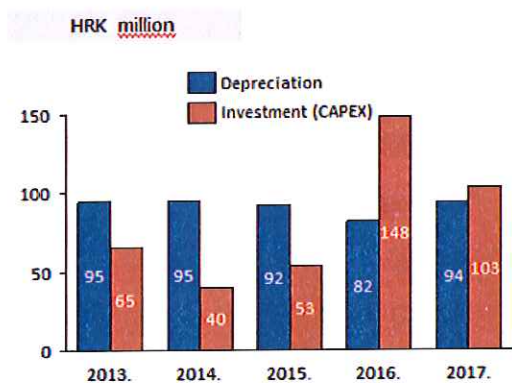
Realized investments

Investments realized in the 2017 reporting period amount to HRK 103.3 million. Compared to 2016, investments were lower due to non-performance of the complete annual overhaul of plants planned for 2018.

Planned investments of HRK 75 million were exceeded by HRK 28,3 million or 37,7% regardless of described limited funding options (delays in recapitalization), which was necessary in terms of meeting the requirements of the environmental permit and deadlines for the completion of specific capital projects that were significantly delayed and not completed within the prescribed deadline, i.e. 31 December 2017.

The most significant technological investment in 2017 of HRK 45.2 million relates to the investment in the NPK 2 plant to ensure safe and continued production of two new products – granulated AS/ASN. Approximately HRK 8.4 million was invested in the production of a new product PetroBlue/AdBlue.

The first material effect of the investment in the Ammonia plant was the year-on-year decrease of natural gas costs by 2.3% in 2017, equivalent to annual savings of approximately HRK 19.4 million. The disclosed investments of Petrokemija d.d. also include HRK 11,5 million used to purchase a mobile crane in Luka Šibenik, which was leased to this related party.



Air quality in the Kutina area for the period from January to December of 2017 at local monitoring stations (K1, K2, K6 and K7) and the state monitoring station (DMP)



Clean or slightly polluted air	Polluted air	Pollutants
1 st category C<LV	2 nd category C>LV	
K2,DMP		Sulphur dioxide (SO ₂)
K1,K2,K6,K7		Sediment
K7,DMP	K1, K2, K6	Ammonia (NH ₃)
K2,DMP		Nitrogen dioxide (NO ₂)
DMP		Hydrogen sulphide (H ₂ S)
DMP		PM10

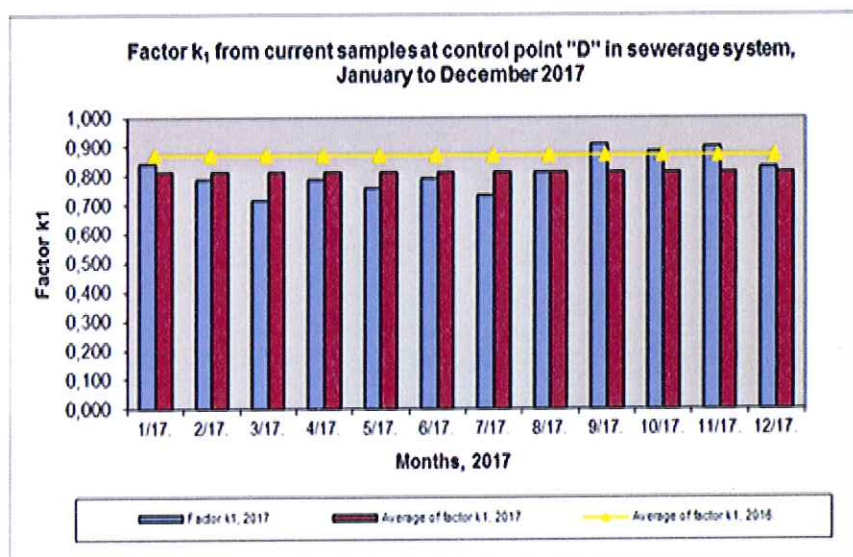
Note: The categorization of air quality at DMP can be changed after the validation of data by a competent institution.

Petrokemija d.d.
Management Report on the Company for the year 2017 (continued)

Ambient air limit value exceedance of AMMONIA in the period from January to December 2017 (local network)

Monitoring station	The number of limit value (LV) exceedances in the January to December 2017 period/ permitted exceedance number
K 1 - Dom zdravlja	14 / 7
K 2 - Vatrogasni dom	21 / 7
K 6 - Husain	9 / 7
K 7 - Krč	4 / 7
TOTAL	48

Water management



In the period from January to December 2017, the average value of the k₁ factor is comparable to its average value in the same period in 2016.

In the period from January to December 2017, the consumption of raw water was lower compared to the same period in 2016.

Petrokemija d.d.
Management Report on the Company for the year 2017 (continued)

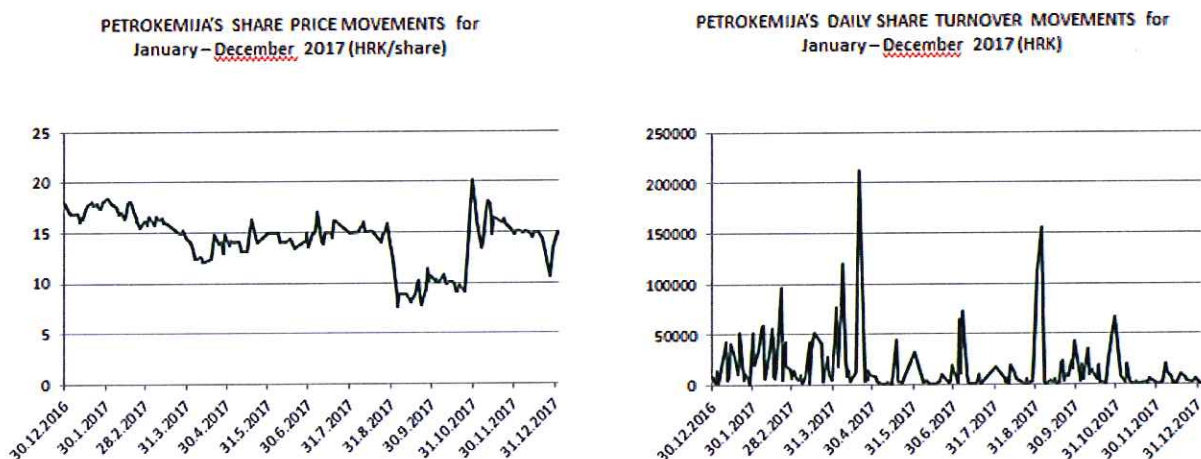
Company share capital and market value of shares

At its General Assembly held on 11 October 2017, the Company adopted the decision on reducing share capital by HRK 343,231,470.00 from HRK 386,135,400.00 to HRK 42,903,930.00 by decreasing the nominal value of the ordinary share PTKM-R-A from HRK 30.00 to HRK 3.333 and simultaneously merging ordinary shares at a 3:1 ratio, whereby 3 (three) ordinary shares with a nominal value of HRK 3.333 are merged into 1 (one) ordinary share, ticker PTKM-R-A, with a nominal value of HRK 10.00.

The trading of the existing 12,871,180 ordinary shares, ticker PTKM-R-A, ended 25 October 2017, and the trading of the new number of shares, i.e. 4,290,393 ordinary shares, ticker PTKM-R-A, which are settled by CDCC, started on 26 October 2017.

On 30 December 2016 and 29 December 2017, the average share value was HRK 17.90 and HRK 13.47 respectively (decrease of 24.7%).

Petrokemija d.d. share price and daily turnover movements



Changes in the Supervisory Board and Management Board of Petrokemija d.d.

At the meeting held on 6 February 2017, Mijo Šepak was appointed President of the Supervisory Board.

At the meeting held on 6 February 2017, the Supervisory Board adopted a decision establishing the mandate termination as on that day of the President of the Management Board Nenad Zečević and members of the Management Board Antonija Perošević Galović, Tamara Pernar and Vladimir Fresl. The Supervisory Board appointed Đuro Popijač from Zagreb as President and Nenad Zečević as a member of the Management Board. The mandate of the appointed members of the Management 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 a new member of the Supervisory Board for a 4-year term.

At the meeting held on 25 May 2017, the Supervisory Board of Petrokemija d.d. appointed Davor Žmegač, MSc, from Kutina as a member of the Management Board whose 4-year term began on 29 May 2017. As of 29 May 2017, the Management Board of Petrokemija d.d. consists of three members: Đuro Popijač, MSc, Member of the Management Board, Nenad Zečević, graduated engineer, President of the Management Board, and Davor Žmegač, Member of the Management Board.

After the reporting period, the Supervisory Board adopted a decision on the mandate termination of Management Board member Nenad Zečević as of 2 January 2018. As of 3 January 2018, the Management Board of Petrokemija d.d. consists of two members: Đuro Popijač, MSc, President of the Management Board, and Davor Žmegač, MSc, Member of the Management Board.

Petrokemija d.d.
Management Report on the Company for the year 2017 (continued)

Key events in 2017

- Following an international tender, the Petrokemija d.d. concluded a new agreement on natural gas supply in the gas year 2017/2018 for the total volumes necessary. The agreement was concluded with suppliers INA d.d., Zagreb and Prvo plinarsko društvo d.o.o., Vukovar as the most favourable suppliers. With this agreement, Petrokemija d.d. secured sufficient volumes of natural gas for a stable planned production in the gas year 2017/2018.
- Pursuant to the decision of the Croatian Energy Regulatory Agency (CERA) of 17 March 2017, applicable as of 1 April 2017, the natural gas transport price was reduced by approximately 20%, which translates into an annual positive effect on the financial result of Petrokemija d.d. of approximately HRK 25 million.
- Pursuant to the decision of the Commercial Court in Zagreb (No. Tt-16/45722-2 of 2 January 2017), the merger of Restoran Petrokemija d.o.o. za ugostiteljstvo, Kutina, Aleja Vukovar 4, with the entity of the company name Petrokemija d.d. Tvornica gnojiva, registered office in Kutina, Aleja Vukovar 4, was registered to the registry folio under registration number 080004355 and personal identification number 24503685008.
- During the reporting period, Petrokemija d.d. introduced a new product under the commercial name “PetroBlue” into its product range. “PetroBlue” is a diesel fuel additive, i.e. a 32.5% urea solution serving as a NOx reduction agent in exhaust gases of diesel motors containing an SCR catalyst. Petrokemija d.d. aims to become a regional leader in the production of this product, in line with ISO 22241. The annual production volumes amount to 50,000 tons, which will be sold in bulk quantities of 200-1000 litres and offered in smaller 20-litre packages given appropriate interest. Croatia thus gains a domestic licensed producer of the so-called AdBlue® solution, making it no longer import dependent.
- During the reporting period, the energy efficiency project entitled “Modernization of electric drives at plants Vode 2, Energana and Pakra pump station and modernization of a portion of the outdoor lighting system” was carried out through cooperation between Petrokemija d.d. and HEP ESCO d.o.o. These investments lead to savings in electricity consumption of around 3.4 GWh per annum, with a 2-year return period of investment.
- In September 2017, Petrokemija Agro Trade d.o.o. was recapitalized by increasing share capital through investments in kind, in accordance with the Report on valuation of property – in kind the land on which lies the phosphogypsum landfill and the land on which lies the landfill for process water neutralization, including accompanying equipment. Detailed data on the operations of subsidiaries is presented in the Report on Operations of the Petrokemija Group

Implementation of the restructuring plan for 2017

- In the first two quarters of 2017, the “Restructuring plan of Petrokemija d.d. – Implementation of the proposed concept of restructuring by recapitalization involving a private investor” was prepared with the help of financial and legal consultants and adopted by the Supervisory Board and relevant state institutions.
- At the 33rd session held on 27 April 2017, the Government of the Republic of Croatia adopted the Decision on exemption from sale of shares of companies Hrvatski Telekom d.d. Zagreb, Podravka prehrambena industrija d.d. Koprivnica, Croatia Airlines d.d. Zagreb and Đuro Đaković Grupa d.d. Slavonski Brod. Petrokemija d.d. requested a loan of HRK 350 million from the Croatian Bank for Reconstruction and Development, whose repayment was secured by institution of a lien on state owned shares of the above companies, as approved by the Government of the Republic of Croatia. The Government of the Republic of Croatia adopted a Decision on loan repayment security in order to ensure the stability of operations of Petrokemija d.d. and its continuity as a going concern as well as to create conditions for the preparation and realization of the privatization of the Company.
- Following the decision of the Government of the Republic of Croatia on loan repayment security of 27 April 2017, Petrokemija d.d. signed long-term loan agreements with the Croatian Bank for Reconstruction and Development and Hrvatska poštanska banka d.d., and a short-term financing agreement with Erste&Steiermarkische banka d.d., all together totalling HRK 350 million. The loan was utilised to ensure the stability of operations of Petrokemija d.d. and its continuity as a going concern.

Implementation of the restructuring plan for 2017 (continued)

- On 31 May 2017, the Restructuring and Sale Centre (“RSC”) established that the Management Board and Supervisory Board of Petrokemija d.d. have to issue a public call for recapitalization and invite all interested investors to participate in the restructuring and privatization of the Company. In accordance with the above decisions and the Company's contractual commitments, the Management Board and Supervisory Board of Petrokemija d.d. continue to carry out the restructuring and recapitalization of the Company based on the following strategic principles:
 - Modernization of production plants so as to increase the level of energy and technological efficiency as well as satisfy environmental requirements in accordance with EU legislation;
 - Provision of sources to finance working capital;
 - Proactivity and strategic positioning on the market of the Republic of Croatia and on the regional market;
 - Increased efficiency of maintenance, logistics and other service processes in the Company, ensuring a positive financial result, stability and development of the Company.
- On 5 June 2017, based on the prior approval of the Supervisory Board, the Management Board of the Company adopted the Decision on publishing a Call for indicative expression of interest in the recapitalization of Petrokemija d.d., Kutina as one of the measures in the preparation of the Restructuring and Privatization Plan of the Company. This was in line with the Decision of the Government of the Republic of Croatia on loan repayment security of 27 April 2017, long-term loan agreements with the Croatian Bank for Reconstruction and Development and Hrvatska poštanska banka d.d. and the short-term financing agreement with Erste&Steiermarkische Bank d.d., all together totalling HRK 350 million, which also, inter alia, require the Restructuring and Sale Centre (RSC) to initiate the restructuring and privatization of Petrokemija d.d.
- The deadline for delivering letters of intent to Petrokemija d.d. was 19 June 2017, but it was extended to 30 June 2017 based on the Decision of the Management Board of Petrokemija d.d. amending the deadline for submitting letters of intent, which was previously approved by the Supervisory Board. After the period from 5 to 30 June 2017, when all interested investors had the possibility to show an indicative expression of interest in the recapitalization of Petrokemija d.d., the Company receive several bids and due diligence requests.
- At its meeting held on 5 July 2017, the Supervisory Board of Petrokemija d.d. authorized the Management Board to conduct due diligence of Petrokemija and to provide access to the data room in accordance with defined checklists and previously signed confidentiality agreements. Due diligence was conducted from 10 July to 15 August 2017. After the due diligence process, interested investors were invited to submit binding bids by 1 September 2017 in accordance with the Restructuring plan of Petrokemija d.d. – Implementation of the proposed concept of restructuring by recapitalization involving a private investor, which formed part of the documentation provided in the due diligence process.
- Since some potential investors requested an extension of the due diligence deadline, with prior approval by the Supervisory Board, the Management Board adopted the Decision on announcing the extension of the deadline for due diligence of Petrokemija d.d. until 31 August 2017 and for submitting bindings bids in the recapitalization process until 22 September 2017.
- Following the indicative expression of interest in the recapitalization of Petrokemija d.d. and the completion of the due diligence process, all interested investors were invited to submit binding bids by 22 September 2017 in accordance with the Restructuring plan of Petrokemija d.d. – Implementation of the proposed concept of restructuring by recapitalization involving a private investor. Following the public Call for Binding Bids for the recapitalization of Petrokemija d.d., the Company received binding binds from several interested bidders within the deadline given in the Calls and the notice of extension of the deadline for bids. The bids of potential investors were submitted to the Restructuring and Sale Centre and the Ministry of State Property for further processing.
- In the period from 4 to 23 October 2017, based on prior approvals of the Supervisory Board and the Restructuring and Sale Centre (RSC), the Company gave potential strategic and capital investors who submitted their bids for participating in the recapitalization of Petrokemija, as part of its restructuring process, the opportunity to conduct additional due diligence.

- Based on all of the above, it can be concluded that, during the reporting period, several interest investors conducted extensive due diligence with regard to the operations of Petrokemija d.d. and the Petrokemija Group, and that at the time of issue of these financial statements, negotiations were ongoing with the majority shareholder and potential investors regarding the final determination of mutual obligations and the contents of the co-ownership agreement defining the future business model of Petrokemija d.d. The scheduled deadline of this procedure was the end of 2017; however, the majority shareholder still has not adopted the required decisions so the procedure was carried over to the first two quarters of 2018.

Significant financial risks in 2018

A general overview of the commercial position of Petrokemija d.d. at the turn of the year 2017/2018 reveals numerous parameters whose effects are very difficult to evaluate. New agreed terms of natural gas procurement and rescheduling of outstanding debt for natural gas reduced a portion of the risk carried over from the previous period.

However, given the current market situation, it is estimated that variable prices of mineral fertilizers on the world market and relatively high prices of natural gas in Europe and the Republic of Croatia will continue to have a very strong impact in 2018. Moreover, inadequate liquidity of the Company, high financing expenses and EUR exchange rate movements (majority of the bank loans is linked to a currency clause) will significantly affect the level of financing expenses and the Company's operational management. The 2018 financial result will probably also depend on the dynamics and scope of potential restructuring measures of the Company and the Petrokemija Group. In addition to all of the above, the following risks show the need for caution:

- The financial result of Petrokemija d.d. is highly dependent on the movements of prices of mineral fertilizers and raw materials needed for their production on the world market, and on the HRK exchange rate against EUR and USD and their interrelation.
- As the most important raw material, natural gas is still procured on the domestic market based on agreements concluded with two suppliers – INA d.d., Zagreb and Prvo plinarsko društvo d.o.o., Vukovar. The price of natural gas is dependent in 2017 and first quarter of 2018 on the EUR exchange rate and the movement of the price of natural gas on the European spot market. The reduction of transport costs based on 2017 tariffs by 20% should have a positive effect on the financial result in 2018, even if insufficient given the level of the same type of expense of competitors in the EU.
- The selling prices of mineral fertilizers on the world market continue to be low and subject to occasional short-term changes due to changes in cycles and seasons. The price of nitrogen urea fertilizers has been low for quite some time, fluctuates considerably during the year and, in case of a significant rise in the price of natural gas on the European spot market, it can call into question the viability of production.
- The 2017 reduction of VAT had a favourable effect on the sale of mineral fertilizers on the domestic market; however, the amount of government subsidies for agriculture and repurchase prices of major arable crops remain the strongest factors affecting sales.
- The purchase prices of the majority of primary raw materials are higher compared to the previous period (except for crude phosphates), and the already existent fluctuations in the prices of raw materials on the world market will continue to affect the amount of material costs in the subsequent period.
- The production process of Petrokemija d.d. inevitably produces a certain amount of emissions of greenhouse gases, with approximately HRK 20 to 25 million earmarked accordingly. Given the limited source of financing, the Company is unable to buy ETS units at the most opportune moment, which significantly increases the risk of increased charges on greenhouse gas emissions depending on the movement of prices of ETS units on the open market. This is what happened in 2017.
- Since the Company has no own working capital, financing expenses will continue to be significant in the subsequent period, leading to high costs of working capital.
- In 2018, there will be clear risks related to finding new long-term sources of financing investments. Operations are not likely to provide any funds to continue with intensive investments. The deadlines for the realization of a portion of the so-called “environmentally friendly investments”, in accordance with the Decision on Integrated Environmental Protection Requirements, have expired (31 December 2017) so, due to financing difficulties, most of these investments were carried over to 2018.
- The most important issue in current operations, the debt to suppliers of natural gas, was partially resolved in the reporting period through long-term loans of HBOR and HPB and a short-term loan of ERSTE Banka,

ensuring a portion of long-term source for financing working capital and the continued restructuring of operations. However, the challenge of maintaining financial and business stability is still very present.

Significant financial risks in 2018 (continued)

- The need for caution also arises from the movement of prices of natural gas on the European spot market in 2017 because the performance of Petrokemija d.d. is exposed to the risk of “price scissors”, where the price of primary raw material rises, primarily of natural gas, as the selling prices of mineral fertilizers based on that raw material (urea, CAN/AN) simultaneously fall.
- The realized total loss in 2017 indicates the need to be careful in forecasting financial results and performance for 2018; therefore, the urgent completion of restructuring and recapitalization of the Company is reinforced as the requirement for the Company to continue as a going concern in 2018 and subsequent years.

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, revenue 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.

Pursuant to Articles 401 through 410 of the Capital Market Act (OG 88/08, 146/08, 74/09, 54/13, 159/13, 18/15, 110/15, 123/16, 131/17), the Management Board of Petrokemija d.d., Kutina, A. Vukovar 4, issues the following:

Statement of Management’s responsibility

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Croatian Accounting Act in force as at the date of issue of these financial statements.

The financial statements **for the period from 1 January 2017 to 31 December 2017** 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.

This report may contain certain statements regarding future operations of Petrokemija d.d. and the Petrokemija Group, which can be identified through the use of phrases expressing the future such as “will”, “planned”, “expected”, “forecast”, etc. as well as through statements on strategy, plans or intentions.

These statements reflected the current position of Petrokemija d.d. Regarding future events and are subject to certain risks, uncertainties and assumptions. There are many factors that can cause significant differences between the actual results, performance or achievements of Petrokemija d.d. or the Petrokemija Group and the results, performance or achievements expressed or implied in these future-related statements.

Đuro Popijač
President of the Management Board

Davor Žmegač
Member of the Management Board

30 April 2018
Aleja Vukovar 4
Kutina
Croatia

Petrokemija d.d.

Statement of implementation of the corporate governance code

General information

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

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

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

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

Corporate governance structure

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

General Assembly

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

Petrokemija d.d.

Statement of 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 reviews and examines the Company's business accounts and documentation. The Supervisory Board submits to the General Assembly a written report on the supervision exercised with respect to the conduct of business affairs in the Company. The Supervisory Board consists of five 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 12 May 2016 until 6 February 2017, Member from 6 February 2017
Željko Klaus	Member until 12 May 2016 from 12 May 2016 Vice President
Ladislav Turčinović	Member from 11 May 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, consisted of four members during the previous year, all of whom were also members of the Supervisory Board. During 2017, 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 Assembly for the election of the external auditor), as well as compliance with laws, regulations, rules and the code of ethics.

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

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

Đuro Popijač	President from 06 February 2017
Nenad Zečević	President until 6 February 2017, Member from 6 February 2017 to 2 January 2018
Antonija Perošević Galović	Member until 6 February 2017
Tamara Pernar	Member until 6 February 2017
Vladimir Fresl	Member until 6 February 2017
Davor Žmegač	Member from 29 May 2017

Petrokemija d.d.

Statement of 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 consisting of a Management Board and Supervisory Board;
- Management Board with responsibility for policies in core business areas;
- reconciliation of data, consolidated into the Group's financial statements, giving a true and fair view of the financial position of the Company and the Group. A review of the consolidated data is undertaken by the Management Board to ensure that the financial statements have been prepared in accordance with relevant legislation and approved accounting policies;
- Code of Conduct establishing the basic standards of conduct of the members of the Management Board and supervisory bodies, as well as employees and external collaborators who are, within their roles, obliged to perform their duties in the interest of the Company and the Group, and their shareholders in a diligent, proper, just and professional manner.

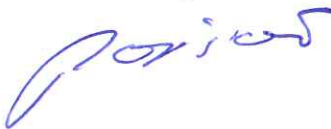
The basis of the Company's and the Group's internal control system is the internal policy that defines the basic principles and structure of internal control and duties of those responsible for internal control, which contributes to proper corporate governance and improved business transparency ensuring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

The main features are as follows:


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

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

Đuro Popijač
President of the Management Board



Davor Žmegač
Member of the Management Board



30 April 2018
Aleja Vukovar 4
Kutina
Croatia

Petrokemija d.d.

Statement of Management's responsibility

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

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

The Management Board 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, the Management Board 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 separate financial statements.

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

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

The separate financial statements were authorised for issue and signed by the Management Board on 30 April 2018 and submitted to the Supervisory Board for adoption. The annual separate financial statements were then submitted to the General Assembly for approval.

The consolidated financial statements of the Group and the Annual Report on the Group are published separately and issued simultaneously with these annual separate financial statements. The Company will issue a separate Consolidated non-financial statement relating to the same period and the entire group, and comprising information that are mandatory in the consolidated non-financial statement in line with the Accounting Act.

Đuro Popijač
President of the Management Board



Davor Žmegač
Member of the Management Board



30 April 2018
Aleja Vukovar 4
Kutina
Croatia

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Petrokemija d.d., Kutina

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the separate financial statements of Petrokemija d.d., Kutina (the Company), which comprise the separate statement of financial position as at 31 December 2017, the separate statement of profit or loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter in the *Basis for Qualified Opinion* section of our report, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and 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 (IFRSs).

Basis for Qualified Opinion

As described in note 28, the Company has a legal obligation to restore its landfill site in Kutina to its original condition. In accordance with the International Accounting Standard 37 - *Provisions, Contingent Liabilities and Contingent Assets*, the Company is required to recognise a provision for the costs of land restoration and site closure. No such provision was recognised in the financial statements for the years 2017 and 2016. Due to the limited information provided in respect of the legal obligation, we were unable to obtain sufficient appropriate audit evidence needed to estimate the amount of the required provision. As a result, we were unable to determine the adjustments that were necessary in respect of the financial statements for the year ended 31 December 2017.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2.4 "Basis of preparation – Going concern", which indicates that the Company incurred loss after tax of HRK 242,617 thousand for the year ended 31 December 2017 (2016: HRK 87,310 thousand), which has resulted in a loss above the amount of capital in the amount of 195,801 thousand. The Company's current liabilities exceeded its current assets by HRK 563,713 thousand as at 31 December 2017 (2016: HRK 469,520 thousand). These events and conditions, along with other matters as set forth in note 2.4 "Basis of preparation – Going concern", 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 qualified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters

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

Revenue from sales

According to information presented in Note 7, the Company's realized revenue from sales in the amount of HRK 1,933,401 thousand (2016: HRK 1,845,625 thousand).

Revenue from sales is an important factor in assessing the Company's performance. There is a risk that the disclosed revenue exceeds the revenue actually realized by the Company. Operating income is calculated when the sale transaction is completed, goods are delivered to the customer and the Company transfers all economic risks to another party. The Company realizes revenue from sale on foreign and domestic markets. Risk and rewards related to services and goods are transferred when goods and services are transferred to the customer and when goods are paid for and available at the location of a third or related party. The sales process is supported by the internal controls embedded in the Company's information systems. Given the potential effect of an incorrect calculation of revenue, we have determined the correct calculation of revenue to be one of the key audit matters.

Description and results of applied audit procedures

Procedures applied to obtain audit evidence included testing the design and effectiveness of the Company's internal controls, as well as performing substantive audit procedures, to ascertain the correctness of revenue calculation, revenue transactions and the period of recognition.

We tested the structure and effectiveness of the Company's main internal controls of the sales process. Our testing procedures included:

- Testing internal controls over matching outgoing invoices with relevant price lists (contracts) and delivery notes, and verifying whether the data used for invoicing (prices and quantities) are correct;
- Testing internal controls over verifying whether items recorded in a given month correspond to items invoiced in the same period.

Based on the results of the internal control audit procedures, we have determined the scope and type of tests to be used in verifying whether the calculation of income is correct, and have included an additional substantive audit procedures on internal documents by matching them with the calculated revenue from sales and underlying payments or delivery notes.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)**Report on the Audit of the Financial Statements (continued)****Key Audit Matters (continued)****Valuation of finished goods**

The Company is primarily engaged in the production and distribution of mineral fertilizers to customers in Croatia and other countries, both within and outside of the European Union. Market prices of fertilizers are significantly influenced by the volatility of demand for agricultural products. This may not necessarily correlate to the changes in market prices of natural gas, which is the Company's key production input and the most significant component of finished goods inventory cost. Accordingly, there is a risk that the market prices of fertilizers at a specific point in time may fall below their production cost. As disclosed in Note 18, the Company's finished goods was HRK 162,788 thousand as at 31 December 2017 (2016: HRK 164,943 thousand).

At each reporting date, as required by relevant accounting standards, the Company determines whether the book carrying amount of its inventory exceeds its net realizable value. The Company's inventory of finished goods is tested for potential decline of their expected selling prices below manufacturing costs.

We focused on this area as arriving at determining the carrying amount of inventory requires significant management judgment. This judgment relies on the assumptions such as, primarily, calculation of manufacturing costs, 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.

Description and results of applied audit procedures

We tested internal controls over the calculation of manufacturing costs. We assessed the appropriateness of the Company's judgements regarding the calculation of manufacturing costs. These included:

- Challenging management's assessments in determination and application of standard prices, reducing to real prices and allocation of costs;
- Testing the calculation of manufacturing costs, including its mathematical accuracy, completeness and evaluation of used information.

As part of these audit procedures, we identified all cost items that are internally classified into manufacturing and non-manufacturing costs. We identified costs that we regarded as being material and verified whether they were included in the carrying amount of inventories, as required by IAS 2. On a sample basis, we considered whether the write-down to net realizable value applicable to the individual items of inventory is reasonable by reference to their selling prices and estimated costs to sell after the reporting date. We assessed 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 AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Financial Statements (continued)

Other matters

We draw attention to the fact that the Company compiles these unconsolidated financial statements in accordance with the requirements of Croatian laws and regulations and that investments in subsidiaries in these unconsolidated financial statements are stated at cost of investment. In addition, the Company is a part of consolidated financial statements for the period ended on 31 December 2017 together with its subsidiaries ("the Group"), and for the better understanding the Group as a whole consolidated financial statements should be read together with these unconsolidated financial statements. Consolidated financial statements will be issued when these unconsolidated financial statements are issued.

Nonconsolidated financial statements of the Company for the year ended December 31, 2016, were audited by another auditor who expressed an modified opinion on those statements on April 13, 2017.

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 auditor's report or the non-financial statement expected to be made available to us after the date of auditor's report.

Our opinion on the 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. With respect to the Management Report and the Corporate Governance Statement, which are included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report and Corporate Governance Statement include required disclosures as set out in Articles 21 and 22 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

- 1) Information included in the other information is, in all material respects, consistent with the attached separate financial statements.
- 2) Management Report has been prepared, in all material respects, in accordance with Article 21 of the Accounting Act.
- 3) Corporate Governance Statement has been prepared, in all material aspects, in accordance with Article 22, paragraph 1, points 3 and 4 of the Accounting Act, and includes also the information from Article 22, paragraph 1, points 2, 5, 6 and 7 of the same Act.

Based on the knowledge and understanding of the Company and its environment, which we gained during our audit of the separate financial statements, we have not identified material misstatements in the other information obtained up to the date of the auditor's report. If, after reviewing the non-financial statement, we identify material misstatements therein, we are required to report the matter to those charged with governance.

Responsibilities of the Management and Supervisory Board for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

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

Report on Other Legal and Regulatory Requirements

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and the Council and the Audit Act

We were appointed as the statutory auditor of the Company by the General Assembly on 20 July 2017 to perform audit of the accompanying financial statements. Our total uninterrupted engagement has lasted one year and covers the period from 1 January 2017 to 31 December 2017. We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Company on 30 April 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

The engagement partner on the audit resulting in this independent auditor's report is Branislav Vrtačnik.



Branislav Vrtačnik

President of the Management Board and certified auditor

Deloitte d.o.o.

Zagreb, 30 April 2018

Radnička cesta 80,

10 000 Zagreb, Croatia

Petrokemija d.d.

Separate statement of comprehensive income

for the year ended 31 December 2017

(in thousands of HRK)	<i>Note</i>	2017	2016
Revenue from sales	7	1,933,401	1,845,625
Other income	8	32,728	69,017
Total operating income		1,966,129	1,914,642
Changes in inventory of finished goods and work in progress	18	(14,113)	(94,927)
Raw materials, consumables and services used	9	(1,699,860)	(1,520,909)
Staff costs	10	(183,880)	(185,985)
Depreciation and amortisation	14,15	(93,817)	(82,244)
Other operating expenses	11	(167,941)	(79,171)
Total operating expenses		(2,159,611)	(1,963,236)
Operating loss		(193,482)	(48,594)
Financial income	12	17,456	6,852
Financial expenses	12	(66,591)	(45,568)
Net finance costs		(49,135)	(38,716)
Loss before tax		(242,617)	(87,310)
Income tax	13	-	-
Loss for the period		(242,617)	(87,310)
Other comprehensive income		-	-
Total comprehensive loss		(242,617)	(87,310)

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

Petrokemija d.d.
Separate statement of financial position
for the year ended 31 December 2017

(in thousands of HRK)	<i>Note</i>	31.12.2017	31.12.2016
ASSETS			
Non-current assets			
Property, plant and equipment	14	668,757	669,538
Intangible assets	15	8,491	8,022
Investments in subsidiaries and associates	16	15,655	24,213
Non-current financial assets	17	8	8
		<u>692,911</u>	<u>701,781</u>
Current assets			
Inventories	18	285,373	397,600
Trade and other receivables	19	71,036	78,705
Current financial assets	17	5,749	33,632
Cash and cash equivalents	20	26,387	22,333
		<u>388,545</u>	<u>532,270</u>
Total assets		<u>1,081,456</u>	<u>1,234,051</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	21	42,904	386,135
Reserves		3,912	(200)
Accumulated losses		(242,617)	(339,107)
		<u>(195,801)</u>	<u>46,828</u>
Non-current liabilities			
Loans and borrowings	22	305,240	173,432
Provisions	23	19,759	12,001
		<u>324,999</u>	<u>185,433</u>
Current liabilities			
Trade and other payables	24	437,038	520,030
Loans and borrowings	22	515,220	481,760
		<u>952,258</u>	<u>1,001,790</u>
Total equity and liabilities		<u>1,081,456</u>	<u>1,234,051</u>

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

Petrokemija d.d.
Separate statement of changes in equity
for the year ended 31 December 2017

(in thousands of HRK)

As at 1 January 2016
Comprehensive income
 Loss for the period
 Other comprehensive income
Total comprehensive income
 As at 31 December 2016

	Share capital	Other reserves	Accumulated loss	Total
	386,135	(200)	(251,797)	134,138
	-	-	(87,310)	(87,310)
	-	-	-	-
	-	-	(87,310)	(87,310)
	386,135	(200)	(339,107)	46,828

(in thousands of HRK)

As at 1 January 2017
 Transfer (Note 21)
 Reserves from profit
Comprehensive income
 Loss for the period
 Other comprehensive income
Total comprehensive income
 As at 31 December 2017

	Share capital	Other reserves	Accumulated loss	Total
	386,135	(200)	(339,107)	46,828
	(343,231)	4,124	339,107	-
	-	(12)	-	(12)
	-	-	(242,617)	(242,617)
	-	-	-	-
	-	-	(242,617)	(242,617)
	42,904	3,912	(242,617)	(195,801)

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

Petrokemija d.d.
Separate statement of cash flows
for the year ended 31 December 2017

<i>(in thousands of HRK)</i>	Note	2017	2016
Cash flows from operating activities			
Loss before tax		(242,617)	(87,310)
<i>Adjustments for:</i>			
Depreciation and amortisation	14, 15	93,817	82,244
Value adjustment of tangible and financial assets	11, 12	18,797	-
Impairment losses on inventories	11	69,605	-
Impairment losses on trade receivables	19	5	18
Interest income	12	(40)	(80)
Interest expense	12	45,227	32,174
Net increase of provisions	23	7,758	1,323
Net change in exchange differences	12	(8,322)	(6,697)
Net loss on disposal of property, plant and equipment	14, 15	4,363	2,673
Operating profit before changes in working capital		(11,407)	24,345
Changes in working capital			
Decrease in inventories		42,622	86,174
Decrease/(increase) in trade and other receivables		7,664	(1,368)
Increase in trade and other payables		(75,558)	116,768
Net cash (used in)/from operations		(36,679)	225,919
Interest paid		(41,838)	(29,444)
Net cash (used in)/from operating activities		(78,517)	196,475
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	14, 15	(108,198)	(134,571)
Interest received		40	80
Net inflows/(outflows) from bank deposits and money market funds		27,883	(6,075)
Sale of property, plant, equipment and intangible assets		-	6,562
Other proceeds from non-current financial assets		92	-
Net cash used in investing activities		(80,183)	(134,004)
Cash flows from financing activities			
Borrowings		389,343	30,394
Repayment of borrowings		(226,589)	(77,941)
Net cash from/(used in) financing activities		162,754	(47,547)
Net increase in cash and cash equivalents		4,054	14,924
Cash and cash equivalents at beginning of year		22,333	7,409
Cash and cash equivalents at end of year	20	26,387	22,333

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 2017, its share capital amounts to HRK 42,904 thousand and it is divided into 4,290,393 non-materialized ordinary shares at a nominal value of HRK 10 each. The Company's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in note 21.

As at 31 December 2017, the Company employed 1,572 employees *(31 December 2016: 1,595 employees)*.

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

Company bodies

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

Management Board

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

Duro Popijač	President from 7 February 2017
Nenad Zečević	Member until 2 January 2018, 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
Davor Žmegač	Member from 29 May 2017

Supervisory Board

Members of the Supervisory Board of the Company are:

Mijo Šepak	Member from 11 May 2016 until 6 February 2017, President from 6 February 2017
Marijan Kuprešak	President from 12 May 2016 until 6 February 2017, Member from 6 February 2017
Željko Klaus	Member until 11 May 2016, Vice President from 11 May 2016
Ladislav Turčinović	Member from 11 May 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 Company's Articles of Association. The General Assembly members are shareholders with voting rights.

Petrokemija d.d.

Notes *(continued)*

2 Basis of preparation

2.1 *Statement of compliance*

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

These separate financial statements represent those of the Company only. The consolidated financial statements of the Company and its subsidiaries, 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 30 April 2018.

2.2 *Basis of measurement*

The financial statements are prepared on an accrual basis of accounting, whereby the effects of transactions and other events are recognised when they occur and they are reported in the financial statements of the period to which they relate, and on the going concern assumption with the aim of providing information on assets, liabilities, equity, revenue and expenses.

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

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 2017, the Company incurred loss after tax of HRK 242,617 thousand (2016: HRK 87,310 thousand). Furthermore, as at 31 December 2017, the Company's current liabilities exceeded its current assets by HRK 563,713 thousand (2016: HRK 469,520 thousand). As at 31 December 2017, the Company also recorded negative equity of HRK 195,801 thousand.

The Company manages its liquidity through receivables financing and other working capital measures. At the present market prices of mineral 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 and financial indebtedness of HRK 820,460 thousand (2016: HRK 655,192 thousand).

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.

Petrokemija d.d.

Notes (continued)

2 Basis of preparation (continued)

2.4 Going concern (continued)

In addition to the restructuring measures implemented thus far, 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. Following the indicative expression of interest in the recapitalization of Petrokemija d.d. and the completion of the due diligence process, all interested investors were invited to submit binding bids by 22 September 2017. Following the public Call for Binding Bids for the recapitalization of Petrokemija d.d., the Company received binding bids from several interested bidders within the deadline given in the Calls and the notice of extension of the deadline for bids. The bids of potential investors were submitted to the Restructuring and Sale Centre and the Ministry of State Property for further processing. At the time of issue of these financial statements, negotiations were ongoing with the majority shareholder and potential investors regarding the final determination of mutual obligations and the contents of the co-ownership agreement defining the future business model of Petrokemija d.d. The scheduled deadline of this procedure was the end of 2017; however, the majority shareholder still has not adopted the required decisions so the procedure was carried over to the first two quarters of 2018.

The HBOR loan obtained in 2016 includes financial covenants the Company is required to adhere to on a quarterly basis 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 2017, the Group did not meet these debt requirements as at 31 December 2017 and, based on estimated financial indicators for the first quarter of 2018, is not expected to meet them as at 31 March 2018, 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 2017, there is no guarantee that such a waiver will be provided in the following quarterly periods in 2018, or until the agreed financial indicators show the effects of the restructuring program of the Group which is being prepared.

Moreover, the Management Board recognises that the Company has significant debt repayments scheduled in 2018 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 recapitalised during 2018. 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.

Based on these steps and their assessment of the degree of commitment of the various parties to successfully negotiate and implement the restructuring plan, the Management Board 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 12 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. The Management Board 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 realize all of its assets and discharge all of its liabilities in the normal course of business. Nevertheless, the Management Board 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.

Petrokemija d.d.

Notes (continued)

3 Significant accounting policies

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

3.1 Investments in subsidiaries and associates

(i) Subsidiaries

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

(ii) Associates

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

3.2 Foreign currencies

Foreign currency transactions

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

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

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

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

(iii) Amortisation

Amortisation is calculated straight-line basis over the estimated useful life of each item of 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

Petrokemija d.d.

Notes (continued)

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 property, plant and equipment incurred during the period of their construction.

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

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

Buildings	15 – 50 years
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

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

Loans and receivables

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

Effective interest method

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

Cash and cash equivalents

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

Petrokemija d.d.

Notes (continued)

3 Significant accounting policies (continued)

3.6 Inventories

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

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

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

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

3.7 Impairment

(i) Financial assets

Indications that financial assets are impaired are reviewed at the date of preparation of every statement of financial position. A financial asset is impaired if there is objective evidence indicating that one or more events that occurred after the initial recognition of the asset will give rise to changes in the expected future cash flows of the 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.

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

(ii) Property, plant and equipment and intangible assets

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, Company assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

(i) Investments in subsidiaries

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

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

Petrokemija d.d.

Notes (continued)

3 Significant accounting policies (continued)

3.8 Employee benefits

(i) Defined pension fund contributions

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

(ii) Long-term employee benefits

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

(iii) Bonus plans

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

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

3.9 Provisions

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

3.10 Revenue

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

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

3.11 Financial income and expenses

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

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

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

Petrokemija d.d.

Notes *(continued)*

3 Significant accounting policies *(continued)*

3.12 *Accounting for leases*

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

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

3.13 *Share capital*

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

3.14 *Dividends*

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

3.15 *Segment information*

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

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

Petrokemija d.d.

Notes (continued)

3 Significant accounting policies (continued)

3.16 Taxation

Current tax

Income tax is based on taxable income for the year and comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the date of the statement of financial position, and any adjustments to tax payable in respect of previous years. In 2017, the corporate income tax rate is 18% (2016: 20%).

Deferred taxes

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which the carrying value of assets and liabilities is expected to be recovered or settled based on tax rates enacted at the date of the statement of financial position.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would arise from the manner in which the Company expects, at the date of the statement of financial position, to recover or settle the net carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that they could be utilised as a tax benefit. At each date of the statement of financial position, the Company reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

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

In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

4 New standards and interpretations not yet adopted

First time adoption of new amendments to existing standards in force for the current reporting period

The following amendments to existing standards and new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union are in effect in the current reporting period:

- **Amendments to IAS 7 "Statement of Cash Flows" – "Disclosure Initiative"**, adopted by the European Union on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017)

Petrokemija d.d.

Notes *(continued)*

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

First time adoption of new amendments to existing standards in force for the current reporting period (continued)

- **Amendments to IAS 12 “Income Taxes”** – “Recognition of Deferred Tax Assets for Unrealised Losses”, adopted by the European Union on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).
- **Amendments to various standards entitled “Improvements to IFRS Standards 2014–2016 Cycle”** resulting from the annual IFRS improvement project (IFRS 1, IFRS 12 and IAS 28) primarily aimed at eliminating inconsistencies and clarifying wording, and adopted by the European Union on 8 February 2018 (amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to existing standards did not give rise to any material changes in the Company’s financial statements.

Standards and interpretations issued by IASB and adopted by the European Union, but not yet effective

At the date of authorising financial statements for issue, the following new standards issued by IASB were adopted, but not yet effective in the European Union:

- **IFRS 9 “Financial Instrument”**, published on 24 July 2014 thereby replacing IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.
- **IFRS 15 “Revenue from Contracts with Customers”** and amendments to IFRS 15 “Effective Date of IFRS 15”, adopted by the European Union on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 “Leases”**, adopted by the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 4 “Insurance Contracts”** – “Applying IFRS 9 ‘Financial Instruments’ with IFRS 4 ‘Insurance Contracts’”, adopted by the European Union on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or for periods when an entity first applies IFRS 9 “Financial Instruments”),
- **Amendments to IFRS 15 “Revenue from Contracts with Customers”** – Clarifications to IFRS 15 “Revenue from Contracts with Customers”, adopted by the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards entitled “Improvements to IFRS Standards 2014–2016 Cycle”** resulting from the annual IFRS improvement project (IFRS 1, IFRS 12 and IAS 28) primarily aimed at eliminating inconsistencies and clarifying wording, and adopted by the European Union on 8 February 2018 (amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018).

The Company opted not to adopt these new standards and amendments to existing standards before their effective dates. The Company believes that the adoption of now standards and amendments to existing standards will not have a significant effect on the Company’s financial statements.

Petrokemija d.d.

Notes (continued)

4 New standards and interpretations not yet adopted (continued)

Standards and interpretations issued by IASB and not yet adopted by the European Union

IFRS currently in effect in the European Union do not differ significantly from regulations issued by the International Accounting Standards Board (IASB), except for the following, amendments to existing standards and interpretations regarding whose adoption no decision was made by the European Union as at 30 April 2018 (effective dates listed below relate to IFRSs as a whole):

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) – the European Commission decided to delay the adoption of this transitional standards until the issue of its final version,
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 2 “Share-based Payment”** – “Classification and Measurement of Share-based Payment Transactions” (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 9 “Financial Instruments”** – “Prepayment Features with Negative Compensation” (effective for annual periods beginning on or after 1 January 2019)
- **Amendments to IFRS 10 “Consolidated financial statements” and IAS 28 “Investments in Associates and Joint Ventures”** – “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” and all subsequent amendments (the initial effective date was delay until the completion of the research project on cost method application),
- **Amendments to IAS 19 “Employee Benefits”** entitled “Plan Amendment, Curtailment or Settlement”(effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** – “Long-term Interests in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 40 “Investment Property”** – “Transfers of Investment Property” (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards entitled “Improvements to IFRS Standards 2014–2016 Cycle”** resulting from the annual IFRS improvement project (IFRS 1, IFRS 12 and IAS 28) primarily aimed at eliminating inconsistencies and clarifying wording (amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018).
- **Amendments to various standards entitled “Improvements to IFRS Standards 2015-2017 Cycle”** resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily aimed at eliminating inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019)
- **IFRIC Interpretation No. 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018),
- **IFRIC Interpretation No. 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after 1 January 2019).

The Company believes that the adoption of these standards, amendments to existing standards and new interpretations will not have any material or significant effect on the Company’s financial statements in the period of their first adoption.

Petrokemija d.d.

Notes (continued)

5 Key accounting judgements and estimates

Critical judgements in applying accounting policies

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

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

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

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

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see accounting policy 3.8 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. The Management Board makes estimates of probable outcomes of these legal actions, and recognises provisions for the Company's liabilities that may arise from these legal actions on a consistent basis.

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

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

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

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

Petrokemija d.d.

Notes (continued)

5 Key accounting judgements and estimates (continued)

(iv) Impairment losses on trade receivables

The Management Board determines the impairment of doubtful receivables based on the ageing structure of all receivables and the analysis of individual significant amounts. A provision for impairment of doubtful receivables is charged to profit or loss for the current year.

(v) Useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. Property, plant and equipment are carried at cost, less accumulated depreciation.

(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.

6 Determination of fair value

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

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

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

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

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

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

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

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

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

- Note 17: Financial assets

Petrokemija d.d.

Notes (continued)

7 Revenue from sales

	2017	2016
	HRK '000	HRK '000
Revenue from sale of products and trade goods	1,929,941	1,841,841
Revenue from services	3,460	3,784
	1,933,401	1,845,625

Overview of revenue from sales per market:

	2017	2016
	HRK '000	HRK '000
Croatia	610,628	580,978
Slovenia	151,564	205,837
Bosnia and Herzegovina	116,406	131,255
Serbia and Montenegro	144,081	143,839
Macedonia	14,372	20,137
Sales in countries outside the region	896,350	763,579
	1,933,401	1,845,625

8 Other income

	2017	2016
	HRK '000	HRK '000
Own consumption	17,131	37,499
Sale of manufactured packaging	5,329	4,923
Insurance reimbursement	2,697	10,067
Inventory surplus	2,184	3,035
Sale of raw materials	158	1,256
Manufacture of spare parts	111	385
Sale of tangible assets	47	6,574
Other income	5,071	5,278
	32,728	69,017

9 Raw materials, consumables and services used

	2017	2016
	HRK '000	HRK '000
Raw materials and consumables used	1,614,691	1,439,246
Cost of production services	83,535	78,984
Cost of wholesale and retail goods sold	1,634	2,679
	1,699,860	1,520,909

Petrokemija d.d.

Notes (continued)

10 Staff costs

	2017 HRK '000	2016 HRK '000
Salaries	116,550	116,164
Contributions on salaries	26,892	27,194
Other staff costs	40,438	42,627
	<u>183,880</u>	<u>185,985</u>

As at 31 December 2017, the Company had 1,572 employees (2016: 1,595).

11 Other operating expenses

	2017 HRK '000	2016 HRK '000
Impairment losses on inventories	69,605	143
Other taxes, fees and charges	41,580	30,972
Other staff costs	13,404	9,157
Impairment losses on property, plant and equipment	10,331	
Insurance	10,041	10,015
Increase in provision	8,956	8,102
Bank charges	4,348	4,376
Intellectual services	2,101	591
Inventory loss	901	2,517
Travel expenses	535	413
Impairment losses on trade receivables	5	18
Other expenses	6,134	12,867
	<u>167,941</u>	<u>79,171</u>

The Company continued to restructure its workforce and carry out its labour surplus support scheme in the course of which, in January 2017, it paid incentive termination benefits in the amount of HRK 5,524 thousand, which were included in other staff costs. Other taxes, fees and charges include HRK 21,094 thousand (2016: HRK 10,425 thousand) of fees for greenhouse gas emissions. After the Croatian accession to the European Union, Petrokemija d.d. as a plant operator is obligated to purchase emission allowances.

12 Financial income and financial expenses

	2017 HRK '000	2016 HRK '000
Interest income	40	80
Foreign exchange gains	17,401	6,697
Other financial income	15	75
Total financial income	<u>17,456</u>	<u>6,852</u>
Interest expense	(45,227)	(32,174)
Foreign exchange losses	(9,079)	(13,394)
Other financial expenses	(12,285)	-
Total financial expenses	<u>(66,591)</u>	<u>(45,568)</u>
Net finance costs	<u>(49,135)</u>	<u>(38,716)</u>

Within other financial expenses, HRK 8,466 thousand relates to the impairment of investments in subsidiaries.

Petrokemija d.d.

Notes (continued)

Income tax

	2017 HRK '000	2016 HRK '000
Loss before tax	<u>(242,617)</u>	<u>(87,310)</u>
Tax calculated at 18% (2016: 20%)	(43,671)	(17,462)
Effect of non-deductible expenses and non-taxable income	17,298	(32)
Effect of unused tax losses and offsets not recognised as deferred tax assets	26,373	15,735
Effect of change in future tax rate from 20% to 18% on unrecognised temporary differences	-	1,759
Income tax expense recognised in profit or loss	<u>-</u>	<u>-</u>

At the reporting date, carry forward tax losses of the Company amounting to HRK 1,005,811 thousand (31 December 2016: HRK 933,330 thousand) have not been recognised as a deferred tax asset as the Management Board believes it is not probable that future taxable profits will be available to utilise the unused tax losses.

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

	31.12.2017 HRK '000	31.12.2016 HRK '000
Tax loss from 2012 – expires on 31 December 2017	-	31,762
Tax loss from 2013 – expires on 31 December 2018	58,166	58,397
Tax loss from 2014 – expires on 31 December 2019	64,780	64,780
Tax loss from 2015 – expires on 31 December 2020	15,992	15,992
Tax loss from 2016 – expires on 31 December 2021	15,735	15,735
Tax loss from 2017 – expires on 31 December 2022	26,373	-
	<u>181,046</u>	<u>186,666</u>

Petrokemija d.d.

Notes (continued)

14 Property, plant and equipment (in thousands of HRK)

	Land	Buildings	Plant and equipment	Tools and inventory	Assets under construction	Advances	Total
Cost							
As 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
Transfer	-	6,745	167,978	738	(161,789)	(13,672)	-
Disposals and retirement	(975)	(2,334)	(4,800)	(349)	-	-	(8,458)
As at 31 December 2016	48,507	584,661	1,412,742	70,593	32,094	99	2,148,696
Accumulated depreciation							
As 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 and retirement	-	(779)	(4,657)	(349)	-	-	(5,785)
As at 31 December 2016	-	360,513	1,065,223	53,422	-	-	1,479,158
Net carrying amount							
As at 31 December 2016	48,507	224,148	347,519	17,171	32,094	99	669,538
Cost							
As at 1 January 2017	48,507	584,661	1,412,742	70,593	32,094	99	2,148,696
Additions	4	-	-	-	88,635	17,640	106,279
Transfer	-	1,587	34,294	5,326	(28,231)	(12,976)	-
Transfer of assets to Agrotrade (n. 16)	(3,718)	(816)	(2,136)	-	-	-	(6,670)
Disposals and retirement	-	(4,211)	(2,231)	(200)	-	-	(6,642)
As at 31 December 2017	44,793	581,221	1,442,669	75,719	92,498	4,763	2,241,663
Accumulated depreciation							
As at 1 January 2017	-	360,513	1,065,223	53,422	-	-	1,479,158
Charge for the year	-	18,935	70,044	3,387	-	-	92,366
Impairment losses	-	-	5,211	-	5,120	-	10,331
Transfer of assets to Agrotrade (n. 16)	-	(598)	(2,148)	-	-	-	(2,746)
Disposals and retirement	-	(4,081)	(1,926)	(196)	-	-	(6,203)
As at 31 December 2017	-	374,769	1,136,404	56,613	5,120	-	1,572,906
Net carrying amount							
As at 31 December 2017	44,793	206,452	306,265	19,106	87,378	4,763	668,757

Petrokemija d.d.

Notes (continued)

14 Property, plant and equipment (continued)

Assets under construction relate primarily to equipment for reconstruction and overhaul of production facilities. The Company's property amounting to HRK 65,676 thousand (2016: HRK 84,450 thousand) is mortgaged as security for loans and borrowings.

15 Intangible assets

<i>(in thousands of HRK)</i>	Assets under construction	Software and project documentation	Total
Cost			
As at 1 January 2016	1,730	27,297	29,027
Additions	1,815	-	1,815
Transfer	(10)	10	-
Disposals and retirement	-	(56)	(56)
As at 31 December 2016	3,535	27,251	30,786
Accumulated amortisation			
As at 1 January 2016	-	21,261	21,261
Charge for the year	-	1,559	1,559
Disposals and retirement	-	(56)	(56)
As at 31 December 2016	-	22,764	22,764
Net carrying amount			
As at 31 December 2016	3,535	4,487	8,022
Cost			
As at 1 January 2017	3,535	27,250	30,785
Additions	1,919	-	1,919
Transfer	(51)	51	-
Disposals and retirement	-	-	-
As at 31 December 2017	5,403	27,301	32,704
Accumulated amortisation			
As at 1 January 2017	-	22,762	22,762
Charge for the year	-	1,451	1,451
Disposals and retirement	-	-	-
As at 31 December 2017	-	24,213	24,213
Net carrying amount			
As at 31 December 2017	5,403	3,088	8,491

Petrokemija d.d.

Notes (continued)

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 share %		Investment	
	31.12.2017	31.12.2016	31.12.2017 HRK '000	31.12.2016 HRK '000
Investment in Luka Šibenik d.o.o.	80%	80%	27,798	27,798
Impairment of investment in Luka Šibenik d.o.o.			(12,402)	(9,202)
Investment in Petrokemija Agro Trade d.o.o.	100%	100%	5,266	20
Impairment of investment in Petrokemija Agro Trade d.o.o.			(5,266)	-
Petrokemija d.o.o., Novi Sad	100%	100%	259	259
Restoran Petrokemija d.o.o., Kutina	0%	100%	-	5,338
			15,655	24,213

Pursuant to the decision of the Commercial Court in Zagreb of 2 January 2017, the merger of Restoran Petrokemija d.o.o. za ugostiteljstvo with Petrokemija d.d. was registered. The difference between the net carrying amount of merged assets and the investment value was recognised within other financial expenses in the amount of HRK 1,746 thousand.

In September 2017, Petrokemija Agro Trade d.o.o. was additionally capitalized by increasing share capital through investments in kind, in accordance with the Report on valuation of property – in kind the land on which lies the phosphogypsum landfill and the land on which lies the landfill for process water neutralization, including accompanying equipment (the net carrying amount of HRK 3,924 thousand was recorded as well as an additional overvaluation income of HRK 1,322 thousand in accordance with the above Report). The total amount of the investment is impaired because, taking into account realized cash flows from the business activities of that company, the Management believes that the amount of the investment in question is not recoverable.

17 Financial assets

	31.12.2017 HRK '000	31.12.2016 HRK '000
Non-current financial assets		
Investments in other equity instruments	8	8
Current financial assets		
Financial assets held for trading	4,631	32,621
Deposits	1,118	1,011
	5,749	33,632

Financial assets held for trading relate to investments in money market funds. Investment in other equity instruments relates to a minority share in TV Moslavina, Kutina. Deposits relate to deposits in banks with original maturity less than 3 months and an interest rate of 0,5% per annum.

18 Inventories

Petrokemija d.d.

Notes (continued)

	31.12.2017	31.12.2016
	HRK '000	HRK '000
Finished goods	162,788	164,943
Spare parts	95,536	91,414
Impairment of spare parts inventory	(65,992)	-
Raw materials and supplies	86,211	109,911
Impairment of raw materials and supplies	(3,503)	-
Work in progress	9,087	20,229
Advances	656	10,584
Trade goods	590	519
	<u>285,373</u>	<u>397,600</u>

Petrokemija d.d.

Notes (continued)

19 Trade and other receivables

	31.12.2017 HRK '000	31.12.2016 HRK '000
Current receivables		
Trade receivables	128,095	122,753
Impairment allowance for trade receivables	(106,174)	(106,198)
Net trade receivables	21,921	16,555
Taxes and contributions	47,082	35,438
Related party trade receivables	835	1,190
Prepaid expenses	22	41
Receivables from employees	6	7
Other receivables	1,170	25,474
	71,036	78,705

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

	31.12.2017 HRK '000	31.12.2016 HRK '000
At the beginning of the period	106,198	106,276
Increase	1	18
Amounts collected	(22)	(37)
Written off as uncollectible	(3)	(59)
At the end of the period	106,174	106,198

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

	31.12.2017 HRK '000	31.12.2016 HRK '000
Not yet due	17,983	10,835
Overdue 0-120 days	3,787	5,699
Overdue 121-180 days	18	133
Overdue 181-360 days	293	355
Overdue over 1 year	106,849	106,921
	128,930	123,943

Trade receivables are denominated in following currencies:

	31.12.2017 HRK '000	31.12.2016 HRK '000
Croatia (HRK)	125,006	114,667
European Union (EUR)	3,911	7,088
USA (USD)	13	2,188
	128,930	123,943

Petrokemija d.d.

Notes (continued)

20 Cash and cash equivalents

	31.12.2017 HRK '000	31.12.2016 HRK '000
Cash at bank	26,378	22,326
Cash on hand	9	7
	26,387	22,333

Cash at bank relates to cash accounts with commercial banks and bears an average interest rate ranging from 0.01% to 0.1% per annum.

Petrokemija d.d.

Notes (continued)

21 Equity

	31.12.2017	31.12.2016
	HRK '000	HRK '000
Registered capital	<u>42,904</u>	<u>386,135</u>

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

Ownership structure	31.12.2017		31.12.2016	
	Number of shares	Ownership %	Number of shares	Ownership %
RSC/Republic of Croatia	3,425,991	79.85%	10,277,975	79.85%
Societe Generale-Splitska banka d.d./AZ OMF	132,564	3.09%	399,932	3.11%
Addiko bank d.d./PBZ Croatia osiguranje d.d. OMF	122,143	2.85%	366,431	2.85%
Societe Generale-Splitska banka d.d. /Erste Plavi OMF	110,961	2.59%	332,883	2.59%
HPB d.d./Kapitalni fond d.d.	42,237	0.98%	126,713	0.98%
PBZ d.d./State street client account	40,527	0.94%	121,585	0.94%
HPB d.d./Fond za financiranje razgradnje NEK	32,400	0.76%	97,200	0.76%
Zagrebačka banka d.d./State street bank and trust company	-	-	34,030	0.26%
OTP banka d.d.	10,416	0.24%	31,250	0.24%
PBZ d.d./Custodial account	11,204	0.26%	30,616	0.24%
PESEC ANTHONY JOSIP	10,046	0.23%	-	-
Other shareholders	351,904	8.21%	1,052,565	8.18%
Total registered share capital	4,290,393	100%	12,871,180	100.00%
Paid but unregistered shares	-		-	
Total share capital	4,290,393		12,871,180	

The Company's share capital comprises 4,290,393 ordinary shares (31 December 2016: 12,871,180 shares) of a nominal value of HRK 10 (31 December 2016: HRK 30) per share.

At its General Assembly held on 11 October 2017, the Company adopted the decision on reducing share capital by HRK 343,231 thousand from HRK 386,135 thousand to HRK 42,904 thousand by decreasing the nominal value of the ordinary share PTKM-R-A from HRK 30 to HRK 3.333 and simultaneously merging ordinary shares at a 3:1 ratio, whereby 3 (three) ordinary shares with a nominal value of HRK 3.333 are merged into 1 (one) ordinary share, ticker PTKM-R-A, with a nominal value of HRK 10. Following the decrease in accumulated losses charged to share capital and the transfer of loss for the period, the Company has reserves amounting to HRK 3,912 thousand (the change of HRK 4,124 thousand relates to the difference between the decrease in share capital and the settlement of the debt carried over) and negative accumulated losses amounting to HRK 242,617 thousand.

Petrokemija d.d.

Notes (continued)

22 Loans and borrowings

	31.12.2017 HRK '000	31.12.2016 HRK '000
Non-current borrowings		
Banks	303,785	77,599
Other loans	1,455	95,833
	305,240	173,432
Current borrowings		
Banks	327,190	243,536
Factoring liabilities	-	3,910
Related party loans	6,000	9,150
Other loans	182,030	225,164
	515,220	481,760
Total borrowings	820,460	655,192

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

	31.12.2017 HRK '000	31.12.2016 HRK '000
Up to 1 year	515,220	481,760
1 to 2 years	22,359	73,500
2 to 5 years	106,045	76,533
Over 5 years	176,836	23,399
	820,460	655,192

Bank loans

The interest rates for bank loans included in the table above ranged from 3,77% to 8%.

Related party loans

Loans from related parties relate to a loan from Luka Šibenik d.o.o. carrying a fixed interest rate of 5%.

Other loans

The Company has converted a part of its trade payables, 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.

Other loans in 2016 relate to a loan from an insurance company in the amount of HRK 18,000 thousand carrying a fixed interest rate of 6%. In 2017, both the latter loan and a portion of the loans to suppliers were repaid.

Petrokemija d.d.

Notes (continued)

22 Loans and borrowings

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. The loan carries a fixed interest rate, is denominated in euros and repayable in quarterly instalments starting 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, where DSCR represents the ratio of consolidated net operating revenues to the aggregate amount of repayment of principal and interest on all debt. Moreover, 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 2017, the Group did not meet these debt requirements as at 31 December 2017 and, based on estimated financial indicators for the first quarter of 2018, is not expected to meet them as at 31 March 2018, 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 2017. However, as there is no guarantee that such a waiver will be provided to the Group in the following quarterly periods in 2018, or until the agreed financial indicators show the effects of the ongoing restructuring program of the Group. Accordingly, the entire loan is classified as short term in the financial statements.

Debt movement

	As at 31 December 2016	Borrowings	Repayment of borrowings	Foreign exchange differences	As at 31 December 2017
Bank loans	321,135	363,002	(55,676)	2,515	630,975
Suppliers (Ina d.d. and PPD d.o.o.)	302,997	-	(122,326)	-	180,670
Related parties	9,150	-	(3,150)	-	6,000
Other loans	21,910	26,342	(45,437)	-	2,815
	655,192	389,343	(226,589)	2,515	820,460

As at 31 December 2017, the total debt to banks amounts to HRK 630,975 thousand, with HRK 479,294 thousand indebted to the creditor Hrvatska banka za obnovu i razvitak d.d. (HBOR), (of that 80,000 thousand HRK refers to Hrvatska poštanska banka (HPB), 100,182 thousand indebted to the creditor Erste&Steiermärkische Bank d.d., HRK 46,500 thousand indebted to the creditor Privredna banka Zagreb d.d. And HRK 5,000 thousand indebted to the creditor Karlovačka banka d.d.

Petrokemija d.d.

Notes (continued)

23 Provisions

<i>(in thousands of HRK)</i>	Jubilee awards	Termination benefits	Legal actions	Decommissioning provision	Total
As at 31 December 2016					
As at 1 January 2017	7,486	3,831	684	-	12,001
Increase in provision	937	518	-	7,500	8,956
Utilised	(1,043)	(6)	(150)	-	(1,199)
As at 31 December 2017	7,380	4,343	535	7,500	19,759

Legal actions

There are a number of legal actions initiated against the Company for minor amounts as well as those initiated by the Company against others. A provision amounting to HRK 535 thousand was recognised in relation to legal actions. The Company's Management Board believes that no significant costs exceeding those provided for at the reporting date will occur as a result of ongoing legal actions.

Jubilee awards and termination benefits

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

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

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

	<u>31.12.2017</u>	31.12.2016
Discount rate	2.2%	3.0%
Fluctuation rate	3.4%	3.4%

Petrokemija d.d.

Notes (continued)

24 Trade and other payables

	31.12.2017	31.12.2016
	HRK '000	HRK '000
Trade payables	263,390	287,685
Advances received	78,254	136,962
Salaries and other employee benefits	17,118	22,148
Contributions and other fees	6,066	6,171
Accrued interest	5,649	3,065
Related party payables	4,047	4,634
Other	62,514	59,365
	437,038	520,030

Other payables contain the liability for the purchase of emission allowances in the amount of HRK 61,013 thousand (2016: HRK 57,851 thousand).

Petrokemija d.d.

Notes (continued)

25 Risk management

Financial risk management

Categories of financial instruments are as follows:

	2017	2016
	<i>(in thousands of HRK)</i>	
Current financial assets	5,749	33,632
Trade and related party receivables	22,756	17,745
Cash and cash equivalents	26,387	22,333
Total financial assets	54,892	73,710
Loan liabilities	820,460	655,192
Trade and related party payables	267,437	292,319
Total financial liabilities	1,087,897	947,511

Fair value of financial instruments

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

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

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

As at 31 December 2017, 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).

Petrokemija d.d.

Notes (continued)

25 Risk management (continued)

Financial risk management (continued)

Liquidity risk management

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

Liquidity risk analysis

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

<i>as at 31 December 2017</i>	Net carrying amount	Contractual cash flows	up to 1 year <i>(in thousands of HRK)</i>	1 – 2 years	2 – 5 years	over 5 years
<i>Non-interest bearing assets:</i>						
Trade and related party receivables	22,756	23,130	23,130	-	-	-
<i>Interest bearing assets:</i>						
Current financial assets	5,749	5,778	5,778	-	-	-
Cash and cash equivalents	26,387	26,519	26,519	-	-	-
	32,136	32,297	32,297	-	-	-
	54,892	55,427	55,427	-	-	-
<i>as at 31 December 2017</i>	Net carrying amount	Contractual cash flows	up to 1 year <i>(in thousands of HRK)</i>	1 – 2 years	2 – 5 years	over 5 years
<i>Non-interest bearing liabilities:</i>						
Trade payables	267,437	267,437	267,437	-	-	-
<i>Interest bearing liabilities:</i>						
Loan liabilities	820,461	950,293	550,977	41,101	150,852	207,363
	1,087,898	1,217,730	838,548	50,364	132,840	195,978

Petrokemija d.d.

Notes (continued)

25 Risk management (continued)

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

<i>as at 31 December 2016</i>	Net carrying amount	Contractual cash flows	up to 1 year <i>(in thousands of HRK)</i>	1 – 2 years	2 – 5 years	over 5 years
<i>Non-interest bearing liabilities:</i>						
Loan liabilities	3,910	3,910	3,910	-	-	-
Trade payables	292,319	292,319	292,319	-	-	-
	<u>296,229</u>	<u>296,229</u>	<u>296,229</u>	-	-	-
<i>Interest bearing liabilities:</i>						
Loan liabilities	651,282	730,031	505,458	89,716	108,007	26,850
	<u>651,282</u>	<u>730,031</u>	<u>505,458</u>	<u>89,716</u>	<u>108,007</u>	<u>26,850</u>
	<u>947,511</u>	<u>1,026,260</u>	<u>801,687</u>	<u>89,716</u>	<u>108,007</u>	<u>26,850</u>

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

The continuing low mineral 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 2018 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.

Petrokemija d.d.

Notes (continued)

25 Risk management (continued)

Financial risk management (continued)

Interest rate risk management

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

Interest rate risk sensitivity analysis

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

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

	Contractual cash flows	up to 6 months	6 to 12 months (in thousands of HRK)	1 to 2 years	2 to 5 years	over 5 years
<i>as at 31 December 2017</i>						
At currently applicable interest rates	49,114	14,539	8,301	21,746	4,528	-
At currently applicable interest rates + 1%	49,655	14,738	8,455	21,889	4,483	-
Effect of increase of interest rate by 1%	(542)	(199)	(154)	(143)	(45)	-

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

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

Petrokemija d.d.

Notes (continued)

25 Risk management (continued)

Financial risk management (continued)

Currency risk management

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

	Assets	
	2017	2016
	(in thousands of HRK)	
European Union (EUR)	7,568	8,208
USA (USD)	14	2,602
	<u>7,582</u>	<u>10,810</u>
	Liabilities	
	2017	2016
	(in thousands of HRK)	
European Union (EUR)	64,267	103,972
USA (USD)	85,816	148,319
	<u>150,083</u>	<u>252,291</u>

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

	Spot FX rate		Average FX rate	
	31.12.2017	31.12.2016	2017	2016
EUR	7.513648	7.557787	7.460100	7.529383
USD	6.269733	7.168536	6.622397	6.803718

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 increase in the exchange rate of the respective currencies. The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies and adjusts their translation at the period end for a percentage change in FX rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number indicates a decrease in profit where the Croatian kuna changes against the relevant currency by 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 profit.

	EUR exposure	
	2017	2016
	(in thousands of HRK)	
Increase/(decrease) of net result	(567)	(958)
	USD exposure	
	2017	2016
	(in thousands of HRK)	
Increase/(decrease) of net result	(8,580)	(14,572)

Petrokemija d.d.

Notes (continued)

The Company does not currently hedge currency risk with respect to the euro as the local currency is pegged against the euro, but is assessing the need for hedging against the US dollar given the recent volatility of this currency and the exposure to it arising from prices of natural gas, the Company's main raw material, which are partly pegged against the US dollar.

25 Risk management (continued)

Financial risk management (continued)

Credit risk management

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

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

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

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

	2017	2016
Not yet due	17,938	10,835
Overdue 0-120 days, but not impaired	3,787	5,699
Overdue over 120 days, but not impaired	986	1,211
Total trade receivables	22,756	17,745
Total exposure to credit risk	22,756	17,745

Operational risk management

Sales concentration risk

The Company generates approximately 32% (2016: 31%) of its revenue from domestic customers, whereas around 68% (2016: 69%) of sales are generated from international customers (based on geographical location of customers). The Company determines selling prices in accordance with the macroeconomic conditions prevailing in each of the markets where the customers are located.

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

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

Price risk

The supply of the Company's primary raw material, natural gas, is dependent on two major suppliers who are also the Company's largest creditors accounting for 38% 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 strategic relationships with key suppliers and is in the process of negotiations for reduction of natural gas prices as a prerequisite for creating conditions for sustainable operations.

Petrokemija d.d.

Notes *(continued)*

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 by HRK 57 thousand (2016: HRK 336 thousand).

Petrokemija d.d.

Notes *(continued)*

26 Contractual and capital commitments

Procurement of natural gas

The Company has a contractual commitment for purchase of natural gas from the suppliers INA d.d. and Prvo plinarsko društvo d.o.o., Vukovar. As per the contracts currently in force, the Company has an obligation to buy the total amount of natural gas required in its production cycle from these suppliers. These contractual commitments expire on 1 October 2018. At a minimum, until the contract expires, the Company is required to procure at least 443 million m³ of natural gas which, based on spot market price as at 31 December 2017, amounts to approximately HRK 817 million. At the time of preparing these financial statements, the Company had signed annexes to agreements on natural gas supply with three gas suppliers – PPD d.o.o, INA d.d. and HEP d.o.o.

Capital commitments

Investments totalling approximately HRK 120 million are planned for the period up to the end of 2018, where a large portion is reserved for the overhaul scheduled for July 2018 and the remaining portion relates to capital projects linked to environmentally friendly solutions and regular investments in production capacities.

Regarding the fulfillment of the environmental requirements for performing the activities of the company, the modernization of the plant is required to meet the requirements of the relevant environmental laws in the estimated amount of investment from HRK 238.5 million to 2027.

Petrokemija d.d.

Notes (continued)

27 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 Centre ("RSC") and thus has significant influence on the Company's operations.

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, given the significant ownership interest of the State, the Company has a related party relationship with state institutions and companies where the State is the majority owner or has a significant influence.

Transactions with subsidiaries

	2017 HRK '000	2016 HRK '000
Petrokemija d.o.o., Novi Sad	33,457	38,027
Restoran Petrokemija d.o.o., Kutina	-	95
Luka Šibenik d.o.o.	1,210	226
Petrokemija Agro Trade d.o.o. Kutina	1,201	-
Sale of goods and services	35,868	38,348
Petrokemija d.o.o., Novi Sad	104	47
Financial income	104	47
	31.12.2017 HRK '000	31.12.2016 HRK '000
Petrokemija d.o.o., Novi Sad	-	1,190
Petrokemija Agro Trade d.o.o. Kutina	501	-
Luka Šibenik d.o.o.	334	-
Receivables as at 31 December	835	1,190
	2017 HRK '000	2016 HRK '000
Petrokemija d.o.o., Novi Sad	191	247
Restoran Petrokemija d.o.o., Kutina	-	159
Luka Šibenik d.o.o.	18,772	18,000
Petrokemija Agro Trade d.o.o. Kutina	1,200	-
Purchase of goods and services	20,163	18,406
Petrokemija d.o.o., Novi Sad	29	48
Restoran Petrokemija d.o.o., Kutina	-	162
Luka Šibenik d.o.o.	300	300
Financial expenses	329	510

Petrokemija d.d.

Notes (continued)

27 Related party transactions (continued)

Transactions with subsidiaries (continued)

	31.12.2017 HRK '000	31.12.2016 HRK '000
Petrokemija d.o.o., Novi Sad	20	39
Restoran Petrokemija d.o.o., Kutina	0	73
Luka Šibenik d.o.o.	3,527	4,522
Petrokemija Agro Trade d.o.o. Kutina	500	-
Liabilities as at 31 December	4,047	4,634
Luka Šibenik d.o.o.	6,000	6,000
Restoran Petrokemija d.o.o., Kutina	-	3,150
Borrowings	6,000	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 where the State is a majority owner or has a significant influence. For the purpose of related party disclosures, the Company does not consider routine transactions (such as taxes, levies, etc.) with various communal entities (directly or indirectly owned by the State) or with other state bodies to be related party transactions.

More significant transactions of the Company with state owned companies relate to purchase of gas which is the primary raw material used in the Company's production cycle, freight rail transport services and supply of electricity. The Company is also in part financed by a bank where the majority owner is the State. During 2017, the Company had the following transactions with state related parties:

	2017 HRK '000	2016 HRK '000
HBOR		
Loans and borrowings as at 31 December	319,148	222,701
Interest expense	13,883	3,098
INA d.d.		
Purchase of gas, other raw materials and services	523,245	487,475
Liabilities as at 31 December	16,267	53
Loans and borrowings as at 31 December	72,167	152,510
Interest expense	8,169	3,795
HŽ Cargo d.o.o.		
Purchase of transport services	68,582	64,494
Liabilities as at 31 December	9,468	6,278
HEP Opskrba d.o.o.		
Purchase of electricity	15,143	17,765
Liabilities as at 31 December	2,803	2,812
HPB d.d.		
Loans and borrowings as at 31 December	160,143	-
Interest expense	3,463	-

Transactions with key management personnel and members of the Supervisory Board

Management Board remuneration relates to regular monthly payments for salaries and other benefits in kind. During 2017, remuneration paid to key management personnel amounted to HRK 1,719 thousand (2016: HRK 3,381 thousand) and related to 6 persons (2016: 4 persons). Furthermore, during 2017, remuneration of HRK 238 thousand (2016: HRK 186 thousand) was paid to the members of the Supervisory Board.

Petrokemija d.d.

Notes *(continued)*

28 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 Company is also considering the possibility of prolonging the timing of the restoration. Accordingly, except for the preliminary assessment by relevant specialists, the Company has not prepared a detailed restoration plan and has not recognised any provisions in this respect.

Limitations with respect to estimating the cost of restoration and closure

According to the current Sustainable Waste Management Act, 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 landfill, 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 the phosphogypsum landfill" and is more favourable as it does not require placement of foil or substantial amounts of clay and substrate.

- *Option 3*

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

The Management Board deems that, given the ambiguity of relevant regulations, option 3 is currently the most likely option. The costs of land restoration are difficult to estimate.

Legal actions

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

Petrokemija d.d.

Notes *(continued)*

29 Events after the reporting period

In the period from 31 December 2017 to the date of approval of these financial statements, no events or transactions have occurred that would have a material effect on the financial statements as at 31 December 2017 or for the period then ended, or that are of such significance in relation to the Company's affairs to require disclosure in a note to the financial statements.

30 Approval of the financial statements

These financial statements were approved by the Management Board and authorized for issue on 30 April 2018.

Đuro Popijač
President of the Management Board



Davor Žmegač
Member of the Management Board



Petrokemija, Plc.
SUPERVISORY BOARD

Number: 3/2018.

Kutina, 30.04.2018.

Pursuant Article 21 of the Articles of Association of Petrokemija, Plc. and Articles 300c and 300d of the Companies Act, at its 13/2018 session held on 30 April 2018, the Supervisory Board of Petrokemija, Plc. adopted

DECISION

ON APPROVAL TO THE FINANCIAL STATEMENTS FOR 2017

I

After reviewing them, the Supervisory Board of Petrokemija, Plc. approved the annual financial statements of Petrokemija, Plc. for 2017, which were drawn 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 2017 - Independent Auditor's Report to the shareholders of Petrokemija Plc., with notes

III

Balance sheet assets and liabilities amount to **HRK 1,081,457,434.64**.

The actual business loss for 2017 amounts to **HRK 242,616,914.85**.

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: 5/2018.

Kutina, 30.04.2018.

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 13/2018 session held on 30 April 2018, the Supervisory Board of Petrokemija, Plc. adopted

DECISION
on loss coverage for 2017

I

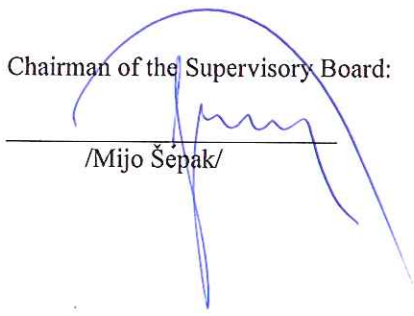
The proposal of the Board for the cumulative operating losses for 2017 in the total amount of HRK **242,616,914.85 HRK** to be transferred into 2018 as uncovered loss is adopted.

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:

1.1.2017.

to

31.12.2017.

Annual financial statements GFI-PODRegistration number (MB): **03674223**Registration 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.hrInternet address: www.petrokemija.hrCode and city/municipality: **220** **KUTINA**Code and county name: **3** **SISAČKO-MOSLAVAČKA ŽUPANIJA**Number of employees: **1.572**
(at the end of the year)Consolidated Report: **NO** Code of NKD: **20.15**

Entities in consolidation (according to IFRS): Registered seat: Registration number (MB):

Entities in consolidation (according to IFRS):	Registered seat:	Registration number (MB):

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.hrName and surname: **ĐURO POPIJAČ, DAVOR ŽMEGAČ**
(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 charge of making Financial Statements
4. Decision of the Supervisory board (proposed) on determining annual financial statements
5. Decision on proposed allocation of profit or covering loss

(seal)

(signature of authorized representative)

BALANCE SHEET
as at 31.12.2017.

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	701.782.032	692.910.766
I. INTANGIBLE ASSETS (004 do 009)	003	8.023.085	8.491.092
1. Expense for development	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	4.487.689	3.088.056
3. Goodwill	006		
4. Advances for intangible assets	007		
5. Intangible assets in progress	008	3.535.396	5.403.036
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 do 019)	010	669.390.841	668.559.628
1. Land	011	48.506.702	44.792.549
2. Buildings	012	224.148.613	201.240.990
3. Plant and equipment	013	345.925.594	310.509.892
4. Tools, plant inventory and transportation assets	014	16.704.376	18.162.307
5. Biological assets	015		
6. Advances for tangible assets	016	99.731	4.763.643
7. Tangible assets in progress	017	33.538.840	88.625.507
8. Other tangible assets	018	466.985	464.740
9. Investments in real estates	019		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	020	24.220.524	15.662.370
1. Investments (shares) in related companies	021	24.212.988	15.654.834
2. Loans given to related companies	022		
3. Participating interest (shares)	023	7.536	7.536
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	147.582	197.676
1. Receivables from related companies	030		
2. Receivables for sales on loan	031		
3. Other receivables	032	147.582	197.676
V. DEFERRED TAX ASSETS	033		
C) SHORT-TERM ASSETS (035+043+050+058)	034	532.230.428	388.524.703
I. INVENTORIES (036 do 042)	035	397.600.114	285.373.219
1. Raw and other material	036	201.325.786	112.252.085
2. Work in progress	037	20.229.445	9.087.290
3. Finished products	038	164.942.675	162.787.925
4. Merchandise inventory	039	518.884	590.316
5. Advances for inventories	040	10.583.324	655.603
6. Long-term assets intended for sale	041		
7. Biological assets	042		
II. TRADE RECEIVABLES (044 do 049)	043	78.665.036	71.014.206
1. Receivables from related companies	044	1.190.352	835.005
2. Receivables from customers (buyers)	045	16.556.415	21.921.069
3. Receivables from participating interest	046		
4. Receivables from employees and members	047	6.931	6.315
5. Receivables from state and other institutions	048	35.436.528	47.081.670
6. Other receivables	049	25.474.810	1.170.147
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	33.632.160	5.749.727
1. Investments (shares) in related companies	051		
2. Loans given to related companies	052		
3. Participating interest (shares)	053		
4. Loans given to companies with participating interest	054		
5. Investment in securities	055		
6. Loans given, deposits and similar assets	056	33.632.160	5.749.727
7. Other financial assets	057		
IV. CASH IN BANK AND ON HAND	058	22.333.118	26.387.551
D) PREPAID EXPENSES AND ACCRUED INCOME	059	41.229	21.966
E) TOTAL ASSETS (001+002+034+059)	060	1.234.053.689	1.081.457.435
F) OFF BALANCE SHEET ITEMS	061	1.335.568.822	740.969.603

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	46.827.900	-195.800.616
I. SUBSCRIBED CAPITAL	063	386.135.400	42.903.930
II. CAPITAL RESERVES	064	-200.000	3.923.969
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	0	-11.600
1. Legal reserves	066		
2. Reserve for treasury shares	067		
3. Treasury shares and investment (deductible item)	068		11.600
4. Statutory reserves	069		
5. Other reserve	070		
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	-251.797.101	0
1. Retained earning	073		
2. Loss carried forward	074	251.797.101	
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	075	-87.310.399	-242.616.915
1. Profit for the year	076		
2. Loss for the year	077	87.310.399	242.616.915
VII. MINORITY INTEREST	078		
B) PROVISIONS (080 do 082)	079	12.000.758	19.758.254
1. Provisions for pensions, severance pay and similar liabilities	080	11.316.033	11.723.528
2. Provisions for tax liabilities	081		
3. Other provisions	082	684.725	8.034.726
C) LONG-TERM LIABILITIES (084 do 092)	083	365.042.685	506.249.229
1. Liabilities to related companies	084		
2. Liabilities for loans, deposits and similar	085	95.833.333	1.455.436
3. Liabilities to banks and other financial institutions	086	269.209.352	504.793.793
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	740.933.779	683.665.343
1. Liabilities to related companies	094	13.783.657	10.046.595
2. Liabilities for loans, deposits and similar	095	225.163.666	182.030.213
3. Liabilities to banks and other financial institutions	096	51.925.926	126.181.973
4. Liabilities for advances	097	136.962.093	78.254.196
5. Liabilities to suppliers	098	287.685.453	263.389.849
6. Liabilities for securities	099		
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	10.757.706	10.546.374
9. Liabilities for taxes, contributions and other payments	102	7.658.852	7.542.590
10. Liabilities as per share in result	103		
11. Liabilities as per long-term assets intended for sales	104		
12. Other short-term liabilities	105	6.996.426	5.673.553
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	69.248.567	67.585.225
F) TOTAL LIABILITIES (062+079+083+093+106)	107	1.234.053.689	1.081.457.435
G) OFF BALANCE SHEET ITEMS	108	1.335.568.822	740.969.603
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 01.01.2017. to 31.12.2017.

Petrokemija d.d.			
Position	AOP code	Previous year	Current year
1	2	3	4
I. OPERATING REVENUES (112+113)	111	1.925.227.744	1.978.711.075
1. Sales revenues	112	1.845.624.359	1.933.400.753
2. Other operating revenues	113	79.603.385	45.310.322
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	1.973.822.557	2.172.192.036
1. Changes in value of work in progress and finished products	115	94.926.654	14.112.997
2. Material costs (117 do 119)	116	1.520.912.450	1.699.859.581
a) Cost of raw and production materials	117	1.439.247.783	1.614.691.435
b) Cost of goods sold	118	2.679.440	1.633.614
c) Other external costs	119	78.985.227	83.534.532
3. Employees costs (121 do 123)	120	185.984.975	183.878.857
a) Net salaries and wages	121	116.164.109	116.549.550
b) Costs for taxes and contributions from salaries	122	42.627.073	40.437.582
c) Contributions on salaries	123	27.193.793	26.891.725
4. Depreciation	124	82.244.182	93.817.397
5. Other costs	125	65.869.592	84.056.781
6. Value adjustments (127+128)	126	10.044.337	80.952.143
a) of long-term assets (except for financial assets)	127	7.509.700	10.441.423
b) of short-term assets (except for financial assets)	128	2.534.637	70.510.720
7. Provisions	129	13.840.367	15.514.280
8. Other operating expenses	130		
III. FINANCIAL REVENUES (132 do 136)	131	6.851.894	17.454.876
1. Interest, exchange rate fluctuations, dividends and similar from associated companies	132	47.496	104.092
2. Interest, exchange rate fluctuations, dividends and similar from non-associated companies and others	133	6.804.398	17.336.282
3. Part of revenue from associated companies and participating interests	134		
4. Unrealised gains (revenues) from financial assets	135		
5. Other financial revenues	136		14.502
IV. FINANCIAL EXPENSES (138 do 141)	137	45.567.480	66.590.830
1. Interest, exchange rate fluctuations and other costs with associated companies	138	508.944	328.759
2. Interest, exchange rate fluctuations and other costs with non-associated companies	139	45.058.536	53.976.430
3. Unrealised losses (costs) from financial assets	140		8.465.982
4. Other financial expenses	141		3.819.659
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	1.932.079.638	1.996.165.951
X. TOTAL EXPENSES (114+137+143 + 145)	147	2.019.390.037	2.238.782.866
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	-87.310.399	-242.616.915
1. Profit before taxation (146-147)	149	0	0
2. Loss before taxation (147-146)	150	87.310.399	242.616.915
XII. PROFIT TAX	151		
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	-87.310.399	-242.616.915
1. Profit for the period (149-151)	153	0	0
2. Loss for the period (151-148)	154	87.310.399	242.616.915

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	-87.310.399	-242.616.915
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 gain/loss of associated companies	164		
7. Actuarial gains/losses 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	-87.310.399	-242.616.915
APPENDIX TO STATEMENT OF COMPREHENSIVE 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 period 01.01.2017. to 31.12.2017.

Petrokemija d.d.			
Position	AOP code	Previous year	Current year
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Cash increase from buyers	001	1.995.150.376	1.946.951.251
2. Cash increase from royalties, fees commissions and other	002		
3. Cash increase from insurance compensations	003	6.914.953	27.446.652
4. Cash increase from tax return	004	220.528.428	289.835.029
5. Other cash increase	005	770.643	1.260.859
I. Total increase of cash flow from operating activities (001 do 005)	006	2.223.364.400	2.265.493.791
1. Expenses to suppliers	007	2.069.461.529	2.054.120.083
2. Expenses for employees	008	202.096.547	206.512.274
3. Expenses for insurance compensations	009	12.211.710	12.749.291
4. Expenses for interest	010	46.054.098	41.838.198
5. Expenses for taxes	011	45.857.144	43.834.953
6. Other cash decrease	012	7.136.053	12.255.346
II. Total decrease in cash flow from operating activities (007 do 012)	013	2.382.817.081	2.371.310.145
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)	014	0	0
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)	015	159.452.681	105.816.354
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proceeds from sale of non-current tangible and intangible assets	016	1.728.206	6.095.570
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		
5. Other cash proceeds from investing activities	020		
III. Total cash inflow from investing activities (016 do 020)	021	1.728.206	6.095.570
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	106.342.374	93.268.403
2. Cash outflow for acquisition of equity and debt financial instruments	023		11.600
3. Other cash outflows from investing activities	024		
IV. Total cash outflow from investing activities (022 do 024)	025	106.342.374	93.280.003
B1) NET CASH FLOW FROM INVESTING ACTIVITIES (021-025)	026	0	0
B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)	027	104.614.168	87.184.433
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash inflows from issuance of equity and debt financial instruments	028		
2. Cash inflows from loan principals, debentures, credits and other borrowings	029	536.934.785	383.093.302
3. Other inflows from financial activities	030		32.620.660
V. Total cash inflow from financial activities (028 do 030)	031	536.934.785	415.713.962
1. Cash outflows for repayment of loan principal and bonds	032	257.941.089	213.914.164
2. Cash outflows for dividend payment	033		
3. Cash outflow for financial lease	034		
4. Cash outflows for buyback of own shares	035		
5. Other cash outflows for financial activities	036		4.744.578
VI. Total cash outflow for financial activities (032 do 036)	037	257.941.089	218.658.742
C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)	038	278.993.696	197.055.220
C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)	039	0	0
Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)	040	14.926.847	4.054.433
Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)	041	0	0
Cash and cash equivalents at the beginning of the period	042	7.406.271	22.333.118
Increase of cash and cash equivalents	043	14.926.847	4.054.433
Decrease of cash and cash equivalents	044		
Cash and cash equivalents at the end of the period	045	22.333.118	26.387.551

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

STATEMENT OF CHANGES IN EQUITY

for the period from **1.1.2017** to **31.12.2017**

Position 1	AOP code 2	Previous year 3	Current year 4
1. Suscribed capital	001	386.135.400	42.903.930
2. Capital reserves	002	-200.000	3.923.969
3. Reserves from profit	003		-11.600
4. Retained profit or loss carried forward	004	-251.797.101	
5. Profit or loss for the year	005	-87.310.399	-242.616.915
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	46.827.900	-195.800.616
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.