Petrokemija d.d. and its subsidiaries, Kutina

Consolidated Annual Report for the year ended 31 December 2018

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

Petrokemija d.d. and its subsidiaries
Consolidated Annual Report for the year 2018

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Petrokemija d.d.
Management Report on the Company for the year 2018

Key indicators for the Group for 2018

FINANCIAL RESULTS

- In the period from January to December 2018, Petrokemija Group recorded total revenues of HRK 1,881.3 million and total expenses of HRK 2.354,8 million, and thus disclosed an operating loss of HRK 473.5 million or 25.1% of total revenues (in the same period in 2017 – loss of HRK 242.7 million);
- Loss from operating activities – HRK 303.6 million, loss from financial activities – HRK 169.9 million;
- Earnings before interest, taxes, depreciation and amortization (EBITDA) negative at HRK 212.7 million;
- Total income of Petrokemija Group 6% less than in the same period of last year, sales volume of mineral fertilisers decreased by 11.9%, and the average selling price of mineral fertilisers increased by 6% compared to the same period of 2017;
- In the structure of revenue of Petrokemija d.d., domestic sales amounted to 31.5% or HRK 590.7 million, which is 3.3% lower than in the same period of 2017, while export accounted for 64.7% or HRK 1,214.6 million, which is 6% lower than in 2017.

PRODUCTION AND SALES (QUANTITATIVE):

- Actual production of mineral fertilizers – 1,034 thousand tons, 13,2% more compared to the same period of last year;
- In relation to the same period in 2017, the production of Urea decreased by 22.3%, the production of CAN by 9.9%, and the production of NPK mineral fertilizers decreased by 3.4%;
- Utilization of currently installed production capacity of the facilities – 81%;
- Sales volume of mineral fertilizers – 1,029 thousand tons, increased by 11.9% compared to the same period of last year;
- Compared to 2017, sales volumes by assortment realized in 2018 decreased by 19.8% for urea, 11,5% for the CAN group of fertilizers (CAN+AN+UAN+AS/ASN), and increased by 0.6% for NPK mineral fertilizers;
- Domestic sales of mineral fertilizers – 292 thousand tons, decreased by 7.9% in relation to the same period of 2017, share of mineral fertilizer sales in the domestic market – 28.4%;
- Export sales of mineral fertilizers of Petrokemija d.d. – 737 thousand tons – decreased by 13.4% in relation to the same period of 2017, share of export sales of mineral fertilizer sales amounted to 71.6%. The last quarter of the reporting period saw the start of activities for changing the market sales structure in terms of increasing regional and decreasing overseas sales of mineral fertilizers.

STRUCTURE OF ASSETS AND LIABILITIES:

- As at 31 December 2018, capital and reserves of Petrokemija Group – positive at HRK 230.7 million;
- Non-current assets increased by 3.4% compared to the end of 2017, and non-current liabilities decreased by 9.2%;
- Current assets increased by 94.4% compared to the end of 2017, and non-current liabilities decreased by 14.6%;
- Deferred cost payment increased by 166.3% compared to the end of 2017;
- Liquidity indicators are below recommended values, even though they improved in relation to the previous year (31/12/2018: working capital of HRK +9 million; 31/12/2017: negative working capital of HRK - 350 million);
- The financial stability, equity and gearing ratios are below recommended values.

OTHER INDICATORS:

- Investments in assets – HRK 117.2 million;
- Employees as at 31/12/2018 – Petrokemija d.d.: 1,597 employees, Petrokemija Group: 1,726 employees.

Petrokemija d.d.
Management Report on the Company for the year 2018 (continued)

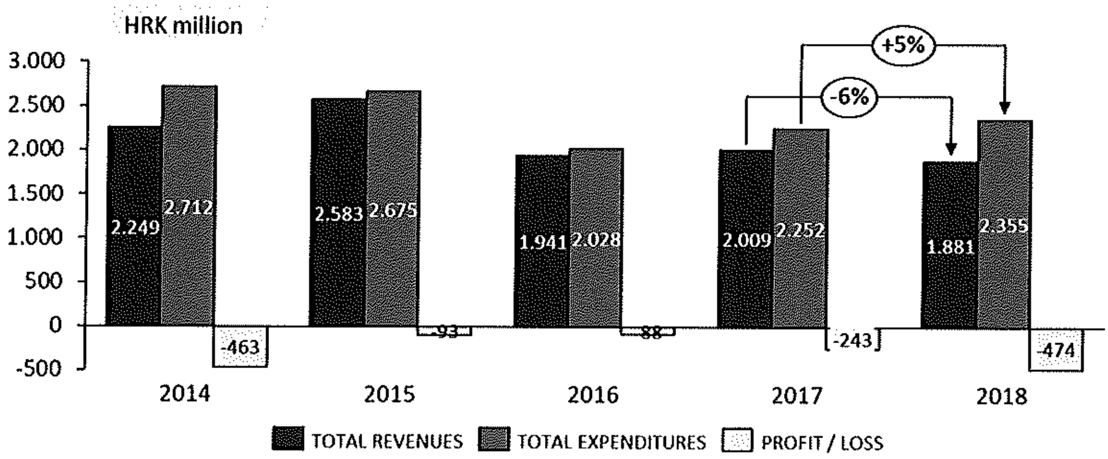
Statement of profit or loss of Petrokemija Group 2014 – 2018 (continued)

(HRK 000)

Description	Realized Jan - Dec 2014	Realized Jan - Dec 2015	Realized Jan - Dec 2016	Realized Jan - Dec 2017	Realized Jan - Dec 2018	Indices 6/5
1	2	3	4	5	6	7
TOTAL REVENUES	2.248.918	2.582.519	1.940.736	2.009.489	1.881.313	93,6
TOTAL EXPENDITURES	2.711.719	2.675.368	2.028.346	2.252.233	2.354.815	104,6
PROFIT / LOSS	-462.801	-92.850	-87.610	-242.745	-473.502	195,1
EBIT	-407.933	-38.869	-49.156	-193.772	-303.569	156,7
EBITDA	-310.986	54.218	33.928	-93.835	-212.695	226,7
EBITDA margin	-13,8%	2,1%	1,7%	-4,7%	-11,3%	242,1

(EUR million)

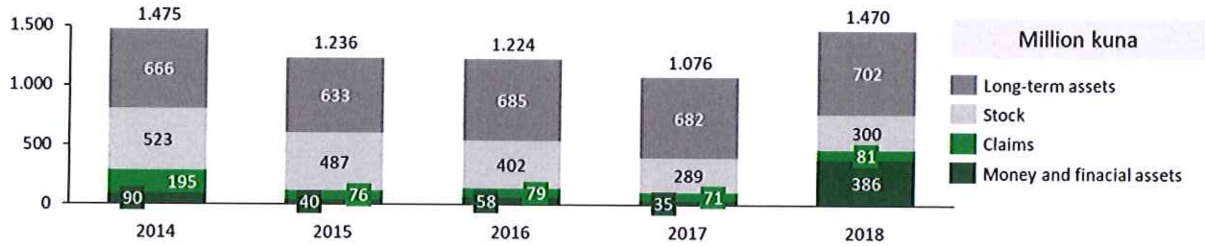
Description	Realized Jan - Dec 2014	Realized Jan - Dec 2015	Realized Jan - Dec 2016	Realized Jan - Dec 2017	Realized 1. - 12. 2018.	Indices 6/5
1	2	3	4	5	6	7
TOTAL REVENUES	294,7	339,4	257,7	269,4	253,7	94,2
TOTAL EXPENDITURES	355,4	351,6	269,4	301,9	317,6	105,2
PROFIT / LOSS	-60,7	-12,2	-11,6	-32,5	-63,9	196,3
EBIT	-53,5	-5,1	-6,5	-26,0	-40,9	157,6
EBITDA	-40,8	7,1	4,5	-12,6	-28,7	228,1
EBITDA margin	-13,8%	2,1%	1,7%	-4,7%	-11,3%	242,1
Average exchange rate o	7,63	7,61	7,53	7,46	7,41	99,4



Balance sheet (assets)

(HRK 000)

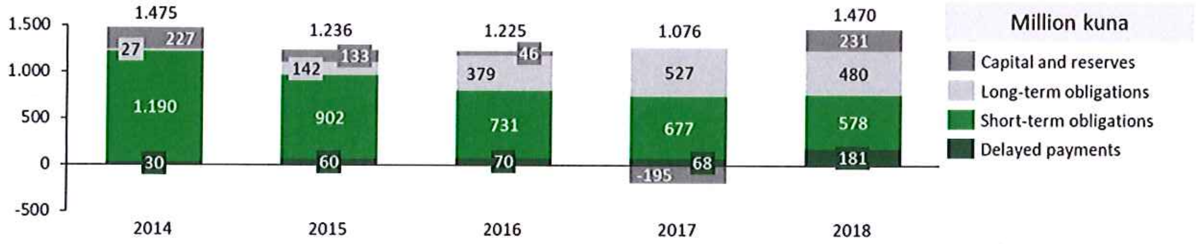
No.	DESCRIPTION	Balance 31. 12. 2014.	Balance 31. 12. 2015.	Balance 31. 12. 2016.	Balance 31. 12. 2017.	Balance 31. 12. 2018.	Indices 7/6
1	2	3	4	5	6	7	8
1	**Long-term assets**	**666.470**	**632.601**	**685.494**	**681.864**	**702.435**	103,0
1.1.	Lands and forests	49.482	49.482	48.507	48.713	44.376	91,1
1.2.	Buildings	256.096	237.973	224.446	207.105	186.741	90,2
1.3.	Plants and equipment	267.358	239.481	349.873	301.612	376.514	124,8
1.4.	Other long term assets	93.533	105.665	62.668	124.435	94.804	76,2
2	**Short-term assets**	**808.164**	**603.629**	**538.924**	**394.548**	**767.119**	194,4
2.1.	**Stock**	523.417	487.398	401.674	288.644	299.849	103,9
2.1.1.	Raw material and material, small inventory	272.799	205.262	205.012	115.471	126.095	109,2
2.1.2.	Spare parts						
2.1.3.	Products in prod., products, goods	250.237	281.535	186.036	172.502	172.450	100,0
2.1.4.	Advance payments	381	600	10.626	672	1.304	194,1
2.2.	**Claims**	**195.157**	**76.426**	**79.156**	**70.843**	**81.263**	114,7
2.2.1.	Claims from buyers	74.863	10.717	18.047	22.480	15.826	70,4
2.2.2.	Other claims (from state and similar)	120.295	65.709	61.109	48.362	65.436	135,3
2.3.	**Financial assets**	78.110	30.382	33.632	5.750	375.135	6.524,4
2.4.	**Money**	11.480	9.423	24.462	29.311	10.872	37,1
3	**Payed expences of future business**	544	30	290	68	90	131,5
	Total assets (1+2+3)	**1.475.177**	**1.236.260**	**1.224.708**	**1.076.480**	**1.469.644**	136,5



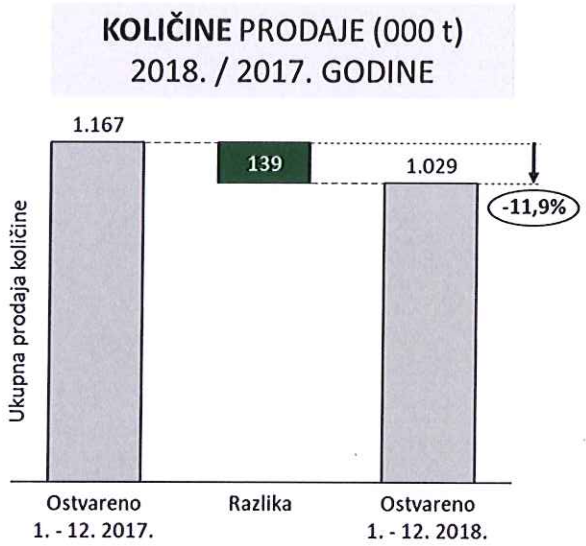
Balance sheet (liabilities)

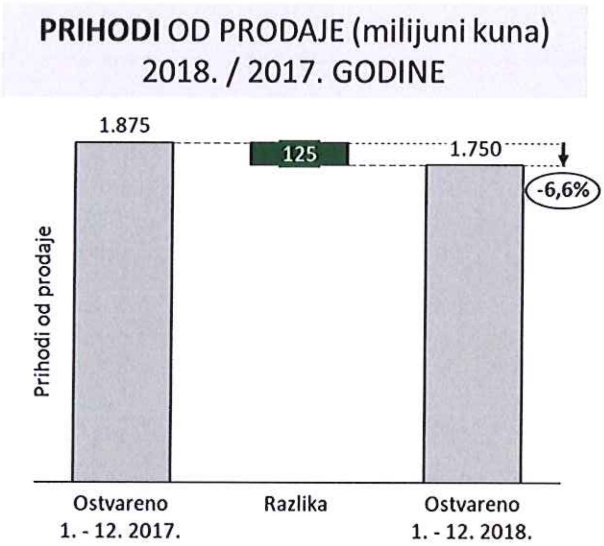
(HRK 000)

No.	DESCRIPTION	Balance 31. 12. 2014.	Balance 31. 12. 2015.	Balance 31. 12. 2016.	Balance 31. 12. 2017.	Balance 31. 12. 2018.	Indeks 7/6
1	2	3	4	5	6	7	8
1	**Capital and reserve**	**227.197**	**133.189**	**45.531**	**-195.342**	**230.694**	
1.1.	Subscribed capital and reserve	691.248	389.744	389.631	49.785	705.783	1.417,7
1.2.	Ratained profit					-1.578	
1.3.	Transferred loss	-880	-163.356	-256.157			
1.4.	Current year profit					0	
1.5.	Current year loss	-463.172	-93.198	-87.944	-245.127	-473.511	193,2
2	**Lonf-term obligations and reservations**	**27.241**	**141.631**	**378.696**	**527.308**	**480.296**	91,1
2.1.	Reservations for retirement and similar	9.084	10.572	12.134	12.559	12.349	98,3
2.2.	Other reservations	1.142	965	845	8.308	8.305	100,0
2.3.	Obligations for long term loans	17.015	130.094	365.716	506.441	459.642	90,8
3	**Short-term obligations**	**1.190.347**	**901.902**	**730.643**	**676.563**	**577.696**	85,4
3.1.	Obligations to domestic suppliers	481.955	512.987	289.065	264.759	310.411	117,2
3.2.	Obligations to importer						
3.3.	Obligations for short-term loans	477.365	233.879	277.828	308.687	133.401	43,2
3.4.	Obligations for advance payments	112.185	127.348	136.969	78.255	105.065	134,3
3.5.	Obligations for bills of exchange and checks						
3.6.	Obligations to the employees	11.480	11.518	11.481	11.204	11.676	104,2
3.7.	Obligations for taxes and contributions	11.201	13.250	8.237	7.969	8.134	102,1
3.8.	Other short-team obligations	96.161	2.919	7.063	5.689	9.009	158,3
4	**Delayed payment for future period**	30.391	59.538	69.839	67.951	180.958	266,3
	Liabilities total (1+2+3)	**1.475.177**	**1.236.260**	**1.224.708**	**1.076.480**	**1.469.644**	136,5



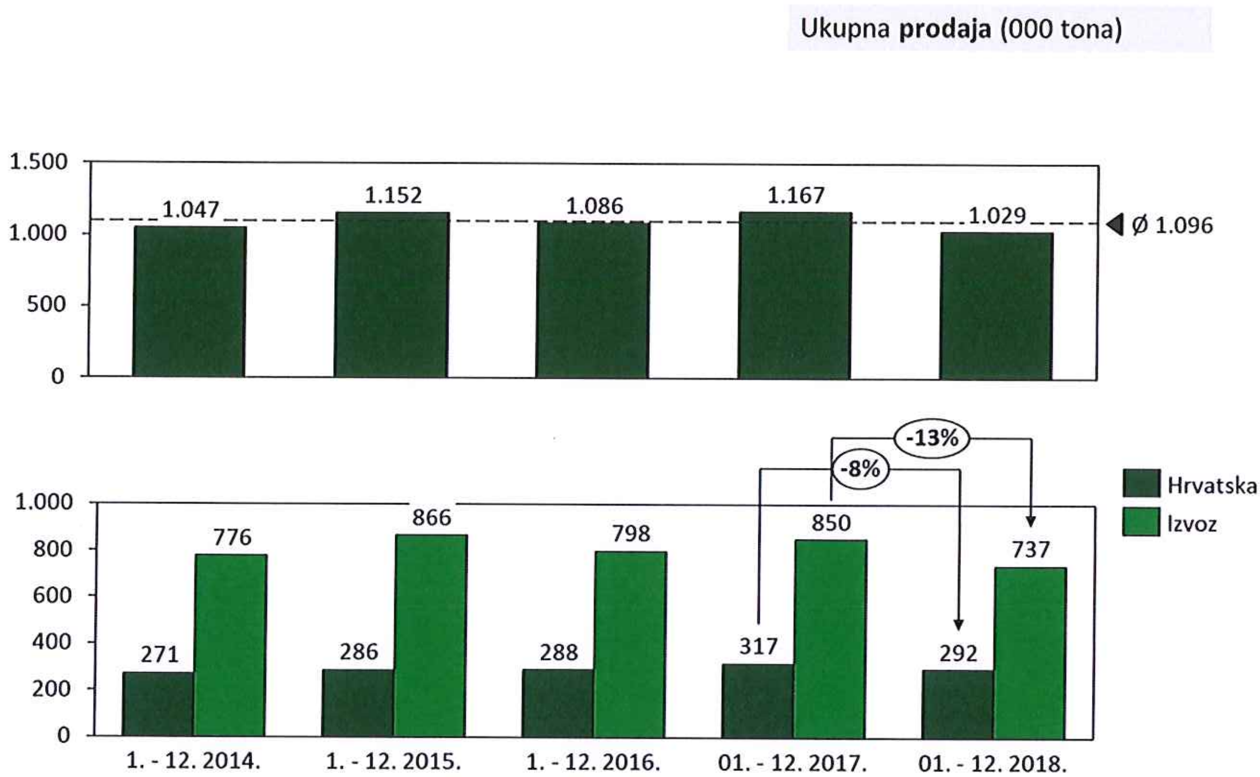
Total sales of mineral fertilizers



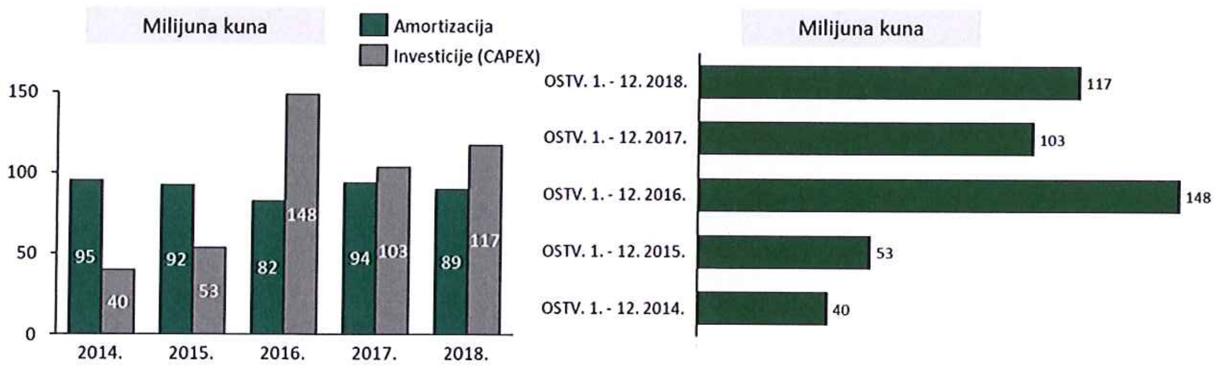


The sales volume of fertilizers decreased by 11.9% and was accompanied by a decrease of 6.6% in revenue from sales of mineral fertilizers, indicating a fall of 6% in average selling prices, compared to the same period in 2017 (changes in assortment and shares in particular markets).

Actual sales of mineral fertilizers for the period 2014 –2018



Realized investments



- Investments realized in the reporting period amount to HRK 117.2 million.
- In relation to the same period of the previous year, despite the lacking liquidity, the investments were realized on a significantly higher level (index 113.6), mostly due to the comprehensive annual overhaul of plants.
- Talks are under way with the relevant authorities of the Government of the Republic of Croatia concerning the investments necessary to meet the requirements of the environmental permit and deadlines for the completion of specific capital projects.

Changes in the Supervisory Board and the Management Board

CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD

- The Supervisory Board adopted a decision on the mandate termination of the Member of the Management Board 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.
- At the meeting held on 31 October 2018, the Supervisory Board adopted a decision by agreement on the mandate termination of the President of the Management Board Đuro Popijač, MSc, and Member of the Management Board Davor Žmegač, MSc.
- The Supervisory Board adopted a decision on appointing a new Management Board: Davor Žmegač, MSc, President of the Management Board; Krešimir Rendeli, Member of the Management Board; Goran Pleše, Member of the Management Board; Peter Suba, Member of the Management Board. The term of the appointed members of the Management Board started on 31 October 2018.
- At the meeting held on 16 January 2019, the Supervisory Board of Petrokemija d.d. adopted a decision on the mandate termination of the Member of the Management Board Mr Krešimir Rendeli as of 31 January 2019, by agreement. Mr Željko Marić, dipl. ing., was appointed as a Member of the Management Board. The term of the Member of the Management Board Željko Marić started on 1 February 2019.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD

- The Member of the Supervisory Board Mr Marijan Kuprešak resigned as a Member of the Supervisory Board of Petrokemija d.d. as of 1 August 2018.
- At the meeting held on 31 October 2018, members of the Supervisory Board – Mr Mijo Šepak, President of the Supervisory Board; Robert Blažinović, Member of the Supervisory Board; and Ladislav Turčinović, Member of the Supervisory Board resigned as members of the Supervisory Board.
- On 31 October 2018, the Decision on Appointment of Members of the Supervisory Board was adopted, appointing the following members of the Supervisory Board: Sándor Fasimon, President of the Management Board INA d.d., Pavao Vujnovac, President of the Management Board of Prvo plinarsko društvo d.o.o. Vukovar, Sabina Škrtić, Member of the Management Board of Energia Naturalis d.o.o. Zagreb, Gabor Horvath, CFO of INA d.d., Tomislav Pokaz, Counsellor of the PM of the Republic of Croatia, Mijo Šepak, Director of Moslavina d.o.o. Kutina. The term of the newly elected members of the Supervisory Board lasts for 4 years, and starts on the date of adoption of the Decision.

Company share capital, important events for the Company

- Following the Decision of the Croatian Government of 24 May 2018 on granting the authorization to conclude a contract on the transfer and sale of claims against Petrokemija d.d. – Tvornica gnojiva, the Management Board of Petrokemija d.d. signed appendices to loan agreements from Erste&Steiermarkische Bank, Hrvatska poštanska banka and Croatian Bank for Reconstruction and Development with a new creditor, the Republic of Croatia, in the total amount of HRK 450 million. This Decision was adopted within the recapitalisation process, which was described in detail in the related public releases.
- Based on the Decision of the General Assembly of the Company of 9 July 2018, Decision of the Management Board of the Company on the final number of new shares, issue performance and the accurate amount of the increase in the Company share capital of 31 October 2018 and the Approval of the Supervisory Board of 31 October 2018 with the Decision of the Management Board, the share capital of the Company increased through the issue of new non-materialized ordinary shares at a nominal value of HRK 10 each, payment in cash, so the Company share capital increased from HRK 100,287,010.00 by HRK 450,000,000.00 to the amount of HRK 550,287,010.00.
- At the meeting held on 31 October 2018, the Supervisory Board adopted, inter alia, the following decisions:
  - Decision approving the Decision on determining the results in the procedure of increasing the share capital, determining the performance of issue of new shares, on the the accurate increase in the Company share capital and the precise number of new ordinary shares – the Company had special disclosures in this area;
  - Decision approving the Management Board's conclusion of the Share Purchase and Transfer Agreement with the company Petrokemija Agro Trade d.o.o.;
  - Decision approving the Management Board's conclusion of the Contract for the provision of non-

hazardous waste disposal services;

- Decision approving the conclusion of the Contract on reprogramming the Company's liabilities to HEP d.d., INA-Industrija nafte d.d. and Prvo plinarsko društvo d.o.o.

Significant financial risks in 2019 (continued)

The agreements reached in the area of natural gas procurement and rescheduling of outstanding debt for natural gas reduced significant risks, which characterised 2018. Given the current market situation, it is estimated that variable prices of mineral fertilizers, natural gas, compensation for CO2 costs, and the movements of the USD/EUR exchange rate will have a very strong impact in 2019. The financial results in 2019 will 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 point to the need for caution:

- 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 on the EUR exchange rate and the movement of the price of natural gas on the European spot market. The reduction of transport costs from 1 January 2019 will have a positive effect on the financial result in 2019.
- 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 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 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. The request for an extension of the deadline until 2026 were submitted to the relevant authorities of the Republic of Croatia.
- After the recapitalisation of the Company, in line with the decisions of the General Assembly of 31 October 2018, the prerequisite for the future business model is the implementation of comprehensive internal restructuring measures in the Company, changes in finished goods sales model (increase in quantity on the regional market and decrease in the spot market share) and finding favourable conditions for financing the modernisation of production and logistics plants in the following years.

Pursuant to Articles 462 to 468 of the Capital Market Act (OG 65/2018), 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 01/01/2018 to 31/12/2018** give a true view of the financial position of the Company and the Group 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.

Davor Žmegač *President of the Management Board*	**Željko Marić** *Member of the Management Board*	**3 April 2019** Aleja Vukovar 4 Kutina, Croatia
Goran Pleše *Member of the Management Board*	***Peter Suba*** *Member of the Management Board*	

General information

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

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

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

The Group's Articles of Association comply with the Croatian Companies Act and they define the procedure of appointing and recalling members of the Management Board and Supervisory Board. There are no limitations based on gender, age, education and profession or similar. The 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 Group's Articles of Association, the bodies of the Group are the General Assembly, the Supervisory Board, and the Management Board. The mentioned acts also regulate their duties and responsibilities.

General Assembly

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

Supervisory Board

The Supervisory Board of the Group supervises the conduct of business affairs in the Group. With this end in view, it reviews and examines the Group's business accounts and documentation. The Supervisory Board submits to the General Assembly a written report on the supervision exercised with respect to the conduct of business affairs in the Group. The Supervisory Board consists of five members, i.e. seven members. As a general rule, regular Supervisory Board meetings are held quarterly. The Supervisory Board may decide on important and urgent matters in meetings held by letter. As at the date of preparation of this report and as at 31/12/2018, Members of the Supervisory Board are as follows:

Sandor Fasimon, President

Sabina Škrtić, Vice-president

Gabor Horvath, Member

Pavao Vujnovac, Member

Tomislav Pokaz, Member

Mijo Šepak, Member

Željko Klaus, Member

In 2018, the following changes in the composition of the Supervisory Board took place:

- Member of the Supervisory Board Marijan Kuprešak resigned as Member on 31 July 2018;
- Member of the Supervisory Board Ladislav Turčinović resigned as Member on 30/10/2018;
- Members of the Supervisory Board Mijo Šepak and Robert Blažinović resigned as members on 31. October 2018;
- At the General Assembly held on 31 October 2018, the following new members of the Supervisory Board were appointed: Sandor Fasimon, Gabor Horvath, Sabina Škrtić and Mijo Šepak – with immediate effect, and the following members: Pavao Vujnovac and Tomislav Pokaz – date of register of change in the Court register: 8 November 2018
- At the General Assembly held on 31 October 2018, Sandor Fasimon was elected President of the Supervisory Board, and Sabina Škrtić Vice-president.

Audit Committee

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

The Audit Committee, appointed in accordance with the law, consisted of five members during the previous year, all of whom were also members of the Supervisory Board by 31 October 2018, and three members from 31 October onwards. During 2018, four 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 Group is exposed in its operations.

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

In the period from 1 January 2018 to 31 July 2018, the Audit Committee had the following composition:

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

From 1 August 2018 to 31 October 2018, the Audit Committee had the following composition:

Robert Blažinović	President
Mijo Šepak	Member
Ladislav Turčinović	Member
Željko Klaus	Member

From 18 December 2018 to date of this report, the Audit Committee had the following composition:

Sabina Škrtić	President
Gabor Horvath	Member
Tomislav Pokaz	Member

Management Board

The Management Board conducts business operations of the Group. The number of Management Board members varies and it currently has four 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:

Davor Žmegač	Member from 29 May 2017 to 31 October 2018; President from 31 October 2018
Krešimir Rendeli	Member from 31 October 2018 to 31 January 2019
Goran Pleše	Member since 31 October 2018
Peter Suba	Member since 31 October 2018
Đuro Popijač	President from 7 February 2017 to 31 October 2018
Nenad Zečević	Member until 2 January 2018

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

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

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

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

The main features are as follows:

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

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

Davor Zmegač
President of the Management Board

Željko Marić
Member of the Management Board

Goran Pleše
Member of the Management Board

Peter Suba
Member of the Management Board

03 April 2019
Aleja Vukovar 4
Kutina, Croatia

Petrokemija d.d., Kutina
Statement of Management's responsibility

The Management Board of Petrokemija d.d. ("the Group") is required to prepare the consolidated financial statements for each financial year which give a true and fair view of the financial position of the Group 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 Group and to prevent and detect fraud and other irregularities.

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

The Management Board acknowledges that uncertainty remains over the Group`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 Group 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 consolidated financial statements.

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

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

The consolidated financial statements were authorised for issue and signed by the Management Board on 3 April 2019 and submitted to the Supervisory Board for adoption. The annual consolidated financial statements were then submitted to the General Assembly for approval.

The unconsolidated financial statements of the Group and the Annual Report on the Group are published separately and issued simultaneously with these annual consolidated financial statements. The Company will issue a separate 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.

Davor Zmegač
President of the Management Board

Željko Marić
Member of the Management Board

Goran Pleše
Member of the Management Board

Peter Suba
Member of the Management Board

3 April 2019
Aleja Vukovar 4
Kutina, Croatia

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Petrokemija d.d., Kutina and its subsidiaries

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Petrokemija d.d., Kutina ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position statement of financial position as at 31 December 2018, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated 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, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018, 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 Opinion

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

Emphasis of Matter

Basis for Last Year's Qualified Opinion

In the financial statements of the Group for the year ended 31 December 2017, the independent auditor gave a qualified opinion on these financial statements on 30 April 2018. The qualified opinion referred to the provision for the costs of land restoration and closure of the landfill site in Kutina and restoring it to its original condition, which had not been recognised in the separate financial statements for 2017. During out audit of financial statements of the Group for the year ended 31 December 2018, we obtained sufficient audit evidence, detailed in Note 24 "Provisions", which enabled us to ascertain that the Group since 31 October 2018 no longer has the legal obligation to restore its landfill site in Kutina to its original condition. Our opinion is not qualified in respect of this matter.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.4 "Basis of preparation – Going concern", which indicates that the Group incurred loss after tax of HRK 473,511 thousand for the year ended 31 December 2018 (2017: HRK 242,751 thousand). The aforementioned circumstances, 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 Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

This version of the auditor's 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 auditor's report takes precedence over translation.

INDEPENDENT AUDITOR'S REPORT (continued)

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

Key Audit Matter

Key audit matter is the matter that, in our professional judgement, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. In addition to the matter described in the *Basis for Opinion* section, we have determined the matters described below to be the key audit matter to be communicated in our report.

Revenue from sales

According to information presented in Note 7, in the relevant financial year, the Group realized revenue from sales in the amount of HRK 1,817,134 thousand (2017: HRK 1,946,363 thousand).
Revenue from sales is an important factor in assessing the Group's performance. There is a risk that the disclosed revenue exceeds the revenue actually realized by the Group. Operating income is calculated when the sale transaction is completed, goods are delivered to the customer and the Group transfers all economic risks to another party. The Group 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 Group'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.

<u>Description and results of applied audit procedures</u>
Procedures applied to obtain audit evidence included testing the design and effectiveness of the Group'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 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 documents by matching them with the calculated revenue from sales and underlying payments or delivery notes. Based on the audit evidence we have obtained by applying the described procedures, we believe that the revenue recognition methodology was appropriate.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

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

Other Information

The Management Board is responsible for other information. The other information comprises the information included in the Annual Report, but does not include the consolidated 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 consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the 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, 22 and 24 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in the Articles 22 and 24 of the Accounting Act.

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

1) Information included in the other information is, in all material respects, consistent with the attached consolidated financial statements;
2) Management Report has been prepared, in all material respects, in accordance with Articles 21 and 24 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 and Article 24, paragraph 2 of the same Act.

Based on the knowledge and understanding of the Group and its environment, which we gained during our audit of the consolidated 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 supervision.

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

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

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

Auditor's Responsibilities for the Audit of the Consolidated 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 judgement and maintain professional scepticism throughout the audit. We also:

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

We communicate with those charged with supervision 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 Consolidated Financial Statements (continued)

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

We also provide those charged with supervision 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 supervision, 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 by the General Assembly on 9 July 2018 to perform the audit of accompanying financial statements. Our total uninterrupted engagement has lasted 2 years and covers period from 1 January 2017 to 31 December 2018. We hereby confirm the following:

- Our audit opinion on the accompanying consolidated financial statements is consistent with the additional report issued to the Audit Committee of the Group on 3 April 2019, in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- No prohibited non-audit services referred to in 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 subsidiaries, and which have not been disclosed in the Annual Report.

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

MTonžetić

Marina Tonžetić
President of the Board and Certified auditor

Deloitte d.o.o.
Zagreb, 3 April 2019
Radnička cesta 80

10 000 Zagreb

This version of the auditor's 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 auditor's report takes precedence over translation.

Petrokemija d.d. and its subsidiaries

Consolidated statement of comprehensive income

for the year ended 31 December 2018

(in thousands of HRK)	*Note*	2018	2017
Revenue from sales	7	**1,817,134**	1,946,363
Other income	8	**48,602**	33,147
Total operating income		**1,865,736**	1,979,510
Changes in inventory of finished goods and work in progress	18	**(4,795)**	(14,113)
Raw materials, consumables and services used	9	**(1,770,553)**	(1,696,546)
Staff costs	10	**(199,272)**	(196,430)
Depreciation	14,15	**(90,874)**	(94,817)
Other operating expenses	11	**(103,811)**	(179,841)
Total operating expenses		**(2,169,305)**	(2,181,747)
Operating losses		**(303,569)**	(202,237)
Financial income	12	**15,577**	17,424
Financial expenses	12	**(185,510)**	(57,931)
Net finance costs		**(169,933)**	(40,507)
Loss before tax		**(473,502)**	(242,744)
Income tax	13	**(9)**	(7)
Loss for the year		**(473,511)**	(242,751)
Other comprehensive income			
Exchange differences on translation of foreign operations		**39**	-
Total comprehensive loss		**(473,472)**	(242,751)
Loss attributable to:			
Equity holders of the parent		**(472,489)**	(242,024)
Non-controlling interests		**(1,021)**	(727)
Total comprehensive loss attributable to:			
Equity holders of the parent		**(472,451)**	(242,024)
Non-controlling interests		**(1,021)**	(727)
Loss per share (in HRK)			
– Basic and diluted	22	**(8.59)**	(56.41)

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

Petrokemija d.d. and its subsidiaries

Consolidated statement of financial position

as at 31 December 2018

(in thousands of HRK)	Note	31/12/2018	31/12/2017
ASSETS			
Non-current assets			
Property, plant and equipment	14	**698,908**	673,215
Intangible assets	15	**3,375**	8,491
Deferred tax assets	13	**142**	150
Non-current financial assets	17	**10**	8
		702,435	681,864
Current assets			
Inventories	18	**299,849**	288,644
Trade and other receivables	19	**81,352**	70,911
Current financial assets	17	**375,135**	5,750
Cash and cash equivalents	20	**10,872**	29,311
		767,209	394,616
Total assets		**1,469,643**	1,076,480
EQUITY AND LIABILITIES			
Equity and reserves	21	**230,694**	(195,341)
Share capital		***550,287***	*42,904*
Reserves		***153,509***	*3,912*
Foreign currency translation reserve		***39***	-
Accumulated loss		***(475,089)***	*(245,126)*
Attributable to owners of the parent		**228,746**	(198,310)
Non-controlling interest		**1,948**	2,969
Non-current liabilities			
Loans and borrowings	23	**459,642**	305,433
Provisions	24	**20,654**	20,867
		480,296	326,300
Current liabilities			
Trade and other payables	25	**625,256**	435,833
Loans and borrowings	23	**133,398**	509,688
		758,654	945,521
Total equity and liabilities		**1,469,643**	1,076,480

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

Petrokemija d.d. and its subsidiaries

Consolidated statement of changes in equity

for the year ended 31 December 2018

(in thousands of HRK)	Share capital	Other reserves	Accumulated loss	Foreign currency translation reserve of foreign operations	Attributable to owners of the parent	Non-controlling interest	Total
Balance at 1 January 2017	**386,135**	**(200)**	**(344,104)**	-	**41,831**	**3,670**	**45,501**
Adjustment	-	-	1,883	-	1,883	26	1,909
Comprehensive income				-			
Loss for the year	-	-	*(242,024)*	-	*(242,024)*	*(727)*	*(242,751)*
Reserves from profit	-	*(12)*	*12*	-	-	-	-
Other comprehensive loss	-	-	-	-	-	-	-
Total comprehensive income	-	(12)	*(242,024)*	-	*(242,024)*	*(727)*	*(242,751)*
Reduction in share capital (Note 21 (d))	(343,231)	4,124	339,107	-	-	-	-
Balance at 31 December 2017	**42,904**	**3,912**	**(245,126)**	-	**(198,310)**	**2,969**	**(195,341)**
Balance at 1 January 2018							
Adjustment	-	-	(90)	-	(90)	-	(90)
Increase in share capital by transfer of RSC/Republic of Croatia (Note 21 (a))	450,000	-	-	-	450,000	-	450,000
Simplified decrease in share capital (Note 21 (b))	(392,617)	150,000	242,617	-	-	-	-
Increase in share capital by issuing shares (Note 21(c))	450,000	-	-		450,000	-	450,000
Recapitalisation costs	-	(401)	-	-	(401)	-	(401)
Reserves from profit	-	(3)	-	-	(3)	-	(3)
Loss for the year	-	-	*(472,489)*	-	*(472,489)*	*(1,021)*	(473,511)
Other comprehensive income	-	-	-	*39*	*39*	-	39
Total comprehensive income	-	-	(472,439)	39	(472,440)	(1,072)	(473,471)
Balance at 31 December 2018	**550,287**	**153,509**	**(475,089)**	**39**	**228,746**	**1,948**	**230,694**

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

Petrokemija d.d. and its subsidiaries
Notes *(continued)*

(in thousands of HRK)	Note	2018	2017
Cash flows from operating activities			
Loss before tax		(473,503)	(242,744)
Adjustments:			
Depreciation	14, 15	90,874	94,817
Impairment losses on property, plant and equipment	11	2,201	18,797
Impairment losses on inventories	11	20,853	69,496
Impairment losses on trade receivables	19	61	5
Interest income	12	(126)	(72)
Interest expense	12	64,054	44,938
Net (decrease)/increase of provisions	23	(213)	9,174
Net change in exchange differences	12	(6,015)	2,515
Net loss /(profit) on disposal of property, plant and equipment	14, 15	1,865	(47)
Net carrying amount of plants and equipment of Petrokemija Agro Trade d.o.o.		51	-
Other impairments		(90)	-
Operating profit before changes in working capital		*(299,987)*	*(3,122)*
Changes in working capital			
(Increase)/decrease in inventories		(32,058)	43,529
(Increase)/decrease in trade and other receivables		(8,507)	8,538
Increase/(decrease) in trade and other payables		525,541	(86,021)
(Decrease) in provisions		-	(1,326)
Net cash from/(used in) operations		**184,989**	**(38,402)**
Interest paid		(63,674)	(41,838)
Net cash from/(used in) operating activities		**121,315**	**(80,240)**
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	14, 15	(117,639)	(112,327)
Interest received		70	72
Net (outflows)/inflows from bank deposits and money market funds		(369,261)	27,882
Sales of property, plant, equipment and intangible assets		-	4,310
Net cash used in investing activities		**(486,830)**	**(80,063)**
Cash flows from financing activities			
Loans and borrowings		996	389,344
Repayment of loans and borrowings		(103,920)	(224,192)
Issuing shares		450,000	-
Net cash from/(used in) financing activities		**347,076**	**165,152**
Net (decrease)/increase in cash and cash equivalents		**(18,439)**	**4,849**
Cash and cash equivalents at the beginning of the year		29,311	24,462
Cash and cash equivalents at the end of year	20	10,872	29,311

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

1 General information

The Petrokemija d.d. Fertilizers Factory (hereinafter "the Group") was founded in 1965, although the beginning of the sooth production dates back to 1926. Today the Group is registered at the Commercial Court in Zagreb under registration number 080004355 and personal identification number 24503685008. As at 31 December 2017, the Group's share capital amounts to HRK 550,287 thousand and it is divided into 55,028,701 non-materialized ordinary shares at a nominal value of HRK 10 each. The Group's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in Note 21.

Pursuant to the national classification of activities and along with the basic activity of producing mineral fertilizers registered at the Commercial Court Register in Sisak, the Group's main activities are: production of feed additives, production of chemicals and chemical products, production of other rubber products, metal products, supply of electricity, gas, steam and hot water, collecting, purifying and distributing water, research and development in natural, technical and technological sciences. The Group and its subsidiaries as disclosed in note 16 together form the Group. The principal activities of the subsidiaries relate to port related services (Luka Šibenik d.o.o.), sale of fertilizers (Petrokemija Novi Sad d.o.o.), and trade and services (Petrokemija Agro Trade d.o.o.). As at 31 December 2018, the Group employed 1,726 employees *(31 December 2017: 1,707 employees).*

Group bodies

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

Management Board

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

Davor Žmegač	Member since 29 May 2017 to 31 October 2018; President since 31 October 2018
Krešimir Rendeli	Member since 31 October 2018 to 31 January 2019
Goran Pleše	Member since 31 October 2018
Peter Suba	Member since 31 October 2018
Željko Marić	Member since 1 February 2019
Đuro Popijač	President from 7 February 2017 to 31 October 2018
Nenad Zečević	Member until 2 January 2018

Supervisory Board

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

Sandor Fasimon	President since 31 October 2018
Sabina Škrtić	Vice-president since 31 October 2018
Gabor Horvath	Member since 31 October 2018
Mijo Šipak	Member since 31 October 2018; President until 31 October 2018
Željko Klaus	Member since 31 October 2018; Vice-president until 31 October 2018
Pavao Vujnovac	Member since 8 November 2018
Tomislav Pokaz	Member since 8 November 2018
Marijan Kuprešak	Member until 31 July 2018
Ladislav Turčinović	Member until 30 October 2018
Robert Blažinović	Member until 31 October 2018

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

2 Basis of preparation

2.1 Statement of compliance

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

These consolidated financial statements represent those of the Group only. The financial statements of the Group comprise the consolidated financial statements of the Group and its subsidiaries. The unconsolidated financial statements the Company is required to prepare in line with EU IFRSs are planned to be published separately, on the same date of publication of the separate financial statements.

These consolidated financial statements were authorised for issue by the Management Board on 3 April 2018.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Going concern

In the year ended 31 December 2018, the Group incurred loss after tax of HRK 473,511 thousand *(2017: HRK 242,751 thousand)*.

Since 2013, the Group 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 Group:

- 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. and its subsidiaries
Notes *(continued)*

2 Basis of preparation (continued)

2.4 Going concern (continued)

In the end of May 2018, Petrokemija d.d. received INA Industrija nafte and Prvo plinarsko društvo's bid for participating in the recapitalisation of Petrokemija.

Following the Decision of the Croatian Government of 24 May 2018 on granting the authorization to conclude a contract on the transfer and sale of claims against Petrokemija d.d. – Tvornica gnojiva, the Management Board of Petrokemija d.d. signed appendices to loan agreements from Erste&Steiermarkische Bank, Hrvatska poštanska banka and Croatian Bank for Reconstruction and Development with a new creditor, the Republic of Croatia, in the total amount of HRK 450,000 thousand.

Based on the Decision on the increase of the Company share capital in stake rights and issuance of shares with the exclusion of the Company shareholders' pre-emptive rights of 9 July 2018, the share capital of the Company increased through the issuance of new non-materialized ordinary Company shares in stake rights by transfer of receivables in the amount of HRK 450,000 thousand, so the share capital increased from HRK 42,903,930 thousand by the amount of HRK 450,000 thousand to the amount of HRK 492,904 thousand.

Based on the Decision of the General Assembly of 9 July 2018, in order to settle the Company's loss from 2017, in order to bail out the Company and transfer assets to capital reserves, the share capital of the Company decreased from the amount of HRK 492,904 thousand by the amount of HRK 392,617 thousand to the amount of HRK 100,287 thousand, by merging shares, when the nominal value of the ordinary share decreased from HRK 10.00 below the minimum nominal prescribed value to the amount of HRK 2.034615752 and shares are merged in the way that the 4.914932950 ordinary shares of the Company becomes 1 new ordinary share, carrying a name, in the nominal amount of HRK 10.00.

Based on the Decision of the General Assembly of the Company of 9 July 2018, Decision of the Management Board of the Company on the final number of new shares, issue performance and the accurate amount of the increase in the Company share capital of 31 October 2018 and the Approval of the Supervisory Board of 31 October 2018 with the Decision of the Management Board, the share capital of the Company increased through the issue of new non-materialized ordinary shares at a nominal value of HRK 10 each, payment in cash, so the Company share capital increased from HRK 100,287 thousand by HRK 450,000 thousand to the amount of HRK 550,287 thousand.

The increase in share capital and the change in equity structure by Terra d.o.o. mineralna gnojiva (Ina d.d. and PPD d.o.o.) was simultaneous to the refinancing of debt to suppliers of natural gas HEP, PPD and Ina d.d. All of these activities created the prerequisites for the financial consolidation and stabilisation of the comprehensive business operations.

Recapitalisation enabled the Company to restructure and optimise processes in the following period and, in that way, ensure stable and profitable operations, predominantly through:

- Changes in sales structure:
  - increase in prices and exports to regional markets,
  - decrease in export to Mediterranean markets,
  - increase in sales of technical products (ADBlue, ammonia water and technical urea),
  - increase in sales of KAN/UAN in the region (more profitable products),
  - strengthening connections with farmers etc.,
- Decrease in operating expenses:
  - stricter controls and savings in the procurement process (lower prices),
  - more efficient processes by introducing IT systems in certain work processes,
  - changes in employee age structure and decrease in number of employees,
  - increase in production efficiency by investing in production plants.

3 Significant accounting policies

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

3.1 Basis of consolidation

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

Business combinations

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

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

Subsidiaries

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

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

Non-controlling interests

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

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

Loss of control

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

Transactions eliminated on consolidation

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

3 Significant accounting policies *(continued)*

3.2 Goodwill

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

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

3.3 Foreign currencies

Foreign currency transactions

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

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

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

Group companies

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

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

3 Significant accounting policies *(continued)*

3.4 Intangible assets

(i) Software licences and project documentation

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

Software and project documentation	3 – 5 years

3.5 Property, plant and equipment

(i) 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 Group. All other expenditure is recognised in the profit or loss as an expense is incurred.

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

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

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

(ii) Assets under the concession arrangement

The subsidiary Luka Šibenik d.o.o. has a long-term service concession arrangement for the provision of port related services which generate the majority of its revenue. The concession arrangement in place involves the transfer of operating rights over the port of Šibenik for a limited period, under the control of the local port authority, using dedicated assets (port infrastructure) either built by the subsidiary during the term of the concession arrangement or made available to it for a fee or nil consideration.

This arrangement defines "public service obligations" of the subsidiary in return for remuneration. The remuneration is based on operating conditions, continuity of service, price rules and obligations with respect to the maintenance/replacement of port infrastructure. The contract determines the conditions for the transfer of port infrastructure to the local port authority or a successor at its expiry.

Maintenance expenditure

Maintenance of assets which are part of the concession arrangement is recognised as an expense when incurred within profit or loss and presented within cost of materials and services used.

3 Significant accounting policies *(continued)*

3.5 Property, plant and equipment (continued)

Capital expenditure into the concession area

Capital expenditure into port infrastructure made in accordance with the terms of the concession arrangement is recognised as an asset within the appropriate class of property, plant and equipment and carried at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

In cases where these assets relate to items which are transferred to the local port authority ("Grantor") at the expiry of the concession arrangement, the depreciation of such assets is calculated using the straight-line method to allocate their cost less any residual value over the shorter of their estimated useful lives and the remaining term of the concession arrangement.

In cases where these assets are not transferred to the Grantor, the depreciation of such assets is calculated in accordance with the depreciation policy applicable to the category property, plant and equipment to which the asset is classified in accordance with accounting policy 3.5 (i).

Assets transferred to the subsidiary by the concession Grantor

As part of the concession arrangement, the local port authority (the Grantor) transferred the operational rights over a number of assets comprising the port infrastructure to the subsidiary which is entitled to use these assets in the course of providing the services defined in the concession arrangement. Such assets are not recognised by the Group and are instead kept off balance sheet.

3.6 Financial instruments

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

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

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

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

3 Significant accounting policies *(continued)*

3.7 Inventories

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

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

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

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

3.8 Impairment losses

(i) Financial assets

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

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

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

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

(ii) Property, plant and equipment and intangible assets

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

3 Significant accounting policies *(continued)*

3.9 Employee benefits

(i) Defined pension fund contributions

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

(ii) Long-term employee benefits

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

(iii) Bonus plans

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

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

3.10 Provisions

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

3.11 Revenue

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

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

3.12 Financial income and expenses

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

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

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

3 Significant accounting policies *(continued)*

3.13 Accounting for leases – where the Group is the lessee

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

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

3.14 Share capital

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

3.15 Dividends

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

3.16 Segment information

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

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

3 Significant accounting policies *(continued)*

3.17 Taxation

(i) 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 2018, the corporate income tax rate amounts to 18% (2017: 18%).

(ii) Deferred tax

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are recognised only to the extent that it is probable that they could be utilised as a tax benefit.

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

(iii) Tax exposures

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

4 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:

- **IFRS 9 "Financial Instruments"**, adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

- **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).

- **Amendments to IFRS 2 "Share-based Payment"** – "Classification and Measurement of Share-based Payment Transactions", adopted by the European Union on 27 February 2018 (effective for annual periods beginning on or after 1 January 2018),

- **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 IAS 40 "Investment Property"** - "Transfers of Investment Property", adopted by the EU on 14 March 2017 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 1 and IAS 28 "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 12, and IAS 28), primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- **IFRS 22 "Foreign Currency Transactions and Advance Consideration"**, adopted by the European Union on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018),

The adoption of these amendments to the existing standards has not led to any material changes in the Group's consolidated financial statements.

4 New standards and interpretations not yet adopted (continued)

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 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 9 "Financial Instruments"** – "Prepayment Features with Negative Compensation", adopted by the European Union on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the European Union on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

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

5 Key accounting judgements and estimates

Key judgements in applying accounting policies

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

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

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

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

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

(ii) Consequences of certain legal actions

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

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

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

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

Provisions for the Group's obligations arising from legal actions are recognised on a consistent basis and estimated on a case by case principle (see Notes 3.10 and 24).

5 *Key accounting judgements and estimates* (continued)

(iii) 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.

(iv) Useful lives and recoverability 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. In order to assess the recoverability of property, plant and equipment, the Company prepares the Free Cash Flow to Firm (FCFF) model, by using internal projections for the movement of total income and expenses and working capital and investments items. The projected movement of items is based on the Company's expectations in line with historical experience, new contracts for the supply of key raw materials (natural gas etc.) and the Company's strategy for the following financial years. Key assumptions include the cumulative increase in sales income of 3.16% from 2019 to 2028, cumulative negative growth of cost of raw materials and energy of 2.81%, i.e. 7.63% in the relevant period, and decrease in staff costs of 32.2%.

6 Determination of fair value

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

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

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

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

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

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

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

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

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

- Note 17: Financial assets

Petrokemija d.d. and its subsidiaries
Notes *(continued)*

7 Revenue from sales

	2018 HRK '000	2017 HRK '000
Revenue from sale of products and trade goods	**1,811,038**	1,919,950
Revenue from services	**6,096**	26,413
	1,817,134	1,946,363

Overview of revenue from sales per market:

	2018 HRK '000	2017 HRK '000
Croatia	**595,541**	612,943
Slovenia	**126394**	151,564
Serbia and Montenegro	**104,458**	116,406
Bosnia and Herzegovina	**145,932**	154,728
Macedonia	**9,718**	14,372
Sales in countries outside the region	**835,091**	896,350
	1,817,134	1,946,363

8 Other income

	2018 HRK '000	2017 HRK '000
Own consumption	**30,990**	17,131
Sale of manufactured packaging	**5,768**	5,329
Insurance reimbursement	**3,593**	2,697
Inventory surplus	**2,180**	2,184
Sale of raw materials	**636**	156
Manufacture of spare parts	**105**	111
Sale of tangible assets	**1,915**	47
Other income	**3,416**	5,492
	48,602	33,147

9 Raw materials, consumables and services used

	2018 HRK '000	2017 HRK '000
Raw materials and consumables used	**1,688,907**	1,617,020
Cost of production services	**72,029**	70,688
Cost of wholesale and retail goods sold	**9,617**	8,838
	1,770,553	1,696,546

10 Staff costs

	2018	2017
	HRK '000	HRK '000
Salaries	**125,985**	127,348
Contributions on salaries	**31,371**	28,644
Other staff costs	**41,916**	40,438
	199,272	196,430

As at 31 December 2018, the Group had 1,726 employees *(2017: 1,707)*.

11 Other operating expenses

	2018	2017
	HRK '000	HRK '000
Impairment losses on inventories	18,371	69,496
Other taxes, fees and charges	48,050	41,601
Impairment losses on tangible assets, net	2,176	18,797
Depreciated value of non-current tangible assets	2,482	-
Other staff costs	12,533	13,404
Insurance	9,636	10,041
Increase in provision	1,293	9,174
Bank charges	2,613	4,396
Intellectual services	883	2,101
Inventory loss	1,623	901
Travel expenses	591	535
Impairment losses on trade receivables	61	5
Other costs	3,503	9,390
	103,811	179,841

The Group continued to restructure its workforce and carry out its labour surplus support scheme in the course of which, in 2019, it expects to pay incentive termination benefits. In 2018, termination benefits were paid in the amount of HRK 302 thousand (2017: in January 2017, incentive termination benefits were paid in the amount of HRK 5,524 thousand), which were included in other staff costs. Other taxes, fees and charges include HRK 27,158 thousand (2017: HRK 21,094 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. The intellectual services item comprises the costs of the independent auditor for the performed audit procedures of simplified transfer and increase in share capital (Note 21).

12 Financial income and financial expenses

	2018	2017
	HRK '000	HRK '000
Foreign exchange gains	**15,420**	17,297
Interest income	**126**	71
Other financial income	**30**	56
Total financial income	**15,577**	17,424
Interest expense	**(64,054)**	(44,938)
Foreign exchange losses	**(9,406)**	(9,174)
Other financial expenses	**(112,051)**	(3,819)
Total finance costs	**(185,510)**	(57,931)
Net finance costs	**(169,933)**	(40,507)

Within other financial expenses, HRK 112,051 thousand relates to the reduction of the liability for greenhouse gas emissions fees from previous financial periods which were left unsettled on 31 December 2018.

13 Income tax

Recognised in statement of comprehensive income:

	2018	2017
	HRK '000	HRK '000
Current income tax	-	-
Deferred tax, net	9	7
	9	7

Effective tax rate reconciliation

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

	2018	2017
	HRK '000	HRK '000
Loss before taxation	(473,502)	(242,744)
Tax calculated at 18% (2017: 18%)	(85,230)	(43,694)
Effect of non-deductible expenses and non-taxable income	2,356	17,374
Effect of unused tax losses and offsets not recognised as deferred tax assets	82,883	26,327
Income tax expense recognised in profit or loss	9	7

At the reporting date, carry forward tax losses of the Group amounting to HRK 1,143,839 thousand *(31 December 2017: HRK 1,009,505 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 value of tax losses available in future periods is as follows:

	31/12/2018	31/12/2017
	HRK '000	HRK '000
Tax loss from 2013 – expires on 31 December 2018	-	58,703
Tax loss from 2014 – expires on 31 December 2019	64,954	64,954
Tax loss from 2015 – expires on 31 December 2020	15,992	15,992
Tax loss from 2016 – expires on 31 December 2021	15,735	15,735
Tax loss from 2017 – expires on 31 December 2022	26,327	26,327
Tax loss from 2018 – expires on 31 December 2023	82,883	-
	205,891	187,412

Petrokemija d.d. and its subsidiaries

Notes (continued)

14 Property, plant and equipment

(in thousands of HRK)	Land	Buildings	Plants and equipment	Tools and inventory	Curre investm
Cost					
As at 1 January 2017	48,507	585,606	1,404,593	70,634	
Additions	206	-	2,993	516	
Transfer	-	1,587	36,642	5,326	
Disposals and retirement	-	(5,314)	(2,847)	(200)	
As at 31 December 2017	48,713	581,879	1,441,381	76,276	
Accumulated depreciation					
As at 1 January 2017	-	360,805	1,051,129	54,676	
Charge for the period	-	18,033	74,650	339	
Impairment losses	5,266	3,200	5,211		
Disposals and retirement	-	(4,064)	(2,541)	(196)	
As at 31 December 2017	(5,266)	377,974	1,128,449	54,819	
Net carrying amount	**43,447**	**203,905**	**312,932**	**21,457**	

14 Property, plant and equipment (continued)

(in thousands of HRK)

	Land	Buildings	Plants and equipment	Tools and inventory	Current investments	Advances	Total
Cost							
As at 31 December 2017							
As at 1 January 2018	48,713	581,879	1,441,381	76,276	92,098	4,842	2,245,188
Adjustment	-	-	(1,282)	(615)	1,029	-	(868)
Additions	-	-	1,942	125	93,421	18,857	114,344
Transfer	-	4,624	130,063	521	(115,626)	(19,582)	-
Disposals and retirement	(417)	(2,331)	(3,685)	(1,658)	-	-	(8,091)
Sale of Petrokemija Agro Trade d.o.o.	(3,920)	(361)	(964)	-	-	-	(5,246)
As at 31 December 2018	**44,376**	**583,811**	**1,572,590**	**74,649**	**70,922**	**4,117**	**2,350,465**
Accumulated depreciation							
As at 1 January 2018	5,266	377,974	1,128,449	54,819	5,464	-	1,571,973
Adjustment	-	2,129	(3,493)	(273)	(1,159)	-	(2,796)
Charge for the period	-	17,758	68,545	3,224	-	-	89,527
Impairment losses	-	-	2,201	-	-	-	2,201
Disposals and retirement	-	(811)	(1,687)	(1,658)	-	-	(4,156)
Sale of Petrokemija Agro Trade d.o.o.	(5,266)	20	52	-	-	-	(5,194)
As at 31 December 2018	-	**397,070**	**1,194,067**	**56,112**	**4,305**	-	**1,651,554**
Net carrying amount							
As at 31 December 2018	**44,376**	**186,741**	**378,523**	**18,537**	**66,615**	**4,116**	**698,908**

14 Property, plant and equipment

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

The Group's property amounting to HRK 41,589 thousand *(2017: HRK 65,676 thousand)* is mortgaged as security for loans and borrowings.

15 Intangible assets

(in thousands of HRK)	Assets under construction	Software and project documentation	Total
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 depreciation			
As at 1 January 2016	-	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**
Cost			
As at 1 January 2018	5,403	27,301	32,704
Additions	1,367	-	1,367
Transfer	(5,136)	5,136	-
Transfer to tangible assets	-	(5,136)	(5,136)
Disposals and retirement	-	(281)	(281)
As at 31 December 2018	**1,634**	**27,020**	**28,654**
Accumulated depreciation			
As at 1 January 2018	-	24,213	24,213
Charge for the year	-	1,347	1,347
Disposals and retirement	-	(281)	(281)
As at 31 December 2018	-	**25,279**	**25,279**
Net carrying amount			
As at 31 December 2018	**1,634**	**1,741**	**3,375**

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

Petrokemija d.d. and its subsidiaries

Notes (continued)

16 Subsidiaries

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

Name of subsidiary	Ownership share %	
	31/12/2018	31/12/2017
Petrokemija d.o.o., Novi Sad	**100%**	100%
Luka Šibenik d.o.o.	**79.72%**	79.72%
Petrokemija Agro Trade d.o.o.	-	100%

By selling its shares on 31 October 2018, the Group lost control of all shares in the subsidiary Petrokemija Agro Trade d.o.o. By doing so, the Group is entitled exclusively to profit and losses of Petrokemija Agro Trade d.o.o., up to the day the control is lost.

17 Financial assets

	31/12/2018	31/12/2017
	HRK '000	HRK '000
Non-current financial assets		
8	**10**	8
Current financial assets		
Deposits	**348,133**	1,118
Financial assets held for trading	**27,002**	4,632
	375,135	5,750

Financial assets held for trading relate to investments in money market funds. Investment in other equity instruments relates to a minority share in TV Moslavina, Kutina and acquired shares of the company Pounje d.d., Hrvatska Kostajnica in line with the res iudicata principle regarding the effectiveness of the pre-bankruptcy agreement. Deposits relate to deposits in banks with original maturity less than 3 months and an interest rate of 0,5% per annum.

18 Inventories

	31/12/2018	31/12/2017
	HRK '000	HRK '000
Finished goods	**152,807**	162,788
Spare parts	**128,384**	98,267
Impairment of spare parts inventory	**(105,121)**	(101,712)
Raw materials and supplies	**136,822**	86,699
Impairment of raw materials and supplies	**(33,990)**	(23,638)
Work in progress	**14,992**	9,091
Advances	**1,304**	656
Trade goods	**4,652**	639
	299,849	288,644

19 Trade and other receivables

	31/12/2018	31/12/2017
	HRK '000	HRK '000
Current receivables		
Trade receivables	**120,044**	128,659
Impairment allowance for trade receivables	**(104,209)**	(106,174)
Net trade receivables	**15,835**	22,485
Taxes and contributions	**63,201**	47,196
Prepaid expenses	**15**	22
Receivables from employees	**31**	6
Other receivables	**2,271**	1,202
	65,518	70,911

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

	31/12/2018	31/12/2017
	HRK '000	HRK '000
At the beginning of the period	**106,174**	106,198
Foreign exchange losses	**47**	-
Additions	**61**	1
Paid	**(34)**	(22)
Written off as uncollectible	**(2,039)**	(3)
At the end of the period	104,209	106,174

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

	31/12/2018	31/12/2017
	HRK '000	HRK '000
Not yet due	**8,062**	17,712
Due in 0-120 days	**7,834**	3,787
Due in 121-180 days	**4**	18
Due in 181-360 days	**6**	293
Due in over a year	**104,138**	106,849
	120,044	128,659

19 Trade and other receivables (continued)

Trade receivables are denominated in following currencies:

	31/12/2018	31/12/2017
	HRK '000	HRK '000
Croatia (HRK)	**116,133**	124,736
European Union (EUR)	**3,911**	3,911
USA (USD)	**-**	12
	120,044	128,659

20 Cash and cash equivalents

	31/12/2018	31/12/2017
	HRK '000	HRK '000
Cash at bank	**10,863**	29,302
Cash in hand	**9**	9
	10,872	29,311

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. and its subsidiaries

Notes (continued)

21 Share capital

	31/12/2018	31/12/2017
	HRK '000	HRK '000
Subscribed capital	**550,287**	42,904

Shareholder structure	31/12/2018 Number of shares	31/12/2018 Ownership %	31/12/2017 Number of shares	31/12/2017 Ownership %
TERRA MINERALNA GNOJIVA d.o.o.	30,000,000	54.52%	-	-
RSC/Republic of Croatia	9,852,828	17.90%	3,425,991	79.85%
HPB d.d./Fond za financiranje razgradnje NEK	7,006,592	12.73%	32,400	0.76%
JANAF d.d.	5,000,000	9.09%	-	-
PLINACRO d.o.o.	3,000,000	5.45%	-	-
OTP banka d.d./ AZ OMF B Category	26,971	0.05%	-	-
Addiko bank d.d./PBZ Croatia osiguranje d.d. OMF	24,851	0.05%	122,143	2.85%
OTP banka d.d./Erste Plavi OMF B category	22,576	0.04%	-	-
Kreditna banka Zagreb d.d. State Street Client Account	6,141	0.01%		
Pavelić, Ivan	2,574	0.001%		
Societe Generale-Splitska banka d.d./AZ OMF	-	-	132,564	3.09%
Societe Generale-Splitska banka d.d./ Erste Plavi OMF	-	-	110,961	2.59%
HPB d.d./Kapitalni fond d.d.	-	-	42,237	0.98%
PBZ d.d./State street client account	-	-	40,527	0.94%
OTP banka d.d.	-	-	10,416	0.24%
PBZ d.d./Custodial account	-	-	11,204	0.26%
PESEC ANTHONY JOSIP	-	-	10,046	0.23%
Other shareholders	86,168	0.16%	351,904	8.21%
Total registered share capital	**55,028,701**	**100%**	**4,290,393**	**100%**
Paid but unregistered shares	-		-	
Total share capital	**55,028,701**		**4,290,393**	

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

The Company's share capital comprises 55,028,701 ordinary shares *(31 December 2017:* 4,290,393 *shares)* of a nominal value of HRK 10 *(31 December 2017: HRK 10)* per share.

21 Capital and reserves (continued)

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

(b) Based on the Decision of the Supervisory Board and the Decision of the Commercial Court, on 5 November 2018, the Group decreased its share capital by covering the 2017 loss in the amount of HRK 392,617 thousand and at the same time increased the other provisions in the amount of HRK 150,000 thousand. By doing so, the share capital decreased to HRK 100,287 thousand.

(c) Based on the Decision of the Supervisory Board and the Decision of the Commercial Court, on 5 November 2018, the Group increased the share capital by registering 45,000 new ordinary shares of a nominal value of HRK 10.00 and registering the share capital in cash in the amount of HRK 450,000 thousands. The relevant capitalisation made TERRA MINERALNA GNOJIVA d.o.o. the majority shareholder of the Group.

(d) At its General Assembly held on 11 October 2017, the Group 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 Group 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 242,024 thousand.

22 Loss per share

Basic loss per share

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

	31/12/2018	31/12/2017
Loss attributable to equity holders of the parent (in thousands of HRK)	**(472,489)**	(242,024)
Weighted average number of registered shares	**55,028,701**	4,290,393
Basic and diluted loss per share in HRK	(8.59)	(56.41)

Petrokemija d.d. and its subsidiaries

Notes (continued)

23 Loans and borrowings

	31/12/2018 HRK '000	31/12/2017 HRK '000
Long-term loans		
Banks	**125,298**	303,978
Other loans	**334,344**	1,455
	459,642	305,433
Short-term loans		
Banks	**22,103**	327,658
Other loans	**111,295**	182,030
	133,398	509,688
Total borrowings	**593,040**	815,121

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

	31/12/2018 HRK '000	31/12/2017 HRK '000
Up to 1 year	**133,398**	509,688
1 to 2 years	**283,427**	22,648
2 to 5 years	**116,661**	105,949
Over 5 years	**59,554**	176,836
	593,040	815,121

Bank loans

The interest rates for bank loans included in the table above ranged from 4.95% to 8%.

Other loans

At the end of 2018, the Group converted a part of its trade payables to long-term loans by signing agreements with suppliers on debt repayment bearing an average interest rate ranging from 3% to 9% per annum.

23 Loans and borrowings *(continued)*

Debt covenants

Annexes to the long-term loan agreements with Hrvatska poštanska banka d.d. and the Croatian Bank for Reconstruction and Development, concluded in 2017, extended the Company recapitalisation deadline, in order to ensure sustainable operations of the Company.

The previously agreed terms with Privredna banka Zagreb remained unchanged and no new annexes to the contract were made in 2018.

Debt movement

	Balance at 31/12/2017	Received loans and borrowings	Trade payables reprogramming	Repayment of borrowings	Foreign exchange differences for bank loans	**Balance at 31/12/2018**
Bank loans	**631,636**	995	-	(476,000)	(9,230)	**147,401**
Suppliers (Ina d.d.,PPD d.o.o.and HEP d.d.)	**180,670**	-	340,073	(76,560)	-	**444,184**
Other loans (HEP ESCO d.o.o.)	**2,815**	-	-	(1,360)	-	**1,455**
	815,121	**995**	**340,073**	**(553,920)**	**(9,230)**	**593,040**

As at 31 December 2018, the total debt to banks amounts to HRK 147,401 thousand, with HRK 25,500 thousand indebted to the creditor Privredna banka Zagreb (PBZ), HRK 28,068 thousand indebted to the creditor Hrvatska banka za obnovu i razvitak d.d. (HBOR), HRK 92,281 indebted to HBOR and Hrvatska poštanska banka (HPB), and HRK 1,552 thousand refere to the financial lease liabilities of Luka Šibenik.

Petrokemija d.d. and its subsidiaries

Notes (continued)

24 Provisions

(in thousands of HRK)	Jubilee awards	Termination benefits	Legal actions	Recovery of sooter	Total
As at 31 December 2017					
As at 1 January 2018	8,543	4,016	808	7,500	20,867
Increase in provision	789	357	147	-	1,293
Revenue	-	-	(150)	-	(150)
Paid	(1,356)	-	-	-	(1,356)
As at 31 December	7,976	4,373	804	7,500	20,654

Legal actions

There are a number of legal actions initiated against the Group for minor amounts as well as those initiated by the Group against others. A provision amounting to HRK 804 thousand was recognised in relation to legal actions. The Group's Management Board believes that no significant costs exceeding those provided for at the reporting date will occur as a result of ongoing legal actions.

Jubilee awards and termination benefits

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

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

	31/12/2018	31/12/2017
Discount rate	**2.4%**	2.2%
Fluctuation rate	**3.25%**	3.4%

Provisions for the costs of land restoration and closure of the landfill

At the moment of expensing of the subsidiary Petrokemija Agro Trade d.o.o., it was agreed that the liabilities and relevant costs of land restoration and closure of the landfill site in Kutina and restoring it to its original condition were transferred to Petrokemija Agro Trade d.o.o.

25 Trade and other payables

	31/12/2018 HRK '000	31/12/2017 HRK '000
Trade payables	**308,185**	264,758
Advances received	**105,065**	78,254
Salaries and other employee benefits	**17,696**	17,801
Contributions and other fees	**6,668**	7,303
Accrued interest	**11,196**	5,649
Other	**176,447**	62,068
	625,256	435,833

Other payables contain the liability for the purchase of emission allowances in the amount of HRK 174,490 thousand *(2017: HRK 61,013 thousands)*.

26 Risk management

Financial risk management

Categories of financial instruments are as follows:

	2018	2017
	HRK '000	HRK '000
Cash and cash equivalents (Note 20)	**10,872**	29,311
Trade receivables (Note 19)	**81,352**	22,485
Current financial assets (Note 17)	**375,135**	5,750
Loans and receivables	**467,359**	57,546
Loan liabilities (Note 23)	**593,040**	815,121
Trade payables (Note 25)	**625,256**	264,758
Total financial liabilities at depreciated cost	**1,281,296**	1,079,879

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 2018, the carrying amounts of cash and cash equivalents, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair value due to the short-term nature of those assets and liabilities and due to the fact that a majority of short term assets and liabilities are at variable interest rates.

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

26 Risk management *(continued)*

Financial risk management *(continued)*

Liquidity risk management

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

Liquidity risk analysis

The following tables detail the contractual maturity of the Group's financial liabilities and financial assets presented in the consolidated statement of financial position at each reporting period end. The tables have been drawn up based on the undiscounted cash flows until maturity and include cash flows from both interest and principal. Ultimate responsibility for liquidity risk management rests with the Management Board which has built an appropriate liquidity risk management framework to manage the short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by monitoring the net current asset position and by addressing any expected current liquidity deficits. The Group has significant debt repayments scheduled in the following years. The Group is still implementing a restructuring plan and is in negotiations with key stakeholders in order to restructure a part of the Group's debt and secure sufficient liquidity for sustainable operations. See Note 2.4 for further details.

As at 31 December 2018	**Net carrying amount**	**Contractual cash flows**	Up to 1 year *(in thousands of HRK)*	1 – 2 years	2 – 5 years	Over 5 years
Non-interest bearing assets:						
Trade receivables	15,835	15,835	15,835	-	-	-
Interest bearing assets:						
Current financial assets	375,135	375,135	375,135	-	-	-
Cash and cash equivalents	10,872	10,872	10,872	-	-	-
	401,842	**401,842**	**401,842**			

As at 31 December 2018	**Net carrying amount**	**Contractual cash flows**	Up to 1 year	1 – 2 years (in thousands of HRK)	2 – 5 years	Over 5 years
Non-interest bearing liabilities:						
Trade payables	**308,185**	308,185	308,185	-	-	-
Interest bearing liabilities:						
Loan liabilities	**593,040**	671,314	161,560	295,459	139,043	75,252
	901,225	979,499	469,745	**295,459**	**139,043**	**75,252**

Petrokemija d.d. and its subsidiaries

Notes (continued)

26 Risk management *(continued)*

As at 31 December 2017	**Net carrying amount**	**Contractual cash flows**	Up to 1 year	1 – 2 years	2 – 5 years	Over 5 years
			(in thousands of HRK)			
Non-interest bearing assets:						
Trade receivables	22,485	22,485	22,485	-	-	-
Interest bearing assets:						
Current financial assets	5,750	5,778	5,778	-	-	-
Cash and cash equivalents	29,311	29,458	29,458	-	-	-
	35,061	35,236	35,236	-	-	-
	57,546	**57,720**	**57,720**	-	-	-

As at 31 December 2017	**Net carrying amount**	**Contractual cash flows**	Up to 1 year	1 – 2 years	2 – 5 years	Over 5 years
			(in thousands of HRK)			
Non-interest bearing liabilities:						
Trade payables	264,758	264,758	264,758	-	-	-
Interest bearing liabilities:						
Loan liabilities	815,121	945,540	546,224	41,101	150,852	207,363
	1,079,879	**1,210,298**	**810,982**	**41,101**	**150,852**	**207,363**

Petrokemija d.d. and its subsidiaries

Notes (continued)

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

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

Interest rate risk management

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

Interest rate risk sensitivity analysis

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

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

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

	Contractual cash flows	Up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Over 5 years
As at 31 December 2017			*(in thousands of HRK)*			
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	4,533	-
Effect of increase of interest rate by 1%	(542)	(199)	(154)	(143)	(45)	-

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

Notes (continued)

26 Risk management *(continued)*

Financial risk management *(continued)*

Currency risk management

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

	Assets	
	2018	2017
	HRK '000	HRK '000
European Union (EUR)	14,786	7,568
USA (USD)	5	14
	14,791	7,582

	Liabilities	
	2018	2017
	HRK '000	HRK '000
USA (USD)	71,800	85,816
European Union (EUR)	84,778	64,267
		150,083

Foreign currency sensitivity analysis

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

	Spot FX rate		Average FX rate	
	31/12/2018	**31/12/2017**	**2018**	**2017**
EUR	7.414358	7.513648	7.414359	7.460100
USD	6.469192	6.269733	6.283890	6.622397

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

	EUR exposure	
	2018	**2017**
	HRK '000	HRK '000
Increase/(decrease) in net result	(570)	(567)
	USD exposure	
	2018	**2017**
	HRK '000	HRK '000
Increase/(decrease) in net result	(8,477)	(8,580)

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

26 Risk management *(continued)*

Financial risk management (*continued*)

Credit risk management

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

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

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

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

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

	2018	2017
Not yet due		17,712
Overdue 0-120 days, but not impaired	8,001	3,787
Overdue over 120 days, but not impaired	7,834	986
Total trade receivables	15,835	22,485
Cash at bank (including deposits)	37,874	33,942
Total exposure to credit risk	53,709	56,427

Operational risk management

Sales concentration risk

The Group realises 33% *(2017: 32%)* of its sales revenue from domestic customers, whereas around 67% *(2017: 68%)* of sales revenue are generated from international customers (based on the geographical location of customers). The Group determines selling prices in accordance with the macroeconomic conditions prevailing in each of the markets where the customers are located.

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

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

Price risk

The supply of the Group's primary raw material, natural gas, is dependent on two major suppliers who are also the Group'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 Group 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.

The Group also has investments in money market funds, which are subject to price risk. A change in market prices of shares in money market funds of 1% would decrease the Group's profit by HRK 270 thousand (2017: HRK 57 thousand.

Notes (continued)

27 Contractual and capital commitments

Procurement of natural gas

The Group has a contractual commitment for the purchase of natural gas from the suppliers INA d.d. and Prvo plinarsko društvo d.o.o., Vukovar. As per the contracts currently in force, the Group has an obligation to buy the total amount of natural gas required in its production cycle from these suppliers.

Capital commitments

Investments totalling approximately HRK 41 million are planned for the period up to the end of 2019, where a large portion is reserved for regular investments in production capacities and the remaining portion relates to growth projects.

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.

Agreement on priority concession

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

	31/12/2018
	HRK '000
2012 – 2017	30,100
2017 – 2020	32,745
2020 – 2025	35,780
2025 – 2026	6,000
2026 – 2029	11,100
	115,725

Petrokemija d.d. and its subsidiaries

Notes (continued)

28 Related parties

The most significant shareholder of Petrokemija d.d. is the Republic of Croatia, which holds 17.85% of share capital and voting rights of the Company through the Restructuring and Sale Centre ("RSC") and through JANFA d.d., which holds 9.09%, 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").

Transactions with owners and state-related parties

The Group is in a related party relationship with state institutions and other companies where the State is a majority owner or has a significant influence. For the purpose of related party disclosures, the Company does not consider routine transactions (such as taxes, levies, etc.) with various 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 2018 and 2017, the Company had the following transactions with state-related parties:

	2018 HRK '000	2017 HRK '000
PPD d.o.o.		
Purchase of goods and services (since 30/10/2018)	121,725	-
Financial expenses (since 30/10/2018)	6,751	-
Liabilities as at 31 December	79,317	-
Loans and borrowings	61,001	-
INA d.d.		
Purchase of gas, other raw materials and services	186,951	523,245
Liabilities as at 31 December	76,518	16,267
Loans and borrowings as at 31 December	53,451	72,167
Interest expense	16,510	8,169
HBOR		
Loans and borrowings as at 31 December	28,068	319,148
Interest expense	5,848	13,883
HŽ Cargo d.o.o.		
Purchase of transport services	44,237	68,582
Liabilities as at 31 December	5,966	9,468
HEP d.d.		
Loans and borrowings as at 31 December	331,655	-
HEP Opskrba d.o.o.		
Purchase of electricity	29,954	15,143
Liabilities as at 31 December	8,703	2,803
HPB d.d.		
Loans and borrowings as at 31 December	92,280	160,143
Interest expense	6,326	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 2018, remuneration paid to key management personnel amounted to HRK 2,052 thousand *(2017: HRK 1,719 thousand)* and related to 4 persons *(2017: 6 persons)*. Furthermore, during 2018, remuneration of HRK 201 thousand *(2017: HRK 238 thousand)* was paid to the members of the Supervisory Board.

Notes (continued)

28 Contingent liabilities

Legal actions

There are a number of legal actions initiated against the Group for minor amounts as well as those initiated by the Group against others. The Management Board believes that no significant costs exceeding those provided for at the reporting date will occur, as presented in Note 24.

29 Events after the reporting period

In the period from 31 December 2018 to the date of approval of these financial statements, the Group is in the process of negotiations with the Group's union representatives, which is expected to result in a cash outflow in terms of incentive retirement benefits in the following financial years: *2019: HRK 52,532 thousand, 2020: HRK 7,532 thousand, 2021: HRK 7,532 thousand.*

30 Approval of financial statements

These financial statements were approved by the Management Board and authorized for issue on 3 April 2019.

Davor Zmegač
President of the Management Board

Željko Marić
Member of the Management Board

Goran Pleše
Member of the Management Board

Peter Suba
Member of the Management Board

ISSUER'S GENERAL DATA

Reporting period:	1.1.2018	to	31.12.2018
Year:	2018		

Annual financial statements

egistration number (MB):	03674223	Issuer's home Member State code:	REPUBLIKA HRVATSKA
Entity's registration number (MBS):	080004355		
Personal identification number (OIB):	24503685008	LEI:	74780000U0FHQRSAX069
Institution code:	1141		
Name of the issuer:	PETROKEMIJA d.d.		
Postcode and town:	44320		KUTINA
treet and house number:	ALEJA VUKOVAR 4		
E-mail address:	fin@petrokemija.hr		
Web address:	www.petrokemija.hr		
Number of employees (end of the reporting	1726		
Consolidated report:	KD	(KN-not consolidated/KD-consolidated)	
Audited:	RD	(RN-not audited/RD-audited)	

Names of subsidiaries (according to IFRS)	Registered office:	MB:
PETROKEMIJA d.o.o.	NOVI SAD	08754608
LUKA ŠIBENIK d.o.o.	ŠIBENIK	03037525
PETROKEMIJA AGRO TRADE d.o.o.	KUTINA	04424085

Bookkeeping firm:	NO	(Yes/No)	(name of the bookkeeping firm)
Contact person:	MARIĆ MARINA (only name and surname of the contact person)		
Telephone:	044-647-829		
E-mail address:	marina.maric@petrokemija.hr		
Audit firm:	Deloitte d.o.o. Zagreb (name of the audit firm)		
Certified auditor:	Marina Tonžetić (name and surname)		

BALANCE SHEET

balance as at 31.12.2018

in HRK

Submitter:__Petrokemija GROUP__

Item	ADP code	Last day of the preceding business year	At the reporting date of the current period
1	2	3	4
A) RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID	**001**	0	0
B) FIXED ASSETS (ADP 003+010+020+031+036)	**002**	681.863.501	702.434.924
I INTANGIBLE ASSETS (ADP 004 to 009)	**003**	8.491.092	3.374.735
1 Research and development	**004**	0	0
2 Concessions, patents, licences, trademarks, software and other rights	**005**	3.088.056	1.740.590
3 Goodwill	**006**	0	0
4 Advance payments for purchase of intangible assets	**007**	0	0
5 Intangible assets in preparation	**008**	5.403.036	1.634.145
6 Other intangible assets	**009**	0	0
II TANGIBLE ASSETS (ADP 011 to 019)	**010**	673.016.860	698.908.441
1 Land	**011**	48.712.613	44.376.020
2 Buildings	**012**	207.105.451	186.741.267
3 Plant and equipment	**013**	301.611.693	376.513.381
4 Tools, working inventory and transportation assets	**014**	18.299.523	15.578.435
5 Biological assets	**015**	0	0
6 Advance payments for purchase of tangible assets	**016**	4.841.543	4.115.921
7 Tangible assets in preparation	**017**	89.074.433	67.067.310
8 Other tangible assets	**018**	3.371.604	4.516.107
9 Investment property	**019**	0	0
III FIXED FINANCIAL ASSETS (ADP 021 to 030)	**020**	7.536	10.226
1 Investments in holdings (shares) of undertakings within the group	**021**	0	0
2 Investments in other securities of undertakings within the group	**022**	0	0
3 Loans, deposits, etc. to undertakings within the group	**023**	0	0
4 Investments in holdings (shares) of companies linked by virtue of participating interest	**024**	0	0
5 Investment in other securities of companies linked by virtue of participating interest	**025**	0	0
6 Loans, deposits etc. given to companies linked by virtue of participating interest	**026**	0	0
7 Investments in securities	**027**	0	0
8 Loans, deposits, etc. given	**028**	0	0
9 Other investments accounted for using the equity method	**029**	7.536	10.226
10 Other fixed financial assets	**030**	0	0
IV RECEIVABLES (ADP 032 to 035)	**031**	197.676	0
1 Receivables from undertakings within the group	**032**	0	0
2 Receivables from companies linked by virtue of participating interests	**033**	0	0
3 Customer receivables	**034**	0	0
4 Other receivables	**035**	197.676	0
V. Deferred tax assets	**036**	150.337	141.522
C) CURRENT ASSETS (ADP 038+046+053+063)	**037**	394.547.931	767.118.813
I INVENTORIES (ADP 039 to 045)	**038**	288.644.481	299.849.456
1 Raw materials	**039**	115.470.877	126.094.997
2 Work in progress	**040**	9.087.290	14.992.047
3 Finished goods	**041**	162.787.924	152.806.834
4 Merchandise	**042**	626.412	4.651.534
5 Advance payments for inventories	**043**	671.978	1.304.044
6 Fixed assets held for sale	**044**	0	0
7 Biological assets	**045**	0	0

II RECEIVABLES (ADP 047 to 052)	046	70.842.783	81.262.549
1 Receivables from undertakings within the group	047	0	0
2 Receivables from companies linked by virtue of participating interest	048	0	0
3 Customer receivables	049	22.480.210	15.826.402
4 Receivables from employees and members of the undertaking	050	8.350	33.200
5 Receivables from government and other institutions	051	47.134.233	63.122.856
6 Other receivables	052	1.219.990	2.280.091
III SHORT-TERM FINANCIAL ASSETS (ADP 054 to 062)	053	5.749.727	375.134.909
1 Investments in holdings (shares) of undertakings within the group	054	0	0
2 Investments in other securities of undertakings within the group	055	0	0
3 Loans, deposits, etc. to undertakings within the group	056	0	0
4 Investments in holdings (shares) of companies linked by virtue of participating interest	057	0	0
5 Investment in other securities of companies linked by virtue of participating interest	058	0	0
6 Loans, deposits etc. given to companies linked by virtue of participating interest	059	0	0
7 Investments in securities	060	0	0
8 Loans, deposits, etc. given	061	5.749.727	375.134.909
9 Other financial assets	062	0	0
IV CASH AT BANK AND IN HAND	063	29.310.940	10.871.899
D) PREPAID EXPENSES AND ACCRUED INCOME	064	68.383	89.764
E) TOTAL ASSETS (ADP 001+002+037+064)	065	1.076.479.815	1.469.643.501
OFF-BALANCE SHEET ITEMS	066	740.969.603	1.041.395.509

LIABILITIES			
A) **CAPITAL AND RESERVES** (ADP 068 to	067	-195.341.805	230.693.753
I. INITIAL (SUBSCRIBED) CAPITAL	068	42.903.930	550.287.010
II CAPITAL RESERVES	069	3.923.969	153.523.269
III RESERVES FROM PROFIT (ADP 071+072-073+074+075)	070	-11.600	24.599
1 Legal reserves	071	0	0
2 Reserves for treasury shares	072	0	0
3 Treasury shares and holdings (deductible item)	073	-11.600	-14.080
4 Statutory reserves	074	0	0
5 Other reserves	075	0	38.679
IV REVALUATION RESERVES	076	0	0
V FAIR VALUE RESERVES (ADP 078 to 080)	077	0	0
1 Fair value of financial assets available for sale	078	0	0
2 Cash flow hedge - effective portion	079	0	0
3 Hedge of a net investment in a foreign operation - effective portion	080	0	0
VI RETAINED PROFIT OR LOSS BROUGHT FORWARD (ADP 082-083)	081	-2.375.151	-1.576.996
1 Retained profit	082	0	0
2 Loss brought forward	083	2.375.151	1.576.996
VII PROFIT OR LOSS FOR THE BUSINESS YEAR (ADP 085-086)	084	-242.751.528	-473.511.310
1 Profit for the business year	085	0	0
2 Loss for the business year	086	242.751.528	473.511.310
VIII MINORITY (NON-CONTROLLING) INTEREST	087	2.968.575	1.947.181
B) **PROVISIONS** (ADP 089 to 094)	088	20.866.586	20.654.085
1 Provisions for pensions, termination benefits and similar obligations	089	12.558.732	12.349.419
2 Provisions for tax liabilities	090	0	0
3 Provisions for ongoing legal cases	091	807.854	804.666
4 Provisions for renewal of natural resources	092	0	0
5 Provisions for warranty obligations	093	0	0
6 Other provisions	094	7.500.000	7.500.000
C) **LONG-TERM LIABILITIES** (ADP 096 to 106)	095	305.433.453	459.641.858
1 Liabilities towards undertakings within the group	096	0	0
2 Liabilities for loans, deposits, etc. to companies within the group	097	0	0
3 Liabilities towards companies linked by virtue of participating interest	098	0	0
4 Liabilities for loans, deposits etc. of companies linked by virtue of participating interest	099	0	0
5 Liabilities for loans, deposits etc.	100	1.455.436	334.344.268
6 Liabilities towards banks and other financial institutions	101	303.978.017	125.297.590
7 Liabilities for advance payments	102	0	0
8 Liabilities towards suppliers	103	0	0
9 Liabilities for securities	104	0	0
10 Other long-term liabilities	105	0	0
11 Deferred tax liability	106	0	0
D) **SHORT-TERM LIABILITIES** (ADP 108 to 121)	107	877.570.739	577.696.192
1 Liabilities towards undertakings within the group	108	0	0
2 Liabilities for loans, deposits, etc. to companies within the group	109	0	0
3 Liabilities towards companies linked by virtue of participating interest	110	0	0
4 Liabilities for loans, deposits etc. of companies linked by virtue of participating interest	111	0	0
5 Liabilities for loans, deposits etc.	112	182.030.213	111.295.042
6 Liabilities towards banks and other financial institutions	113	327.663.883	22.106.207
7 Liabilities for advance payments	114	78.255.286	105.064.513
8 Liabilities towards suppliers	115	264.758.956	310.411.034
9 Liabilities for securities	116	0	0
10 Liabilities towards employees	117	11.204.086	11.676.179
11 Taxes, contributions and similar liabilities	118	7.968.864	8.134.406
12 Liabilities arising from the share in the result	119	0	0
13 Liabilities arising from fixed assets held for sale	120	0	0
14 Other short-term liabilities	121	5.689.451	9.008.811
E) ACCRUALS AND DEFERRED INCOME	122	67.950.842	180.957.613
F) **TOTAL – LIABILITIES** (ADP 067+088+095+107+122)	123	1.076.479.815	1.469.643.501
G) **OFF-BALANCE SHEET ITEMS**	124	740.969.603	1.041.395.509

STATEMENT OF PROFIT OR LOSS
for the period 01.01.2018 to 31.12.2018

in HRK

Submitter: _Petrokemija GROUP_

Item	ADP code	Same period of the previous year	Current period
1	2	3	4
I OPERATING INCOME (ADP 126 to 130)	125	1.979.510.000	1.865.736.333
1 Income from sales with undertakings within the group	126	0	0
2 Income from sales (outside group)	127	1.946.363.142	1.817.134.406
3 Income from the use of own products, goods and services	128	4.610.669	23.127.317
4 Other operating income with undertakings within the group	129	0	0
5 Other operating income (outside the group)	130	28.536.189	25.474.610
II OPERATING EXPENSES (ADP 132+133+137+141+142+143+146+153)	131	2.181.747.789	2.169.305.246
1 Changes in inventories of work in progress and finished goods	132	14.112.997	4.795.431
2 Material costs (ADP 134 to 136)	133	1.696.601.048	1.770.553.261
a) Costs of raw material	134	1.617.076.511	1.688.907.033
b) Costs of goods sold	135	8.837.549	9.602.593
c) Other external costs	136	70.686.988	72.043.635
3 Staff costs (ADP 138 to 140)	137	196.430.082	199.271.677
a) Net salaries and wages	138	124.859.446	126.088.762
b) Tax and contributions from salaries expenses	139	42.924.710	44.239.332
c) Contributions on salaries	140	28.645.926	28.943.583
4 Depreciation	141	94.816.776	90.874.474
5 Other expenses	142	74.636.798	71.735.401
6 Value adjustments (ADP 144+145)	143	89.418.125	24.704.168
a) fixed assets other than financial assets	144	18.907.405	4.658.167
b) current assets other than financial assets	145	70.510.720	20.046.001
7 Provisions (ADP 147 to 152)	146	15.731.963	7.370.834
a) Provisions for pensions, termination benefits and similar obligations	147	8.119.568	7.224.022
b) Provisions for tax liabilities	148	0	0
c) Provisions for ongoing legal cases	149	112.395	103.130
d) Provisions for renewal of natural resources	150	0	0
e) Provisions for warranty obligations	151	0	0
f) Other provisions	152	7.500.000	43.682
8 Other operating expenses	153	0	0
III FINANCIAL INCOME (ADP 155 to 164)	154	17.424.346	15.576.912
1 Income from investments in holdings (shares) of undertakings within the group	155	0	0
2 Income from investments in holdings (shares) of companies linked by virtue of participating interest	156	0	0
3 Income from other long-term financial investment and loans granted to undertakings within the group	157	0	0
4 Other interest income from operations with undertakings within the group	158	0	0
5 Exchange rate differences and other financial income from operations with undertakings within the group	159	0	0
6 Income from other long-term financial investments and loans	160	0	0
7 Other interest income	161	72.381	125.775
8 Exchange rate differences and other financial income	162	17.337.463	15.426.773
9 Unrealised gains (income) from financial assets	163	0	0
10 Other financial income	164	14.502	24.364
IV FINANCIAL EXPENDITURE (ADP 166 to 172)	165	57.931.158	185.510.494
1 Interest expenses and similar expenses with undertakings within the group	166	0	0
2 Exchange rate differences and other expenses from operations with undertakings within the group	167	0	0
3 Interest expenses and similar expenses	168	44.988.260	64.114.300
4 Exchange rate differences and other expenses	169	9.123.240	9.337.130
5 Unrealised losses (expenses) from financial assets	170	0	0
6 Value adjustments of financial assets (net)	171	0	0
7 Other financial expenses	172	3.819.658	112.059.064

V SHARE IN PROFIT FROM COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTEREST	**173**	0	0
VI SHARE IN PROFIT FROM JOINT VENTURES	**174**	0	0
VII SHARE IN LOSS OF COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTEREST	**175**	0	0
VIII SHARE IN LOSS OF JOINT VENTURES	**176**	0	0
IX TOTAL INCOME (ADP 125+154+173 + 174)	**177**	1.996.934.346	1.881.313.245
X TOTAL EXPENDITURE (ADP 131+165+175 + 176)	**178**	2.239.678.947	2.354.815.740
XI PRE-TAX PROFIT OR LOSS (ADP 177-178)	**179**	-242.744.601	-473.502.495
1 Pre-tax profit (ADP 177-178)	**180**	0	0
2 Pre-tax loss (ADP 178-177)	**181**	-242.744.601	-473.502.495
XII INCOME TAX	**182**	6.927	8.815
XIII PROFIT OR LOSS FOR THE PERIOD (ADP 179-182)	**183**	-242.751.528	-473.511.310
1 Profit for the period (ADP 179-182)	**184**	0	0
2 Loss for the period (ADP 182-179)	**185**	-242.751.528	-473.511.310
DISCONTINUED OPERATIONS (to be filled in by undertakings subject to IFRS only with discontinued operations)			
XIV PRE-TAX PROFIT OR LOSS OF DISCONTINUED OPERATIONS (ADP 187-188)	**186**	0	0
1 Pre-tax profit from discontinued operations	**187**	0	0
2 Pre-tax loss on discontinued operations	**188**	0	0
XV INCOME TAX OF DISCONTINUED OPERATIONS	**189**	0	0
1 Discontinued operations profit for the period (ADP 186-189)	**190**	0	0
2 Discontinued operations loss for the period (ADP 189-186)	**191**	0	0
TOTAL OPERATIONS (to be filled in only by undertakings subject to IFRS with discontinued operations)			
XVI PRE-TAX PROFIT OR LOSS (ADP 179+186)	**192**	0	0
1 Pre-tax profit (ADP 192)	**193**	0	0
2 Pre-tax loss (ADP 192)	**194**	0	0
XVII INCOME TAX (ADP 182+189)	**195**	0	0
XVIII PROFIT OR LOSS FOR THE PERIOD (ADP 192-195)	**196**	0	0
1 Profit for the period (ADP 192-195)	**197**	0	0
2 Loss for the period (ADP 195-192)	**198**	0	0
APPENDIX to the P&L (to be filled in by undertakings that draw up consolidated annual financial statements)			
XIX PROFIT OR LOSS FOR THE PERIOD (ADP 200+201)	**199**	-242.751.528	-473.511.310
1 Attributable to owners of the parent	**200**	-242.024.058	-472.489.916
2 Attributable to minority (non-controlling) interest	**201**	-727.470	-1.021.394
STATEMENT OF OTHER COMPRHENSIVE INCOME (to be filled in by undertakings subject to IFRS)			
I PROFIT OR LOSS FOR THE PERIOD	**202**	-242.751.528	-473.511.310
II OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX (ADP 204 to 211)	**203**	0	38.678
1 Exchange rate differences from translation of foreign operations	**204**	0	38.678
2 Changes in revaluation reserves of fixed tangible and intangible assets	**205**	0	0
3 Profit or loss arising from re-evaluation of financial assets available for sale	**206**	0	0
4 Profit or loss arising from effective cash flow hedging	**207**	0	0
5 Profit or loss arising from effective hedge of a net investment in a foreign operation	**208**	0	0
6 Share in other comprehensive income/loss of companies linked by virtue of participating interest	**209**	0	0
7 Actuarial gains/losses on defined remuneration plans	**210**	0	0
8 Other changes in equity unrelated to owners	**211**	0	0
III TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD	**212**	0	0
IV NET OTHER COMPREHENSIVE INCOME OR LOSS (ADP 203-212)	**213**	0	38.678
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (ADP 202+213)	**214**	-242.751.528	-473.472.632
APPENDIX to the Statement on comprehensive income (to be filled in by entrepreneurs who draw up consolidated statements)			
VI COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (ADP 216+217)	**215**	-242.751.528	-473.472.632
1 Attributable to owners of the parent	**216**	-242.024.058	-472.451.238
2 Attributable to minority (non-controlling) interest	**217**	-727.470	-1.021.394

STATEMENT OF CASH FLOWS - indirect method

for the period 01.01.2018 . to 31.12.2018.

in HRK

Submitter: _Petrokemija GROUP_

Item	ADP code	Same period of the previous year	Current period
1	2	3	4
Cash flow from operating activities			
1 Pre-tax profit	001	-242.744.000	-473.502.000
2 Adjustments (ADP 003 to 010):	002	239.622.000	173.515.000
a) Depreciation	003	94.817.000	90.874.000
b) Gains and losses from sale and value adjustment of fixed tangible and intangible assets	004	18.750.000	1.865.000
c) Gains and losses from sale and unrealised gains and losses and value adjustment of financial assets	005	0	2.252.000
d) Interest and dividend income	006	-72.000	-126.000
e) Interest expenses	007	44.938.000	64.054.000
f) Provisions	008	9.174.000	-213.000
g) Exchange rate differences (unrealised)	009	2.515.000	-6.015.000
h) Other adjustments for non-cash transactions and unrealised gains and losses	010	69.500.000	20.824.000
I Cash flow increase or decrease before changes in the working capital (ADP 001+002)	011	-3.122.000	-299.987.000
3 Changes in the working capital (ADP 013 to 016)	012	-35.280.000	484.976.000
a) Increase or decrease in short-term liabilities	013	-86.021.000	525.541.000
b) Increase or decrease in short-term receivables	014	8.538.000	-8.507.000
c) Increase or decrease in inventories	015	43.529.000	-32.058.000
d) Other increase or decrease in the working capital	016	-1.326.000	0
II Cash from operations (ADP 011+012)	017	-38.402.000	184.989.000
4 Interest paid	018	-41.838.000	-63.674.000
5 Income tax paid	019	0	0
A) NET CASH FLOW FROM OPERATING ACTIVITIES (ADP 017 to 019)	020	-80.240.000	121.315.000
Cash flow from investment activities			
1 Cash receipts from sales of fixed tangible and intangible assets	021	4.310.000	0
2 Cash receipts from sales of financial instruments	022	0	0
3 Interest received	023	72.000	70.000
4 Dividends received	024	0	0
5 Cash receipts from repayment of loans and deposits	025	27.882.000	0
6 Other cash receipts from investment activities	026	0	0
III Total cash receipts from investment activities (ADP 021 to 026)	027	32.264.000	70.000
1 Cash payments for the purchase of fixed tangible and intangible assets	028	-112.327.000	-117.639.000
2 Cash payments for the acquisition of financial instruments	029	0	0
3 Cash payments for loans and deposits for the period	030	0	-369.261.000
4 Acquisition of a subsidiary, net of cash acquired	031	0	0
5 Other cash payments from investment activities	032	0	0
IV Total cash payments from investment activities (ADP 028 to 032)	033	-112.327.000	-486.900.000
B) NET CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 027 +033)	034	-80.063.000	-486.830.000
Cash flow from financing activities			
1 Cash receipts from the increase of initial (subscribed) capital	035	0	0
2 Cash receipts from the issue of equity financial instruments and debt financial instruments	036	0	450.000.000
3 Cash receipts from credit principals, loans and other borrowings	037	389.344.000	996.000
4 Other cash receipts from financing activities	038	0	0
V Total cash receipts from financing activities (ADP 035 to 038)	039	389.344.000	450.996.000
1 Cash payments for the repayment of credit principals, loans and other borrowings and debt financial instruments	040	-224.192.000	-103.920.000
2 Dividends paid	041	0	0
3 Cash payments for finance lease	042	0	0
4 Cash payments for the redemption of treasury shares and decrease of initial (subscribed) capital	043	0	0
5 Other cash payments from financing activities	044	0	0
VI Total cash payments from financing activities (ADP 040 to 044)	045	-224.192.000	-103.920.000
C) NET CASH FLOW FROM FINANCING ACTIVITIES (ADP 039 +045)	046	165.152.000	347.076.000
1 Unrealised exchange rate differences in cash and cash equivalents	047	0	0
D) NET INCREASE OR DECREASE OF CASH FLOWS (ADP 020+034+046+047)	048	4.849.000	-18.439.000
E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	049	24.462.000	29.311.000
F) CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (ADP 048+049)	050	29.311.000	10.872.000

STATEMENT OF CHANGES IN EQUITY

for the period from 1.1.2018 to 31.12.2018

in HRK

Item	ADP code	Attributable to owners of the parent: Initial (subscribed) capital	Capital reserves	Legal reserves	Reserves for treasury shares	Treasury shares and holdings (deductible item)	Statutory reserves	Other reserves	Revaluation reserves	Fair value of financial assets available for sale	Cash flow hedge effective portion	Hedge of a net investment in a foreign operation - effective portion	Retained profit / loss brought forward	Profit/loss for the business year	Total attributable to owners of the parent	Minority (non-controlling) interest	Total capital and reserves
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16 (3 to 6 - 7 + 8 to 15)	17	18 (16+17)
Previous period																	
1 Balance on the first day of the previous business year	**01**	386.135.400	-200.000	0	0	0	0	0	0	0	0	0	-256.413.639	-87.687.250	41.834.511	3.696.046	45.530.557
2 Changes in accounting policies	**02**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3 Correction of errors	**03**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4 Balance on the first day of the previous business year (restated) (ADP 01 to 03)	**04**	386.135.400	-200.000	0	0	0	0	0	0	0	0	0	-256.413.639	-87.687.250	41.834.511	3.696.046	45.530.557
5 Profit/loss of the period	**05**	0	0	0	0	0	0	0	0	0	0	0	0	-242.751.528	-242.751.528	-727.470	-243.478.998
6 Exchange rate differences from translation of foreign operations	**06**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7 Changes in revaluation reserves of fixed tangible and intangible assets	**07**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8 Profit or loss arising from re-evaluation of financial assets available for sale	**08**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9 Gains or losses on efficient cash flow hedging	**09**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10 Gains or losses arising from effective hedge of a net investment in a foreign operation	**10**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11 Share in other comprehensive income/loss of companies linked by virtue of participating interest	**11**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12 Actuarial gains/losses on defined benefit plans	**12**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13 Other changes in equity unrelated to owners	**13**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
14 Tax on transactions recognised directly in equity	**14**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
15 Increase/decrease in initial (subscribed) capital (other than from reinvesting profit and other than arising from the pre-bankruptcy settlement procedure)	**15**	-343.231.470	4.123.969	0	0	11.600	0	0	0	0	0	0	341.725.738	0	2.606.637	0	2.606.637
16 Increase of initial (subscribed) capital by reinvesting profit	**16**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
17 Increase of initial (subscribed) capital arising from the pre-bankruptcy settlement procedure	**17**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
18 Redemption of treasury shares/holdings	**18**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
19 Payment of share in profit/dividend	**19**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
20 Other distribution to owners	**20**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
21 Transfer to reserves by annual schedule	**21**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
22 Increase in reserves arising from the pre-bankruptcy settlement procedure	**22**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
23 Balance on the last day of the previous business year reporting period (ADP 04 to 22)	**23**	42.903.930	3.923.969	0	0	11.600	0	0	0	0	0	0	85.312.099	-330.438.778	-198.310.380	2.968.576	-195.341.804
APPENDIX TO THE STATEMENT OF CHANGES IN EQUITY (to be filled in by undertakings that draw up financial statements in accordance with the IFRS)																	
I OTHER COMPREHENSIVE INCOME OF THE PREVIOUS PERIOD, NET OF TAX (ADP 06 to 14)	**24**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
II COMPREHENSIVE INCOME OR LOSS FOR THE PREVIOUS PERIOD (ADP 05+24)	**25**	0	0	0	0	0	0	0	0	0	0	0	0	-242.751.528	-242.751.528	-727.470	-243.478.998
III TRANSACTIONS WITH OWNERS IN THE PREVIOUS PERIOD RECOGNISED DIRECTLY IN EQUITY (ADP 15 to 22)	**26**	-343.231.470	4.123.969	0	0	11.600	0	0	0	0	0	0	341.725.738	0	2.606.637	0	2.606.637
Current period																	
1 Balance on the first day of the current business year	**27**	42.903.930	3.923.969	0	0	11.600	0	0	0	0	0	0	-244.232.589	0	-197.416.290	2.968.575	-194.447.715
2 Changes in accounting policies	**28**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3 Correction of errors	**29**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4 Balance on the first day of the current business year (restated) (ADP 27 to 29)	**30**	42.903.930	3.923.969	0	0	11.600	0	0	0	0	0	0	-244.232.589	0	-197.416.290	2.968.575	-194.447.715
5 Profit/loss of the period	**31**	0	0	0	0	0	0	0	0	0	0	0	0	-473.511.310	-473.511.310	-1.021.394	-474.532.704
6 Exchange rate differences from translation of foreign operations	**32**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7 Changes in revaluation reserves of fixed tangible and intangible assets	**33**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8 Profit or loss arising from re-evaluation of financial assets available for sale	**34**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9 Gains or losses on efficient cash flow hedging	**35**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10 Gains or losses arising from effective hedge of a net investment in a foreign operation	**36**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11 Share in other comprehensive income/loss of companies linked by virtue of participating interest	**37**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12 Actuarial gains/losses on defined remuneration plans	**38**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13 Other changes in equity unrelated to owners	**39**	0	0	0	0	0	0	0	0	0	0	0	38.678	0	38.678	0	38.678
14 Tax on transactions recognised directly in equity	**40**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
15 Increase/decrease in initial (subscribed) capital (other than from reinvesting profit and other than arising from the pre-bankruptcy settlement procedure)	**41**	507.383.080	149.599.300	0	0	2.480	0	0	38.678	0	0	0	242.616.915	0	899.635.493	0	899.635.493
16 Increase of initial (subscribed) capital by reinvesting profit	**42**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
17 Increase of initial (subscribed) capital arising from the pre-bankruptcy settlement procedure	**43**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
18 Redemption of treasury shares/holdings	**44**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
19 Payment of share in profit/dividend	**45**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
20 Other distribution to owners	**46**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
21 Transfer to reserves by annual schedule	**47**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
22 Increase in reserves arising from the pre-bankruptcy settlement procedure	**48**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
23 Balance on the last day of the current business year reporting period (ADP 30 to 48)	**49**	550.287.010	153.523.269	0	0	14.080	0	0	38.678	0	0	0	-1.576.996	-473.511.310	228.746.571	1.947.181	230.693.752
APPENDIX TO THE STATEMENT OF CHANGES IN EQUITY (to be filled in by undertakings that draw up financial statements in accordance with the IFRS)																	
I OTHER COMPREHENSIVE INCOME FOR THE CURRENT PERIOD, NET OF TAX (ADP 32 to 40)	**50**	0	0	0	0	0	0	0	0	0	0	0	38.678	0	38.678	0	38.678
II COMPREHENSIVE INCOME OR LOSS FOR THE CURRENT PERIOD (ADP 31+50)	**51**	0	0	0	0	0	0	0	0	0	0	0	38.678	-473.511.310	-473.472.632	-1.021.394	-474.494.026
III TRANSACTIONS WITH OWNERS IN THE CURRENT PERIOD RECOGNISED DIRECTLY IN EQUITY (ADP 41 to 48)	**52**	507.383.080	149.599.300	0	0	2.480	0	0	38.678	0	0	0	242.616.915	0	899.635.493	0	899.635.493

PETROKEMIJA
KUTINA

MANAGEMENT BOARD
Kutina, 3 April 2019

Status Report for the Company and for Petrokemija Group as of 31 December 2018

It took years for the Company to prepare for its recapitalization and restructuring. The preparations were successfully completed in 2018 and the whole process could represent a key milestone for the continued operation in the foreseeable future. In many ways, the year 2018 was a turning point in the history of Petrokemija d.d. Kutina. In terms of finances, the Company had been in a very complicated situation before the recapitalization on 31 October 2018. Negative capital, high indebtedness to banks and natural gas suppliers, as well as the unfavourable conditions on the global mineral fertilizers market, were only some of the circumstances in which the process of the Company's recapitalization and restructuring had been prepared and implemented successfully. In that respect, business continuity and market presence were maintained in order to keep the trust of the customers and suppliers and to prevent further damage to future business operations. Changing the ownership structure, solving old debt problems and injecting 450 million kuna of fresh capital into the Company created the conditions for the launch of a new development cycle, change of business model aimed at increased operational efficiency, as well as for the long-term stabilization of operations on a commercial basis.

The 2018 financial result of Petrokemija d.d.

In the period between January and December 2018, Petrokemija d.d. saw total revenues of HRK 1,869.4 million and total expenditures of HRK 2,340.2 million, and it reported a loss of HRK 470.8 million. The high growth in the purchase prices of the main raw materials, the increase in the price of CO_2 allowances, the low sales prices of mineral fertilizers on the global market, which have led to a reduction in sales volume in exports, the cost of the two-year-long overhaul of the plant, high financing costs and value adjustments of fixed and current assets are the main reasons for the loss in 2018.

A negative EBITDA (earnings before interest, tax, depreciation and amortization) amounted to HRK -209.4 million, with the EBITDA margin of -11.2%. On the level of 2018, total revenues were lower by 5.8% compared to the same period in 2017, while total expenditures were higher by 5.1%. These data indicate a decline in revenue due to a lower sales volume of 11.9% accompanied by an increase in the costs for the reasons given above.

The structure of the 2018 financial result shows HRK 298.9 million recognized as a loss from operating activities and HRK 171.9 million recognized as a loss generated from financial activities. The loss from financial activities reflects the effect of external factors - the correction of the value of CO_2 emission allowances, HRK 112.0 million and HRK 64.0 million of interest expense due to the high level of indebtedness.

Financial result of Petrokemija Group

As of 31 December 2018, Petrokemija Group includes Luka Šibenik d.o.o. and Petrokemija d.o.o. Novi Sad as the subsidiaries of Petrokemija d.d. as the parent-company. During the process of restructuring and recapitalization, business shares of Petrokemija Agro Trade d.o.o. were transferred to the Republic of Croatia, i.e. to the Croatian Centre for Restructuring and Sales (CERP). At the reporting date, Petrokemija d.d. had a 100% stake in Petrokemija d.o.o. Novi Sad and a 79.72% stake in Luka Šibenik d.o.o.

In 2018, Petrokemija Group realized total revenues of HRK 1,881.3 million, total expenditures of HRK 2,354.7 million and recorded a loss of HRK 473.5 million. Upon assessing business risks of the subsidiaries in the previous year, it has been estimated that these companies do not have a significant impact on the performance of Petrokemija Group due to their small share in the total performance.

Share capital as of 31 December 2018

Based on the decisions of the Company's General Meeting of 9 July and of 31 October 2018, the Company's share capital was increased by issuing new ordinary shares in non-materialized form, each with a nominal amount of HRK 10.00. Thus, the Company's share capital as of 31 December 2018 amounted to HRK 550.3 million. In accordance with the level of subscribed capital and reserves created during recapitalization, as well as the realized loss during the reporting period, the capital and reserves as of 31 December 2018 amounted to HRK 233.0 million. As of 31 December 2018, the Company owned 1,408 treasury shares with a nominal value of HRK 14,080.

Liquidity and solvency

As a result of high losses in previous periods, Petrokemija d.d. still has a relatively high level of indebtedness and inadequate permanent sources of financing for working capital requirements. During the reporting period, most of the debt to suppliers was rescheduled so as to enable regular liquidity maintenance in the next period. More significant investments will require additional favourable sources of funding in the upcoming period.

Financial instruments

The Company conducted an analysis of the financial assets and liabilities of Petrokemija d.d. and Petrokemija Group, and it did not identify any material deviation from the current classification and subsequent recognition with respect to IAS 39. The Group and the Company also conducted an analysis of the expected loan losses and did not identify any materially relevant effects of loan losses as of 31 December 2018.

Production, sales and capacity utilization

Compared to the previous year, in 2018 the total level of production of Petrokemija d.d. fell by 13.2%. The reduced production is a consequence of a one-month-long overhaul of the plant in July and the alignment of the range and volume of production with the needs and dynamics of delivery of finished products to the market and occasional delays for technical and technological reasons. Sales of mineral fertilizers reached 1,029,000 units sold, which is 11.9% less than the year before. The volume of domestic sales amounted to a lower level than the previous year (index 92.1). The level of sales volume in exports was 13.4% lower.

Natural gas supply

In the reporting period, Petrokemija d.d. purchased natural gas from two regular suppliers - INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar – in accordance with previously concluded contracts. Since February 2018, it has had another gas supplier, Hrvatska elektroprivreda d.d. Zagreb, delivering a significant part of the required quantities of gas in the reporting period. The price was calculated by applying an escalation formula that is based on the prices achieved on the European natural gas market.

The cost of natural gas transport is still a significant item in the cost structure of Petrokemija d.d., since natural gas transport in the Republic of Croatia is one of the most expensive ones in the EU. It is estimated that the stated cost will be reduced by approximately 20% in 2019, on the basis of the decisions of the relevant authorities of the Croatian government.

Environmental protection

The continuous improvement of the environmental management system is carried out in accordance with adopted programs with the aim of preventing and reducing environmental pollution and complying with legal requirements. In the legislative environment of the EU, environmental protection projects are becoming increasingly important, but the implementation deadlines get largely missed (31 December 2017). In the following years Petrokemija d.d. will be forced to make urgent and considerable investments in this segment. In 2018, despite the lack of liquidity, HRK 117.2 million was invested. In accordance with the IPPC Directive and the Resolution on the Integrated Environmental Conditions aimed at meeting all the prescribed technical and technological solutions for environmental protection, Petrokemija d.d. has to invest about HRK 350 million. About one-third of the planned funds has been invested so far. A request for the extension of deadlines until 2026 has been submitted to the competent authorities of the Croatian government.

Use of Corporate Governance Code

In 2018, Petrokemija d.d. continued with its ongoing application of the Corporate Governance Code, as documented in the published questionnaire prepared by the Zagreb Stock Exchange. The complete and clearly structured information on the non-financial aspects and sustainability of the business operations of the Company and Petrokemija Group in 2018 was published separately in the annual Non-Financial Report.
All the regulatory information on the entire recapitalization procedure in 2018 was submitted to the Zagreb Stock Exchange, the Croatian News Agency and the Official Register of Regulatory Information at the Croatian Financial Services Supervisory Agency, in accordance with the provisions of the Capital Market Act, Companies Act and Rules of the Zagreb Stock Exchange.

Research and development activities

Petrokemija d.d. and Petrokemija Group did not conduct any significant research and development activities in 2018.

Changes in the Management Board and the Supervisory Board

Changes in the composition of the Management Board and the Supervisory Board were in line with the changes in the ownership structure that occurred in the reporting year. As of 31 December 2018, the Management Board was composed of: Davor Žmegač, president, Goran Pleše, member, Krešimir Rendeli, member, Peter Suba, member. Term of office of Krešimir Rendeli, a member of the Management Board, terminated under the agreement on 31 January 2019 and Željko Marić was appointed the new member of the Management Board on 1 February 2019.

On the day of submission of this report, the Management Board was composed of:

- Davor Žmegač, President
- Goran Pleše, Member
- Peter Suba, Member
- Željko Marić, Member

On the day of submission of this report and on 31 December 2018, the Supervisory Board was composed of:

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

Internal control and risk management system

The Company and the Group's internal control system is governed by an internal policy that defines the underlying principles, structure and functions of the internal control operators, which contributes to proper corporate governance and the promotion of business transparency while ensuring safe and stable operations in accordance with regulatory requirements.

The main features are the following:

- A comprehensive set of accounting policies and procedures relating to the preparation of the annual statement in accordance with International Accounting Standards adopted by the EU,
- The Company's internal audit overseeing the overall business with the aim of assessing the adequacy of the established internal control system,
- Administrative and Financial Management Department ensuring the reliability of accounting and financial reporting, supervision and protection of internal control systems for the preparation of financial information,
- The Company's annual statement that is subject to detailed review and approval through a structured governance process involving senior and executive financial personnel.

All events following the date of the unconsolidated and consolidated financial statements, for which the International Financial Reporting Standards adopted by the European Union (IFRS) provide adjustments or disclosures, are either adjusted or disclosed in the Annual Statement.

Substantial risks

The agreement on natural gas purchasing conditions and rescheduling of the outstanding debt for natural gas reduced the substantial risks that marked the year 2018. According to the present market situation, it is estimated that in 2019 the variable pricing of mineral fertilizers, natural gas, and CO_2 allowance charges, as well as the USD and EUR exchange rate movements, will have a distinctive effect. The 2019 financial result will also depend on the dynamics and scope of implementing the streamlining measures for the business processes of the Company and Petrokemija Group. In addition to the foregoing, the following risks suggest caution during the transition from 2018 to 2019:

- Natural gas as the most important raw material is still purchased on the domestic market, according to contracts concluded with two suppliers - INA d.d. from Zagreb and Prvo plinarsko društvo d.o.o. from Vukovar. The price of natural gas is related to the EUR exchange rate and to the fluctuation of the price of natural gas on the European spot market. Reduction of the cost of natural gas transport as of 01 January 2019 will have a positive effect on the financial result in 2019.
- The reduction in VAT in 2017 had a favourable effect on the sale of mineral fertilizers on the domestic market, but the level of state incentives in agriculture and the purchase prices for the main crops still have a significant effect.
- The ongoing fluctuations in the prices of raw material on the global market will affect the level of material costs in the upcoming period as well.
- Deadlines regarding the implementation of a part of the so-called "environmental investments", in accordance with the Resolution on the Integrated Environmental Conditions, have expired. A request for the extension of deadlines until 2026 has been submitted to the competent authorities of the Croatian government.
- Following the conducted recapitalization of the Company, according to the decisions of the General Meeting of 31 October 2018, the implementation of complete internal measures of business streamlining in the Company, a change in the finished product sales model (increase in quantity at regional level and reduction in spot market share) and favourable financing conditions for the modernization of production facilities and logistics centres in the following years are identified as the prerequisites to the future business model.

The foregoing effects on the financial result make it difficult for us to assess business performance in 2019 and subsequent years, but the Management Board and the owners are taking a number of measures to overcome key risks and business challenges. The streamlining procedure for internal processes in the Company and Petrokemija Group, involving a partial decrease in the number of employees and an overall preparation for investment in the modernization of production facilities and logistics centres, creates the need for finding permanent sources of financing for such investments in the upcoming period.

President of the Management Board of Petrokemija d.d.:

Davor Žmegač, MSc

Petrokemija Plc.
SUPERVISORY BOARD

Number: 4 /2019.

Kutina, 10 April 2019

Pursuant to Article 21 of the Articles of Association of Petrokemija Plc., and Articles 300.c and 300.d of the Companies Act, in session 8/2019 held on 10 April 2019 the Supervisory Board of Petrokemija Plc. passed the following

DECISION
ON GRANTING CONSENT TO ANNUAL CONSOLIDATED FINANCIAL STATEMENTS FOR 2018

I

Having reviewed the annual consolidated financial statements, the Supervisory Board of Petrokemija Plc. gives its consent to the Annual Consolidated Financial Statements of Petrokemija Group for 2018.

By granting the consent from the previous Paragraph, these consolidated financial statements are considered determined by the Management Board and the Supervisory Board.
The Management Board and the Supervisory Board shall send the information of the determined consolidated financial statements to the General Meeting.

II

The consolidated annual financial statements the consent from Paragraph I refers to are as follows:

- Consolidated balance sheet
- Consolidated profit and loss account
- Consolidated cash flow statement
- Consolidated capital changes statement
- Notes to consolidated financial statements
- The annual statement for the Group and consolidated financial statements for 2018 – Report provided by independent auditor for the shareholders of Petrokemija Plc., with notes.

III

Assets and liabilities in the consolidated balance sheet amount to HRK **1.469.643.501,42.**

The consolidated loss of Petrokemija Plc. Group generated in 2018 amount to HRK **473.511.310,35**.
The statements from Paragraph II are attached to this Decision as its integral part.

IV

This Decision shall enter into force on the day it is passed.

President of the Supervisory Board:

/Sandor Fasimon/