Petrokemija d.d., Kutina

Annual separate financial statements
for the Company
for the year 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.

Content

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

Key indicators for Petrokemija d.d. for 2018

FINANCIAL RESULTS

- In the period from January to December 2018, Petrokemija d.d. recorded total revenues of HRK 1,869.4 million and total expenses of HRK 2.340,2 million, and thus disclosed an operating loss of HRK 470.8 million or 25.2% of total revenues (in the same period in 2017 – loss of HRK 242.6 million);
- Loss from operating activities – HRK 298.9 million, loss from financial activities – HRK 171,9 million;
- Earnings before interest, taxes, depreciation and amortization (EBITDA) negative at HRK 209.4 million;
- Total income 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 last year;
- In the structure of revenue, 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 – 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 d.d. – positive at HRK 233,0 million;
- Long-term assets increased by 1.3% compared to the end of 2017, and long-term liabilities decreased by 9.3%;
- Short-term assets increased by 96.4% compared to the end of 2017, and short-term liabilities decreased by 14.9%;
- Deferred cost payment increased by 167.2% 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 0.5 million; 31/12/2017: negative working capital of HRK -363 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.

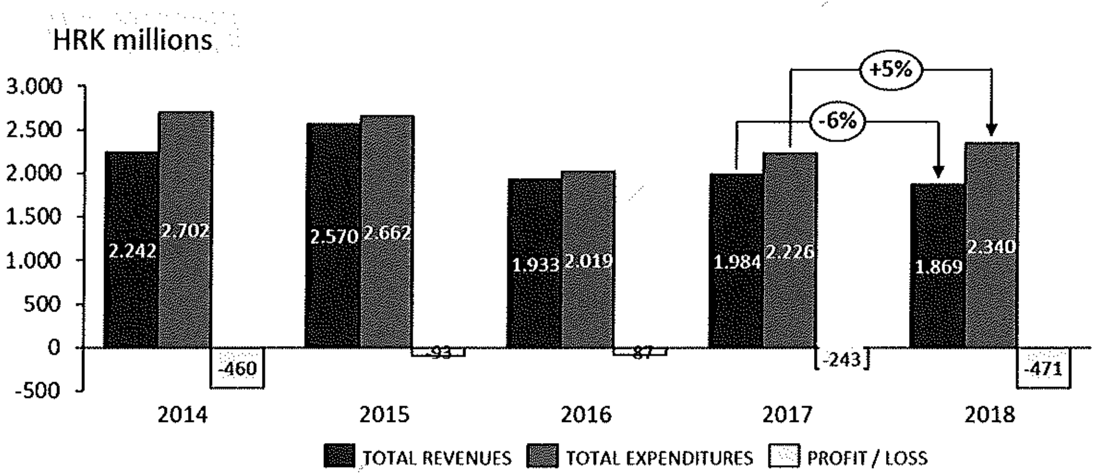
Statement of profit or loss of Petrokemija d.d. 2014 – 2018 (continued)

(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	2.242.157	2.569.528	1.932.080	1.983.585	1.869.431	94,2
TOTAL EXPENDITURES	2.702.345	2.662.040	2.019.390	2.226.202	2.340.227	105,1
PROFIT / LOSS	-460.188	-92.512	-87.310	-242.617	-470.796	194,0
EBIT	-407.783	-40.354	-48.594	-193.481	-298.886	154,5
EBITDA	-312.608	51.890	33.650	-99.664	-209.408	210,1
EBITDA margin	-14,0%	2,0%	1,8%	-5,0%	-11,2%	222,9

(EUR million)

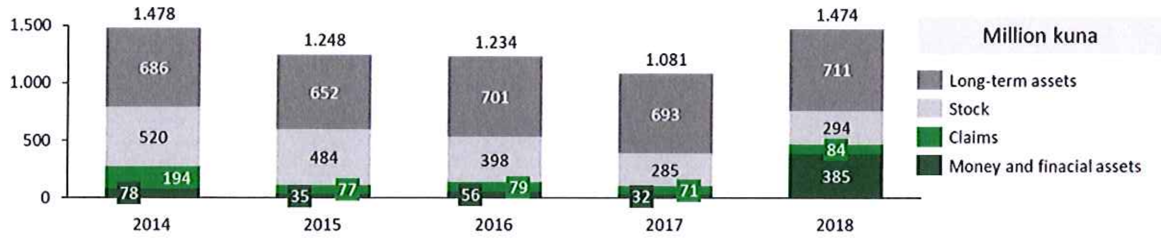
Description	Realized Jan - Dec 2014	Realized Jan - Dec 2015	Realized Jan - Dec 2016	Realized Jan - Dec 2017	Realized 1. - 12. 2018.	Indices 6/5
1	2	3	4	5	6	7
TOTAL REVENUES	293,9	337,7	256,6	265,9	252,1	94,8
TOTAL EXPENDITURES	354,2	349,8	268,2	298,4	315,6	105,8
PROFIT / LOSS	-60,3	-12,2	-11,6	-32,5	-63,5	195,2
EBIT	-53,4	-5,3	-6,5	-25,9	-40,3	155,4
EBITDA	-41,0	6,8	4,5	-13,4	-28,2	211,4
EBITDA margin	-14,0%	2,0%	1,8%	-5,0%	-11,2%	222,9
Average exchange rate of	7,63	7,61	7,53	7,46	7,41	99,4



Balance sheet (assets)

(HRK 000)

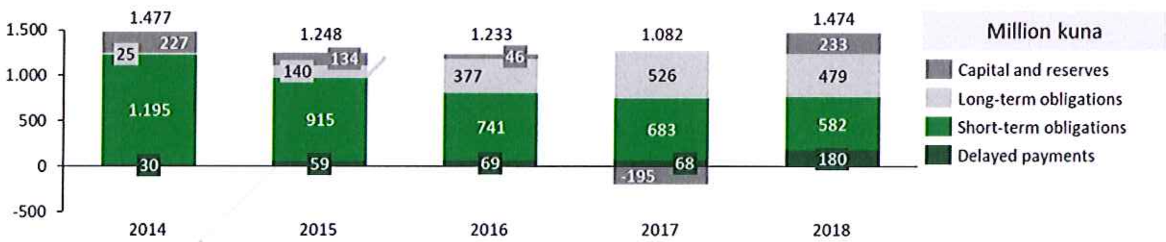
No.	DESCRIPTION	Balance 31.12.2014.	Balance 31.12.2015.	Balance 31.12.2016.	Balance 31.12.2017.	Balance 31.12.2018.	Indices 7/6
1	2	3	4	5	6	7	8
1	**Long-term assets**	**685.792**	**652.127**	**701.782**	**692.911**	**711.200**	102,6
1.1.	Lands and forests	49.482	49.482	48.507	44.793	44.376	99,1
1.2.	Buildings	255.759	237.655	224.149	201.241	186.459	92,7
1.3.	Plants and equipment	347.767	332.537	396.269	422.061	463.061	109,7
1.4.	Other long term assets	32.784	32.453	32.857	24.816	17.304	69,7
2	**Short-term assets**	**791.402**	**596.094**	**532.231**	**388.525**	**762.874**	196,4
2.1.	**Stock**	519.658	483.777	397.600	285.373	293.668	102,9
2.1.1.	Raw material and material, small inventory	171.738	108.017	109.911	82.707	100.758	121,8
2.1.2.	Spare parts	97.363	93.663	91.415	29.545	23.213	78,6
2.1.3.	Products in prod., products, goods	250.176	281.497	185.691	172.465	168.410	97,6
2.1.4.	Advance payments	381	600	10.583	656	1.287	196,2
2.2.	**Claims**	**193.531**	**77.350**	**78.666**	**71.014**	**84.563**	119,1
2.2.1.	Claims from domestic buyers	43.169	3.784	9.062	18.588	5.679	30,6
2.2.2.	Claims from buyers in export	6.995	6.476	7.494	3.333	9.251	277,5
2.2.3.	Claims from related companies	26.375	1.502	1.190	835	4.340	519,8
2.2.4.	Other claims (from state and similar)	116.992	65.588	60.920	48.258	65.294	135,3
2.3.	**Financial assets**	70.066	27.561	33.632	5.750	375.135	6.524,1
2.4.	**Money**	8.147	7.406	22.333	26.388	9.508	36,0
3	**Payed expences of future business**	305	0	41	22	14	63,6
	Total assets (1+2+3)	**1.477.499**	**1.248.221**	**1.234.054**	**1.081.457**	**1.474.088**	136,3



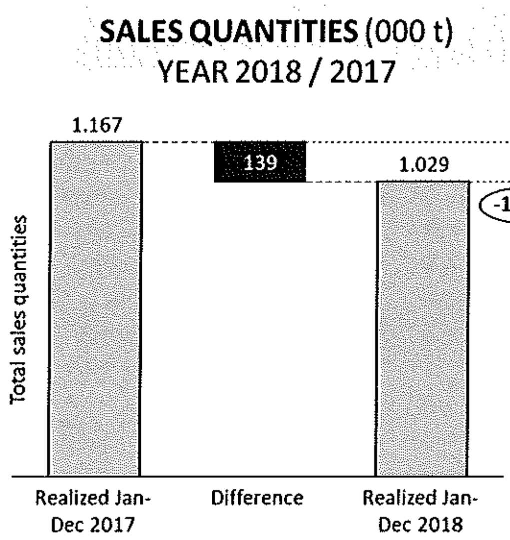
Balance sheet (liabilities)

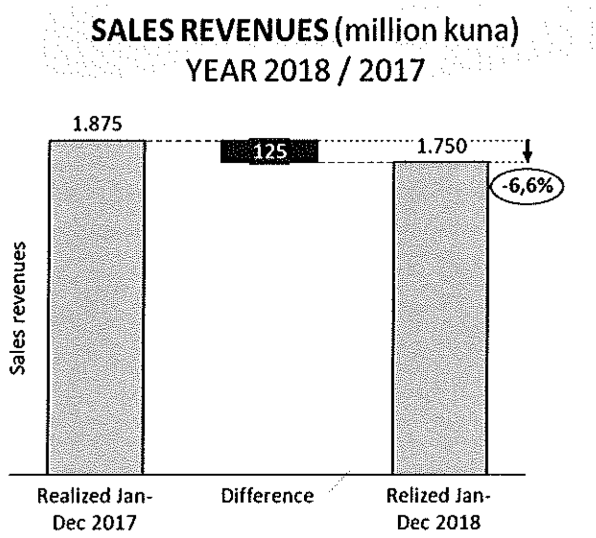
(HRK 000)

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**	**227.395**	**134.138**	**46.828**	**-195.801**	**233.000**	
1.1.	Subscribed capital and reserve	687.583	385.935	385.935	46.816	703.796	1.503,3
1.2.	Ratained profit	0	0	0	0	0	
1.3.	Transferred loss	0	-159.285	-251.797			
1.4.	Current year profit						
1.5.	Current year loss	-460.188	-92.512	-87.310	-242.617	-470.796	194,0
2	**Lonf-term obligations and reservations**	**25.144**	**139.935**	**377.044**	**526.008**	**478.684**	**91,0**
2.1.	Reservations for retirement and similar	8.330	9.871	11.316	11.724	11.563	98,6
2.2.	Other reservations	981	805	685	8.035	7.928	98,7
2.3.	Obligations for long term loans	15.833	129.259	365.043	506.249	459.193	90,7
3	**Short-term obligations**	**1.194.869**	**914.976**	**740.933**	**683.665**	**581.836**	**85,1**
3.1.	Obligations to domestic suppliers	352.566	434.869	141.729	175.118	201.647	115,1
3.2.	Obligations to importer	132.791	85.332	150.590	92.318	109.267	118,4
3.3.	Obligations for short-term loans	480.512	243.029	286.239	314.212	138.295	44,0
3.4.	Obligations for advance payments	112.185	126.006	136.962	78.254	105.063	134,3
3.5.	Obligations for bills of exchange and checks	13.421	0	0	0		
3.6.	Obligations to the employees	10.733	10.764	10.758	10.546	10.948	103,8
3.7.	Obligations for taxes and contributions	9.935	12.174	7.659	7.543	7.623	101,1
3.8.	Other short-team obligations	82.726	2.802	6.996	5.674	8.993	158,5
4	**Delayed payment for future period**	30.091	59.172	69.249	67.585	180.568	267,2
	Liabilities total (1+2+3)	**1.477.499**	**1.248.221**	**1.234.054**	**1.081.457**	**1.474.088**	136,3



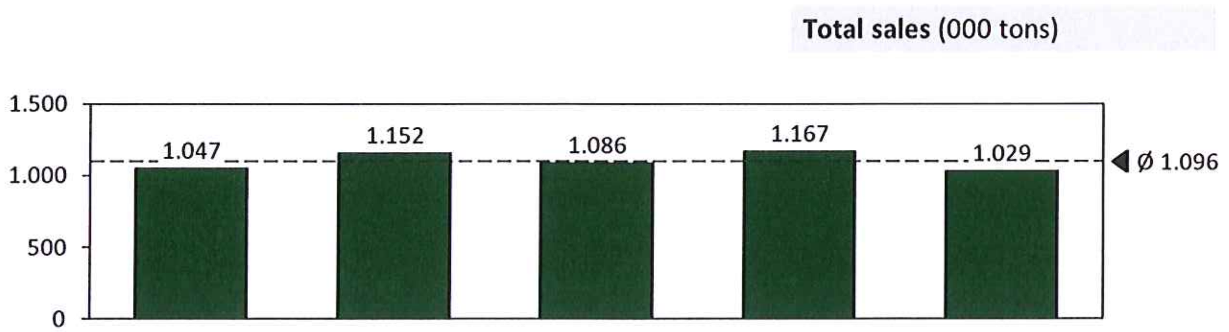
Total sales of mineral fertilizers

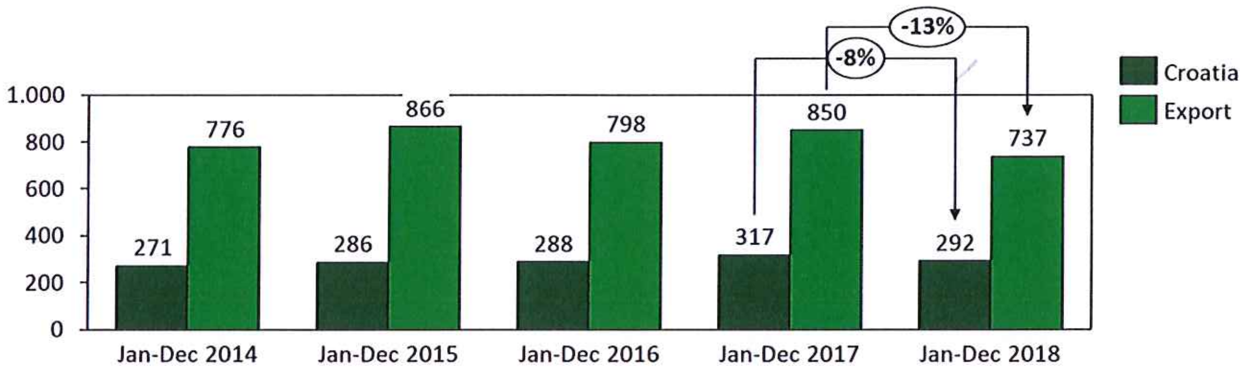




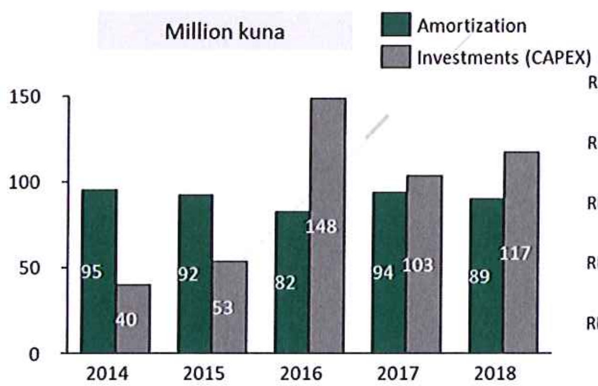
The sales volume of fertilizers decreased by 11.9% and was accompanied by a decrease of 6.6% in revenue from sales of mineral fertilizers, indicating a fall of 6% in average selling prices, compared to the same period in 2017 (changes in assortment and shares in particular markets).

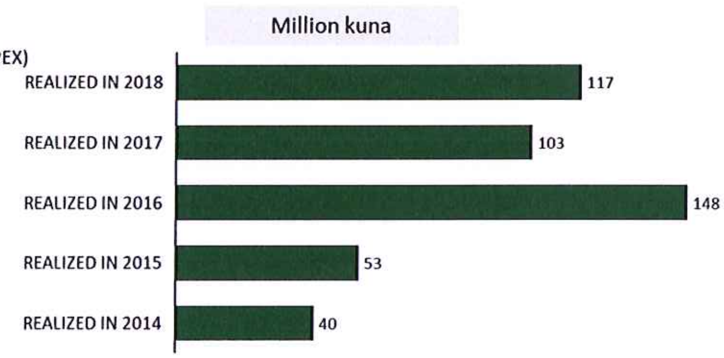
Actual sales of mineral fertilizers for the period 2014 –2018





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 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 2018, 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 that 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 was 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 and fair view of the financial position of the Company and of the results of its operations and its cash flows, in accordance with applicable accounting standards. This report may contain certain statements regarding future operations of Petrokemija d.d. and the Petrokemija Group, which can be identified through the use of phrases expressing the future such as "will", "planned", "expected", "forecast", etc. as well as through statements on strategy, plans or intentions.
These statements reflected the current position of Petrokemija d.d. Regarding future events and are subject to certain risks, uncertainties and assumptions. There are many factors that can cause significant differences between the actual results, performance or achievements of Petrokemija d.d. or the Petrokemija Group and the results, performance or achievements expressed or implied in these future-related statements.

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*	

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

General information

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

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

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

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

Corporate governance structure

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

General Assembly

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

Supervisory Board

The Supervisory Board of the Company supervises the conduct of business affairs in the Company. With this end in view, it reviews and examines the Company's business accounts and documentation. The Supervisory Board submits to the General Assembly a written report on the supervision exercised with respect to the conduct of business affairs in the Company. The Supervisory Board consists of five members, 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 October 2018;
- members of the Supervisory Board Mijo Šepak and Robert Blažinović resigned as members on 30 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 Company's Articles of Association, the Company's Supervisory Board established the Audit Committee whose work is governed by the Audit Committee Charter.

The Audit Committee, appointed in accordance with the law, consisted of 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 Company is exposed in its operations.

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 Company. 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 Company's Internal Audit that oversees the overall operations in order to assess the adequacy of the established system of internal controls;
- Department for Administrative and Financial Management that ensures the reliability of accounting and financial reporting, and of controlling and protecting the system of internal controls for the preparation of financial information;
- Annual Report subject to detailed review and approval through a structured governance process involving senior and executive finance personnel.

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

Davor Zmegač
President of the Management Board

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

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

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

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

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

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

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

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

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

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

Davor Žmegač
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

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

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Petrokemija d.d., Kutina

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Petrokemija d.d., Kutina (the Company), which comprise the separate statement of financial position as at 31 December 2018, the separate statement of profit or loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company 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 qualified opinion.

Emphasis of Matter

Basis for Qualified Opinions for previous years

In the financial statements of the Company 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 Company for the year ended 31 December 2018, we obtained sufficient audit evidence which enabled us to ascertain that the Company 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 Company incurred loss after tax of HRK 470,796 thousand for the year ended 31 December 2018 (2017: HRK 242,617 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 Company'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 Financial Statements

Key Audit Matter

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

Revenue from sales

According to information presented in Note 7, the Company's realized revenue from sales in the amount of HRK 1,805,293 thousand (2017: HRK 1,933,401 thousand).
Revenue from sales is an important factor in assessing the Company's performance. There is a risk that the disclosed revenue exceeds the revenue actually realized by the Company. Operating income is calculated when the sale transaction is completed, goods are delivered to the customer and the Company transfers all economic risks to another party. The Company realizes revenue from sale on foreign and domestic markets. Risk and rewards related to services and goods are transferred when goods and services are transferred to the customer and when goods are paid for and available at the location of a third or related party. The sales process is supported by the internal controls embedded in the Company's information systems. Given the potential effect of an incorrect calculation of revenue, we have determined the correct calculation of revenue to be one of the key audit matters.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Other Matters

We draw attention to the fact that the Company compiles these unconsolidated financial statements in accordance with the requirements of Croatian laws and regulations and that investments in subsidiaries in these unconsolidated financial statements are stated at cost of investment. In addition, the Company is a part of consolidated financial statements for the period ended on 31 December 2018 together with its subsidiaries ("the Group"), and for the better understanding the Group as a whole consolidated financial statements should be read together with these unconsolidated financial statements. Consolidated financial statements will be issued when these unconsolidated financial statements are issued.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the separate financial statements and our auditor's report or the non-financial statement expected to be made available to us after the date of auditor's report.

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

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report and the Corporate Governance Statement, which are included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report and Corporate Governance Statement include required disclosures as set out in Articles 21 and 22 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.
Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

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

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

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

Report on Other Legal and Regulatory Requirements

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

We were appointed as the statutory auditor of the Company by General Assembly on 09 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 financial statements is consistent with the additional report issued to the Audit Committee of the Company on 03 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 controlled undertakings, and which have not been disclosed in the Annual Report.

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

Marina Tonžetić
Member of the Board and Certified auditor

Deloitte d.o.o.
Zagreb, 03 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.

Separate statement of comprehensive income
for the year ended 31 December 2018

(in thousands of HRK)	*Note*	2018	2017
Revenue from sales	7	**1,805,294**	1,933,401
Other income	8	**48,123**	32,728
Total operating income		**1,853,417**	1,966,129
Changes in inventory of finished goods and work in progress		**(4,795)**	(14,113)
Raw materials, consumables and services used	9	**(1,768,034)**	(1,699,860)
Staff costs	10	**(187,257)**	(183,880)
Depreciation	14.15	**(89,478)**	(93,817)
Other operating expenses	11	**(102,739)**	(167,941)
Total operating expenses		**(2,152,303)**	(2,159,611)
Operating loss		**(298,886)**	(193,482)
Financial income	12	**16,014**	17,456
Financial expenses	12	**(187,924)**	(66,591)
Net finance costs		**(171,910)**	(49,135)
Loss before tax		**(470,796)**	(242,617)
Income tax	13	**-**	-
Loss for the period		**(470,796)**	(242,617)
Other comprehensive income			-
Total comprehensive loss		**(470,796)**	(242,617)

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

Petrokemija d.d.
Separate statement of financial position
for the year ended 31 December 2018

(in thousands of HRK)	*Note*	**31/12/2018**	31/12/2017
ASSETS			
Non-current assets			
Property, plant and equipment	14	**694,361**	668,757
Intangible assets	15	**3,375**	8,491
Investments in subsidiaries and associates	16	**13,454**	15,655
Non-current financial assets	17	**10**	8
		711,200	692,911
Current assets			
Inventories	18	**293,668**	285,373
Trade and other receivables	19	**84,577**	71,036
Current financial assets	17	**375,135**	5,749
Cash and cash equivalents	20	**9,508**	26,387
		762,888	388,545
Total assets		**1,474,088**	1,081,456
EQUITY AND LIABILITIES			
Equity and reserves	21		
Share capital		**550,287**	42,904
Reserves		**153,508**	3,912
Loss for the year		**(470,796)**	(242,617)
		233,000	(195,801)
Non-current liabilities			
Loans and borrowings	22	**459,193**	305,240
Provisions	23	**19,491**	19,759
		478,684	324,999
Current liabilities			
Trade and other payables	24	**624,109**	437,038
Loans and borrowings	22	**138,295**	515,220
		762,404	952,258
Total equity and liabilities		**1,474,088**	1,081,456

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

Petrokemija d.d.
Separate statement of financial position
for the year ended 31 December 2018

(in thousands of HRK)	Share capital	Other reserves	Transferred Loss and profit for the year	Total
As at 1 January 2017	386,135	(200)	(339,107)	46,828
Transfer (Note 21(d))	(343,231)	4,124	339,107	-
Reserves from profit	-	(12)	-	(12)
Comprehensive income				
Loss for the year	-	-	*(242,617)*	*(242,617)*
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	*(242,617)*	*(242,617)*
Balance at 31 December 2017	**42,904**	**3,912**	***(242,617)***	**(195,801)**
Increase in share capital by transfer of CERP/RH (Note 21(a))	450,000	-	-	450,000
Simplified transfer (Note 21(b))	(392,617)	150,000	242,617	-
Increase in share capital by issuing shares (Note 21(c))	450,000	-	-	450,000
Recapitalisation costs	-	(401)	-	(401)
Reserves from profit	-	(3)	-	(3)
Comprehensive income				
Loss for the year	-	-	*(470,796)*	*(470,796)*
Other comprehensive income	-	-	-	-
Total comprehensive income			*(470,796)*	*(470,796)*
Balance at 31 December 2018	**550,287**	**153,508**	***(470,796)***	**233,000**

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

Separate statement of cash flows
for the year ended 31 December 2018

(in thousands of HRK)	Note	2018	2017
Cash flows from operating activities			
Loss before tax		(470,796)	(242,617)
Adjustments:			
Depreciation	14, 15	89,478	93,817
Value adjustment of tangible and financial assets	11	2,201	18,797
Impairment losses on inventories	11	20,853	69,605
Impairment losses on trade receivables	19	55	5
Interest income	12	(61)	(40)
Interest expense	12	64,338	45,227
Net (decrease)/increase of provisions	23	(267)	7,758
Net change in exchange differences	12	(6,073)	(8,322)
Net loss on disposal of property, plant and equipment	14, 15	2,211	4,363
Operating profit before changes in working capital		**(298,061)**	**(11,517)**
Changes in working capital			
(Increase)/decrease in inventories		(29,148)	42,622
(Increase)/decrease in trade and other receivables		(11,751)	7,664
Increase/(decrease) in trade and other payables		522,920	(75,558)
Net cash from/(used in) operations		**183,960**	**(25,272)**
Interest paid		(63,674)	(41,838)
Net cash from/(used in) operating activities		**120,286**	**(78,517)**
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	14, 15	(114,092)	(108,198)
Interest received		70	40
Net (outflows)/inflows from bank deposits and money market funds		(369,327)	27,883
Other proceeds from non-current financial assets		-	92
Net cash used in investing activities		**(483,349)**	**(80,183)**
Cash flows from financing activities			
Loans and borrowings	22	104	389,343
Repayment of loans and borrowings	22	(103,920)	(226,589)
Issuing shares	21	450,000	-
Net cash from financing activities		**346,184**	**162,754**
Net increase in cash and cash equivalents		**(16,879)**	**4,054**
Cash and cash equivalents at the beginning of the year		26,387	22,333
Cash and cash equivalents at the end of year	20	9,508	26,387

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

1 General information

The company Petrokemija d.d. Tvornica gnojiva (hereinafter "the Company") was founded in 1965, although the beginning of the sooth production dates back to 1926. Today the Company is registered at the Commercial Court in Zagreb under registration number 080004355 and personal identification number 24503685008. As at 31 December 2018, its share capital amounts to HRK 550,287 thousand and it is divided into 55,028,701 non-materialized ordinary shares at a nominal value of HRK 10 each. The Company's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in Note 21. As at 31 December 2018, the Company employed 1,597 employees *(31 December 2017: 1,572 employees).* Pursuant to the national classification of activities and along with the basic activity of producing mineral fertilizers registered at the Commercial Court Register in Sisak, the Company's main activities are: production of feed additives, production of chemicals and chemical products, production of other rubber products, metal products, supply of electricity, gas, steam and hot water, collecting, purifying and distributing water, research and development in natural, technical and technological sciences.

Company bodies

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

Management Board

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

Davor Žmegač	Member from 29 May 2017 to 31 October 2018; President since 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
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 Šepak	Member since 31 October 2018, President to 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

General Assembly

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

2 Basis of preparation

2.1 Statement of compliance

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

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

These financial statements were authorised for issue by the Management Board on 3.travnja 2019.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Going concern

In the year ended 31 December 2018, the Company incurred loss after tax of HRK 470,796 thousand *(2017: HRK 242,617 thousand)*.

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

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

2 Basis of preparation *(continued)*

2.4 Going concern (continued)

In the end of May, 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 accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Investments in subsidiaries and associates

(i) Subsidiaries

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

(ii) Associates

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

3.2 Foreign currencies

Foreign currency transactions

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

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

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

3.3 Intangible assets

(i) Software licences and project documentation

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

Software and project documentation	3 – 5 years

3 Significant accounting policies *(continued)*

3.4 Property, plant and equipment

Owned assets

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

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

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

Buildings	15 – 50 years
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.

3.5 Financial instruments

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

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

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

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

3 Significant accounting policies *(continued)*

3.6 Inventories

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

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

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

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

3.7 Impairment losses

(i) Financial assets

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

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

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

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

(ii) Property, plant and equipment and intangible assets

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

(i) Investments in subsidiaries

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

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

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

3.8 Employee benefits

(i) Defined pension fund contributions

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

(ii) Long-term employee benefits

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

(iii) Bonus plans

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

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

3.9 Provisions

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

3.10 Revenue

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

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

3.11 Financial income and expenses

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

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

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

3 Significant accounting policies *(continued)*

3.12 Accounting for leases

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

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

3.13 Share capital

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

3.14 Dividends

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

3.15 Segment information

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

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

3 Significant accounting policies *(continued)*

3.16 Taxation

Current tax

Income tax is based on taxable income for the year and comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the date of the statement of financial position, and any adjustments to tax payable in respect of previous years. In 2018, the corporate income tax rate amounts to 18% (2017: 18%).

Deferred taxes

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which the carrying value of assets and liabilities is expected to be recovered or settled based on tax rates enacted at the date of the statement of financial position.
The measurement of deferred tax liabilities and assets reflects the tax consequences that would arise from the manner in which the Company expects, at the date of the statement of financial position, to recover or settle the net carrying amount of its assets and liabilities.
Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that they could be utilised as a tax benefit. At each date of the statement of financial position, the Company reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.
Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.
In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

4 New standards and interpretations not yet adopted

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

- **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" (effective for annual periods beginning on or after 01 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 Company's separate 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 Company opted not to adopt these new standards and amendments to existing standards before their effective dates. The Company believes that the adoption of new standards and amendments to existing standards will not have a significant effect on the Company's financial statements.

4 New standards and interpretations not yet adopted (continued)

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

IFRSs currently in effect in the European Union do not differ significantly from regulations issued by the International Accounting Standards Board (IASB), except for the following, amendments to existing standards and interpretations regarding whose adoption no decision was made by the European Union as at 31 March 2019 (effective dates listed below relate to IFRSs as a whole):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission decided to delay the adoption of this transitional standard until the issue of its final version,

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to MFSI 3 "Business Combinations"** – Defining business operations (effective for business combinations with the acquisition date on or after the start of the first annual reporting period starting on or after 1 January 2020 and obtaining funds on or after the starting date of the relevant period).

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material (effective for annual periods starting on or after 1 January 2020),

- **Amendments to IAS 19 "Employee Benefits"** – "Plan Amendment, Curtailment or Settlement"(effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – "Long-term Interests in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to various standards entitled "Improvements to IFRS Standards 2015-2017 Cycle"** resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily aimed at eliminating inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to Conceptual Framework for IFRS (effective for annual periods beginning on or after 1 January 2020),**

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

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.

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

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

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

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

(iii) Consequences of certain legal actions

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

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

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

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

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

5 Key accounting judgements and estimates (continued)

(iv) Impairment losses on trade receivables

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

(v) Useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. Property, plant and equipment are carried at cost, less accumulated depreciation. In order to estimate the recoverability of property, plant and equipment, the Company develops a model of free cash flows (FCFF) using internal projections of changes in total income and expense, working capital and investment investment variables. Movement of variables in projections is based on the Company's expectations in line with historical experience, new contracts for procurement of key raw materials (natural gas, etc.) and the Company's strategy for next financial years. Key assumptions include cumulative sales growth of 3.16% in the period from 2019 to 2028, cumulative negative growth of raw material costs of this energy at 2.81%, or 7.63% in the aforementioned period and a fall in staff costs of 32.2%.

(vi) Impairment of investments in subsidiaries

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

6 Determination of fair value

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

Fair values are measured using information collected from third parties in which case the Management Board and the finance department assess whether the evidence collected from third parties support the conclusion that such fair valuations meet the requirements of IFRSs, including the level in the fair value hierarchy where such valuations should be classified. All significant issues related to fair values estimates are reported to the Supervisory Board and the Audit Committee. Fair values are categorised into different levels in the fair value hierarchy based on the inputs used in valuation techniques as follows:

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

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

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

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

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

- Note 17: Financial assets

7 Revenue from sales

	2018 '000	2017 '000
Revenue from sale of products and trade goods	**1,800,775**	1,929,941
Revenue from services	**4,519**	3,460
	1,805,294	1,933,401

Overview of revenue from sales per market:

	2018 '000	2017 '000
Croatia	589,204	610,628
Slovenia	126,394	151,564
Bosnia and Herzegovina	98,955	116,406
Serbia and Montenegro	145,932	144,081
Macedonia	9,718	14,372
Sales in countries outside the region	835,091	896,350
	1,805,294	1,933,401

8 Other income

	2018 '000	2017 '000
Own consumption	**30,990**	17,131
Sale of manufactured packaging	**5,768**	5,329
Insurance reimbursement	**3,539**	2,697
Inventory surplus	**2,180**	2,184
Sale of tangible assets	**1,915**	47
Sale of raw materials	**636**	158
Manufacture of spare parts	**105**	111
Other income	**2,990**	5,071
	48,123	32,728

9 Raw materials, consumables and services used

	2018 '000	2017 '000
Raw materials and consumables used	**1,686,798**	1,614,691
Cost of production services	**79,105**	83,535
Cost of wholesale and retail goods sold	**2,131**	1,634
	1,768,034	1,699,860

10 Staff costs

	2018 '000	2017 '000
Salaries	**118,086**	116,550
Contributions on salaries	**27,277**	26,892
Other staff costs	**41,894**	40,438
	187,257	183,880

As at 31 December 2018, the Company had 1,597 employees *(2017: 1,572)*.

11 Other operating expenses

	2018	2017
	'000	'000
Other taxes, fees and charges	**47,947**	41,580
Impairment losses on inventories (Note 18)	**18,370**	69,605
Other staff costs	**12,533**	13,404
Insurance	**9,609**	10,041
Bank charges	**2,580**	4,348
Inventory loss	**1,623**	901
Increase in provision (Note 23)	**1,107**	8,956
Impairment losses on tangible assets	**-**	10,331
Depreciated value of expensed non-current tangible assets	**2,482**	-
Intellectual services	**835**	2,101
Travel expenses	**591**	535
Impairment losses on trade receivables	**55**	5
Other costs	**5,004**	6,134
	102,738	167,941

The Company 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, the Company paid termination benefits in the amount of HRK 302 thousand (2017: in January 2017, the Company paid incentive termination benefits in the amount of HRK 5,524 thousand), which were included in other staff costs. Other taxes, fees and charges include HRK 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.

12 Financial income and financial expenses

	2018	2017
	'000	'000
Interest income	**61**	40
Foreign exchange gains	**15,407**	17,401
Other financial income	**546**	15
Total financial income	**16,014**	17,456
Interest cost	**(64,338)**	(45,227)
Foreign exchange losses	**(9,334)**	(9,079)
Other financial expenses	**(114,252)**	(12,285)
Total financial expenses	**(187,924)**	(66,591)
Net financial costs	**(171,910)**	(49,135)

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 and HRK 2,200 thousand refer to value adjustment of investments in subsidiary Luka Šibenik d.o.o. *(2017: HRK 8,466 thousand* refer to value adjustment of investments in subsidiaries Luka Šibenik d.o.o. and Petrokemija Agro Trade d.o.o.).

13 Income tax

	2018 **'000**	2017 '000
Loss before taxation	**(470,796)**	(242,617)
Tax calculated at 18% (2017: 18%)	(84,743)	(43,671)
Effect of non-deductible expenses and non-taxable income	2,356	17,298
Effect of unused tax losses and offsets not recognised as deferred tax assets	**82,387**	26,373
Income tax expense recognised in profit or loss	**-**	-

At the reporting date, carry forward tax losses of the Company amounting to HRK 1,140,385 thousand *(31 December 2017: HRK 1,005,811 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 **HRK '000**	31/12/2017 HRK '000
Tax loss from 2014 – expires on 31 December 2018	**-**	**58,166**
Tax loss from 2014 – expires on 31 December 2019	**64,780**	**64,780**
Tax loss from 2015 – expires on 31 December 2020	**15,992**	**15,992**
Tax loss from 2016 – expires on 31 December 2021	**15,735**	**15,735**
Tax loss from 2017 – expires on 31 December 2022	**26,373**	**26,373**
Tax loss from 2018 – expires on 31 December 2023	**82,387**	**-**
	205,267	**181,046**

14 Property, plant and equipment

(in thousands of HRK)

	Land	Buildings	Plant and equipment	Tools and inventory	Current investments	Advances	Total
Cost							
As at 1 January 2017	48,507	584,661	1,412,742	70,593	32,094	99	2,148,696
Additions	4	-	-	-	88,635	17,640	106,279
Transfer	-	1,587	34,294	5,326	(28,231)	(12,976)	-
Transfer of assets to Agrotrade (n. 16)	(3,718)	(816)	(2,136)	-	-	-	(6,670)
Disposals and retirement	-	(4,211)	(2,231)	(200)	-	-	(6,642)
As at 31 December 2017	**44,793**	**581,221**	**1,442,669**	**75,719**	**92,498**	**4,763**	**2,241,663**
Accumulated depreciation							
As at 1 January 2017	-	360,513	1,065,223	53,422	-	-	1,479,158
Charge for the year	-	18,935	70,044	3,387	-	-	92,366
Impairment losses	-	-	5,211	-	5,120	-	10,331
Transfer of assets to Agrotrade (n. 16)	-	(598)	(2,148)	-	-	-	(2,746)
Disposals and retirement	-	(4,081)	(1,926)	(196)	-	-	(6,203)
As at 31 December 2017	**-**	**374,769**	**1,136,404**	**56,613**	**5,120**	**-**	**1,572,906**
Net carrying amount	**44,793**	**206,452**	**306,265**	**19,106**	**87,378**	**4,763**	**668,757**
As at 31 December 2017							
Cost	44,793	581,221	1,442,669	75,719	92,498	4,763	2,241,663
Adjustment	-	-	(1,282)	(615)	1,029	-	(868)
Additions	-	-	-	-	93,417	18,424	111,841
Brought from intangible assets	-	-	5,136	-	-	-	5,136
Transfer	-	4,624	129,587	521	(115,626)	(19,106)	-
Disposals and retirement	(417)	(2,331)	(2,533)	(1,658)	-	-	(6,939)
As at 31 December 2018	**44,376**	**583,514**	**1,573,577**	**73,967**	**71,318**	**4,081**	**2,350,833**
Accumulated depreciation							
As at 1 January 2018	-	**374,769**	**1,136,404**	**56,613**	**5,120**	-	**1,572,906**
Adjustment	-	5,211	(6,411)	(135)	(417)	-	(1,752)
Charge for the year	-	17,692	67,221	3,218	-	-	88,131
Disposals and retirement	-	(618)	(537)	(1,658)	-	-	(2,813)
As at 31 December 2018	**-**	**397,054**	**1,196,677**	**58,038**	**(4,703)**	**-**	**1,656,472**
Net carrying amount	**44,376**	**186,460**	**376,900**	**15,929**	**66,615**	**4,081**	**694,361**

14 Property, plant and equipment (continued)

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

The Company's property amounting to HRK 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**

16 Investments in subsidiaries and associates

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

Name of subsidiary	Ownership share % 31/12/2018	Ownership share % 31/12/2017	Investment 31/12/2018 HRK '000	Investment 31/12/2017 '000
Investment in Luka Šibenik d.o.o.	79.72%	79.72%	**27,798**	27,798
Impairment of investment in Luka Šibenik d.o.o.			**(14,603)**	(12,402)
Petrokemija d.o.o., Novi Sad	100%	100%	**259**	259
			13,454	15,655

In 2018, the Company impaired the investments in the subsidiary Luka Šibenik d.o.o. in the amount of HRK 2.2 million *(on 31 December 2017: 3.2 million HRK)*. In 2018, the Company sold all of its shares in the company Petrokemija Agro Trade d.o.o. At the moment of the sale, the carrying amount of the subsidiary Petrokemija Agro Trade d.o.o. was completely impaired.

17 Financial assets

	31/12/2018 HRK '000	31/12/2017 '000
Non-current financial assets		
Investment in other equity instruments	10	8
Current financial assets		
Financial assets held for trading (investments in UCITS open-ended investment funds with a public offering)	27,002	4,631
Deposits	348,133	1,118
	375,135	**5,758**

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 HRK '000	31/12/2017 '000
Finished goods	**152,807**	162,788
Spare parts	**129,277**	130,305
Impairment of spare parts inventory	**(106,064)**	(100,760)
Raw materials and supplies	**133,924**	106,341
Impairment of raw materials and supplies	**(33,165)**	(23,638)
Work in progress	**14,992**	9,087
Advances	**1,287**	656
Trade goods	**611**	590
	293,668	285,373

19 Trade and other receivables

	31/12/2018 HRK '000	31/12/2017 '000
Current receivables		
Trade receivables	**119,077**	128,095
Impairment allowance for trade receivables	**(104,148)**	(106,174)
Net trade receivables	**14,929**	21,921
Taxes and contributions	**62,992**	47,082
Related party trade receivables	**4,340**	835
Prepaid expenses	**14**	22
Receivables from employees	**31**	6
Other receivables	**2,271**	1,170
	84,577	71,036

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

	31/12/2018 HRK '000	31/12/2017 '000
At the beginning of the period	**106,174**	106,198
Increase (*Note 11*)	**55**	5
Net exchange differences	**(7)**	(4)
Paid	**(34)**	(22)
Written-off as uncollectible	**(2,039)**	(3)
At the end of the period	**104,148**	106,174

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

	31/12/2018 HRK '000	31/12/2017 '000
Not yet due	**11,435**	17,983
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
	123,417	128,930

Trade receivables are denominated in following currencies:

	31/12/2018 HRK '000	31/12/2017 '000
Croatia (HRK)	109,616	125,006
European Union (EUR)	13,801	3,911
USA (USD)	-	13
	123,417	128,930

20 Cash and cash equivalents

	31/12/2018	31/12/2017
	HRK '000	'000
Cash at bank	9,499	26,378
Cash in hand	9	9
	9,508	26,387

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.

21 Capital and reserves

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

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

Ownership 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 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 Company of 9 July 2018, the share capital of the Company 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 Company assigned the claims per third party loans in the amount of HRK 450,000 thousand. By doing so, the share capital increased to HRK 492,904 thousand.

(b) Based on the Decision of the Supervisory Board and the Decision of the Commercial Court, on 5 November 2018., the Company decreased its share capital 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 Company 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 HRK. The relevant capitalisation made TERRA MINERALNA GNOJIVA d.o.o. the majority shareholder of the Company.

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

22 Loans and borrowings

	31/12/2018 HRK '000	31/12/2017 '000
Long-term loans		
Banks	**124,849**	303,785
Other loans	**334,344**	1,455
	459,193	305,240
Short-term loans		
Banks	**21,000**	327,190
Related party loans	**6,000**	6,000
Other loans	**111,295**	182,030
	138,295	515,220
Total borrowings	**597,488**	820,460

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

	31/12/2018 HRK '000	31/12/2017 '000
Up to 1 year	**138,295**	515,220
1 to 2 years	**278,530**	22,359
2 to 5 years	**116,661**	106,045
Over 5 years	**64,002**	176,836
	597,488	820,460

Bank loans

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

Related party loans

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

Other loans

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

22 Loans and borrowings

Debt covenants

Annexes to the long-term loan agreements with Hrvatska poštanska banka d.d. and the Croatian Bank for Reconstruction and Development extended the Company recapitalisation deadline, in order to ensure sustainable operations of the Company. The agreement is cancelled if the Company's recapitalisation process is completed by 31 December 2018.

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	Loans and borrowings	Repayment of borrowings	Foreign exchange differences	**Balance at 31/12/2018**
Bank loans	**630,975**	103	(476,000)	(9,230)	**145,849**
Suppliers (Ina d.d., PPD d.o.o. i HEP d.d.)	**180,670**	340,073	(76,560)	-	**444,184**
Related parties	**6,000**	-	-	-	**6,000**
Other loans	**2,815**	-	(1,360)	-	**1,455**
	820,460	**340,176**	**(553,920)**	**(9,230)**	**597,488**

As at 31 December 2018, the total debt to banks amounts to HRK 145,849 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), and HRK 92,281 indebted to Hrvatska poštanska banka (HPB).

23 Provisions

(in thousands of HRK)	Jubilee awards	Terminatio n benefits	Legal actions	Decommissioning provision for "Čađara"	Total
As at 31 December 2017	**7,380**	**4,344**	**535**	**7,500**	**19,759**
Increase in provision	706	357	43	-	1,106
Revenue			(150)		(150)
Paid	(1,224)	-	-	-	(1,224)
As at 31 December 2018	**6,862**	**4,701**	**428**	**7,500**	**19,491**

Legal actions

There are a number of legal actions initiated against the Company for minor amounts as well as those initiated by the Company against others. A provision amounting to HRK 428 thousand was recognised in relation to legal actions *(31 December 2017: HRK 535 thousand)*. The Company's Management Board believes that no significant costs exceeding those provided for at the reporting date will occur as a result of ongoing legal actions.

Jubilee awards and termination benefits

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

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

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

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

24 Trade and other payables

	31/12/2018	31/12/2017
	HRK '000	'000
Trade payables	**306,720**	263,390
Advances received	**105,063**	78,254
Salaries and other employee benefits	**17,025**	17,118
Contributions and other fees	**6,216**	6,066
Accrued interest	**11,196**	5,649
Related party payables	**1,967**	4,047
Other	**175,922**	62,514
	624,109	437,038

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

25 Risk management

Financial risk management

Categories of financial instruments are as follows:

	2018	2017
	(in thousands of HRK)	
Current financial assets	**375,135**	5,749
Trade and related party receivables	**19,269**	22,756
Cash and cash equivalents	**9,508**	26,387
Total financial assets	**403,912**	**54,892**
Loan liabilities	597,488	820,460
Trade and related party payables	308,687	267,437
Total financial liabilities	**906,175**	**1,087,897**

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).

25 Risk management *(continued)*

Financial risk management *(continued)*

Liquidity risk management

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

Liquidity risk analysis

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

As at 31 December 2018	**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 and related party receivables	19,269	19,269	19,269	-	-	-
Interest bearing assets:						
Current financial assets	375,135	375,285	375,285	-	-	-
Cash and cash equivalents	9,508	9,508	9,508	-	-	-
	403,912	**404,062**	**404,062**	-	-	-

as at 31 December 2018	**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	308,687	308,687	308,687	-	-	-
Interest bearing liabilities:						
Loan liabilities	597,488	671,314	161,560	295,459	139,043	75,252
	906,175	**980,001**	**470,247**	**295,459**	**139,043**	**75,252**

25 Risk management *(continued)*

Financial risk management *(continued)*

Interest rate risk management

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

Interest rate risk sensitivity analysis

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

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

	Contractual cash flows	Up to 6 months	6 to 12 months	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	4,483	-
Effect of increase of interest rate by 1%	(542)	(199)	(154)	(143)	(45)	-

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

25 Risk management *(continued)*

Financial risk management *(continued)*

Currency risk management

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

	Assets	
	2018	2017
	(in thousands of HRK)	
European Union (EUR)	14,786	7,568
USA (USD)	5	14
	14,791	7,582

	Liabilities	
	2018	2017
	(in thousands of HRK)	
European Union (EUR)	71,800	64,267
USA (USD)	84,778	85,816
	156,578	150,083

Foreign currency sensitivity analysis

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

	Spot FX rate		Average FX rate	
	31/12/2018	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 Company's sensitivity to a 1% increase in HRK against the EUR and a 10% increase against the USD as the estimated reasonably possible increase in the exchange rate of the respective currencies. The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies and adjusts their translation at the period end for a percentage change in FX rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number indicates a decrease in profit where the HRK changes against the relevant currency by the percentage specified above. The weakening of the HRK against the relevant currency in the same percentage would result in an equal and opposite impact on profit.

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

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

25 Risk management (continued)

Financial risk management (continued)

Credit risk management

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

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

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

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

	2018	2017
Not yet due	**11,435**	17,938
Overdue 0-120 days, but not impaired	**7,834**	3,787
Overdue over 120 days, but not impaired	**-**	986
Total trade receivables	**19,269**	22,756
Total exposure to credit risk	**19,269**	22,756

Operational risk management

Sales concentration risk

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

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

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

Price risk

The supply of the Company's primary raw material, natural gas, is dependent on two major suppliers who are also the Company's largest creditors accounting for 38% of its total liabilities. In lieu of prolonged payments to suppliers due to the stressed liquidity position, access to supplies of natural gas at market prices is limited and exerts additional pressure on product margins.

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

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

26 Contractual and capital commitments

Procurement of natural gas

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

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.

27 Related party transactions

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").

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

Transactions with subsidiaries

	2018 HRK '000	2017 HRK '000
Luka Šibenik d.o.o.	1,605	1,210
Petrokemija d.o.o., Novi Sad	48,558	33,457
Petrokemija Agro Trade d.o.o. Kutina	4,644	1,201
Sale of goods and services	**54,807**	35,868
Luka Šibenik d.o.o.	-	-
Petrokemija d.o.o., Novi Sad (foreign exchange differences)	**15**	104
Petrokemija d.o.o., Novi Sad (income from shares)	**516**	-
Petrokemija Agro Trade d.o.o. Kutina	-	-
Financial income	**531**	104

	31/12/2018 HRK '000	31/12/2017 HRK '000
Luka Šibenik d.o.o.	334	334
Petrokemija d.o.o., Novi Sad	4,005	-
Petrokemija Agro Trade d.o.o. Kutina	-	501
Receivables as at 31 December	**4,339**	**835**

	2018 HRK '000	2017 HRK '000
Luka Šibenik d.o.o.	13,243	18,772
Petrokemija d.o.o., Novi Sad	83	191
Petrokemija Agro Trade d.o.o. Kutina	4,691	1,200
Purchase of goods and services	**18,017**	**20,163**

	2018 HRK '000	2017 HRK '000
Luka Šibenik d.o.o.	300	300
Petrokemija d.o.o., Novi Sad	33	29
Petrokemija Agro Trade d.o.o. Kutina	-	-
Financial expenses	**333**	329

27 Related party transactions *(continued)*

Transactions with subsidiaries (continued)

	31/12/2018 HRK '000	31/12/2017 HRK '000
Petrokemija d.o.o., Novi Sad	23	20
Luka Šibenik d.o.o.	1,944	3,527
Petrokemija Agro Trade d.o.o. Kutina	-	500
Liabilities as at 31 December	**1,967**	**4,047**
Luka Šibenik d.o.o.	**6,000**	6,000
Loans and borrowings	**6,000**	**6,000**

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

28 Contingent liabilities

Legal actions

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

29 Events after the reporting period

In the period from 31 December 2018 to the date of approval of these financial statements, the Company is in the process of negotiations with the Company'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 Žmegač
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

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

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	1597		
Consolidated report:	KN	(KN-not consolidated/KD-consolidated)	
Audited:	RD	(RN-not audited/RD-audited)	

Names of subsidiaries (according to IFRS)	Registered office:	MB:

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 d.d.__

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	692.910.766	711.199.885
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	668.559.628	694.360.801
1 Land	011	44.792.549	44.376.020
2 Buildings	012	201.240.990	186.459.354
3 Plant and equipment	013	310.509.892	376.900.515
4 Tools, working inventory and transportation assets	014	18.162.307	15.464.185
5 Biological assets	015	0	0
6 Advance payments for purchase of tangible assets	016	4.763.643	4.081.162
7 Tangible assets in preparation	017	88.625.507	66.614.886
8 Other tangible assets	018	464.740	464.679
9 Investment property	019	0	0
III FIXED FINANCIAL ASSETS (ADP 021 to 030)	020	15.662.370	13.464.349
1 Investments in holdings (shares) of undertakings within the group	021	15.654.834	13.454.123
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	0	0
C) CURRENT ASSETS (ADP 038+046+053+063)	037	388.524.703	762.873.777
I INVENTORIES (ADP 039 to 045)	038	285.373.219	293.668.397
1 Raw materials	039	112.252.085	123.971.528
2 Work in progress	040	9.087.290	14.992.047
3 Finished goods	041	162.787.925	152.806.834
4 Merchandise	042	590.316	610.945
5 Advance payments for inventories	043	655.603	1.287.043
6 Fixed assets held for sale	044	0	0
7 Biological assets	045	0	0
II RECEIVABLES (ADP 047 to 052)	046	71.014.206	84.562.322
1 Receivables from undertakings within the group	047	835.005	4.339.580
2 Receivables from companies linked by virtue of participating interest	048	0	0
3 Customer receivables	049	21.921.069	14.929.318

4 Receivables from employees and members of the undertaking	050	6.315	30.960
5 Receivables from government and other institutions	051	47.081.670	62.991.746
6 Other receivables	052	1.170.147	2.270.718
III SHORT-TERM FINANCIAL ASSETS (ADP 054 to 062)	053	5.749.727	375.134.921
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	1.118.467	348.133.318
9 Other financial assets	062	4.631.260	27.001.603
IV CASH AT BANK AND IN HAND	063	26.387.551	9.508.137
D) PREPAID EXPENSES AND ACCRUED INCOME	064	21.966	14.293
E) TOTAL ASSETS (ADP 001+002+037+064)	065	1.081.457.435	1.474.087.955
OFF-BALANCE SHEET ITEMS	066	740.969.603	1.041.395.509
LIABILITIES			
A) CAPITAL AND RESERVES (ADP 068 to	067	-195.800.616	232.999.909
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	-14.080
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	0
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	0	0
1 Retained profit	082	0	0
2 Loss brought forward	083	0	0
VII PROFIT OR LOSS FOR THE BUSINESS YEAR (ADP 085-086)	084	-242.616.915	-470.796.290
1 Profit for the business year	085	0	0
2 Loss for the business year	086	242.616.915	470.796.290
VIII MINORITY (NON-CONTROLLING) INTEREST	087	0	0
B) PROVISIONS (ADP 089 to 094)	088	19.758.253	19.491.594
1 Provisions for pensions, termination benefits and similar obligations	089	11.723.528	11.563.187
2 Provisions for tax liabilities	090	0	0
3 Provisions for ongoing legal cases	091	534.725	428.407
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	305.241.602	459.192.864
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	334.344.269
6 Liabilities towards banks and other financial institutions	101	303.786.166	124.848.595
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**	884.672.971	581.835.890
1 Liabilities towards undertakings within the group	**108**	4.046.595	1.966.538
2 Liabilities for loans, deposits, etc. to companies within the group	**109**	6.000.000	6.000.000
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**	327.189.600	21.000.000
7 Liabilities for advance payments	**114**	78.254.196	105.063.422
8 Liabilities towards suppliers	**115**	263.389.849	308.947.109
9 Liabilities for securities	**116**	0	0
10 Liabilities towards employees	**117**	10.546.374	10.947.618
11 Taxes, contributions and similar liabilities	**118**	7.542.590	7.622.667
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**	5.673.554	8.993.494
E) ACCRUALS AND DEFERRED INCOME	**122**	67.585.225	180.567.698
F) **TOTAL – LIABILITIES** (ADP 067+088+095+107+122)	**123**	1.081.457.435	1.474.087.955
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 d.d.

Item	ADP code	Same period of the previous year	Current period
1	2	3	4
I OPERATING INCOME (ADP 126 to 130)	125	1.966.128.596	1.853.415.858
1 Income from sales with undertakings within the group	126	35.868.661	54.806.852
2 Income from sales (outside group)	127	1.897.532.092	1.750.487.911
3 Income from the use of own products, goods and services	128	17.165.088	31.039.317
4 Other operating income with undertakings within the group	129	0	0
5 Other operating income (outside the group)	130	15.562.755	17.081.778
II OPERATING EXPENSES (ADP 132+133+137+141+142+143+146+153)	131	2.159.609.557	2.152.302.155
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	1.699.859.581	1.768.033.886
a) Costs of raw material	134	1.614.691.435	1.686.798.259
b) Costs of goods sold	135	1.633.614	2.131.110
c) Other external costs	136	83.534.532	79.104.517
3 Staff costs (ADP 138 to 140)	137	183.878.857	187.257.448
a) Net salaries and wages	138	116.549.550	118.086.491
b) Tax and contributions from salaries expenses	139	40.437.582	41.894.237
c) Contributions on salaries	140	26.891.725	27.276.720
4 Depreciation	141	93.817.397	89.477.703
5 Other expenses	142	71.474.302	73.024.694
6 Value adjustments (ADP 144+145)	143	80.952.143	22.528.318
a) fixed assets other than financial assets	144	10.441.423	2.482.317
b) current assets other than financial assets	145	70.510.720	20.046.001
7 Provisions (ADP 147 to 152)	146	15.514.280	7.184.675
a) Provisions for pensions, termination benefits and similar obligations	147	8.014.280	7.140.994
b) Provisions for tax liabilities	148	0	0
c) Provisions for ongoing legal cases	149	0	0
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	43.681
8 Other operating expenses	153	0	0
III FINANCIAL INCOME (ADP 155 to 164)	154	17.454.876	16.014.406
1 Income from investments in holdings (shares) of undertakings within the group	155	0	516.309
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	104.092	14.795
6 Income from other long-term financial investments and loans	160	0	2.690
7 Other interest income	161	39.866	61.461
8 Exchange rate differences and other financial income	162	17.296.416	15.391.787
9 Unrealised gains (income) from financial assets	163	0	0
10 Other financial income	164	14.502	27.364
IV FINANCIAL EXPENDITURE (ADP 166 to 172)	165	66.590.830	187.924.399
1 Interest expenses and similar expenses with undertakings within the group	166	300.000	300.000
2 Exchange rate differences and other expenses from operations with undertakings within the group	167	28.759	33.090
3 Interest expenses and similar expenses	168	44.926.613	64.038.349
4 Exchange rate differences and other expenses	169	9.049.817	9.301.185
5 Unrealised losses (expenses) from financial assets	170	8.465.982	2.200.711
6 Value adjustments of financial assets (net)	171	0	0
7 Other financial expenses	172	3.819.659	112.051.064

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**	1.983.583.472	1.869.430.264
X TOTAL EXPENDITURE (ADP 131+165+175 + 176)	**178**	2.226.200.387	2.340.226.554
XI PRE-TAX PROFIT OR LOSS (ADP 177-178)	**179**	-242.616.915	-470.796.290
1 Pre-tax profit (ADP 177-178)	**180**	0	0
2 Pre-tax loss (ADP 178-177)	**181**	-242.616.915	-470.796.290
XII INCOME TAX	**182**	0	0
XIII PROFIT OR LOSS FOR THE PERIOD (ADP 179-182)	**183**	-242.616.915	-470.796.290
1 Profit for the period (ADP 179-182)	**184**	0	0
2 Loss for the period (ADP 182-179)	**185**	-242.616.915	-470.796.290
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**	0	0
1 Attributable to owners of the parent	**200**	0	0
2 Attributable to minority (non-controlling) interest	**201**	0	0
STATEMENT OF OTHER COMPRHENSIVE INCOME (to be filled in by undertakings subject to IFRS)			
I PROFIT OR LOSS FOR THE PERIOD	**202**	-242.616.915	-470.796.290
II OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX (ADP 204 to 211)	**203**	0	0
1 Exchange rate differences from translation of foreign operations	**204**	0	0
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	0
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (ADP 202+213)	**214**	-242.616.915	-470.796.290
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**	0	0
1 Attributable to owners of the parent	**216**	0	0
2 Attributable to minority (non-controlling) interest	**217**	0	0

STATEMENT OF CASH FLOWS - indirect method

for the period 01.01.2018 . to 31.12.2018.

in HRK

Submitter: Petrokemija d.d.

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**	-242.617.000	-470.796.000
2 Adjustments (ADP 003 to 010):	**002**	231.210.000	172.735.000
a) Depreciation	**003**	93.817.000	89.478.000
b) Gains and losses from sale and value adjustment of fixed tangible and intangible assets	**004**	14.694.000	2.211.000
c) Gains and losses from sale and unrealised gains and losses and value adjustment of financial assets	**005**	8.466.000	2.201.000
d) Interest and dividend income	**006**	-40.000	-61.000
e) Interest expenses	**007**	45.227.000	64.338.000
f) Provisions	**008**	7.758.000	-267.000
g) Exchange rate differences (unrealised)	**009**	-8.322.000	-6.073.000
h) Other adjustments for non-cash transactions and unrealised gains and losses	**010**	69.610.000	20.908.000
I Cash flow increase or decrease before changes in the working capital (ADP 001+002)	**011**	-11.407.000	-298.061.000
3 Changes in the working capital (ADP 013 to 016)	**012**	-25.272.000	482.021.000
a) Increase or decrease in short-term liabilities	**013**	-75.558.000	522.920.000
b) Increase or decrease in short-term receivables	**014**	7.664.000	-11.751.000
c) Increase or decrease in inventories	**015**	42.622.000	-29.148.000
d) Other increase or decrease in the working capital	**016**	0	0
II Cash from operations (ADP 011+012)	**017**	-36.679.000	183.960.000
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**	-78.517.000	120.286.000
Cash flow from investment activities			
1 Cash receipts from sales of fixed tangible and intangible assets	**021**	0	0
2 Cash receipts from sales of financial instruments	**022**	0	0
3 Interest received	**023**	40.000	70.000
4 Dividends received	**024**	0	0
5 Cash receipts from repayment of loans and deposits	**025**	27.883.000	0
6 Other cash receipts from investment activities	**026**	92.000	0
III Total cash receipts from investment activities (ADP 021 to 026)	**027**	28.015.000	70.000
1 Cash payments for the purchase of fixed tangible and intangible assets	**028**	-108.198.000	-114.092.000
2 Cash payments for the acquisition of financial instruments	**029**	0	0
3 Cash payments for loans and deposits for the period	**030**	0	-369.327.000
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**	-108.198.000	-483.419.000
B) NET CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 027 +033)	**034**	-80.183.000	-483.349.000
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**	389.343.000	104.000
4 Other cash receipts from financing activities	**038**	0	0
V Total cash receipts from financing activities (ADP 035 to 038)	**039**	389.343.000	450.104.000
1 Cash payments for the repayment of credit principals, loans and other borrowings and debt financial instruments	**040**	-226.589.000	0
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	-103.920.000
VI Total cash payments from financing activities (ADP 040 to 044)	**045**	-226.589.000	-103.920.000
C) NET CASH FLOW FROM FINANCING ACTIVITIES (ADP 039 +045)	**046**	162.754.000	346.184.000
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**	4.054.000	-16.879.000
E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**049**	22.333.000	26.387.000
F) CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (ADP 048+049)	**050**	26.387.000	9.508.000

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														Minority (non-controlling) interest	Total capital and reserves
		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		
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	-251.797.101	-87.310.399	46.827.900	0	46.827.900
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	-251.797.101	-87.310.399	46.827.900	0	46.827.900
5 Profit/loss of the period	**05**	0	0	0	0	0	0	0	0	0	0	0	0	-242.616.915	-242.616.915	0	-242.616.915
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	251.797.101	87.310.399	-11.601	0	-11.601
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	0	-242.616.915	-195.800.616	0	-195.800.616
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	-242.616.915	-242.616.915	0	-242.616.915
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	251.797.101	87.310.399	-11.601	0	-11.601
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	-242.616.914	0	-195.800.615	0	-195.800.615
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	-242.616.914	0	-195.800.615	0	-195.800.615
5 Profit/loss of the period	**31**	0	0	0	0	0	0	0	0	0	0	0	0	-470.796.290	-470.796.290	0	-470.796.290
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	0	0	0	0	0
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	0	0	0	0	242.616.914	0	899.596.814	0	899.596.814
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	0	0	0	0	0	-470.796.290	232.999.909	0	232.999.909
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	0	0	0	0	0
II COMPREHENSIVE INCOME OR LOSS FOR THE CURRENT PERIOD (ADP 31+50)	**51**	0	0	0	0	0	0	0	0	0	0	0	0	-470.796.290	-470.796.290	0	-470.796.290
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	0	0	0	0	242.616.914	0	899.596.814	0	899.596.814

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: 3/2019

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 FINANCIAL STATEMENTS FOR 2018

I

Having reviewed the annual financial statements, the Supervisory Board of Petrokemija Plc. gives its consent to the Annual Financial Statements of Petrokemija Plc. for 2018, compiled by the Company's Management Board.

By granting the consent from the previous Paragraph, these 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 statements to the General Meeting.

II

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

- The balance sheet
- Profit and loss account
- Cash flow statement
- Capital changes statement
- Annual statement and unconsolidated financial statements for 2018 – Report provided by independent auditor for the shareholders of Petrokemija Plc., with notes.

III

Assets and liabilities in the balance sheet amount to **HRK 1.474.087.955,41.**

The loss generated in 2018 amounts to **HRK 470.796.289,55**.

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/