Petrokemija d.d. and its subsidiaries

Consolidated Annual report for the year ended 31 December 2017

Petrokemija d.d.
Annual report on the Group for the year ended 31 December 2017

Contents

Management report on the Group for the year ended 31 December 2017	1 – 17
Statement of implementation of the corporate governance code	18 – 19
Statement of Management's responsibilities	20
Independent Auditors' Report to the Shareholders of Petrokemija d.d.	21 – 26
Consolidated statement of comprehensive income	27
Consolidated statement of financial position	28
Consolidated statement of changes in equity	29
Consolidated statement of cash flows	30
Notes *(forming part of the financial statements)*	31 – 71

Petrokemija d.d.
Management report on the Group for the year ended 31 December 2017 (continued)

Introduction

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

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

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

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

European producers of mineral fertilizers face strong competitive pressures from large global producers who have a comparative advantage in the form of cheap sources of raw materials, from natural gas to crude phosphate, potassium chloride and sulphur. In these conditions, successful European producers of mineral fertilizers, which used the last decade's favourable trend to modernize their plants and to restructure, experienced a fall in profit, then it is no surprise that Petrokemija d.d. disclosed a loss of 12,1% of total revenue since it has been struggling for years to continue as a going concern in the context of lower technological and energy efficiency compared to its European competitors. The most significant negative factor of loss is the high cost of natural gas, which in the case of Petrokemija d.d. is 20% higher compared to its competitors partly due to conditions in defining the purchase price (suppliers are also the largest creditors of the Company) and partly due to extremely high transport costs of gas, which are among the highest in the EU.

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

Introduction (continued)

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

After the corrections have been made, the Management Board and the Supervisory Board estimate that the financial statements fairly present, in all significant respects, the financial position of the Company as of 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards was adopted by the European Union ("IFRS"). The strategic objective of these decisions was to align the interests of the majority owner and potential investors based on a fair presentation of the financial position of the company and without the "fence in the opinions of the auditor" expressed in depth analyzes and previous bids in 2017 (except in the part of the future remediation of the phospho-gypsum which is also accepted as a long-term project that does not have a significant medium-term impact on the company's operations) and translate them into a concrete agreement, ie an intergovernmental agreement on cooperation with the aim of further development of the Company.

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

Lacking the financial potential, which manifest in the impossibility of changing the business model and rapid adaptation to constant market changes, should be resolved in 2018 using permanent capital sources and new management model for future investors. Loan received from Croatian national Bank and commercial banks during 2016 and 2017 were used to bridge the money gap transfered from the previous years, and recapitalization should create prerequisite for balanced model of financing plant modernisation and investing in greater efficiency of all processes in the Company.

Extensive due diligence was conducted in the reporting period, and from more interested investors potential offers were collected, at the time of the publication of these Reports, the negotiations of the major owner and potential investors on the final determination of the mutual obligations and content of the inter-owner contract which will defined future business model of Petrokemija d.d.. After the completion of the Company's privatisation process, it is expected that the State (or RSC), will remain in the position of one of the shareholders, but withouth dominant position in the ownership structure and management rights.

Petrokemija d.d.
Management report on the Group for the year ended 31 December 2017 (continued)

Introduction (continued)

Key indicators for Petrokemija Group for 2017

- Total loss – HRK 242.7 million (loss in same period in 2016 – HRK 87.6 million)
- Loss from operating activities – HRK 202.2 million, loss from financial activities – HRK 40,5 million
- Earnings before interest, taxes, depreciation and amortization (EBITDA) negative at HRK -107.4 million
- Actual total revenues of Petrokemija d.d. – HRK 2,009.5 million, 3.5% higher than in the same period of last year (the difference, compared to the financial statements, relates to HRK 12.5 million of revenues from the reversal of provisions for unused vacation days, disclosed in the financial statements as a net decrease in provisions within other staff costs; these were disclosed in their gross amount in the Management Report)
- Actual production of mineral fertilizers – 1,192 thousand tons, 11.5% more than in 2016
- Compared to 2016, production of NPK mineral fertilizers increased by 16.2%, production of urea increased by 18.1%, whereas the production of CAN was 2.9% higher
- Utilization of currently installed production capacity of the facilities – 93.0%
- Actual sales of mineral fertilizers – 1,167.1 thousand tons, 7,5% increase in sales volume compared to the same period of last year
- Share of mineral fertilizer sales in the domestic market – 27.2%
- Domestic sales – 316.9 thousand tons, and 850.2 thousand tons of mineral fertilizers sold in export
- Equity and reserves as at 31 December 2017 of Petrokemija d.d. – negative at HRK – 195.3 million
- Investments in assets – HRK 103.3 million
- Employees as at 31 December 2017 – Petrokemija d.d. 1,572 employees, Petrokemija Group 1,707 employees

Management Board Report on the Petrokemija Group for the year 2017

- In the period from January to December 2017, Petrokemija d.d. recorded total revenues of HRK 2,009.5 million and total expenses of HRK 2,252.2 million, and thus disclosed an operating loss of HRK 242.7 million or 12.1% of total revenues.
- Sales volumes of mineral fertilizers were higher by 7.5% and average selling prices were lower by 3.0% compared to 2016.
- In the structure of revenue, domestic sales amounted to 30.6% or HRK 610.6 million, which is 5.1% higher than in 2016, while export accounted for 66.3% or HRK 1,322.8 million, which is 4.6% higher than in 2016.
- Compared to 2016, sales volumes by assortment realized in 2017 were higher by 14.4% for urea, lower by 3,9% for the CAN group of fertilizers (CAN+AN+UAN+AS/ASN), and higher by 18.1% for NPK mineral fertilizers.
- Domestic sales of mineral fertilizers increased by 10.1% compared to 2016.
- Export sales of mineral fertilizers increased by 6.6% compared to 2016.
- Sales volumes of clay-based products and liquid fertilizers increased by 37.9% compared to 2016.
- The average realized natural gas price (without transport costs) was 10.1% higher in HRK and 13.9% higher in USD compared to 2016, while the average transport costs of natural gas were 22.4% lower, in line with the transmission tariff of 1 April 2017.
- Liquidity indicators are below recommended values, approximately the same as last year (31 December 2017: negative working capital of HRK – **550,905** million; 31 December 2016: negative working capital of HRK - **452,872** million). Short-term assets decreased by 26.8% compared to the end of 2016, and short-term liabilities decreased by 4.7%. The financial stability and gearing ratios are below recommended values, the equity ratio is negative, and equity is negative at HRK – **195.3** million.

Petrokemija d.d.
Management report on the Group for the year ended 31 December 2017 (continued)

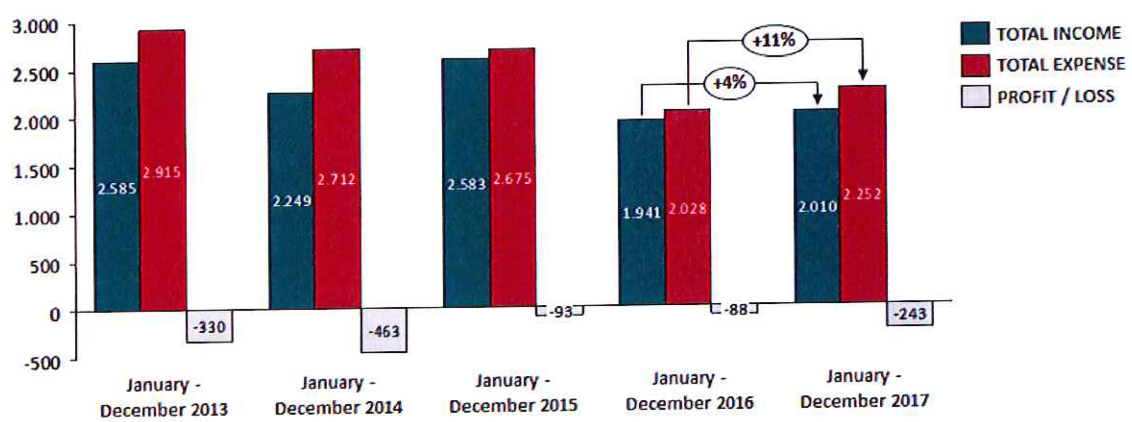
Introduction (continued)

Management Board Report on the Petrokemija Group for the year 2017 (continued)

Statement of profit or loss for 2017

- Total income HRK 2,009.5 million
- Total expenses HRK 2,252.2 million
- Loss HRK 242.7 million
- **EBITDA HRK -107,4 million**
- **EBITDA margin (%) -5,3%**

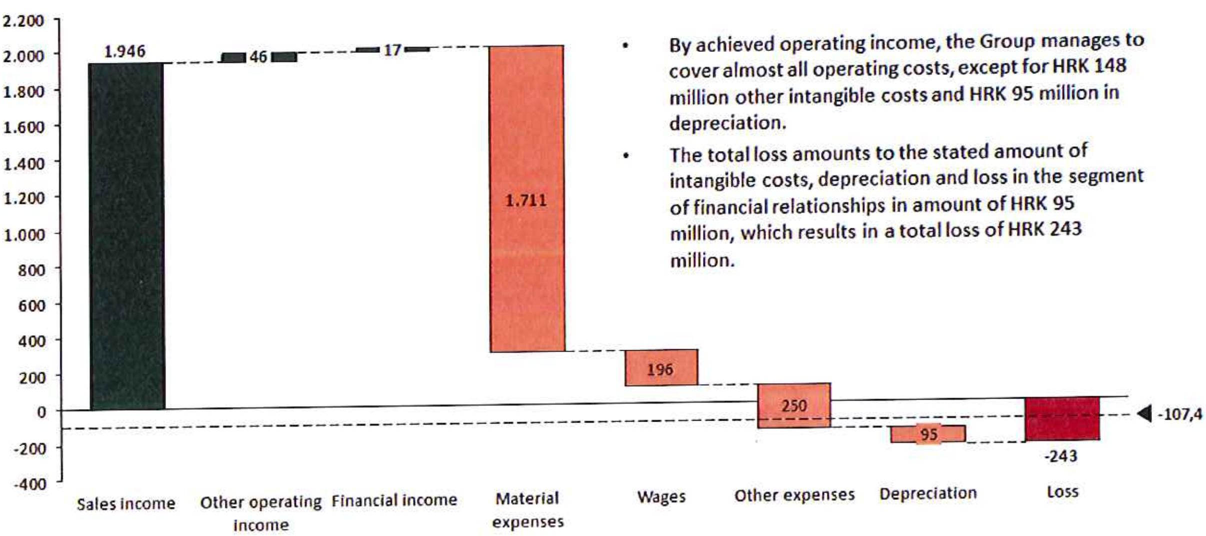
HRK million



Structure of profit and loss for 2017

In the period from January to December 2017, Petrokemija d.d. realized 31% of total revenue from the domestic market, 66% from export, and 3% from financial and other income. Out of total, 97% of Petrokemija Group income is from sales of products and services and 3% is other income. In the structure of total expenses of Petrokemija Group, the dominant 76% account for raw materials and energy; personnel costs for 9%, while all other costs make 15%.

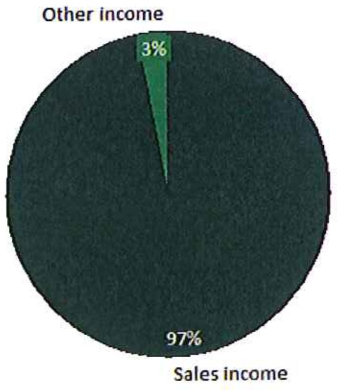
HRK million

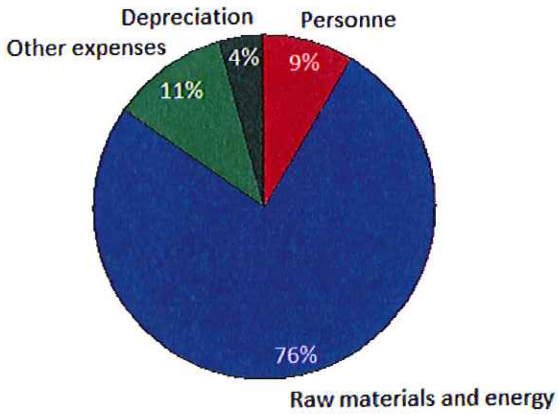


- By achieved operating income, the Group manages to cover almost all operating costs, except for HRK 148 million other intangible costs and HRK 95 million in depreciation.
- The total loss amounts to the stated amount of intangible costs, depreciation and loss in the segment of financial relationships in amount of HRK 95 million, which results in a total loss of HRK 243 million.

Petrokemija d.d.
Management report on the Group for the year ended 31 December 2017 (continued)

Structure of profit and loss for 2017 (continued)



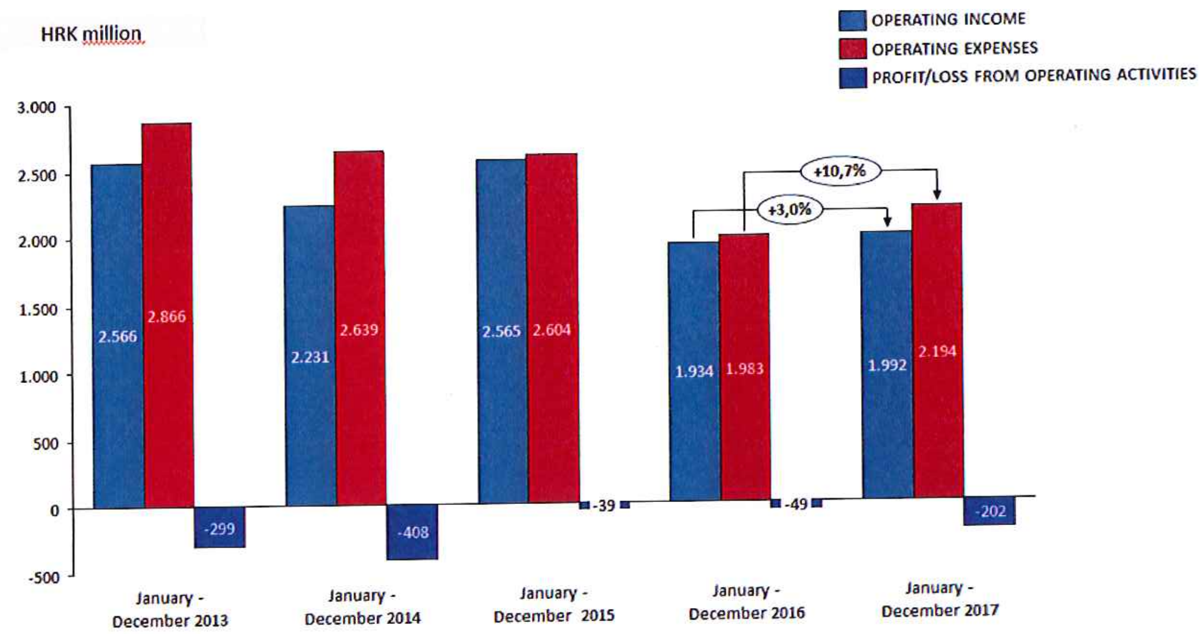


Key financial Indicators for 2017

in thousands of HRK	I-XII 2017	I-XII 2016	Difference	% change
Operating income	1,992,064	1,933,700	58,364	3.02%
Operating expenses	2,194,302	1,982,856	211,446	10.66%
EBITDA	**(107,421)**	**33,928**	**(141,349)**	**(416.61%)**
Depreciation and amortisation	94,817	83,084	11,733	14.12%
Net financial result	(40,507)	(38,454)	(2,053)	5.34%
Net extraordinarily result	-	-	-	-
Result before tax	**(242,745)**	**(87,610)**	**(155,135)**	**177.07%**
	31.XII 2017	**31.XII 2016**	**Difference**	**% change**
Non-current assets	681,864	685,498	(3.634)	(0.53%)
Current assets	394,616	539,216	(144,600)	(26.82%)
Equity	(195,341)	45,501	(240,842)	(529.31%)
Non-current liabilities + provisions	326,300	187,125	139,175	74.38%
Current liabilities + provisions	945,521	992,088	(46,567)	(4.69%)

Petrokemija d.d.
Management report on the Group for the year ended 31 December 2017 (continued)

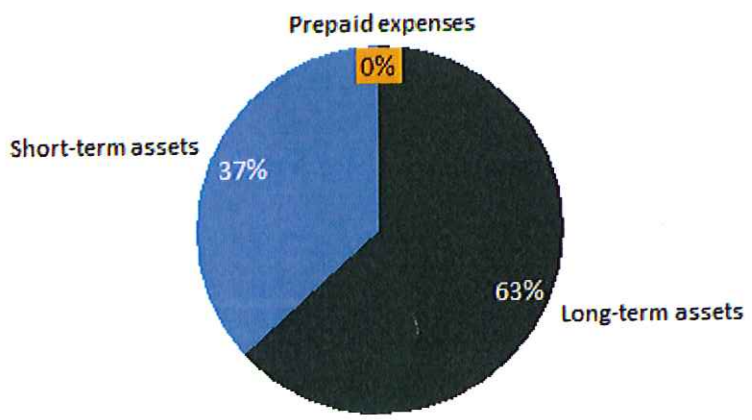
Operating profit or loss for Petrokemija Group in the period 2013-2017



Structure of assets and liabilities for Petrokemija Group at 31 December 2017

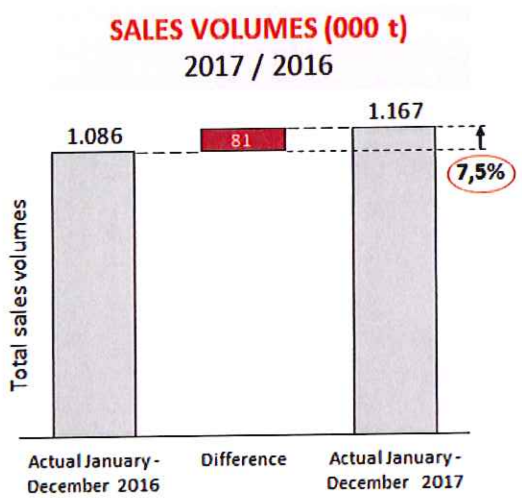
As at 31 December 2017, Petrokemija Group had 37% of the value of short-term and 63% of the value of long-term assets.

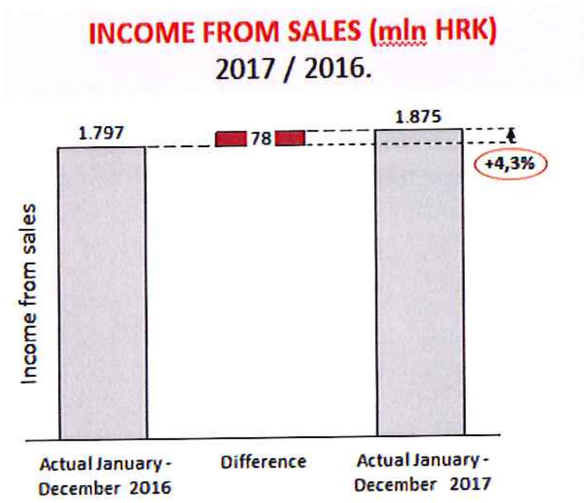
Realized losses and delays in recapitalization resulted in liabilities exceeding assets, i.e. equity of HRK -99.5 million. In 2017, the structure and maturity of the Company's debts changed, with a reduction in debt to natural gas suppliers and an increase in debt to banks, namely due to loans issued by HBOR and HPB and ERSTE Banka.



Total sales of mineral fertilizers

Petrokemija d.d.
Management report on the Group for the year ended 31 December 2017 (continued)

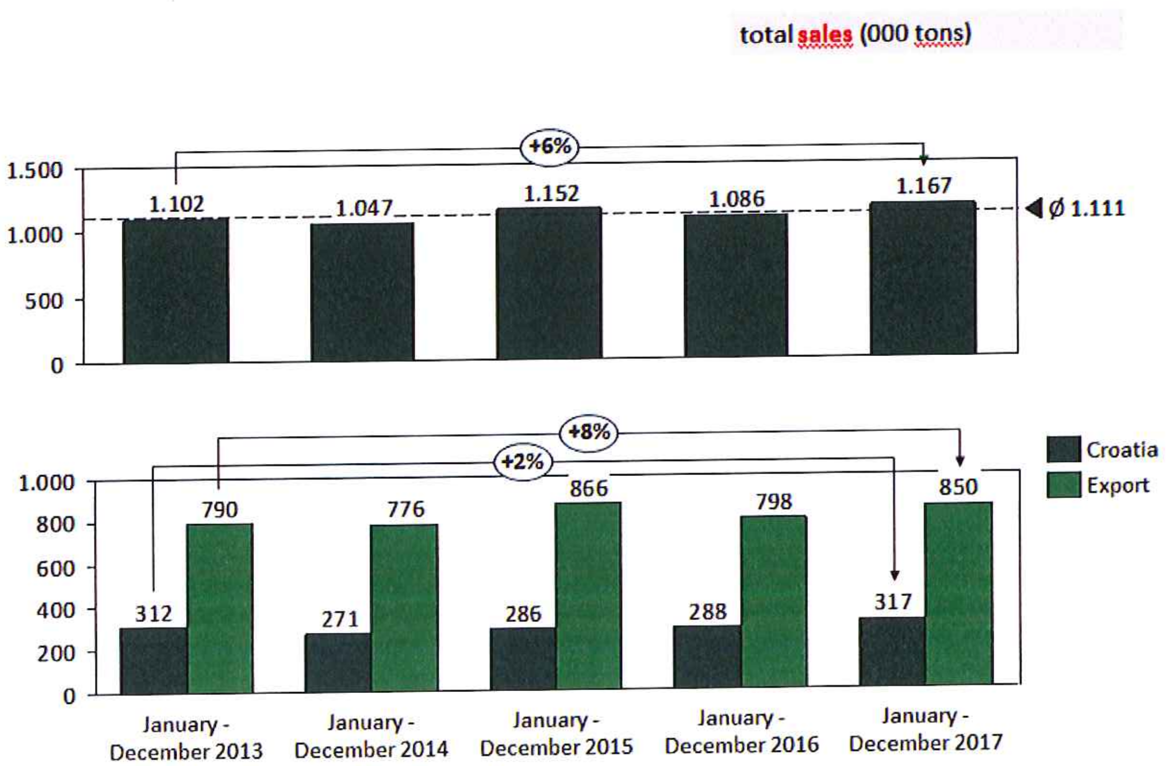




Total sales of mineral fertilizers (continued)

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

Actual sales of mineral fertilizers for the period 2013-2017 in thousands of tons



Petrokemija d.d.
Management report on the Group for the year ended 31 December 2017 (continued)

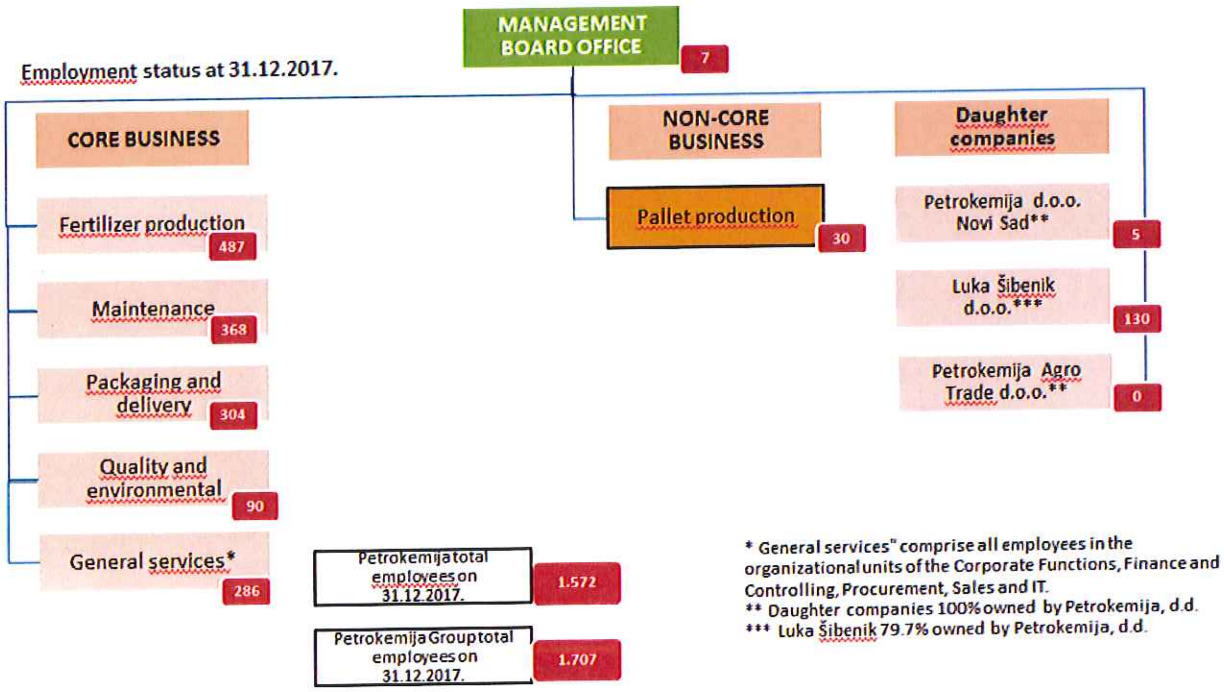
Operating profit or loss for Petrokemija Group in the period January to December 2017

After consolidating financial results of Petrokemija d.d. and daughter companies Petrokemija d.o.o., Novi Sad, Luka Šibenik d.o.o. and Petrokemija Agro Trade d.o.o. Kutina, gets to next financial results Petrokemija Group for period 1 January to 31 december 2017:

Total income	HRK 2,009.5 million
Total expense	HRK 2,252.2 million
Loss before tax	HRK 242.7 million
Income tax	HRK 0.007 million
Loss after taxation	HRK 242.8 million

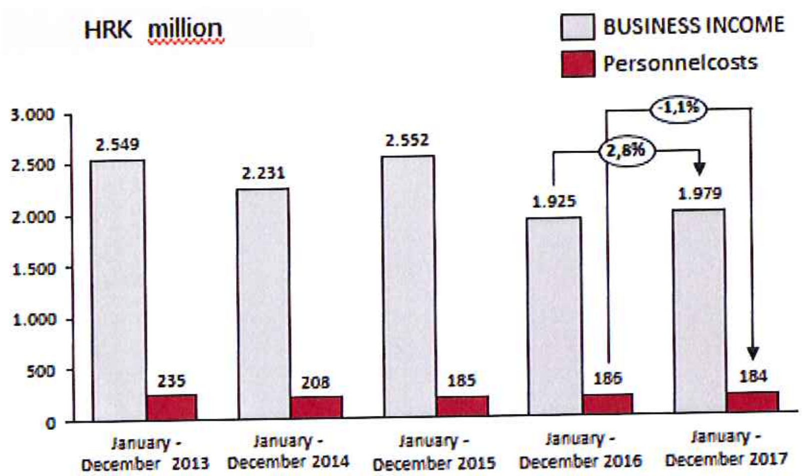
The EBITDA indicator (profit before interest, taxes and depreciation) is negative in the amount of HRK -107,4 million. Petrokemija d.o.o., Novi Sad had positive business profit of HRK 287 thousand, and Luka Šibenik recoreded a loss of HRK 394 thousand. Petrokemija Agro Trade d.o.o., had a loss of HRK 21 thousand. In September 2017 the recapitalization od Petrokemija Agro Trade d.o.o. was finalized by increasing the share capital, investing equipment, according to the Real Estate Value Assessment – the landfill phosphoglyphic and landfill of neutralization of process waters with the corresponding equipment.

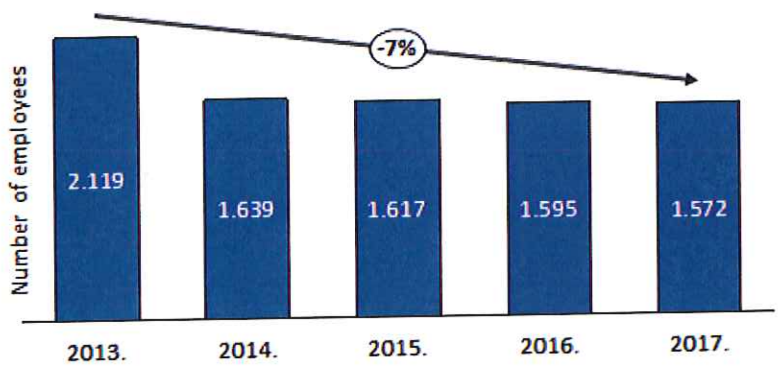
Organisation chart of Petrokemija d.d. and the Petrokemija Group



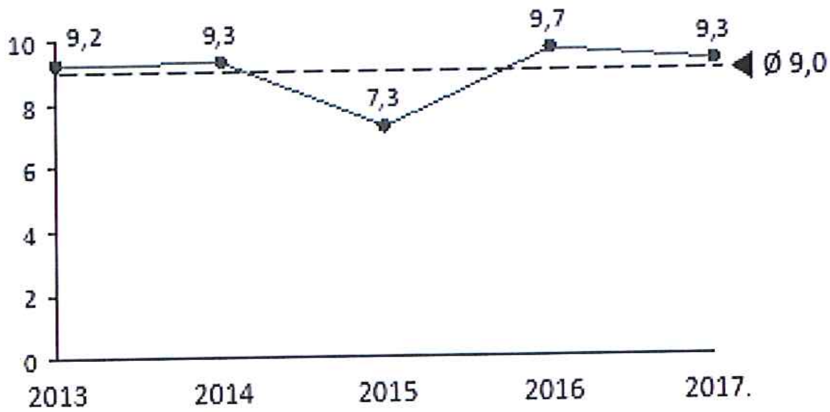
Petrokemija d.d.
Management report on the Group for the year ended 31 December 2017 (continued)

Operating income, staff costs and number of employees





Operating income, staff costs and number of employees (continued)



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

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

Petrokemija d.d.
Management report on the Group for the year ended 31 December 2017 (continued)

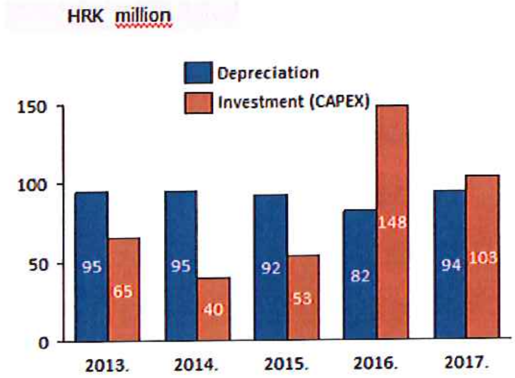
Realized investments

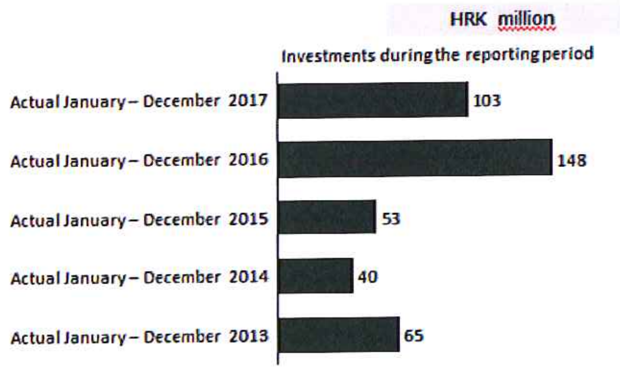
Investments realized in the 2017 reporting period amount to HRK 103.3 million.
Compared to 2016, investments were lower due to non-performance of the complete annual overhaul of plants planned for 2018.

Planned investments of HRK 75 million were exceed by HRK 28.3 million or 37.8% regardless of described limited funding options (delays in recapitalization), which was necessary in terms of meeting the requirements of the environmental permit and deadlines for the completion of specific capital projects that were significantly delayed and not completed within the prescribed deadline, i.e. 31 December 2017.

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

The first material effect of the investment in the Ammonia plant was the year-on-year decrease of natural gas costs by 2.3% in 2017, equivalent to annual savings of approximately HRK 19.4 million. The disclosed investments of Petrokemija d.d. also include HRK 11.5 million used to purchase a mobile crane in Luka Šibenik, which was leased to this related party.





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

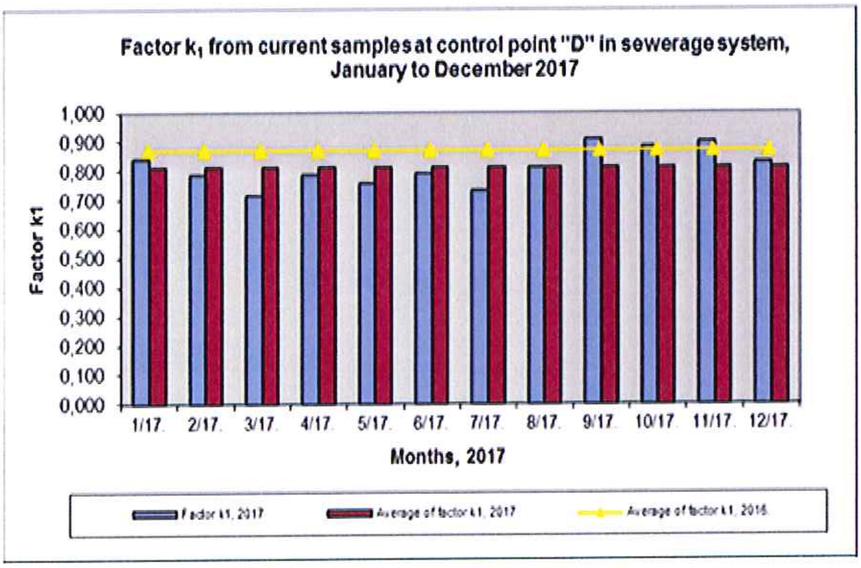
Clean or slightly polluted air 1st category C<LV	Polluted air 2nd category C>LV	Pollutants
K2,DMP		Sulphur dioxide (SO_2)
K1,K2,K6,K7		Sediment
K7,DMP	K1, K2, K6	Ammonia (NH_3)
K2,DMP		Nitrogen dioxide (NO_2)
DMP		Hydrogen sulphide (H_2S)
DMP		PM10

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

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

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

Water management



In the period from January to December 2017, the average value of the k1 factor is comparable to its average value in the same period in 2016.
In the period from January to December 2017, the consumption of raw water was higher compared to the same period in 2016.

Petrokemija d.d.
Management report on the Group for the year ended 31 December 2017 (continued)

Company share capital and market value of shares, changes in the Supervisory Board and Management Board of Petrokemija d.d.

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

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

An Extraordinary General Assembly Meeting was held on 23 March 2017 where Robert Blažinović was appointed as a new member of the Supervisory Board for a 4-year term.

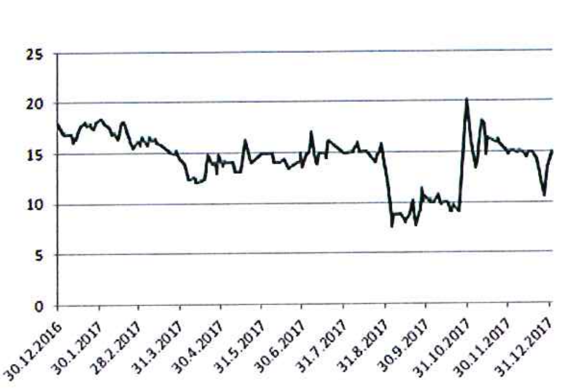
At the meeting held on 25 May 2017, the Supervisory Board of Petrokemija d.d. appointed Davor Žmegač, MSc, from Kutina as a member of the Management Board whose 4-year term began on 29 May 2017. As of 29 May 2017, the Management Board of Petrokemija d.d. consists of three members: Đuro Popijač, MSc,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

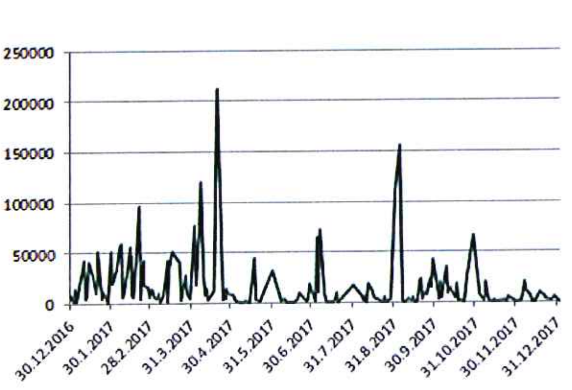
At its General Assembly held on 11 October 2017, the Company adopted the decision on reducing share capital by HRK 343,231,470.00 from HRK 386,135,400.00 to HRK 42,903,930.00 by decreasing the nominal value of the ordinary share PTKM-R-A from HRK 30.00 to HRK 3.333 and simultaneously merging ordinary shares at a 3:1 ratio, whereby 3 (three) ordinary shares with a nominal value of HRK 3.333 are merged into 1 (one) ordinary share, ticker PTKM-R-A, with a nominal value of HRK 10.00. The trading of the existing 12,871,180 ordinary shares, ticker PTKM-R-A, ended 25 October 2017, and the trading of the new number of shares, i.e. 4,290,393 ordinary shares, ticker PTKM-R-A, which are settled by CDCC, started on 26 October 2017.

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

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

Petrokemija d.d. share price and daily turnover movements





Key events in 2017

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

Implementation of the restructuring plan for 2017

- In the first two quarters of 2017, the "Restructuring plan of Petrokemija d.d. – Implementation of the proposed concept of restructuring by recapitalization involving a private investor" was prepared with the help of financial and legal consultants and adopted by the Supervisory Board and relevant state institutions.
- At the 33rd session held on 27 April 2017, the Government of the Republic of Croatia adopted the Decision on exemption from sale of shares of companies Hrvatski Telekom d.d. Zagreb, Podravka prehrambena industrija d.d. Koprivnica, Croatia Airlines d.d. Zagreb and Đuro Đaković Grupa d.d. Slavonski Brod. Petrokemija d.d. requested a loan of HRK 350 million from the Croatian Bank for Reconstruction and Development, whose repayment was secured by institution of a lien on state owned shares of the above companies, as approved by the Government of the Republic of Croatia. The Government of the Republic of Croatia adopted a Decision on loan repayment security in order to ensure the stability of operations of Petrokemija d.d. and its continuity as a going concern as well as to create conditions for the preparation and realization of the privatization of the Company.
- Following the decision of the Government of the Republic of Croatia on loan repayment security of 27 April 2017, Petrokemija d.d. signed long-term loan agreements with the Croatian Bank for Reconstruction and Development and Hrvatska poštanska banka d.d., and a short-term financing agreement with Erste&Steiermarkische banka d.d., all together totalling HRK 350 million. The loan was utilised to ensure the stability of operations of Petrokemija d.d. and its continuity as a going concern.
- On 31 May 2017, the Restructuring and Sale Centre ("RSC") established that the Management Board and Supervisory Board of Petrokemija d.d. have to issue a public call for recapitalization and invite all interested investors to participate in the restructuring and privatization of the Company. In accordance with the above decisions and the Company's contractual commitments, the Management Board and Supervisory Board of Petrokemija d.d. continue to carry out the restructuring and recapitalization of the Company based on the following strategic principles:
    - Modernization of production plants so as to increase the level of energy and technological efficiency as well as satisfy environmental requirements in accordance with EU legislation;

Implementation of the restructuring plan for 2017 (continued)

- Provision of sources to finance working capital;
- Proactivity and strategic positioning on the market of the Republic of Croatia and on the regional market;
- Increased efficiency of maintenance, logistics and other service processes in the Company, ensuring a positive financial result, stability and development of the Company.

- On 5 June 2017, based on the prior approval of the Supervisory Board, the Management Board of the Company adopted the Decision on publishing a Call for indicative expression of interest in the recapitalization of Petrokemija d.d., Kutina as one of the measures in the preparation of the Restructuring and Privatization Plan of the Company. This was in line with the Decision of the Government of the Republic of Croatia on loan repayment security of 27 April 2017, long-term loan agreements with the Croatian Bank for Reconstruction and Development and Hrvatska poštanska banka d.d. and the short-term financing agreement with Erste&Steiermarkische Bank d.d., all together totalling HRK 350 million, which also, inter alia, require the Restructuring and Sale Centre (RSC) to initiate the restructuring and privatization of Petrokemija d.d.
- The deadline for delivering letters of intent to Petrokemija d.d. was 19 June 2017, but it was extended to 30 June 2017 based on the Decision of the Management Board of Petrokemija d.d. amending the deadline for submitting letters of intent, which was previously approved by the Supervisory Board. After the period from 5 to 30 June 2017, when all interested investors had the possibility to show an indicative expression of interest in the recapitalization of Petrokemija d.d., the Company receive several bids and due diligence requests.
- At its meeting held on 5 July 2017, the Supervisory Board of Petrokemija d.d. authorized the Management Board to conduct due diligence of Petrokemija and to provide access to the data room in accordance with defined checklists and previously signed confidentiality agreements. Due diligence was conducted from 10 July to 15 August 2017. After the due diligence process, interested investors were invited to submit binding bids by 1 September 2017 in accordance with the Restructuring plan of Petrokemija d.d. – Implementation of the proposed concept of restructuring by recapitalization involving a private investor, which formed part of the documentation provided in the due diligence process.
- Since some potential investors requested an extension of the due diligence deadline, with prior approval by the Supervisory Board, the Management Board adopted the Decision on announcing the extension of the deadline for due diligence of Petrokemija d.d. until 31 August 2017 and for submitting bindings bids in the recapitalization process until 22 September 2017.
- Following the indicative expression of interest in the recapitalization of Petrokemija d.d. and the completion of the due diligence process, all interested investors were invited to submit binding bids by 22 September 2017 in accordance with the Restructuring plan of Petrokemija d.d. – Implementation of the proposed concept of restructuring by recapitalization involving a private investor. Following the public Call for Binding Bids for the recapitalization of Petrokemija d.d., the Company received binding binds from several interested bidders within the deadline given in the Calls and the notice of extension of the deadline for bids. The bids of potential investors were submitted to the Restructuring and Sale Centre and the Ministry of State Property for further processing.
- In the period from 4 to 23 October 2017, based on prior approvals of the Supervisory Board and the Restructuring and Sale Centre (RSC), the Company gave potential strategic and capital investors who submitted their bids for participating in the recapitalization of Petrokemija, as part of its restructuring process, the opportunity to conduct additional due diligence.
- Based on all of the above, it can be concluded that, during the reporting period, several interest investors conducted extensive due diligence with regard to the operations of Petrokemija d.d. and the Petrokemija Group, and that at the time of issue of these financial statements, negotiations were ongoing with the majority shareholder and potential investors regarding the final determination of mutual obligations and the contents of the co-ownership agreement defining the future business model of Petrokemija d.d. The scheduled deadline of this procedure was the end of 2017; however, the majority shareholder still has not adopted the required decisions so the procedure was carried over to the first two quarters of 2018.

Significant financial risks in 2018

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

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

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

Petrokemija d.d.
Management report on the Group for the year ended 31 December 2017 (continued)

Significant financial risks in 2018 (continued)

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

Other information

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

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

Statement of Management's responsibility

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

The financial statements **for the period from 1 January 2017 to 31 December 2017** give a true and fair view of the financial position of the Company and Petrokemija Group and the results of theirs operations and theirs cash flows, in accordance with applicable accounting standards.

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

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

Đuro Popijač *President of the Management Board*	**Davor Žmegač** *Member of the Management Board*	**30 April 2018** Aleja Vukovar 4 Kutina Croatia

General information

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

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

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

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

Corporate governance structure

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

General Assembly of the Company

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

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

Supervisory Board

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

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

Mijo Šepak	Member until 6 February 2017, President from 6 February 2017
Marijan Kuprešak	President until 6 February 2017 and Member after that date
Željko Klaus	Member until 12 May 2016, from 12 May 2016 Vice President
Ladislav Turčinović	Member from 11 May 2016
Robert Blažinović	Member from 23 March 2017

Audit Committee

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

The Audit Committee, appointed in accordance with the law, consists of four members during the previous year, all of whom were also members of the Supervisory Board. During 2017, five meetings of the Audit Committee were held, discussing the issues within the competence of the Supervisory Board. The Audit Committee helped the Supervisory Board in carrying out its duties related to the supervision of the financial reporting process, the audit process (including the recommendation of the General Meeting for the election of the external auditor), as well as compliance with laws, regulations, rules and the code of ethics.

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

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

Management Board

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

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

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

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

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

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

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

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

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

Đuro Popijač
President of the Management Board

Davor Žmegač
Member of the Management Board

30 April 2018
Aleja Vukovar 4
Kutina
Croatia

Petrokemija d.d.
Statement of Management Board's Responsibilities

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

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

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

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

The Management is also responsible for the preparation and content of the Management Report and the Statement on the implementation of corporate governance code, as required by the Croatian Accounting Act. The consolidated financial statements were authorised for issue and signed by the Management Board on 30 April 2018 and submitted to the Supervisory Board for adoption. The annual separate financial statements were then submitted to the General Assembly for approval.

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

Đuro Popijač
President of the Management Board

Davor Žmegač
Member of the Management Board

30 April 2017
Aleja Vukovar 4
Kutina
Croatia

Deloitte.

Deloitte d.o.o.
ZagrebTower
Radnička cesta 80
10 000 Zagreb
Hrvatska
OIB: 11686457780

Tel: +385 (0) 1 2351 900
Fax: +385 (0) 1 2351 999
www.deloitte.com/hr

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

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

In our opinion, except for the effects of the matter in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for Qualified Opinion

As described in note 29, the Group has a legal obligation to restore its landfill site in Kutina to its original condition. In accordance with International Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets", the Group is required to recognise a provision for the costs of land restoration and site closure. No such provision was recognised in the consolidated financial statements for the years 2017 and 2016. Due to limited information provided in respect of the legal obligation, we were unable to obtain sufficient appropriate audit evidence needed to estimate the amount of the required provision. As a result, we were unable to determine the adjustments that were necessary in respect of the consolidated financial statements for the year ended 31 December 2017.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2.4 "Basis of preparation - Going concern", which indicates that the Group incurred loss after tax of HRK 242,751 thousand for the year ended 31 December 2017 (2016: HRK 87,688 thousand), which has resulted in a loss above the amount of capital in the amount of 195,341 thousand. The Group's current liabilities exceeded its current assets by HRK 550,905 thousand as at 31 December 2017 (2016: HRK 452,872 thousand). These events and conditions, along with other matters as set forth in note 2.4 "Basis of preparation - Going concern", indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

Key Audit Matters

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

Revenue from sales

According to information presented in Note 7, the Group's realized revenue from sales in the amount HRK 1,946,363 thousand (2016: HRK 1,853,436 thousand).
Revenue from sales is an important factor in assessing the Group's performance. There is a risk that the disclosed revenue exceeds the revenue actually realized by the Group. Operating income is calculated when the sale transaction is completed, goods are delivered to the customer and the Group transfers all economic risks to another party. The Group realizes revenue from sale on foreign and domestic markets. Risk and rewards related to services and goods are transferred when goods and services are transferred to the customer and when goods are paid for and available at the location of a third or related party. The sales process is supported by the internal controls embedded in the Group's information systems. Given the potential effect of an incorrect calculation of revenue, we have determined the correct calculation of revenue to be one of the key audit matters.

<u>Description and results of applied audit procedures</u>

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

We tested the structure and effectiveness of the Group'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.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

Key Audit Matters (continued)

Valuation of finished goods

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

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

We focused on this area as arriving at determing the carrying amount of inventory requires significant management judgment., which This judgment relies on the assumptions such as, primarily, cost calculation and distribution based on the calculation of manufacturing costs, the market prices of fertilizers achievable in the future as well as the expected levels of market demand for fertilizers. Changes to these assumptions could result in a material change in the carrying value of inventory and the associated effect on the results of operations.

Description and results of applied audit procedures
We tested internal controls over the calculation of manufacturing costs. We assessed the appropriateness of the Group's judgements regarding the calculation of manufacturing costs. These included:

- Challenging management's assessments of the determination and applicability of standard prices and allocation of costs;
- Testing the calculation of manufacturing costs, including its mathematical accuracy, completeness and evaluation of used information

As part of these audit procedures, we identified all cost items that are internally classified into manufacturing and non-manufacturing costs. We identified costs that we regarded as being material and verified whether they were included in the carrying amount of inventories, as required by IAS 2. We reviewed relevant cost types, cost centres and the methodology used to capitalize costs of finished goods. On a sample basis, we considered whether the write-down to net realizable value applicable to the individual items of inventory is reasonable by reference to their selling prices and estimated costs to sell after the reporting date. We assessed the adequacy of disclosures about the degree of estimation involved in arriving at the net realizable value of inventory and any related write-down.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

Other matters

Financial statements for the previous period

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

Other information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report on the Group and the Corporate Governance Statement, which are included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report and Corporate Governance Statement include required disclosures as set out in Articles 21, 22 and 24 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in Articles 22 and 24 of the Accounting Act.

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

1) Information included in the other information is, in all material respects, consistent with the attached consolidated financial statements.
2) Management Report has been prepared, in all material respects, in accordance with Articles 21 and 24 of the Accounting Act.
3) Corporate Governance Statement has been prepared, in all material aspects, in accordance with Article 22, paragraph 1, points 3 and 4, and Article 24, paragraph 2 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 Group and its environment, which we gained during our audit of the consolidated financial statements, we have not identified material misstatements in the other information obtained up to the date of the auditor's report. If, after reviewing the non-financial statement, we identify material misstatements therein, we are required to report the matter to those charged with governance.

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

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

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

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

We communicate with those charged with 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.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated 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 auditor of the Group by the General Assembly on 20 July 2017 to perform audit of the accompanying financial statements. Our total uninterrupted engagement has lasted one year and covers the period from 1 January 2017 to 31 December 2017. We confirm that:

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

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

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

Branislav Vrtačnik
President of the Management Board and certified auditor

Deloitte d.o.o.
Zagreb, 30 April 2018
Radnička cesta 80,
10 000 Zagreb, Croatia

Petrokemija d.d.

Consolidated statement of comprehensive income

for the year ended 31 December 2017

(in thousands of HRK)	*Note*	2017	2016
Revenue from sales	7	1,946,363	1,853,436
Other income	8	33,147	80,262
Total operating income		1,979,510	1,933,698
Changes in inventory of finished goods and work in progress		(14,113)	(94,926)
Raw materials, consumables and services used	9	(1,696,546)	(1,510,801)
Staff costs	10	(196,430)	(204,442)
Depreciation and amortisation	14, 15	(94,817)	(83,084)
Other operating expenses	11	(179,841)	(89,602)
Total operating expenses		(2,181,747)	(1,982,855)
Operating loss		(202,237)	(49,157)
Financial income	12	17,424	7,037
Financial expenses	12	(57,931)	(45,491)
Net finance costs		(40,507)	(38,454)
Loss before tax		(242,744)	(87,611)
Income tax	13	(7)	(334)
Loss for the period		(242,751)	(87,945)
Other comprehensive income			
Exchange differences on translation of foreign operations		-	257
Total comprehensive loss		(242,751)	(87,688)
Loss attributable to			
Equity holders of the parent		(242,024)	(87,806)
Non-controlling interests		(727)	(139)
Total comprehensive loss attributable to			
Equity holders of the parent		(242,024)	(87,549)
Non-controlling interests		(727)	(139)
Loss per share (in HRK)			
- Basic and diluted	22	(56.41)	(6.82)

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

Petrokemija d.d.

Consolidated statement of financial position

for the year ended 31 December 2017

(in thousands of HRK)	*Note*	**31.12.2017**	31.12.2016
ASSETS			
Non-current assets			
Property, plant and equipment	14	**673,215**	677,243
Intangible assets	15	**8,491**	8,104
Investments in subsidiaries and associates	13	**150**	143
Non-current financial assets	17	**8**	8
		681,864	685,498
Current assets			
Inventories	18	**288,644**	401,668
Trade and other receivables	19	**70,911**	79,454
Current financial assets	17	**5,750**	33,632
Cash and cash equivalents	20	**29,311**	24,462
		394,616	539,216
Total assets		**1,076,480**	1,224,714
EQUITY AND LIABILITIES			
Equity	21		
Share capital		**42,904**	386,135
Reserves		**3,912**	(200)
Accumulated losses		**(245,126)**	(344,104)
Attributable to owners of the parent		**(198,310)**	41,831
Non-controlling interest		**2,969**	3,670
		(195,341)	45,501
Non-current liabilities			
Loans and borrowings	23	**305,433**	174,106
Provisions	24	**20,867**	13,019
		326,300	187,125
Current liabilities			
Trade and other payables	25	**435,833**	518,740
Loans and borrowings	23	**509,688**	473,348
		945,521	992,088
Total equity and liabilities		**1,076,480**	1,224,714

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

Petrokemija d.d.

Consolidated statement of changes in equity

for the year ended 31 December 2017

(in thousands of HRK)	**Share Capital**	**Other reserves**	**Accumulated loss**	**Attributable to the owners of the Company**	**Non-controlling interest**	**Total**
As at 1 January 2016	**386,135**	**(200)**	**(256,555)**	**129,380**	**3,809**	**133,189**
Comprehensive income						
Loss for the period	-	-	(87,806)	(87,806)	(139)	(87,945)
Other comprehensive income	-	-	257	257	-	257
Total comprehensive income	-	-	(87,549)	(87,549)	(139)	(87,688)
As at 31 December 2016	386,135	(200)	(344,104)	41,831	3,670	45,501

(in thousands of HRK)	**Share Capital**	**Other reserves**	**Accumulated Loss**	**Attributable to the owners of the Company**	**Non-controlling interest**	**Total**
As at 1 January 2017	**386,135**	**(200)**	**(344,104)**	**41,831**	**3,670**	**45,501**
Adjustment	-	-	1,883	1,883	26	1,909
Comprehensive income						
Loss for the period	-	-	(242,024)	(242,024)	(727)	(242,751)
Reserves from profit	-	(12)	12	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	(12)	(242,024)	(242,024)	(727)	(242,751)
Reduction in share capital	(343,231)	4,124	339,107	-	-	-
As at 31 December 2017	**42,904**	**3,912**	**(245,126)**	**(198,310)**	**2,969**	**(195,341)**

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

Petrokemija d.d.

Consolidated statement of cash flows

for the year ended 31 December 2017

(in thousands of HRK)	Note	2017	2016
Cash flows from operating activities			
Loss before tax		(242,744)	(87,611)
Adjustments for:			
Depreciation and amortisation	14, 15	94,817	83,084
Impairment losses on property, plant and equipment	11	18,797	-
Impairment losses on inventories	11	69,496	-
Impairment losses on trade receivables	19	5	18
Interest income	12	(72)	(265)
Interest expense	12	44,938	31,946
Net increase of provisions	23	9,174	4,614
Net change in exchange differences	12	2,515	257
Net loss on disposal of property, plant and equipment	14, 15	(47)	(3,863)
Operating profit before changes in working capital		**(3,122)**	**28,180**
Changes in working capital			
Decrease in inventories		43,529	85,726
Decrease/(increase) in trade and other receivables		8,538	(2,893)
Increase in trade and other payables		(86,021)	122,090
Decrease in provision		(1,326)	(3,134)
Net cash (used in)/from operations		**(38,402)**	**229,969**
Interest paid		(41,838)	(29,216)
Net cash (used in)/from operating activities		**(80,240)**	**200,753**
Cash flows from operating activities			
Purchase of property, plant, equipment and intangible assets	14, 15	(112,327)	(138,919)
Interest received		72	265
Net inflows/(outflows) from bank deposits and money market funds		27,882	(6,075)
Sale of property, plant, equipment and intangible assets		4,310	6,562
Other proceeds from non-current financial assets		-	-
Net cash used in investing activities		**(80,063)**	**(138,167)**
Cash flows from financing activities			
Borrowings		389,344	30,394
Repayment of borrowings		(224,192)	(77,941)
Net cash from/(used in) financing activities		**165,152**	**(47,547)**
Net increase in cash and cash equivalents		**4,849**	**15,039**
Cash and cash equivalents at beginning of year		24,462	9,423
Cash and cash equivalents at end of year	20	29,311	24,462

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

1 General information

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

As at 31 December 2017 the share capital amounts to HRK 42,904 thousand and it is divided into 4,290,393 non-materialized ordinary shares at a nominal value of HRK 10 each. The Group's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in note 21.

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

The Company and its subsidiaries as disclosed in note 16 together form the Group. The principal activities of the subsidiaries relate to hospitality services (Restoran Petrokemija d.o.o.), port related services (Luka Šibenik d.o.o.) and sale of fertilizers (Petrokemija Novi Sad d.o.o.).

As at 31 December 2017, the Group employed 1,707 employees *(31 December 2016: 1,733 employees)*.

Group bodies

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

Management Board

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

Đuro Popijač	President from 7 February 2017
Nenad Zečević	Member until 2 February 2018, President until 6 February 2017
Antonija Perošević Galović	Member until 6 February 2017
Tamara Pernar	Member until 6 February 2017
Vladimir Fresl	Member until 6 February 2017
Davor Žmegač	Member from 29 May 2017

Supervisory Board

Members of the Supervisory Board are:

Mijo Šepak	Member until 6 February 2017, President from 6 February 2017
Marijan Kuprešak	President until 6 February 2017 and Member after that date
Željko Klaus	Member until 11 May 2016, from 11 May 2016 Vice President
Ladislav Turčinović	Member from 12 May 2016
Robert Blažinović	Member from 23 March 2017

General Assembly

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

2 Basis of preparation

2.1 Basis of accounting

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

These consolidated financial statements are presented for the Group. The financial statements of the Group comprise the consolidated financial statements of the Company and its subsidiaries. The unconsolidated financial statements of the Company, which the Company has also prepared in accordance with EU IFRS, are published separately and issued simultaneously with these consolidated financial statements.

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.

These financial statements were authorised for issue by the Management Board on 30 April 2018.

2.2 Basis of measurement

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

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

2.3 Functional and presentation currency

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

2.4 Going concern

In the year ended 31 December 2017, the Group incurred a net loss of HRK 242,751 thousand *(31 December 2016: HRK 87,945 thousand)*. Furthermore, as at 31 December 2017, the Group's current liabilities exceeded its current assets by HRK 550,905 thousand *(31 December 2016: HRK 452,872 thousand)*.

The Group manages its liquidity through receivables financing and other working capital measures. At the present market prices of fertilizers, the Group is unable to service its existing financial indebtedness. The continuing low fertilizer price environment has placed significant pressure on the Group's liquidity position and its solvency, with resulting in a negative working capital and financial debt of approximately HRK 815,121 thousand as at 31 December 2016 and financial indebtedness of approximately HRK 647,454 thousand.

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

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

2 Basis of preparation *(continued)*

2.4 Going concern (continued)

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

The HBOR loan obtained in 2016 includes financial covenants the Group is required to adhere to on a quarterly basis in order for the contractual maturity to remain valid. However, based on the financial position of the Group and the results of its operations, and the compliance testing done on the basis of the previous twelve months of 2017, the Group did not meet these debt requirements as at 31 December 2017 and, based on estimated financial indicators for the first quarter of 2018, is not expected to meet them as at 31 March 2018, whereby the loan could become immediately repayable either by the Group or the guarantor. The Group is in regular contact with HBOR and although recent communications indicate that the lender is inclined to continue applying the initial contractual maturity and has, with this in mind, granted a waiver from penalising the Group for not adhering to debt covenants as at 31 December 2017, there is no guarantee that such a waiver will be provided in the following quarterly periods in 2018, or until the agreed financial indicators show the effects of the restructuring program of the Group which is being prepared.

Moreover, the Management Board recognises that the Group has significant debt repayments scheduled in 2018 which it will, in all likelihood, not be able to meet in absence of a wider restructuring of its operations. The current forecast of financial performance indicates that, notwithstanding the steps that have been taken to date in terms of restructuring measures, the Group remains cash flow negative and requires refinancing and recapitalization. As instructed by the majority shareholder, the Group drafted a restructuring plan which includes projections of financial performance and is based on the assumptions that the Group will be recapitalised during 2018. Negotiations with key stakeholders, the Croatian Government and natural gas suppliers, regarding the options for restructuring of the operations and funding of the Group are in progress.

Based on these steps and their assessment of the degree of commitment of the various parties to successfully negotiate and implement the restructuring plan, the Management Board is reasonably confident that an agreement will be reached by all relevant stakeholders for the restructuring of the Company that will allow the Company to meet its liabilities as they fall due over the next 12 months. However, there can be no guarantee that these negotiations will result in an agreement being reached with all relevant stakeholders in the available time (if at all) to secure the objectives described above and, even if an agreement is ultimately reached, there is no guarantee it will take the form of any terms which may currently be under discussion. The Management Board recognises that these circumstances represent a material uncertainty that may cast significant doubt as to the Group's ability to continue as a going concern and that it may be unable to realize all of its assets and discharge all of its liabilities in the normal course of business. Nevertheless, the Management Board is confident that agreements can be reached and accordingly the financial statements have been prepared on a going concern basis and do not include the adjustments that would result if the Group were unable to continue as a going concern.

3 Significant accounting policies

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

3.1 Basis of consolidation

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

Business combinations

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

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

Subsidiaries

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

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

Non-controlling interests

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

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

Loss of control

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

Transactions eliminated on consolidation

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

3 Significant accounting policies *(continued)*

3.2 Goodwill

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

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

3.3 Foreign currency

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 ruling at the dates the fair values were determined.

Group companies

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

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

Petrokemija d.d. and its subsidiaries

Notes *(continued)*

3 Significant accounting policies *(continued)*

3.4 Intangible asset

(i) Software licences and project documentation

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

Software and project documentation	3- 5 years

3.5 Property, plant and equipment

(i) Owned assets

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

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

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

Buildings	15 - 50 years
Plant and equipment	5 - 25 years
Tools and fittings	5 - 25 years

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

(ii) Assets under the concession arrangement

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

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

Maintenance expenditure

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

3 Significant accounting policies *(continued)*

3.5 Property, plant and equipment (continued)

Capital expenditure into the concession area

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

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

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

Assets transferred to the subsidiary by the concession Grantor

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

3.6 Financial instruments

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

Loans and receivables

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

Effective interest method

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

Cash and cash equivalents

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

3 Significant accounting policies *(continued)*

3.7 Inventories

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

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

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

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

3.8 Impairment

(i) Financial assets

Indications that financial assets are impaired are reviewed at the date of preparation of every statement of financial position. A financial asset is impaired if there is objective evidence indicating that one or more events that occurred after the initial recognition of the asset will give rise to changes in the expected future cash flows of the asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

(ii) Property, plant and equipment and Non-financial assets

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

3 Significant accounting policies *(continued)*

3.9 Employee benefits

(i) Defined pension fund contributions

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

(ii) Long-term employee benefits

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

(iii) Bonus plans

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

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

3.10 Provisions

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

3.11 Revenue

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

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

3.12 Financial income and expenses

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

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

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

3 Significant accounting policies *(continued)*

3.13 Accounting for leases – where the Group is the lessee

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

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

3.14 Share capital

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

3.15 Dividends

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

3.16 Segment information

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

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

3 Significant accounting policies *(continued)*

3.17 Taxation

(i) Current tax

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

(ii) Deferred tax assets

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

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

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

(iii) Tax exposures

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

4 New standards and interpretations not yet adopted

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

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

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

4 New standards and interpretations not yet adopted (continued)

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

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

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

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

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

- **IFRS 9 "Financial Instrument"**, published on 24 July 2014 thereby replacing IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective Date of IFRS 15", adopted by the European Union on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),

- **IFRS 16 "Leases"**, adopted by the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 4 "Insurance Contracts"** – "Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'", adopted by the European Union on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or for periods when an entity first applies IFRS 9 "Financial Instruments"),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 "Revenue from Contracts with Customers", adopted by the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards entitled "Improvements to IFRS Standards 2014–2016 Cycle"** resulting from the annual IFRS improvement project (IFRS 1, IFRS 12 and IAS 28) primarily aimed at eliminating inconsistencies and clarifying wording, and adopted by the European Union on 8 February 2018 (amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018).

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

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

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

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

5 Key accounting judgements and estimates

Critical judgements in applying accounting policies

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

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

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

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

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

(ii) Consequences of certain legal actions

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

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

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

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

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

5 Key accounting judgments and estimates *(continued)*

(iii) Impairment losses on trade receivables

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

(iv) Useful lives of property, plant and equipment

The Group 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.

6 Determination of fair value

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

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

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

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

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

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

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

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

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

- Note 17: Financial assets

7 Revenue from sales

	2017. HRK '000	2016. HRK '000
Revenue from sale of products and trade goods	1,919,950	1,849,652
Revenue from services	26,413	3,784
	1,946,363	1,853,436

An overview of revenue per market is given below:

	2017 HRK '000	2016 HRK '000
Croatia	612,943	584,777
Bosnia and Herzegovina	154,728	131,255
Slovenia	151,564	205,837
Serbia and Montenegro	116,406	147,851
Macedonia	14,372	20,137
Sales in countries outside the region	896,350	763,579
	1,946,363	1,853,436

8 Other income

	2017 HRK '000	2016 HRK '000
Own consumption	17,131	37,499
Sale of manufactured packaging	5,329	4,923
Insurance reimbursement	2,697	10,067
Inventory surplus	2,184	3,305
Sale of raw materials	156	1,256
Manufacture of spare parts	111	385
Sale of tangible assets	47	3,863
Reversal of provision	-	3,693
Other income	5,492	15,541
	33,147	80,262

9 Raw materials, consumables and services used

	2017 HRK '000	2016 HRK '000
Raw materials and consumables used	1,617,020	1,442,557
Cost of production services	70,688	64,452
Cost of wholesale and retail goods sold	8,838	3,792
	1,696,546	1,510,801

10 Staff costs

	2017 HRK '000	2016 HRK '000
Salaries	**127,348**	126,976
Contributions on salaries	**28,644**	28,949
Other staff costs	**40,438**	48,517
	196,430	204,442

The number of employees of the Group as at 31 December 2017 was 1,707 *(2016: 1,733)*.

During 2017, the Group continued to restructure its workforce in the course of which it incurred expenses of HRK 5.6 million relating to termination benefits which are included in other staff costs.

11 Other operating expenses

	2017 HRK '000	2016 HRK '000
Impairment losses on inventories	**69,496**	143
Other taxes, fees and charges	**41,601**	30,972
Impairment losses on property, plant and equipment	**18,797**	-
Other staff costs	**13,404**	13,853
Insurance	**10,041**	10,015
Increase in provision	**9,174**	8,307
Bank charges	**4,396**	4,376
Intellectual services	**2,101**	591
Inventory loss of finished products	**901**	2,517
Travel expenses	**535**	413
Impairment losses on trade receivables	**5**	18
Other expenses	**9,390**	18,397
	179,841	89,602

Other fees and taxes include HRK 21.049 thousand *(2016: HRK 10,425 thousand)* of fees for greenhouse gas emissions. After the Croatian accession to the European Union, Petrokemija d.d. as a plant operator is subject to obligation to purchase emission allowances.

Petrokemija d.d.

Notes *(continued)*

12 Finance income and finance expenses

	2017 HRK '000	2016 HRK '000
Foreign exchange gains	17,297	6,697
Interest income	71	265
Other financial income	56	75
Total financial income	**17,424**	7,037
Unrealised losses onfinancial assets	-	-
Interest expense	(44,938)	(31,946)
Foreign exchange losses	(9,174)	(13,545)
Other financial expenses	(3,819)	-
Total financial expenses	**(57,931)**	(45,491)
Net finance costs	(40,507)	(38,454)

Petrokemija d.d.

Notes *(continued)*

13 Income tax

Recognised in profit or loss:

	2017 HRK '000	2016. HRK '000
Current income tax	-	97
Deferred tax, net	7	237
	7	334

Effective tax rate reconciliation

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

	2017 HRK '000	2016 HRK '000
Loss before tax	(242,744)	(87,611)
Tax calculated at 18% (2016: 20%)	(43,694)	(17,522)
Effect of non-deductible expenses and non-taxable income	17,374	363
Effect of unused tax losses and offsets not recognised as deferred tax assets	26,327	15,735
Effect of change in future tax rate from 20% to 18% on unrecognised temporary differences	-	1,758
Income tax expense recognised in profit or loss	7	334

At the reporting date, carry forward tax losses of the Group amounting to HRK 1,009,502 thousand *(31 December 2016: HRK 937,060 thousand)* have not been recognised as a deferred tax asset as management believes it is not probable that future taxable profits will be available to utilise the unused tax losses.

Tax rate for future taxable profits for periods ending after 31 December 2017 has changed from 20% to 18%.

Tax value of tax losses available in future periods is as follows:

	31.12.2017 HRK '000	31.12.2016 HRK '000
Tax loss from 2012 – expires on 31 December 2017	-	32,028
Tax loss from 2013 – expires on 31 December 2018	58,703	58,703
Tax loss from 2014 – expires on 31 December 2019	64,954	64,954
Tax loss from 2015 – expires on 31 December 2020	15,992	15,992
Tax loss from 2016 – expires on 31 December 2021	15,735	15,735
Tax loss from 2017 – expires on 31 December 2022	26,327	-
	181,711	187,412

Notes *(continued)*

14 Property, plant and equipment

(in thousands of HRK)

	Land	Buildings	Plant and equipment	Tools and inventory	Assets under construction	Advances	Total
Cost							
As at 1 January 2016	49,482	581,195	1,240,445	70,306	61,125	13,771	2,016,324
Additions	-	-	1,817	28	135,078	-	136,923
Transfer	-	6,745	167,978	738	(161,789)	(13,672)	-
Disposals and retirement	(975)	(2,334)	(5,647)	(438)	-	-	(9,394)
As at 31 December 2016	**48,507**	**585,606**	**1,404,593**	**70,634**	**34,414**	**99**	**2,143,853**
Accumulated depreciation							
As at 1 January 2016	-	342,876	997,481	51,163	-	-	1,391,880
Charge for the year	-	18,708	58,768	3,949	-	-	81,425
Disposals and retirement	-	(779)	(5,480)	(436)	-	-	(6,695)
As at 31 December 2016	**-**	**360,805**	**1,051,129**	**54,676**	**-**	**-**	**1,466,610**
Net carrying amount							
As at 31 December 2016	**48,507**	**224,801**	**353,464**	**15,958**	**34,414**	**99**	**677,243**
Cost							
As at 1 January 2017	48,507	585,606	1,404,593	70,634	34,414	99	2,143,853
Additions	206	-	2,993	516	90,983	17,719	112,417
Transfer	-	1,587	36,642	5,326	(30,579)	(12,976)	-
Disposals and retirement	-	(5,314)	(2,847)	(200)	(2,720)	0	(11,081)
As at 31 December 2017	**48,713**	**581,879**	**1,441,381**	76,276	92,098	4,842	2,245,188
Accumulated depreciation							
As at 1 January 2017	-	360,805	1,051,129	54,676	-	-	1,466,610
Charge for the period	-	18,033	74,650	339	344	-	93,366
Impairment losses	5,266	3,200	5,211	-	5,120	-	18,797
Disposals and retirement	-	(4,064)	(2,541)	(196)	-	-	(6,801)
As at 31 December 2017	**5,266**	**377,974**	**1,128,449**	54,819	5,464	-	1,571,973
Net carrying amount							
As at 31 December 2017	**43,447**	**203,905**	**312,932**	**21,457**	**86,634**	**4,842**	**673,215**

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

The Group's property amounting to HRK 65,676 thousand *(2016: HRK 84,450 thousand)* is mortgaged as security for loans and borrowings.

ultimately depends on the long-term strategy of the Group.

Notes *(continued)*

15 Intangible assets

(in thousands of HRK)	Assets under construction	Software and project documentation	Total
Cost			
As at 1 January 2016	1,715	27,329	29,044
Additions	1,815	181	1,996
Transfer	(10)	10	-
Disposals and retirement	-	(59)	(59)
As at 31 December 2016	**3,520**	**27,461**	**30,981**
Accumulated amortisation			
As at 1 January 2016	-	21,277	21,277
Charge for the year	-	1,659	1,659
Disposals and retirement	-	(59)	(59)
As at 31 December 2016	-	**22,877**	**22,877**
Net carrying amount			
As at 31 December 2016	**3,520**	**4,584**	**8,104**
Cost			
As at 1 January 2017	3,520	27,461	30,981
Additions	1,934	-	1,934
Transfer	(51)	51	-
Disposals and retirement	-	(211)	(211)
As at 31 December 2017	**5,403**	**27,301**	**32,704**
Accumulated amortisation			
As at 1 January 2017	-	22,762	22,762
Charge for the year	-	1,451	1,451
Disposals and retirement	-	-	-
As at 31 December 2017	-	**24,213**	**24,213**
Net carrying amount	-	-	-
As at 31 December 2017	**5,403**	**3,088**	**8,491**

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

16 Subsidiaries

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

	Vlasnički udio u %	
Name of subsidiary	**31 December 2017**	31 December 2016.
Petrokemija d.o.o., Novi Sad	**100%**	100%
Restoran Petrokemija d.o.o., Kutina	**0%**	100%
Petrokemija Agro Trade d.o.o.	**100%**	100%
Luka Šibenik d.o.o.	**80%**	80%

Pursuant to the decision of the Commercial Court in Zagreb of 2 January 2017, the merger of Restoran Petrokemija d.o.o. za ugostiteljstvo with Petrokemija d.d. was registered.

17 Financial assets

	31.12.2017 HRK '000	31.12.2016 HRK '000
Non-current financial assets		
Investments in other equity instruments	**8**	8
Current financial assets		
Financial assets held for trading	**4,632**	32,621
Deposits	**1,118**	1,011
	5,750	33,632

Financial assets held for trading relate to investments in cash funds. Investment in other equity securities relates to a minority share in TV Moslavina, Kutina. Deposits relate to deposits in banks with original maturity less than 3 months and an interest rate of 0.5% per annum.

18 Inventories

	31.12.2017 HRK '000	31.12.2016 HRK '000
Finished goods	**162,788**	164,943
Spare parts	**98,267**	95,024
Impairment of spare parts inventory	**(65,992)**	-
Raw materials and supplies	**86,699**	109,987
Impairment of raw materials and supplies	**(3,503)**	-
Work in progress	**9,091**	20,229
Advances	**656**	10,621
Trade goods	**639**	864
	288,644	401,668

19 Trade and other receivables

	31.12.2017 HRK '000	31.12.2016 HRK '000
Current receivables		
Trade receivables	**128,659**	124,224
Impairment allowance for trade receivables	**(106,174)**	(106,198)
Net trade receivables	**22,485**	18,046
Taxes and contributions	**47,196**	35,589
Prepaid expenses	**22**	298
Receivables from employees	**6**	7
Other receivables	**1,202**	25,514
	70,911	79,454

19 Trade and other receivables *(continued)*

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

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

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

	31.12.2017 HRK '000	31.12.2016 HRK '000
Not yet due	**17,712**	10,958
Overdue 0-120 days	**3,787**	5,874
Overdue 121-180 days	**18**	136
Overdue 181-360 days	**293**	355
Overdue over 1 year	**106,849**	106,921
	128,659	124,244

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

	31.12.2017 HRK '000	31.12.2016 HRK '000
Croatia (HRK)	**124,736**	114,956
European Union (EUR)	**3,911**	7,100
USA (USD)	**12**	2,188
	128,659	124,244

20 Cash and cash equivalents

	31 December 2017	31 December 2016
	HRK '000	HRK '000
Cash at bank	**29,302**	24,455
Cash on hand	**9**	7
	29,311	**24,462**

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

21 Share capital

	31 December 2017 HRK '000	31 December 2016 HRK '000
Registered capital	42,904	386,135

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

Ownership structure	31 December 2017 Number of shares	31 December 2017 Ownership %	31 December 2016 Number of shares	31 December 2016 Ownership %
RSC/Republic of Croatia	3,425,991	79.85%	10,277,975	79.85%
Societe Generale-Splitska banka d.d./AZ OMF	132,564	3.09%	399,932	3.11%
Addiko bank d.d./PBZ Croatia osiguranje d.d. OMF	122,143	2.85%	366,431	2.85%
Societe Generale-Splitska banka d.d. /Erste Plavi OMF	110,961	2.59%	332,883	2.59%
HPB d.d./Kapitalni fond d.d.	42,237	0.98%	126,713	0.98%
PBZ d.d./State street client account	40,527	0.94%	121,585	0.94%
HPB d.d./Fond za financiranje razgradnje NEK	32,400	0.76%	97,200	0.76%
Zagrebačka banka d.d./State street bank and trust company	-	-	34,030	0.26%
OTP banka d.d.	10,416	0.24%	31,250	0.24%
PBZ d.d./Custodial account	11,204	0.26%	30,616	0.24%
PESEC ANTHONY JOSIP	10,046	0.23%	-	-
Other shareholders	351,904	8.21%	1,052,565	8.18%
Total registered share capital	**4,290,393**	**100%**	**12,871,180**	**100.00%**
Paid but unregistered shares	-		-	
Total share capital	**4,290,393**		**12,871,180**	

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

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

22 Earnings / (loss) per share

Basic earnings / (loss) per share

Basic earnings per share are determined by dividing the Group's consolidated net earnings or losses with the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.

	31 December 2017	31 December 2016.
Loss attributable to equitz holders of the parent (in thousands of HRK)	(242,024)	(87,806)
Weighted average number of registered shares	4,290,393	12,871,180
Basic and diluted loss per share in HRK	(56.41)	(6.82)

23 Loans and borrowings

	31 December 2017 HRK '000	31 December 2016 HRK '000
Non-current borrowings		
Banks	303,978	78,273
Other loans	1,455	95,833
	305,433	174,106
Current borrowings		
Banks	327,658	244,274
Factoring liabilities	-	3,910
Other loans	182,030	225,164
	509,668	473,348
Total borrowings	**815,121**	647,454

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

	31.12.2017 HRK '000	31.12.2016 HRK '000
Up to 1 year	**509,688**	473,348
1 to 2 years	**22,648**	73,977
2 to 5 years	**105,949**	76,730
Over 5 years	**176,836**	23,399
	815,121	647,454

Bank loans

The interest rates for bank loans included in the table above ranged from 3.77% to 8%.

Other loans

The Group has converted a part of its trade payables, which fell due, to short-term loans by signing agreements with suppliers on debt repayment bearing an average interest rate ranging from 6% to 9% per annum.

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

23 Loans and borrowings *(continued)*

Debt covenants

In June 2016 the Group secured a loan facility of HRK 200 million from the Croatian Bank for Restructuring and Development (HBOR) with the Government of Croatia as a guarantor for the loan. Interest on the loan is fixed and the loan is denominated in EUR and is repayable in quarterly instalments beginning from 30 April 2019. According to the loan agreement with HBOR, the Group is obligated to maintain a "Debt service cover ratio" (DSCR) at a minimum of 1.1. DSCR representing the ratio of consolidated net operating revenues to the aggregate amount of debt repayment including both principal and interest. Also, the Group is obligated to maintain a ratio of consolidated Net Debt / EBITDA at a maximum of 6.0. Based on the financial position of the Group and the results of its operations, and the compliance testing done on the basis of the previous twelve months of 2017, the Group did not meet these debt requirements as at 31 December 2017 and, based on estimated quarterly financial results, is not expected to meet them at 31 March 2018, whereby the loan could become immediately repayable either by the Group or the guarantor. The Group is in regular contact with HBOR and recent communications indicates that the lender is inclined to continue applying the initial contractual maturity and has, with this in mind, granted a waiver from penalising the Group for not adhering to debt covenants as at 31 December 2017. However, as there is no guarantee that such a waiver will be provided in the following quarterly periods during 2018 or further until the effects of the restructuring program of the Group, which is still in progress, become evident. Accordingly, the entire loan is classified as short term in the financial statements.

Debt movement

	As at 31 December 2016	Received loans and borrowings	Repayment of borrowings	Foreign exchange differences	**As at 31 December 2017**
Bank loans	322,547	363,002	(56,428)	2,515	**631,636**
Suppliers (Ina d.d. and PPD d.o.o.)	302,997	-	(122,327)	-	**180,670**
Other loans	21,910	26,342	(45,437)	-	**2,815**
	647,454	**389,343**	**(224,192)**	**2,515**	**815,121**

As at 31 December 2017, the total debt to banks amounts to HRK 631,636 thousand, with HRK 479,294 thousand indebted to the creditor Hrvatska banka za obnovu i razvitak d.d. (HBOR) from that amount HRK 80,00 thousand accounts to debt to Hrvatska poštanska banka, HRK 100,182 thousand indebted to the creditor Erste&Steiermärkische Bank d.d., HRK 46,500 thousand indebted to the creditor Privredna banka Zagreb d.d. and HRK 5,660 thousand indebted to the other banks.

Petrokemija d.d.

Notes *(continued)*

24 Provisions

(in thousands of HRK)	Jubilee awards	Termination benefits	Legal actions	Recovery of sooter	Total
As at 31 December 2016					
As at 1 January 2017	8,726	3,504	789	-	13,019
Increase in provision	987	518	169	7,500	9,174
Utilised	(1,170)	(6)	(150)	-	(1,326)
As at 31 December 2017	8,543	4,016	808	7500	20,867

Legal actions

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

Jubilee awards and termination benefits

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

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

	31 December 2017	31 December 2016
Discount rate	2.2%	3.0%
Fluctuation rate	3.4%	3.4%

25 Trade and other payables

	31 December 2017 HRK '000	31 December 2016 HRK '000
Trade payables	**264,758**	289,059
Advances received	**78,254**	136,969
Salaries and other employee benefits	**17,801**	22,872
Contributions and other fees	**7,303**	6,749
Accrued interest	**5,649**	3,065
Other	**62,068**	60,026
	435,833	518,740

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

26 Risk management

Financial risk management

Categories of financial instruments are as follows:

	2017 HRK '000	2016 HRK '000
Cash and cash equivalents	29,311	24,462
Trade and related party receivables	22,485	18,046
Current financial assets	5,750	33,632
Total borrowings and receivables	57,546	76,140
Total financial assets	57,546	76,140
Loan liabilities	815,121	647,454
Trade payables	264,758	289,059
Total financial liabilities at amortised cost	1,079,879	936,513
Total financial liabilities	1,079,879	936,513

Fair value of financial instruments

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

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

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

As at 31 December 2017, the carrying amounts of cash and cash equivalents, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair value due to the short-term nature of those assets and liabilities and due to the fact that a majority of short term assets and liabilities are at variable interest rates.

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

Petrokemija d.d.

Notes *(continued)*

26 Risk management *(continued)*

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

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

26 Risk management *(continued)*

Financial risk management *(continued)*

as at 31 December 2016	Net carrying amount	Contractual cash flows	up to 1 year	1 – 2 years	2 – 5 years	over 5 years
			(in thousands of HRK)			
Non-interest bearing assets:						
Trade receivables	18,046	18,046	18,046	-	-	-
	18,046	18,046	18,046	-	-	-
Interest bearing assets:						
Current financial assets	33,632	33,800	33,800	-	-	-
Cash and cash equivalents	24,462	24,584	24,584	-	-	-
	58,094	58,384	58,384	-	-	-
	76,140	76,430	76,430	-	-	-

as at 31 December 2016	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:						
Loan liabilities	3,910	3,910	3,910	-	-	-
Trade payables	289,059	289,059	289,059	-	-	-
	289,969	289,969	289,969	-	-	-
Interest bearing liabilities:						
Loan liabilities	643,533	730,679	506,192	89,433	108,204	26,850
	643,533	730,679	506,192	89,433	108,204	26,850
	936,513	**1,023,648**	**799,161**	**89,433**	**108,204**	**26,850**

Liquidity risk management

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

Liquidity risk analysis

The following tables detail the contractual maturity of the Group'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.

The Group's objective is to ensure sufficient liquidity through the use of bank and supplier funding and advance payments with the aim of meeting its obligations when they become due.
The continuing low mineral fertiliser price environment coupled with external competitive pressures has placed significant pressure on the Group's liquidity position and its solvency. The Group has significant debt repayments scheduled in 2018 which it will, in all likelihood, not be able to meet in absence of a wider restructuring of its operations. The Group drafted a restructuring plan and is in negotiations with key stakeholders, the Croatian Government and natural gas suppliers in order to restructure its operations and secure sufficient liquidity for sustainable operations. See note 2.4 for further details.

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

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

Interest rate risk management

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

Interest rate sensitivity analysis

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

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

	Contractual cash flows	up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	over 5 years
			(in thousands of HRK)			
as at 31 December 2017						
At currently applicable interest rates	49,114	14,539	8,301	21,746	4,528	-
At currently applicable interest rates + 1%	49,655	14,738	8,455	21,889	4,533	-
Effect of increase of interest rate by 1%	(542)	(199)	(154)	(143)	(45)	-

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

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

26 Risk management (*continued*)

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

Currency risk management

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

	Assets	
	2017	**2016**
	(in thousands of HRK)	
European Union (EUR)	7,568	8,208
USA (USD)	14	2,602
	7,582	**10,810**

	Liabilities	
	2017	**2016**
	(in thousands of HRK)	
USA (USD)	85,816	148,319
European Union (EUR)	64,267	103,972
	150,083	**252,291**

Foreign currency sensitivity analysis

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

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

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

	EUR exposure	
	2017	**2016**
	(in thousands of HRK)	
Increase/(decrease) of net result	(567)	(958)

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

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

26 Risk management *(continued)*

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

Credit risk management

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

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

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

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

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

	2017	2016
Not yet due	17,712	10,958
Overdue 0-120 days, but not impaired	3,787	5,874
Overdue over 120 days, but not impaired	986	1,214
Total trade receivables	22,485	18,046
Cash in banks (including deposits)	33,942	25,466
Total exposure to credit risk	56,427	43,512

Operational risk management

Sales concentration risk management

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

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

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

Price risk

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

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

The Group also has investments in money market funds which are subject to price risk. A change in market prices of shares in money market funds of 1% would decrease profit or loss by HRK 57 thousand (2016: HRK 336 thousand)

27 Contractual and capital commitments

Procurement of natural gas

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

Capital commitments

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

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

Agreement on priority concession

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

	31 December 2017
	HRK '000
2012. - 2017.	30,100
2017. - 2020.	32,745
2020. - 2025.	35,780
2025. - 2026.	6,000
2026. - 2029.	11,100
	115,725

28 Related party transactions

The most significant shareholder of Petrokemija d.d. is the Republic of Croatia, which holds 79.85% of share capital and voting rights of the Group through the Restructuring and Sale Centre ("RSC") and thus has significant influence on the Group's operations. The Group 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 Group has a related party relationship with state institutions and companies where the State is the majority owner or has a significant influence.

Transactions with State related parties

Given that the Group's majority owner is the State, the Group is also in a related party relationship with state institutions and other companies in which the State is a majority owner or has a significant influence. For the purposes of related party disclosures, the Group does not consider routine transactions (such as taxes, levies etc.) with various communal entities (directly or indirectly owned by the State) or with other State bodies to be related party transactions. Significant transactions of the Group with such entities relate to purchase of gas which is the primary raw material used in the Group's production cycle, freight rail transport services and supply of electricity. The Group is also in part financed by a bank where the majority owner is the State. During 2017, the Group had the following transactions with State related entities:

	2017 HRK '000	2016 HRK '000
Lučka uprava Šibenik		
Concession fee	1,008	930
Liabilities as at 31 December	4	-
HBOR		
Loans and borrowings payable at 31 December	319,148	222,701
Interest expense	13,883	3,098
INA d.d.		
Purchase of gas, other raw materials and services	523,245	487,475
Liabilities as at 31 December	16,267	53
Loans and borrowings payable at 31 December	72,167	152,510
Interest expense	8,169	13,848
HŽ Cargo d.o.o.		
Purchase of transport services	68,582	64,494
Liabilities as at 31 December	9,468	6,278
HEP Opskrba d.o.o.		
Purchase of electricity	15,143	17,765
Liabilities as at 31 December	2,803	2,812
HPB d.d.		
Loans and borrowings payable at 31 December	160,143	-
Interest expense	3,463	-

Transactions with key management personnel and members of the Supervisory Board

Management Board remuneration relates to regular monthly payments for salaries and other benefits in kind. During 2017, remuneration paid to key management personnel amounted to HRK 2,177 thousand *(2016: HRK 3,291 thousand)* and related to 6 persons *(2016: 4 persons)*. Furthermore, during 2017, remuneration of HRK 503 thousand *(2016: HRK 485 thousand)* was paid to the members of the Supervisory Board.

29 Contingencies

Environmental provisions

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

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

Limitations with respect to estimating the cost of restoration and closure

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

- *Option 1*

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

- *Option 2*

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

- *Option 3*

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

Management considers that at this moment, given the ambiguity of related regulations, option 3 is the most likely option. The costs of land restoration are difficult to estimate.

Court cases

There are a number of legal proceedings initiated against the Group for minor amounts as well as those initiated by the Group against others. Management believes that no significant costs exceeding those provided for at the reporting date will occur as a result of ongoing legal proceedings as presented in note 24.

30 Events after the reporting period

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

31 Approval of the financial statements

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

Đuro Popijač
President of the Management Board

Davor Žmegač
Member of the Management Board

Petrokemija, Plc.
SUPERVISORY BOARD

Number: 4/2018.

Kutina, 30.04.2018.

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

DECISION

ON APPROVAL TO THE COSOLIDATED FINANCIAL STATEMENTS FOR 2017

I

After reviewing them, the Supervisory Board of Petrokemija, Plc. grants approval to the consolidated financial statements of Petrokemija, Plc. Group for 2017.

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

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

II

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

- Consolidated Balance Sheet
- Consolidated Profit and Loss Statement
- Consolidated Cash Flow Statement
- Consolidated Statement of Changes in Equity
- Notes to the Consolidated Financial Statements
- Annual Report of the Group and Consolidated Financial Reports for 2017 - Independent Auditor's Report to the shareholders of Petrokemija Plc., with notes

III

Consolidate Balance sheet records and liabilities amount to **HRK 1,076,479,814.72** .

The consolidated operating loss of Petrokemija, Plc. Group for 2017 amounts to **HRK 242,751,528.16.**

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

IV

This Decision shall enter into force upon its adoption.

Chairman of the Supervisory Board:

/Mijo Šepak/

Attachment 1.

Reported period: **1.1.2017.** to **31.12.2017.**

Annual financial statements GFI-POD

Registation number (MB):	**03674223**
Registation number of subject (MBS):	**080004355**
Personal identification number (OIB):	**24503685008**
Issuer company:	**PETROKEMIJA d.d.**
Postal code and city:	**44320** **KUTINA**
Street and number:	**ALEJA VUKOVAR 4**
E-mail:	fin@petrokemija.hr
Internet address:	www.petrokemija.hr
Code and city/municipality:	**220** **KUTINA**
Code and county name:	**3** **SISAČKO-MOSLAVAČKA ŽUPANIJA**
Nmber of employees: (at the end of the year)	**1.707**
Consolidted Report:	**YES**
Code of NKD:	**20.15**

Entities in consolidation (according to IFRS):	Registered seat:	Registration umber (MB):
PETROKEMIJA d.o.o.	**NOVI SAD**	**08754608**
LUKA ŠIBENIK d.o.o.	**ŠIBENIK**	**03037525**
PETOKEMIJA AGRO TRADE d.o.o.	**KUTINA**	**4424085**

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

Documentation to be published:

1. Audited annual financial statements with Independent Auditors report
2. Management Board s Report
3. Statement of person in sharge of making Financial Statements
4. Decision of the Supervisory board (proposed) on determining annual financial statements

(seal) (signature of authorized representative)

BALANCE SHEET
as at 31.12.2017.

Petrokemija Group			
Position	**AOP** code	**Prethodna godina (neto)**	**Tekuća godina (neto)**
1	2	3	4
A) RECIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL	**001**		
B) LONG-TERM ASSETS (003+010+020+029+033)	**002**	**685.493.783**	**681.863.501**
I. INTANGIBLE ASSETS (004 do 009)	**003**	**8.023.084**	**8.491.092**
1. Expense for development	**004**		
2. Concessions, patents, licences, trade and service marks, software and other rights	**005**	4.487.689	3.088.056
3. Goodwill	**006**		
4. Advances for intangible assets	**007**		
5. Intangible assets in progress	**008**	3.535.395	5.403.036
6. Other intangible assets	**009**		
II. TANGIBLE ASSETS (011 do 019)	**010**	**677.172.585**	**673.016.860**
1. Land	**011**	48.506.703	48.712.614
2. Buildings	**012**	224.445.550	207.105.451
3. Plant and equipment	**013**	349.873.487	301.611.693
4. Tools, plant inventory and transportation assets	**014**	16.734.517	18.299.523
5. Biological assets	**015**		
6. Advances for tangible assets	**016**	99.731	4.841.543
7. Tangibal assets in progres	**017**	36.330.588	89.074.432
8. Other tangible assets	**018**	1.182.009	3.371.604
9. Investments in real estates	**019**		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	**020**	**7.537**	**7.536**
1. Investments (shares) in related companies	**021**		
2. Loans given to realted companies	**022**		
3. Participating interest (shares)	**023**	7.537	7.536
4. Loans given to companies with participating interest	**024**		
5. Investment in securities	**025**		
6. Loans given, deposits and similar assets	**026**		
7. Other long-term financial assets	**027**		
8. Investments accounted for using the equity method	**028**		
IV. TRADE RECEIVABLES (030 do 032)	**029**	**147.582**	**197.676**
1. Receivables from related companies	**030**		
2. Receivables for sales on loan	**031**		
3. Other receivables	**032**	147.582	197.676
V. DIFERRED TAX ASSETS	**033**	142.995	150.337
C) SHORT-TERM ASSETS (035+043+050+058)	**034**	**538.923.822**	**394.547.931**
I. INVENTORIES (036 do 042)	**035**	**401.673.944**	**288.644.481**
1. Raw and other material	**036**	205.011.823	115.470.877
2. Work in progress	**037**	20.229.445	9.087.290
3. Finished products	**038**	164.942.675	162.787.924
4. Merchandise inventory	**039**	863.873	626.412
5. Advances for inventories	**040**	10.626.128	671.978
6. Long-term assets intended for sale	**041**		
7. Biological assets	**042**		
II. TRADE RECEIVABLES (044 do 049)	**043**	**79.156.010**	**70.842.783**
1. Receivables from related companies	**044**		
2. Receivables from customers (buyers)	**045**	18.046.686	22.480.210
3. Receivables from participating interest	**046**		
4. Receivables from employees and members	**047**	6.931	8.350
5. Receivables from state and other institutions	**048**	35.586.861	47.134.233
6. Other receivbles	**049**	25.515.532	1.219.990
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	**050**	**33.632.160**	**5.749.727**
1. Investments (shares) in related companies	**051**		
2. Loans given to realted companies	**052**		
3. Participating interest (shares)	**053**		
4. Loans given to companies with participating interest	**054**		
5. Investment in securities	**055**		
6. Loans given, depsits and similar assets	**056**	33.632.160	5.749.727
7. Other financial assets	**057**		
IV. CASH IN BANK AND ON HAND	**058**	24.461.708	29.310.940
D) PREPAID EXPESES AND ACCRUED INCOME	**059**	**290.489**	**68.383**
E) TOTAL ASSETS (001+002+034+059)	**060**	**1.224.708.094**	**1.076.479.815**
F) OFF BALANCE SHEET ITEMS	**061**	1.335.568.822	740.969.603

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	**45.530.557**	**-195.341.805**
I. SUBSCRIBED CAPITAL	063	386.135.400	42.903.930
II. CAPITAL RESERVES	064	-200.000	3.923.969
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	**0**	**-11.600**
1. Legal reserves	066		
2. Reserve for treasury shares	067		
3. Treasury shares and invesment (deductable item)	068		11.600
4. Statutory reserves	069		
5. Other reserve	070		
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	**-256.156.639**	**-2.375.151**
1. Retained earning	073		
2. Loss carried forward	074	256.156.639	2.375.151
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	075	**-87.944.250**	**-242.751.528**
1. Profit for the year	076		
2. Loss for the year	077	87.944.250	242.751.528
VII. MINORITY INTEREST	078	3.696.046	2.968.575
B) PROVISIONS (080 do 082)	079	**12.979.471**	**20.866.586**
1. Provisions for pensions, severance pay and similar labilites	080	12.134.011	12.558.732
2. Provisions for tax liabilities	081		
3. Other provisions	082	845.460	8.307.854
C) LONG-TERM LIABILITIES (084 do 092)	083	**365.716.220**	**506.441.080**
1. Liabilities to related companies	084		
2. Liabilities for loans, deposits and similar	085	95.833.333	1.455.436
3. Liabilities to banks and other financial institutions	086	269.882.887	504.985.644
4. Liabilities for advances	087		
5. Liabilities to suppliers	088		
6. Liabilities for securities	089		
7. Liabilities to companies with participating interest	090		
8. Other long-term liabilities	091		
9. Deferred tax liability	092		
D) SHORT-TERM LIABILITIES (094 do 105)	093	**730.643.023**	**676.563.112**
1. Liabilities to related companies	094		
2. Liabilities for loans, deposits and similar	095	225.163.666	182.030.213
3. Liabilities to banks and other financial institutions	096	52.663.832	126.656.256
4. Liabilities for advances	097	136.968.706	78.255.286
5. Liabilities to suppliers	098	289.065.019	264.758.956
6. Liabilities for securities	099		
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	11.481.299	11.204.086
9. Liabilities for taxes, contributions and other payments	102	8.237.051	7.968.864
10. Liabilities as per share in result	103		
11. Liabilities as per long-tem assets intended for sales	104		
12. Other short-term liabilities	105	7.063.450	5.689.451
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	**69.838.823**	**67.950.842**
F) TOTAL LIABILITIES (062+079+083+093+106)	107	**1.224.708.094**	**1.076.479.815**
G) OFF BALANCE SHEET ITEMS	108	1.335.568.822	740.969.603
APPENDIX TO BALANCE SHEET (to be completed by companies that prepare consolidated financial statements)			
A) CAPITAL AND RESERVES			
1. Credited to parent company capital owners	109	41.834.511	-198.310.380
2. Credited to minority interest	110	3.696.046	2.968.575

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

PROFIT AND LOSS ACCOUNT

for the period 01.01.2017. to 31.12.2017.

Petrokemija Group			
Position	**AOP code**	**Previous year**	**Current year**
1	2	3	4
I. OPERATING REVENUES (112+113)	**111**	**1.933.699.714**	**1.992.064.419**
1. Sales revenues	**112**	1.853.436.176	1.946.363.143
2. Other operating revenues	**113**	80.263.538	45.701.276
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	**114**	**1.982.855.551**	**2.194.302.208**
1. Changes in value of work in progress and finished products	**115**	94.926.654	14.112.997
2. Material costs (117 do 119)	**116**	**1.510.804.940**	**1.696.601.048**
a) Cost of raw and production materials	**117**	1.442.558.679	1.617.076.511
b) Cost of goods sold	**118**	3.792.235	8.837.549
c) Other external costs	**119**	64.454.026	70.686.988
3. Employees costs (121 do 123)	**120**	**198.552.007**	**196.430.082**
a) Net salaries and wages	**121**	124.399.075	124.859.446
b) Costs for taxes and contributions from salaries	**122**	45.204.393	42.924.710
c) Contributions on salaries	**123**	28.948.539	28.645.926
4. Depreciation	**124**	**83.083.590**	**94.816.776**
5. Other costs	**125**	**71.398.765**	**87.191.218**
6. Value adjustments (127+128)	**126**	**10.044.338**	**89.418.125**
a) of long-term assets (except for financial assets)	**127**	7.509.701	18.907.405
b) of short-term assets (except for financial assets)	**128**	2.534.637	70.510.720
7. Provisions	**129**	**14.045.257**	**15.731.962**
8. Other operating expenses	**130**	**0**	**0**
III. FINANCIAL REVENUES (132 do 136)	**131**	**7.035.939**	**17.424.346**
1. Interest, exchange rate flucutations, dividends and similar from associated companies	**132**		
2. Interest, exchange rate flucuations, dividends and sikilar from non-associated companies ond others	**133**	7.035.939	17.424.346
3. Part of revenue from associated companies and prticipating interests	**134**		
4.Unrealised gains (revenues) from financial assets	**135**		
5. Other financial revenues	**136**		
IV. FINANCIAL EXPENSES (138 do 141)	**137**	**45.490.185**	**57.931.158**
1. Interest, exchange rate fluctuations and other costs with associated companies	**138**		
2. Interest, excehange rate flucutations and other costs eith non-associated companies	**139**	45.490.185	54.111.500
3. Unrealised losses (costs) from financial assets	**140**		
4. Other financial expenses	**141**		3.819.658
V. PORTION IN PROFIT OF ASSOCIATED COMPANIES	**142**		
VI. PORTION IN LOSS OF ASSOCIATED COMPANIES	**143**		
VII. EKSTRAORDINARY - OTHER REVENUES	**144**		
VIII. EXTRAORDINARY - OTHER EXPENSES	**145**		
IX. TOTAL REVENUES (111+131+142 + 144)	**146**	**1.940.735.653**	**2.009.488.765**
X. TOTAL EXPENSES (114+137+143 + 145)	**147**	**2.028.345.736**	**2.252.233.366**
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	**148**	**-87.610.083**	**-242.744.601**
1. Profit before taxation (146-147)	**149**	0	0
2. Loss before taxation (147-146)	**150**	87.610.083	242.744.601
XII. PROFIT TAX	**151**	334.167	6.927
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	**152**	**-87.944.250**	**-242.751.528**
1. Profit for the period (149-151)	**153**	0	0
2. Loss for the period (151-148)	**154**	87.944.250	242.751.528

APPENDIX TO PLA (to be completed by companies that prepare consolidated financial statements)			
XIV. PROFIT OR LOSS FOR THE PERIOD			
1. Credited to parent company capital owners	**155**	-87.856.491	-242.673.090
2. Credited to minority interest	**156**	-87.759	-78.438
STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)			
I. PROFIT OR LOSS OF THE PERIOD (= 152)	**157**	-87.944.250	-242.751.528
II. OTHER COMPREHENSIVE GAINS/LOSS BEFORE TAXES (159 do 165)	**158**	257.000	0
1. Exchange rate differences from translation of foreign currency operations	**159**	257.000	
2. Change in revaluation reserves of fixed tangible and intangible assets	**160**		
3. Gain or loss from revaluation of financial assets held for sale	**161**		
4. Gain or loss from effective cash flow hedge	**162**		
5. Gain or loss from effective hedge in net investments in abroad	**163**		
6. Portion in other comprehensive gain7loss of assocated companies	**164**		
7. Acutaral gains7losses on defined benefit plans	**165**		
III. TAX ON OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD	**166**		
IV. NET OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD (158-166)	**167**	257.000	0
V. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD (157+167)	**168**	**-87.687.250**	**-242.751.528**
APPENDIX TO STATEMENT OF COMPREHESIVE INCOME (to be completed by companies that prepare consolidated financial statements)			
VI. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD			
1. Credited to parent company capital owners	**169**	-87.551.396	-242.673.080
2. Credited to minority interest	**170**	-135.854	-78.438

CASH FLOW STATEMENT - Direct method

for the perod 01.01.2017. to 31.12.2017.

Petrokemija Group			
Position	**AOP code**	**Previous year**	**Current year**
1	2	3	4
CASH FLOW FROM PPERATIONG ACTIVITIES			
1. Cash increase from buyers	001	1.992.655.657	1.946.951.251
2. Cash increse from royalites, fees commissions and other	002		
3. Cash increse from insuarance compensations	003	6.914.953	27.446.652
4. Cash increase from tax return	004	220.528.428	289.835.029
5. Other cash increase	005	770.643	1.260.859
I. Total increase of cash flow from operating activities (001 do 005)	006	**2.220.869.681**	**2.265.493.791**
1. Expenses to suppliers	007	2.069.461.529	2.053.325.285
2. Expenses for employees	008	202.096.547	206.512.274
3. Expenses for insuarance compensations	009	12.211.710	12.749.291
4. Expenses for interest	010	46.054.098	41.838.198
5. Expenses for taxes	011	45.857.144	43.834.953
6. Other cash decrease	012	4.529.566	12.255.346
II. Total decrease in cash flow from operating activities (007 do 012)	013	**2.380.210.594**	**2.370.515.347**
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)	014	**0**	**0**
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)	015	**159.340.913**	**105.021.556**
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proseeds from sale of non-current tangible and intangible assets	016	1.728.206	6.095.570
2. Cash proceeds from sale of equity and debt security instruments	017		
3. Cash proceeds from interest payment*	018		
4. Cash proceeds of dividend payment*	019		
5. Other cash proceeds from investing activities	020		
III. Total cash inflow from investing activities (016 do 020)	021	**1.728.206**	**6.095.570**
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	106.342.374	93.268.403
2. Cash outflow for acquisition of equity and debt financial instruments	023		11.600
3. Other cash outflows from investing activities	024		
IV. Total cash outflow from investing activities (022 do 024)	025	**106.342.374**	**93.280.003**
B1) NET CASH FLOW FROM INVESTIN ACTIVITIES (021-025)	026	**0**	**0**
B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)	027	**104.614.168**	**87.184.433**
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash infows from issuance of equity and debt financial instruments	028		
2. Cash inflows from loan pricipals, debentures, credits and other borrowings	029	536.934.785	383.093.302
3. Other inflows from financial activities	030		32.620.660
V. Total cash inflow from financial activities (028 do 030)	031	**536.934.785**	**415.713.962**
1. Cash outflows for repayment of loan principal and bonds	032	257.941.089	213.914.164
2. Cash outflows for dividend payment	033		
3. Cas outflow for financial lease	034		
4. Cash outflows for buybackof own shares	035		
5. Other cash outflows for financial activities	036		4.744.578
VI. Total cash outflow for financial activities (032 do 036)	037	**257.941.089**	**218.658.742**
C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)	038	**278.993.696**	**197.055.220**
C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)	039	**0**	**0**
Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)	040	**15.038.615**	**4.849.231**
Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)	041	**0**	**0**
Cash and cash equivalents at the begining of the period	042	9.423.093	24.461.708
Increase of cash and cash equivalents	043	15.038.615	4.849.231
Decrease of cash adn cash equivalents	044		
Cash and cash equivalents at the end of the period	045	24.461.708	29.310.939

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

STATEMENT OF CHANGES IN EQUITY

for the perod from 1.1.2017 to 31.12.2017

Position	AOP code	Previous year	Current year
1	2	3	4
1. Suscribed capital	001	386.135.400	42.903.930
2. Capital reserves	002	-200.000	3.923.969
3. Reserves from profit	003		-11.600
4. Retained profit or loss carried forward	004	-256.156.639	-2.375.151
5. Profit or loss for the year	005	-87.944.250	-242.751.528
6. Revaluation of fixed tangeble assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluation	009	3.696.046	2.968.575
10. Total capital and reserves (AOP 001 do 009)	010	**45.530.557**	**-195.341.805**
11. Exchange differences on translationof financial statements of foreign operations	011		
12. Curent and deferred taxes (part))	012		
13.Protektion of cash flow	013		
14. Changes in accounting policies	014		
15. Adjustment of significant errors from previous period	015		
16. Other changes in captal	016		
17. Total increase or decrease of capital (AOP 011 do 016)	017	**0**	**0**
17 a. Creadited to parent company capital owners	018	41.834.511	-198.310.380
17 b. Creadited to minority interest	019	**3.696.046**	**2.968.575**

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