

Petrokemija d.d.

Consolidated financial statements for the year ended 31 December 2015

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

Petrokemija d.d.
Consolidated financial statements

Contents

Annual report for the year ended 31 December 2015	1 – 10
Statement of Management's responsibilities	11
Independent Auditors' Report to the Shareholders of Petrokemija d.d.	12 – 13
Consolidated statement of comprehensive income	14
Consolidated statement of financial position	15
Consolidated statement of changes in equity	16
Consolidated statement of cash flows	17
Notes (<i>forming part of the financial statements</i>)	18 - 52

Petrokemija d.d.

Annual report for the year ended 31 December 2015

Key indicators for Petrokemija Group for 2015

- Actual total revenues of Petrokemija Group: HRK 2,582.5 million, 14.8% more than the previous year,
- Operating loss of Petrokemija Group: HRK 38.9 million, financial loss HRK 53.9 million, loss before tax of HRK 92.8 million, loss after tax of HRK 93.2 million.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) for Petrokemija Group: +54.2 million,
- Actual production of fertilizers 1.211 thousand tons. Despite the overhaul conducted in January 2015, 11.5% higher than in 2014, when the overhaul was not conducted.
- Compared to 2014, production of NPK complex fertilizers increased by 65.4%, the group of simple nitrogenous fertilizers CAN, AN, UAN, AS and ASN increased by 1.5%, while because of overhaul and the market situation, the production of Urea decreased by 3.7%
- Utilisation of currently installed plant capacities: 90%,
- Achieved sales of fertilizers 1,152 thousand tons, 10.0% higher than the previous year,
- The share of sales volume of fertilizers in the domestic market is 25%,
- Domestic sales: 286 thousand tons, export 866 thousand tons of fertilizers,
- Equity at 31 December 2015: Petrokemija d.d. HRK 133.2 million,
- Invested in Petrokemija d.d.: HRK 53.3 million,
- Number of employees at 31 Dec 2015: 1,617 in Petrokemija d.d., Petrokemija Group 1,762.

Management Board Report on the Group for the year ended 31 December 2015

- In Jan-Dec period 2015 Petrokemija Group had total income of HRK 2,582.5 million and total expense of HRK 2,675.4 million. The Company reported loss in business operations of HRK 92.9 million or 3.6% of the total revenues. Loss after tax is HRK 93.2 million.
- In the reporting period there was a high growth rate of USD (19.4% more than in 2014 and 23.6% more than the average for the previous ten years), which is due to the procurement of natural gas at prices fixed in USD - single most significant financial risk in business of Petrokemija d.d.. The growth rate averaged HRK 6.86 on annual basis caused additional negative financial impact on the result of HRK 186 million.
- In the structure of income, domestic sales amounted to 27.6% or HRK 708.8 million, which is 10.4% more than in 2014, while exports account for 70.0% or HRK 1,800.0 million, which is 15.8% more than in 2014.
- The higher sales volume was 10.0%, while the average selling price was 6.1% higher than in the same period of 2014,
- In assortment higher realization in 2015 compared to 2014 was achieved with NPK complex fertilizers by 74.8%, while the lower achievement was realized with Urea by 7.80% (unfavorable market price) and CAN 2.4%,
- Domestic sales 5.4% higher than in 2014,
- Export sales 11.6% higher than in 2014
- Sales of clay products and liquid mineral fertilizers 16.4% higher than in 2014.
- Despite the collected HRK 253 million in the capital increase process, the current liquidity ratio is below recommended levels (net current liabilities of HRK 358 million),
- Short term assets decreased by 25.4% compared to the same period of 2014, while short-term liabilities decreased by 21.2%,
- Indicator of financial stability below recommended values, indicators of indebtedness and own financing deteriorated compared to 2014.
- Actual average gas price is 0.3% lower in HRK and 15.4% lower in USD compared to the same period of 2014.
- Total number of employees 1,617, down 22 on December 31, 2014;
- Achieved level of investment HRK 53.3 million, HRK 13.4 million up on the same period of 2014 because most of overhaul works were carried out as investments.

Petrokemija d.d.

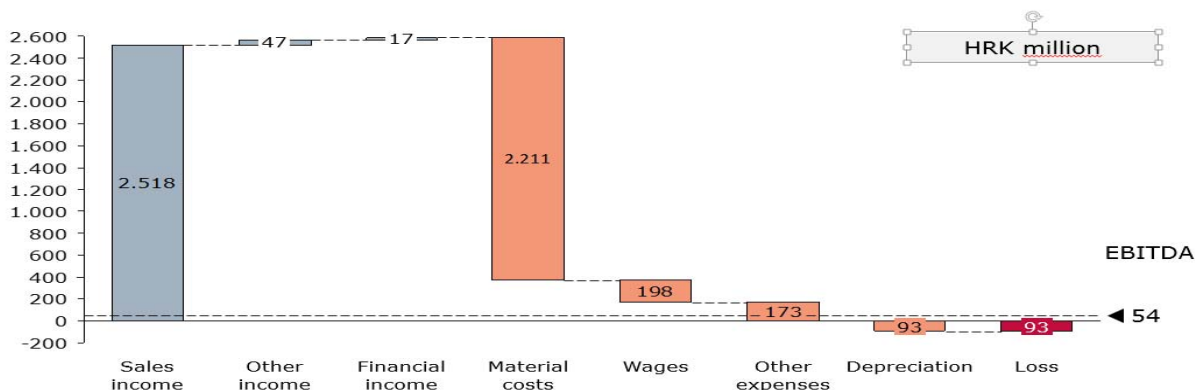
Annual report for the year ended 31 December 2015 (continued)

Profit and Loss 2015

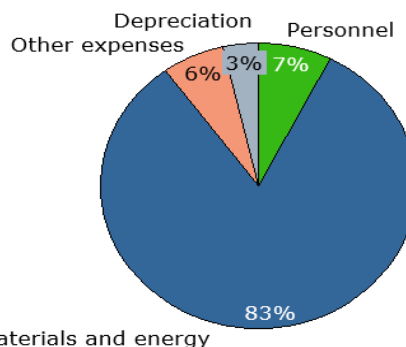
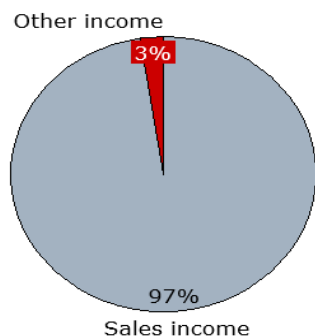
- Total income: HRK 2,582.5 million,
- Total expenses: HRK 2,675.4 million,
- Loss before tax: HRK -92.9 million,
- **EBITDA: + HRK 54,2 million**



Structure of income and expenses in 2015



In 2015, Petrokemija d.d. achieved 28% of income from domestic market, 70% income from export, and financial and other income account for 2% of total 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 83% account for raw materials and energy; personnel costs for 7%, while all other costs make 10%.



Petrokemija d.d.

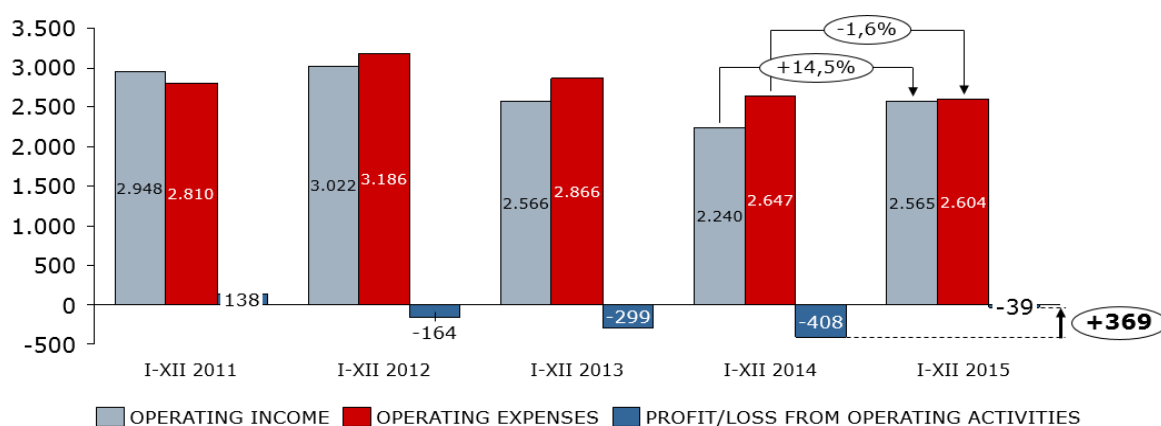
Annual report for the year ended 31 December 2015 (continued)

Key financial indicators for 2015:

<i>in HRK thousands</i>	I-XII 2015	I-XII 2014	Difference	% change
Operating income	2,565,246	2,239,504	325,742	14.5%
Operating expenses	2,604,117	2,647,438	(43,321)	(1.6%)
EBITDA	54,217	(310,986)	365,203	117.4%
Depreciation and amortisation	93,088	96,948	(3,860)	(4.0%)
Net financial result	(53,978)	(54,868)	890	1.6%
Result before tax	(92,849)	(462,802)	369,953	79.9%
	31.XII 2015.	31. XII 2014.	Difference	% change
Non-current assets	632,599	666,468	(33,869)	(5.1%)
Current assets	603,661	808,705	(205,044)	(25.4%)
Capital and reserves	133,189	227,197	(94,008)	(41.4%)
Non-current liabilities and provisions	141,633	27,241	114,392	419.9%
Current liabilities and provisions	961,438	1,220,735	(259,297)	(21.2%)

Operating profit or loss for Petrokemija Group in the period 2011-2015

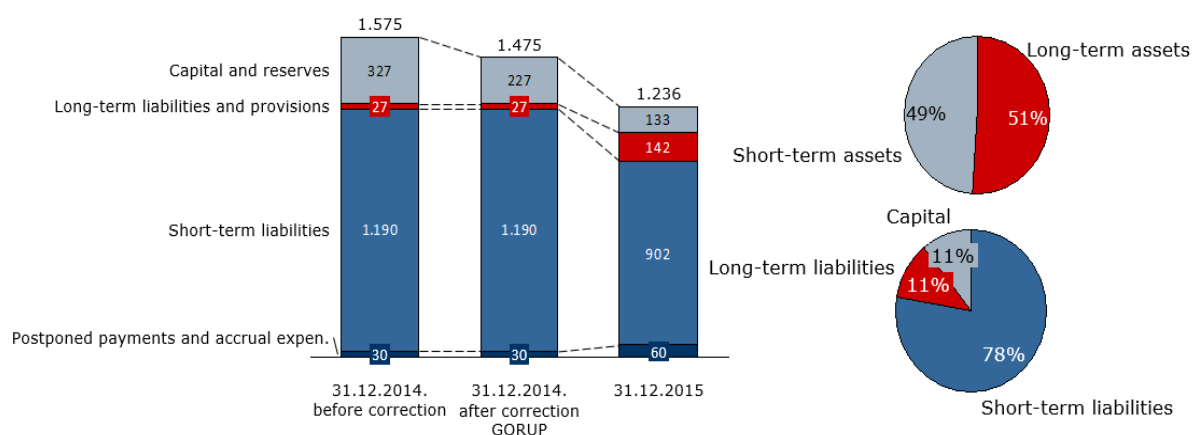
HRK million



Structure of assets and liabilities at 31 December 2015

As at 31 December 2015, Petrokemija Group had 49% in value of short-term and 51% in long-term assets, which can be attributed to relatively high depreciation and the age of production and auxiliary facilities.

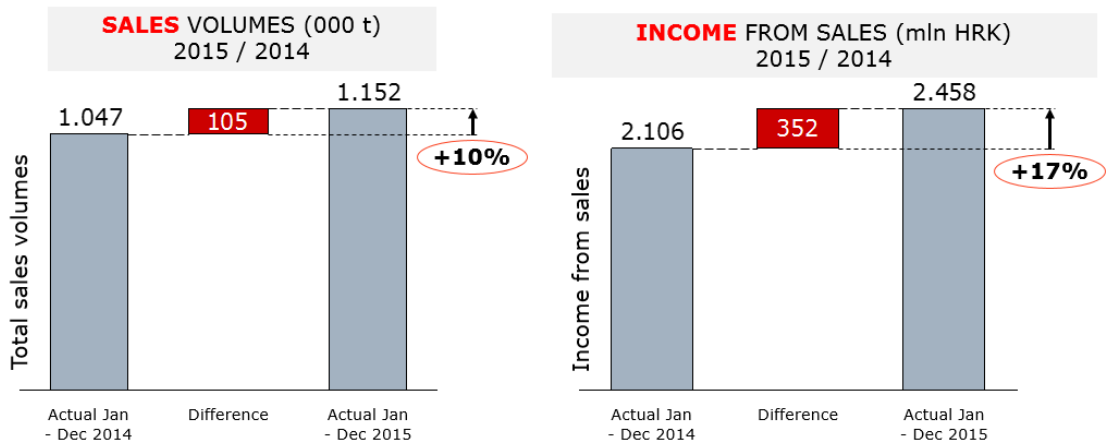
The level of capital and reserves and unregistered shares reflects the capital reduction conducted in 2014, deduction of loss in 2014 and the subsequent capital increase of HRK 253 million collected in the recapitalization process. On 31 December 2014, the value of receivables was corrected for HRK 99.4 million from Gorup d.o.o. and charged to the 2014 result. The structure of debt is dominated by short-term sources.



Petrokemija d.d.

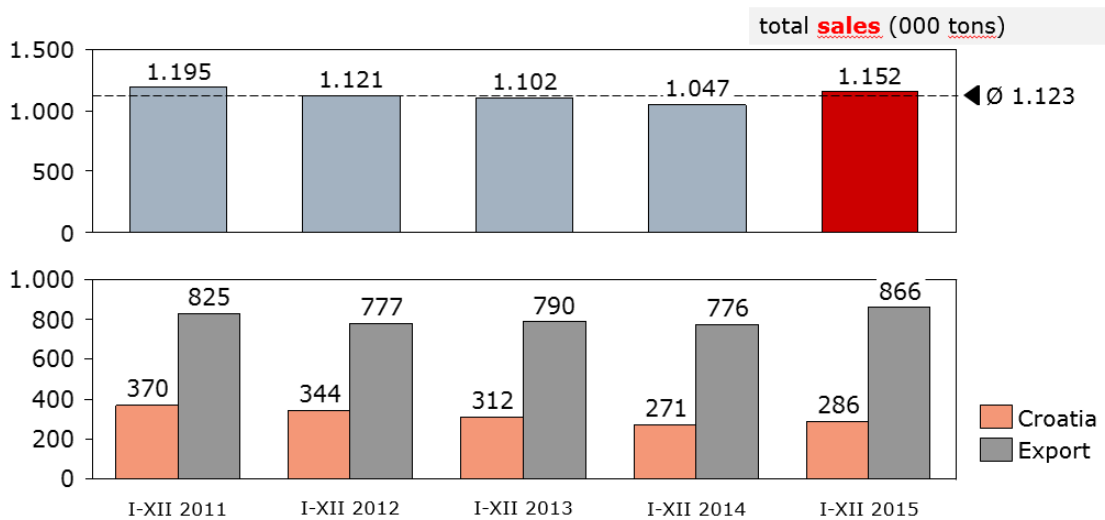
Annual report for the year ended 31 December 2015 (continued)

Total fertilizer sales



Actual rise in sales volumes of fertilizers of 10% and rise in income from sales of fertilizers of 17%, which indicates a slight increase in average selling prices.

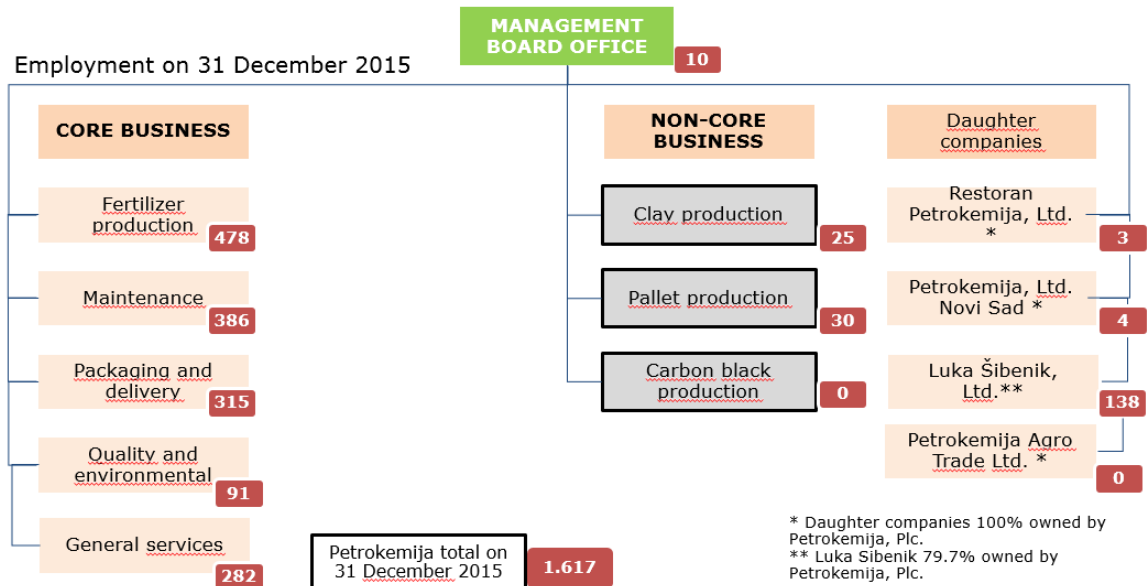
Actual fertilizer sales in the period 2011-2015



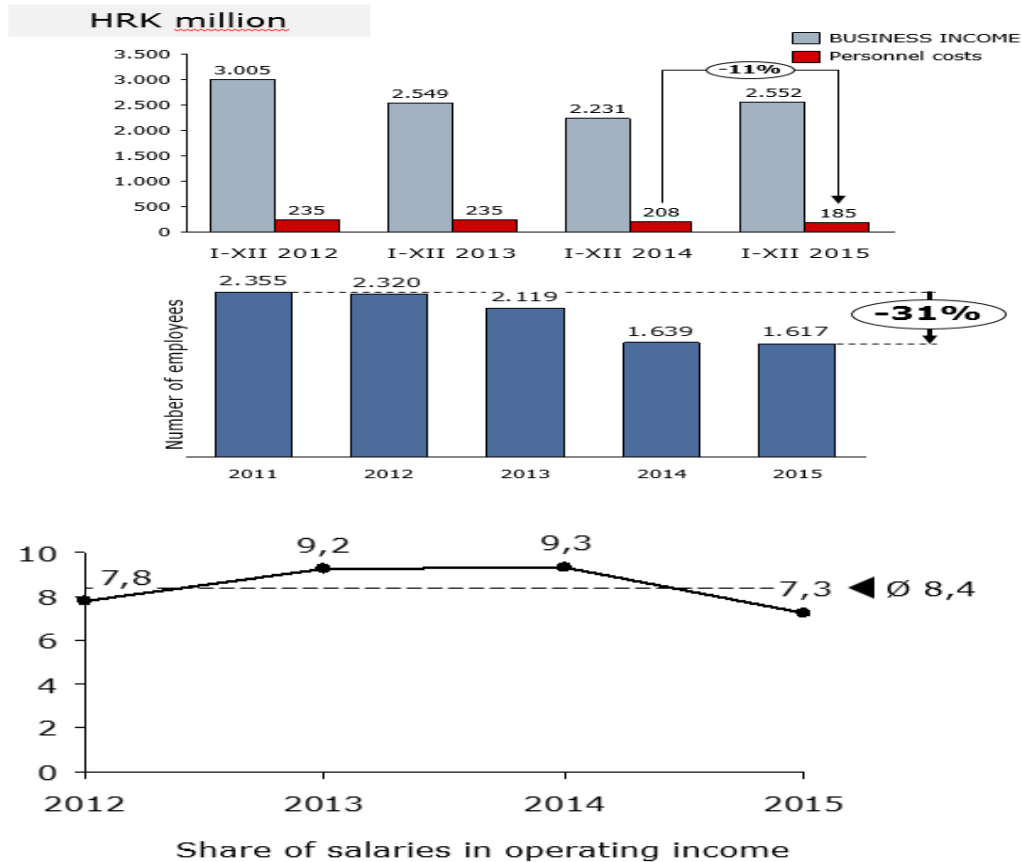
Petrokemija d.d.

Annual report for the year ended 31 December 2015 (continued)

Organization chart of Petrokemija d.d. and Petrokemija Group



Operational income, personnel costs, number of employees



As at 31 December 2015 Petrokemija d.d. had 1,617 employees, and its subsidiaries - members of Petrokemija Group 145, which is a total of 1,762 employees

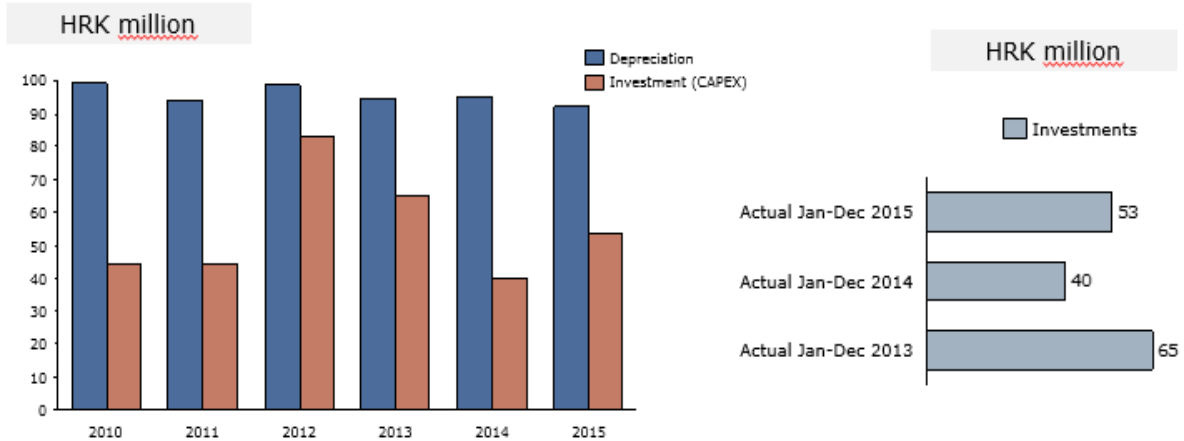
Personnel costs share in operating revenues was 7.3% and in operating expenses 7.1%.

Petrokemija d.d.

Annual report for the year ended 31 December 2015 (continued)

Realized investment

Investment realized in the reported period of 2015 amounted to HRK 53.3 million, which is HRK 13.4 million or 33.7% up on the same period of 2014. This is the result of conducted overhaul, which is treated as an investment.



Air quality in the Kutina area for January to December 2015 period at local monitoring station (K1, K2, K3, K5, K6 i K7) and the state monitoring station (DMP)



Clean or slightly polluted air 1 st category C<LV	Polluted air 2 nd category C>LV	Pollutants
K2, K7, DMP		Sulphur dioxide (SO ₂)
K1, K2, K3, K6, K7		sediment
K1, K2, K3, K5, K6, K7, DMP		Ammonia (NH ₃)
K1, K2, K3, K5, K6, K7, DMP		Nitrogen dioxide (NO ₂)
K2, K7, DMP		Hydrogen sulphide (H ₂ S)
	DMP	PM10

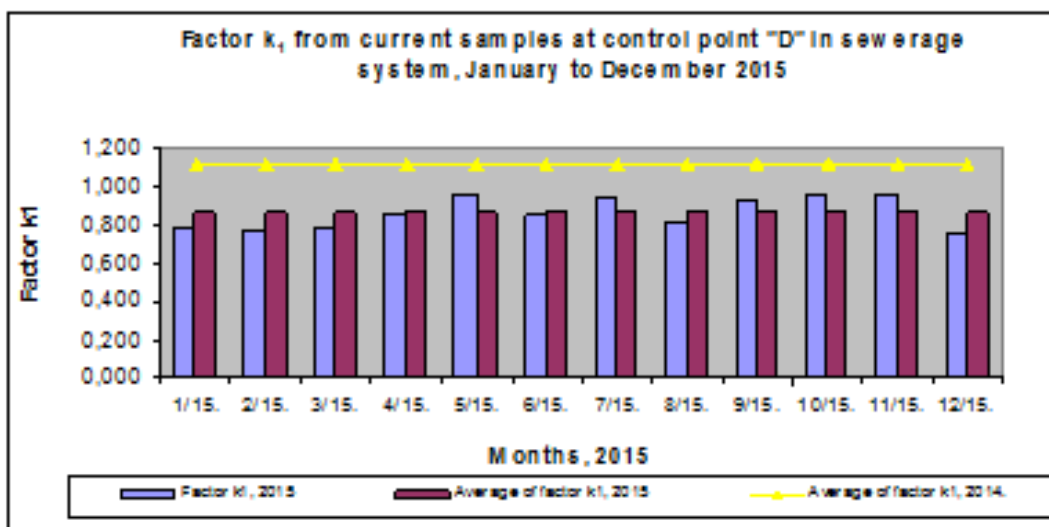
Note: The categorization of air quality at DMP can be changed after validation of data that has not been made by the competent institution.

Petrokemija d.d. Annual report for the year ended 31 December 2015 (continued)

Ambient air limit value (LV) exceedance of AMMONIA in the January to December 2015 period (local network)

Monitoring station	The number of limit value (LV) exceedances in the January to December 2015 period/ permitted exceedance number
K 1 - Dom zdravlja	2 / 7
K 2 - Vatrogasni dom	6 / 7
K 3 - Meteorološki krug	6 / 7
K 5 - Dom športova	1 / 7
K 6 - Husain	3 / 7
K 7 - Krč	0 / 7
TOTAL	18

Water management



In the period from January to December 2015, the average value of k₁ factor is lower than average value in the same period of 2014.

In the period from January to December 2015, monthly average consumption of raw water was 593,213m³, which is 2.06 % lower than average value in the same period of 2014.

Petrokemija d.d.

Annual report for the year ended 31 December 2015 (continued)

Company share capital, market value of shares

General Meeting of Petrokemija d.d. of 20 May 2014 adopted a Decision on simplified reduction of the share capital for loss coverage by reduction of the nominal amount of the ordinary shares (ticker: PTKM-R-A) of HRK 170.00 by HRK 140.00 to the amount of HRK 30.00.

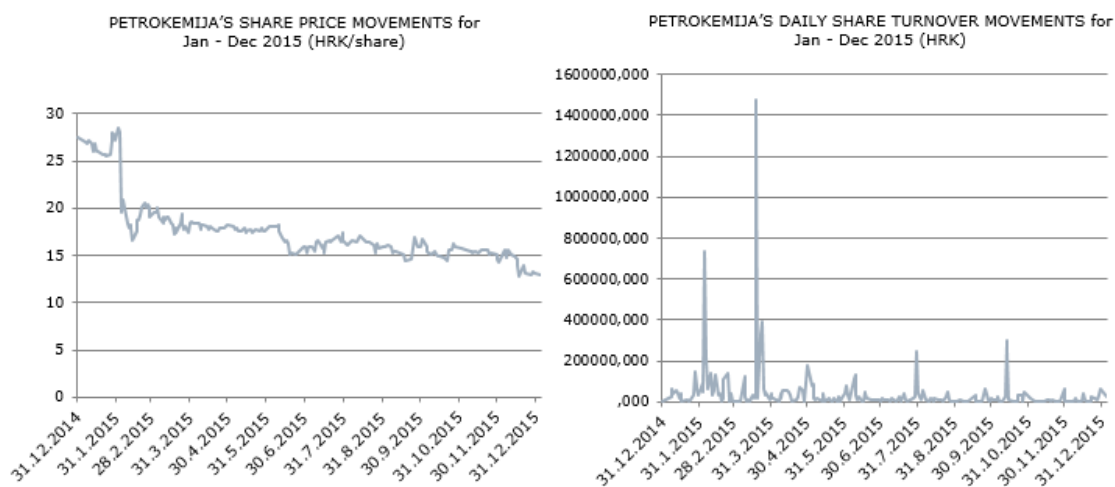
Therefore, the Company share capital was reduced from HRK 754,195,990.00 by HRK 621,102,580.00 to the amount of HRK 133,093,410.00 and was divided into 4,436,447 ordinary shares marked PTKM-R-A in the nominal amount of 30.00 HRK.

In the 1st, 2nd and 3rd round of capital increase, a total of 8,434,733 new shares of the Company was subscribed and paid for. Accordingly, in line with the Decision of the General Meeting on the share capital increase against payments in cash with partial exclusion of pre-emptive rights of existing shareholders and amendments to the Articles of Association of 20 May 2014 (Decision on Capital Increase), the requirement for the new shares issue to be considered successfully completed if at least 8,333,333 new shares were subscribed and paid for within the set deadlines, was met.

By Decision of the Commercial Court in Zagreb of 18 February 2015, the share capital of the Company was increased from the amount of HRK 133,093,410.00 by HRK 253,041,990.00 to the amount of HRK 386,135,400.00 by issuance of 8,434,733 ordinary shares marked PTKM-R-C, in the nominal amount of HRK 30.00. After the increase, the Company's share capital amounts to HRK 386,135,400.00 and is divided into 12,871,180 ordinary shares marked PTKM-R-A, with a nominal amount of HRK 30.00.

On 31 December 2014, the average share value was HRK 27.50, whereas on 30 December 2015 its average price was HRK 13.14 (down 52 %). On December 31, 2015 there was no trading of Petrokemija's shares.

Petrokemija d.d. share price and daily turnover movements



Changes in Supervisory Board of Petrokemija d.d..

In the reporting period, the mandate of two members of the Supervisory Board of Petrokemija d.d. expired: Goran Kralj (9 March 2015) and Željko Klaus (28 March 2015).

By a decision of the General Meeting of Petrokemija d.d. of 12 June 2015, the number of Supervisory Board members was reduced from seven to five.

As of 30 July 2015, Davor Rakić resigned as the appointed representative of workers in the Supervisory Board and Željko Klaus, whose term began on 31 July 2015, was appointed to the of the Supervisory Board as a workers' representative for a term of 4 years.

During the period of preparation of these financial statements, Chairman of the Supervisory Board of Petrokemija d.d. Tomislav Pokaz submitted his resignation as President and member of the Supervisory Board of Petrokemija d.d., effective as of 8 of February 2016, for reasons of taking up a new position that is incompatible with membership in the Supervisory Board.

On 19 February 2016, the member of the Supervisory Board, mr. Branimir Fleković, was appointed as the new Chairman of the Supervisory Board.

Petrokemija d.d.

Annual report for the year ended 31 December 2015 (continued)

Key events in 2015

- After the unsuccessful result of the process of choosing a strategic partner in 2014, the Management and Supervisory Board initiated Program of Restructuring and Financial Consolidation for 2014-2018. The Program involved capital increase and reschedule of short-term debt, because in the meantime the financial position of the Company deteriorated to a level which could jeopardize the continuity of its business. In the first two rounds of the Company recapitalization process in 2014, HRK 253 million for 8.4 million shares was paid. In the third round, conducted at the turn of January and February 2015, there were no interested investors, so the process ended with incorporation of HRK 253 million capital and not HRK 500 million as planned.
- Due to the partial failure of the assumptions of the Program of Restructuring and Financial Consolidation for 2014-2018, a Revision Program for 2015-2019 period was adopted at the end of 2014. The Revision included key changes in terms of changes in assortment and the re-activation of plants that had been stalled (NPK-2 and Sulfuric Acid). The planned investment was also reduced, and accordingly the need for additional financing of the Program. In the reporting period, first of the planned activities have started to be realized - the purchase price of natural gas was reduced and changes in the product range and sales have been made.
- After two years of continuous operation, a comprehensive overhaul of the facilities was carried out in January 2015, which was marked by maximum engagement of own expert resources and austerity measures. After the, overhaul, all facilities started up and in the first quarter one of the assumptions of the Program of Restructuring was realized: test volumes of a new product-granular ammonium sulfate (AS)-were produced, showing first positive effects. If significant sales volumes of the new product, PETROKEMIJas and ASN are achieved, this will enable the production to move away from the price-unfavorable Urea that has an extremely low price on the spot market. Furthermore, the activities on adjustment of NPK fertilizer composition to market demand were successfully carried out.
- In June 2015, potential interested investors, Prvo plinarsko društvo, d.o.o Vukovar and MET Holding AG, Switzerland, conducted due diligence of the Company in accordance with the requirements of the Croatian State Office for State Property Management. At the time of publication of the current financial statements, the Management Board has no knowledge of further intentions of the majority owners or the potential investors.
- On 10 July 2015, upon request of the operator, Petrokemija d.d.. Fertilizer Company, the Croatian Ministry of Environment and Nature Protection adopted a Decision on Integrated Environmental Protection Requirements for the operation of the existing 14 fertilizer facilities of Petrokemija at Aleja Vukovar 4 in Kutina. The Decision was issued for a period of five years. The Decision is published in full on the website of the Ministry of Environment and Nature Protection of Croatia: http://www.mzoip.hr/doc/10072015_-_petrokemija_dd_tvornica_gnojiva_kutina_.pdf
- As a result of an international tender, Petrokemija d.d. has concluded new contracts for the supply of natural gas in the gas year 2015/2016. The contracts were signed with INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar, as the most competitive bidding suppliers. Furthermore, agreements have been reached with suppliers INA d.d. and PPD d.o.o. on the repayment of the debt for supplied gas as well as on the revised terms of gas supplies for Feb through to Sept 2015.
- By the Decision of the Commercial Court in Zagreb Tt-15/21727-4 of 25.8.2015, the establishment of Petrokemija Agro Trade, Ltd. for trade and services was registered in the Court Register, based in Kutina, Aleja Vukovar 4. The only founder of the company is Petrokemija d.d.. Fertilizer Company in Kutina, Aleja Vukovar 4. In 2015, the company was not involved in any commercial activities.
- In 2014, Petrokemija d.d. had an outstanding claim from the company Gorup d.o.o. from Klanjac in the amount of about HRK 97 million, which was increased by interest determined (recognized) in the process of the pre-bankruptcy settlement of that company in the total registered amount of approximately HRK 99.9 million. The pre-settlement process of Gorup was launched on 6 February 2015. At the hearing in the process against the debtor on 4 September 2015, Petrokemija, as one of the creditors in the process, did not support the Revised Plan of Financial Restructuring of Gorup.
- Exceptional charging of financial results as a result of problems carried over from the previous period in the collection of receivables from Gorup d.o.o. and liabilities under recourse factoring for the above customer, was carried out in such a way that HRK 99.4 million was charged to the result of 2014 (in accordance with IAS 8), and HRK 0.6 million of accrued interest was charged to the result of 2015.

Petrokemija d.d.

Annual report for the year ended 31 December 2015 (continued)

Key events in 2015 (continued)

- In October 2015 an Invitation to Submit Indication of Interest to Subscribe for new ordinary shares of Petrokemija was published in accordance with the Decision of the Croatian Government of 24 September 2015 on granting authorization to the General Meeting to adopt the decision on capital increase in cash, assets and rights of the Petrokemija d.d.. Fertilizer Company, Kutina.
- Following the period from 2 to 23 October 2015, it was provided to all interested investors to express indicative interest for subscription of new shares of Petrokemija d.d. in cash, goods and rights, the Company has received a number of Statements of expressions of interest and requests for conducting the due diligence of operations of Petrokemija. At its session on 24 November 2015, the Supervisory Board of Petrokemija gave consent to the Management for conducting the due diligence and opening data rooms, in accordance with the established data sheet and signed agreements on confidentiality. Due diligence was conducted in the period from 30 November to 21 December 2015.
- In accordance with the Revised Program of Restructuring and Financial Consolidation 2015 – 2019, Petrokemija d.d. produced and offered to the market the first amounts of another new product, granulated ammonium sulphonitrate (ASN). Granular ammonium sulphonitrate contains nitrogen in both forms, ammoniacal and nitrate and is suitable for top dressing and pre-sowing fertilization of all agricultural crops. In addition to nitrogen, it contains sulfur, which is also very important in the nutrition of crops. Because of the total nitrogen content of 26% in ammonium and nitrate form, this product is an ideal replacement for CAN. The increase of production and sales of this product will reduce the exposure to global market fluctuations related to Urea product.
- In December 2015, a certifying audit was held in Petrokemija d.d. for the ISO50001: 2011 Standard, Energy Management System, by Lloyd's Register. Petrokemija is the second Croatian company to introduce this certification for Energy Management System. The ISO50001: 2011 Standard assists organizations in establishing the systems and procedures necessary to improve energy efficiency, which should lead to a reduction in the energy costs and long-term reduction of greenhouse gas emissions, i.e. costs related to them.

Significant financial risks in 2016

The overall business position of Petrokemija d.d. in 2016, is characterized by numerous parameters, whose impact is very difficult to estimate. According to the current market situation, it is estimated that because of the low price of fertilizers in the world market, still relatively high purchase price of natural gas and the high cost of financing a loss will be reported, the level of which will depend on the following risks:

- Petrokemija d.d. is highly dependent on the movement of fertilizers and their raw material price in the global market, the exchange rate of the HRK against USD and EUR and their interrelationship. After the high growth rate of USD of on average 19.4% in 2015, further growth of the US dollar would cause additional negative effects in the business of Petrokemija d.d.. and Petrokemija Group,
- Natural gas as the most important raw material is still procured on the domestic market, according to contracts concluded with two suppliers – INA d.d. Zagreb and Prvo plinarsko društvo d.o.o Vukovar. The price of natural gas is linked to the USD and EUR exchange rate and the movement of natural gas prices on the European spot market,
- The sales prices of fertilizers in the global market are still influenced by cyclical and seasonal changes, and the price of nitrogen fertilizer Urea is at a very low level,
- Fluctuations in raw material prices in the global market, which have so far been present, will have impact on material costs in the next period,
- High costs of working capital - because of insufficient own working capital, financing costs will be significant in the next period,
- High debts can result in occasional standstills in the delivery of natural gas and accordingly production, which would generate additional costs and jeopardize the long-term existence of the Company,
- Financing of investments will depend on the key decisions of the majority owner in terms of the continuing process of restructuring, capital increase and / or finding a strategic partner.

Petrokemija d.d.

Statement of Management Board's Responsibilities

The Management Board of Petrokemija d.d. ("the Company") 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 Company and its subsidiaries (together referred to as "the Group") and of the results of their operations and their 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 unconsolidated financial statements. These financial statements do not include the possible effects which would result from the Group's inability to continue operating as a going concern.

The Management Board is responsible for the preparation of the annual report pursuant to legal and regulatory requirements specified in Article 18 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia) and for submission to the Supervisory Board of its annual report together with the annual consolidated financial statements, following which the Supervisory Board is required to approve the annual consolidated financial statements for submission to the General Assembly of Shareholders for adoption.

The unconsolidated financial statements of the Company and the annual report on the Company are published separately and issued simultaneously with these annual consolidated financial statements.

The annual report on the Group and the consolidated financial statements were authorised by the Management Board on 17 March 2016 for issue to the Supervisory Board and are signed below to signify this.

Nenad Zečević
President of the Management Board

Antonija Perošević Galović
Member of the Management Board

17 March 2016
Aleja Vukovar 4
Kutina
Croatia



Tamara Pernar
Member of the Management Board

Vladimir Frelš
Member of the Management Board



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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Petrokemija d.d. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

- 1 As described in note 31, the Group has an obligation for land restoration. In accordance with International Financial Reporting Standards IAS 37 *Provisions, contingent liabilities and contingent assets*, the Group should recognise a provision for land restoration. As explained in note 31, the Group has not estimated and recognised the provision for costs of restoration and closure of the landfill as at 31 December 2015 and 31 December 2014. The effects of this departure from International Financial Reporting Standards on the financial statements have not been determined. Our opinion on the consolidated financial statements for the preceding period was also qualified in this respect.
- 2 At 31 December 2015, inventory includes items with a carrying value of HRK 93,662 thousand (*31 December 2014: HRK 97,363 thousand*) relating to major spare parts, stand-by equipment and spare parts that can be used only in connection with specific items of plant and equipment and which the Group expects to use during more than one period. In accordance with International Financial Reporting Standards IAS 16 *Property, plant and equipment*, these spare parts and stand-by equipment should be classified as part of plant and equipment. The Group has not completed the process of determining the value of spare parts that need to be re-classified from current to non-current assets as part of plant and equipment and calculated the effect of retroactive restatements related to depreciation. The effects of this departure from International Financial Reporting Standards on the financial statements have not been determined. Our opinion on the consolidated financial statements for the preceding period was also qualified in this respect.
- 3 As at 31 December 2015, the assets of the Group include property, plant and equipment with a carrying value of HRK 16,483 thousand (*31 December 2014: HRK 18,823 thousand*) and related spare parts and materials totaling HRK 20,174 thousand (*31 December 2014: HRK 20,324 thousand*) for which there are indications of impairment and lower net realisable values, respectively. As prescribed by International Financial Reporting Standards IAS 16 *Property, plant and equipment*, the Group is required to test these assets for impairment, and to assess their recoverable amount as well as to assess the net realisable value of related spare parts and materials in accordance with the requirements of IAS 2: *Inventories*. As the Group has not made such an estimate, the effects of this departure from International Financial Reporting Standards on the financial statements have not been determined. Our opinion on the consolidated financial statements for the preceding period was also qualified in this respect.

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



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

Report on the consolidated financial statements (continued)

Qualified opinion

In our opinion, except for the effects of matters described in the *Basis for qualified opinion*, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2015, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to note 2.4 to the consolidated financial statements. In the year ended 31 December 2015, the Group incurred a consolidated net loss of HRK 93,198 thousand (2014: HRK 463,172 thousand). Furthermore, as at 31 December 2015, the Group's consolidated current liabilities exceeded its consolidated current assets by HRK 357,777 thousand (2014: HRK 412,030 thousand). 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. As at the date of this report, the Group has not agreed on the models for ensuring the liquidity of the Group with its creditors and financiers and the negotiations with strategic investors are not finalised and their outcome is uncertain. With respect to these conditions and others disclosed in note 2.4 and bearing in mind the potential effects of qualifications of our audit opinion as mentioned above, the ability of the Group to continue operating as a going concern is dependent on the ability of the Group to refinance its existing financial indebtedness and to recapitalise or on the outcome of the process of introduction of a strategic investor. These financial statements do not contain possible effects that would result from inability of the Group to continue operating as a going concern.

Report on other legal and regulatory requirements

Pursuant to legal and regulatory requirements as applicable for reporting periods ending 31 December 2015, the management has prepared the annual report set out on pages 1 to 10. The management is responsible for the preparation and content of the annual report in accordance with Article 18 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia). Our responsibility is to report on the consistency of the information in the annual report with the audited financial statements based on procedures we considered appropriate to perform in accordance with Article 17 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia). The information given in the accompanying annual report is consistent with the financial statements set out on pages 14 to 52.

KPMG Croatia d.o.o. za reviziju

Croatian Certified Auditors

Eurotower, 17th floor

Ivana Lučića 2a

10000 Zagreb

Croatia

17 March 2016

Petrokemija d.d.

Consolidated statement of comprehensive income

for the year ended 31 December 2015

<i>(in thousands of HRK)</i>	<i>Note</i>	2015	2014 <i>*restated</i>
Revenue from sales	8	2,517,890	2,201,492
Other income	9	47,356	38,012
Total operating income		2,565,246	2,239,504
Change in inventory of finished goods and work in progress		31,676	9,042
Raw materials, consumables and services used	10	(2,243,083)	(2,034,401)
Staff costs	11	(203,738)	(327,782)
Depreciation and amortisation	15, 16	(93,088)	(96,948)
Other operating expenses	12	(95,884)	(197,349)
Total operating expenses		(2,604,117)	(2,647,438)
Operating loss		(38,871)	(407,934)
Financial income	13	17,273	9,415
Financial expenses	13	(71,251)	(64,283)
Net finance costs		(53,978)	(54,868)
Loss before tax		(92,849)	(462,802)
Income tax	14	(349)	(370)
Loss for the period		(93,198)	(463,172)
Other comprehensive income:			
Exchange differences on translation of foreign operations		(66)	(494)
Total comprehensive loss		(93,264)	(463,666)
Loss attributable to:			
Equity holders of the parent		(93,341)	(462,685)
Non-controlling interests		143	(487)
Total comprehensive loss attributable to:			
Equity holders of the parent		(93,407)	(463,179)
Non-controlling interests		143	(487)
Loss per share (in HRK):			
- Basic and diluted	24	(7.25)	(104.29)

*-for restatements see note 7 (ii).

The accompanying accounting policies and notes form an integral part of the financial statements

Petrokemija d.d.

Consolidated statement of financial position

as at 31 December 2015

<i>(in thousands of HRK)</i>	<i>Note</i>	31.12.2015.	31.12. 2014. <i>*restated</i>
ASSETS			
Non-current assets			
Property, plant and equipment	15	624,444	658,085
Intangible assets	16	7,767	8,062
Deferred tax assets		380	313
Non-current financial assets	18	8	8
		632,599	666,468
Current assets			
Inventories	20	487,394	523,417
Trade and other receivables	21	76,676	223,148
Current financial assets	18	30,167	50,661
Cash and cash equivalents	22	9,424	11,479
		603,661	808,705
Total assets		1,236,260	1,475,173
EQUITY AND LIABILITIES			
Equity			
Share capital	23	386,135	386,135
Reserves		(200)	301,447
Accumulated losses		(256,555)	(464,051)
Attributable to equity holders of the parent		129,380	223,531
Non-controlling interest		3,809	3,666
		133,189	227,197
Non-current liabilities			
Loans and borrowings	25	130,094	17,015
Provisions	26	11,539	10,226
		141,633	27,241
Current liabilities			
Trade and other payables	27	725,260	647,854
Loans and borrowings	25	236,178	572,881
		961,438	1,220,735
Total equity and liabilities		1,236,260	1,475,173

*-for restatements see note 7 (ii).

The accompanying accounting policies and notes form an integral part of the financial statements

Petrokemija d.d.

Consolidated statement of changes in equity

for the year ended 31 December 2015

<i>(in HRK thousands)</i>	Share capital	Other reserves	Accumulated losses	Attributable to equity holders of the parent	Non-controlling interest	Total equity
As at 1 January 2014	754,196	7,967	(328,255)	433,908	4,153	438,061
<i>Comprehensive income (restated - note 7)</i>						
Loss for the period	-	-	(462,685)	(462,685)	(487)	(463,172)
Other comprehensive income	-	-	(494)	(494)	-	(494)
Total comprehensive income	-	-	(463,179)	(463,179)	(487)	(463,666)
Transfers	-	(7,967)	7,967	-	-	-
<i>Transactions with owners recognised directly in equity</i>						
Decrease of share capital (Note 23)	(621,103)	301,687	319,416	-	-	-
Paid but unregistered share capital (Note 23)*	253,042	(240)	-	252,802	-	252,802
Total transactions with owners recognised directly in equity	(368,061)	301,447	319,416	252,802	-	252,802
As at 31 December 2014 (restated)	386,135	301,447	(464,051)	223,531	3,666	227,197

<i>(in HRK thousands)</i>	Share capital	Other reserves	Accumulated losses	Attributable to equity holders of the parent	Non-controlling interest	Total equity
As at 1 January 2015	386,135	301,447	(464,051)	223,531	3,666	227,197
<i>Comprehensive income</i>						
Loss for the period	-	-	(93,341)	(93,341)	143	(93,198)
Other comprehensive income	-	-	(66)	(66)	-	(66)
Total comprehensive income	-	-	(93,407)	(93,407)	143	(93,264)
Transfers	-	(300,903)	300,903	-	-	-
<i>Transactions with owners recognised directly in equity</i>						
Paid share capital registration costs*	-	(744)	-	(744)	-	(744)
Total transactions with owners recognised directly in equity	-	(744)	-	(744)	-	(744)
As at 31 December 2015	386,135	(200)	(256,555)	129,380	3,809	133,189

* Paid but unregistered share capital relates to the amount of increase in share capital which was paid by the shareholders, but which was not registered at the Commercial Court as at 31 December 2014. As at 18 February 2015 this increase in share capital was registered at the Commercial Court (for details see note 23) and transaction costs of registering the share capital were recognized in other reserves.

The accompanying accounting policies and notes form an integral part of the financial statements

Petrokemija d.d.

Consolidated statement of cash flows for the year ended 31 December 2015

<i>(in thousands of HRK)</i>	<i>Note</i>	2015	2014 *restated
Loss before tax		(92,849)	(462,802)
Depreciation and amortization		93,088	96,948
Impairment losses on trade receivables		922	100,437
Interest income		(1,169)	(1,962)
Interest expense		45,408	51,709
Net increase/(reversal) of provisions		2,265	(4,968)
Loss on disposal of property, plant and equipment		456	1,817
Loss on financial assets available for sale		-	646
Foreign exchange differences - net		(66)	(494)
Changes in working capital:		48,055	(218,669)
Decrease/(increase) in inventories		36,023	(74,864)
Decrease in trade and other receivables		145,550	76,169
Increase in trade and other payables		185,681	311,678
Increase/(decrease) in provisions		(952)	962
Cash generated from operations		414,357	95,276
Income tax paid		(416)	(647)
Interest paid		(45,679)	(52,573)
Net cash from operating activities		368,262	42,056
Cash flows from investing activities			
Purchase of property, plant, equipment and intangibles		(59,435)	(46,287)
Interest received		1,169	1,962
Proceeds from sale of AFS financial assets		-	9,853
Net inflows/(outflows) from bank deposits and money market funds		16,548	(43,094)
Net inflows/(outflows) from other non-current financial assets		133	3,065
Net cash from investing activities		(41,585)	(74,501)
Cash flows from financing activities			
Proceeds from borrowings		3,694	605,449
Repayment of borrowings		(335,495)	(835,326)
Increase of share capital	23	-	253,042
Transaction costs for share capital increase		(744)	(240)
Net cash from financing activities		(332,545)	22,925
Net decrease of cash and cash equivalents		(5,868)	(9,520)
Cash and cash equivalents at beginning of year		18,913	28,433
Cash and cash equivalents at the end of year	22	13,045	18,913

*-for restatements see note 7 (i).

The accompanying accounting policies and notes form an integral part of the financial statements

Petrokemija d.d.

Notes (forming part of the financial statements)

1 General information

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

As at 31 December 2015 the share capital amounts to HRK 386,135 thousand and it is divided into 12,871,180 non-materialized ordinary shares at a nominal value of HRK 30 each. The Company's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in note 23.

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

The Company and its subsidiaries as disclosed in note 17 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 2015, the Group employed 1,762 employees (31 December 2014: 1,793 employees).

Company bodies

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

Management Board

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

Nenad Zečević	President
Antonija Perošević Galović	Member
Tamara Pernar	Member
Vladimir Fresl	Member

Supervisory Board

Members of the Supervisory Board are:

Tomislav Pokaz	President, resigned 8 February 2016
Branimir Fleković	Member, President from 19 February 2016
Sonja Ivoš	Member, Vice president from 19 February 2016
Goran Kralj	Member until 9 March 2015
Krešimir Huljev	Member
Željko Klaus	Member until 28 March 2016 and member again from 31 July 2015
Davor Rakić	Member until 30 July 2015

General Assembly

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

Petrokemija d.d.

Notes (*continued*)

2 Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (“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 IFRS, are published separately and issued simultaneously with these consolidated financial statements.

These financial statements were authorised for issue by the Management Board on 17 March 2016.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Going concern

In the year ended 31 December 2015, the Group incurred a net loss of HRK 93,198 thousand (*31 December 2014: HRK 463,172 thousand*). Furthermore, as at 31 December 2015, the Group’s current liabilities exceeded its current assets by HRK 357,777 thousand (*31 December 2014: HRK 412,030 thousand*).

Since 2013, the Company continuously carries out comprehensive measures of operational and financial restructuring in the context of the restructuring plan approved by the Supervisory Board, and that measures are primarily aimed at:

- optimization of procurement costs
- 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.

During 2014, in parallel with the implementation of restructuring measures envisaged in the adopted plan, the Company updated the existing plan and prepared a new five-year restructuring and financial consolidation plan for the period up to 2019.

In updating the plan, several key changes to assumptions were made with respect to the structure of production and sales mix, activation of plants not in use, securing of long term sources of financing and realisation of lower prices of natural gas in accordance with the adopted natural gas procurement strategy. In addition, during 2014 the Company implemented a workforce restructuring programme with respect to which severances were paid to 492 employees totaling HRK 100,340 thousand, which should result in savings in employee expenses in the following years of around HRK 45 to 50 million per year. Furthermore, as described in note 23, during 2014 the Company successfully increased its share capital on two occasions by a total amount of HRK 253,042 thousand by issuing new shares.

During 2015, the first of the planned activities were executed whereby a lower purchase price for natural gas was achieved alongside changes in the production and sales assortment. Following two years of continued operations, a major overhaul of production facilities was executed in January 2015 with maximum utilisation of own resources and cost savings measures. Furthermore, in the first quarter of 2015, one of the milestones of the restructuring plan was realised whereby test quantities of the new product – granular ammonium sulphate (AS) were produced which had positive effects on revenue and gross margin. The Company is focused on achieving sales of substantial quantities of the new product which would enable it to move away from products with a less favourable pricing structure.

Petrokemija d.d.

Notes (*continued*)

2 Basis of preparation (*continued*)

2.4 *Going concern (continued)*

In addition to the implemented restructuring measures, the Company continued with the negotiations regarding the entry of a strategic partner in the course of which several interested investors executed a due diligence of the Company during 2015 and submitted non-binding offers and expressions of interest with respect to their entry in the ownership structure of the Company.

Although as at the date of these financial statements a model for ensuring the liquidity of the Company has not been agreed with the creditors and financiers, and although the negotiations with strategic investors are not finalised, the Company is continuing with the process of restructuring and financial consolidation. Taking into account the implemented restructuring measures and expected results, management believes that the Company will be able to create conditions for sustainable operations together with the support of creditors, financiers and shareholders.

Management acknowledges that uncertainty remains over the Company's ability to meet its funding requirements and to refinance or repay its liabilities as they fall due. However, as described above, management has a reasonable expectation that the Company will secure adequate resources to continue in operational existence for the foreseeable future. If for any reason the Company is unable to continue as a going concern, then this could have an impact on the Company's ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements.

Petrokemija d.d.

Notes (*continued*)

3 Significant accounting policies

The accounting policies set out below 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 incorporate the financial statements of Petrokemija d.d. (“the Company”) and entities controlled by the Company (its subsidiaries) as at and for the year ended 31 December 2015. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

(i) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are de-consolidated from the date that control ceases.

The Company uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Company recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets.

The excess of consideration transferred the amount of any non-controlling interest in the acquiree and acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company’s share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of bargain purchase, the difference is recognized directly in the statement of comprehensive income.

(ii) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Company’s interest in the enterprise. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(iii) *Loss of control*

Upon the loss of control, the Company derecognises the assets and liabilities of the subsidiary, any non-controlling interests and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Company retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

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.

Petrokemija d.d.

Notes (*continued*)

3 Significant accounting policies (*continued*)

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.

Net investment in Group companies

Exchange differences arising from the translation of the net investment in foreign operations are taken to equity. When a foreign operation is sold, such exchange differences are released in profit or loss as part of the gain or loss on sale.

3.4 Intangible assets

(i) *Software licences and project documentation*

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

(ii) *Subsequent expenditure*

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

(iii) *Amortisation*

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

Software and project documentation	3- 5 years
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Petrokemija d.d.

Notes (*continued*)

3 Significant accounting policies (*continued*)

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

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

(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.

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 Group 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.

Petrokemija d.d.

Notes (*continued*)

3 Significant accounting policies (*continued*)

3.6 Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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

Cash and cash equivalents

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

Investments at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Accounting for financial income and expense is discussed in a separate note within significant accounting policies.

Other

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

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.

Petrokemija d.d.

Notes (*continued*)

3 Significant accounting policies (*continued*)

3.8 Impairment

(i) Financial assets

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

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

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

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

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash flows that largely are independent from other assets and groups of assets.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

Petrokemija d.d.

Notes (*continued*)

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.

Petrokemija d.d.

Notes (*continued*)

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 Company'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.

Petrokemija d.d.

Notes (*continued*)

3 Significant accounting policies (*continued*)

3.17 Taxation

(i) Income tax

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

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

(ii) Deferred tax assets and liabilities

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

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

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

(iii) Tax exposures

In determining the amount of current and deferred tax, the 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.

(iv) Value added tax (VAT)

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

4 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2015, and/or have not been adopted by the European Union and as such have not been applied in preparing these financial statements. These standards are not expected to have a significant impact on the Group's financial statements.

Petrokemija d.d.

Notes (*continued*)

5 Key accounting judgements and estimates

Critical judgements in applying accounting policies

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

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

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

(i) *Deferred income tax assets recognition*

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (see accounting policy 3.17 and note 14).

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

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see accounting policy 3.9 and note 26).

(iii) *Consequences of certain legal actions*

There are a number of legal actions which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal actions and recognises provisions for the liabilities that may arise to the 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 26).

Petrokemija d.d.

Notes (*continued*)

5 Key accounting judgments and estimates (*continued*)

Critical judgements in applying accounting policies (continued)

(iv) Trade receivables - impairment

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

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

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

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

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

(v) Accounting for the concession arrangement

A significant part of the registered activity of the subsidiary Luka Šibenik d.o.o. is performed on an area under concession over maritime domain. According to the Maritime Domain and Seaports Act, the maritime domain is managed by the Port Authority of Šibenik, who is the concession Grantor while the subsidiary is the Operator or the concessionaire. Given that the Group is majority owned by the State and, consequently, the subsidiary itself is in majority State ownership, the Group does not apply the interpretation IFRIC 12 *Service Concession Arrangements* in accounting for the concession arrangement of the subsidiary since the above interpretation is not mandatory for application to concession arrangements between two parties whereby the party who awards the contract (the Grantor) and the party which is the concessionaire (the Operator) are both from the public sector.

Petrokemija d.d.

Notes (*continued*)

6 Determination of fair value

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

Fair values are measured using information collected from third parties in which case the 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 18: Financial assets
- Note 19: Financial assets at fair value through profit or loss

Petrokemija d.d.

Notes (continued)

7 Comparative information and restatement of opening balances

(i) Change in the method of presentation of the statement of cash flows

In 2015, the Group changed the method of presentation of the statement of cash flows from the direct to the indirect method. In the course of the change in the method of presentation of cash flows, the cash flows from financial activities no longer include non-cash effects of debt refinancing which have been included in cash flows from financial activities in the direct method of presentation. Due to the comprehensive nature of differences between the presentations of cash flows under the direct versus the indirect method, the presentation of the effects of change in the method of presentation of the statement of cash flows was not practicable.

(ii) Correction of prior period error

During 2015, the Company restated its consolidated financial statements for the year ended 31 December 2014. In accordance with the requirements of International Accounting Standard (“IAS”) 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the comparative information presented in these financial statements were corrected with respect to the matter described below.

Impairment of receivables

As at 31 December 2014, current trade receivables included HRK 99,439 thousand relating to receivables from a customer with respect to which significant uncertainty existed as to the form of settlement of this receivable, and its recoverability for the Group and for which the Group has not raised an impairment allowance in the financial statements for the year ended 31 December 2014 as prescribed by IAS 39 *Financial Instruments – Recognition and Measurement*. During 2015, the Group restated its financial statements for the year ended 31 December 2014 and recognised the impairment of the mentioned receivable. The effect of the restatement resulted in the decrease of the result of operations for the year ended 31 December 2014 and the decrease in equity and current assets in the amount of HRK 99,439 thousand. The restatement had no effect on the previously reported statement of cash flows.

The effect of the restatement on the statement of comprehensive income and the statement of financial position is as follows:

Statement of comprehensive income for 2014:

(in thousands of HRK)	Previously reported	Restatement 7(ii)	Restated
Other operating expenses	(97,910)	(99,439)	(197,349)

Statement of financial position as at 31 December 2014:

(in thousands of HRK)	Previously reported	Restatement 7(ii)	Restated
Trade and other receivables	322,587	(99,439)	223,148

Petrokemija d.d.

Notes (continued)

8 Revenue

	2015 HRK '000	2014 HRK '000
Revenue from sale of products and merchandise	2,514,376	2,197,360
Revenue from services	3,514	4,132
	<u>2,517,890</u>	<u>2,201,492</u>

An overview of revenue per market is given below:

	2015 HRK '000	2014 HRK '000
Croatia	707,915	642,871
Slovenia	174,017	179,628
Bosnia and Herzegovina	110,315	127,395
Serbia and Montenegro	166,395	168,236
Macedonia	21,117	33,247
Sales in countries outside the region	1,338,131	1,050,115
	<u>2,517,890</u>	<u>2,201,492</u>

9 Other operating income

	2015 HRK '000	2014 HRK '000
Sale of raw materials	2,947	3,966
Manufacture of spare parts	635	968
Own consumption	17,381	3,060
Insurance reimbursements	5,054	4,197
Sale of manufactured packaging	6,003	5,731
Inventory surplus	843	4,072
Reversal of provisions	-	6,470
Other income	14,493	9,548
	<u>47,356</u>	<u>38,012</u>

10 Cost of goods sold

	2015 HRK '000	2014 HRK '000
Raw materials and consumables used	2,158,619	1,965,895
Cost of wholesale and retail goods sold	13,750	6,143
Cost of production services	70,714	62,363
	<u>2,243,083</u>	<u>2,034,401</u>

Petrokemija d.d.

Notes (continued)

11 Personnel expenses

	2015 HRK '000	2014 HRK '000
Salaries	126,986	140,427
Contributions on salaries	28,852	31,536
Other staff costs	47,900	155,819
	203,738	327,782

The number of employees of the Group as at 31 December 2015 was 1,762 (2014: 1,793).

During 2014, as part of the restructuring and financial consolidation plan, the Group implemented the workforce restructuring programme whereby a total of 492 employees received termination benefits amounting to HRK 100,340 thousand. Termination benefits expenses relating to the workforce restructuring programme are included in other staff costs.

12 Other operating expenses

	2015 HRK '000	2014 HRK '000 restated
Impairment of inventories	81	29
Other fees and taxes	51,428	44,692
Other employee costs	14,138	17,282
Insurance	10,274	12,472
Increase in provision	2,265	1,502
Bank charges	1,797	3,591
Inventory loss	3,048	1,639
Impairment of trade receivables	922	100,437
Intellectual services	995	5,089
Travel expenses	487	810
Other	10,449	9,806
	95,884	197,349

Other taxes, fees and charges include HRK 28,739 thousand (2014: HRK 24,854 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.

As described in note 7(ii), other operating expenses were restated in the amount of HRK 99,439 thousand in the line item „Impairment of trade receivables“.

13 Financial income and financial expenses

	2015 HRK '000	2014 HRK '000
Interest income	1,169	1,962
Foreign exchange differences	6,984	3,639
Other financial income	9,120	3,814
Total financial income	17,273	9,415
Unrealised losses on financial assets	(315)	(29)
Interest expense	(45,408)	(51,709)
Foreign exchange losses	(25,528)	(12,545)
Total financial expenses	(71,251)	(64,283)
Net finance costs	(53,978)	(54,868)

Petrokemija d.d.

Notes (continued)

14 Income tax expense

Recognised in the statement of comprehensive income:

	2015 HRK '000	2014 HRK '000
Current income tax	416	683
Deferred tax, net	(67)	(313)
	<u>349</u>	<u>370</u>

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:

	2015 HRK '000	2014 HRK '000 restated
Loss before taxation	<u>(92,849)</u>	<u>(462,802)</u>
Tax calculated at 20% (2014: 20%)	(18,570)	(92,560)
Non-deductible expenses and non-taxable income	325	20,463
Temporay differences and tax losses not recognised as deferred tax assets	653	375
Utilisation of tax losses previously not recognised as deferred tax assets	(547)	(877)
Tax losses not recognised as deferred tax assets	17,769	72,171
Effect of different tax rates	719	798
Tax expense recognised in the statement of comprehensive income	<u>349</u>	<u>370</u>
Effective tax rate	<u>0%</u>	<u>0%</u>

At the reporting date, carry forward tax losses of the Group amounting to HRK 955,040 thousand (31 December 2014: HRK 982,825 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 value of tax losses available in future periods is as follows:

	31.12.2015. HRK '000	31.12.2014. HRK '000
Tax loss from 2010 - expires on 31 December 2015	-	23,304
Tax loss from 2012 - expires on 31 December 2017	35,843	35,865
Tax loss from 2013 - expires on 31 December 2018	65,225	65,225
Tax loss from 2014 - expires on 31 December 2019	72,171	72,171
Tax loss from 2015 - expires on 31 December 2020	17,769	-
	<u>191,008</u>	<u>196,565</u>

Petrokemija d.d.

Notes (continued)

15 Property, plant and equipment

(in thousands of HRK)

	Land	Buildings	Plant and equipment	Equipment and fittings	Assets under construction	Prepayments	Total
Cost							
At 1 January 2014	49,482	580,060	1,177,942	58,521	55,684	3,353	1,925,042
Additions	-	-	945	-	38,347	5,129	44,421
Transfer to intangible assets	-	-	-	-	(246)	-	(246)
Transfers	-	1,332	29,698	13,375	(44,405)	-	-
Disposals	-	(1,364)	(5,967)	(1,357)	-	-	(8,688)
At 31 December 2014	49,482	580,028	1,202,618	70,539	49,380	8,482	1,960,529
Accumulated depreciation							
At 1 January 2014	-	303,097	868,718	42,461	-	-	1,214,276
Charge for the year	-	20,595	68,508	5,936	-	-	95,039
Disposals	-	(98)	(5,439)	(1,334)	-	-	(6,871)
At 31 December 2014	-	323,594	931,787	47,063	-	-	1,302,444
Carrying amount							
As at 31 December 2014	49,482	256,434	270,831	23,476	49,380	8,482	658,085
Cost							
At 1 January 2015	49,482	580,028	1,202,618	70,539	49,380	8,482	1,960,529
Additions	-	-	999	-	51,739	5,289	58,027
Transfers	-	1,167	38,479	331	(39,977)	-	-
Disposals	-	-	(1,651)	(564)	(17)	-	(2,232)
At 31 December 2015	49,482	581,195	1,240,445	70,306	61,125	13,771	2,016,324
Accumulated depreciation							
At 1 January 2015	-	323,594	931,787	47,063	-	-	1,302,444
Charge for the period	-	19,282	67,269	4,661	-	-	91,212
Disposals	-	-	(1,215)	(561)	-	-	(1,776)
At 31 December 2015	-	342,876	997,841	51,163	-	-	1,391,880
Carrying amount							
At 31 December 2015	49,482	238,319	242,604	19,143	61,125	13,771	624,444

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

The Group's property amounting to HRK 385,610 thousand (2014: HRK 187,887 thousand) is mortgaged as security for loans and borrowings.

Property, plant and equipment of the Group include non-operational assets with a carrying value amounting to HRK 16,483 thousand (2014: HRK 18,823 thousand) which relates to plant for the production of phosphoric acid and a soot plant. The Group is currently in the process of considering the feasibility of continuing production in these plants which ultimately depends on the long-term strategy of the Group. The Group has not been able to make adequate impairment tests and assess the recoverable value of these non-operational assets.

Petrokemija d.d.

Notes *(continued)*

16 Intangible assets

<i>(in thousands of HRK)</i>	Assets under construction	Software and project documentation	Total
Cost			
At 1 January 2014	4,919	20,799	25,718
Additions	1,511	-	1,511
Transfer from tangible assets	-	246	246
Transfers	(2,497)	2,497	-
At 31 December 2014	3,933	23,542	27,475
Accumulated amortisation			
At 1 January 2014	-	17,504	17,504
Charge for the year	-	1,909	1,909
At 31 December 2014	-	19,413	19,413
Carrying amount			
As at 31 December 2014	3,933	4,129	8,062
Cost			
At 1 January 2015	3,933	23,542	27,475
Additions	1,566	15	1,581
Transfers	(3,784)	3,784	-
Disposals	-	(12)	(12)
At 31 December 2015	1,715	27,329	29,044
Accumulated amortisation			
At 1 January 2015	-	19,413	19,413
Charge for the period	-	1,876	1,876
Disposals	-	(12)	(12)
At 31 December 2015	-	21,277	21,277
Carrying amount			
At 31 December 2015	1,715	6,052	7,767

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.

17 Subsidiaries

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

Name of subsidiary	Ownership interest in %	
	31.12.2015.	31.12.2014.
Petrokemija d.o.o., Novi Sad	100%	100%
Restoran Petrokemija d.o.o., Kutina	100%	100%
Petrokemija Agro Trade d.o.o.	100%	-
Luka Šibenik d.o.o.	80%	80%

Petrokemija d.d.

Notes *(continued)*

18 Financial assets

	31.12.2015. HRK '000	31.12.2014. HRK '000
Non-current financial assets		
Investments in other equity instruments	8	8
Current financial assets		
Deposits	3,621	7,434
Financial assets held for trading	26,546	43,094
Current financial assets - other	-	133
	30,167	50,661

Financial assets held for trading relate to investments in cash funds. Other financial assets relate to fees for greenhouse gas emissions. Investment in other equity securities relates to a minority share in TV Moslavina, Kutina.

Fair value measurement

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

19 Financial assets at fair value through profit or loss

	31.12.2015. HRK '000	31.12.2014. HRK '000
Investment in equity securities	-	-
	31.12.2015. HRK '000	31.12.2014. HRK '000
Opening carrying value	-	10,499
Effect of remeasurement at fair value	-	(646)
Disposal	-	(9,853)
Closing carrying value	-	-

Financial assets at fair value through profit or loss relate to investments in shares of listed companies.

Fair value measurement

The fair value of investments in shares of listed companies is based on stock market prices at the balance sheet date. In accordance with the input variables used, the assessment is categorized in the fair value hierarchy as level 1 (see note 6).

Petrokemija d.d.

Notes (continued)

20 Inventories

	31.12.2015. HRK '000	31.12.2014. HRK '000
Raw materials and supplies	111,597	175,437
Work in progress	23,266	42,923
Finished goods	257,109	206,519
Trade goods	1,160	794
Spare parts	93,662	97,363
Prepayments	600	381
	487,394	523,417

The Group is currently in the process of determining the value of spare parts which need to be re-classified from current to non-current assets as part of plant and equipment.

21 Trade and other receivables

	31.12.2015. HRK '000	31.12.2014. HRK '000 restated
Current receivables		
Trade receivables	116,992	117,951
Trade receivables in factoring	2,300	129,495
Less: Provisions for impairment	(106,276)	(109,389)
Net trade receivables	13,016	138,057
Prepaid expenses	30	544
Receivables for taxes and contributions	63,170	56,397
Bills of exchange received	215	27,447
Receivables from employees	13	13
Other receivables	232	690
	76,676	223,148

As explained in the note 7, during 2015, the Group restated its financial statements for 2014 with respect to the impairment of trade receivables from the customer Gorup d.o.o. in the amount of HRK 99,439 thousand. As a result, accumulated impairment losses on trade receivables were restated by this amount.

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

	31.12.2015. HRK '000	31.12.2014. HRK '000 restated
At 1 January	109,389	9,999
Increase	922	100,437
Amounts collected	(149)	(108)
Written off as uncollectible	(3,886)	(939)
At 31 December	106,276	109,389

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

Petrokemija d.d.

Notes (continued)

21 Trade and other receivables (continued)

Aging analysis of trade receivables (including factoring) is as follows:

	31.12.2015. HRK '000	31.12.2014. HRK '000 restated
Not yet due	10,194	71,517
Overdue 0-120 days	1,730	132,043
Overdue 121-180 days	249	1,484
Overdue 181-360 days	1,769	31,879
Overdue over 1 year	105,350	10,523
	119,292	247,446

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

	31.12.2015. HRK '000	31.12.2014. HRK '000 restated
Croatia (HRK)	110,651	213,341
European Union (EUR)	5,263	28,390
USA (USD)	3,378	5,715
	119,292	247,446

22 Cash and cash equivalents

	31.12.2015. HRK '000	31.12.2014. HRK '000
Cash with banks	9,419	11,472
Cash in hand	5	7
	9,424	11,479
Deposits	3,621	7,434
Cash and cash equivalents as presented in the statement of cash flows	13,045	18,913

Cash with banks relates to cash accounts with commercial banks and bears an average interest rate ranging from 0.3% to 0.5% per annum.

Petrokemija d.d.

Notes (continued)

23 Share capital

	31.12.2015. HRK '000	31.12.2014. HRK '000
Share capital	386,135	386,135

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

Structure of ownership	31.12.2015.		31.12.2014.	
	Number of shares	% of ownership	Number of shares	% of ownership
DUUDI/Republic of Croatia	10,277,975	79.86%	1,944,642	43.83%
Societe Generale-Splitska banka d.d./AZ OMF	399,932	3.11%	399,932	9.01%
Hypo Alpe-Adria bank d.d./PBZ Croatia osiguranje d.d. OMF	366,431	2.85%	366,431	8.26%
Societe Generale-Splitska banka d.d. /Erste Plavi OMF	332,883	2.59%	332,883	7.50%
HPB d.d./Kapitalni fond d.d.	126,713	0.98%	126,713	2.86%
Societe Generale-Splitska banka d.d./AZ Profit DMF	-	0.00%	122,462	2.76%
HPB d.d./Fond za financiranje razgradnje NEK	97,200	0.76%	71,200	1.60%
PBZ d.d./CN ltd.	-	0.00%	50,793	1.14%
Zagrebačka banka d.d./AZ profit dobrovoljni mirovinski fond	45,638	0.35%	-	0.00%
Zagrebačka banka d.d./State street bank and trust company	43,425	0.34%	43,425	0.98%
PBZ d.d./State street client account	125,804	0.98%	39,368	0.89%
PBZ d.d./Custodial account	42,062	0.33%	-	0.00%
Other shareholders	1,013,117	7.86%	938,598	21.16%
Total	12,871,180	100.00%	4,436,447	100.00%
Paid but unregistered shares	-		8,434,733	
Total share capital	12,871,180		12,871,180	

Share capital comprises 12,871,180 ordinary shares (31 December 2014: 12,871,180 shares) of a nominal value of HRK 30 (31 December 2014: HRK 30) per share out of which 8,434,733 ordinary shares were not registered at the Commercial Court as at 31 December 2014.

During 2014, the Company covered HRK 7,967 thousand of accumulated losses by transfer from other reserves and conducted a simplified reduction of share capital amounting to HRK 621,103 thousand in order to cover the loss from 2013 and increase other reserves by reducing the nominal value of the shares by HRK 140 from HRK 170 to HRK 30 per share. In the course of the reduction of share capital, the Company covered its loss realised from 1 January 2013 to 31 December 2013 in the amount of HRK 319,416 thousand while the remaining HRK 301,687 thousand was recorded as an increase in other reserves.

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

24 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.

	31.12.2015.	31.12.2014.
Loss attributable to equity holders of the parent (in thousands of HRK)	(93,341)	(462,685)
Weighted average number of registered shares	12,871,180	4,436,447
Basic and diluted loss per share in HRK	(7.25)	(104.29)

Petrokemija d.d.

Notes (continued)

25 Loans and borrowings

	31.12.2015. HRK '000	31.12.2014. HRK '000
Non-current borrowings		
Banks	34,261	17,015
Other loans	95,833	-
	130,094	17,015
Current borrowings		
Banks	91,295	289,951
Commercial papers	-	13,421
Factoring liabilities	2,300	82,097
Other loans	142,583	187,412
	236,178	572,881
Total borrowings	366,272	589,896

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

	31.12.2015. HRK '000	31.12.2014. HRK '000
Up to 1 year	236,539	572,881
Between 1 and 2 years	81,302	9,044
Between 2 and 5 years	48,431	7,971
	366,272	589,896

Bank loans and commercial papers

Bank loans amounting to HRK 108,889 thousand (2014: HRK 144,889 thousand) have variable interest rates. The variable interest rates for bank loans included in the table above were in the range from 4.4% to 5.4%.

Bank loans amounting to HRK 16,667 thousand (2014: HRK 162,077 thousand) have fixed interest rates. The fixed interest rates for bank loans included in the table above were in the range from 4.0% to 5.4%.

Commercial papers have fixed interest rates. The interest rates for commercial papers included in the table above were in the range from 7.5% to 8.5%.

Security

Loans and borrowings are secured by mortgages over the Group's property amounting to HRK 385,610 thousand and inventories of finished products amounting to HRK 180,232 thousand as well as with bills of exchange and debentures.

Factoring liabilities

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

Other loans and borrowings

Other loans and borrowings relate to a loan from an insurance company in the amount of HRK 2,055 thousand (2014: HRK 8,220 thousand) carrying a fixed interest rate of 7% and loans from suppliers. As an instrument for managing current liquidity, during the year 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. As at reporting date, the Company has loans towards suppliers in the amount of HRK 236,361 thousand (2014: HRK 179,192 thousand).

Petrokemija d.d.

Notes *(continued)*

26 Provisions

<i>(in thousands of HRK)</i>	Jubilee awards	Retirement benefits	Court cases	Total
At 31 December 2014				
Non-current	6,272	2,811	1,143	10,226
At 1 January 2015	6,272	2,811	1,143	10,226
Increase	1,905	360	-	2,265
Utilised	(756)	(19)	(177)	(952)
At 31 December 2015	7,421	3,152	966	11,539
At 31 December 2015				
Non-current	7,421	3,152	966	11,539

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. A provision amounting to HRK 966 thousand was recognised in relation to legal proceedings. Management believes that no significant costs exceeding those provided for at the reporting date will occur as a result of ongoing legal proceedings.

Jubilee awards and regular retirement benefits

According to the Collective Agreement the Group has an obligation to pay jubilee awards, retirement and other benefits to employees. In accordance with the respective agreement, the employees are entitled to a regular retirement benefit (without stimulating retirement benefit) in the net amount of HRK 8 thousand. No other post-retirement benefits are provided. During 2014, the Group implemented the workforce restructuring programme whereby a total of 492 employees received termination benefits amounting to HRK 100,340 thousand resulting in a decrease of provision for jubilee awards and retirement benefits in accordance with the reduction in the number of employees.

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:

	<i>Estimate</i>	
	31.12.2015.	31.12.2014.
Discount rate	4.0%	3.5%
Fluctuation rate	3.7%	4.1%

27 Trade and other payables

	31.12.2015.	31.12.2014.
	HRK '000	HRK '000
Trade payables	512,987	481,954
Salaries and other benefits to employees	17,247	16,198
Accrued interest	335	606
Taxes, contributions and other duties	7,616	7,837
Advances received	127,349	112,185
Other	59,726	29,074
	725,260	647,854

Petrokemija d.d.

Notes *(continued)*

28 Risk management

Financial risk management

Categories of financial instruments are as follows:

	2015	2014 restated
	<i>(in thousands of HRK)</i>	
Financial assets at fair value through profit or loss	-	-
Financial assets at fair value through profit or loss	-	-
Short-term financial assets	30,167	50,661
Trade receivables	13,016	138,057
Bills of exchange	215	27,447
Cash and cash equivalents	9,424	11,479
Total loans and receivables	52,822	227,644
Total financial assets	52,822	227,644
Loan liabilities	366,272	589,896
Trade payables	512,987	481,954
Total financial liabilities at amortised cost	879,259	1,071,850
Total financial liabilities	879,259	1,071,850

Fair value of financial instruments

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

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

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

As at 31 December 2015, 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.

Petrokemija d.d.

Notes (continued)

28 Risk management (continued)

Financial risk management (continued)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management board which manages 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 addressing any expected current liquidity deficits.

Liquidity risk analysis

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

as at 31 December 2015	Carrying amount	Contractual cash flows				over 5 years
		up to 1 year	1 - 2 years	2 - 5 years		
<i>Non-interest bearing assets:</i>						
Trade receivables	13,016	13,016	13,016	-	-	-
Bills of exchange received	215	215	215	-	-	-
	13,231	13,231	13,231	-	-	-
<i>Interest bearing assets:</i>						
Current financial assets	30,167	30,318	30,318	-	-	-
Cash and cash equivalents	9,424	9,471	9,471	-	-	-
	39,591	39,789	39,789	-	-	-
	52,822	53,020	53,020	-	-	-

as at 31 December 2015	Carrying amount	Contractual cash flows				over 5 years
		up to 1 year	1 - 2 years	2 - 5 years		
<i>Non-interest bearing liabilities:</i>						
Loan liabilities	2,300	2,300	2,300	-	-	-
Trade payables	512,987	512,987	512,987	-	-	-
	515,287	515,287	515,287	-	-	-
<i>Interest bearing liabilities:</i>						
Loan liabilities	363,972	386,147	246,910	86,479	52,758	-
	363,972	386,147	246,910	86,479	52,758	-
	879,259	901,434	762,197	86,479	52,758	-

The Group's analysis shows a deficit of short term contractual cash flows. The Group is currently implementing a number of financial and operational restructuring measures and is actively negotiating with creditors, majority owner and strategic investors in order to establish conditions for sustainable operations and bridge the liquidity deficit. The Group's activities in this regard are explained in more detail below and in note 2.4.

Petrokemija d.d.

Notes (*continued*)

28 Risk management (*continued*)

Financial risk management (*continued*)

Liquidity risk management (*continued*)

In the year ended 31 December 2015, the Group incurred a net loss of HRK 93,198 thousand (*31 December 2014: HRK 463,172 thousand*). Furthermore, as at 31 December 2015, the Group's current liabilities exceeded its current assets by HRK 357,777 thousand (*31 December 2014: HRK 412,030 thousand*).

Since 2013, the Company continuously carries out comprehensive measures of operational and financial restructuring in the context of the restructuring plan approved by the Supervisory Board, and that measures are primarily aimed at:

- optimization of procurement costs
- 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.

During 2014, in parallel with the implementation of restructuring measures envisaged in the adopted plan, the Company updated the existing plan and prepared a new five-year restructuring and financial consolidation plan for the period up to 2019.

In updating the plan, several key changes to assumptions were made with respect to the structure of production and sales mix, activation of plants not in use, securing of long term sources of financing and realisation of lower prices of natural gas in accordance with the adopted natural gas procurement strategy. In addition, during 2014 the Company implemented a workforce restructuring programme with respect to which severances were paid to 492 employees totaling HRK 100,340 thousand, which should result in savings in employee expenses in the following years of around HRK 45 to 50 million per year. Furthermore, as described in note 23, during 2014 the Company successfully increased its share capital on two occasions by a total amount of HRK 253,042 thousand by issuing new shares.

During 2015, the first of the planned activities were executed whereby a lower purchase price for natural gas was achieved alongside changes in the production and sales assortment. Following two years of continued operations, a major overhaul of production facilities was executed in January 2015 with maximum utilisation of own resources and cost savings measures. Furthermore, in the first quarter of 2015, one of the milestones of the restructuring plan was realised whereby test quantities of the new product – granular ammonium sulphate (AS) were produced which had positive effects on revenue and gross margin. The Company is focused on achieving sales of substantial quantities of the new product which would enable it to move away from products with a less favourable pricing structure.

In addition to the implemented restructuring measures, the Company continued with the negotiations regarding the entry of a strategic partner in the course of which several interested investors executed a due diligence of the Company during 2015 and submitted non-binding offers and expressions of interest with respect to their entry in the ownership structure of the Company.

Although as at the date of these financial statements a model for ensuring the liquidity of the Company has not been agreed with the creditors and financiers, and although the negotiations with strategic investors are not finalised, the Company is continuing with the process of restructuring and financial consolidation. Taking into account the implemented restructuring measures and expected results, management believes that the Company will be able to create conditions for sustainable operations together with the support of creditors, financiers and shareholders.

Management acknowledges that uncertainty remains over the Company's ability to meet its funding requirements and to refinance or repay its liabilities as they fall due. However, as described above, management has a reasonable expectation that the Company will secure adequate resources to continue in operational existence for the foreseeable future. If for any reason the Company is unable to continue as a going concern, then this could have an impact on the Company's ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements.

Petrokemija d.d.

Notes (continued)

28 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:

(in thousands of HRK)

	2015	2014
ZIBOR based bank loans	-	5,000
Ministry of finance's Treasury bills based bank loans	108,889	139,889
	108,889	144,889

Interest rate sensitivity analysis

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

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

<i>as at 31 December 2015</i>	Contractual cash flows	up to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years
At currently applicable int. rates	114,123	2,818	84,708	26,597	-	-
At currently applicable int. rates + 100 basis points	115,135	3,363	85,045	26,727	-	-
Effect of increase of int. rates by 100 basis points	(1,012)	(545)	(337)	(130)	-	-

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

Petrokemija d.d.

Notes (continued)

28 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:

	Liabilities	
	2015	2014
	<i>(in thousands of HRK)</i>	
European Union (EUR)	103,899	70,029
USA (USD)	90,203	143,019
	194,102	213,048

	Assets	
	2015	2014
	<i>(in thousands of HRK)</i>	
European Union (EUR)	19,221	37,066
USA (USD)	3,381	3,101
	22,602	40,167

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 Company is not exposed to currency in this respect.

	Spot FX rate		Average FX rate	
	31.12.2015	31.12.2014	2015	2014
EUR	7.635047	7.661471	7.609601	7.630014
USD	6.991801	6.302107	6.862262	5.749322

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	
	2015	2014
	<i>(in thousands of HRK)</i>	
Increase/(decrease) of net result	(847)	(330)

	USD exposure	
	2015	2014
	<i>(in thousands of HRK)</i>	
Increase/(decrease) of net result	(8,682)	(13,992)

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

Petrokemija d.d.

Notes (*continued*)

28 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.

Operational risk management

Sales concentration risk management

The Group generates approximately 31% (2014: 29%) of its revenue from domestic customers, whereas around 69% (2014: 71%) of sales are generated from international customers (based on geographical location of customer). The Group determines the selling prices in accordance with the macroeconomic conditions prevailing in each of the markets where the customers are located.

The Group's revenues are to a significant extent exposed to volatility due to high concentration of revenues from a smaller number of customers. In 2015, top 10 customers of the Group generated approximately 62% of operating revenues (2014: 63%) while the top five customers generated approximately 43% of operating revenues (2014: 36%). The Group's most significant customer is a Croatian conglomerate which accounts for approximately 29% of domestic sales (2014: 41%) and approximately 26% of total trade receivables from unrelated companies (31 December 2014: 44%).

As a result of its exposure to a small number of customers, 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 most significant risk of the Group is linked to changes in prices of raw materials for production (primarily gas) which the Group aims to manage by defining long-term relationships with strategic suppliers (INA d.d. and Prvo plinarsko društvo d.o.o.). The Group is currently in the process of negotiations with suppliers of natural gas aimed at the reduction of gas prices as a prerequisite for creating conditions for sustainable operations.

Petrokemija d.d.

Notes (*continued*)

29 Contractual commitments

Procurement of natural gas

The Group has a contractual commitment for purchase of natural gas from the suppliers INA d.d. in which the Republic of Croatia has an ownership stake of 44.8% and 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 2016.

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. Dynamics and amounts of contractual obligations are as follows:

	31.12.2015. HRK '000
2012.-2017.	30,100
2016.-2020.	32,745
2020.-2025.	35,780
2025.-2026.	6,000
2026.-2029.	11,100
	<u>115,725</u>

30 Related party transactions

The most significant shareholder of Petrokemija d.d. is the Republic of Croatia which holds 79.85% of share capital and voting rights of the Company through the Government Asset Management Agency (“GAMA”) and has significant influence over the operations of the Company.

The Group considers that it has an immediate related party relationship with its key shareholders (see note 23) and entities under their control or influence (subsidiaries and associates); key management personnel (see below); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 *Related Party Disclosures* (“IAS 24”).

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

Petrokemija d.d.

Notes (*continued*)

30 Related party transactions (*continued*)

Transactions with State related parties

Given that the Group's significant 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. 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 2015, the Group had the following transactions with State related entities:

	2015 HRK '000	2014 HRK '000
<i>Lučka uprava Šibenik</i>		
Concession fee	971	581
Liabilities as at 31 December	366	255
<i>INA d.d.</i>		
Purchase of gas, other raw materials and services	704,579	658,441
Liabilities as at 31 December	172,390	53,437
Loans and borrowings payable at 31 December	107,195	160,792
Interest expense	13,848	777
<i>HŽ Cargo d.o.o.</i>		
Purchase of transport services	81,278	62,657
Liabilities as at 31 December	8,530	6,983
<i>HEP Opskrba d.o.o.</i>		
Purchase of electricity	21,937	19,147
Liabilities as at 31 December	3,425	3,457
<i>HPB d.d.</i>		
Loans and borrowings payable at 31 December	-	130,061
Interest expense	6,119	10,799

Transactions with key management and Supervisory Board

Management Board remuneration relates to regular monthly payments for salaries and other benefits in kind. During 2015, remuneration paid to key management amounted to HRK 3,506 thousand (*2014: HRK 5,300 thousand*) and related to 4 persons (*2014: 7 persons*).

Furthermore, during 2015, a total of HRK 204 thousand (*2014: HRK 266 thousand*) was paid to the members of the Supervisory Board.

Petrokemija d.d.

Notes (*continued*)

31 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 and has not estimated the cost of restoration and closure of the landfill. Furthermore, the period in which the restoration is to be performed has not yet been estimated and depends on the future production strategy.

Limitations with respect to estimating the cost of restoration and closure

According to current legislation on waste (OG 94/13) phosphogypsum falls into the category of non-hazardous waste for which the 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.

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 26.