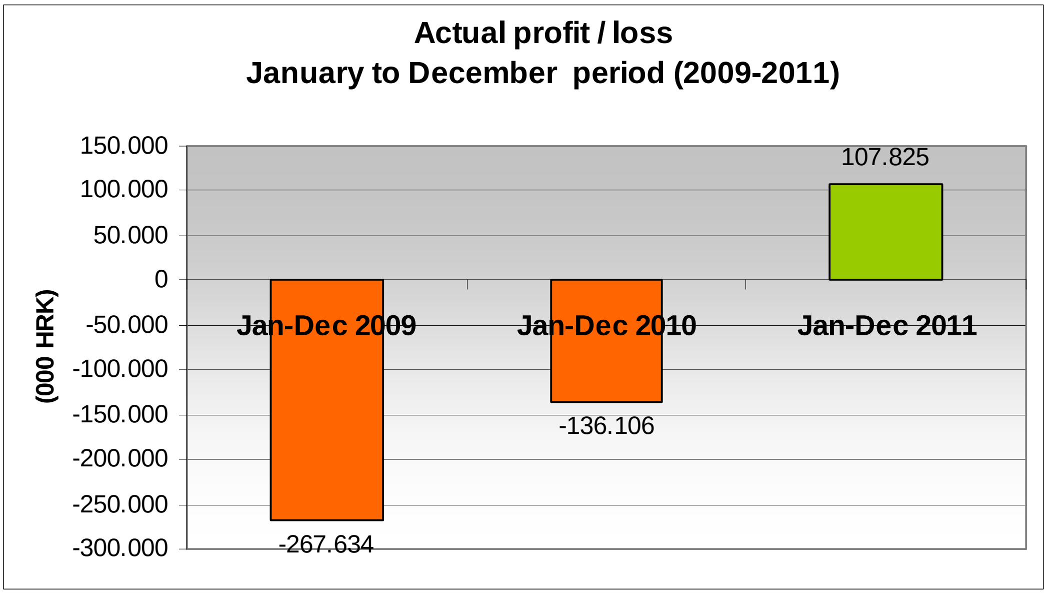
AUDITED, CONSOLIDATED REPORT

Kutina, March 29, 2012

ANNUAL REPORT
PETROKEMIJA, Plc. KUTINA
PETROKEMIJA GROUP
REPORT FOR PERIOD January to December 2011
INTERIM REPORT FOR PERIOD October to December 2011

- **Actual production 1,253 and sales 1,195 thousand tons of fertilizers;**
- **Actual total income of Petrokemija, Plc. HRK 2,969.6 million; Petrokemija Group HRK 2,973.0 million;**
- **Actual profit of Petrokemija, Plc. HRK 107,8 million (3.6% of total revenues); Petrokemija Group HRK 106.5 million;**
- **Invested funds HRK 44.1 million;**
- **Number of employees of Petrokemija, Plc. 2,301; Petrokemija Group 2,312.**



MANAGEMENT BOARD REPORT ON THE STATE OF THE COMPANY FOR Jan – Dec 2011 PERIOD

1. ACTUAL FINANCIAL RESULTS OF PETROKEMIJA, Plc.

The total income of Petrokemija, Plc. in 2011 was HRK 2,969.6 million, total expenses were HRK 2,861.8 million and the reported profit in business operations was HRK 107.8 million or 3.6% of total revenues. The total yearly income was increased by 29.6% and total expenses by 17.9% on the previous year.

Greater actual operating income and expenses compared to the same period last year reflects the growth of in- and output prices and flexibility in adapting the production and sales to market demand. In 2011, Petrokemija Plc. increased production by 0.3% and sales by 0.6% in comparison with the previous year.

The income from domestic sales increased by 18.5% and that from export sales by 37.6% in 2011 in comparison with the year 2010.
The EBITDA indicator (earnings before interest, taxes, depreciation and amortization) is HRK 233.2 million in the positive. The EBITDA was HRK 4.0 million negative in 2010.

(HRK 000)

	Jan- Dec 2011	Jan- Dec 2010	Difference	% change
Operating income	2.945.053	2.261.446	683.607	30,23%
Operating expense	2.805.899	2.364.792	441.107	18,65%
EBITDA *	233.216	-4.021	237.237	0,00%
Amortization	94.062	99.325	-5.263	-5,30%
Net financial income (expenses)	-31.328	-32.760	1.432	-4,37%
Net extraordinary income (expenses)	0	0	0	
Profit / loss / before taxation	107.825	-136.106	243.931	0,00%
Non-current assets	767.561	823.440	-55.879	-6,79%
Current assets	879.261	710.620	168.641	23,73%
Shareholders' equity	765.109	657.284	107.825	16,40%
Non-current liabilities	94.197	76.754	17.443	22,73%
Current liabilities	787.516	800.022	-12.506	-1,56%

* EBITDA= profit before interest, taxation depreciation and amortization

The data clearly show that the growth of income and expense was influenced by numerous factors – significant rise in input and output prices, adjusting the product range to market demand and structure, synchronizing production capacities with logistics, selection of raw materials of good quality and origin so as to meet the EU customs requirements, etc. The actual yearly profit, after two years of loss is a significant breakthrough in business result, partly due to a more favourable ratio of in- and output prices, while partly due to positive effects of time difference in the growth of in- and output prices.

Despite the significant rise in gas price and rise in price of basic raw materials for fertilizer production in the world market, price relations were established on the routes that ensured a positive balance of revenues and expenditures in business activities.

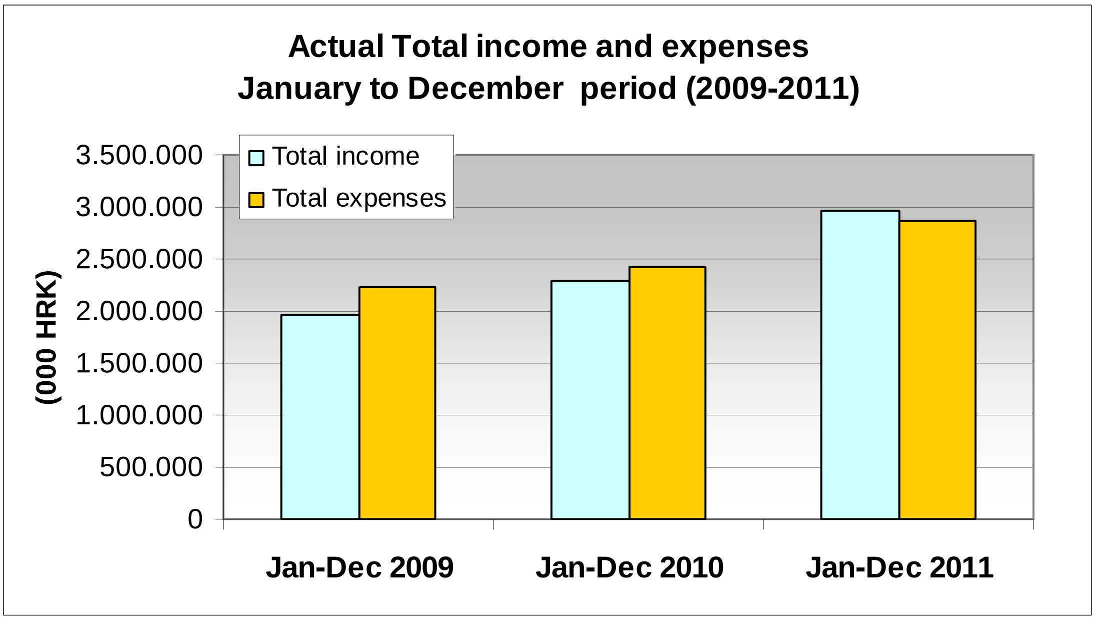
During 2011, a significant share of sales in exports was achieved, in order to ensure positive financial result, fill in the capacity, ensure continuity of production and maintain the liquidity.

Financial indicators reported for fourth quarter and cumulatively for the whole period of 2011:

	Jan- Sept 2011	Oct – Dec 2011	Jan- Dec 2011
Operating income	2.234.549	710.504	2.945.053
Operating expense	2.096.668	709.231	2.805.899
EBITDA *	211.420	21.796	233.216
Amortization	73.539	20.523	94.062
Net financial income (expenses)	-23.407	-7.921	-31.328
Net extraordinary income (expenses)	0	0	0
Profit / loss / before taxation	114.474	-6.649	107.825

* EBITDA= profit before interest, taxation depreciation and amortization

Actual operating profit during the fourth quarter was 1.3 million, but there was also a financial loss of 7.9 million, due to high interest, issuing commercial papers, negative effect of revaluation adjustment of non-tangible financial assets of the Company and exchange rates. Actual loss before tax in the fourth quarter is HRK 6.6 million.



In comparison to the actual result for 2010, there was in 2011 a positive difference of HRK 243.9 million due to improved market trends and internal savings. Sales prices of fertilizers were increased in line with the rise of input prices and the evaluation of the market.
Because of positive changes in sales prices and sales structure of the product, the Company operating income in 2011 increased by 30.2%, and operating expense by 18.7% as compared to the previous year.
Due to the market situation, a part of facilities was halted in the second half of 2009 and this problem was carried over into 2012. For a part of raw materials and products the improvement of market position is still uncertain. The open problem of exceptional growth in the price of gas, which is transferred from the European energy fluids market, is here particularly pronounced.

STATEMENT OF COMPREHENSIVE INCOME OF PETROKEMIJA, Plc.KUTINA

(HRK 000)

POSITION	Petrokemija, Plc. Jan-Dec 2011	Petrokemija, Plc. Jan-Dec 2010
Total operating income	2.945.053	2.261.446
Total operating expenses	2.805.899	2.364.792
PROFIT / LOSS FROM ORDINARY ACTIVITIES	139.154	-103.346
Total financial income	24.596	29.176
Total financial expenses	55.925	61.936
PROFIT / LOSS FROM FINANCIAL ACTIVITIES	-31.329	-32.760
TOTAL INCOME	2.969.649	2.290.622
TOTAL EXPENSES	2.861.824	2.426.728
Profit/loss before taxation	107.825	-136.106
Profit tax		
Total comprehensive loss	107.825	-136.106

BALANCE SHEET OF PETROKEMIJA, Plc.KUTINA

(HRK 000)

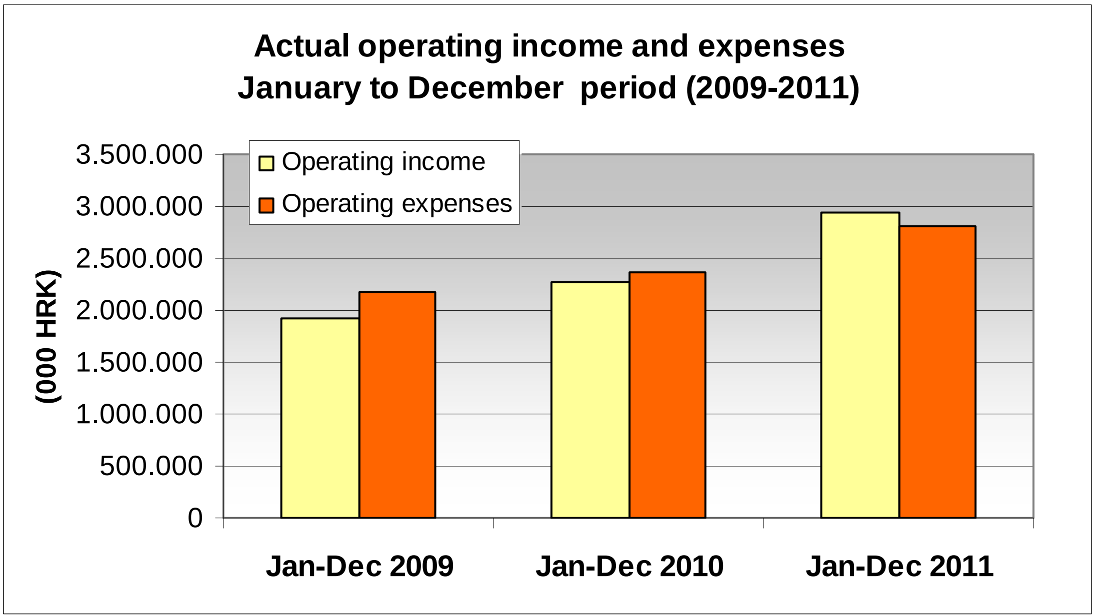
POSITION	Petrokemija,Plc. 31.12. 2011	Petrokemija, Plc. 31. 12. 2010.
Total long-term assets	767.561	823.440
Total short-term assets	876.527	708.857
Prepaid costs and accrued income	2.734	1.763
TOTAL ASSETS	1.646.822	1.534.060
Total capital	765.110	657.284
Long-term liabilities	94.197	76.754
Total short-term liabilities	784.052	796.588
Accruals and deferred income	3.463	3.434
TOTAL LIABILITIES	1.646.822	1.534.060

Due to gas balancing in winter months in the gas system of Republic of Croatia, Petrokemija used the fertilizer production standstill in January 2011, but also in 2012 for annual facilities overhaul. The forecast for the long-awaited implementation of gas market in Croatia in 2011, by including a new supply route and potentially new suppliers, have not been fully realized.

Sufficient gas volumes are a good basis for optimum yearly schedule of fertilizers production and deliveries in 2012, and the price will depend on the European gas market and USD exchange rate.

The domestic demand for fertilizers is connected with the situation in agricultural production, i.e. with the price ratio of production materials and finished products in agriculture (low prices of basic agricultural crops generate the extensiveness in use of agro-technical measures and vice versa). As regards their price, imports of fertilizers were still moderately unattractive – in 2011, approx. 45 thousand tons were imported, which makes approximately 10% market share, with a portion of those products not normally produced by Petrokemija.

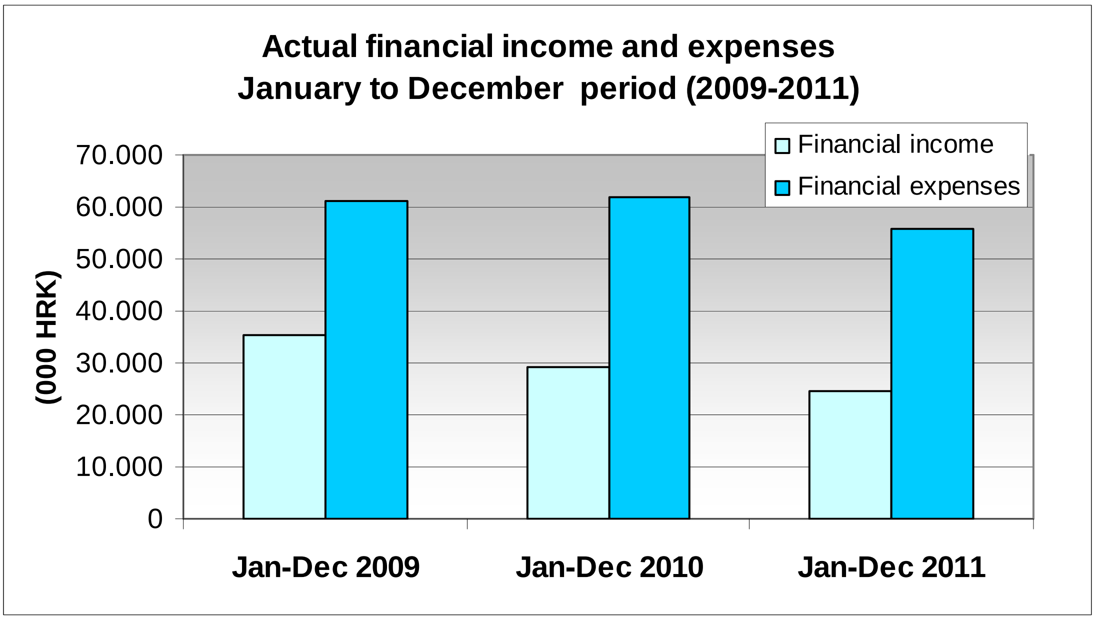
A trend of instability of input-output prices continued in the reported period. Generally, the prices of raw materials in world markets were gradually rising, while the gas price in domestic market was growing pronouncedly through quarters, according to the formula. This growth reflects the pricing methodology applied – after the agreed (the so-called oil-linked) formula. The gas price growth trend is estimated to continue in the first quarter of 2012 and stabilize in the second quarter of 2012.
The continuing positive trend in 2012 year could be compromised by a potential new wave of instability in demand and prices in the global market.



Financial income was by 15.7% lower, and financial expense by 9.7% lower than in the previous year. The HRK 31.3 million loss from financial activities was by 4.4% lower than the previous year. Foreign exchange gains accounted for 80% and income from interest and other financial income for 20% share in the financial income.
Foreign exchange losses have 40% share in financial expenses, while 60% share is made up of interest and other financial expenses. Although the interest rates are lower than in the previous period, a disturbing trend is opened up by a potential financial crisis in the Eurozone in 2012, which is directly transferred to the terms of financing in Croatia.

Since 2009, Petrokemija, Plc. has been implementing a program of issuing commercial bills (up to HRK 100 million) through Privredna banka Zagreb to provide for short-term working capital. During the reporting period, the liabilities on commercial bills were fulfilled regularly and in

December 2011 a new, 16th tranche was issued. In 2012, HRK 34 million of commercial bills are maturing in May and another HRK 47.2 million in September.



1.1 CHANGE OF ACCOUNTING POLICIES

In line with Article 13, pt. 2, of the Accounting Act and International Accounting Standard 27, Consolidated and Separate Financial Statements, investments into daughter companies in 100% ownership of Petrokemija, Plc. is accounted by the cost method.
As the Company booked the investment by equity accounting method, on 31 December 2011, upon a decision of the Board, a correction of the share to the value of initial investment cost was carried out.
The effect of this change in Accounting Policy has no significant impact on reported financial result of Petrokemija, Plc. and Petrokemija Group and they amount to HRK 1.8 million.

2. ACTUAL FINANCIAL RESULT OF PETROKEMIJA GROUP

After consolidation of financial results of Petrokemija, Plc. and its daughter companies – Restoran Petrokemija, Ltd. Kutina, Petrokemija, Ltd. Novi Sad and Petrokemija, Ltd. Novo Mesto, the financial result is as follows:

- Total income HRK 2,973.0 million
- Total expenses HRK 2,866.5 million
- Profit before taxation HRK 106.55 million
- Income tax HRK 0.06 million
- Profit after taxation HRK 106.49 million

It is evident from the Profit and Loss and Balance Sheet tables that the daughter companies have no significant influence on the Petrokemija Group business result.

Business results of daughter companies in 100% ownership:

(HRK 000)

POSITION	Actual Jan-Dec 2011	Actual Jan-Dec 2010	Ind 2/3
1	2	3	4
RESTORAN PETROKEMIJA, Ltd.			
TOTAL INCOME	2.161	2.021	106,9
TOTAL EXPENSES	2.155	2.018	106,8
GROSS PROFIT /LOSS	6	3	200,0
PETROKEMIJA Novi Sad, Ltd.			
TOTAL INCOME	78.370	54.724	143,2
TOTAL EXPENSES	77.819	52.886	147,1
GROSS PROFIT	551	1.838	30,0
PETROKEMIJA, Ltd. Novo Mesto			
TOTAL INCOME	840	4.465	18,8
TOTAL EXPENSES	832	4.459	18,7
GROSS PROFIT	8	6	133,3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(HRK 000)

POSITION	Petrokemija Group Jan-Dec 2011	Petrokemija Group Jan-Dec 2010
Total operating income	2.948.348	2.266.950
Total operating expenses	2.810.416	2.368.814
PROFIT/LOSS FROM ORDINARY ACTIVITIES	137.932	-101.864
Total financial income	24.695	27.662
Total financial expenses	56.078	61.720
PROFIT/LOSS FROM FINANCIAL ACTIVITIES	-31.383	-34.058
TOTAL INCOME	2.973.043	2.294.612
TOTAL EXPENSES	2.866.494	2.430.534
Profit/Loss before taxation	106.549	-135.922
Profit tax	61	184
Profit/Loss after taxation	106.488	-136.106

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – fourth quarter 2011

(HRK 000)

	Petrokemija Group		
P O Z I C I J A	Jan-Sept 2011	Oct-Dec 2011	Jan-Dec 2011
Total operating income	2.238.728	709.620	2.948.348
Total operating expenses	2.100.493	709.923	2.810.416
PROFIT/LOSS FROM ORDINARY ACTIVITIES	138.235	-303	137.932
Total financial income	19.530	5.165	24.695
Total financial expenses	43.023	13.055	56.078
PROFIT/LOSS FROM FINANCIAL ACTIVITIES	-23.493	-7.890	-31.383
TOTAL INCOME	2.258.258	714.785	2.973.043
TOTAL EXPENSES	2.143.516	722.978	2.866.494
Profit/Loss before taxation	114.742	-8.193	106.549
Profit tax	23	38	61
Profit/Loss after taxation	114.719	-8.231	106.488

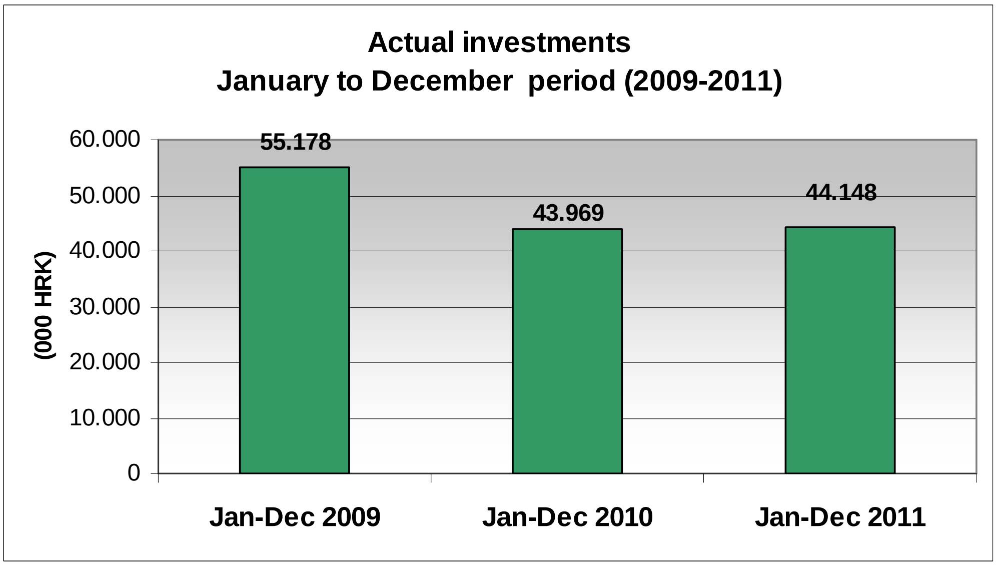
CONSOLIDATED BALANCE SHEET

(HRK 000)

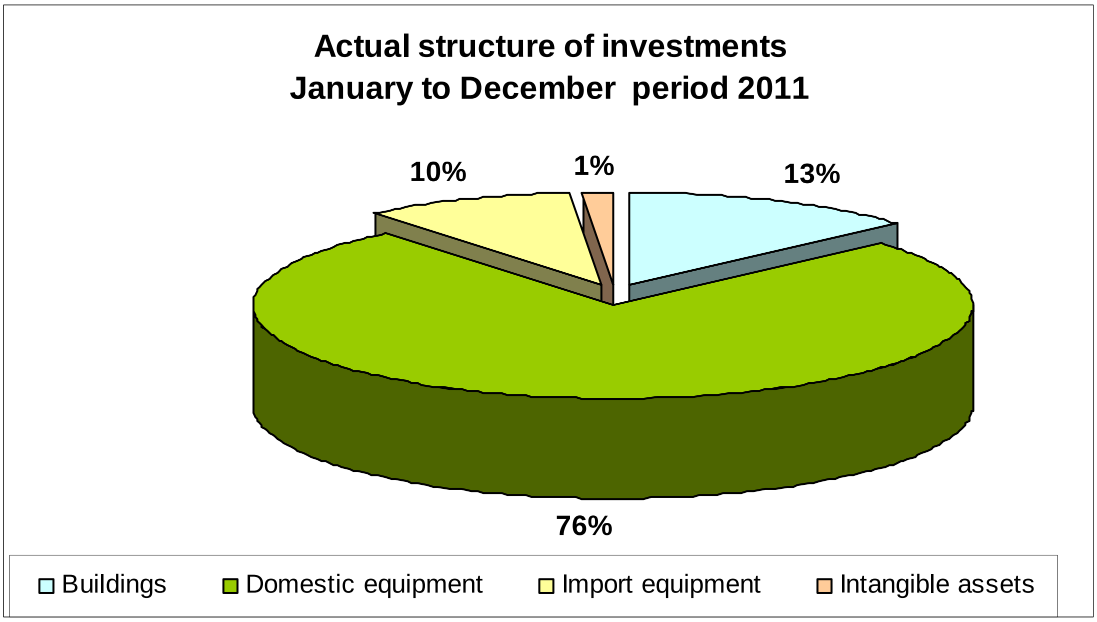
P O S I T I O N	Petrokemija Group 31.12.2011	Petrokemija Group 31.12.2010
Total long-term assets	761.843	814.813
Total short-term assets	878.243	713.791
Prepaid costs and accrued income	2.734	1.773
TOTAL ASSETS	1.642.820	1.530.377
Total capital	763.875	657.013
Long-term liabilities	94.197	76.754
Total short-term liabilities	781.285	793.176
Accruals and diferred income	3.463	3.434
TOTAL LIABILITIES	1.642.820	1.530.377

3. INVESTMENTS

Actual investments in 2011 amounted to HRK 44.1 million, approximately HRK 0.2 million over the previous year's amount. Due to limited funds, a trend of relatively low investments from earlier years was continued in 2011. A more intensive investment activity is anticipated in 2012. Out of the said amount, HRK 43.6 million was invested in the parent company – fertilizer production and its ancillary services and HRK 0.5 million in other production units.



The technical structure of investments is depicted in the following chart:



In the next few years, increased investment is necessary in environmental protection projects, improvement of energy efficiency and condition of facilities. However, the extensiveness of investment will continue to be limited by available financial resources.

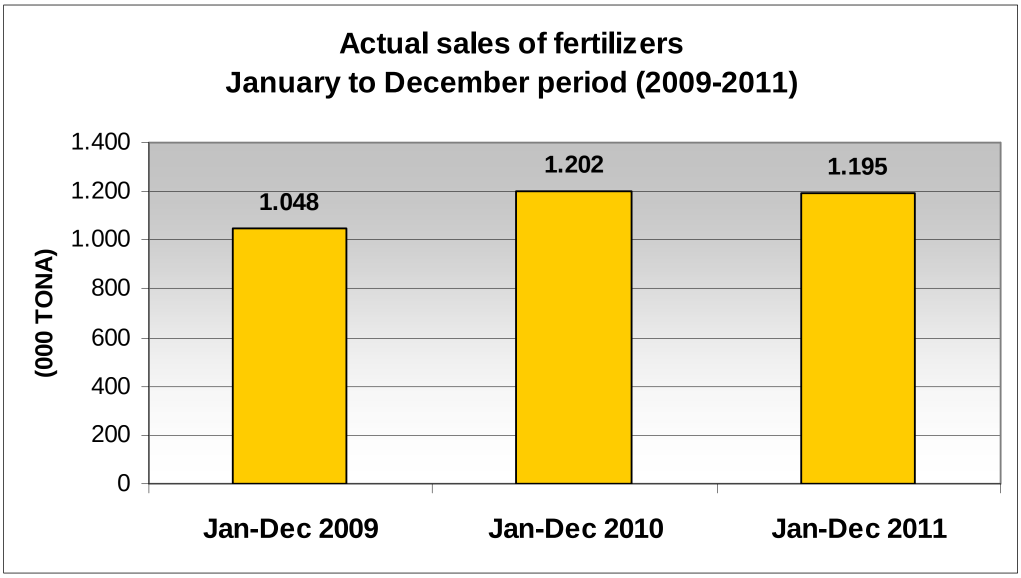
4. ACTUAL PRODUCTION AND SALES

Actual Production in the January to December 2011 period:

- **fertilizers** 1,253.1 thousand tons
- **clay-based products** 23.6 thousand tons
- **TGUS products** 1.0 thousand tons

In line with the actual production plan, available supplies and market circumstances, the sales results were as follows:

- **fertilizers** 1,194.5 thousand tons
- **clay-based products** 23.4 thousand tons
- **TGUS products (+chemicals)** 5.5 thousand tons



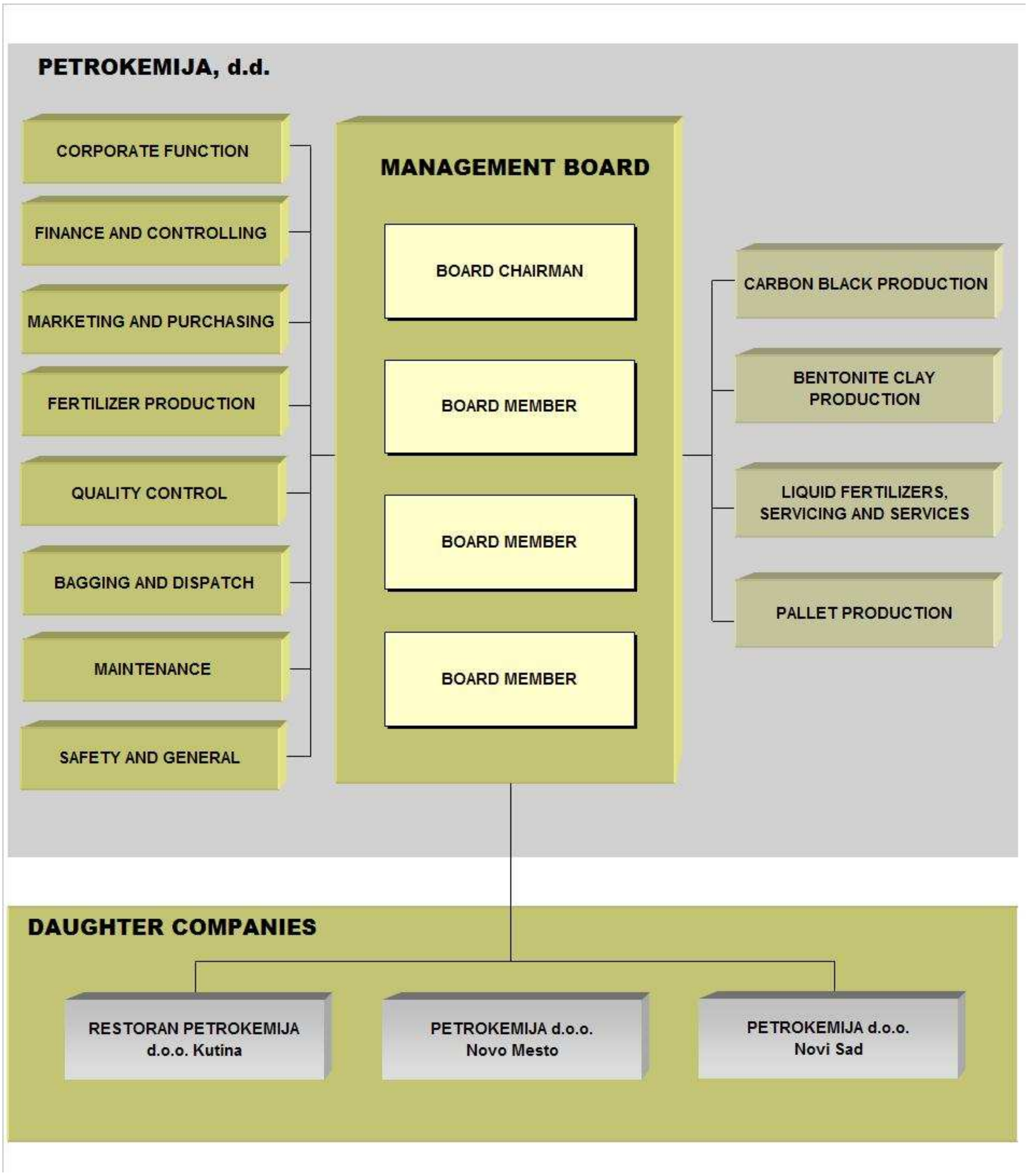
The actual total sales of fertilizers is approximately at the same level as the previous year, with certain changes in the structure of the product change. Despite the 5.3% increase in domestic sales volumes, there was no increase in the share of domestic sales in the total volumes. The sales of clay-based products were by 0.5% higher and those of liquid fertilizers and chemicals by 18.7% higher in comparison to the previous year. However, these products had no significant impact on total business result of Petrokemija, Plc. As the Carbon Black Plant is temporarily shut down for market reasons, there were no sales of carbon black.

5. ORGANIZATION CHART AND HUMAN RESOURCES

In 2011, there was no significant change in the existing organization chart.

Petrokemija Group is made up of Petrokemija, Plc. Kutina as the parent company and its daughter companies:

- Restoran Petrokemija, Ltd. Kutina,
- Petrokemija, Ltd. Novi Sad and
- Petrokemija, Ltd. Novo Mesto.

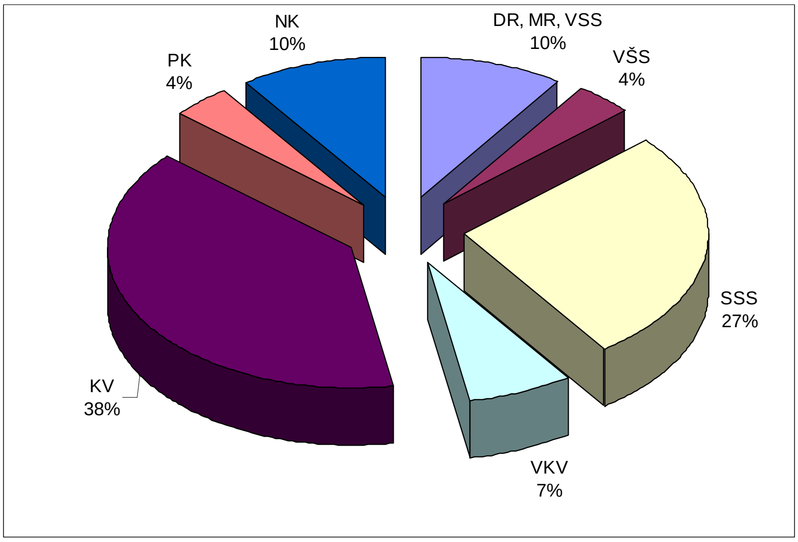


As of December 31, 2011, Petrokemija, Plc. had 2,301 employees and its daughter companies, members of the Petrokemija Group had 11 employees, which makes a total of 2,312 employees. The high qualification structure corresponds to the complexity of the production and other systems in place in the Company.

During 2011, the number of employees in Petrokemija, Plc. was reduced by 45 or 1.9%. Workers from the facilities that have been temporarily stalled, have been deployed to work in other organization units.

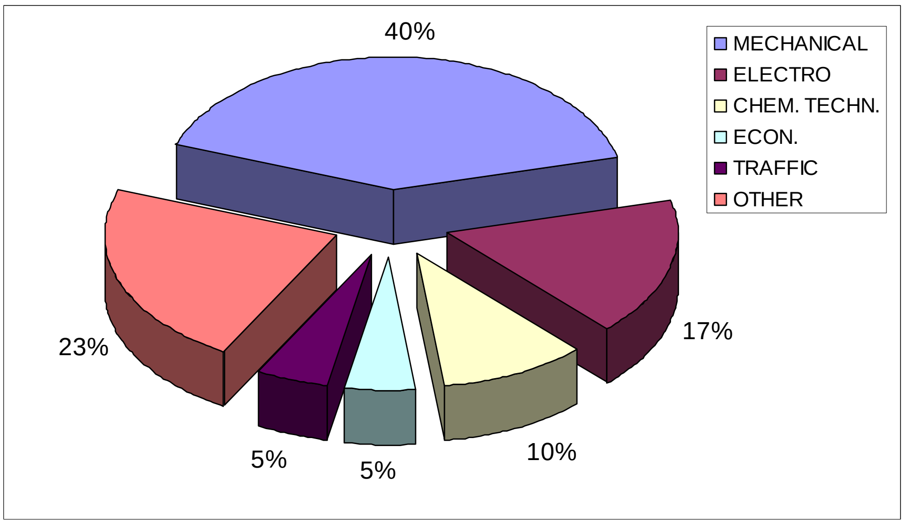
The management structure has changed with the appointment of new members of the Board on 15 June 2011, for a period of three years. The Chairman of the Board has been doing his term since May 2010. Two new board members were appointed - for finance and commerce, while the current board member for production and technical activities was re-appointed.

EMPLOYEES BY QUALIFICATION:



The employee structure by profession indicates that Petrokemija has maintenance of production and ancillary facilities in place, as well as other supporting departments such as bagging and dispatch which receives and dispatches up to 2,0 million tons a year of raw materials and finished products.

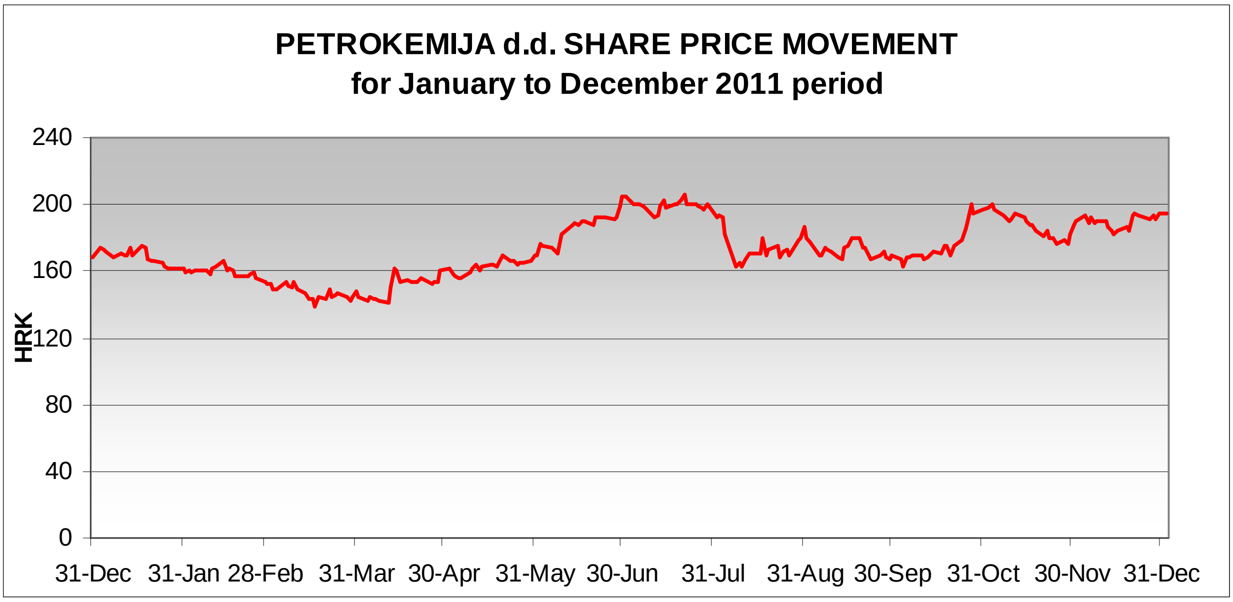
EMPLOYEES BY PROFESSION:



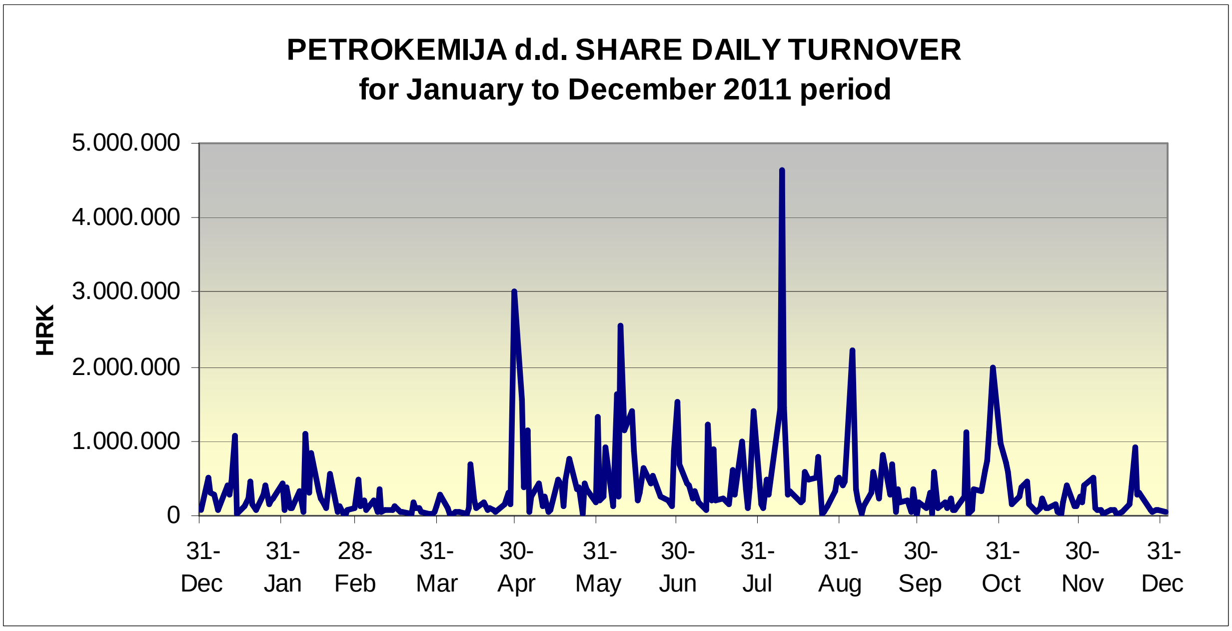
6. PETROKEMIJA, Plc. SHARE TRADING AND PRICE MOVEMENTS

The share of Petrokemija, Plc. is quoted in the Official Zagreb Stock Exchange Market. The nominal value of share is HRK 270.00.

Petrokemija's share value was HRK 165.44 at the end of December 2010, while on December 30, 2011, its average price was HRK 193.31 (16.8 % growth). The share turnover at the Zagreb Stock Exchange in 2011 was HRK 93.6 million, with price fluctuations mainly influenced by the global financial movements, specific characteristics of the Croatian capital market and actual financial results of Petrokemija.



Source: ZSE



Source: ZSE

7. ENVIRONMENTAL PROTECTION - JANUARY TO DECEMBER 2011 REPORT

Introduction

Petrokemija, Plc. with its core production of fertilizers, carbon black and bentonite clay-based products, has a significant impact on environment. The environmental management system of the Company is in compliance with, and certified against the ISO 14001:2004 standard requirements. The overall goal of Petrokemija is to improve efficiency of the environmental management system in order to achieve a more effective environmental protection and pollution prevention.

Major environmental aspects are pollutant emissions to air and water and waste management. Detailed reports on environmental protection and impact of Petrokemija's production on environment are annually made in accordance with the regulations. What follows is a summary of actual indicators of environmental management for January to December 2011 period by main environmental aspects.

1. Air pollutant emissions and air quality in the Kutina area

Greenhouse gases, carbon dioxide and nitrous oxide (CO_2 and N_2O) have the largest share (about 99 %) in the total emissions into air from Petrokemija. The other typical pollutant emissions are ammonia-NH_3, sulphur dioxide-SO_2, nitrogen dioxide-NO_2, gaseous fluorides-HF and dust.

In line with the regulations, emission monitoring was done by individual or periodical measuring throughout the calendar year, except for measurements of air emissions from Power Plant and Ammonia Plant that were continuous. Air quality monitoring in the Kutina area is continuous, by means of automatic and semi-automatic methods.

In the January to December 2011 period, the results of air quality monitoring at six local network measuring stations for the seven pollutants (NH_3, SO_2, NO_2, H_2S, HF, smoke and sediment), recorded exceedings of 24-hour limit for:

a) ammonia:
- in four cases at K3 measuring station, three cases each at K2 and K6 measuring stations and one case at K5 measuring station

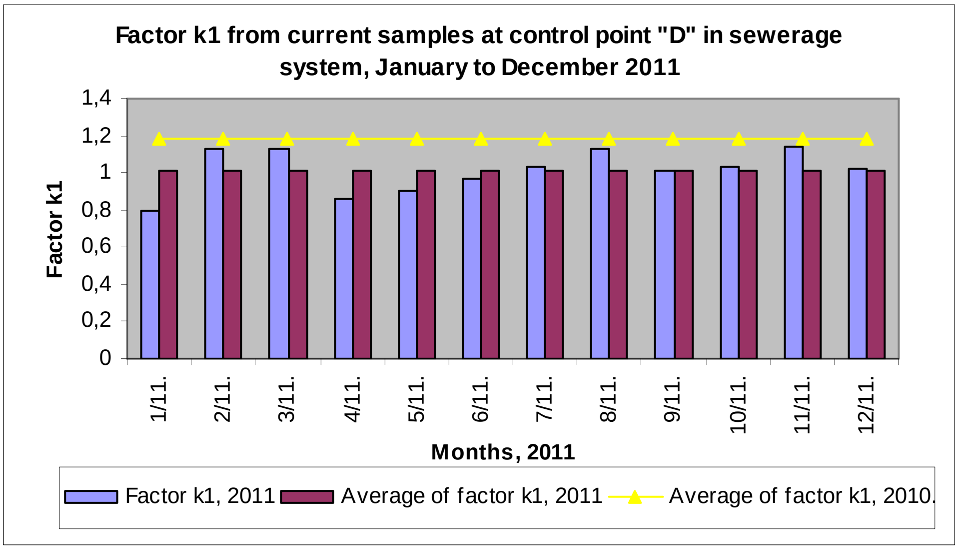
b) nitrogen dioxide-as NO_2:
- in two cases at K2 measuring station.

The number of recorded exceedings by measuring stations in 2011 was not higher than the number of permitted exceedings, so the air quality established by the local network measurings was 1st category (clean or slightly polluted air).

2. Water management

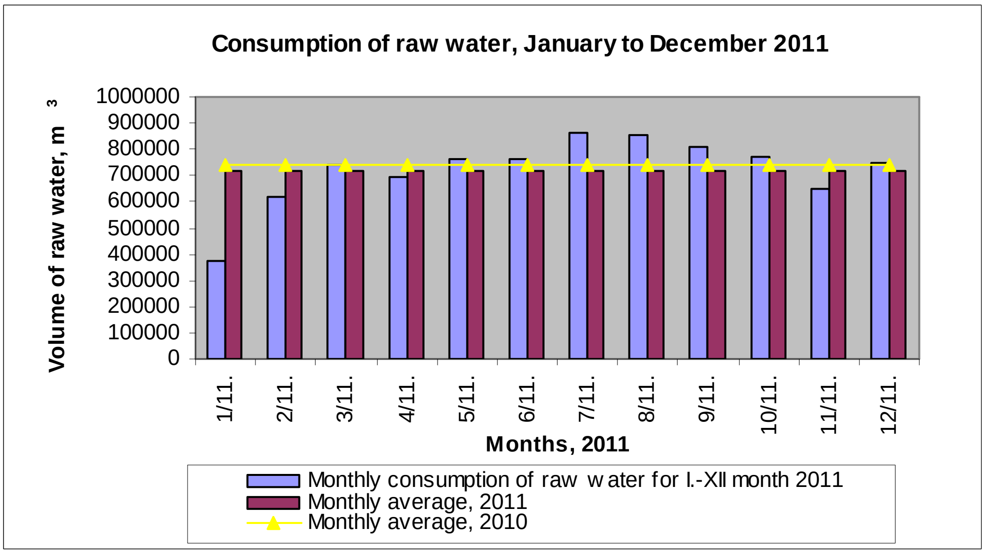
In the January to December 2011 period, improvement of water protection was achieved as shown by the results of factor k_1 from current samples as compared to the average of 2010. (Figure 1).

Figure 1.



In the January to December period of 2011, the consumption of raw water was 2.6 % lower than the 2010 consumption (Figure 2.).

Figure 2.



3. Waste management

The generated production waste (e.g. calcium fluoride) was regularly disposed at the phosphogypsum disposal pond, in accordance with the valid permit. Other kinds of waste were handed over to licensed collecting and processing companies.

8. MAIN FEATURES OF BUSINESS ACTIVITIES IN THE NEXT PERIOD

Business Plan for 2011 anticipated a profit of HRK 5.2 million. Achieved positive financial result of HRK 107.8 million, significantly exceeded the planned projection. Current market situation - the parity of price of most important raw materials and price of fertilizers in the domestic and world markets suggest caution in predicting operating results in 2012.

In 2011, certain positive developments were achieved in the domestic market, which can be interpreted as a sign of market recovery, despite the prolonged drought that has taken on proportions of natural disaster. Part of the positive results can be interpreted as an effect of time difference in the growth of in- and output prices. Employment and wages are under control; a part of the plants is still shut-down for market reasons and the current liquidity is maintained with support of commercial banks, Croatian Bank for Reconstruction and Development and by issuance of commercial papers.

During the reporting period, there was continuous operation of plants needed to ensure sufficient volumes of fertilizers to meet the market demand. The emphasis will continue to be on the domestic and neighboring markets, where Petrokemija is traditionally present, but strong sales activity will be continued in the global market, too. The last quarter of 2011 was used for higher production in order to secure transitional inventories to be delivered during overhaul in January 2012.
Assessment of long-term business prospects in the following years is made difficult by the fluctuation in global flows and unstable parity of energy, fertilizers and food prices in world markets.

9. SIGNIFICANT FINANCIAL RISKS AT THE TURN OF THE YEAR 2011 / 2012

The overall considerations of Petrokemija's business position in 2012 include a number of parameters whose impact is difficult to estimate. However, in view of the present market situation, a special attention should be given to risks as follows:

- Petrokemija's Plc. result is highly dependent on the movements of fertilizer and their raw material price in the world market, the exchange rate of HRK against USD and EUR and their interrelations.
- A contract on gas supply was signed with INA Industrija nafte, Plc. Zagreb, i.e. their daughter company Prirodni plin, Ltd. for 2012/2013. The method of price calculation is slightly more favorable than the previous one, but still contains a formula for quarterly pricing of gas linked to the movement of oil products prices in the world market, while the monthly price in HRK is linked to USD exchange rate. This implies an additional exposure to foreign exchange rate of HRK and energy price fluctuations in the world market. The price of fuel oil, which is included in the formula, has risen significantly in first half of 2011.
- The year 2011 saw the recovery of fertilizer price in the global markets and this has made the profit. However, due to the high cost of transportation, the long-term stronghold of Petrokemija are the domestic and closer markets of neighboring countries.
- The fluctuations of raw material prices present so far in the world market, will have impact on material costs in the next period.
- High costs of working capital – because of insufficient own working capital, comparatively high interest rates and necessary credit resources as a result of extended maturity payment period of sold goods in the domestic market will continue to be present in the following period. A part of the short-term liabilities has been transformed into long-term liabilities (loans and reservation).
- Positive developments achieved in the operations in the first three quarters of 2011 opened certain optimism regarding the future trend of business. The fall in prices in the last quarter eroded the expected financial performance and announced the outlines of a new wave of global economic and financial crisis.
- The overall positive global effects of the current year may be compromised in 2012 by a possible new cycle of global crisis, growth of competition, stagnation of Croatian agriculture in the autumn 2011 (drought effects) and spring 2012 season as well as growth of gas prices on the European and local markets.

10. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE CODE

In accordance with the provisions of Articles 250a, 250b and 272p of the Companies Act (OG 152/11 consolidated text), the Management Board of Petrokemija Plc., the company whose shares are traded on the regulated securities market, is issuing this statement on the application of the Corporate Governance Code of the Zagreb Stock Exchange in 2011. The Management and the Supervisory Board of Petrokemija, Plc. completed the annual questionnaire on the application of the Code of Corporate Governance of the Zagreb Stock Exchange for 2011 and published it on the website of the Zagreb Stock Exchange, HANFA and Petrokemija, Plc., whereby the obligation under Article 272.p of this Act has been met.

11. STATEMENT OF MANAGEMENT LIABILITY

In line with Articles 407 through 410 of Capital Market Act (OG 88/08, 146/08 and 74/09), the Managing Board of Petrokemija, Plc.Kutina, A. Vukovar 4, make a

Statement on Management Liability

Financial reports were made in accordance with International Financial Reporting Standards (IFRS). Financial reports are also compliant to Croatian Accounting Act, effective at the time of issuing of the reports.

Financial reports for the January 1 to December 31, 2011 period., make an exact and true account of the Company financial state and the business and cash flow results, in compliance with the applicable accounting standards.

This report may contain certain statements relating to the future business of Petrokemija, Plc.and Petrokemija Group, their strategy, plans and intentions which express a certain degree of uncertainty. They reflect the current position of Petrokemija with regard to risks, uncertainties and assumptions about the future. Currently, the results, effects and achievements of Petrokemija, Plc. or Petrokemija Group are heavily dependent on a large number of factors which may influence their being quite different from the originally set ones.

Chairman of Petrokemija Management Board
Josip Jagušt

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

Member of Petrokemija Management Board
Antonija Perošević-Galović

Member of Petrokemija Management Board
Nenad Marinović

Member of Petrokemija Management Board
Tomislav Seletković

Encl: - Annual financial report of the company - GFI-POD Petrokemija d.d.
- Annual financial report of the Petrokemija Group - GFI-POD Petrokemija Group

Attachment 1.

Reported period: 1.1.2011. to 31.12.2011.

Annual financial statements GFI-POD

Registation number (MB):	03674223
Registation number of subject (MBS):	080004355
Personal identification number (OIB):	24503685008
Issuer company:	PETROKEMIJA d.d.
Postal code and city:	44320 KUTINA
Street and number:	ALEJA VUKOVAR 4
E-mail:	fin@petrokemija.hr
Internet address:	www.petrokemija.hr
Code and city/municipality:	220 KUTINA
Code and county name:	3 SISAČKO-MOSLAVAČKA ŽUPANIJA
Nmber of employees: (at the end of the year)	2.312
Consolidted Report:	YES
Code of NKD:	20.15

Entities in consolidation (according to IFRS):	Registered seat:	Registration umber (MB):
RESTORAN PETROKEMIJA d.o.o.	KUTINA	01335316
PETROKEMIJA d.o.o.	NOVI SAD	08754608
PETROKEMIJA d.o.o.	NOVO MESTO	12034614

Book-keeping office:	
Contact person:	MARINA MARIĆ (name and surname of the contact person)
Telephone number:	044-647-829
Fax:	044-682-819
E-mail:	marina.maric@petrokemija.hr
Name and surname:	JOSIP JAGUŠT, ANTONIJA PEROŠEVIĆ-GALOVIĆ (authorized representatives)

Documentation to be published:

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

(seal) PETROKEMIJA, d. d. KUTINA, Aleja Vukovar 4 6

(signature of authorized representative)

BALANCE SHEET

as at 31.12.2011.

Petrokemija Group d.d.

Position	AOP code	Prethodna godina (neto)	Tekuća godina (neto)
1	2	3	4
A) RECIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL	001		
B) LONG-TERM ASSETS (003+010+020+029+033)	002	**814.812.913**	**761.842.755**
I. INTANGIBLE ASSETS (004 do 009)	003	**8.063.645**	**7.671.130**
1. Expense for development	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	6.621.955	5.696.483
3. Goodwill	006		
4. Advances for intangible assets	007		
5. Intangible assets in progress	008	1.441.690	1.974.647
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 do 019)	010	**786.485.289**	**739.879.901**
1. Land	011	49.419.193	49.411.757
2. Buildings	012	322.501.078	305.696.063
3. Plant and equipment	013	366.707.246	354.712.044
4. Tools, plant inventory and transportation assets	014	13.732.036	12.656.327
5. Biological assets	015		
6. Advances for tangible assets	016		3.081.885
7. Tangibal assets in progres	017	33.653.876	13.828.060
8. Other tangible assets	018	471.860	493.765
9. Investments in real estates	019		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	020	**20.263.979**	**14.291.724**
1. Investments (shares) in related companies	021		
2. Loans given to realted companies	022		
3. Participating interest (shares)	023	12.805.351	10.766.762
4. Loans given to companies with participating interest	024		
5. Investment in securities	025		
6. Loans given, deposits and similar assets	026	3.278.289	
7. Other long-term financial assets	027		
8. Investments accounted for using the equity method	028	4.180.339	3.524.962
IV. TRADE RECEIVABLES (030 do 032)	029	**0**	**0**
1. Receivables from related companies	030		
2. Receivables for sales on loan	031		
3. Other receivables	032		
V. DIFERRED TAX ASSETS	033		
C) SHORT-TERM ASSETS (035+043+050+058)	034	**713.791.048**	**878.243.235**
I. INVENTORIES (036 do 042)	035	**478.883.337**	**653.884.464**
1. Raw and other material	036	226.983.987	307.619.209
2. Work in progress	037	23.553.044	41.135.157
3. Finished products	038	219.745.765	300.391.370
4. Merchandise inventory	039	3.849.354	4.302.489
5. Advances for inventories	040	4.751.187	436.239
6. Long-term assets intended for sale	041		
7. Biological assets	042		
II. TRADE RECEIVABLES (044 do 049)	043	**205.564.624**	**191.226.074**
1. Receivables from related companies	044		
2. Receivables from customers (buyers)	045	87.514.440	147.738.558
3. Receivables from participating interest	046		
4. Receivables from employees and members	047	26.313	21.446
5. Receivables from state and other institutions	048	117.364.540	40.129.810
6. Other receivbles	049	659.331	3.336.260
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	**3.548.085**	**20.211.233**
1. Investments (shares) in related companies	051		
2. Loans given to realted companies	052		
3. Participating interest (shares)	053		
4. Loans given to companies with participating interest	054		
5. Investment in securities	055	3.548.085	5.150.393
6. Loans given, depsits and similar assets	056		15.060.840
7. Other financial assets	057		
IV. CASH IN BANK AND ON HAND	058	**25.795.002**	**12.921.464**
D) PREPAID EXPESES AND ACCRUED INCOME	059	**1.773.159**	**2.734.013**
E) TOTAL ASSETS (001+002+034+059)	060	**1.530.377.120**	**1.642.820.003**
F) OFF BALANCE SHEET ITEMS	061	141.203.382	186.462.200

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	**062**	**657.012.802**	**763.874.492**
I. SUBSCRIBED CAPITAL	**063**	902.101.590	902.101.590
II. CAPITAL RESERVES	**064**		
III. RESERVES FROM PROFIT (066+067-068+069+070)	**065**	**0**	**0**
1. Legal reserves	**066**		
2. Reserve for treasury shares	**067**		
3. Treasury shares and invesment (deductable item)	**068**		
4. Statutory reserves	**069**		
5. Other reserve	**070**		
IV. REVALUATION RESERVES	**071**		
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	**072**	**-108.982.828**	**-244.715.097**
1. Retained earning	**073**		
2. Loss carried forward	**074**	108.982.828	244.715.097
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	**075**	**-136.105.960**	**106.487.999**
1. Profit for the year	**076**		106.487.999
2. Loss for the year	**077**	136.105.960	
VII. MINORITY INTEREST	**078**		
B) PROVISIONS (080 do 082)	**079**	**14.532.303**	**14.197.080**
1. Provisions for pensions, severance pay and similar labilites	**080**	12.282.303	12.112.252
2. Provisions for tax liabilities	**081**		
3. Other provisions	**082**	2.250.000	2.084.828
C) LONG-TERM LIABILITIES (084 do 092)	**083**	**62.222.222**	**80.000.000**
1. Liabilities to related companies	**084**		
2. Liabilities for loans, deposits and similar	**085**		
3. Liabilities to banks and other financial institutions	**086**	62.222.222	80.000.000
4. Liabilities for advances	**087**		
5. Liabilities to suppliers	**088**		
6. Liabilities for securities	**089**		
7. Liabilities to companies with participating interest	**090**		
8. Other long-term liabilities	**091**		
9. Deferred tax liability	**092**		
D) SHORT-TERM LIABILITIES (094 do 105)	**093**	**793.175.607**	**781.285.161**
1. Liabilities to related companies	**094**		
2. Liabilities for loans, deposits and similar	**095**	44.000.000	12.000.000
3. Liabilities to banks and other financial institutions	**096**	310.017.961	295.722.222
4. Liabilities for advances	**097**	56.326.281	25.990.680
5. Liabilities to suppliers	**098**	335.739.131	331.944.083
6. Liabilities for securities	**099**	22.125.296	81.176.464
7. Liabilities to companies with participating interest	**100**		
8. Liabilities to employees	**101**	13.360.399	13.650.046
9. Liabilities for taxes, contributions and other payments	**102**	8.410.705	9.968.720
10. Liabilities as per share in result	**103**		
11. Liabilities as per long-tem assets intended for sales	**104**		
12. Other short-term liabilities	**105**	3.195.834	10.832.946
E) ACCRUED EXPENSES AND DEFERRED INCOME	**106**	**3.434.186**	**3.463.270**
F) TOTAL LIABILITIES (062+079+083+093+106)	**107**	**1.530.377.120**	**1.642.820.003**
G) OFF BALANCE SHEET ITEMS	**108**	141.203.382	186.462.200
APPENDIX TO BALANCE SHEET (to be completed by companies that prepare consolidated financial statements)			
A) CAPITAL AND RESERVES			
1. Credited to parent company capital owners	**109**	657.012.802	763.874.492
2. Credited to minority interest	**110**		

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

PROFIT AND LOSS ACCOUNT

for the period 01.01.2011. to 31.12.2011.

Petrokemija Group d.d.			
Position	**AOP code**	**Previous year**	**Current year**
1	2	3	4
I. OPERATING REVENUES (112+113)	111	2.266.949.824	2.948.347.687
1. Sales revenues	112	2.225.563.941	2.900.859.466
2. Other operating revenues	113	41.385.883	47.488.221
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	2.368.814.136	2.810.415.652
1. Changes in value of work in progress and finished products	115	-36.074.972	-99.921.361
2. Material costs (117 do 119)	116	1.977.808.038	2.485.225.745
a) Cost of raw and production materials	117	1.859.221.521	2.359.479.402
b) Cost of goods sold	118	20.215.148	9.355.617
c) Other external costs	119	98.371.369	116.390.726
3. Employees costs (121 do 123)	120	217.364.055	234.317.600
a) Net salaries and wages	121	136.891.390	146.963.099
b) Costs for taxes and contributions from salaries	122	48.635.517	53.029.909
c) Contributions on salaries	123	31.837.148	34.324.592
4. Depreciation	124	99.480.259	94.189.092
5. Other costs	125	84.612.605	87.132.072
6. Value adjustments (127+128)	126	9.907.662	4.975.285
a) of long-term assets (except for financial assets)	127	35.324	108.297
b) of short-term assets (except for financial assets)	128	9.872.338	4.866.988
7. Provisions	129	15.716.489	4.497.219
8. Other operating expenses	130		
III. FINANCIAL REVENUES (132 do 136)	131	26.719.580	24.614.144
1. Interest, exchange rate flucutations, dividends and similar from associated companies	132		
2. Interest, exchange rate flucuations, dividends and sikilar from non-associated companies ond others	133	26.719.580	24.614.144
3. Part of revenue from associated companies and prticipating interests	134		
4.Unrealised gains (revenues) from financial assets	135		
5. Other financial revenues	136		
IV. FINANCIAL EXPENSES (138 do 141)	137	61.720.187	56.077.995
1. Interest, exchange rate fluctuations and other costs with associated companies	138		
2. Interest, excehange rate flucutations and other costs eith non-associated companies	139	61.674.885	54.039.405
3. Unrealised losses (costs) from financial assets	140	45.302	2.038.590
4. Other financial expenses	141		
V. PORTION IN PROFIT OF ASSOCIATED COMPANIES	142	942.790	80.474
VI. PORTION IN LOSS OF ASSOCIATED COMPANIES	143		
VII. EKSTRAORDINARY - OTHER REVENUES	144		
VIII. EXTRAORDINARY - OTHER EXPENSES	145		
IX. TOTAL REVENUES (111+131+142 + 144)	146	2.294.612.194	2.973.042.305
X. TOTAL EXPENSES (114+137+143 + 145)	147	2.430.534.323	2.866.493.647
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	-135.922.129	106.548.658
1. Profit before taxation (146-147)	149	0	106.548.658
2. Loss before taxation (147-146)	150	135.922.129	0
XII. PROFIT TAX	151	183.831	60.859
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	-136.105.960	106.487.799
1. Profit for the period (149-151)	153	0	106.487.799
2. Loss for the period (151-148)	154	136.105.960	0

APPENDIX TO PLA (to be completed by companies that prepare consolidated financial statements)			
XIV. PROFIT OR LOSS FOR THE PERIOD			
1. Credited to parent company capital owners	**155**		
2. Credited to minority interest	**156**		
STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)			
I. PROFIT OR LOSS OF THE PERIOD (= 152)	**157**	-136.105.960	106.487.799
II. OTHER COMPREHENSIVE GAINS/LOSS BEFORE TAXES (159 do 165)	**158**	0	0
1. Exchange rate differences from translation of foreign currency operations	**159**		
2. Change in revaluation reserves of fixed tangible and intangible assets	**160**		
3. Gain or loss from revaluation of financial assets held for sale	**161**		
4. Gain or loss from effective cash flow hedge	**162**		
5. Gain or loss from effective hedge in net investments in abroad	**163**		
6. Portion in other comprehensive gain7loss of assocated companies	**164**		
7. Acutaral gains7losses on defined benefit plans	**165**		
III. TAX ON OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD	**166**		
IV. NET OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD (158-166)	**167**	**0**	**0**
V. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD (157+167)	**168**	**-136.105.960**	**106.487.799**
APPENDIX TO STATEMENT OF COMPREHESIVE INCOME (to be completed by companies that prepare consolidated financial statements)			
VI. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD			
1. Credited to parent company capital owners	**169**	-136.105.960	-106.487.999
2. Credited to minority interest	**170**		

CASH FLOW STATEMENT - Direct method

for the perod 01.01.2011. to 31.12.2011.

Petrokemija Group d.d.			
Position	**AOP code**	**Previous year**	**Current year**
1	2	3	4
CASH FLOW FROM PPERATIONG ACTIVITIES			
1. Cash increase from buyers	001	2.516.430.127	3.116.393.654
2. Cash increse from royalites, fees commissions and other	002		
3. Cash increse from insuarance compensations	003	7.567.820	5.538.010
4. Cash increase from tax return	004	194.868.437	250.390.241
5. Other cash increase	005	7.150.142	7.348.958
I. Total increase of cash flow from operating activities (001 do 005)	006	**2.726.016.526**	**3.379.670.863**
1. Expenses to suppliers	007	2.359.506.367	2.959.086.260
2. Expenses for employees	008	245.470.345	269.722.252
3. Expenses for insuarance compensations	009	12.555.826	15.347.627
4. Expenses for interest	010	24.675.288	29.431.695
5. Expenses for taxes	011	114.126.022	80.843.774
6. Other cash decrease	012	25.726.697	14.813.333
II. Total decrease in cash flow from operating activities (007 do 012)	013	**2.782.060.545**	**3.369.244.941**
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)	014	**0**	**10.425.922**
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)	015	**56.044.019**	**0**
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proseeds from sale of non-current tangible and intangible assets	016	17.343	53.628
2. Cash proceeds from sale of equity and debt security instruments	017		
3. Cash proceeds from interest payment*	018		
4. Cash proceeds of dividend payment*	019	369.664	1.322.680
5. Other cash proceeds from investing activities	020		
III. Total cash inflow from investing activities (016 do 020)	021	**387.007**	**1.376.308**
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	18.341.054	39.941.196
2. Cash outflow for acquisition of equity and debt financial instruments	023	328.842	206.940
3. Other cash outflows from investing activities	024		
IV. Total cash outflow from investing activities (022 do 024)	025	**18.669.896**	**40.148.136**
B1) NET CASH FLOW FROM INVESTIN ACTIVITIES (021-025)	026	**0**	**0**
B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)	027	**18.282.889**	**38.771.828**
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash infows from issuance of equity and debt financial instruments	028	21.664.539	81.110.800
2. Cash inflows from loan pricipals, debentures, credits and other borrowings	029	498.225.388	875.310.154
3. Other inflows from financial activities	030	309.966.111	243.798.919
V. Total cash inflow from financial activities (028 do 030)	031	**829.856.038**	**1.200.219.873**
1. Cash outflows for repayment of loan principal and bonds	032	357.730.025	903.828.114
2. Cash outflows for dividend payment	033		
3. Cas outflow for financial lease	034		
4. Cash outflows for buybackof own shares	035		
5. Other cash outflows for financial activities	036	402.456.198	280.919.391
VI. Total cash outflow for financial activities (032 do 036)	037	**760.186.223**	**1.184.747.505**
C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)	038	**69.669.815**	**15.472.368**
C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)	039	**0**	**0**
Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)	040	**0**	**0**
Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)	041	**4.657.093**	**12.873.538**
Cash and cash equivalents at the begining of the period	042	30.452.095	25.795.002
Increase of cash and cash equivalents	043		
Decrease of cash adn cash equivalents	044	4.657.093	12.873.538
Cash and cash equivalents at the end of the period	045	**25.795.002**	**12.921.464**

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

STATEMENT OF CHANGES IN EQUITY

for the perod from 1.1.2011 to 31.12.2011

Position	AOP code	Previous year	Current year
1	2	3	4
1. Suscribed capital	001	902.101.590	902.101.590
2. Capital reserves	002		
3. Reserves from profit	003		
4. Retained profit or loss carried forward	004	-108.982.828	-244.715.097
5. Profit or loss for the year	005	-136.105.960	106.487.999
6. Revaluation of fixed tangeble assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluation	009		
10. Total capital and reserves (AOP 001 do 009)	010	**657.012.802**	**763.874.492**
11. Exchange differences on translationof financial statements of foreign operations	011		
12. Curent and deferred taxes (part))	012		
13.Protektion of cash flow	013		
14. Changes in accounting policies	014		
15. Adjustment of significant errors from previous period	015		
16. Other changes in captal	016		
17. Total increase or decrease of capital (AOP 011 do 016)	017	**0**	**0**
17 a. Creadited to parent company capital owners	018	657.012.802	763.874.492
17 b. Creadited to minority interest	019		

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

NOTES

PETROKEMIJA GROUP

As evident from the Profit and Loss Account and Balance Sheet tables, Petrokemija's daughter companies have no significant influence on the Petrokemija Group result. The daughter companies are: Restoran Petrokemija, Ltd. Kutina, Petrokemija, Ltd. Novi Sad and Petrokemija, Ltd. Novo Mesto.

In 2011, Petrokemija Group had total actual income of HRK 2,973.0 million and total expense of HRK 2,866.5 million. The total yearly revenues increased by 29.6%, and total expenditures by 17.9% compared to 2010.

Greater actual operating income and expenses, compared to the previous year is the result of the growth of in- and output prices and change in volumes and product range in output and sales (10.1% higher sales of NPK fertilizers; 13.4% lower sales of CAN). In 2011, Petrokemija's actual production and sales were approximately the same as in the year before - total fertilizer production was up by 0.3% and the sales were down by 0.6%.

In 2011, Petrokemija Group reported HRK 106.5 million in business profits, which is by HRK 242.6 million a better result on the previous year, when the reported loss was HRK 136.1 million. The EBITDA indicator (earnings before interest, taxes, depreciation and amortization) is HRK 232.1 million in the positive. In 2010, EBITDA was HRK 2.4 million in the negative.

The data show that the growth of income and expense was the result of significant increase of in- and output prices and partly of change in product range both in production and sales, while the total volumes were nearly the same. The actual yearly profit is the result of increased sales in the period of more favorable sales price in the world market – the prices fluctuated over the year - while it is partly due to positive effects of time difference in the growth of in- and output prices.

As a reflection of global trends in the energy market, there is a rise in gas price. This most important raw material is supplied in the domestic market under the so-called Russian formula. It is estimated that in the first quarter of 2012, the price of gas will reach its maximum, if there are no critical changes in the price of fuel oil in world markets and growth of USD exchange rate.

Due to the market situation, a part of the facilities was halted in the second half of 2009 and this problem was carried over into the year 2012. The crisis caused by disparity of in- and output prices in the carbon black market is still present. Petrokemija is influenced by developments in the global market which gives space to significant potential price risks and financial fluctuations in 2012.

In addition to their own working capital, short-term bank loans and long-term loans from the Croatian Bank for Reconstruction and Development, Petrokemija secured their working capital partly by the release of commercial papers in the Zagreb Stock Exchange through Privredna banka Zagreb as agent and dealer of the program.

The future trends in financial results of Petrokemija Group will be influenced by many factors. Besides the gas price, which is set in the domestic market, the majority of future risk comes from the global environment, i.e. mainly through:

1. Change in price of basic raw materials in the world markets (MAP, DAP, phosphate, potassium chloride, sulfur);
2. Change in demand and sales price of fertilizers;
3. Price fluctuation of energy fluids - gas and oil;
4. Price fluctuation of basic agricultural crops, and
5. Exchange rate of USD and EUR to the local currency

CHANGE OF ACCOUNTING POLICIES

In line with Article 13, pt. 2, of the Accounting Act and International Accounting Standard 27, Consolidated and Separate Financial Statements, investments into daughter companies in 100% ownership of Petrokemija, Plc. is accounted by the cost method.
As the Company booked the investment by equity accounting method, on 31 December 2011, upon a decision of the Board, a correction of the share to the value of initial investment cost was carried out.
The effect of this change in Accounting Policy has no significant impact on reported financial result of Petrokemija, Plc. and Petrokemija Group and they amount to HRK 1.8 million.

PETROKEMIJA d.d.
Aleja Vukovar 4, Kutina

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

C O N T E N T S

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management Board of the company Petrokemija d.d., Kutina, Aleja Vukovar 4 (hereinafter: the Company) is responsible for ensuring that consolidated financial statements for 2011 are prepared in accordance with the Croatian Accounting Act (Official Gazette 109/07) and with the International Financial Reporting Standards (Official Gazette 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11) as published by the Financial Reporting Standards Board, nominated by the Croatian Government, which give a true and fair view of the consolidated financial balance, consolidated business results, consolidated changes in equity and consolidated cash flows of the Company for that period.

After making enquiries, the Board reasonably expects the Group to have adequate resources to operate in the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing consolidated financial statements.

In preparing those consolidated financial statements, the responsibilities of the Board include that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates given are reasonable and prudent;
- applicable accounting standards are followed and subjected to any material departures disclosed and explained in consolidated financial statements; and
- consolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue operating.

The Board is responsible for keeping proper accounting records which at any time disclose the consolidated financial position and consolidated financial results of the Company with reasonable accuracy and it must also ensure that consolidated financial statements comply with the Croatian Accounting Act (Official Gazette 109/2007) and International financial reporting standards (Official Gazette 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11) approved by the Financial Reporting Standards Board. The Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

For and on behalf of the Company

Josip Jagušt, President of the Management Board ____________________

Antonija Perošević - Galović, Member of the Management Board ____________________

Nenad Marinović, Member of the Management Board ____________________

Tomislav Seletković, Member of the Management Board ____________________

PETROKEMIJA d.d.
Aleja Vukovar 4
44320 Kutina

Republic of Croatia

27 February 2012

PETROKEMIJA, d. d.
KUTINA, Aleja Vukovar 4 (6)

Tel: 385 1 2395-741
Fax: 385 1 2303-691
E-mail: bdo-croatia@bdo.hr

BDO Croatia d.o.o.
10000 ZAGREB
Trg J. F. Kennedy 6b

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of the Company Petrokemija d.d., Kutina

1. We have audited the enclosed consolidated financial statements of the Company Petrokemija d.d., Kutina, Aleja Vukovar 4 (hereinafter "the Company") for the year ended 31 December 2011, which comprise the consolidated balance sheet/consolidated financial position statement as at 31 December 2011, consolidated income statement/consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended as well as the summary of significant accounting policies and other pertaining notes.

Management's Responsibility for the consolidated financial statements

2. The Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards approved for usage in the Republic of Croatia and for those internal control that the Management Board determines are relevant for the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 the auditor's 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, the auditor considers internal control relevant to the Company'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 Company's internal control. An audit also includes evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's Management Board, as well as evaluation of 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 audit opinion.

Opinion

4. In our opinion, enclosed consolidated financial statements, in all material significant aspects, give a true and fair view of the consolidated financial position of the company Petrokemija d.d., Kutina as of December 31, 2011, and of its consolidated business result and its consolidated cash flows for the year 2011 in accordance with Accounting Act and International Financial Reporting Standards effective in the Republic of Croatia.

Emphasis of matter

5. Without qualifying our opinion we draw attention to the note 4 to the financial statements in which it is noted that the Company realized consolidated profit in the amount of HRK 106,488 thousand, while in 2010 the Company realized consolidated loss in the amount of HRK 136,106 thousand. Improvement of the financial result in 2011 is the result of, in most part faster growth in operating income (30%) with regard to growth in operating expenses (18,7%). Along with that, the most significant influence is result of increase in sale prices, using the favourable market situation, market selection and adjusting sales assortment to the market requirements.

Mentioned facts indicate that there has been a positive balancing in input and output prices in 2011, resulting in reduction of risks from unpredictable negative influence of potential new wave of global crisis.

Other legal or regulatory requirements

6. According to the Regulation on the structure and content of the annual financial statements (Official Gazette 38/07, 12/09, 130/10) (Standardized annual consolidated financial statements), the Management Board is responsible for the preparation of the consolidated financial statements for the year ended 2011 in the prescribed form. Financial information presented in the Company's standard annual consolidated financial statements are identical as the information presented in the Company's annual consolidated financial statements shown on pages 4 to 39, on which we have expressed our opinion as stated in the paragraph „Opinion" above.

In Zagreb, 14 March 2012

BDO Croatia d.o.o.
Trg J. F. Kennedy 6b
10000 Zagreb

BDO Croatia d.o.o.
za pružanje revizorskih,konzalting
i računovodstvenih usluga
Zagreb, J.F. Kennedy 6/b

Rožić

Ines Rožić, certified auditor

Jeni Krstičević, president of the Management Board

PETROKEMIJA d.d., Kutina
CONSOLIDATED INCOME STATEMENT / CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011

P O S I T I O N	*Note*	2011	2010
		HRK '000	HRK '000
OPERATING INCOME			
Sales income	4.	2,900,860	2,225,564
Other operating income	5.	47,488	41,386
Total operating income		**2,948,348**	**2,266,950**
OPERATING EXPENSES			
Changes in inventory value	6.	99,921	36,075
Material costs	7.	(2,485,226)	(1,977,808)
Employees costs	8.	(234,318)	(217,364)
Depreciation	9.	(94,189)	(99,480)
Assets value adjustments	10.	(4,975)	(9,908)
Provision costs	11.	(4,497)	(15,716)
Other operating costs	12.	(87,132)	(84,613)
Total operating expenses		**(2,810,416)**	**(2,368,814)**
PROFIT/LOSS FROM OPERATING ACTIVITIES		**137,931**	**(101,864)**
FINANCIAL INCOME	13.	24,614	26,719
FINANCIAL EXPENSES	14.	(56,078)	(61,720)
LOSS FROM FINANCIAL ACTIVITIES		**(31,464)**	**(35,001)**
SHARES IN PROFIT OF THE ASSOCIATED COMPANIES		**80**	**943**
TOTAL INCOME		**2,973,042**	**2,294,612**
TOTAL EXPENSES		**(2,866,494)**	**(2,430,534)**
Profit/loss before taxation		**106,548**	**(135,922)**
Corporate income tax	15.	(60)	(184)
PROFIT/LOSS FOR THE YEAR		**106,488**	**(136,106)**
Other comprehensive income		**0**	**0**
TOTAL COMPREHENSIVE PROFIT/LOSS		**106,488**	**(136,106)**
Comprehensive profit/(loss) attributable to: the equity holders of the Parent		**106,488**	**(136,106)**

The notes under numbers I to VII form an integral part of these consolidated financial statements.

P O S I T I O N	*Note*	31 Dec 2011	31 Dec 2010
		HRK '000	HRK '000
ASSETS			
Long-term assets			
Property, plant and equipment	*16.*	739,880	786,485
Intangible assets	*17.*	7,671	8,064
Financial assets	*18.*	14,292	20,264
Total long-term assets		**761,843**	**814,813**
Short-term assets			
Inventories	*19.*	653,885	478,883
Trade receivables	*20.*	147,739	87,514
Receivables from the State and State institutions	*21.*	40,130	117,365
Receivables from the employees and company members		21	26
Other short-term receivables		3,336	660
Financial assets	*22.*	20,211	3,548
Cash	*23.*	12,921	25,795
Total short-term assets		**878,243**	**713,791**
Prepayments and accrued income	*24.*	**2,734**	**1,773**
TOTAL ASSETS		**1,642,820**	**1,530,377**
OFF-BALANCE SHEET RECORDS	*36.*	**186,462**	**141,203**

The notes under numbers I to VII form an integral part of these consolidated financial statements.

P O S I T I O N	*Note*	31 Dec 2011	31 Dec 2010
		HRK '000	HRK '000
LIABILITIES			
Capital	*25.*		
Subscribed capital		902,102	902,102
Loss carried forward		(244,715)	(108,983)
Profit/loss for the year		106,488	(136,106)
Total capital		**763,875**	**657,013**
Long-term liabilities			
Liabilities to banks and other financial institutions	*26.*	80,000	62,222
Provisions	*27.*	14,197	14,532
Total long-term liabilities		**94,197**	**76,754**
Short-term liabilities			
Trade payables	*28.*	331,944	335,739
Short-term loan liabilities	*29.*	307,722	354,018
Liabilities to employees	*30.*	13,650	13,361
Liabilities to the State and other institutions	*31.*	9,969	8,411
Liabilities for securities	*32.*	81,176	22,125
Prepayment liabilities	*33.*	25,991	56,326
Other short-term liabilities	*34.*	10,833	3,196
Total short-term liabilities		**781,285**	**793,176**
Accrued expenses and deferred income	*35.*	**3,463**	**3,434**
TOTAL LIABILITIES		**1,642,820**	**1,530,377**
OFF-BALANCE SHEET RECORDS	*36.*	**186,462**	**141,203**

The notes under numbers I to VII form an integral part of these consolidated financial statements.

D E S C R I P T I O N	Subscribed capital	Legal reserves	Other reserves	Retained earnings/ Loss carried forward	Profit/(loss) for the year	TOTAL
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2010	**902,102**	**45,105**	**24,294**	**88,995**	**(267,635)**	**792,861**
Allocation of loss for 2009	0	0	0	(267,635)	267,635	0
Adjustments and currency differences in affiliates	111	0	0	258	0	369
Decrease in reserves for loss covering	0	(45,105)	(24,294)	69,399	0	0
Elimination	(111)	0	0	0	0	(111)
Loss for the year	0	0	0	0	(136,106)	(136,106)
Balance at 31 December 2010	**902,102**	**0**	**0**	**(108,983)**	**(136,106)**	**657,013**
Allocation of loss for 2010	0	0	0	(136,106)	136,106	0
Adjustments and currency differences in affiliates	0	0	0	374	0	374
Profit for the year	0	0	0	0	106,488	106,488
Balance at 31 December 2011	**902,102**	**0**	**0**	**(244,715)**	**106,488**	**763,875**

The notes under numbers I to VII form an integral part of these consolidated financial statements.

P O S I T I O N	2011	2010
	HRK'000	HRK'000
Cash flows from operating activities		
Customers cash inflows	3,116,394	2,516,430
Cash inflows from insurance for claim compensations	5,538	7,568
Cash inflows from tax returns	250,390	194,868
Other cash inflows	7,349	7,150
Total cash inflows from operating activities	*3,379,671*	*2,726,016*
Suppliers	2,959,086	2,359,506
Employees	269,722	245,470
Cash outflows for claim insurance	15,348	12,556
Cash outflows for interests	29,432	24,675
Cash outflows for taxes	80,844	114,126
Other cash outflows	14,813	25,727
Total cash outflows from operating activities	*3,369,245*	*2,782,060*
Net increase/decrease in cash flows from operating activities	**10,426**	**(56,044)**
Cash flows from investment activities		
Cash inflows from sale of long-term tangible and intangible assets	53	17
Cash inflows from dividends	1,323	370
Total cash inflows from investment activities	*1,376*	*387*
Cash outflows for purchase of long-term tangible and intangible assets	39,941	18,341
Cash outflows for acquisition of equity and debt financial instruments	207	329
Total cash outflows from investment activities	*40,148*	*18,670*
Net decrease in cash flows from investment activities	***(38,772)***	***(18,283)***
Cash flows from financial activities		
Cash inflows from issuance of equity and debt financial instruments	81,111	21,665
Cash inflows from loan principal, bonds, borrowings and other	875,310	498,225
Other inflows from financial activities	243,799	309,966
Total cash inflows from financial activities	*1,200,220*	*829,856*
Cash outflows for repayment of loan principal and bonds	903,828	357,730
Other cash outflows from financial activities	280,920	402,456
Total cash outflows from financial activities	*1,184,748*	*760,186*
Net increase in cash flows from financial activities	***15,472***	***69,670***
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(12,874)**	**(4,657)**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	25,795	30,452
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	12,921	25,795
DECREASE IN CASH AND CASH EQUIVALENTS	**(12,874)**	**(4,657)**

The notes under numbers I to VII form an integral part of these consolidated financial statements.

l GENERAL

1.1. Legal framework, activities and employees

The Company Petrokemija d.d. ("Parent company") Fertilizer Factory was founded in 1965, although the beginning of the sooth production, dates way back in 1926. Initially all manufacturing was unified into a work organization INA Petrokemija Kutina within the SOUR INA Industrija nafte Zagreb.

The Company is today registered with Commercial Court in Sisak under registration number of subject MBS: 080004355 and OIB: 24503685008

The parent company is founder and owner of 3 related companies – 2 abroad (Novi Sad and Novo Mesto) and 1 in Croatia, shown as follows:

- Restoran Petrokemija d.o.o., Kutina
- Petrokemija d.o.o., Novi Sad
- Petrokemija d.o.o., Novo Mesto.

As at 31 December 2011 the Company's stock capital amounts to HRK 902,102 thousand and it is divided into 3,341,117 non-materialized ordinary shares on the name, each at a nominal value of HRK 270.

As at 31 December 2011, the Group employed 2,312 employees (31 December 2010: 2,355 employees). Analysis of the employees by professional qualification is shown as follows:

Qualification	31 Dec 2011	31 Dec 2010
University degree	227	226
Higher education	86	85
High school	621	631
Highly qualified	162	168
Qualified	903	929
PK	90	90
Non-qualified	223	226
Total	**2,312**	**2,355**

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 activities are production of food additives for animals, production of chemicals and chemical products, production of other rubber, metal products, supply of electricity, gas, steam and hot water, collecting, purifying and distributing water, research and development in natural, technical and technological sciences.

1.2. Company Bodies

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

Members of the Management Board are:

Josip Jagušt	president
Antonija Perošević - Galović	member as of 15 June 2011
Tomislav Seletković	member
Nenad Marinović	member as of 15 June 2011
Zdenka Krstanović	mandate expired as of 14 June 2011
Nedjeljko Klopček	mandate expired as of 14 June 2011

The fees paid to the Management Board members are shown in the note 8 to the consolidated financial statements.

Members of the Company's Supervisory Board are:

Željko Klaus	president
Mijo Šepak	Vice president as of 29 March 2011
Ivan Čar	member
Dragutin Vajnaht	member
Jozo Bilobrk	member as of 23 February 2011
Miroslav Golub	member as of 10 March 2011
Zlatan Kuljiš	member as of 10 March 2011
Iva Galić	revoked as of 10 March 2011
Vikica Pleše	revoked as of 10 March 2011
Goran Kralj	Vice president as of 29 March 2011
Ivica Lončarević	mandate expired 16 January 2011
Mario Radaković	member as of 27 January 2012

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

The Company does not have loans approved to the members of Management Board or Supervisory Board.

Audit Committee

On 29 April 2011 on the 11 Supervisory Board meeting the Company has brought the Decision about founding the Audit Committee and the Decision about the designation of the Audit Committee members. Audit Committee performs activities as prescribed in the article 28 of the Audit Act jurisdiction. Designated members of the Audit Committee are:

Zlatan Kuljiš – president
prof.dr.sc. Miroslav Golub – member
mr.oec. Mijo Šepak – member
Željko Klaus - member
Ivan Čar – member
Dragutin Vajnaht – member
Jozo Bilobrk - member

II BASIS FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1. Statement of compliance and basis of presentation

Consolidated financial statements for 2011 have been prepared in accordance with the Croatian Accounting Act (Official Gazette 109/07) and the International Financial Reporting Standards („IFRS“) (Official Gazette 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11) as issued by the Financial Statement Standards Board, nominated by the Croatian Government and, and in accordance with the Regulations on the structure and content of the annual financial statements (Official Gazette 38/08, 12/09, 130/10).

2.2. Basis of consolidation

Consolidated financial statements consist of the parent company’s financial statements and the financial statements of the companies controlled by the parent company. The parent company has the control in companies in which it has the power to manage the financial and operating policies of companies controlled, in which the parent company invested with the aim to realize benefit from it.

All significant transaction and state between the companies within the Group are eliminated during consolidation.

2.3. The key estimates and uncertainty of estimates

In preparing consolidated financial statements, it is necessary to apply certain estimates which have an influence on the parent company’s and related companies’ assets and liabilities, revenues and expenses as well as disclosure of contingent liabilities.

Future events and their effects can't be predicted with certainty; therefore actual results could differ from those estimated. The estimates used in preparing the consolidated financial statements are subject to change as new events occur, additional experience, obtaining additional information and insights and changes in the environment in which the parent company and related companies operates.

The key estimates used in applying accounting policies in preparing the consolidated financial statements relate to the depreciation of long-term tangible and intangible assets, assets impairments, impairment of inventories, impairment of receivables and provisions and disclosure of contingent liabilities.

2.4. Reporting Currency

Consolidated financial statements of the Company are stated in Croatian Kuna as measuring and reporting currency.

III SUMMARY OF ACCOUNTING POLICIES

3.2. Income recognition

Revenue is measured at the fair value of the consideration received or receivable for sold products and services during Group's regular activities. Revenue is reduced for value added tax, estimated customer returns, rebates and other similar allowances. The Group recognizes revenue when it can be reliably measured, when the Group will have the economic benefits and when specific criteria for all Groups' activities are met.

a) *Income from sale of goods*

Revenue from the sales of goods is recognized when the Group has transferred the significant risks and rewards of the ownership of the goods to the buyer and it is probable that the Group will receive the previously agreed upon payment. These criteria are considered to be met when the goods are delivered to the buyer. Where the buyer has a right to return, the Group defers recognition of revenue until the right to return has lapsed. However, where the Group retains only insignificant risks of ownership due to the right of return, revenue is not deferred, but the Group recognizes a provision based on previous experience and other relevant factors. The same policy applies to warranties.

b) *Income from sale of services*

Provided the amount of revenue can be measured reliably and it is probable that the Group will receive any consideration, revenue for services is recognized in the period in which they are rendered.

Proceeds from the contracts for performance of services are recognized in relation to the level of execution of the contract. Stages of execution of the contract are determined as follows:

• services performed are recognized in relation to the level of performance, defined as the percentage of time spent in relation to the total time that elapsed from the balance sheet date;

• maintenance fee included in cost of products sold are recognized in relation to the proportion of the total cost for the maintenance of the product sold, taking into account the number of previous maintenance service before sales, and
• revenue from the contract based on used time and material is recognized, according to contracted rates in the period in which hours of working hours were conducted and in which direct costs are incurred.

c) *Interest income*

Interest income is accrued on a time basis, based on outstanding principal and the applicable effective interest rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. Interest income is included in finance income as consolidate financial income in the income statement.

d) *Rental income*

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease terms.

3.3. Rental costs

Rental costs are debited to the consolidated income statement in the period in which they occur.

3.4. Foreign currency

Transactions in foreign currencies are translated into HRK (Croatian Kuna) at the exchange rate ruling at the date of the transaction. Croatian Kuna is the currency of the Group and therefore consolidated financial statements are presented in that currency.

Monetary assets and liabilities denominated in foreign currencies at the consolidated balance sheet date are translated to HRK at the foreign exchange rate ruling at that date. All differences are taken to the consolidated income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Foreign exchange differences arising from translation of net assets at the initial start rate and the results of international activities at the real exchange rate are recognized in other comprehensive income and accumulated in the foreign exchange reserves.

The exchange rate applied at 31 December 2011 was EUR 1 = HRK 7.53 (31 December 2010: EUR 1 = HRK 7.39), USD 1 = HRK 5.82 (31 December 2010: USD 1 = HRK 5.57), RSD 1 = HRK 0.073 (31 December 2010: RSD 1 = HRK 0.071).

3.5. Taxation

Consolidated corporate income tax liability is based on taxable profit for the year, adjusted for the amounts which are not taxable or deductible. Corporate Income tax is calculated using tax rates that have been enacted on the consolidated balance sheet / consolidated financial position statement date.

Current corporate income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

3.6. Cash and cash equivalents

Cash and cash equivalents comprise cash on account and cash in hand and are recorded in the consolidated statement of financial position. The carrying amounts of cash and cash equivalents are generally approximate their fair values.

For the cash flow reporting purposes, cash and cash equivalents include cash and accounts with banks with maturity up to three months.

3.7. Property, plant and equipment

Plant and equipment are started at cost less accumulated depreciation and any accumulated impairment losses and represent tangible assets if their useful life is longer than one year, and their individual value exceeds HRK 3,500 on the purchase date.

Cost includes the purchase price, plant and equipment spare part costs and other directly associated cost as well as estimated value of future removal costs is recognition conditions from the same are met, while liability is booked as commission.

Land and property are measured at fair value less accumulated depreciation on property and impairment losses recognized after the date of the revaluation based on the frequently performed evaluations by the professional appraisers.

When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidate income statement as incurred.

Depreciation is calculated by deducting residual value of the assets, except land and investments in progress, on a straight-line basis over the estimated useful life of the assets by the following rates:

D E S C R I P T I O N	2011	2010
	%	%
Buildings	3.00 – 8.33	3.00 – 8.33
Plant and equipment	12.50 – 20.00	12.50 – 20.00
Transport vehicles	20	20

Depreciation is calculated separately by each item of assets until it is fully depreciated.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

Any gains or losses from disposal of certain asset are determined as difference between sale revenue and carrying amount of that asset and are recognized as expense or income in the income statement.

The assets' residual (present) values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

3.8. Intangible assets

Intangible assets refer to IT programmes and leasehold investments initially recognized at purchasing cost and depreciated on a straight-line basis during estimated useful lives.

Following initial recognition, intangible assets are carried at purchasing cost less any accumulated depreciation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidate income statement in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The depreciation period and the depreciation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates. Intangible assets are depreciated with the annual rate of 20%.

The depreciation cost on intangible assets with finite lives is recognised in the consolidate income statement in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite useful lives are not depreciated, but are tested for impairment annually, either individually or at the cash generating unit level.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

3.9. Inventories

Inventories are stated at the lower of cost and net realizable value. Under regulations of the stated standard of evaluating inventory, the following is encompassed:

- Cost of raw material and material inventory include purchase price, import customs and other expenses which can be directly ascribed to supply of raw material and material; commercial discounts and similar items are subtracted when determining purchase expenses. The expenditure of raw material and material inventories is stated at the weighted average method; warehouse inventories are evaluated under the same method,
- Small inventory include tools, operative and office inventory as similar working assets with intended use up to one year and assets that are not considered long-term,
- expenditure, i.e. putting small inventories and car-tires in use as well as spare parts are included in expenses through a one-time write-off method,
- expenditure, i.e. packaging write-off is postponed until the suppliers receive information on the packaging character (disposable or non-disposable),

- merchandise represents inventories of purchased goods with intention to be sold again and is stated at sale prices less VAT the difference in the price of goods (margin),
- Inventories of production and finished goods are measured at the net market value, i.e. at the production cost price, depending on which is lower but with calculating possible deviations from the production cost price during the year.

After the sale, the Group recognizes the carrying value of inventories as an expense in the period in which relative income is recognized. Also the amount of any write-off of inventories to the net marketable value, and all shortages of inventories are recognized as an expense in the period of write-off or occurrence of shortage. The amount of any cancellation of inventory write-off as a result of increase in net marketable value is recognized as a reduction in the amount of inventories recognized as an expense in the period in which there was a cancellation.

3.10. Financial assets

Initial recognition and measurement

The Company classifies its financial assets in the following categories: financial assets at fair value in consolidate income statement and loans and receivables. Management determines the classification of its financial assets at initial recognition.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

a) Financial assets at fair value through consolidated income statement

Financial assets at fair value through income statement include financial assets held for trading and financial assets designated upon initial recognition at fair value through the consolidated income statement. Financial assets are classified into this category if they are acquired for the purpose of selling in the near term. Assets in this category are classified as short-term assets. This category includes derivative financial instruments that are not designated as hedging instruments.

Financial assets at fair value through the consolidated income statement are initially measured at fair value and transaction cost is stated in the consolidated income statement. Gains and losses arising from changes in fair value of financial assets at fair value through the consolidated income statement are recognized in the consolidated income statement within financial income or expense in the period in which they are incurred.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidate income statement. The losses arising from impairment are recognised in the consolidate income statement in finance costs.

Derecognition

A financial asset (or, where applicable a part of a financial asset) is derecognised when:

- the rights to receive cash flows from the asset have expired
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, without material delay to a third party, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.11. Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through consolidated income statement or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The Group's financial liabilities include trade and other payables, bank overdraft, and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

a) Financial liabilities at fair value through consolidated income statement

Financial liabilities at fair value through consolidated income statement includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through consolidated income statement.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments that are not designated as hedging instruments.

b) Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) deprecation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR depreciation is included in finance cost in the consolidated income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

3.12. Stakes / shares in the associated companies

Associated companies are companies in which the Company has between 20% and 50% voting rights and in which the Company has significant influence, but not control, to participate in decision-making regarding financial and operating policies of associated companies. In the consolidated financial statements, results, assets and liabilities of the associated companies are presented by the application of the equity method what indicates that investments in associated companies are presented in the consolidated balance sheet at investment cost adjusted for all changes in Group shares in the net assets of the associated company after acquisition, as well as for all eventual impairment of individual investment.

3.13. Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

3.14. Provisions

Provisions are recognized if, and only if, the Company has current liability as the result of past event and if it is probable that the liabilities payoff will require outflow of resources with economic benefits, and if with reliable estimate can be determinated the liability amount. Provisions are reviewed on each date of the consolidate balance sheet / consolidate financial position statement and are adjusted to the latest estimate.

Provisions are established for litigation costs, severance payment costs, reimbursements to employees for long-term employment and retirement (regular jubilee awards and severance payments) and cost of stimulating severance payments based on the Group's personnel restructuring plan.

Provisions for reimbursements to employees for long-term employment and retirement (regular jubilee awards and severance payments) are determinated as the current value of future cash outflow using the discount rate which corresponds the interest rate on state bonds.

3.14. Contingent liabilities and assets

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed only in the notes to the consolidated financial statements.

Contingent assets are not recognized in the consolidated financial statements, but are recognized when an inflow of economic benefits becomes probable.

3.15. Pension benefit plans

Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the consolidated income statement in the year to which they relate.

Defined benefit schemes

Defined benefit scheme surpluses and deficits are measured at:

- the fair value of plan assets at the reporting date; less
- present net value of binding benefits; plus
- adjustments for unrecognised past service costs.

The Company has no other pension arrangements other than within Croatian State pension system.

3.16. Events after the reporting period

Events after date of the consolidated financial position statement are those favourable and unfavourable events that have occurred between the date of the consolidated financial position statement and the date on which consolidated financial statements are approved for issuance. The Company adjusts amounts recognized in its consolidated financial statements for events occurred after the date of consolidated financial position statement, which requires adjustment.

NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

4. Sales income

Sales income is shown as follows:

D E S C R I P T I O N	2011	2010
	HRK'000	HRK'000
Domestic sale	1,063,797	886,767
Export	1,837,063	1,338,797
TOTAL	**2,900,860**	**2,225,564**

a) Income from domestic sale is shown as follows:

D E S C R I P T I O N	2011	2010
	HRK'000	HRK '000
Income from sale of products	975,142	806,228
Income from sale of merchandise	83,565	73,029
Income from sale of services	4,996	7,272
Other sales income	94	238
TOTAL	**1,063,797**	**886,767**

b) Income from export of products is shown as follows:

D E S C R I P T I O N	2011	2010
	HRK'000	HRK '000
Sale to nonrelated companies abroad	1,509,466	987,513
Sale of products in Slovenia	170,433	215,383
Sale of products in BiH	128,422	112,659
Sale of products in SiCG	10,147	8,075
Sale of products in Macedonia	18,595	15,167
TOTAL	**1,837,063**	**1,338,797**

5. Other operating income

Other operating income is shown as follows:

D E S C R I P T I O N	2011	2010
	HRK'000	HRK '000
Collection of boat compensation-savings	2,324	1,331
Income from elimination of long-term provisions	4,803	600
Collected written-off receivables	1,070	2,235
Collected claims, penalties and similar	10,354	14,797
Income from package and spare parts production	11,722	8,294
Income from own consumption	8,703	7,032
Other non-specified operating income	8,512	7,097
TOTAL	**47,488**	**41,386**

6. Changes in finished products and work in progress inventory

Increase in inventory value stated in the statement of comprehensive income for 2011 in the amount of HRK 99,921 thousands (2010 HRK 36,075 thousands) represent correction of stated costs for the amount of costs of work in progress and finished products at the end of the business year in relation to the same at the beginning of the business year.

7. Material costs

Material costs are shown as follows:

DESCRIPTION	2011	2010
	HRK'000	HRK'000
Raw material and material	2,359,479	1,859,222
Services	116,391	98,371
Sold goods	9,356	20,215
TOTAL	**2,485,226**	**1,977,808**

Services costs are shown as follows:

DESCRIPTION	2011	2010
	HRK'000	HRK '000
Transport services	62,706	52,766
Maintenance services	25,136	18,158
Rental and leasing services	312	290
Advertising and promotion services	2,140	1,514
Utility services	1,425	1,978
Export, reload and warehousing services	108	182
Export services	23,008	22,638
Intellectual services	279	367
Other production services	1,277	478
TOTAL	**116,391**	**98,371**

8. Employees costs

Employees' costs are shown as follows:

DESCRIPTION	2011	2010
	HRK'000	HRK'000
Net salaries and wages	146,963	136.891
Taxes and contributions from salaries and wages	53,030	48,636
Contributions on salaries and wages	34,325	31,837
TOTAL	**234,318**	**217,364**

Fees to the Management board members of the Parent company and associated companies are shown as follows:

D E S C R I T I O N	2011	2010
	HRK '000	HRK '000
Net salaries and wages	1,486	1,424
Taxes and contributions from salaries and wages	1,146	1,145
Contributions on salaries and wages	405	399
TOTAL	**3,037**	**2,968**

9. Depreciation

Depreciation costs are shown as follows:

D E S C R I P T I O N	2011	2010
	HRK '000	HRK'000
Buildings	21,346	21,580
Plant and equipment and other assets	71,319	76,710
Intangible assets	1,524	1,190
TOTAL	**94,189**	**99,480**

10. Assets value adjustments

Assets value adjustments are shown as follows:

D E S C R I P T I O N	2011	2010
	HRK'000	HRK '000
Current value of disposed assets	108	36
Inventory value adjustments	1,644	5,546
Value adjustment of trade receivables	637	1,681
Inventory adjustment for inventory shortages	2,586	2,645
TOTAL	**4,975**	**9,908**

11. Provisions

Provisions cost are shown as follows:

D E S C R I P T I O N	2011	2010
	HRK '000	HRK '000
Jubilee awards	928	9,013
Severance payments	106	3,269
Unused vacations	3,463	3,434
TOTAL	**4,497**	**15,716**

12. Other operating expenses

Other operating expenses are shown as follows:

DESCRIPTION	2011	2010
	HRK'000	HRK '000
Representation	764	595
Insurance premiums	11,773	12,057
Taxes and contributions independent of the result	27,185	24,412
Banking services	5,931	10,440
Other non material expenses	3,745	4,618
Other non productive services	3,090	6,115
Business trips	1,265	1,354
Commuting expenses	15,440	13,677
Vacation reimbursements	5,841	5,903
Severance payments	8,394	1,477
Christmas bonus – benefits in kind	926	942
Other reimbursements to employees	2,778	3,023
TOTAL	**87,132**	**84,613**

13. Financial income

Financial income is shown as follows:

DESCRIPTION	2011	2010
	HRK'000	HRK'000
Interest income	4,522	5,828
Foreign exchange gains	19,603	20,354
Other financial investment income	489	537
TOTAL	**24,614**	**26,719**

14. Financial expenses

Financial expenses are shown as follows:

DESCRIPTION	2011	2010
	HRK'000	HRK'000
Interest expenses	31,236	29,805
Foreign exchange losses	22,803	31,870
Other financial expenses	2,039	45
TOTAL	**56,078**	**61,720**

15. Corporate income tax

Corporate income tax is calculated in accordance with the legislation on the base which occurs as the difference between realized revenues and expenses in the accounting period for which the tax base is determined.

The tax is calculated in accordance with the legislation in the member state of the Group. In the current year the Company realized operating loss and thus the Company didn't state corporate income tax liability. The corporate tax paying liability, in accordance with the legislation of the member state, stated associated companies Petrokemija d.o.o., Novi Sad, Serbia in the amount of HRK 55 thousand and Restoran Petrokemija d.o.o., Kutina in the amount of HRK 5 thousand.

The Company did not recognized deferred tax assets in the consolidated financial statements based on the losses carried forward due to uncertainty that the Company will realize taxable profit in the future.

NOTES TO THE CONSOLIDATED FINANCIAL POSITION STATEMENT

16. Property, plant and equipment

DESCRIPTION	Land	Buildings	Plant and equipment	Prepayments for tangible assets	Assets under construction	TOTAL
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
PURCHASE VALUE						
Balance at 1 January 2010	**49,419**	**554,528**	**1,048,884**	**128**	**28,835**	**1,681,794**
Additions	0	0	38	0	41,723	41,761
Transfer from investments in progress	0	6,828	30,114	0	(36,904)	38
Transfer from/to	0	(340)	(829)	(128)	0	(1,296)
Disposals	0	0	(67)	0	0	(67)
Balance at 31 December 2010	**49,419**	**561,016**	**1,078,140**	**0**	**33,654**	**1,722,229**
Additions	0	58	14	0	43,014	43,086
Transfer from investments in progress	0	4,524	58,316	0	(62,840)	0
Increase in advances	0	0	0	3,082	0	3,082
Disposals	(7)	(62)	(3,230)	0	0	(3,299)
Balance at 31 December 2011	**49,412**	**565,536**	**1,133,240**	**3,082**	**13,828**	**1,765,098**
IMPAIRMENT						
Balance at 1 January 2010	**0**	**217,131**	**621,346**	**0**	**0**	**838,477**
Depreciation	0	21,580	76,710	0	0	98,290
Exchange rate differences	0	(6)	(18)	0	0	(24)
Disposals	0	(190)	(809)	0	0	(999)
Balance at 31 December 2010	**0**	**238,515**	**697,229**	**0**	**0**	**935,744**
Depreciation	0	21,346	71,319	0	0	92,665
Disposals	0	(21)	(3,170)	0	0	(3,191)
Balance at 31 December 2011	**0**	**259,840**	**765,378**	**0**	**0**	**1,025,218**
CURRENT VALUE						
1 January 2010	**49,419**	**337,397**	**427,538**	**128**	**28,835**	**843,317**
31 December 2010	**49,419**	**322,501**	**380,911**	**0**	**33,654**	**786,485**
31 December 2011	**49,412**	**305,696**	**367,862**	**3,082**	**13,828**	**739,880**

17. Intangible assets

DESCRIPTION	Intangible assets
	HRK'000
PURCHASE VALUE	
Balance at 1 January 2010	**18,110**
Additions	2,351
Transfer from investments in progress	6,351
Transfer from/to	(6,451)
Balance at 31 December 2010	**20,361**
Additions	1,131
Balance at 31 December 2010	**2,.492**
IMPAIRMENTS	
Balance at 1 January 2010	**11,107**
Depreciation	1,190
Balance at 31 December 2010	**12,297**
Depreciation	1,524
Balance at 31 December 2011	**13,821**
CURRENT VALUE	
1 January 2010	**7,003**
31 December 2010	**8,064**
31 December 2011	**7,671**

18. Financial assets

Financial assets are shown as follows:

DESCRIPTION	31 Dec 2011	31 Dec 2010
	HRK '000	HRK '000
Other investments	14,292	16,986
Deposits and down payments	0	3,278
TOTAL	**14,292**	**20,264**

Other investments are shown as follows:

DESCRIPTION	31 Dec 2011	31 Dec 2010
	HRK '000	HRK '000
Privredna banka d.d., Zagreb	10,759	12,798
Luka Šibenik d.o.o., Šibenik	3,525	4,180
TV Moslavina, Kutina	8	8
TOTAL	**14,292**	**16,986**

19. Inventories

Inventories are shown as follows:

DESCRIPTION	31 Dec 2011	31 Dec 2010
	HRK '000	HRK'000
Raw material and material	307,620	226,984
Work in progress	41,135	23,553
Finished products	300,391	219,746
Merchandise inventory	4,303	3,849
Prepayments for inventory	436	4,751
TOTAL	**653,885**	**478,883**

20. Trade receivables

Trade receivables are shown as follows:

DESCRIPTION	31 Dec 2011	31 Dec 2010
	HRK '000	HRK'000
A) Domestic trade receivables		
Domestic trade receivables	158,706	78,158
Impairments of domestic trade receivables	(20,975)	(23,353)
Total A)	*137,731*	*54,805*
B) Foreign trade receivables		
Foreign trade receivables	10,463	33,180
Impairment of foreign trade receivables	(455)	(471)
Total B)	*10,008*	*32,709*
TOTAL	**147,739**	**87,514**

Impairment of trade receivables are shown as follows:

DESCRIPTION	Amount
	HRK '000
Balance at 31 December 2010	23,824
Collected written off receivables (note 5)	(1,070)
Booked-of previously written off receivables	(1,961)
New impairment of trade receivables (note 10)	637
Balance at 31 December 2011	21,430

Maturity structure of receivables is shown as follows:

Date	DESCRIPTION	Total	Value Correction	Net	Undue receivables	Due receivables Up to 1 year	Due receivables Over 1 year
		HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
		1	2	3=(1+2)	4	5	6
31 Dec 2011	Trade receivables	169,169	(21,430)	147,739	133,099	13,969	671
31 Dec 2010	Trade receivables	111,338	(23,824)	87,514	67,978	18,576	960

21. Receivables from the State and other institutions

Receivables from the State and other institutions are shown as follows:

DESCRIPTION	31 Dec 2011	31 Dec 2010
	HRK '000	HRK'000
Receivables for overpaid taxes and contributions	40,130	42,901
Receivables from the MAFR	0	74,464
TOTAL	**40,130**	**117,365**

Receivables from the State for the more reported tax and contributions stated in the amount of HRK 40,130 thousand (31 December 2010 HRK 42,901 thousand) in most part refer to Company' receivables from the State for the corporate income tax in amount of HRK 39,058 thousand.

22. Short-term financial assets

Short-term financial assets are shown as follows:

DESCRIPTION	31 Dec 2011	31 Dec 2010
	HRK '000	HRK '000
Given deposits	15,061	0
Security receivables	5,150	3,548
TOTAL	**20,211**	**3,548**

Given deposits are shown as follows:

DESCRIPTION		31 Dec 2011	31 Dec 2010
	currency	EUR '000	HRK '000
Erste&Steiermaerkische bank d.d.	EUR	1,700	12,802
Hrvatska poštanska banka d.d.	EUR	300	2,259
TOTAL		**2,000**	**15,061**

23. Cash

Cash is shown as follows:

DESCRIPTION	31 Dec 2011	31 Dec 2010
	HRK '000	HRK'000
Cash at HRK accounts	2,679	1,365
Cash at foreign currency accounts	10,237	23,072
Cash in hand	5	550
Other cash	0	808
TOTAL	**12,921**	**25,795**

24. Prepayments and accrued income

In 2011 the Company issued commercial papers to cover the current liquidity as shown in the note 32 to the consolidated financial statements. Prepayments stated as at 31 December 2011 in the amount of HRK 2,734 thousand (31 December 2010: HRK 1,773 thousand) refer to the investment cost by the individual tranche of issued commercial papers that will be recognized in the income statement in the moment of repurchase of tranche.

25. Capital

/i/ Subscribed capital stated as at 31 December 2011 in the amount of HRK 902,102 thousand (31 December 2010: HRK 902,102 thousand) represent own permanent sources for the parent Company's operations and include stock principle registered at the Commercial court in Sisak.

Ownership structure of the first ten shareholders as at the 31 December 2011 is shown as follows:

Shareholder	Number of shares	Share in the stock capital
	num	%
AUDIO/REPUBLIC OF CROATIA	1,691,742	50,63
ERSTE PLAVI OBLIGATORY PENSION FUND	184,883	5,53
PBZ CROATIA INSURANCE OBLIGATORY PENSION FUND	160,549	4,81
AZ OBLIGATORY PENSION FUND	148,064	4,43
BAKIĆ NENAD	104,475	3,13
CAPITAL FUND D.D	95,273	2,85
AZ PROFIT VOLUNTARY PENSION FUND	72,462	2,17
PBZ d.d./ STATE STREET CLIENT ACCOUNT	50,505	1,51
PBZ d.d./ THE BANK OF NEW YORK AS CUSTODIAN	24,136	0,72
ZAGREBAČKA BANKA DD/COLLECTIVE CUSTODY ACCOUNT ZABA DD	21,876	0,65
TOTAL	**2,553,965**	**76,43**

/ii/ Loss carried forward stated as at 31 December 2011 in the amount of HRK 244,715 thousand (31 December 2010: HRK 108,983 thousand) represent uncovered losses of previous years. On 20 April 2011, the Company's Assembly reached decision on transfer of loss for 2010 to 2011 as uncovered loss.

26. Liabilities to banks and other financial institutions

Liabilities to banks and other financial institutions are shown as follows:

D E S C R I P T I O N	31 Dec 2011	31 Dec 2010
	HRK '000	HRK '000
Long-term loan liabilities	142,222	80,000
Current portion of long-term liabilities (Note 29)	(62,222)	(17,778)
TOTAL	**80,000**	**62,222**

Long-term loan liabilities stated as at 31 December 2011 in the amount of HRK 80,000 thousand relate to long-term loan granted by HBOR. On 23 December 2010, the parent company concluded long-term loan agreement No. 5710004425 with HBOR in the amount of HRK 80,000 thousand and with maturity on 30 September 2013. Collaterals were pledge rights over nine properties in the ownership of the parent company. On 28 July 2011 the parent company concluded long-term agreement No. 5710005709 with HBOR in the amount of HRK 80,000 thousand and with maturity on 30 June 2014. Collaterals were pledge rights over nine properties in the ownership of the parent company.

Below is shown loan maturity by years:

Creditor	Repayment	Instal. number	Instal.amount HRK '000	Maturity in 2012.* HRK '000	Maturity in 2013. HRK '000	Maturity in 2014. HRK '000
PBZ d.d. / HBOR	quarterly	9	8,889	35,555	26,667	0
PBZ d.d. / HBOR	quarterly	9	8,889	26,667	35,555	17,778
TOTAL				**62,222**	**62,222**	**17,778**

*current portion of long-term loan (note 30. to the consolidated financial statements)

27. Provisions

Provisions are shown as follows:

D E S C R I P T I O N	31 Dec 2011 HRK '000	31 Dec 2010 HRK '000
Severance payments	3,375	3,269
Jubilee awards	8,737	9,013
Initiated court disputes	2,085	2,250
TOTAL	**14,197**	**14,532**

/i/ Provisions for severance payments are shown as follows:

D E S C R I P T I O N	Amount HRK '000
Balance 31 December 2010	3,269
New provisions in 2011	106
Balance 31 December 2011	3,375

/ii/ Provisions for jubilee awards are shown as follows:

D E S C R I P T I O N	Amount HRK '000
Balance 31 December 2010	9,013
New provisions in 2011	928
Used provisions in 2011	(1,204)
Balance 31 December 2011	8,737

/iii/ Provisions for initiated court disputes are shown as follows:

D E S C R I P T I O N	Amount
	HRK '000
Balance 31 December 2010	2,250
Used provisions in 2011	(165)
Balance 31 December 2011	2,085

28. Trade payables

Trade payables are shown as follows:

D E S C R I P T I O N	31 Dec 2011	31 Dec 2010
	HRK '000	HRK '000
Domestic trade payables	227,757	256,218
Foreign trade payables	101,802	77,295
Non-invoiced goods and services	2,385	2,226
TOTAL	**331,944**	**335,739**

Maturity structure of trade payables is shown as follows:

D E S C R I P T I O N	31 Dec 2011	Undue	Due up to 30 days
	HRK '000	HRK '000	HRK '000
Domestic trade payables	227,757	227,578	179
Foreign trade payables	101,802	101,765	37
Non-invoiced goods and services	2,385	2,385	0
TOTAL	**331,944**	**331,728**	**216**

29. Liabilities to banks and other financial institutions

Liabilities to banks and other financial institutions are shown as follows:

D E S C R I P T I O N	31 Dec 2011	31 Dec 2010
	HRK '000	HRK '000
Domestic bank loans	233,500	292,240
Other loans	12,000	44,000
Current portion of long-term liabilities (note 26)	62,222	17,778
TOTAL	**307,722**	**354,018**

Below is shown review of loan liabilities per currency:

D E S C R I P T I O N	31 Dec 2011	31 Dec 2010
	HRK '000	HRK '000
Bank loans in EUR	0	5,240
Bank loans in HRK	233,500	287,000
Total bank loans	233,500	292,240
Credit institution loans in HRK	12,000	44,000
Current portion of long-term liabilities (note 26)	62,222	17,778
TOTAL	**307,722**	**354,018**

As at 31 December 2011 the Company has short-term revolving loans contracts with the following commercial banks which were not completely utilized:

- HPB d.d. in the amount of HRK 50,000 thousand with utilization term on 1 February 2012 and maturity on 1 March 2012. Unutilized amount as at 31 December 2011 amounts to HRK 16,500 thousand.
- PBZ d.d. in the amount of HRK 67,000 thousand with utilization term on 30 June 2012 and maturity on 12 July 2012. Unutilized amount as at 31 December 2011 amounts to HRK 67,000 thousand.

30. Liabilities to employees

Liabilities to employees are shown as follows:

DESCRIPTION	31 Dec 2011	31 Dec 2010
	HRK '000	HRK '000
Net salaries	12,598	12,318
Other reimbursements to employees	1,052	1,043
TOTAL	**13,650**	**13,361**

31. Liabilities to the State and other institutions

Liabilities to the State and other institutions are shown as follows:

DESCRIPTION	31 Dec 2011	31 Dec 2010
	HRK '000	HRK '000
Taxes and contributions from salaries and wages	4,702	4,505
Taxes and contributions on salaries and wages	3,030	2,903
VAT liability	0	92
Customs and other charges	1,550	251
Wood contribution	356	214
Other liabilities for taxes and contributions	331	446
TOTAL	**9,969**	**8,411**

32. Liabilities for securities

Liabilities for securities stated as at 31 December 2011 in the amount of HRK 81,176 thousand (31 December 2010: HRK 22,125 thousand) relate to liabilities for issued commercial bills in 2011 (15th and 16th tranche with maturity on 2 May and 7 September 2012).

33. Prepayment liabilities

Prepayment liabilities stated as at 31 December 2011 in the amount of HRK 25,991 thousand (31 December 2010: HRK 56,326 thousand) relate to received prepayments from foreign customers.

34. Other short-term liabilities

Other short-term liabilities are shown as follows:

DESCRIPTION	31 Dec 2011	31 Dec 2010
	HRK '000	HRK '000
Cession liabilities, assignment, interests and fees	10,792	3,155
Other non-specified liabilities	41	41
TOTAL	**10,833**	**3,196**

35. Accrued expenses and deferred income

Accrued expenses and deferred income stated in the consolidated balance sheet as at 31 December 2011 in the amount of HRK 3,463 thousand (31 December 2010: HRK 3,434 thousand) relate to incalculated costs for unused vacations for 2011.

36. Off-balance sheet records

Off-balance sheet records are shown as follows:

DESCRIPTION	31 Dec 2011	31 Dec 2010
	HRK '000	HRK '000
Borrowed material, raw material and packages in the warehouse	27	116
Borrowed goods in the warehouse	0	19,986
Given guarantees	185	51
Given bills	50	50
Given blank bonds	186,200	121,000
TOTAL	**186,462**	**141,203**

37. Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board that makes strategic decisions.

In managing purposes the Group is organized into business units, respectively the Company is founder and sole owner of the three associated companies – one in Croatia and two abroad shown as follows:

1. Restaurant Petrokemija d.o.o. Kutina, Croatia
2. Petrokemija d.o.o. Novi Sad, Serbia and
3. Petrokemija d.o.o. Novo Mesto, Slovenia

Results by segments of the Group are shown as follows:

Description	Income by segments		Expenses by segments		Results by segments (before taxation)	
	2011	2010	2011	2010	2011	2010
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Petrokemija d.d.	2,969,650	2,290,622	2,861,825	2,426,728	107,825	(136,106)
Restaurant Petrokemija d.o.o.	2,161	2,021	2,155	2,018	6	3
Petrokemija d.d. Novi Sad	78,370	54,724	77,819	52,886	551	1,838
Petrokemija d.o.o. Novo Mesto	840	4,466	832	4,460	8	6
TOTAL	**3,051,021**	**2,351,833**	**2,942,631**	**2,486,092**	**108,390**	**(134,259)**
Eliminations	(77,978)	(57,221)	(76,137)	(55,558)	(1,841)	(1,663)
TOTAL	**2,973,043**	**2,294,612**	**2,866,494**	**2,430,534**	**106,549**	**(135,922)**

38. Financial instruments and risks management

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Fair value or cash flow interest rate risk
- Foreign exchange risk
- Market risk
- Liquidity risk

Capital risk management

The Company manages its capital so as to ensure business continuity, maximizing the return to shareholders through the optimization of the balances of debt and equity.

The Company's capital structure consists of debt, which includes loans and borrowings, cash and cash equivalents and equity, which includes the subscribed capital and loss carried forward.

Net debt and principal ratio (coefficient of financing) is shown as follow:

DESCRIPTION	31 Dec 2011	31 Dec 2010
	HRK '000	HRK '000
Loan liabilities	387,722	416,240
Issued securities liabilities	81,176	22,125
Payables and other liabilities	410,047	434,999
Total	**878,945**	**873,364**
Minus: Cash and cash equivalents	***12,921***	***25,795***
Net debt	***866,024***	***847,569***
Principal*	***763,875***	***657,013***
Debt and principal ratio	***1,13***	***1,29***

*Principal includes all capital of the Group.

Financial instruments categories

DESCRIPTION	31 Dec 2011	31 Dec 2010
	HRK '000	HRK '000
Financial assets at fair value through profit and loss	10,759	12,798
Other long-term financial assets	3,533	7,466
Other short-term financial assets	20,211	3,548
Other short-term receivables	191,226	205,565
Cash in bank and in hand	12,921	25,795
Financial assets	**238,650**	**255,172**
Loan liabilities	387,722	416,240
Issued securities	81,176	22,125
Trade payables – non-related companies	331,944	335,739
Other liabilities	60,443	81,294
Financial liabilities	**861,285**	**855,398**

Financial risk management

The Company controls and manages the financial risk which could have an influence in Group's operations through internal reporting in which exposure to risks are analyzed on the base of stage and significant of market risk, interest risk, credit risk, exchange rate risk and liquidity risk.

Financial risk includes market risk (including also foreign exchange risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Credit risk

Credit risk refers to the risk of not meeting contractual obligations of other parties that will produce a financial loss of the Company. The Company has adopted a policy under which it operates only with creditworthy parties capable of contracting, providing the extra security needed to mitigate the risk of financial loss due to failure to meet contractual obligations. The Company's and subsidiary's credit exposure and position of other parties are continuously tracked, and the total amount of transactions concluded is divided between approved parties.

Trade receivables related to the large number of customers allocated on different geographical areas. Continuous evaluation of receivables is conducted based on the financial position of customers and, where appropriate, receivables insurance guarantee or another insurance financial instrument is obtained.

The Company and its associated companies have no significant credit risk exposure to any contracting party or group of parties with similar characteristics. Credit risk of liquidity assets and derivative financial instruments is limited, because the other contracting parties are banks with high credit ratings, which are defined by international agencies to determine credit risk.

Interest risk

Interest risk refers to the risk of changing financial instrument value due to changes in market interest rate with regard to interest rate applicable on financial instrument. Cash flow risk refers to the risk of possible changes in interest cost of financial instrument during time.

Most of interests bearing liabilities are agreed with fixed and variable interest rate. Risk is controlled by maintaining the appropriate combination of fixed and variable interest rates on borrowings. At this point the Group and associated companies are not protected against this risk.

Foreign exchange risk

The Company and associated companies are not exposed to exchange rate risk during taking of loans, but they are exposed at contract defined prices of raw materials related to foreign currency. Currencies subject to risks are primarily EUR and USD. The Company and associated are not currently protected from this risk.

Net carrying value of financial assets and liabilities denominated in foreign currencies at the reporting date is as follows:

Description	Liabilities		Assets	
	2011	2010	2011	2010
	HRK '000	HRK '000	HRK '000	HRK '000
EUR	61,418	71,562	13,367	36,447
USD	66,619	80,476	140	322
Other	37	20	119	263
TOTAL	**128,074**	**152,058**	**13,626**	**37,032**

Market risk

The Group operates on Croatian and international markets. Company’s Management Board determines the prices of its products and services, individually for domestic market and international markets.

The Group’s activities expose the Group to financial risks, primarily due to changes in exchange rates (see note Foreign exchange risk), interest rates and change in price of raw materials in the world market.

Liquidity risk

Liquidity risk refers to the risk that the Company or associated company will not be able to fulfil its financial liabilities to other contract party.

The Group and associated companies manages liquidity risk by maintaining appropriate reserves, bank assets and borrowed funds reserves, and provided continuous monitoring of actual cash flows and comparing terms of maturity of financial assets and liabilities.

41. Profit for the year

In 2011 the Company realized consolidated profit in the amount of HRK 106,488 thousand, while in 2010 the Company realized consolidated loss in the amount of HRK 136,106 thousand. Improvement of the financial result in 2011 is the result of, in most part faster growth in operating income (30%) with regard to growth in operating expenses (18,7%). Along with that, the most significant influence is result of increase in sale prices, using the favourable market situation, market selection and adjusting sales assortment to the market requirements. The domestic market income increased in 2011 for 18,5%, while the export income increased for 37,6%, which was the key factor of improvement of operating result.

Operating expenses also significantly increased due to increase in raw materials prices on global market and gas prices on domestic market. As the result of the methodology of calculation of purchase price of natural gas, and under the influence of increased prices of petroleum products on Mediterranean and exchange rate of USD, the largest increase in raw material was realized with natural gas.

Mentioned facts indicate that there has been a positive balancing in input and output prices in 2011, resulting in reduction of risks from unpredictable negative influence of potential new wave of global crisis.

IV DISPUTES AND CONTIGENT LIABILITIES

Based on data obtained from the legal department of the Company, there is several court disputes initiated against the Company and associated companies. In accordance with professional legal advice, believing that the court decision will be unfavourable; the Company formed corresponding reserves as stated in the note 27 to the consolidated financial statements.

V QUALITY AND ENVIRONMENTAL POLICY

With the objective to meet requirements and expectations of its buyers and all interested parties, the Management Board of the Company brought Quality and Environment Policy.

Quality Management System has been adjusted to requirements of ISO 9001:2008 norm what is confirmed by the certificate of authorized company Lloyd's Register Quality Assurance. Environment Management System has been adjusted to requirements of ISO 14001:2004 norm which is also confirmed by the certificate. The aforementioned certificates prove the orientation and a possibility for competitiveness in the world market.

The Company started to build the environment protection system in early 70s which has been improved and updated ever since. By issuing the ISO norm the system is adjusted to pertaining requirements and was established as the Environment Management System. Activities in the field of environment protection are implemented through a documented system of organizational structure from the Management Board to every single employee, all with the help of Expert services.

The EMS improvement is implemented under adopted programs with the objective to stop and decrease pollution of environment and meet legal regulations.

The air quality is monitored by measuring the concentration of 7 pollutions on 6 measurement stations in the town of Kutina. As the result of taking environment protection measures, the Company constantly tries to improve the quality of waste waters and air in towns. Particular care is dedicated to technological waste through selective collection, use of valuable qualities or controlled disposal. With the aim to reach as efficient activities in the environment protection system as possible, the Company cooperates with expert and scientific institutions. Reports are regularly given to the bodies of the State Administration and the public on the influence of the Company's activities to the environment.

VI EVENTS AFTER THE CONSOLIDATED BALANCE SHEET / FINANCIAL POSITION STATEMENT DATE

After the consolidated balance sheet date there were no significant events that could have the influence on the consolidated financial statements for the year 2011, which should be, consequently disclosed.

VII COMPILATION AND APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were adopted and approved for issuance by the Company's Management Board on 27 February 2012.

For the Management Board of the Group Petrokemija,

Josip Jagušt, president ____________________

Antonija Perošević - Galović, member ____________________

Nenad Marinović, member ____________________

Tomislav Seletković, member ____________________

PETROKEMIJA d.d.
Aleja Vukovar 4
44320 Kutina

Republic of Croatia

PETROKEMIJA, d. d.
KUTINA, Aleja Vukovar 4 (6)

MANAGEMENT BOARD
Kutina 16 March 2012

Report on Company Status as of 31 December 2011

Dear shareholders!

It is my pleasure to address you again after one, for Petrokemija, Plc., successful business year. In 2011, we made significant progress in the economic position of our Company through the joint efforts of all employees and Supervisory and Management Boards. In doing so, compared to 2010, we made a significant progress shown by many indicators of business performance, which can be concisely explained as a result of revenue growth and cost control. Unfortunately, we are still far from permanent stability and success of the Company that all of us expect - you as shareholders, we as the Board, all employees in Petrokemija, Plc. and the wider community.

The market environment in 2011 was extremely dynamic. Different trends were also present in the global environment: some regions such as the U.S. showed clear signs of emerging from the crisis, and some closer to us, as a kind of periphery of the European Union and the Middle East, showed all the interdependence of geopolitical tensions and market risks. Our openness to the world market was also showing its good and bad sides in 2011. During the year, prices of raw materials and finished products kept rising and falling. It took a lot of effort and skill to use the positive wave and avoid the pitfalls of market and exchange rate risks.
Our most significant, domestic market, showed a slight increase in 2011. However, the impact of unusually dry-weather year had an unusually pronounced effect on the structure and dynamics of demand for fertilizers in the domestic market and in the region. Apart from change in the usual time of sowing and top dressing of certain crops, the much more significant negative effects were those of reduced crop, which endangered the economic position of many farmers in 2012.

The price of natural gas as our most important raw material had grown as a reflection of the rising prices of petroleum products in the Mediterranean, or the specific features of natural gas pricing on the Croatian market. The average annual price of gas increased by 30% in 2011 and the growth trend has continued under the influence of oil price growth in the first quarter of 2012. The prices of other basic raw materials increased, too while there was also a rise in prices of fertilizers in the world market, which was the result of a new wave of growth in food prices worldwide.

A positive shift in relation to the 2010 gives rise to optimism – with approximately the same level of production, domestic fertilizers sales increased by 5.3%, savings were made in the part of the costs which the Company had influence on. After a loss of HRK 136.1

million in 2010, in 2011, we reported a profit of 107.8 million kuna, which is the improvement of the result by 243.9 million kuna.

The growth of revenues and expenditures was the result of inflationary trends of input-output prices and for the smaller part of the portfolio changes - smaller share of the sale of CAN, and higher of NPK fertilizer. Price fluctuations of raw materials and finished products, which were passed on from the world market, had an impact on price relations in the domestic market. **Total actual income was HRK 2969.6 million and total expenditures HRK 2861.8 million.** Total revenue increased by 29.6% (in the domestic market, +18.5%, +37.6% in exports), while expenditures increased by 17.9% on the previous year.

Petrokemija, Plc. Kutina conducted the consolidation of financial statements for the parent company Petrokemija, Plc., Kutina and subsidiaries which are in her 100%-ownership – Restoran Petrokemija, Ltd., Kutina, Petrokemija, Ltd., Novi Sad and Petrokemija, Ltd., Novo Mesto and the consolidated result is shown for the Petrokemija Group. All financial statements of the Petrokemija Group for the business year 2011 were confirmed, revised and made public in accordance with International Financial Reporting Standards approved for use in Republic of Croatia.
At the level of Petrokemija Group the actual consolidated total revenues were HRK 2973.0 million and total expenditures HRK 2866.5 million, so that the profit in 2011. was 106.5 million kuna.

In 2011, the share of Petrokemija, Plc. was traded on the Zagreb Stock Exchange. Also, commercial papers were traded in the same market which we released with Privredna Banka Plc. Zagreb as an agent and dealer of issues. The share price ranged under the influence of global financial flows, the specific characteristics of the Croatian securities market and actual quarterly financial results of the Company. On the last day of trading in 2010, the share price of Petrokemija, Plc was 165.44 kuna and on the last day of 2011 it was HRK 193.31. In 2011, the share value increased by 16.8% and achieved an annual turnover of around 93.6 million kuna.
In accordance with the commitment to establish high standards of transparency in business, Petrokemija, Plc. has since 2007 had The Code of Corporate Governance of the Zagreb Stock Exchange in place, which was continued in 2011. Since September 2011, the Code of Business Conduct of Petrokemija, Plc. has been adopted and implemented and a survey of organizational climate and job satisfaction among employees was conducted for the first time.

In 2011, Petrokemija, Plc. did not significantly alter the global organizational structure of the Company, but the the needs of the process in other organizational units was made by organizational adjustments and reallocation of workers from the plants that were at a standstill. In June 2011, two new members of Petrokemija, Plc. Management Board were appointed, and a mandate was extended for the third one for another three years. Also, in one part of the middle and lower management some appropriate changes were made. In the second part of the management structure, which met the requirements and the operational requirements of the Board, there were no significant changes. During 2011, the number of employees was reduced by 45 workers or 1.9%. Meanwhile, personnel costs increased over the previous year by 7.8%. This is the result of wages return to the level before their reduction, which was the subject of the agreement of the Management Board and the Workers' Unions on time-limited lowering of wages as a measure of consolidation of the Company business in 2010.

The Petrokemija product range still includes changes made due to a temporary and partial halt of production at some plants. Mineral fertilizers are dominant, and their structure (NPK fertilizer) is modified to suit the changed raw material base and sources of raw materials after the stopping of sulfuric and phosphoric acid and MAP from the second half of 2009. Production with purchased MAP and DAP proved to be a more cost-favorable alternative at the current market price. Production of carbon black also stopped since the second half of 2009 due to market reasons, so that clay-based products, liquid fertilizers and chemicals have a share of less than 2.2% of the business potential in the overall business. Mineral fertilizers employ most of the production facilities and employees and determine the overall business results.

Quality Management System according to ISO 9001:2008 and Environmental Management System according to ISO 14001:2004 were further developed, for which there are adequate verified records. **In 2011, as much as 44.1 million dollars were invested in plant modernization and environmental investment.** With increased environmental requirements, energy and technological efficiency, we are faced with the need for more intensive investment in the current and following years. On the other hand, financial constraints and the relatively high indebtedness make us highly cautious and selective to new investments. The selection of priorities and determining the dynamics of investment in accordance with the upcoming Croatian joining the EU, suggests the search for new sources and forms of financing.

The sales of mineral fertilizers were about 1195 thousand tons, which is 0.6% less than the actual sales in 2010. Out of the total sales, 369, 000 tones (5.3% more than in 2010) were sold in the domestic market and the rest was exported. The domestic market had 30.9% share in total fertilizer sales, which is approximately 1.7% more than the total share in 2010.

Since mid 2009, through Privredna Banka Zagreb as an agent and dealers of the issues, Petrokemija has been implementing a program of issuing HRK 100 million in commercial papers in order to secure short-term sources of working capital. In 2011, obligations on commercial bils were properly executed. The lack of working capital was pronounced in 2010 due to a loss, and in 2011 it was offset by positive performance. However, growth in input-output price and the total volume of financial transactions require a greater level of engagement of permanent working capital. On 31 December 2011, the total current assets amounted to 879, and total current liabilities to 787 000 000 kuna, which means that the net working capital was 92 million in the positive. Long-term liabilities on 31 December 2011 were 94 million, which are connected with a long-term loan for working capital and long-term provisions.

Fertilizer industry association with changes in world food markets and energy market, open certain risk in prediction of business operations in 2012 and the next few years. Constant changes in oil prices and food prices on world markets create new relations of supply and demand, and thus the price of fertilizer in the future.

At the turn of 2011/2012 the following business risks are observed:

• During 2011, prices of petroleum products on the world market grew and continuing political instability in countries of North Africa since the first quarter of 2011 indicates a possible further rise in oil prices. In this context, the price of gas on the Croatian market should be considered, the price of heating oil and oil feedstock for carbon black. Consequently, the prices of other raw materials are uncertain, too.
• High dependence of business results on the movement of prices of fertilizers and raw materials for their production in the world market, the exchange rate against USD and EUR and their correlation (currency risk).
• A new contract for the supply of gas was concluded with INA, Plc. Zagreb, i.e. their company

Prirodni plin, Ltd. for two years. The Management Board estimate is that during 2012 and 2013 an adequate market mechanism in the trading of natural gas in Croatia will be built.
• In the fourth quarter of 2011, there was a fall in sales prices of fertilizers in the world market, and the level and duration of the price wave in 2012 is very difficult to assess.
• Liquidity risk and high cost of working capital are still present due to high levels of indebtedness and high interest rates in Croatia.
• Movements of prices of agricultural products in stock exchanges show the volatility of these prices in 2011, which creates risks in terms of positive effects in agriculture, and indirectly in the sale of fertilizers.
• Prices of sea and railway transportation are also a significant risk in terms of increase of raw material prices and increasing costs of fertilizer sold to distant markets.
• Environmental requirements for reducing emissions, including reducing greenhouse gas emissions have caused a commitment of high investment in environmental protection in the next period.

With hardly predictable level of price of basic raw materials - phosphate, chloride, MAP, DAP and sulfur, one of the major long-term risk lies in the fact of change of price in the European gas market. A part of privileged customers in the Croatian gas market has been protected from the rising prices of gas since September 2011 by a decision of the Croatian Government. Petrokemija, Plc. is not covered by these measures, which reflects negatively on its financial performance.

Business Plan 2012 predicts further growth in total revenues and expenses and a profit of 20.7 million kuna, which is a very ambitious strategic objective of the Management Board and all employees. An estimate of business in the following years is very difficult to make at the moment because of these numerous unexpected impacts on financial performance, and especially the effects of the actual gas market in the Republic of Croatia.

Assessing the risks in business of the subsidiaries in 2012, we estimate that these companies do not have a significant impact on the result of Petrokemija Group due to their small share in overall business performance.
Restoran Petrokemija, Ltd., Kutina is in their operations mainly oriented to provide catering service to employees of Petrokemija and has stable operating conditions and relatively low exposure to market risks.
The subsidiary **Petrokemija, Ltd., Novi Sad** operates in the Serbian market and has no significant share in the total amount in this market. Given its stable supplier of good quality products and proven tradition, which is the parent company Petrokemija, Plc. Kutina, there are no significant market risks estimated in the supply and sale of fertilizers in 2012.
The subsidiary Petrokemija, Ltd. Novo Mesto has a duty to implement the REACH program activities, in accordance with EU standards, which is fully funded by Petrokemija, Plc. and has no specific business risks, which would not be reliant on the parent company Petrokemija, Plc.

All other data, which under the provisions of the Companies Act must be an integral part of the annual reports on the state of the Company, can be found in the publicly released annual report for 2011, prescribed financial statements and auditors' report, both for Petrokemija, Plc. and for the Petrokemija Group.

Finally, I would like to thank the Supervisory Board, workers' unions and Workers' Council for good cooperation and to all shareholders and partners for the trust they had in us in the past year. We are encouraged by the positive effects of demand for fertilizers in the world market in the current spring season, but but also worried by the increase in energy prices. Limited demand on the Croatian market is temporary and this year we will invest maximum effort to meet the needs of each of our customers. The ability to export finished products to the choosiest European and world markets, gives us hope that we are all together capable to meet the challenges set by the future business. We set a positive financial result as our strategic goal and we will make maximum efforts towards achieving that goal.

Behind us is the year in which we focused on overcoming the many uncertainties and challenges in the business. We entered the year 2012 with optimism, although aware that the year ahead was one in which again we could expect significant challenges from the immediate and wider surroundings. The surroundings in which the potentials of our Company must persistently be argued again - expert workers and management, technological potential of production plants and logistics, market reputation built over the decades of business with customers, suppliers and banks which support us. We cannot provide stable forecasts due to price fluctuations in the fourth quarter and at the turn of the current year, but we can argue that the end of the recession and long-term supply of gas at reasonable prices is the solution to most of the problems that we encounter today. From you, our shareholders, we expect the trust and support in the measures that the Management is taking to overcome the challenging year 2012.

Josip Jagušt

Chairman of Petrokemija
Management Board

PETROKEMIJA
KUTINA

SUPERVISORY BOARD
Kutina 29 March 2012

In line with Article 263, Paragraph 3 and Article 300.c. of Companies Act, the Supervisory Board of Petrokemija Plc., Kutina, at its fourth meeting held on 29 March 2012 adopted as follows:

Report of the Supervisory Board
to General Assembly of Petrokemija, Plc. for 2011

I. As many as 14 meetings of the Supervisory Board of Petrokemija Plc. (hereinafter referred to as the Supervisory Board) were held in 2011 at which matters related to business provided by the law and the Articles of Association were discussed.

II. Composition of the Supervisory Board

In 2011, there were changes in the composition of the Supervisory Board as follows:

- On 16 March 2011, Ivica Lončarevic's mandate expired.
- On 23 February 2011, Croatian Privatization Fund appointed Jozo Bilobrk as SB member for a four-year term.
- On 10 March 2011, the General Assembly Members revoked Iva Galić, Vikica Pleše, Goran Kralj, Mijo Šepak and Mario Radaković and appointed Goran Kralj, Mario Radaković, Mijo Šepak, Zlatan Kuljiš and Miroslav Golub as SB members.
- On 10 March 2011, the General Assembly gave Željko Klaus a new mandate as SB member from 29.03.2011 to 28.03.2015.
- At the Supervisory Board meeting on 29 March 2011, Željko Klaus was elected chairman and Mijo Šepak vice chairman of Supervisory Board.

On 31 December 2011, Supervisory Board had the following members:

1. Željko Klaus, chairman,
2. Mijo Šepak, vice chairman,
3. Goran Kralj, member,
4. Mario Radaković, member,
5. Zlatan Kuljiš, member,
6. Miroslav Golub, member
7. Jozo Bilobrk, member,

8. Ivan Čar, member,
9. Dragutin Vajnaht, member.

Until the adoption of this Report the only change was Mario Radaković's resignation as member of the Supervisory Board on 27 January 2012.

III. In the reporting period, the Supervisory Board performed its tasks and made decisions in line with their competence defined by the law and the Articles of Association.
Through written and oral reports of the Management Board, the Supervisory Board was regularly informed about business policies, business plans, actual operating results of Petrokemija, Plc. and other important issues **such as:**

- The issue of gas supply,
- Prices of mineral fertilizers,
- Annual Report for 2010,
- Audit Report,
- Preparing for the extraordinary and regular General Assembly,
- Business Report – January to March 2011,
- Selection of Board Members,
- Business Report – January to June 2011,
- Business Report – January to September 2011,
- Business Plan for 2012,
- Various approvals for the establishment of a lien on real estate and stocks of mineral fertilizers for additional borrowing,
- Liabilities and debt of the Company,
- Anti-corruption program for the 2011 - 2012 period and report on the implementation of anti-corruption measures on a quarterly basis,
- Establishment of the Audit Commission and Commission for Appointments and Remuneration
- Development of business information system, organizational structure of the Company,
- The development of Luka Šibenik (Port of Šibenik), Ltd. concept.

The Supervisory Board's conclusion was that the Management Board acted in accordance with law and the Articles of Association.

IV. The Supervisory Board reviewed the reports of the auditors, BDO Croatia d.o.o., J.F. Kennedyja, 6b, Zagreb, who examined the annual financial statements of Petrokemija, Plc. for the year ended on 31 December 2011 and accepts the Auditor's report.
In their report, the independent auditors informed the Supervisory Board of the Company's accounting policies, and stated that they did not find significant deficiencies in internal control and accounting procedures. The independent auditor did not express disagreement with the Board in assessing the risk analysis and possible fraud or abuse analyses.

V. The Supervisory Board reviewed the annual financial statements for 2011, which were compiled by the Management Board, as follows:
- Annual Financial report for 2011 for Petrokemija, Plc.
- Consolidated Financial Statement for 2011 for Petrokemija Group.

The Supervisory Board found that the financial reports were prepared in accordance with the business records and properly and accurately show the property and business status of Petrokemija, Plc.
The Supervisory Board approved the financial reports and thus in accordance with Art. 300.d. of the Companies Act, these reports are considered established.
An integral part of the annual financial statements for the year ended on 31 December 2011 and to which the aforesaid approval of the Supervisory Board relates to, are:

For Petrokemija, Plc.:

1. Balance Sheet,
2. Profit and loss Account
3. Notes to Financial Statements,
4. Statement on Cash Flow,
5. Statement on Changes in Equity,
6. Auditors' Report,
7. Annual Report,
8. Management Report on the State of the Company,
9. Corporate Governance Code - an annual survey.

For Petrokemija Group:

1. Balance Sheet,
2. Profit and loss Account
3. Notes to Financial Statements,
4. Statement on Cash Flow,
5. Statement on Changes in Equity,
6. Auditors' Report,
7. Annual Report

VI. Use of actual profit of 2011

With regard to the actual profit of Petrokemija, Plc. in 2011 in the amount of HRK **107,825,181.80,** the proposal of the Management Board to fully allocate the profit to cover the loss carried forward from 2009, is accepted.

VII. Evaluation of the overall business performance of the Company

The Supervisory Board finds that the operations of the Company in 2011, generally had a positive developments as compared to the year 2010. Production and sales were at about the planned level, and the financial effects were considerably more favorable than the previous year or than planned. Unfortunately, no lasting positive financial results can bee seen which are still significantly threatened by unfavorable conditions in the immediate and wider environment of the Company.

VIII. Evaluation of the work of Management Board

The Supervisory Board evaluates that the work of the Board in 2011 was successful because, owing to their expertise and dedication they realized the most of their strategic objectives in very complex business conditions. This is primarily true for the achievement of positive financial results, above the planned levels. An enviable level of social sensitivity was also achieved, which was evident through the preservation of employment and increase of wages to a level where they had been before the 10% reduction in 2010. Proper co-operation with trade unions and workers' council resulted in mutual agreement and the signing of the Annex to the Collective Agreement and other activities that demonstrate social sensitivity of the Company.

IX. Review of cooperation of the Supervisory Board with the Management Board

The Supervisory Board evaluates the cooperation with the Company Management in 2011 as correct and useful and in the interests of the Company, with mutual appreciation and respect for the law. All decisions made, with the results of the vote, were recorded in the minutes of the Supervisory Board meetings.

X. Final evaluation of the Supervisory Board for 2011

The Supervisory Board evaluates their work in the past period, in the given circumstances as successful. Despite numerous changes in the composition of the Supervisory Board, continuity in their work was preserved and there was a noticeable contribution of each member to the work of the Board with respect the laws in running the Company. It is estimated that the goals of the Company at the annual level were achieved.

XI. The Supervisory Board submits this report on supervision of business operations for 2011 to the General Assembly of Petrokemija, Plc. and it proposes the Assembly to adopt it.

Željko Klaus

Chairman of the Petrokemija
Supervisory Board

Petrokemija, Plc.
SUPERVISORY BOARD

Number : __5__ / 2012
Kutina, 29th March 2012

Based on Article 21 of Statute of Petrokemija, Plc. and Articles 300.c and 300.d of the Companies Act, at a meeting No. ___4__ /2012 held on 29th March 2012, the Supervisory Board of Petrokemija, Plc. issued the following

D E C I S I O N

ON GRANTING APPROVAL TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR 2011

I

After reviewing the audited consolidated annual financial statements, Supervisory Board of Petrokemija, Plc. grants its approval to the consolidated annual financial statements of Petrokemija Group, Plc. for 2011.

By granting the above approval, the Management and Supervisory Board confirm these consolidated financial statements.

The Management and Supervisory Board will send information on thus confirmed consolidated financial statements to the General Assembly.

II

The consolidated annual financial statements referred to in the agreement from point **I** are made up of:

- Consolidated Balance
- Consolidated Profit and Loss Account
- Consolidated Cash Flow Statement
- Consolidated Statement of Changes in Equity
- Notes to Consolidated Financial Statements
- Petrokemija Group Annual Report
- Petrokemija, Plc. Independent Auditor’s Report – BDO Croatia d.o.o. Zagreb

III

Consolidated Balance Sheet assets and liabilities are recorded in the amount of **HRK 1,642,820,003.31.**

The actual consolidated profit of Petrokemija Group business in 2011 amounts to **HRK 106,487,999.25**.

Reports from point II are an annex to this Decision and are its integral part.

IV

This Decision shall enter into force upon its adoption.

Chairman of the Supervisory Board:

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/ Željko Klaus m.p./