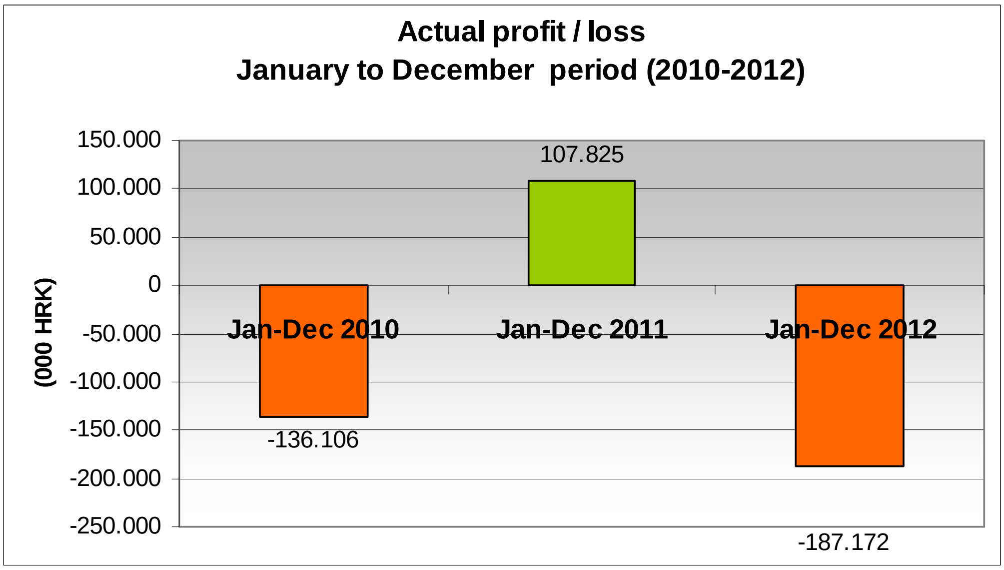
AUDITED REPORT
Kutina, March 29, 2013

ANNUAL REPORT
PETROKEMIJA d.d. KUTINA
PETROKEMIJA GROUP
REPORT FOR PERIOD January to December 2012

- **Actual production 1.125 and sales 1.121 thousand tons of fertilizers;**
- **Actual total income of Petrokemija, Plc. HRK 3,030.1 million; Petrokemija Group HRK 3,053.7 million;**
- **Actual loss of Petrokemija, Plc. HRK 187.2 million (6.2% of total revenues); Petrokemija Group HRK 184.7 million;**
- **Invested funds in Petrokemija, Plc. HRK 83.1 million;**
- **Number of employees of Petrokemija, Plc. 2,294; Petrokemija Group 2,481.**



MANAGEMENT BOARD REPORT ON THE COMPANY STATUS FOR Jan – Dec 2012

1. ACTUAL FINANCIAL RESULTS OF PETROKEMIJA, Plc.

The total income of Petrokemija, Plc. in January – December 2012 was HRK 3,030.1 million, total expenses were HRK 3,217.3 million and the Company reported loss in business operations of HRK 178.0 million or 5.9% of total revenues. The total annual income was increased by 2.0% and total expenses were up 12.4% over the year 2011. The disparity was for the major part the result of the pronounced growth of natural gas price.

The operating income in the reporting period was 2.0% higher than in 2011, in spite of lower actual sales. The total sales of fertilizers decreased 6.2% over the previous year, which is the result of the growth of average actual sales prices, but at a level (under very strong competition) that could not make up for the increase in costs. The higher actual operating expenses compared to the previous year reflect the growth in input prices of raw materials, primarily natural gas. **The average actual purchase price of gas in 2012 was <u>31.1%</u> higher than in 2011, and as much as <u>71.0%</u> higher than in the same period of 2010 (cumulative growth).** Such high price growth rates of the basic raw material, which had **a share of <u>57%</u> in the total expenditures** in the reporting period, could not be covered by measures to increase income and savings, undertaken by the Management Board and this resulted in the reported loss.

In addition to the high price of gas as the primary cause for the reported loss, the second most important factor was the impact of reduced volumes of production and sales, which contributed to the growth of fixed costs per unit of product, although in total the costs were approximately at the same level as in the previous year. Compared to the year before, Petrokemija had 10.2% drop in production in 2012, largely due to market reasons, in order to balance the dynamics of inventories and deliveries of fertilizers at an acceptable level, but partly also due to unplanned production stoppages.
In the total losses incurred for 2012, the share of the loss due to unplanned downtime of certain plants was HRK 39.4 million, out of which HRK 13.0 million accounts for the cost of natural gas and HRK 26.4 million for fixed costs of Ammonia and Urea Plants during downtime. The acquisition of a stake in Luka Šibenik (Port of Šibenik), Ltd. charged the Petrokemija, Plc. operating result with HRK 9.2 million.

In 2012, the income from domestic sales increased by 3.2%, while the income from export sales was up 0.6% over the year 2011.
The EBITDA indicator (earnings before interest, taxes, depreciation and amortization) was HRK 53.3 million in the negative. The EBITDA for 2011 was HRK 233.2 million in the positive.

(HRK 000)

	Jan- Dec 2012		Jan- Dec 2011		Difference		% change
Operating income	3.004.901		2.945.053		59.848		2,03%
Operating expense	3.157.005		2.805.899		351.106		12,51%
EBITDA *	-53.322		233.217		-286.539		0,00%
Amortization	98.782		94.063		4.719		5,02%
Net financial income (expenses)	-35.068		-31.329		-3.739		11,93%
Net extraordinary income (expenses)	0		0		0		

	Jan- Dec 2012		Jan- Dec 2011		Difference		% change
Profit / loss / before taxation	-187.172		107.825		-294.997		0,00%
Non-current assets	767.586		756.802		10.784		1,42%
Current assets	1.165.006		1.055.422		109.584		10,38%
Shareholders' equity	577.938		765.110		-187.172		-24,46%
Non-current liabilities	138.410		94.197		44.213		46,94%
Current liabilities	1.216.244		952.917		263.327		27,63%

* EBITDA= profit before interest, taxation depreciation and amortization

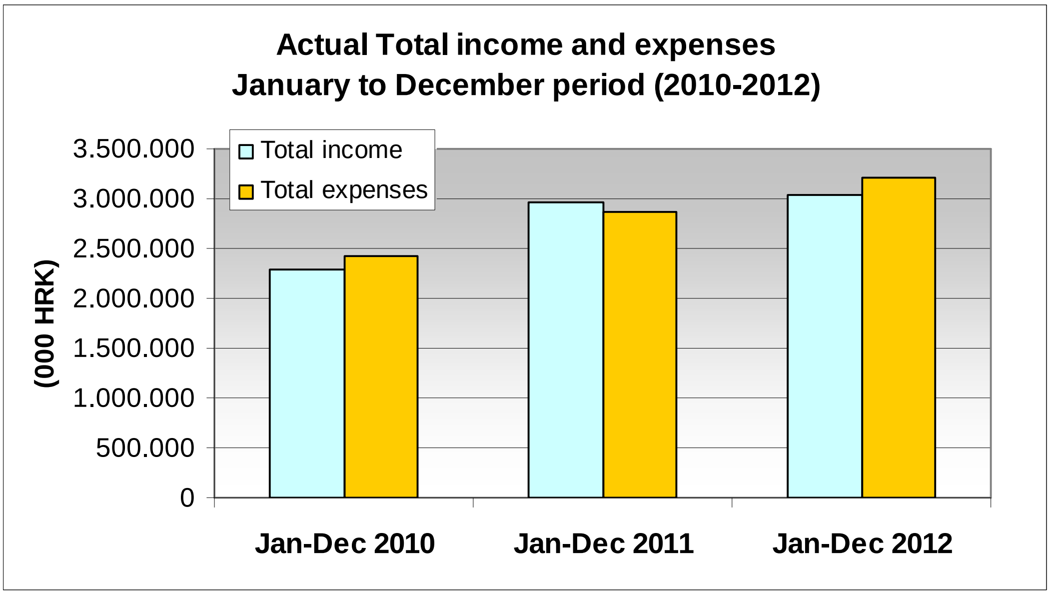
Out of the total loss, HRK 152.1 million or 81.3% is loss from business operations, while HRK 35.1, or 18.7% is loss from financial operations. The actual loss, after the operating profit of the previous year is the result of a number of already mentioned factors. The main cause of the loss is the rise of gas price, not accompanied by appropriate rise in sales prices for market reasons – the fall of average fertilizer prices in the international market. The higher price of gas (31.1% up on 2011) as a result of oil derivatives price fluctuation in the global market and the growth of US$ exchange rate, had a major impact on the costs in the reporting period.

What next contributed to the loss was lower production and sales, which had indirect influence on the growth of fixed costs per unit of product. The main reason for the reduction in the first quarter were unfavorable weather conditions, the associated longer-than-planned overhaul, the subsequent difficulties in starting up of the key plants and the blockade of shipment at the time of high snowfall and freezing temperatures.

The lost sales in the 1st quarter could not be made up for in the 2nd quarter, particularly since the situation in the fertilizer market in the meantime deteriorated (early May 2012). This was evident in the reduction in market demand and the consequent fall of prices, particularly pronounced in nitrogen fertilizers. Since the situation was similar in most parts of the region, it resulted in additional pressure of imports on the domestic market by competing fertilizer manufacturers and retailers. In the 2nd quarter, next to the global fall in demand and fertilizer price, an additional negative impact on local and regional markets was caused by unfavorable financial situation of most farmers due to reduced yields (long drought) in the previous year. Late payments of subsidies to farmers had an additional negative impact on domestic fertilizer sales.

In the third quarter there was no usual strong demand for fertilizers in the autumn sowing season. In the fourth quarter, in addition to the expected seasonal drop in demand in the region, further pronouncedly negative effects of the long-term drought were shown, which took on the proportions of a natural disaster in Croatia and the region for the second year in a row. This put the leading agricultural producers in the region in a very bad business situation. Very often, because of the poor financial status, farmers resorted to reducing fertilization, although it is well-known that satisfactory yields can be achieved by professionally measured fertilization even in conditions of severe drought. Because of the said market reasons, loss was incurred during the fourth quarter, too, despite the all-time high total quarterly income of HRK 911.2 million.

In such conditions, sales in distant export markets were indispensable for the continuity of the business. During 2012, a significant share of export sales was continued, in order to ensure positive effects on the financial result, fill in the capacity, ensure continuity of production, and maintain the liquidity. The volumes of exported fertilizer was 776.8 tones (5.9% less than in 2011) and actual income in foreign markets amounted to EUR 255 million (0.6% higher than in 2011). It is also important to emphasize that fertilizer sales in the region increased by about 100,000 tons, which is one of the key commitments of long-term sales strategies.



In comparison to the actual result in 2011, in 2012 there was a significant negative shift. The fertilizer sales prices were increased in line with the growth of input prices and the evaluation of the market situation. However, this could not make up for the negative impact of lower volumes and higher prices of major raw materials, especially natural gas.

For a part of raw materials and products the improvement of market position is still uncertain. The open problem of exceptional growth of gas price, carried over from the European energy fluids market as a consequence of the political crisis in the Middle East and the associated rise in price of oil and oil derivatives, is here particularly pronounced. This negative impact had a major influence on the business in 2012. For 2013, solutions for cheaper gas purchase are being sought.

Due to the market situation, a part of facilities had been halted in the second half of 2009 and this problem was carried over into 2013. The risks involved in plants standstill, could be those of possible future cost of dismantling the facilities and land rehabilitation in accordance with environmental standards.

The Company Management Board estimates that the final closure and dismantling of the facilities would mean losing even a potential possibility to increase production in the coming years, which is not to be excluded after overcoming the global crisis. In addition, upon the Croatian accession to the EU, with support of an appropriate strategic partner, the potentially growing market for fertilizers in Central and Southeast Europe could show interest in the products which are now being produced in minimum volumes. Including one or more strategic partners is also possible in the segment of equipment modernization, supply of raw materials and / or appearance on the market of fertilizers, chemicals and carbon black.

STATEMENT OF COMPREHENSIVE INCOME OF PETROKEMIJA, Plc.KUTINA

(HRK 000)

POSITION	Petrokemija, Plc. Jan-Dec 2012	Petrokemija, Plc. Jan-Dec 2011
Total operating income	3.004.901	2.945.053
Total operating expenses	3.157.005	2.805.899
PROFIT / LOSS FROM ORDINARY ACTIVITIES	-152.104	139.154
Total financial income	25.179	24.596
Total financial expenses	60.247	55.925
PROFIT / LOSS FROM FINANCIAL ACTIVITIES	-35.068	-31.329
TOTAL INCOME	3.030.080	2.969.649
TOTAL EXPENSES	3.217.252	2.861.824
Profit/loss before taxation	-187.172	107.825
Profit tax		
Profit/loss after taxation	-187.172	107.825

BALANCE SHEET OF PETROKEMIJA, Plc.KUTINA

(HRK 000)

POSITION	Petrokemija,Plc. 31.12. 2012	Petrokemija, Plc. 31. 12. 2011.
Total long-term assets	767.586	756.802
Total short-term assets	1.162.341	1.052.688
Prepaid costs and accrued income	2.665	2.734
TOTAL ASSETS	1.932.592	1.812.224
Total capital	577.938	765.110
Long-term liabilities	138.409	94.197
Total short-term liabilities	1.212.272	949.454
Accruals and deferred income	3.973	3.463
TOTAL LIABILITIES	1.932.592	1.812.224

- Because of the long collection of claims for fertilizers in the domestic market and the liquidity problems of domestic buyers due to their own lack of working capital, Petrokemija, Plc. has been using factoring as a form of financing and debt collection in the agreed due payment period (with the obligation of the buyer to bear all costs and interest associated with the factoring). This instrument of the Company short-term liquidity management based on sales of current assets, or part of the claims, has been applied to the three largest customers in the domestic market.
- In reporting the status of current assets (accounts receivable) and current liabilities (contingent recourse obligations to the factoring companies, in the event that the debtor fails to meet its obligation), Petrokemija as of 31 December 2012 included these claims in its Balance Sheet. In the Balance Sheet positions they are indicated in the current assets and liabilities in the amount of HRK 224.16 million.
- Compared with the balance at 31 December 2011, when these transactions were shown in the records outside the Balance Sheet, this significantly increased the level of assets and liabilities (balance), so this Report presents comparable status of current assets and current liabilities at 31 December 2012 and 31 December 2011.

COMPARATIVE OVERVIEW OF **CURRENT LIABILITIES** WITH AND WITHOUT THE EFFECTS OF ASSIGNMENT (SALES) OF CLAIMS AT 31 DECEMBER 2012 AND 31 DECEMBER 2011

No.	Description	Balance on 31.12.2012	Comparable balances 31.12.2011
1.	Current liabilities without accounting entry of assigned receivables (liabilities as per assignment)	988.109.303,70	784.052.255,81
2.	Balance of assigned receivables (POTENTIAL liabilities as per assignment – buyers)	224.162.186,09	165.401.948,02
3.	Current liabilities plus liabilities as per assignment for sold receivables (row 1 + row 2)	1.212.271.489,79	949.454.203,83
4.	Share of liabilities as per assignment in total reported current liabilities (row 2 / row 3)	18,49%	17,42%

- The status (balance) of the claims assignment to factoring companies of Petrokemija, Plc. at 31 December 2011 amounted to HRK 165.4 million and they were all duly settled by the buyers of finished products in 2012, as well as in the years before.

COMPARATIVE OVERVIEW OF **CURRENT ASSETS** WITH AND WITHOUT THE EFFECTS OF ASSIGNMENT (SALE) OF CLAIMS AT 31 DECEMBER 2012 AND 31 DECEMBER 2011

No.	Description	Balance on 31.12.2012	Comparable balances 31.12.2011
1.	Current assets without accounting entry of assigned receivables (liabilities as per assignment)	938.179.263,81	887.286.542,07
2.	Balance of POTENTIAL receivables as per assignment (for assigned receivables to factoring companies)	224.162.186,09	165.401.948,02

No.	Description	Balance on 31.12.2012	Comparable balances 31.12.2011
3.	Current assets plus sold receivables to factoring companies (receivables as per assignment)	1.162.341.449,90	1.052.688.490,09
4.	Share of receivables as per assignment in total reported current assets (row 2 / row 3)	19,29%	15,71%

Overall, the Management Board believes that the realization of the potential risk of claims collections by Petrokemija for assigned claims to large customers in the domestic market through the so-called mechanism for recourse factoring, does not seem likely. This assessment is based on the past experience - all previous transactions (in previous years) were carried out in accordance with sound business practices and justified their purpose as an element of competition in the market and liquidity management of the Company.

In addition to financing issues, 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). The imports of fertilizers have a moderately rising trend, having an approximate market share of 15-20% (by Petrokemija's assessment) with a portion of those products not normally produced by Petrokemija.

Due to the specific nature of the technological process, a part of the spare parts in the current assets are specific, strategically important parts, which are often not used within a year. Their acquisition, construction, or repair, take a longer period of time and they must be kept in reserve since their lack can cause a chain outage of one or more facilities. In the balance at 31 December 2012, the Company reclassified a portion of such strategic spare parts worth HRK 12.7 million and added them to fixed assets of the corresponding facility. During 2013 and in the years to follow, the impact of this measure on the increase of depreciation is expected to be about HRK 2.5 to 3 million. As of 31 December 2012, Petrokemija has a total stock of spare parts in the amount of HRK 94,663 thousand, a part of which are large spare parts and equipment, which will either be installed in 2013 or will be reclassified from current to fixed assets. The effects of this restatement will be quantified and publicly disclosed by the Company in accordance with the common corporate practices and applicable regulations.

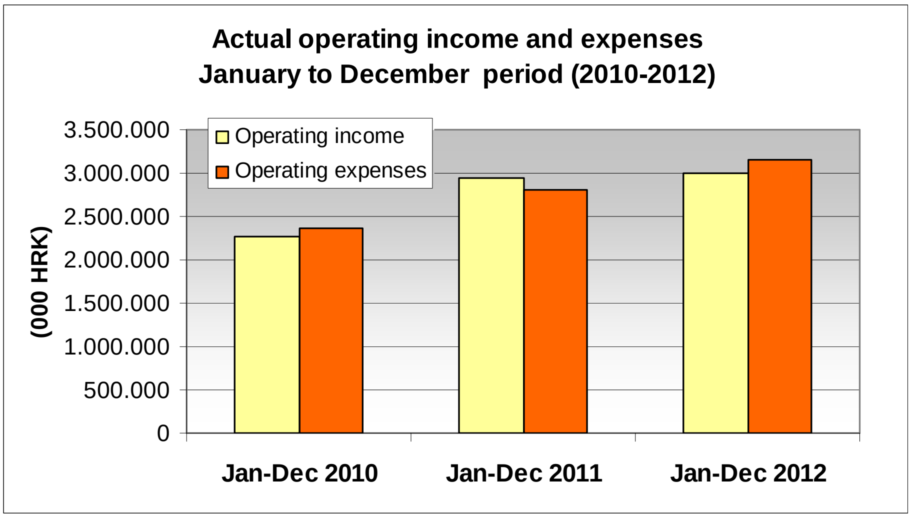
A trend of instability of in- and output prices continued in the reporting period. The prices of some raw materials in international markets were gradually rising, while the prices of key raw materials were falling. The quarterly gas price in the domestic market was growing according to the formula. The gas price growth trend continued in the 2nd and 3rd quarters of 2012 when it reached its peak and was slightly falling in the 4th quarter.

The Management Board of Petrokemija, Plc. believes that the overhauls at the turn of 2011/12 and 2012/13 were the last two winter overhauls. The overhauls were carried out in the winter months due to balancing of gas consumption in the Croatian gas system. The Company used the fertilizer production standstill in January 2012 for the planned annual facilities overhaul. The predictions 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. This was particularly pronounced during extremely low temperatures in February 2012. Putting a pipeline into operation through Hungary opened an additional route for supplying gas to Croatia, so that in the future security of gas supply should not come into question. The difference between the gas pricing by the so-called oil formula and the one on the spot market is up to 30%. This opens up the need for improved regulations in terms of larger opening of the Croatian market towards spot markets in order to establish new price relationships in the Croatian gas market in the oncoming years.

This most important raw material is supplied in the domestic market under the so-called Russian formula, based on the price of oil derivatives and gas price in US$. In the period from September 2011 to September 2012, Petrokemija, Plc. was not included in the Government Decision on the limited gas prices for privileged consumers and in the regulatory part of the gas market the Company did not have the possibility of simultaneous gas purchase from multiple suppliers. Therefore, the extreme growth of gas price is greatly reflected in the Company financial loss in the reporting period. On the basis of relevant decisions of the Government on the regulation of the Croatian gas market, Petrokemija has finally been able to buy gas from multiple suppliers since the third quarter of 2012. The gas volumes supplied at a lower price from a foreign supplier, E.ON Ruhrgas AG and Prvo plinarsko društvo (Gas Company), Ltd. from Vukovar, partially mitigated the cost impact that the Company was faced with during the reporting period.

Unfortunately, the previous contractual restrictions still prevent the Company to purchase significant gas volumes on the free market in 2013, so that only approximately 20% of the required volumes can be purchased on the free market. On 15 January 2013, Petrokemija signed a Contract on Supply of 130 million Sm3 of natural gas with Prvo plinarsko društvo, Ltd. Vukovar (on behalf of GAZPROM Schweiz AG).

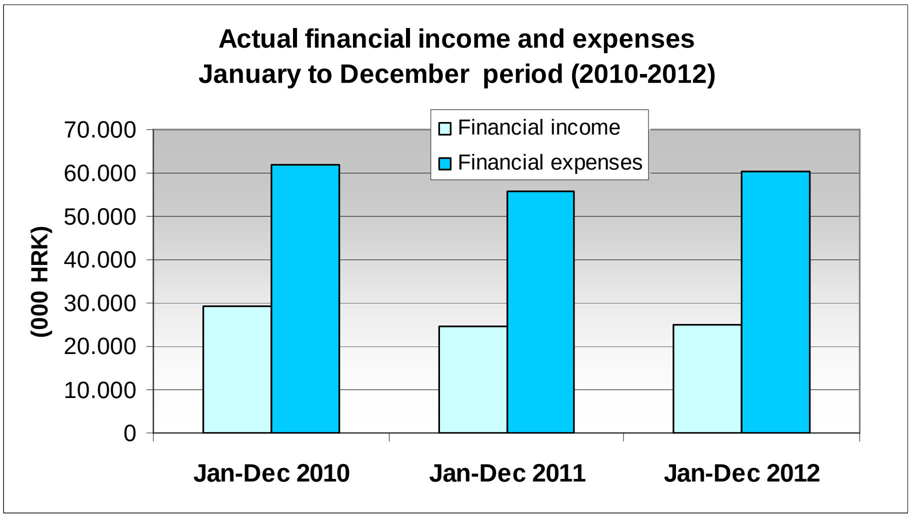
At the time of preparation of these financial statements, the Company are presently close to completing the negotiations on amendments to the contract on current supplies and future cooperation with their present authorized gas dealer – Prirodni plin, Ltd. from Zagreb, a company owned by INA Oil Industry, Plc. Zagreb. In the meantime, the purchase of the above smaller volumes of natural gas from Prvo plinarsko društvo, Ltd., Vukovar is continued, but they cannot significantly influence the total business result in 2013.
In the first quarter of 2013, according to the current contract, the price of natural gas after the oil formula remained at the fourth-quarter level of 2012. A slight fall is expected in the second quarter, while the prices for the third and fourth quarters of 2013 are estimated across a comparatively broad range, depending on the movement of prices for oil derivative products in the world market.



Financial income was HRK 0.6 million or 2.4% higher, and financial expense HRK 4.3 million or 7.7% higher than in the previous year. The HRK 35.1 million losses from financial activities were 11.9% higher than in the year before. Foreign exchange gains accounted for 64% and income from interest and other financial income for 36% share in the financial income. Foreign exchange losses have 28% share in financial expenses, while 57% is made up of interest, 15% of unrealized losses, i.e. impairment investment in related companies. The annual positive and negative exchange differences were balanced and were, despite the high foreign currency turnover, almost at the same level, which indicates successful currency risk management. The loss as per exchange differences was HRK 0.5 million or 1.5% of the actual loss from financial operations. Unrealized losses on financial assets are stated at HRK 9.2 million, related to the purchase of shares in Luka Šibenik (Port of Šibenik), Ltd.

Although the interest rates were lower than in the previous period, due to high levels of debt, interest costs were higher by 9.7%. A disturbing trend is opened up by the credit rating downgrade for Croatia and unresolved financial crisis in the Eurozone, which can be directly transferred to financing terms of Petrokemija, Plc.

Since 2009, Petrokemija has been implementing issuing commercial papers program (up to HRK 100 million) through Privredna Banka Zagreb to provide for short-term working capital. During the whole period of the program, the liabilities on commercial bills were fulfilled regularly. No new liabilities for previous issues of commercial bills are due for payment. Repayment or refinancing of commercial papers in 2013 will depend on the price of other sources of funding at the time of their maturity.



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, Petrokemija, Ltd. Novo Mesto and Luka Šibenik Ltd., the financial result for period Jan-Dec 2012 is as follows:

• Total income	HRK	3,053.7 million
• Total expenses	HRK	3.238,4 million
• Loss before taxation	HRK	-184.7 million
• Profit tax	HRK	0.1 million
• Loss after taxation	HRK	-184.8 million

The EBITDA indicator (earnings before interest, taxes, depreciation and amortization) is HRK 64.7 million in the negative.

The share capital of Luka Šibenik (Port of Šibenik), Ltd. consists of 12,060 shares with a nominal value of HRK 1,300, which amounts to HRK 15,678,000.00. Petrokemija, Plc. had been gradually acquiring shares in Luka Šibenik over the past 10 years by gradual purchase from small shareholders. So as of June 1, 2012, the Company was in possession of 3,584 shares, which was 29.72% ownership of the Luka Šibenik, Ltd. The acquisition costs amounted to HRK 3,544,982.30, and they were accounted by the equity method.

On 19 June 2012, by signing the contract on sale and transfer of shares of the Luka Šibenik, Ltd., Šibenik Company with Transadria, Plc. Rijeka - in bankruptcy, Petrokemija purchased additional 6,030 shares and 50% ownership, which with previously acquired shares makes 79.72% ownership. In this way, Petrokemija acquired a majority shareholder rights in Luka Šibenik, which thus became Petrokemija's subsidiary. On 30 June 2012 Luka Šibenik, Ltd. was for the first time included in the Company's consolidated financial statements. On 30 June 2012, in its initial consolidation, Petrokemija, Plc. reported the effects of acquisition as per equity book value and the the balance sheet reserves of the acquired company.

As a preparation for this Report, the valuation of Luka Šibenik, Ltd. (Port of Šibenik) was conducted to determine the value of the goodwill of the Petrokemija, Plc. share in the Luka Šibenik Company. The difference between the acquisition cost and the share value of Petrokemija, Plc. of the subsidiary net assets (which was found to adequately reflect the fair value of the company), is an impairment expense of HRK 9.2 million and is reported in the audited annual financial statements of Petrokemija for 2012.

The basis of assessment is the development plan for Luka Šibenik, Ltd. from 2013 to 2015. The key determinant of future business of the Luka Šibenik Company is the concession granted by the Port Authority of Šibenik, without which the Company would be unable to conduct its business. The above concession is at this point valid through 2029. The key for its future business is the relationship with its majority owner Petrokemija from which most of the income is realized and which is essential for retaining the concession and regular fulfilling of its conditions.

In the reporting period, the daughter companies were operating with minimum profit, except for Luka Šibenik, Ltd, which reported a loss of 1.8 million due to a lower turnover. However, in the period in which Luka Šibenik (Port of Šibenik), Ltd. operated within the Petrokemija Group (July-Dec 2012), which is the subject of consolidation, it had actual total revenue of HRK 12,400 thousand, total expenses of HRK 11,197 thousand and HRK 1,203 thousand profit.

Business results of daughter companies:

(HRK 000)

P O S I T I O N	Actual Jan-Dec 2012	Actual Jan-Dec 2011	Ind 2/3
1	2	3	4
RESTORAN PETROKEMIJA, Ltd.			
TOTAL INCOME	2.111	2.161	97,7
TOTAL EXPENSES	2.098	2.155	97,4
GROSS PROFIT /LOSS	13	6	216,7

POSITION	Actual Jan-Dec 2012	Actual Jan-Dec 2011	Ind 2/3
1	2	3	4
PETROKEMIJA Novi Sad, Ltd.			
TOTAL INCOME	169.883	78.370	216,8
TOTAL EXPENSES	168.595	77.820	216,6
GROSS PROFIT	1.288	550	234,2
PETROKEMIJA Novo Mesto, Ltd.			
TOTAL INCOME	649	840	77,3
TOTAL EXPENSES	646	832	77,6
GROSS PROFIT	3	8	37,5
LUKA ŠIBENIK, Ltd.			
TOTAL INCOME	20.681	**25.703*	80,9
TOTAL EXPENSES	22.452	**25.364*	87,8
GROSS PROFIT	-1.771	**339*	0,0

**in 2011 Luka Šibenik, Ltd. was not a member of the Petrokemija Group*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(HRK 000)

POSITION	Petrokemija Group Jan-Dec 2012	Petrokemija Group Jan-Dec 2011
Total operating income	3.021.959	2.948.348
Total operating expenses	3.186.439	2.810.416
PROFIT/LOSS FROM ORDINARY ACTIVITIES	-164.480	137.932
Total financial income	31.741	24.695
Total financial expenses	51.925	56.078
PROFIT/LOSS FROM FINANCIAL ACTIVITIES	-20.184	-31.383
TOTAL INCOME	3.053.700	2.973.043
TOTAL EXPENSES	3.238.365	2.866.494
Profit/Loss before taxation	-184.665	106.549
Profit tax	134	61
Profit/Loss after taxation	-184.799	106.488
Comprehensive Profit/Loss for the period		
Credited to parent company capital owners	-185.043	106.488
Credited to minority interest	244	0

CONSOLIDATED BALANCE SHEET

(HRK 000)

POSITION	Petrokemija Group 31.12. 2012	Petrokemija Group 31. 12. 2011.
Total long-term assets	749.050	751.084
Total short-term assets	1.184.011	1.054.404
Prepaid costs and accrued income	2.709	2.734
TOTAL ASSETS	1.935.770	1.808.222
Total capital	584.299	763.875
Long-term liabilities	138.428	94.197
Total short-term liabilities	1.209.069	946.687
Accruals and diferred income	3.974	3.463
TOTAL LIABILITIES	1.935.770	1.808.222

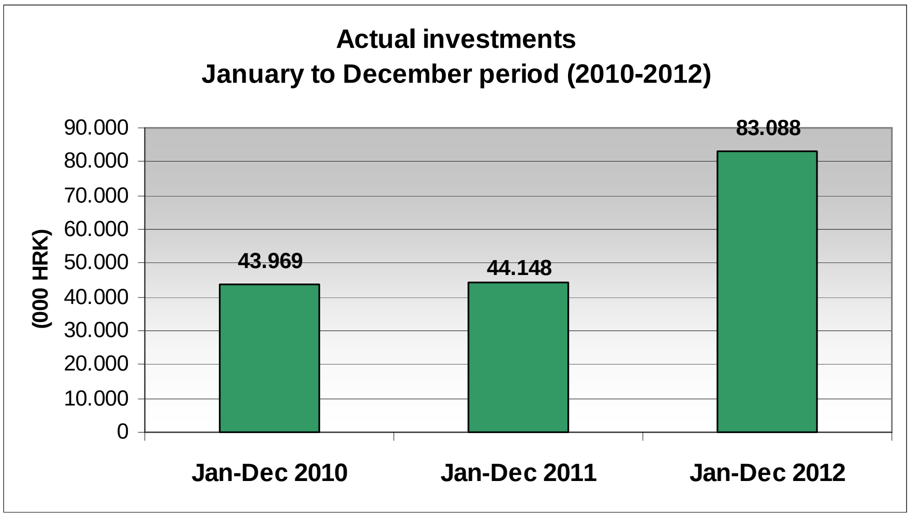
Notes and quantifications relating to the indicated positions of current assets and current liabilities of the Petrokemija, Plc. parent company as of 31 December 2012 also apply to the financial statements of the Petrokemija Group.

The planned key business objectives of Petrokemija, Plc. and Petrokemija Group for the year 2012, (it primarily refers to the profits in operations), were not realized due to market instability and the effects of the key business risks - high growth in gas price, lower sales due to a lower demand for fertilizers and the related fall of fertilizer prices in the world market. The key challenge of imbalance between input and output prices in the domestic, regional and global mineral fertilizer markets was not eliminated in the first quarter of 2013. The local and regional challenges, such as prolonged drought and reduced state incentives to agriculture, should not be repeated in the current year.

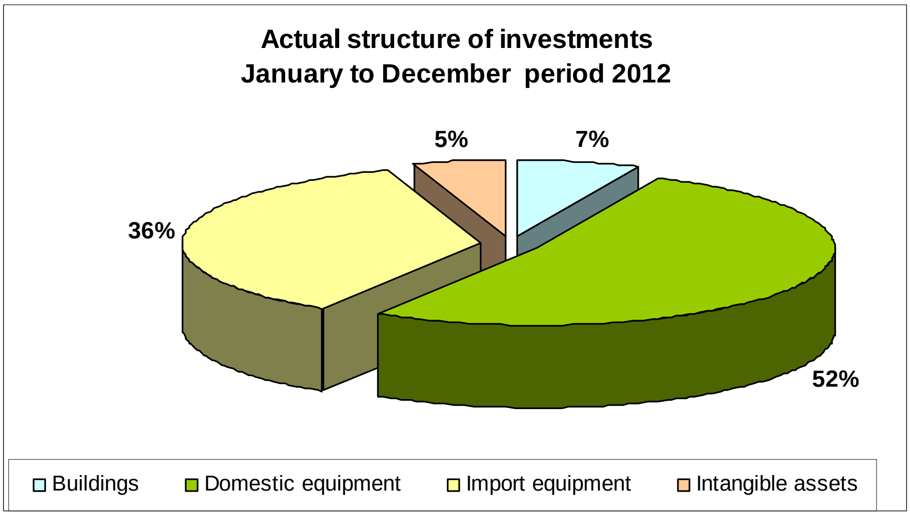
3. INVESTMENTS

Actual investment in the first three quarters of 2012 amounted to HRK 83.1 million, approximately HRK 38.9 million or 88.2% over the previous year's amount. Despite limited funds in 2012, the level of investments was increased as compared to the previous years.

During the fourth quarter of the current year, a part of strategic spare parts worth HRK 12.7 million was transferred from short-term into long-term assets to the ongoing investment position. Without this reclassification of assets, investments in fixed assets would amount to HRK 70.4 million.



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



The investment activities in 2013 will depend on the ability to provide the funding. In the next few years, an increase in investments 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.

Because of the market situation, the assessment of time necessary for a possible start of production at the plants which have been stalled, and the level of investment to make them fit for efficient production is uncertain. In the coming years it will be necessary to make strategic decisions - whether to make possible significant investments in their modernization and re-start or perhaps preserve them, shut-down and write-off and finally dispose of them in accordance with the local environmental requirements.

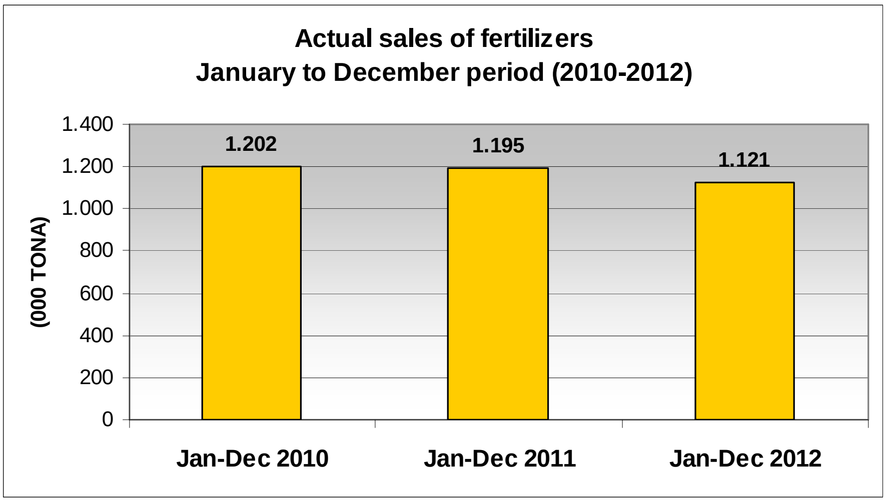
4. ACTUAL PRODUCTION AND SALES

Actual Production in the January to December 2012 period:

- **fertilizers** 1,124.8 thousand tons
- **clay-based products** 14.5 thousand tons
- **TGUS products** 0.9 thousand tons

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

- **fertilizers** 1,120.9 thousand tons
- **clay-based products** 14.7 thousand tons
- **TGUS products (+chemicals)** 4.8 thousand tons



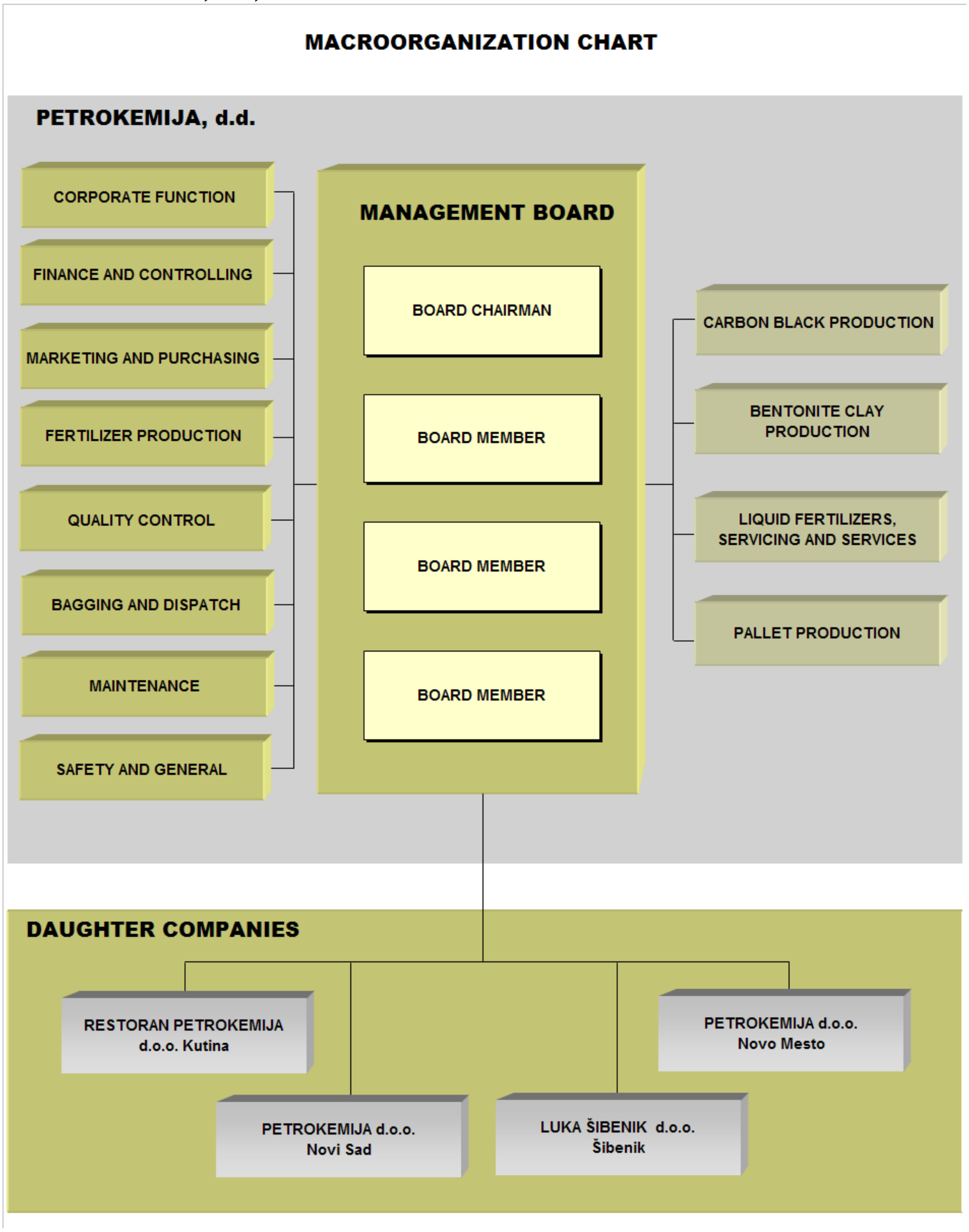
The actual total sales of fertilizers are 6.2% lower than in the same period of the previous year, with certain changes in the structure of the product range. Actual sales of urea and NPK fertilizers were lower, while CAN sales increased. Due to unfavorable weather conditions in the first quarter, the deliveries were aggravated, which resulted in the lower-than-planned sales. For the same reason, the standstill of facilities for overhaul and the subsequent start-up was prolonged. In the third quarter, the sales in the domestic market and in the region were lower as a result of prolonged drought and the crisis in the agricultural sector. Changes in the incentives system did not have a positive impact on fertilizer sales to domestic agriculture.
The sales of clay-based products were by 37.2% lower and those of liquid fertilizers and chemicals by 14.4% lower 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 2012, there was no significant change in the existing organization chart until almost to the very end of the 1st half. Towards the end of the 2nd quarter, Petrokemija acquired 6,030 business shares of Luka Šibenik (Port of Šibenik), Ltd. Company in the value of HRK 24,253,051, whereby Petrokemija, Plc. became the owner of a total of 79.72% stake in the company. Luka Šibenik is of strategic interest to the business of Petrokemija because most raw materials are shipped from overseas, and a significant portion of exports of finished products are delivered through the sea port in Šibenik.

As of 31 December 2012, the 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
- Petrokemija, Ltd. Novo Mesto and
- Luka Šibenik, Ltd, Šibenik.



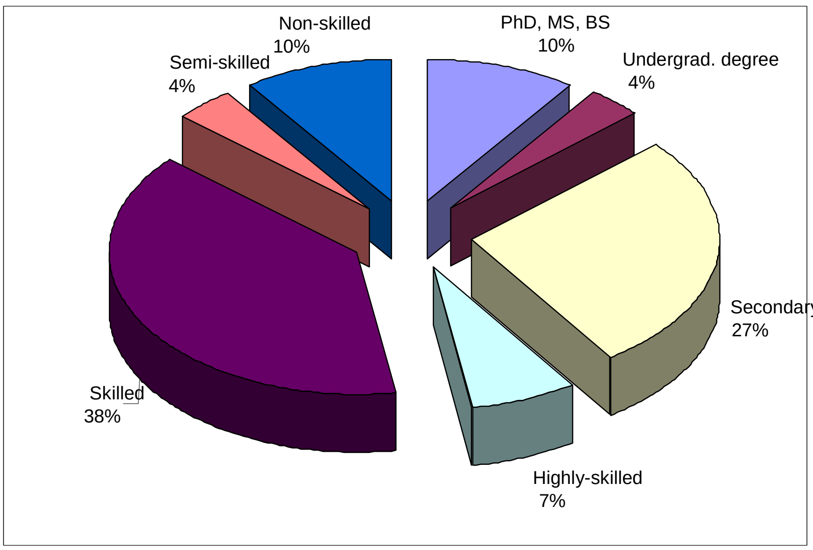
As of December 31, 2012, Petrokemija, Plc. had 2,294 employees and its daughter companies, members of the Petrokemija Group had 187 employees, which makes a total of 2,481 employees. The high qualification structure corresponds to the complexity of the production and other systems in place in the Company. During 2012, the number of employees in Petrokemija was reduced by 7 employees. Workers from the facilities that have been temporarily stalled, have been deployed to work in other organization units.

Due to the continuous reduction in output and sales in the segment of bentonite clay-based products, the Management Board of Petrokemija decided to merge the existing profit centers Clay Production and Liquid Fertilizers, Servicing and Services into one organizational unit with the aim of more efficient management in 2013.

- At the Company General Assembly Meeting on May 17 2012, four new members of the Supervisory Board were elected – Ivan Majstrović, Sonja Ivoš, Ivan Nekvapil and Krešimir Huljev. At the Supervisory Board meeting of 27 July, Goran Kralj was elected new Chairman and Ivan Majstrović Vice Chairman of the Supervisory Board. There were no significant changes in the rest of the management structure of the Company during 2012. However, at the time of drafting this report, on 10 January 2013, the Croatian Government adopted a decision proposing the Petrokemija Supervisory Board, upon previous approval of the State Office for State Property Management, recall of the former members of the Management Board - Tomislav Seletković, Antonija Perošević-Galović and Nenad Marinović - and appointment of Žarko Rijetković, Krešimir Kvaternik and Karlo Došen as new members of the Management Board of the Company.

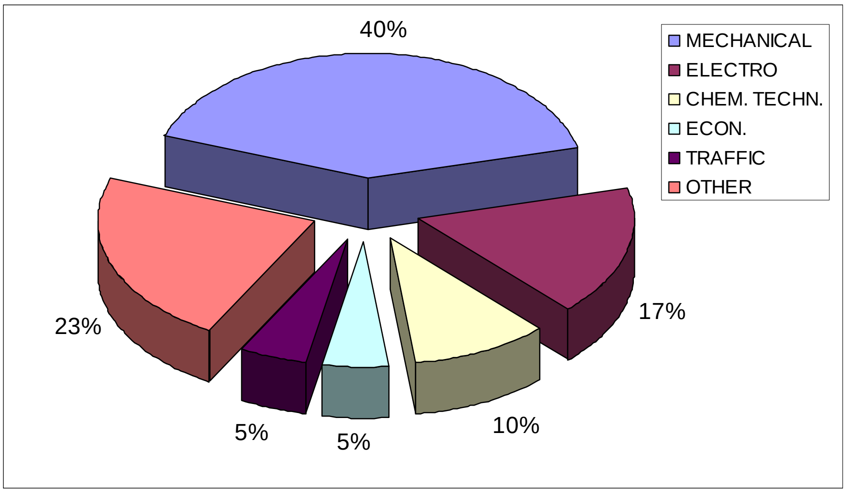
- At its meeting on February 4, 2013, the Company Supervisory Board issued a decision stating that the mandate of the Management Board members Tomislav Seletković, Antonija Perošević-Galović and Nenad Marinović terminated as of 14 February 2013. The Supervisory Board has appointed three members of the Petrokemija Management Board, as follows: Karlo Došen, MBA, from Zagreb, Krešimir Kvaternik, MBA, from Zagreb and Žarko Rijetković, B.Mech Eng, from Novska. The mandate of the appointed members of the Management Board shall begin on 15 February and end on 14 February 2017.

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.

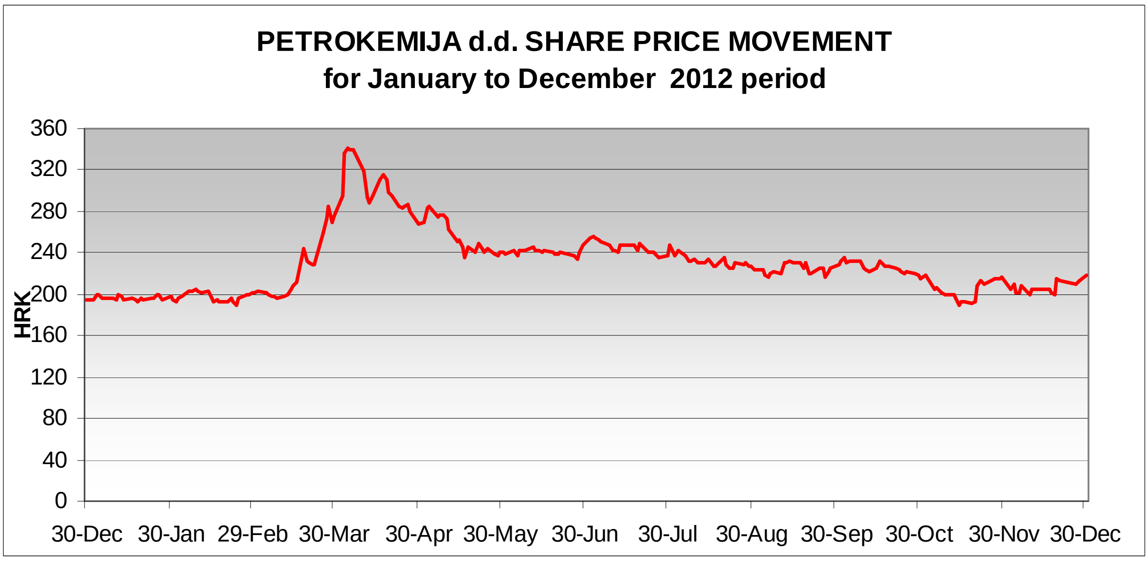
EMPLOYEES BY PROFESSION:



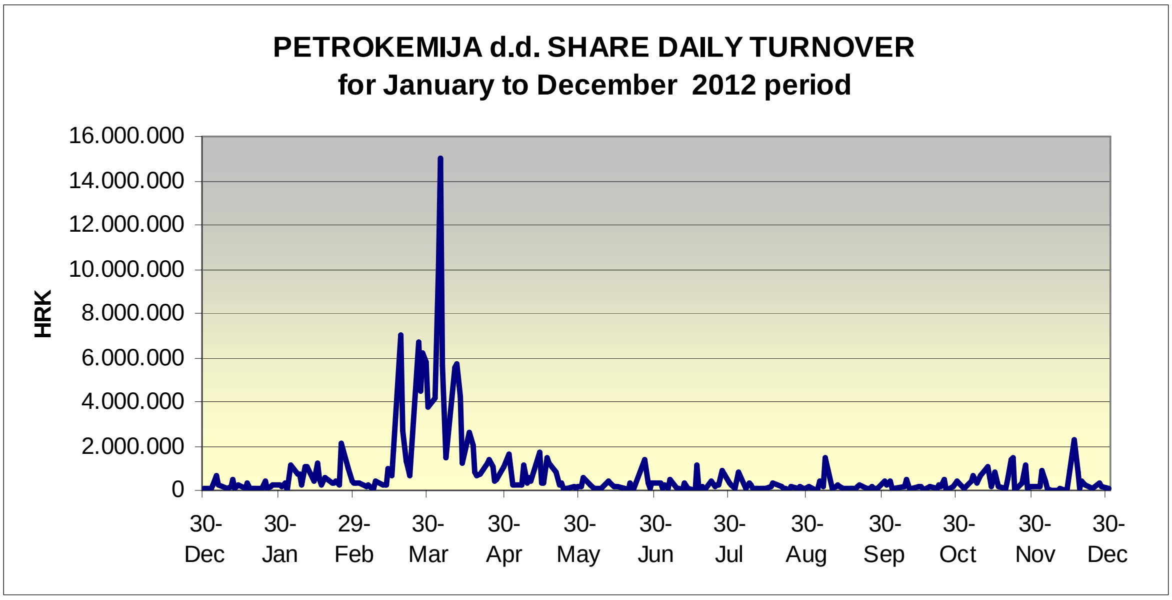
6. PETROKEMIJA, Plc. SHARE TRADING AND PRICE MOVEMENTS

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

At the end of December 2011, Petrokemija's share value was HRK 193.31, while on 31 December 2012, its average price was HRK 214.45 (11% growth). The share turnover at the Zagreb Stock Exchange during 2012 was HRK 179.6 million (total amount in 2011 was HRK 93.6 million), with price fluctuations mainly influenced by the global financial movements, specific characteristics of the Croatian capital market, actual financial results of the Company and media announcements of potential privatization.



Source: ZSE



Source: ZSE

7. ENVIRONMENTAL PROTECTION - JANUARY TO DECEMBER 2012 REPORT

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 the Company'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 2012 period by main environmental aspects.

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

According to the data from 2011 and also from the previous years, 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. As regards other typical pollutant emissions (ammonia-NH_3, sulphur dioxide-SO_2, nitrogen dioxide-NO_2, gaseous fluorides-HF, dust), without greenhouse gases and carbon monoxide (CO) from Petrokemija's technological processes, ammonia and nitrogen oxides, with 60,36 % and 27,49 % respectively, have the largest share in total pollutant emissions.

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 2012 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 exceeding of 24-hour limit for:

a) ammonia: in three cases at K6 measuring station, in six cases at K2 measuring station and nine cases at K3 measuring station

For all pollutants at all monitoring stations air quality was 1st category (clean or slightly polluted air) except for ammonia at K3 measuring station where 2nd air quality (air pollution) was determined on the basis of the number of limit value exceedances.

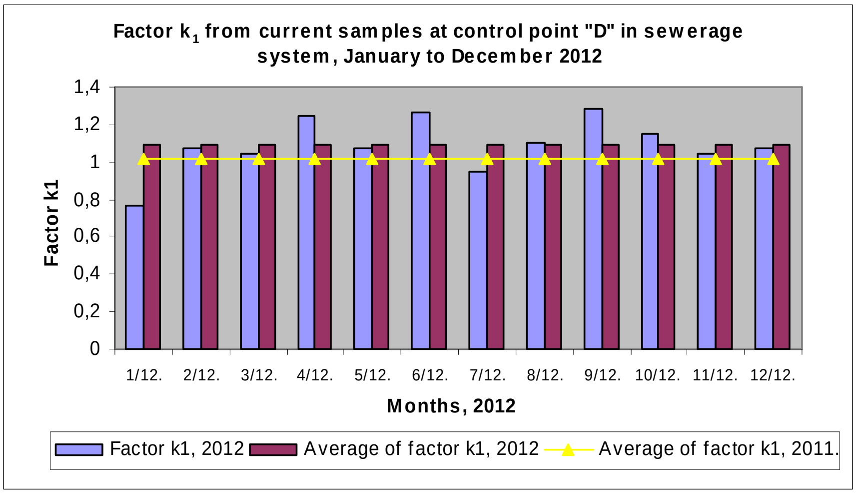
According to unofficial measuring results of the *Kutina-1* State-Established Monitoring Station for 2012, the air quality was 1st category for ammonia-NH_3, nitrogen dioxide-NO_2, sulphur dioxide-SO_2, carbon monoxide-CO and particles PM_{10}.

The air quality was 2nd category (polluted air) for hydrogen sulphide-H_2S based on hourly concentrations measured at the *Kutina-1* State Monitoring Station in May, June, July and December which can not be correlated with the Petrokemija production activities. In the January to December 2012 period, the measuring data of pollutants of *Kutina-1* State Monitoring Station are incomplete.

2. Water management

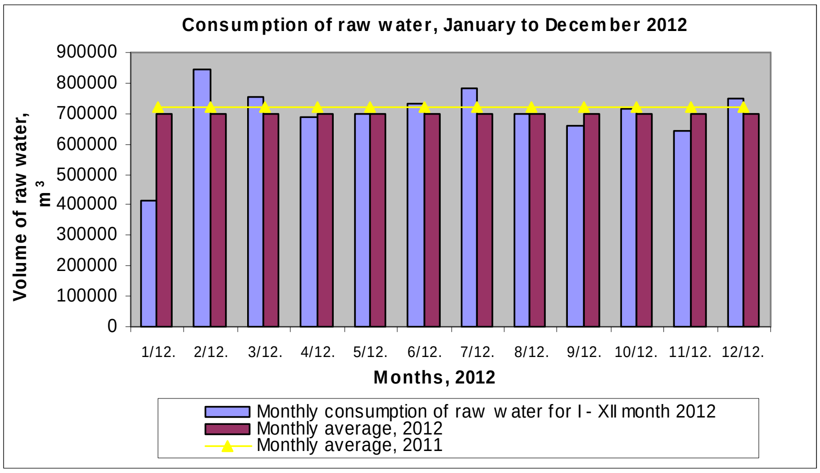
The average value of k1 factor for the period from January to December 2012 is slightly increased compared to average in 2011.

Figure 1.



In the January to December period of 2012, there was a reduction of raw water consumption.

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

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 2013 and the following years.
In 2011, certain positive developments were achieved in the domestic market, which could be interpreted as a sign of permanent market recovery, despite the prolonged drought that has taken on proportions of natural disaster in the last two years. In 2012, a part of reported loss can be interpreted as an effect of time difference in the growth of in- and output prices (the formula for gas price) and the growth of USD exchange rate. The actual opening and liberalization of the gas market in Croatia are grounds for optimism with regard to the purchase prices of gas from 2013 onwards. Fixed costs are largely under the control of the Management Board, particularly employment and wages, maintenance costs and overheads. The liquidity is maintained with support of commercial banks, Croatian Bank for Reconstruction and Development and by issuance of commercial bills. Should the loss be continued, it is realistic to expect higher financing costs.

Technical - technological condition of facilities is assessed as satisfactory; some of the plants occasionally operate at a reduced capacity for balancing the supplies and the decision on the dynamics of production in the next period will depend on the market trends. The emphasis in sale 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. Assessment of long-term business prospects in the following years is aggravated by the fluctuation in global flows and unstable parity of energy, fertilizers and food prices in world markets. A key success factor is the correlation between the purchase price and gas sales prices of nitrogen fertilizers. A stronger investment cycle and modernization is imposed as a necessity for a permanent consolidation of the Company business.

9. SIGNIFICANT FINANCIAL RISKS IN 2013

The overall considerations of Petrokemija's business position in 2013 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 and 2013. The formula of quarterly pricing of gas is 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 global market. The price of fuel oil, which is included in the formula, has risen significantly in 2012. At the time of drafting this report, negotiations are underway on possibly more favorable terms for gas deliveries in 2013 and contracting a part of volumes for 2014.
- The rise of natural gas price, viewed cumulatively for 2011 and 2012 has the feature of hyperinflation, measured in relation to other factors in the operating result whose fluctuations in price were within reasonable limits.
- The sales prices of fertilizers in the global markets continue to be influenced by cyclic and seasonal changes.
- 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, finance costs will continue to be present in the following period.
- In reporting of the balance of assigned claims from the three largest domestic customers and potential liabilities to the factoring companies (so-called extrinsic or recourse factoring), the Company as of 31 December 2012 reported these receivables and payables in the Balance Sheet amounting to of HRK 224.2 million. On 31 December 2011, the comparable amount of HRK 165.4 million was not included in the Company Balance Sheet. However, during 2012 it was fully collected, as it used to be in the earlier years.
- A part of the short-term liabilities has been transformed into long-term liabilities (loans and reservation). In the next period efforts will be made to provide additional long-term resources to finance permanent working capital and the indispensable investments.
- The most significant individual risk is the growth of gas price in European and the local markets.

10. OTHER IMPORTANT INFORMATION

In accordance with the Code of Corporate Governance of the Zagreb Stock Exchange, i.e. the obligation of public release of the Annual Questionnaire for 2012, Petrokemija, Plc. gives the following information:

10.1. BUSINESS RELATIONSHIP BETWEEN PETROKEMIJA, Plc. AND A SUPERVISORY BOARD MEMBER

In 2012, Contract No. 140/12 on delivery of equipment and services for modernization of existing vibration measurement at Nitric Acid 2 Plant was executed, concluded between Petrokemija, Plc. and Turbomehanika, Ltd., Slavonska 1a, Kutina, represented by its director Ivan Majstrović, member of the Petrokemija Supervisory Board since 17.05.2012. The total value of the contract was HRK 520,189.78. The contract was signed before the election of Ivan Majstrović to the Supervisory Board of Petrokemija.

10.2. THE SERVICES OF INDEPENDENT EXTERNAL AUDITORS IN 2012

The Audit services of the statutory audit of Petrokemija's consolidated and unconsolidated financial statements for the year ending on 31 December 2012 were performed by the KPMG Croatia, Ltd. Audit Company, Eurotower, 17. kat, Ivana Lučića 2a, 10 000 Zagreb.

The valuation services of the Luka Šibenik, Ltd. Company, the determination of goodwill at the acquisition date and the impairment test on 31 December 2012, were conducted by BDO Croatia, Ltd. Company, Trg J.F. Kennedyja 6b, 10 000 Zagreb.

11. 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, OG 111/12), the Management Board of Petrokemija Plc., the company whose shares are traded on the regulated securities market, is issuing this Statement on Application of the Corporate Governance Code of the Zagreb Stock Exchange in 2012. The Management and the Supervisory Boards of Petrokemija, Plc. completed the annual questionnaire on the application of the Code of Corporate Governance of the Zagreb Stock Exchange for 2012 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.

12. 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, 2012 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 the Company 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.

President of Petrokemija
Management Board
Josip Jagušt

Member of Petrokemija
Management Board for Finance
Karlo Došen

Member of Petrokemija
Management Board for Commerce
Krešimir Kvaternik

Member of Petrokemija
Management Board for Production
Žarko Rijetković

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: 1.1.2012. to 31.12.2012.

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)	**2.481**
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**
LUKA ŠIBENIK d.o.o.	**ŠIBENIK**	**03037525**

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, KARLO DOŠEN** (authorized representatives)

Documentation to be published:

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

(seal) (signature of authorized representative)

BALANCE SHEET

as at 31.12.2012.

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	751.083.530	749.049.633
I. INTANGIBLE ASSETS (004 do 009)	003	7.671.130	11.585.806
1. Expense for development	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	5.696.483	7.541.608
3. Goodwill	006		
4. Advances for intangible assets	007		
5. Intangible assets in progress	008	1.974.647	4.044.198
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 do 019)	010	739.879.901	736.523.100
1. Land	011	49.411.757	49.482.152
2. Buildings	012	305.696.063	291.532.789
3. Plant and equipment	013	354.712.044	322.709.000
4. Tools, plant inventory and transportation assets	014	12.656.327	13.526.223
5. Biological assets	015		
6. Advances for tangible assets	016	3.081.885	3.020.898
7. Tangibal assets in progres	017	13.828.060	55.752.053
8. Other tangible assets	018	493.765	499.985
9. Investments in real estates	019		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	020	3.532.499	815.524
1. Investments (shares) in related companies	021		
2. Loans given to realted companies	022		
3. Participating interest (shares)	023	7.537	7.537
4. Loans given to companies with participating interest	024		
5. Investment in securities	025		
6. Loans given, deposits and similar assets	026		
7. Other long-term financial assets	027		807.987
8. Investments accounted for using the equity method	028	3.524.962	
IV. TRADE RECEIVABLES (030 do 032)	029	0	125.203
1. Receivables from related companies	030		
2. Receivables for sales on loan	031		
3. Other receivables	032		125.203
V. DIFERRED TAX ASSETS	033		
C) SHORT-TERM ASSETS (035+043+050+058)	034	1.054.404.398	1.184.010.885
I. INVENTORIES (036 do 042)	035	653.884.464	663.118.778
1. Raw and other material	036	307.619.209	251.954.508
2. Work in progress	037	41.135.157	70.216.160
3. Finished products	038	300.391.370	333.852.838
4. Merchandise inventory	039	4.302.489	5.141.432
5. Advances for inventories	040	436.239	1.953.840
6. Long-term assets intended for sale	041		
7. Biological assets	042		
II. TRADE RECEIVABLES (044 do 049)	043	356.628.012	453.135.176
1. Receivables from related companies	044		
2. Receivables from customers (buyers)	045	147.738.558	152.077.790
3. Receivables from participating interest	046		
4. Receivables from employees and members	047	21.446	56.426
5. Receivables from state and other institutions	048	40.129.810	72.517.668
6. Other receivbles	049	168.738.198	228.483.292
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	30.970.458	50.266.588
1. Investments (shares) in related companies	051		
2. Loans given to realted companies	052		
3. Participating interest (shares)	053	10.759.225	11.552.010
4. Loans given to companies with participating interest	054		
5. Investment in securities	055	5.150.393	5.545.769
6. Loans given, depsits and similar assets	056	15.060.840	33.168.809
7. Other financial assets	057		
IV. CASH IN BANK AND ON HAND	058	12.921.464	17.490.343
D) PREPAID EXPESES AND ACCRUED INCOME	059	2.734.013	2.709.319
E) TOTAL ASSETS (001+002+034+059)	060	1.808.221.941	1.935.769.837
F) OFF BALANCE SHEET ITEMS	061	186.462.200	297.989.133

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	**062**	**763.874.492**	**584.299.328**
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**	**-244.715.097**	**-138.286.230**
1. Retained earning	**073**		565.720
2. Loss carried forward	**074**	244.715.097	138.851.950
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	**075**	**106.487.999**	**-184.491.370**
1. Profit for the year	**076**	106.487.999	
2. Loss for the year	**077**		184.491.370
VII. MINORITY INTEREST	**078**		4.975.338
B) PROVISIONS (080 do 082)	**079**	**14.197.080**	**15.094.519**
1. Provisions for pensions, severance pay and similar labilites	**080**	12.112.252	13.126.437
2. Provisions for tax liabilities	**081**		
3. Other provisions	**082**	2.084.828	1.968.082
C) LONG-TERM LIABILITIES (084 do 092)	**083**	**80.000.000**	**123.333.333**
1. Liabilities to related companies	**084**		
2. Liabilities for loans, deposits and similar	**085**		
3. Liabilities to banks and other financial institutions	**086**	80.000.000	123.333.333
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**	**946.687.099**	**1.209.069.277**
1. Liabilities to related companies	**094**		
2. Liabilities for loans, deposits and similar	**095**	12.000.000	4.500.000
3. Liabilities to banks and other financial institutions	**096**	295.722.222	323.166.667
4. Liabilities for advances	**097**	25.990.680	61.023.431
5. Liabilities to suppliers	**098**	331.944.083	485.963.926
6. Liabilities for securities	**099**	81.176.464	82.000.000
7. Liabilities to companies with participating interest	**100**		
8. Liabilities to employees	**101**	13.650.046	14.247.067
9. Liabilities for taxes, contributions and other payments	**102**	9.968.720	12.447.592
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**	176.234.884	225.720.594
E) ACCRUED EXPENSES AND DEFERRED INCOME	**106**	**3.463.270**	**3.973.380**
F) TOTAL LIABILITIES (062+079+083+093+106)	**107**	**1.808.221.941**	**1.935.769.837**
G) OFF BALANCE SHEET ITEMS	**108**	186.462.200	297.989.133
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**	763.874.492	579.323.990
2. Credited to minority interest	**110**		4.975.338

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 01.01.2012. to 31.12.2012.

Petrokemija Group d.d.			
Position	**AOP code**	**Previous year**	**Current year**
1	2	3	4
I. OPERATING REVENUES (112+113)	**111**	**2.948.347.687**	**3.021.959.070**
1. Sales revenues	**112**	2.900.859.466	2.955.393.778
2. Other operating revenues	**113**	47.488.221	66.565.292
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	**114**	**2.810.415.652**	**3.179.973.092**
1. Changes in value of work in progress and finished products	**115**	-99.921.361	-66.873.283
2. Material costs (117 do 119)	**116**	**2.485.225.745**	**2.799.341.706**
a) Cost of raw and production materials	**117**	2.359.479.402	2.664.773.523
b) Cost of goods sold	**118**	9.355.617	45.213.593
c) Other external costs	**119**	116.390.726	89.354.590
3. Employees costs (121 do 123)	**120**	**234.317.600**	**236.485.014**
a) Net salaries and wages	**121**	146.963.099	153.851.618
b) Costs for taxes and contributions from salaries	**122**	53.029.909	49.482.152
c) Contributions on salaries	**123**	34.324.592	33.151.244
4. Depreciation	**124**	**94.189.092**	**99.765.978**
5. Other costs	**125**	**87.132.072**	**82.953.277**
6. Value adjustments (127+128)	**126**	**4.975.285**	**21.439.019**
a) of long-term assets (except for financial assets)	**127**	108.297	12.839.915
b) of short-term assets (except for financial assets)	**128**	4.866.988	8.599.104
7. Provisions	**129**	**4.497.219**	**6.861.381**
8. Other operating expenses	**130**	**0**	**0**
III. FINANCIAL REVENUES (132 do 136)	**131**	**24.614.144**	**31.740.582**
1. Interest, exchange rate flucutations, dividends and similar from associated companies	**132**		677
2. Interest, exchange rate flucuations, dividends and sikilar from non-associated companies ond others	**133**	24.614.144	27.561.724
3. Part of revenue from associated companies and prticipating interests	**134**		
4.Unrealised gains (revenues) from financial assets	**135**		4.178.181
5. Other financial revenues	**136**		
IV. FINANCIAL EXPENSES (138 do 141)	**137**	**56.077.995**	**51.924.555**
1. Interest, exchange rate fluctuations and other costs with associated companies	**138**		88.947
2. Interest, excehange rate flucutations and other costs eith non-associated companies	**139**	54.039.405	51.835.608
3. Unrealised losses (costs) from financial assets	**140**	2.038.590	
4. Other financial expenses	**141**		
V. PORTION IN PROFIT OF ASSOCIATED COMPANIES	**142**	**80.474**	
VI. PORTION IN LOSS OF ASSOCIATED COMPANIES	**143**		
VII. EKSTRAORDINARY - OTHER REVENUES	**144**		
VIII. EXTRAORDINARY - OTHER EXPENSES	**145**		1.045
IX. TOTAL REVENUES (111+131+142 + 144)	**146**	**2.973.042.305**	**3.053.699.652**
X. TOTAL EXPENSES (114+137+143 + 145)	**147**	**2.866.493.647**	**3.231.898.692**
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	**148**	**106.548.658**	**-178.199.040**
1. Profit before taxation (146-147)	**149**	106.548.658	0
2. Loss before taxation (147-146)	**150**	0	178.199.040
XII. PROFIT TAX	**151**	60.659	133.762
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	**152**	**106.487.999**	**-178.332.802**
1. Profit for the period (149-151)	**153**	106.487.999	0
2. Loss for the period (151-148)	**154**	0	178.332.802

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**	106.487.999	-185.042.811
2. Credited to minority interest	**156**		243.924
STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)			
I. PROFIT OR LOSS OF THE PERIOD (= 152)	**157**	106.487.999	-178.332.802
II. OTHER COMPREHENSIVE GAINS/LOSS BEFORE TAXES (159 do 165)	**158**	374.000	287.272
1. Exchange rate differences from translation of foreign currency operations	**159**	374.000	287.272
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**	**374.000**	**287.272**
V. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD (157+167)	**168**	**106.861.999**	**-178.045.530**
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**	106.861.999	-184.755.539
2. Credited to minority interest	**170**		243.924

CASH FLOW STATEMENT - Direct method

for the perod 01.01.2012. to 31.12.2012.

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**	2.532.867.656	2.530.921.226
2. Cash increse from royalites, fees commissions and other	**002**		
3. Cash increse from insuarance compensations	**003**	5.538.010	3.834.347
4. Cash increase from tax return	**004**	250.390.241	317.933.980
5. Other cash increase	**005**	7.348.958	9.791.149
I. Total increase of cash flow from operating activities (001 do 005)	**006**	**2.796.144.865**	**2.862.480.702**
1. Expenses to suppliers	**007**	2.883.221.260	2.934.657.128
2. Expenses for employees	**008**	269.722.252	259.338.542
3. Expenses for insuarance compensations	**009**	15.347.627	14.698.097
4. Expenses for interest	**010**	29.431.695	25.627.780
5. Expenses for taxes	**011**	80.843.774	49.482.152
6. Other cash decrease	**012**	14.813.333	21.581.850
II. Total decrease in cash flow from operating activities (007 do 012)	**013**	**3.293.379.941**	**3.305.385.549**
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)	**014**	**0**	**0**
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)	**015**	**497.235.076**	**442.904.847**
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proseeds from sale of non-current tangible and intangible assets	**016**	53.628	272.215
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**	1.322.680	677.265
5. Other cash proceeds from investing activities	**020**		
III. Total cash inflow from investing activities (016 do 020)	**021**	**1.376.308**	**949.480**
1. Cash outflow for acquisition of non-current tangible and intangible assets	**022**	39.941.196	60.656.714
2. Cash outflow for acquisition of equity and debt financial instruments	**023**	206.940	13.630.000
3. Other cash outflows from investing activities	**024**		20.020
IV. Total cash outflow from investing activities (022 do 024)	**025**	**40.148.136**	**74.306.734**
B1) NET CASH FLOW FROM INVESTIN ACTIVITIES (021-025)	**026**	**0**	**0**
B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)	**027**	**38.771.828**	**73.357.254**
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash infows from issuance of equity and debt financial instruments	**028**		
2. Cash inflows from loan pricipals, debentures, credits and other borrowings	**029**	875.310.154	2.302.466.500
3. Other inflows from financial activities	**030**	588.771.798	679.616.364
V. Total cash inflow from financial activities (028 do 030)	**031**	**1.464.081.952**	**2.982.082.864**
1. Cash outflows for repayment of loan principal and bonds	**032**	903.828.114	2.233.188.722
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**	22.059.632	121.141.495
VI. Total cash outflow for financial activities (032 do 036)	**037**	**925.887.746**	**2.354.330.217**
C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)	**038**	**538.194.206**	**627.752.647**
C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)	**039**	**0**	**0**
Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)	**040**	**2.187.302**	**111.490.546**
Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)	**041**	**0**	**0**
Cash and cash equivalents at the begining of the period	**042**	25.795.002	27.982.304
Increase of cash and cash equivalents	**043**	2.187.302	22.676.849
Decrease of cash adn cash equivalents	**044**		
Cash and cash equivalents at the end of the period	**045**	27.982.304	50.659.153

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

STATEMENT OF CHANGES IN EQUITY

for the perod from 1.1.2012 to 31.12.2012

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	-244.715.098	-138.286.230
5. Profit or loss for the year	005	106.487.999	-184.491.370
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		4.975.338
10. Total capital and reserves (AOP 001 do 009)	**010**	**763.874.491**	**584.299.328**
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		49.482.152
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**	**49.482.152**
17 a. Creadited to parent company capital owners	018	763.874.491	579.323.990
17 b. Creadited to minority interest	019		**4.975.338**

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, Petrokemija, Ltd Novo Mesto and Luka Šibenik (Port of Šibenik) Ltd..

In 2012, Petrokemija Group had total actual income of HRK 3.053,7 million and total expense of HRK 3.238,4 million. The total annual income of Petrokemija Group was increased by 2.7% and total expenses were up by 13.0% on the same period of 2011. Out of the total loss, HRK 164.5 million or 89.0% is loss from business operations, while HRK 20.2 million, or 11.0% is loss from financial operations. The EBITDA indicator (earnings before interest, taxes, depreciation and amortization) is HRK 64.7 million in the negative.

In the reporting period, the operating income of Petrokemija Group, was 2.5% greater compared to 2011, despite the lower volume of sales. The total sales of fertilizers decreased by 6.2% compared to the previous year, which indicates the growth of the average actual sales prices, but at a level (under very strong competition) that could not cover the increase in costs.

Higher actual operating expenses compared to the previous year reflect the growth in input prices of raw materials, primarily natural gas. The average actual purchase price of gas in 2012 was 31.1% higher than in 2011, and as high as 71.0% compared to the comparable period of 2010 (cumulative growth). Such high growth rates of the basic raw material, which has a share of 57% in the total expenditures in the reporting period, could not be covered by measures to increase income and savings, undertaken by the Management Board and this led to reporting the loss.

In addition to the high price of gas as the primary cause for the reported loss, the next important is the impact of lower volumes of production and sales, which contributed to the growth of fixed costs per unit of product, although in total these costs are approximately at the level of the previous year. Compared to the year before, in 2012 Petrokemija had a 10.2% drop in production largely due to market reasons, in order to balance the dynamics of inventories and deliveries of fertilizers at an acceptable level, and partly due to unplanned production stoppages.

Natural gas, as the most important raw material is supplied in the domestic market under the so-called Russian formula based on the price of oil derivatives and gas price in US$. In the period from September 2011 to September 2012, Petrokemija, Plc. was not included in the Government Decision on the limited gas prices for privileged consumers and in the regulatory part of the gas market the Company did not have the possibility of simultaneous gas purchase from multiple suppliers. Therefore, the extreme growth of gas price is greatly reflected in the Company financial loss in the reporting period. On the basis of relevant decisions of the Government on the regulation of the gas market in the Republic of Croatia, Petrokemija was finally able to buy gas from multiple suppliers starting as of the third quarter of 2012. The gas volumes supplied at a lower price from a foreign supplier, E.ON Ruhrgas AG and Prvo plinarsko društvo, Ltd. (Gas Company) Vukovar, partially mitigated the cost impact which the Company was faced with during the reporting period.

Unfortunately, previous contractual restrictions still prevent the Company to purchase significant gas quantities on the free market in 2013, so that approximately only 20% of the total required volumes can be purchased on the free market. On 15 January 2013, Petrokemija signed a Contract on Supply of 130 million Sm3 of natural gas with Prvo plinarsko društvo, Ltd. Vukovar (on behalf of GAZPROM Schweiz AG) yesterday,.
At the time of preparation of these financial statements, Petrokemija are presently negotiating the current supplies and future cooperation with their current authorized dealer – Prirodni plin d.o.o from Zagreb, a company owned by INA Oil Industry, Plc. Zagreb.

Due to the market situation, some facilities had been halted in the second half of 2009 and this problem was carried over into the period of 2013. The crisis caused by disparity of in- and output prices in the carbon black market is still ongoing. Petrokemija is influenced by developments in the global market which gives space to significant potential price risks and financial fluctuations in 2013.

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.

Because of the long collection of claims for fertilizers in the domestic market and the liquidity problems of domestic buyers due to their own lack of working capital, Petrokemija, Plc. has been using factoring as a form of financing and debt collection in the agreed due payment period (with the obligation of the buyer to bear all costs and interest associated with the factoring).
In reporting the status of current assets (accounts receivable) and current liabilities (contingent recourse

In reporting the status of current assets (accounts receivable) and current liabilities (contingent recourse obligations to the factoring companies, in the event that the debtor fails to meet its obligation), Petrokemija as of 31 December 2012 included these claims in its Balance Sheet. In the Balance Sheet positions they are indicated in the current assets and liabilities in the amount of HRK 224.16 million.
Compared with the balance on 31 December 2011, when these transactions were shown in the records outside the Balance Sheet, this significantly increased the level of assets and liabilities reported in these Balance Sheet positions, so this report presents comparable status (balance) of current assets and current liabilities on 31 December 2012 and 31 December 2011.

The future trends in financial results of Petrokemija Group will be influenced by many factors. In addition to 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 market (MAP, DAP, phosphate, potassium chloride, sulfur);
2. Change in demand and sales price of fertilizers;
3. Price fluctuation of energy fluids - gas and heating oil;
4. Price fluctuation of basic agricultural crops;
5. Exchange rate of USD and EUR to the local currency and
6. Financing costs and inter-currency relations.

At the end of the second quarter, Petrokemija, Plc. bought 6,030 shares of Luka Šibenik (Port of Šibenik) Ltd. company business in the value of HRK 24,253,051. This has made Petrokemija, Plc. become the owner of a total of 79.72% stake in the company.
Luka Šibenik is of strategic interest to Petrokemija's business because most raw materials are shipped from overseas and a significant portion of exports of finished product is delivered through the sea port in Šibenik.
As a preparation of this Report, the valuation of Luka Šibenik, Ltd. (Port of Šibenik) was contucted to determine the value of the goodwill of the Petrokemija, Plc. share in the Luka Šibenik Company. The difference between the acquisition cost and the share value of Petrokemija, Plc. of the subsidiary net assets (which was found to adequately reflect the fair value of the company), is an impairment expense of HRK 9.2 million and is reported in the audited annual financial statements of Petrokemija for 2012.

Petrokemija d.d.

Management Board's report and consolidated financial statements 31 December 2012

Petrokemija d.d.
Management Board's report and financial statements

Contents

Petrokemija d.d.
Statement of Management and Supervisory Board's responsibilities

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

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business. After making enquiries, the Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Company together with the annual consolidated and unconsolidated financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The unconsolidated financial statements of the Company and its subsidiaries are published separately and issued simultaneously with these consolidated financial statements.

The consolidated financial statements were authorised by the Management Board on 22 March 2013 for issue to the Supervisory Board and are signed below to signify this.

Josip Jagušt
President of the Management Board

Karlo Došen
Member of the Management Board

22 March 2013
Aleja Vukovar 4
Kutina
Croatia

Krešimir Kvaternik
Member of the Management Board

Žarko Rijetković
Member of the Management Board

PETROKEMIJA d.d.
KUTINA, Aleja Vukovar 4 1

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

We have audited the accompanying consolidated financial statements of Petrokemija d.d. ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for qualified opinion

1 As described in note 34, the Company has an obligation for land restoration. In accordance with International Accounting Standard ("IAS") 37 *Provisions, contingent liabilities and contingent assets*, the Company should recognise a provision for land restoration. As explained in note 34, the Company has not estimated and recognised the provision for costs of restoration and closure of the landfill as at 31 December 2012 and 31 December 2011. Accordingly, we are not able to estimate the effects of this departure from International Financial Reporting Standards on the financial statements.

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

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

Basis for qualified opinion (continued)

2 At 31 December 2012, inventory includes items with a carrying value of HRK 94,663 thousand relating to major spare parts, stand-by equipment and spare parts that can be used only in connection with specific items of plant and equipment and which the Company expects to use during more than one period. In accordance with International Accounting Standard ("IAS") 16 *Property, plant and equipment*, these spare parts and stand-by equipment should be classified as part of plant and equipment. The Company has not completed the process of determining the value of spare parts that need to be re-classified from current to non-current assets as part of plant and equipment and calculated the effect of retroactive restatements related to depreciation. We are not able to estimate the effects of this departure from International Financial Reporting Standards on the financial statements.

Qualified opinion

In our opinion, except for the effects of matters described in the *Basis for qualified opinion*, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without further qualifying our opinion, the corresponding figures presented, excluding the adjustment described in note 4, are based on the consolidated financial statements as at and for the year ended 31 December 2011, which were audited by another auditor who expressed an unmodified opinion on those financial statements on 14 March 2012. As part of our audit of the consolidated financial statements we have also audited the adjustment described in note 4. In our opinion, this adjustment has been properly applied and presented.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

22 March 2013

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
2

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

Petrokemija d.d.

Consolidated statement of comprehensive income

for the year ended 31 December 2012

(in thousands of HRK)	*Note*	**2012**	2011.
Revenue from sales	*8*	**2,955,395**	2,900,859
Other income	*9*	**66,565**	47,489
Gross profit		**3,021,960**	2,948,348
Change in inventory of finished goods and work in progress		**66,872**	99,921
Raw materials, consumables and services used	*10*	**(2,801,129)**	(2,485,226)
Staff costs	*11*	**(246,970)**	(237,826)
Depreciation and amortisation		**(99,766)**	(94,189)
Other operating expenses	*12*	**(105,539)**	(93,096)
Total operating expenses		**(3,186,532)**	(2,810,416)
Operating profit/(loss)		**(164,572)**	137,932
Financial income	*13*	**31,740**	24,614
Financail expenses	*13*	**(50,949)**	(56,078)
Net finance costs		**(19,209)**	(31,464)
Share in profit/(loss) of associate	*18*	**(884)**	80
Profit/(loss) before tax		**(184,665)**	106,548
Income tax	*14*	**(134)**	(60)
Profit/(loss) for the year		**(184,799)**	106,488
Other comprehensive income:			
Exchange differences on translation of foreign operations		**287**	374
Total comprehensive income/(loss)		**(184,512)**	106,862
Profit/(loss) attributable to:			
Equity holders of the parent		**(185,053)**	106,488
Non-controlling interests		**254**	-
Total comprehensive income/(loss) attributable to:			
Equity holders of the parent		**(184,766)**	106,862
Non-controlling interests		**254**	-
Earnings/(loss) per share (in HRK):			
- Basic and dilluted	*30*	**(55.83)**	32.13

The accompanying notes form an integral part of the financial statements

Petrokemija d.d.

Consolidated statement of financial position

as at 31 December 2012

(in thousands of HRK)	*Note*	**31.12.2012**	31.12.2011 *Restated	1.1.2011. *Restated
ASSETS				
Non-current assets				
Property, plant and equipment	*15*	**739,951**	739,880	786,485
Intangible assets	*16*	**8,157**	7,676	8,064
Investment in associate	*18*	**-**	3,525	4,180
Non-current financial assets	*19*	**8**	8	3,287
		748,108	751,081	802,016
Current assets				
Inventories	*21*	**663,118**	653,883	478,883
Trade and other receivables	*22*	**461,513**	364,509	207,337
Current financial assets	*19*	**33,169**	15,061	-
Financial assets at fair value through profit and loss	*20*	**12,360**	10,759	16,346
Cash and cash equivalents	*23*	**17,494**	12,923	25,795
		1,187,654	1,057,135	728,361
Total assets		**1,935,770**	1,808,224	1,530,377
EQUITY AND LIABILITIES				
Equity				
Share capital	*24*	**902,102**	902,102	902,102
Accummulated losses	*25*	**(322,983)**	(138,227)	(245,089)
Attributable to equity holders of the parent		**579,119**	763,875	657,013
Non-controlling interest		**4,975**	-	-
		584,094	763,875	657,013
Non-current liabilities				
Loans and borrowings	*26*	**123,333**	80,000	62,222
Provisions	*27*	**15,094**	14,197	14,532
		138,427	94,197	76,754
Current liabilities				
Trade and other payables	*28*	**579,356**	395,825	420,467
Income tax payable		**64**	27	184
Loans and borrowings	*26*	**633,829**	554,300	375,959
		1,213,249	950,152	796,610
Total equity and liabilities		**1,935,770**	1,808,224	1,530,377

*for details on restatement see note 4

The accompanying notes form an integral part of the financial statements

Petrokemija d.d.

Consolidated statement of changes in equity

for the year ended 31 December 2012

(in HRK thousands)	Share capital	Accumulated losses	Attributable to equity holders of the parent	Non-controlling interest	Total equity
As at 1 January 2011	**902,102**	**(245,089)**	657,013	-	**657,013**
Comprehensive income					
Profit for the year	-	106,488	106,488	-	106,488
Other comprehensive income	-	374	374	-	374
Total comprehensive income	-	**106,862**	**106,862**	-	**106,862**
Transactions with owners recognised directly in equity					
Transfers	-	-	-	-	-
Total transactions with owners recognised directly in equity	-	-	-	-	-
As at 31 December 2011	**902,102**	**(138,227)**	**763,875**	-	**763,875**
As at 1 January 2012	**902,102**	**(138,227)**	**763,875**	-	**763,875**
Comprehensive income					-
Loss for the year	-	(185,043)	(185,043)	**244**	(184,799)
Other comprehensive income	-	287	287	-	287
Total comprehensive income	-	**(184,756)**	**(184,756)**	**244**	**(184,512)**
Transactions with owners recognised directly in equity					
Acquisition of subsidiary with non-controlling interests	-	-	-	4,731	4,731
Total transactions with owners recognised directly in equity	-	-	-	**4,731**	**4,731**
As at 31 December 2012	**902,102**	**(322,983)**	**579,119**	**4,975**	**584,094**

The accompanying notes form an integral part of the financial statements

Petrokemija d.d.

Consolidated statement of financial position

as at 31 December 2012

(in HRK thousands)		2012	2011 *Restated
Cash flows from operating activities			
Cash received from customers		**2,530,922**	2,532,867
Cash inflows from insurance for claim compensations		**3,833**	5,538
Cash inflows from tax returns		**317,934**	250,390
Other cash inflows		**9,791**	7,348
Total cash inflows from operating activities		**2,862,480**	2,796,143
Cash paid to suppliers		**2,934,657**	2,883,221
Cash paid to employees		**259,339**	269,722
Cash outflows for claim insurance		**14,698**	15,348
Interest paid		**25,628**	29,432
Taxes paid		**138,295**	80,844
Other cash outflows		**21,582**	14,812
Total cash outflows from operating activities		**3,394,199**	3,293,379
Net cash flows from operating activities		**(531,719)**	(497,236)
Cash flows from investment activities			
Proceeds from sale of property, plant, equipment and intangibles		**272**	53
Dividends received		**677**	1,323
Total cash from investment activities		**949**	1,376
Cash outflows for purchase of property, plant, equipment and intangibles		**60,657**	39,942
Cash outflows for purchase of equity and debt instruments		**20**	206
Acquisition of subsidiary - net of cash acquired (note 30)		**13,630**	-
Total cash outflows from investment activities		**60,677**	40,148
Net cash from investment activites		**(73,358)**	(38,772)
Cash flows from financing activities			
Cash inflows from borrowings		**2,302,466**	875,310
Other cash inflows from financing activities		**679,616**	588,772
Total cash from inflows from financing activities		**2,982,082**	1,464,082
Cash outflows for repayment of borrowings		**2,233,189**	903,828
Other cash outflows from financing activities		**121,137**	22,057
Total cash outflows from financing activities		**2,354,326**	925,885
Net cash from financing activities		**(627,756)**	(538,197)
Net increase in cash and cash equivalents		**22,679**	2,189
Cash and cash equivalents at beginning of year		**27,984**	25,795
Cash and cash equivalents at the end of year	*23*	**50,663**	27,984

*for details on restatement see note 4

The accompanying notes form an integral part of the financial statements

Petrokemija d.d.

Notes *(forming part of the financial statements)*

1 General information

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

As at 31 December 2012 the share capital amounts to HRK 902,102 thousand and it is divided into 3,341,117 non-materialized ordinary shares at a nominal value of HRK 270 each. The Company’s shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in note 24.

As at 31 December 2012, the Company employed 2,294 employees (31 December 2011: 2,301 employees).

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

Company bodies

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

Management Board

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

Josip Jagušt	President
Antonija Perošević - Galović	Member until 14 February 2013
Tomislav Seletković	Member until 14 February 2013
Nenad Marinović	Member until 14 February 2013
Karlo Došen	Member from 15 February 2013
Krešimir Kvaternik	Member from 15 February 2013
Žarko Rijetković	Member from 15 February 2013

Supervisory Board

Members of the Supervisory Board are:

Željko Klaus	Member (President until 27 July 2012)
Ivan Čar	Member
Dragutin Vajnaht	Member
Jozo Bilobrk	Member
Goran Kralj	President (Vice President until 27 July 2012)
Ivan Majstrović	Member from17 May, Vice President from 27 July 2012
Ivan Nekvapil	Member from 17 May 2012
Krešimir Huljev	Member from 17 May 2012
Sonja Ivoš	Member from 17 May 2012

General Assembly

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

2 Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS")

Financial statements are presented for the Group. The financial statements of the Group comprise the consolidated financial statements of the Company and its subsidiaries. The unconsolidated financial statements of the Company, which the Company is also required to prepare in accordance with IFRS, are published separately and issued simultaneously with these consolidated financial statements.

These financial statements were authorised for issue by the Management Board on 22 March 2013.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

Judgements made by management in the application of accounting policies that have significant effect on the amounts recognised in the financial statements are discussed in a separate note. Key assumptions concerning the future on which significant estimates are based, and other key sources of estimation uncertainty, which involve a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year, are also disclosed in note 6.

3 Significant accounting policies

The accounting policies of the Company set out below have been applied by the Company and all its subsidiaries consistently to all periods presented in these financial statements, except for the effects stated in note 4.

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Petrokemija d.d. ("the Company") and entities controlled by the Company (its subsidiaries) as at and for the year ended 31 December 2012. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

(i) Subsidiaries

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

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

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

(ii) Transactions eliminated on consolidation

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

(iii) Loss of control

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

3 Significant accounting policies *(continued)*

3.2 Foreign currency

Foreign currency transactions

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

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

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

Group companies

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

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

Net investment in Group companies

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

3.3 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business, less accumulated impairment loss, if any.

For the purposes of impairment testing, goodwill is allocated to each cash-generating unit (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3 Significant accounting policies *(continued)*

3.4 Property, plant and equipment

(i) Owned assets

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

Buildings	6 - 50 years
Plant and equipment	4 - 20 years
Tools and fittings	4 - 20 years

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

3.5 Intangible assets

(i) Software licences and project documentation

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

Software and project documentation	3 - 5 years

3 Significant accounting policies *(continued)*

3.6 Financial instruments

Non-derivative financial instruments

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

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

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

Cash and cash equivalents

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

Investments at fair value through profit or loss

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

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

Other

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

3.7 Inventories

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

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

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

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

3 Significant accounting policies *(continued)*

3.8 Impairment

(i) Financial assets

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

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

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

All impairment losses are recognised in the statement of comprehensive income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to profit or loss.

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

(ii) Non-financial assets

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

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

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

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

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

3 Significant accounting policies *(continued)*

3.9 Employee benefits

(i) Defined pension fund contributions

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

(i) Long-term employee benefits

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

(ii) Bonus plans

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

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

3.10 Provisions

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

3.11 Revenue

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

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

3.12 Financial income and expenses

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

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

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

3 Significant accounting policies *(continued)*

3.13 Accounting for leases – where the Company is the lessee

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

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

3.14 Investment in associates

Associates are those entities in which the Company has significant influence, but not control. Significant influence is presumed to exist when the Company has influence over the financial and operating policies of the associate, but does not have control or joint control on chosen policies. Associates are initially recognised at cost with subsequent remeasurement at cost less impairment losses.

3.15 Share capital

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

3.16 Dividends

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

3.17 Segment information

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

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

3 Significant accounting policies *(continued)*

3.18 Taxation

(i) Income tax

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

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

(ii) Deferred tax assets and liabilities

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

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

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

(iii) Tax exposures

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

(iv Value added tax (VAT)

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

4 Comparatives and restatement of opening balances

During 2012, a correction has been made in the Company's consolidated financial statements for the year ended 31 December 2011. In accordance with the requirements of International Accounting Standard ("IAS") 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, this correction has been restated in comparative information shown in these financial statements.

Factoring contracts

In the ordinary course of business, the Company enters into factoring contracts whereby it sells a part of its trade receivables from three largest domestic debtors to factoring companies thus financing its short-term operating cash flows. The factoring contracts are concluded with recourse, where the risk of collection of receivables is ultimately borne by the Company. In previous reporting periods, the Company treated such factoring contracts as collection of trade receivables from customers, and recorded the potential liabilities under factoring contracts off-balance sheet. In 2012, the Company recognised liabilities towards factoring companies (in note 26 "Borrowings") and trade receivables (in note 22) in the amount of HRK 165,402 thousand at 31 December 2011 *(HRK 175,754 thousand as at 1 January 2011)* in accordance with the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*. Furthermore, the Company also restated the statement of cash flows by decreasing net cash flows from operating activities and increasing net cash flows from financing activities in the amount of HRK 507,661 thousand for 2011. The aforementioned restatement had no impact on the statement of comprehensive income as all of the costs relating to the factoring contracts are borne by the customers whose receivables are the subject of the factoring agreement.

5 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2012, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

(i) IFRS 9 Financial instruments

IFRS 9 Financial instruments (the complete version of this standard has not yet been adopted and the IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting), replaces IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 is obligatory for financial statements for periods beginning on or after 1 January 2015 with earlier adoption permitted. The standard introduces significant changes in terms of the classification and measurement of financial assets. The Company has not yet determined the date of the first adoption of IFRS 9 nor has it fully analysed the effects of its adoption.

(ii) IFRS 13 Fair value measurement

IFRS 13 is mandatory for financial statements for periods from 1 January 2013, with possible usage in earlier periods. It provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Company will apply IFRS 13 beginning from 1 January 2013, and considers that no significant changes will occur.

6 Key accounting judgements and estimates

Critical judgements in applying accounting policies

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

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

(i) Deferred income tax assets recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (see accounting policy 3.18 and note 14).

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

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see accounting policy 3.9 and note 27).

(iii) Consequences of certain legal actions

There are a number of legal actions which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal actions, and the provisions for the Company's obligations arising from these legal actions are recognised on a consistent basis (see accounting policy 3.10 and note 27).

(iv) Trade receivables - impairment

Trade receivables have been estimated on each balance sheet date (and monthly) and are impaired according to the estimate of the probability to collect the amount stated. Each customer is valuated separately based on its status (i.e. customer is blocked and is cash only customer, legal procedure have been commenced), the ageing of the amount due, stage of legal case (short-legal procedure or regular legal procedure), security of payment (e.g. bill of exchange).

7 Determination of fair value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination (acquisition of the subsidiary Luka Šibenik d.o.o.) is the estimated amount for which a property, plant and equipment could be exchanged on the date of acquisition between two willing parties under normal business conditions. The fair value of items of property, plant and equipment is determined based on the discounted cash flows method.

Inventory

The fair value of inventories acquired in a business combination (acquisition of the subsidiary Luka Šibenik d.o.o.) is determined based on the estimated selling price in the ordinary course of business less the estimated costs to sell the inventories.

Investments in equity securities

The fair value of equity securities classified as financial assets at fair value through profit or loss is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique.

Trade and other receivables / trade and other payables

Trade and other receivables and trade and other payables stated at cost less impairment losses are approximately equal to their fair value, since these receivables and payables are current receivables and payables.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Petrokemija d.d.
Notes *(continued)*

8 Revenue

	2012 HRK '000	2011 HRK '000
Revenue from sale of products and merchandise	**2,951,245**	2,895,864
Revenue from services	**4,150**	4,995
	2,955,395	2,900,859

An overview of revenue per market is given below:

	2012 HRK '000	2011 HRK '000
Croatia	**1,016,013**	985,691
Slovenia	**192,440**	170,433
Bosnia and Hezegovina	**145,828**	128,422
Serbia and Montenegro	**310,576**	88,262
Macedonia	**23,099**	18,595
Sales in countries outside the region	**1,267,439**	1,509,456
	2,955,395	2,900,859

9 Other operating income

	2012 HRK '000	2011 HRK '000
Sale of raw materials	**18,480**	4,346
Manufacture of spare parts	**8,193**	4,329
Own consumption	**7,251**	7,378
Insurance reimbursements	**7,701**	7,509
Manufacture of packaging	**5,719**	7,393
Inventory surplus	**2,789**	2,802
Other income	**16,432**	13,732
	66,565	47,489

10 Cost of goods sold

	2012 HRK '000	2011 HRK '000
Raw materials and consumables used	**2,664,776**	2,359,478
Cost of wholesale and retail goods sold	**45,214**	9,355
Cost of production services	**91,139**	116,393
	2,801,129	2,485,226

11 Personnel expenses

	2012 HRK '000	2011 HRK '000
Salaries	**155,506**	147,162
Contributions on salaries	**33,139**	34,313
Other staff costs	**58,325**	56,351
	246,970	237,826

The number of employees as at 31 December 2012 in the Company was 2,294 *(2011: 2,301)*. Personnel costs include HRK 41,142 thousand *(2011: HRK 40,116 thousand)* of defined pension contributions paid into obligatory state funds. Contributions are calculated as a percentage of employees' gross salaries.

12 Other operating expenses

	2012 HRK '000	2011 HRK '000
Impairment of inventories	**110**	1,645
Other fees and taxes	**26,171**	26,274
Other employee costs	**21,436**	24,960
Impairment of goodwill	**12,587**	-
Insurance	**11,795**	11,773
Increase in provision	**2,887**	1,034
Bank charges	**6,600**	5,932
Inventory loss	**6,312**	2,586
Impairment of trade receivables	**2,430**	744
Intellectual services	**2,772**	391
Travel expenses	**1,544**	1,265
Other	**10,895**	16,492
	105,539	93,096

13 Financial income and financial expenses

	2012 HRK '000	2011 HRK '000
Interest	**3,057**	4,634
Foreign exchange differences	**18,810**	19,612
Other financial income	**5,604**	368
Gain on remeasurement of interest in former associate	**4,269**	-
Total financial income	**31,740**	24,614
Unrealised losses on financial assets	**-**	(2,039)
Interest expense	**(34,211)**	(31,438)
Foreign exchange losses	**(16,739)**	(22,601)
Total financial expenses	**(50,949)**	(56,078)
Net finance costs	**(19,209)**	(31,464)

14 Income tax expense

Recognised in the statement of comprehensive income:

	2012 HRK '000	2011 HRK '000
Current income tax	**134**	60
	134	60

Effective tax rate reconciliation

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

	2012 HRK '000	2011 HRK '000
Profit/(loss) before taxation	**(184,665)**	106,548
Tax calculated at 20% (2011:20%)	**(36,933)**	21,310
Non-deductible expenses and non-taxable income	**181**	207
Temproray differences and tax losses not recognised as deferred tax assets	**1,987**	446
Utilisation of temporary differences previously not recognised as deferred tax assets	**(529)**	(171)
Utilisation of tax losses previously not recognised as deferred tax assets	-	(22,043)
Tax recognised in the statement of comprehensive income	**35,557**	-
Effect of different tax rates	**(129)**	311
Tax expense recognised in the statement of comprehensive income	**134**	60
Effective tax rate	**(0.1%)**	0.1%

At the reporting date, carry forward tax losses of the Company amounting to HRK 466,884 thousand *(2011: HRK 287,558 thousand)* have not been recognised as a deferred tax asset as management believes it is not probable that future taxable profits will be available to utilise the unused tax losses.

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

	2012 HRK '000	2011 HRK '000
Tax loss from 2009 - expires on 31 December 2014	**34,208**	34,208
Tax loss from 2010 - expires on 31 December 2015	**23,304**	23,304
Tax loss from 2012 - expires on 31 December 2017	**35,865**	-
	93,377	57,512

15 Property, plant and equipment

(in thousands of HRK)	Land	Buildings	Plant and equipment	Equipment and fittings	Other assets	Assets under construction	Prepayments	Total
Cost								
At 1 January 2011	49,419	561,016	1,030,775	46,893	472	33,654	-	1,722,229
Additions	-	58	14	-	-	43,014	3,082	46,168
Transfers	-	4,524	55,870	2,424	22	(62,840)	-	-
Disposals	(7)	(62)	(2,830)	(400)	-	-	-	(3,299)
At 31 December 2011	**49,412**	**565,536**	**1,083,829**	**48,917**	**494**	**13,828**	**3,082**	**1,765,098**
Accumulated depreciation								
At 1 January 2011	-	238,515	663,877	33,352	-	-	-	935,744
Charge for the year	-	21,346	67,863	3,456	-	-	-	92,665
Disposals	-	(21)	(2,776)	(394)	-	-	-	(3,191)
At 31 December 2011	**-**	**259,840**	**728,964**	**36,414**	**-**	**-**	**-**	**1,025,218**
Carrying amount								
As at 31 December 2011	**49,412**	**305,696**	**354,865**	**12,503**	**494**	**13,828**	**3,082**	**739,880**
Cost								
At 1 January 2012	49,412	565,536	1,083,829	48,917	494	13,828	3,082	1,765,098
Additions	-	134	11,438	-	-	80,809	-	92,381
Acquisition through business combination	-	-	5,631	85	-	-	-	5,716
Transfers	70	7,732	26,618	4,520	6	(38,885)	(61)	-
Disposals	-	-	(303)	(1,172)	-	-	-	(1,475)
At 31 December 2012	**49,482**	**573,402**	**1,127,213**	**52,350**	**500**	**55,752**	**3,021**	**1,861,720**
Accumulated depreciation								
At 1 January 2012	-	259,840	728,964	36,414	-	-	-	1,025,218
Charge for the year	-	21,826	72,386	3,762	-	-	-	97,974
Disposals	-	-	(253)	(1,170)	-	-	-	(1,423)
At 31 December 2012	**-**	**281,666**	**801,097**	**39,006**	**-**	**-**	**-**	**1,121,769**
Carrying amount								
As at 31 December 2012	**49,482**	**291,736**	**326,116**	**13,344**	**500**	**55,752**	**3,021**	**739,951**

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

The Company has mortgages amounting to HRK 191,799 thousand over its property as security for loans and borrowings.

16 Intangible assets

(in thousands of HRK)	Assets under construction	Software and project documentation	Total
Cost			
At 1 January 2011	1,442	18,919	20,361
Additions	1,129	5	1,134
Transfers	(596)	596	-
At 31 December 2011	**1,975**	**19,520**	**21,495**
Accumulated amortisation			
At 1 January 2011	-	12,295	12,295
Charge for the year	-	1,524	1,524
At 31 December 2011	-	**13,819**	**13,819**
Carrying amount			
As at 31 December 2011	**1,975**	**5,701**	**7,676**
Cost			
At 1 January 2012	1,975	19,520	21,495
Additions	2,273	-	2,273
Transfers	(640)	640	-
At 31 December 2012	**3,608**	**20,160**	**23,768**
Accumulated amortisation			
At 1 January 2012	-	13,819	13,819
Charge for the year	-	1,792	1,792
At 31 December 2012	-	**15,611**	**15,611**
Carrying amount			
As at 31 December 2012	**3,608**	**4,549**	**8,157**

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

17 Subsidiaries

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

Name of subsidiary	**2012.**	2011.
Petrokemija d.o.o., Novo Mesto	**100%**	100%
Petrokemija d.o.o., Novi Sad	**100%**	100%
Restoran Petrokemija d.o.o., Kutina	**100%**	100%
Luka Šibenik d.o.o.	**80%**	30%

During 2012, the Company acquired an additional 50% stake in former associate Luka Šibenik d.o.o. and increase its stakeholding to 80%. Details with respect to the acquisition are presented in note 29.

18 Investment in associate

The Company gained control over its associate Luka Šibenik d.o.o. on 30 June 2012 (see note 29) from which date this company was treated as a subsidiary and consolidated. Movement in the investment in associate under the equity method of accounting until the date when control transferred to the Company was as follows:

	2012 **HRK '000**	2011 HRK '000
As at 1 January	**3,525**	4,180
Acquisition of additional shares	**20**	229
Receipt of dividends	**-**	(964)
Share in profit/(loss)	**(884)**	80
Disposal of associate and acquisition of subsidiary	**(2,661)**	-
As at 31 December	**-**	3,525

19 Financial assets

	2012 **HRK '000**	2011 HRK '000
Non-current financial assets		
TV Moslavina, Kutina (ownership share of 12%)	**8**	8
Current financial assets		
Deposits	**33,169**	15,061

Deposits relate to bank deposits at variable interest rates with maturity of up to three months.

20 Financial assets at fair value through profit or loss

	2012 **HRK '000**	2011 HRK '000
Investment in equity securities	**12,360**	10,759
	12,360	10,759

	2012 **HRK '000**	2011 HRK '000
Opening carrying value	**10,759**	12,798
Effect of remeasurement at fair value	**793**	(2,039)
Acquisition through business combination	**808**	-
Closing carrying value	**12,360**	10,759

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

21 Inventories

	2012 HRK '000	2011 HRK '000
Raw materials and supplies	**157,291**	203,197
Work in progress	**70,216**	41,135
Finished goods	**333,854**	300,391
Trade goods	**5,140**	4,301
Spare parts	**94,663**	104,423
Prepayments	**1,954**	436
	663,118	653,883

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

22 Trade and other receivables

	2012 HRK '000	2011 HRK '000
Current receivables		
Trade receivables	**388,652**	334,570
Less: Provisions for impairment	**(13,118)**	(21,430)
Net trade receivables	**375,534**	313,140
Prepaid expenses	**2,709**	2,734
Receivables for taxes and contributions	**72,519**	40,130
Bills of exchange received	**5,546**	5,150
Receivables from employees	**56**	21
Other receivables	**5,149**	3,334
	461,513	364,509

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

	2012 HRK '000	2011 HRK '000
At 1 January	**21,430**	23,819
Increase	**2,176**	631
Amounts collected	**(433)**	(1,070)
Written off as uncollectible	**(10,055)**	(1,950)
At 31 December	**13,118**	21,430

23 Cash and cash equivalents

	2012 HRK '000	2011 HRK '000
Cash with banks	**17,480**	12,917
Cash in hand	**14**	6
	17,494	12,923
Deposits	**33,169**	15,061
Cash and cash equivalents as presented in the statement of cash flows	**50,663**	27,984

Deposits related to bank deposits with maturity up to three months (see note 19).

24 Share capital

	2012 HRK '000	2011 HRK '000
Share capital	**902,102**	902,102

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

Structure of ownership	**2012 Number of shares**	**% of ownership**	**2011 Number of shares**	% of ownership
AUDIO/Republic of Croatia	**1,691,742**	**50.63%**	1,691,742	50.63%
Societe Generale-Splitska banka d.d. /Erste Plavi OMF	**184,883**	**5.53%**	184,883	5.53%
Hypo Alpe-Adria bank d.d./PBZ Croatia osiguranje d.d.OMF	**160,549**	**4.81%**	160,549	4.81%
Societe Generale-Splitska banka d.d. / AZ OMF	**148,064**	**4.43%**	148,064	4.43%
Bakić Nenad	**111,540**	**3.33%**	104,475	3.13%
Hrvatska poštanska banka d.d./ Kapitalni fond d.d.	**95,273**	**2.85%**	95,273	2.85%
Societe Generale-Splitska banka d.d / AZ Profit DMF	**72,462**	**2.17%**	72,462	2.17%
PBZ d.d. / State street client account	**59,011**	**1.76%**	50,505	1.51%
PBZ d.d. - Bank of New York custody account	**26,951**	**0.81%**	24,136	0.72%
Zagrebačka banka d.d. /custody account ZABA d.d.	**25,688**	**0.76%**	21,876	0.65%
Other shareholders	**764,954**	**22.92%**	787,152	23.56%
Total	**3,341,117**	**100.00%**	3,341,117	99.99%

Share capital comprises 3,341,117 ordinary shares (2011: 3,341,117 shares) of a nominal value of HRK 270 per share. Holders of ordinary shares have a right to receive dividends and a right for one vote per share at the General Assembly of the Company.

25 Accumulated losses

	2012 HRK '000	2011 HRK '000
As at 1 January	**(138,227)**	(245,089)
Profit/(loss) for the year	**(185,043)**	106,488
Exchange differences on translation of foreign operations	**287**	374
As at 31 December	**(322,983)**	(138,227)

Accumulated losses include translation reserves arising on consolidation of foreign operations.

26 Loans and borrowings

	2012 HRK '000	2011 HRK '000
Non-current borrowings		
Banks	**123,333**	80,000
	123,333	80,000
Current borrowings		
Banks	**323,167**	295,722
Commercial papers	**82,000**	81,176
Factoring liabilities	**224,162**	165,402
Related party loans	**-**	2,000
Other loans	**4,500**	10,000
	633,829	554,300
Total borrowings	**757,162**	634,300

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

	2012 HRK '000	2011 HRK '000
Up to 1 year	**633,829**	554,300
Between 1 and 2 years	**61,389**	62,223
Between 2 and 5 years	**59,444**	17,777
Over 5 years	**2,500**	-
	757,162	634,300

Loans amounting to HRK 414,000 thousand have variable interest rates. The variable interest rates for bank loans included in the table above were in the range from 4% to 9.8%.

Bank loans amounting to HRK 37,000 thousand have fixed interest rates. The fixed interest rates for bank loans included in the table above were in the range from 4.6% to 5.8%.

Commercial papers have fixed interest rates. The interest rates for commercial papers included in the table above were in the range from 6.75% to 9%.

Security

Loans and borrowings are secured by mortgages over the Company's property amounting to HRK 191,799 thousand and inventories of finished products amounting to HRK 187,992 thousand as well as with bills of exchange and debentures.

Factoring liabilities

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

27 Provisions

(in thousands of HRK)	**Jubilee awards**	**Retirement benefits**	**Legal actions**	**Total**
At 31 December 2011				
Non-current	8,737	3,375	2,085	14,197
At 1 January 2012	**8,737**	**3,375**	**2,085**	**14,197**
Increase	1,945	432	500	2,877
Utilised	(1,345)	-	(635)	(1,980)
At 31 December 2012	**9,337**	**3,807**	**1,950**	**15,094**
At 31 December 2012				
Non-current	9,337	3,807	1,950	15,094

Court cases

There are a number of legal proceedings initiated against the Company for minor amounts as well as those initiated by the Company against others. A provision amounting to HRK 1,950 thousand was recognised in relation to legal proceedings. Management believes that no significant costs exceeding those provided for at the reporting date will occur as a result of ongoing legal proceedings.

Jubilee awards and regular retirement benefits

According to the Collective Agreement the Company has an obligation to pay jubilee awards, retirement and other benefits to employees. In accordance with the respective agreement, the employees are entitled to a regular retirement benefit (without stimulating retirement benefit) in the net amount of HRK 10 thousand, of which HRK 2 thousand are taxable. No other post-retirement benefits are provided.

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

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

	2012	2011
Discount rate	**4,7%**	5.0%
Fluctuation rate	**3,35%**	4,77%

28 Trade and other payables

	2012 HRK '000	2011 HRK '000
Trade payables	**485,964**	339,105
Related party payables	**-**	1,882
Salaries and other benefits to employees	**18,220**	17,113
Accrued interest	**1,259**	1,694
Taxes, contributions and other duties	**8,301**	8,417
Advances received	**60,958**	25,963
Other	**4,654**	1,651
	579,356	395,825

29 Acquisition of subsidiary

On 30 June 2012 the Company acquired 50% of share capital of the former associate Luka Šibenik d.o.o. where it previously held an ownership interest of 30%. The acquisition of the subsidiary resulted in a financial gain for the Group in the amount of HRK 4,269 thousand arising on the re-measurement of the previously held ownership interest at fair value on the date of acquisition. The acquisition price as defined in the terms of the share purchase agreement was defined as a fixed monetary amount of HRK 24,253 thousand. The calculation of the total consideration with respect to the acquisition is as follows:

	30 June 2012
	HRK '000
Acquisition of subsidiary	
- Consideration on acquisition of 50% ownership interest	24,253
- Fair value of previously held ownership interest (29.71%)	6,931
Total consideration	**31,184**

The fair value of assets and liabilities acquired is as follows:

As at 30 June 2012	Carrying value	Decrease	Fair value
	HRK '000	HRK '000	HRK '000
Property, plant and equipment (note 15)	5,716	-	**5,716**
Non-current financial assets	1,219	(215)	**1,004**
Inventory	4,158	-	**4,158**
Trade and other receivables	5,625	(641)	**4,984**
Cash and cash equivalents	10,623	-	**10,623**
Non-current liabilities	(386)	-	**(386)**
Current liabilities	(2,771)	-	**(2,771)**
Identifiable net assets	**24,184**	**(856)**	**23,328**
Acquired identifiable net assets (80% share)			18,597
Net consideration received on acquisition			31,184
Goodwill on acquisition			**12,587**
Impairment of goodwill			(12,587)
Goodwill after impairment			-

Cash paid for acuisition of subsidiary	24,253
Cash and cash equivalents acquired	(10,623)
Cash outflows for acquisition of subsidiary net of cash acquired	**13,630**

During 2012, the majority owner of Luka Šibenik d.o.o., the company Transadria d.d. which went into receivership during 2011, put the investment in its subsidiary up for sale at a fixed price of HRK 24,253 thousand as part of its efforts to settle its liabilities toward creditors in the receivership process.

The Company submitted a bid with a cash consideration matching the asked price. The primary reason for the acquisition was of a strategic nature as Luka Šibenik d.o.o. is the main point of export for the Company's significant export activities. Subsequent to the acquisition, the Company engaged an independent valuer to assess the fair value of the acquired subsidiary and perform the purchase price allocation. The valuation resulted in the impairment of goodwill on acquisition as the future discounted cash flows supported only the fair value of acquired identifiable net assets.

The excess consideration paid is deemed a strategic decision to secure a stable port for import and export as the opportunity costs of transferring its import-export activities to another port are not considered financially and operationally acceptable. However, as these future costs are not reliably measurable, the excess of consideration over the fair value of identifiable net assets representing goodwill on acquisition does not meet the criteria for recognition as an asset and is accordingly fully impaired.

30 Earnings/(loss) per share

Basic earnings/(loss) per share

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

	2012	2011
Profit/(loss) attributable to equity holders of the parent (in thousands of HRK)	**(185,043)**	106,488
Weighted average number of shares	**3,314,117**	3,314,117
Basic and dilluted earnings/(loss) per share in HRK	**(55.83)**	32.13

31 Risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Management has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company does not have a written risk management programme (the Company did not use any derivative financial instruments to actively hedge against financial risks) but management monitors operational risks, by introducing levels of authorisation and responsibility.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2012	2011
	HRK '000	HRK '000
Non-current investments and financial assets	**8**	3,533
Current financial assets	**33,169**	15,061
Financial assets at fair value through profit or loss	**12,360**	10,759
Trade and other receivables	**461,513**	364,509
Cash and cash equivalents	**17,494**	12,923
	524,544	406,785

Trade and other receivables

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

The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

Petrokemija d.d.

Notes *(continued)*

31 Risk management *(continued)*

Credit risk *(continued)*

The maximum exposure to credit risk for trade receivables and related party receivables at the reporting date by geographic regions:

	2012 HRK '000	2011 HRK '000
Domestic trade receivables	**373,829**	324,108
Foreign trade receivables	**14,823**	10,462
	388,652	334,570

The Company's most significant customer is a Croatian conglomerate which accounts for approximately 35% of domestic sales and approximately 63% of total trade receivables (2011: 55 %).

The ageing of trade receivables at the reporting date was:

	2012 HRK '000	2011 HRK '000
Not yet due	**366,900**	298,681
Overdue 0-120 days	**6,362**	12,093
Overdue 121-180 days	**1,531**	947
Overdue 181-360 days	**939**	1,045
Overdue over 1 year	**12,920**	21,804
	388,652	334,570

Petrokemija d.d.

Notes *(continued)*

31 Risk management *(continued)*

Credit risk *(continued)*

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations.

The following are the contractual maturities of financial liabilities as at the reporting date:

(in thousands of HRK)	**Future contracted cash flows**		**Finance cost**		**Present value of min. loan payments**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Up to 1 year	579,356	395,825	-	-	579,356	395,825
Trade and other payables	**579,356**	**395,825**	-	-	**579,356**	**395,825**
Up to 1 year	653,329	570,640	(19,500)	(16,340)	633,829	554,300
Between 1 and 2 years	66,239	64,570	(4,850)	(2,347)	61,389	62,223
Between 2 and 5 years	64,594	19,460	(5,150)	(1,683)	59,444	17,777
After 5 years	2,568	-	(68)	-	2,500	-
Borrowings	**786,730**	**654,670**	**(29,568)**	**(20,370)**	**757,162**	**634,300**
Total	**1,366,086**	**1,050,495**	**(29,568)**	**(20,370)**	**1,336,518**	**1,030,125**
Included in the financial statements within:						
Current borrowings					633,829	554,300
Non-current borrowings					123,333	80,000
Trade and other payables					579,356	395,825
					1,336,518	**1,030,125**

In the year ended 31 December 2012 the Company incurred a loss after tax of HRK 184,799 thousand. Furthermore, as at 31 December 2012 the Company's current liabilities exceeded its current assets by HRK 25,595 thousand. With respect to these circumstances, the ability of the Company to continue to trade and meet its liabilities as they fall due is dependent on the continued financial support of its owners or financiers. Management believes that the use of the going concern assumption in the preparation of these financial statements is appropriate.

During 2012, 15th and 16th installment of commercial papers with maturity on 2 May 2012 and 7 September 2012, respectively, were refinanced by issuing 17th installment in the amount of HRK 42,000 thousand and 18th installment in the amount of HRK 40,000 thousand which mature on 26 April and 4 September 2013, respectively. The issue of commercial papers was in part refinanced with a revolving loan from Hrvatska Poštanska banka d.d. (a commercial bank in majority ownership of the Republic of Croatia and a related party). As at the reporting date, total exposure relating to commercial papers amounted to HRK 82,000 thousand.

31 Risk management *(continued)*

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Company. The currencies in which these transactions primarily are denominated are EUR and USD. Borrowings are denominated in Croatian kuna and the Company is not exposed to currency risk in this respect.

The following significant exchange rates in comparison to the Croatian kuna (HRK) applied during the year:

	Average rate		**Reporting date spot rate**	
	2012	2011	**2012**	2011
EUR	**7.517340**	7.434204	**7.545624**	7.530420
USD	**5.850861**	5.343508	**5.726794**	5.819940

The Company's exposure to foreign currency risk is as follows:

	2012	**2011**	**2012**	2011
	EUR '000	**EUR '000**	**USD '000**	USD '000
Trade and other receivables	**3,774**	1,767	**23**	24
Trade and other payables	**(14,256)**	(7,832)	**(17,879)**	(11,447)
	(10,482)	(6,065)	**(17,856)**	(11,423)

Currency risk sensitivity analysis with respect to EUR denominated balances

The strengthening of EUR by 1% in relation to HRK at the reporting date would have decreased result of the Company by HRK 791 thousand *(2011: HRK 457 thousand)*, assuming all other variables, in particular interest rates, remain constant.

A 1% percent weakening of EUR against HRK at the reporting date would have had the equal but opposite effect on the result before tax, on the basis that all other variables remain constant.

Currency risk sensitivity analysis with respect to USD denominated balances

The strengthening of USD by 1% in relation to HRK at the reporting date would have decreased result of the Company by HRK 1,023 thousand *(2011: HRK 665 thousand)*, assuming all other variables, in particular interest rates, remain constant.

A 1% percent weakening of USD against HRK at the reporting date would have had the equal but opposite effect on the result before tax, on the basis that all other variables remain constant.

31 Risk management *(continued)*

Market risk *(continued)*

Interest rate risk

The Company is exposed to interest rate risk as loans are agreed at floating rates while majority of the assets bear no interests. The Company does not hedge exposure to interest rate risk.

	2012	2011
	HRK '000	HRK '000
Instruments with fixed interest rate		
Financial liabilities	**119,000**	130,176
	119,000	130,176
Instruments with variable interest rate		
Financial assets	**33,169**	15,061
Financial liabilities	**414,000**	338,722
	447,169	353,783

32 Contractual commitments

The Company has a contractual commitment for purchase of natural gas from the supplier Prirodni Plin d.o.o. (a subsidiary of INA d.d. in which the Republic of Croatia has an ownership stake of 44.8%). As per the contract currently in force, the Company has an obligation to buy 80% of natural gas required in it production cycle from this supplier at market price determined using the "russian" formula (including transport costs). The contract was signed on 6 December 2011 and expires on 31 December 2013.

33 Related party transactions

The majority owner of Petrokemija d.d. is the Republic of Croatia which holds 50.64% of share capital and voting rights of the Company through the Government Asset Management Agency ("GAMA").

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

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

Transactions with associates

During 2011 and up to 30 June 2012, the present subsidiary Luka Šibenik d.o.o. was an associate of Petrokemija d.d.

Transactions with Luka Šibenik d.o.o. after the acquisition of the controlling interest have been eliminated on consolidation. As at 31 December 2011 the Company had liabilities towards the associate in the amount of HRK 1,882 thousand for purchase of goods and services and HRK 2,000 thousand relating to borrowings.

Transactions with State related parties

Given that its majority owner is the state, the Company is also in a related party relationship with State institutions and other companies in which the State is a majority owner or has a significant influence. Significant transactions of the Company with such entities relate to purchase of gas which is the basic raw material used in the Company's production cycle, freight rail transport services and supply of electricity.

The Company is also in part financed by a bank where the majority owner is the State.

During 2012, the Company had the following transactions with State related entities:

	2012 **HRK '000**	2011 HRK '000
Prirodni Plin d.o.o.		
Purchase of gas	**2,075,457**	1,842,731
Liabilities as at 31 December	**251,861**	191,170
HŽ Cargo d.o.o.		
Purchase of transport services	**66,031**	78,675
Liabilities as at 31 December	**4,359**	2,268
HEP Opskrba d.o.o.		
Purchase of electricity	**30,306**	9,496
Liabilities as at 31 December	**4,234**	180
HPB d.d.		
Borrowings as at 31 December	**91,500**	133,500

32 Related party transactions *(continued)*

Transactions with key management and Supervisory Board

Management Board remuneration relates to regular monthly payments for salaries and other benefits in kind. During 2012, remuneration paid to key management amounted to HRK 2,143 thousand *(2011: HRK 2,218 thousand)* and related to 4 persons *(2011: 6 persons)*.

Furthermore, during 2012, a total of HRK 414 thousand *(2011.: HRK 422 thousand)* was paid to the members of the Supervisory Board and related to 12 persons *(2011: 12 persons)*.

Furthermore, in 2012 the contract no. 140/12 was signed for the supply of equipment and services for the modernisation of existing measurement of vibrations in the plant Nitric Acid 2, between the parties Petrokemija d.d. and Turbomehanika d.o.o. represented by its director Ivan Majstrović, a member of the Supervisory board of the Company from 17 May 2012. Total value of the work performed was HRK 520 thousand. The contract was signed prior to Ivan Majstrović being elected to the Supervisory board of the Company.

34 Contingencies

Environmental provisions

Over a number of years, the Company formed a landfill of phosphogypsum which is a by-product of a part of the Company's production cycle and for which the Company has a legal obligation for land restoration and closure in accordance with a restoration plan. Currently, the Company does not have a detailed restoration plan and has not estimated the cost of restoration and closure of the landfill. Furthermore, the period in which the restoration is to be performed has not yet been estimated and depends on the future production strategy.

Limitations with respect to estimating the cost of restoration and closure

According to current legislation on waste (OG 178/04) phosphogypsum falls into the category of non-hazardous waste for which the Company has a disposal license issued by the Ministry of Environmental Protection. With respect to the type of waste, there are currently three models, or options, available for restoration and closure, the choice of which ultimately depends on the decisions of the relevant ministries, which in the end determines the amount of restoration costs:

- *Option 1*

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

- *Option 2*

  This option is developed on the basis of scientific research presented in the report "Gradual greening of phosphogypsum waste" from June 2012 and is more favourable as it does not require placement of foil and substantial amounts of clay and substrate.

- *Option 3*

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

Court cases

There are a number of legal proceedings initiated against the Company for minor amounts as well as those initiated by the Company against others. Management believes that no significant costs exceeding those provided for at the reporting date will occur as a result of ongoing legal proceedings as presented in note 27.

Petrokemija, Plc.
SUPERVISORY BOARD

Number : __11__ / 2013
Kutina, 29 March 2013

Based on Article 21 of Statute of Petrokemija, Plc. and Articles 300.c and 300.d of the Companies Act, at a meeting No. ___5__ /2013 held on 29 March 2013, the Supervisory Board of Petrokemija, Plc. issued the following

D E C I S I O N

ON GRANTING APPROVAL TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR 2012

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 2012.

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

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

II

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

- Consolidated Balance
- Consolidated Profit and Loss Account
- Consolidated Cash Flow Statement
- Consolidated Statement of Changes in Equity
- Petrokemija Group Annual Report
- Petrokemija, Plc. Management Board Report and consolidated financial reports of 31 December 2012 (Independent Auditor's Opinion and Notes).

III

Consolidated Balance Sheet assets and liabilities are recorded in the amount of **HRK 1,935,769,867.25.**

The actual consolidated loss of Petrokemija Group, Plc. business for 2012 amounts to **HRK 184,511,614.96**.

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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/ Goran Kralj/