Petrokemija d.d.

Consolidated
financial statements
for the year ended
31 December 2014

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

Petrokemija d.d.
Consolidated financial statements

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Annual report for the year ended 31 December 2014

Key business indicators for the year ended 31 December 2014

- Produced fertilizers: 1,086 thousand tons, 0.7% more than the previous year.
- Yield of currently installed plant capacities: up to 80%.
- Sales of fertilizers: 1,047 thousand tons, 5% less than the previous year.
- Domestic sales: 271 thousand tons, 13.1% less than the previous year.
- Exports: 776,000 tons, 1.8% less than the previous year.
- Actual total revenues of Petrokemija d.d.: HRK 2,248.9 million.
- Actual loss of Petrokemija d.d.: HRK 363.7 million (16.2% of total revenues), HRK 263.0 million without severance payments.
- EBITDA for Petrokemija d.d. -211.5 million, EBITDA without severance HRK - 111.1 million.
- Equity at 31 December 2014: Petrokemija d.d.: HRK 326.6 million.
- Invested in Petrokemija d.d.: HRK 39.9 million.
- Number of employees at 31 Dec 2014: Petrokemija d.d. 1,639, Petrokemija Group 1,793.

Report on the Company operations for the year ended 31 December 2014

In Jan-Dec period 2014 Petrokemija d.d. had total income of HRK 2,248.9 million and total expense of HRK 2,612.3 million. The Company reported loss in business operations of HRK 363.7 million or 16.2% of the total revenues. On an annual basis, total revenues were 13% lower and total expenses 10.4% lower than in 2013.

The main cause of decline in fertilizer prices is the situation in the global market. The reporting period was marked by a general downward trend in the purchase prices of raw materials and sales prices of fertilizers. The more rapid decline in revenue compared to the cost reduction was caused by a sharp decline in fertilizer price in the world market. Thereby the negative exposure of Petrokemija to the world market risk was fully revealed. In fact, only 29% of fertilizers was sold in Croatia and the rest was sold in export. As a result of lower sales, the production plants ran below installed capacity which also increased the variable and fixed costs per unit of product.

Another key cause of loss in 2014 are still high gas prices. Gas prices are still for about 20% up on the natural gas prices on the spot market. Following lengthy negotiations with the suppliers an agreement was concluded on the reduction of gas prices in the summer and partially in the fourth quarter as well as on debt rescheduling for current deliveries.

A third set of challenges in business that caused the loss are the Company internal inefficiencies – technological and energy inefficiency due to the low investment in modernization, under-utilization of human resources, and organizational and informational constraints which generate high overheads.

In the reporting period operating income was 12.7 % lower than in 2013, due to fall of prices of fertilizers in all markets. Total sales volumes of fertilizers was 5% lower as compared to the previous year.

Lower operating expenses compared to the previous year, are the result of lower average input prices of raw materials. There was a slight decline in purchase prices of all key raw materials and in natural gas this was somewhat more pronounced. Average actual gas purchase price in 2014, after a long period of continuous growth trend, was 6.7% lower than in 2013, and 20.7% lower than in 2012.

The yearly loss was increased by redundancy costs in the amount of HRK 100.4 million for the employees who left the Company as part of the restructuring program and rationalization of operations.

Income from domestic sales decreased by 26.7% in 2014 as compared to 2013 and income from exports decreased by 4.4%.

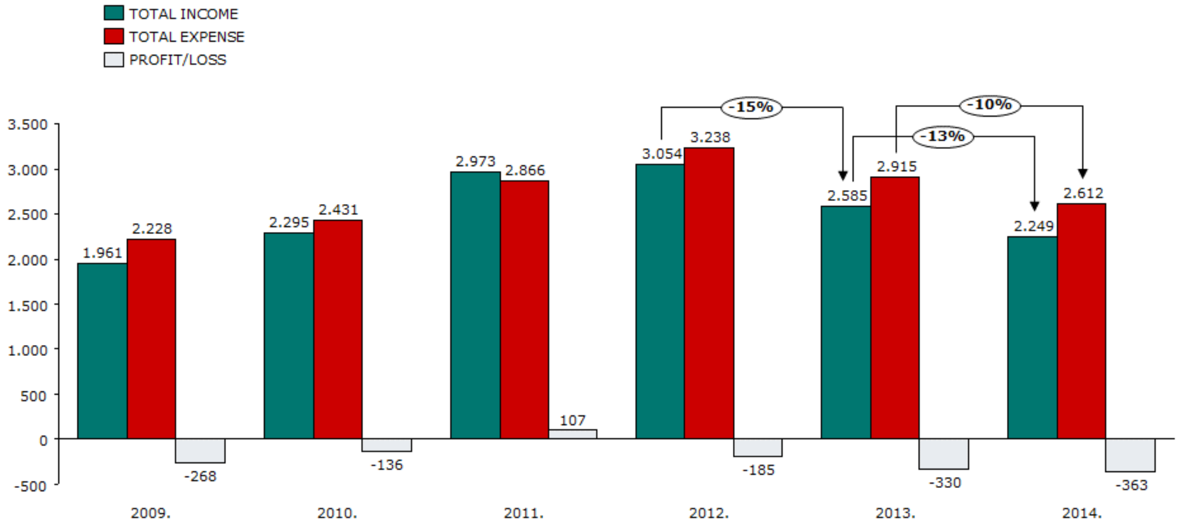
EBITDA indicator (earnings before interest, taxes, depreciation and amortization) was HRK 211.5 million negative. In 2013 EBITDA was HRK 202.75 million negative.

In the structure of loss, HRK 308.5 million or 84.9% was generated from operating activities, and HRK 54.9 million or 15.1% from financial operations.

Due to the partial failure of achieving the assumptions of the Program of Restructuring And Financial Consolidation for 2014-2018, a Revision Program was made in late 2014 for the planned period 2015-2019. In the Revision, key changes in the assumptions were made with regard to changes in product range and re-start of plants that are now stalled, as well as in reducing the amount of investment.

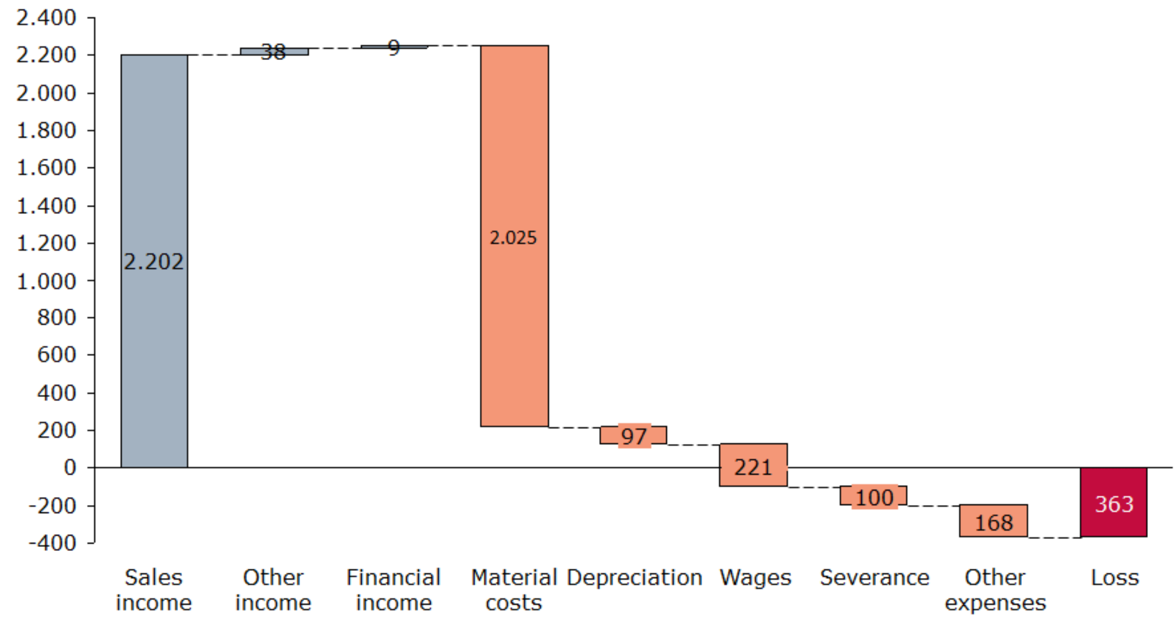
Report on the Company operations for the year ended 31 December 2014 *(continued)*

Profit and Loss 2009-2014



Structure of Profit and Loss

By achieved total income the Company manages to cover the cost of raw materials and energy, material services, packaging, spare parts, depreciation and part of wages, while the loss is generated by the remaining portion of wages, all intangible expenses and services and financial expenses.



Report on the Company operations for the year ended 31 December 2014 *(continued)*

Financial results of subsidiaries in 2014

In the year 2014, only one subsidiaries within the Petrokemija Group operated with profit, while other companies operated with a loss.

On February 20, 2014 subsidiary Petrokemija d.o.o. Novo Mesto was closed because after Croatian accession to the EU, REACH program operations can be performed in the parent company in Kutina.

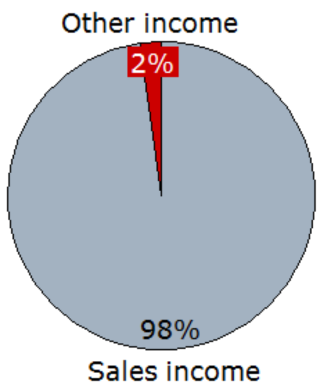
(HRK 000)

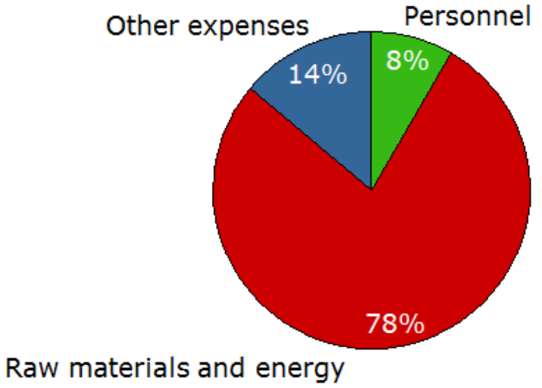
Description	***Restoran Petrokemija d.o.o.***	***Petrokemija Novi Sad d.o.o.***	***Petrokemija Novo Mesto d.o.o.***	***Luka Šibenik d.o.o.***
1	**2**	*3*	*4*	*5*
TOTAL INCOME	**1,831**	**133,670**	**0**	**19,647**
TOTAL EXPENSES	**1,929**	**131,176**	**0**	**22,039**
Therein:			**0**	
Material costs	1,195	128,344		4,880
Depreciation		22	0	1,779
Wages	472	686	0	11,914
Other costs	262	2,124	0	3,466
PROFIT OR LOSS BEFORE TAXATION	**-98**	**2,494**	**0**	**-2,392**

Structure of income and expenses in 2014

In 2014 Petrokemija achieved 29% of income from domestic market, 69% income from export, and financial and other income account for 2.0% of total income.

In structure of total expenses the dominant 78% account for raw materials and energy; personnel costs for 8%, while all other costs make 14%.





Report on the Company operations for the year ended 31 December 2014 *(continued)*

Key financial indicators

HRK 000

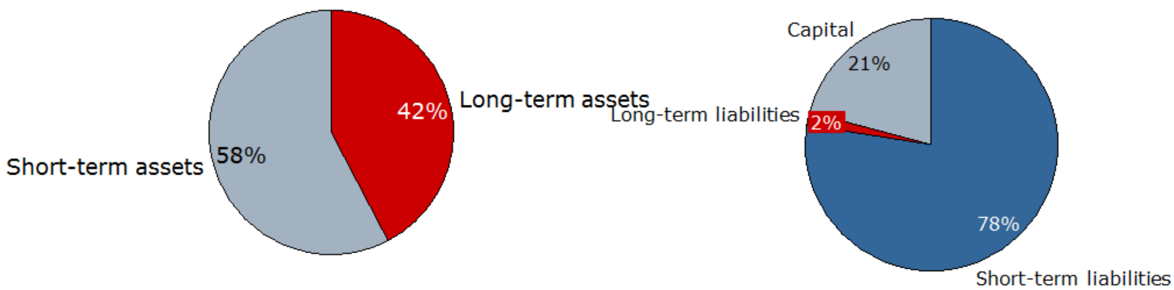
	Jan-Dec 2014	**Jan-Dec 2013**	**Difference**	**% change**
Operating revenue	2,239,504	2,566,333	-326,829	-12.74%
Operating expenses	2,547,999	2,865,565	-317,566	-11.08%
EBITDA	-211,547	-202,748	-8,799	-4.34%
EBITDA without severance	-111,207	-181,026	69,819	38.57%
Amortization and depreciation	96,948	96,484	464	0.48%
Net financial result	-54,868	-30,920	-23,948	-77.45%
Net result before taxation	-363,363	-330,152	-33,211	-10.06%
	Jan-Dec 2014	**Jan-Dec 2013**		
Non-current assets	666,468	719,303	-52,835	-7.35%
Current assets	908,144	890,437	17,707	1.99%
Capital and reserves	326,636	438,061	-111,425	-25.44%
Non-current liabilities + provisions	27,241	77,692	-50,451	-64.94%
Current liabilities + provisions	1,220,735	1,093,987	126,748	11.59%

Structure of assets and liabilities at 31 December 2014

At 31 Dec 2014, Petrokemija d.d. had 58% in value of short-term and 42% in long-term assets, which can be interpreted by relatively high depreciation and the age of production and auxiliary facilities.

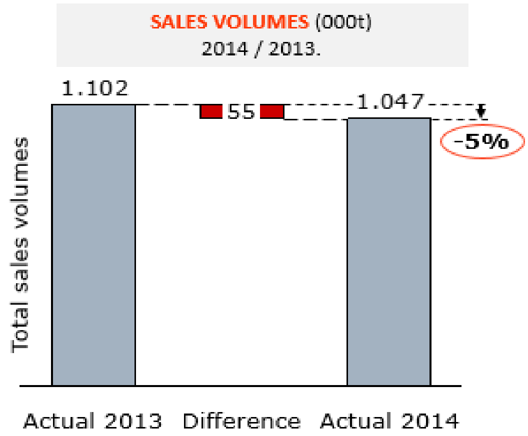
In the structure of debt is dominating are short-term sources, due to failure to obtain long-term loans at domestic financial market (global crisis, losses, ownership structure).

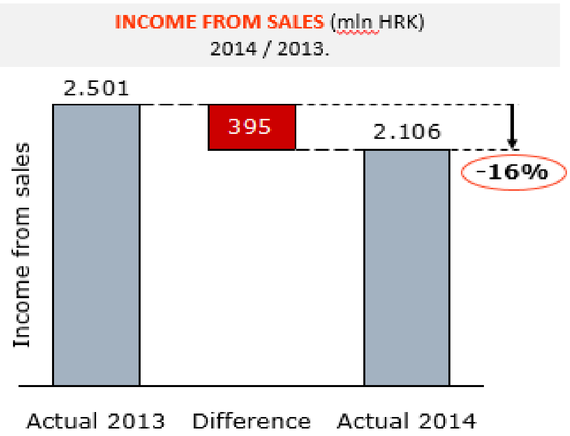
The losses for the Jan-Dec 2014 reached a level of 52.5% of share capital and reserves, including HRK 253 million from the first two rounds of recapitalization in the capital reserves.



Report on the Company operations for the year ended 31 December 2014 *(continued)*

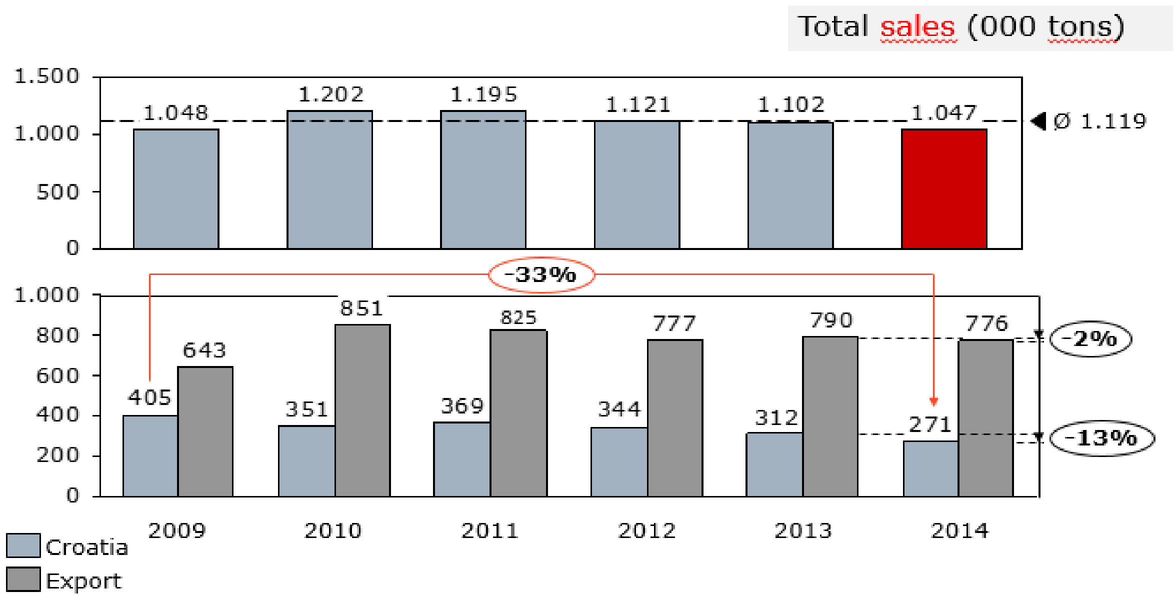
Total fertilizer sales





Actual fall in sales volumes of 5% resulted in the fall of income from sales by 16%, which indicates significant fall in average sales prices.

Actual fertilizer sales in 2014



Report on the Company operations for the year ended 31 December 2014 *(continued)*

Business results of Petrokemija Group for Jan-Dec 2014

After the consolidation of financial results of Petrokemija d.d. and its subsidiaries Restaurant Petrokemija d.o.o. Kutina, Petrokemija d.o.o. Novi Sad and Luka Šibenik d.o.o., the financial results of Petrokemija Group for the period January-December 2014 are as follows:

- Total revenues: HRK 2,248.92 million,
- Total expenses: HRK 2,612.28 million,
- Loss before tax: HRK -363.36 million,
- Income tax: HRK 0.37 million,
- Loss after tax: HRK -363.73 million,

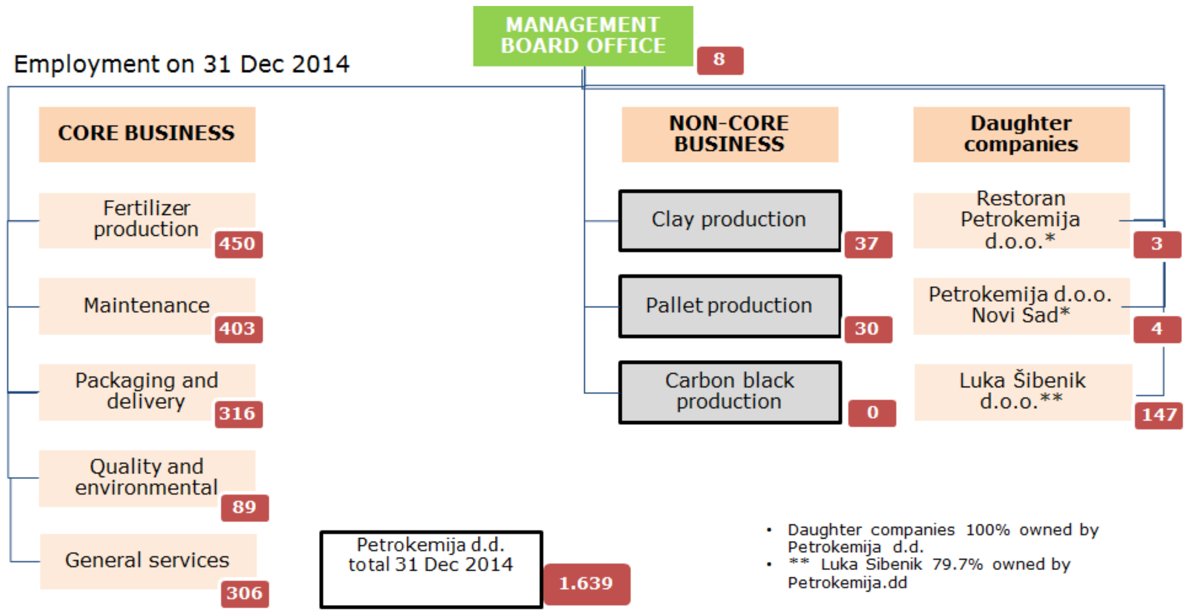
EBITDA (earnings before interest, taxes and depreciation) was negative HRK 211.5 million.

In the reporting period only Petrokemija d.o.o. Novi Sad made profit (HRK 2.5 million), while other companies operated with a loss.

On February 20, 2014 subsidiary Petrokemija d.o.o. Novo Mesto was closed.

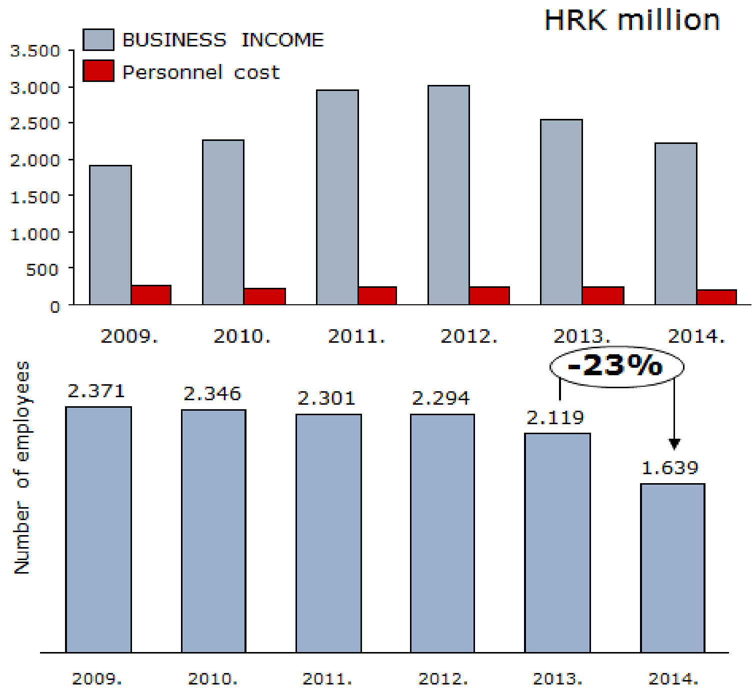
The report on the Petrokemija Group's business includes detailed information on the operations of the subsidiaries.

Organization chart of Petrokemija d.d. and Petrokemija Group



Report on the Company operations for the year ended 31 December 2014 *(continued)*

Operational income, personnel costs, number of employees

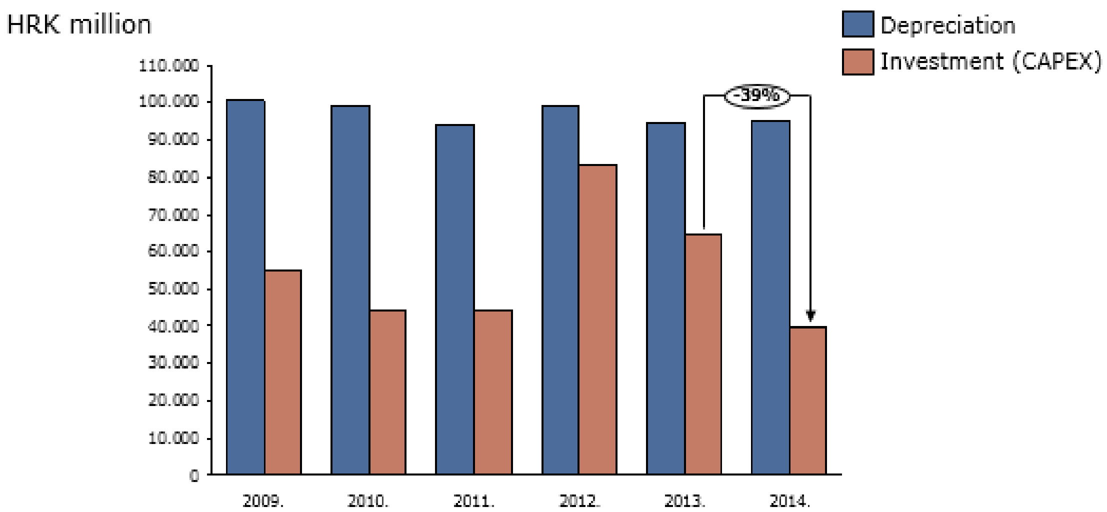


As at 31.12.2014, Petrokemija d.d. had 1,639 employees, and daughter companies - members of Petrokemija Group - had a total of 154 employees, which makes a total of 1,793 employees.

During 2014, the number of employees in Petrokemija d.d. was reduced by 23%.

Realized investment

Investment realized in the period January-December 2014 amounted to HRK 39.9 million which is HRK 25.5 million or 38.6% lower than in the same time previous year.



Report on the Company operations for the year ended 31 December 2014 *(continued)*

Air quality in the Kutina area in 2014 at local monitoring station (K1,K2,K3,K5,K6 and K7) and the state monitoring station (DMP)

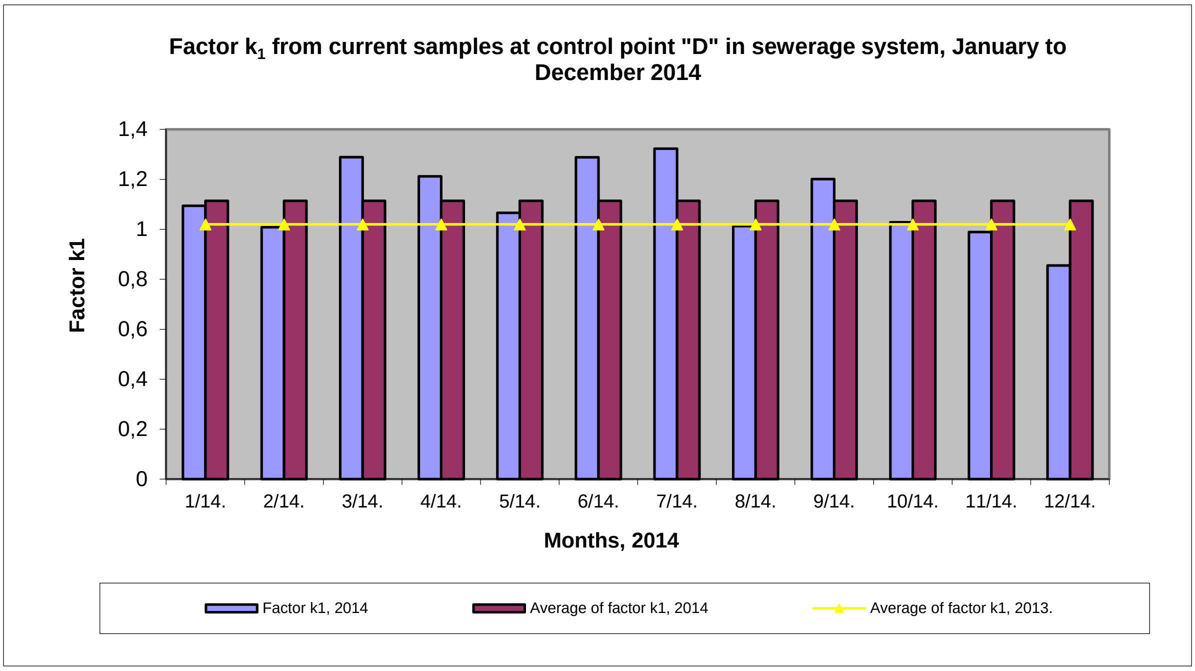
Clean or slightly polluted air	Polluted air	Pollutants
1st category C<LV	2nd category C>LV	
K2,K7, DMP		Sulfur dioxide (SO_2)
K1,K2,K3,K6,K7		Sediment
K1,K2,K3,K5, K6, DMP	K7	Ammonia (NH_3)
K1,K2,K3,K5, K6,K7, DMP		Nitrogen dioxide (NO_2)
K2,K7, DMP		Hydrogen sulfide (H_2S)
DMP		PM10

Report on the Company operations for the year ended 31 December 2014 *(continued)*

Ambient air limit value (LV) exceedance of AMMONIA in 2014 (local network)

Measuring station	***The number of limit value (LV) exceedances in 2014/permitted exceedance number***
K 1 - Dom zdravlja	2 / 7
K 2 - Vatrogasni dom	6 / 7
K 3 - Meteorološki krug	6 / 7
K 5 - Dom športova	1 / 7
K 6 - Husain	1 / 7
K 7 - Krč	**9** / 7 (2nd category)
TOTAL	**25**

Water management



The average value of k1 factor for the period from January to December 2014 is slightly higher compared to average achieved in 2013.

Average consumption of raw water in period from January to December 2014 was 605,674 m3, which is 1.92 % less than average achieved in 2013.

Report on the Company operations for the year ended 31 December 2014 *(continued)*

The share capital of the Company and the market value of the shares

General Meeting of Petrokemija d.d. of 20 May 2014 adopted a Decision on simplified reduction of the share capital for loss coverage by reduction of the nominal amount of the ordinary shares (ticker:PTKM-RA) of HRK 170.00 by an amount of HRK 140.00 to the amount of HRK 30.00. Therefore, the Company share capital was reduced from HRK 754,195,990.00 by the amount of HRK 621,102,580.00 to the amount of HRK 133,093,410.00.

On 31 December 2012 the share value was HRK 214.45, while on 31 December 2013 its average price was HRK 168.38 (down 21.5 %) and on 31 December 2014 its average price was HRK 27.5.

Changes in the Management and the Supervisory Board in 2014

At the General Meeting held on 20 May 2014, a Decision was made on the appointment of Branimir Fleković, BEc from Zagreb, as member of the Supervisory Board for a term of four years.

Pursuant to Article 256 of the Companies Act and the provisions of the Articles of Association of Petrokemija d.d., the State Office for State Property Management (DUUDI) passed a Decision on recall of members of the Supervisory Board, by which Jozo Bilobrk and Dragutin Vajnaht were recalled as Supervisory Board members.

The decision on the recall was due to changes in the Articles of Association of Petrokemija adopted by the General Meeting of 20 May 2014, whereby the number of Supervisory Board members was reduced from nine to seven and DUUDI's authority to appoint two members was removed.

At the Supervisory Board meeting of Petrokemija d.d. of 30 July 2014, its president, Tomislav Radoš resigned from the SB membership to take up a new appointment. Branimir Fleković was elected new President of the Supervisory Board

At the General Meeting held on 9 September 2014, it was established that the mandate for elected Supervisory member, Tomislav Radoš terminated on 29 July 2014, due to his resignation on grounds of a new appointment, incompatible with his membership in the Supervisory Board. Tomislav Pokaz, BE, from Zagreb, Martićeva 46, was appointed member of the Supervisory Board for a mandate of four years. Mr. Pokaz is Head of Sector for Industrial Competitiveness at the Ministry of Economy.

At its meeting held on 9 September 2014, the Supervisory Board of Petrokemija d.d. appointed Tomislav Pokaz as president of the Supervisory Board. The former SB president, Branimir Fleković was apponted vice-president of the Supervisory Board.

At the time of preparation of the reports, the members of the Supervisory Board are as follows: Tomislav Pokaz, president, Branimir Fleković, vice-president, Goran Kralj, Željko Klaus, Sonja Ivoš, Krešimir Huljev and Davor Rakić.

At the meeting held on 18 November 2014, the Supervisory Board of Petrokemija d.d. adopted a decision on mandate termination of the Company Management Board president, Mr. Dragan Marčinko and Board members Mr. Karlo Došen, Mr. Krešimir Kvaternik and Mr. Nenad Zečević as of 18 November 2014. Furthermore, the Supervisory Board appointed Mr. Nenad Zečević, BS from Kutina as president of the Board and Mrs. Antonija Perošević Galović, BS Econ from Kutina, Mrs. Tamara Pernar, BS Econ from Zagreb and Mr. Vladimir Fresl, MS from Kutina, as Board members. The mandate of the appointed members of the Board commences on 19 November 2014 and runs until 18 November 2018.

Report on the Company operations for the year ended 31 December 2014 *(continued)*

The process of choosing a strategic partner and capital increase

At its session held on 30 July 2013, Croatian Government commissioned the competent bodies to initiate the process of choosing a strategic partner for Petrokemija, whereby the state would retain at least 25 percent plus one share of the Company.

After the implemented procedure, on 31 March 2014 a session of the Government Commission for selection of strategic partner for Petrokemija was held at the Ministry of Economy. No binding offer was received in the required time limit.

At its 162nd session held on 22 May 2014, the Croatian Government adopted Conclusion and Decision relating to the Commission for the selection of a strategic partner of Petrokemija d.d.

After the expiry of the procedure for selecting strategic partner that did not result in the actual finding one, i.e. in the change in ownership structure, Petrokemija has begun a rapid restructuring process in collaboration with its current owners – the Government and pension funds.

At its meeting held on 9 April 2014, the Supervisory Board of Petrokemija d.d. approved the Program of Restructuring and Financial Consolidation of Petrokemija for 2014-2018 and in connection with this the proposal and decision on decrease and increase of the share capital to be submitted to the Company General Meeting. In accordance with the adopted decisions, Petrokemija d.d. convened the General Meeting.

At its 176th session of 17 July 2014, the Government adopted the Decision on Recapitalization of Petrokemija Fertilizer Company. The Restructuring and Sale Center was commissioned to carry out the subscription and payment of a maximum of 8,333,333 Company shares in the name and for the account of Republic of Croatia at a price ranging from HRK 30.00 to HRK 100.00 per share, pursuant to Public Invitation for subscription and payment of new ordinary Company shares, published on 7 July 2014.

In the first round, which lasted from 7 July 2014 to 21 July 2014, the existing shareholders, who had their shares registered in dematerialized securities account with the Central Depository and Clearing Company Inc. on the date of the publication of Invitation to the General Meeting in the Official Gazette, subscribed and paid for a total of 434,733 shares.

In the second round, the right to subscribe for all outstanding shares (maximum of 16,231,933 shares), belonged only to the existing shareholders of the Company who subscribed for New Shares in the first round. Subscription of shares in 2nd round lasted from 21 August 2014 to 27 August 2014, and 8,000,000 shares worth HRK 240 million were subscribed.

In the third round, which lasted from 27 January to 3 February 2015, the right of subscription of all remaining shares not subscribed for in first and second round (8,231,933 shares), belonged to all investors. In the third round there were no new subscriptions of shares.

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

The Company Board, with the consent of the Supervisory Board and with reference to the Decision on Capital Increase, determined the exact number of new Company shares, i.e. the share capital was increased by issuing 8,434,733 new dematerialized ordinary, registered shares, with a nominal value of HRK 30.00 each at the price that corresponds to the nominal amount the Company shares. The Board also determined the exact amount of the Company share capital increase so that the Company share capital increases from the amount of HRK 133,093,410.00 by the amount of HRK 253,041,990.00 to the amount of HRK 386,135,400.00. After the incorporation of the share capital increase in the court register of the Commercial Court in Zagreb, the share capital will amount to HRK 386,135,400.00 and will be divided into 12,871,180 dematerialized ordinary registered shares, of HRK 30.00 nominal value each.

Risk management

Significant financial risks in 2015

Overall, the business position of Petrokemija d.d. in 2015 will depend on a number of factors, whose impact is very difficult to estimate. However, in view of the present market situation, losses in business are expected, whose level will depend on the following risks:

- Petrokemija d.d. is highly dependent on the price movements of fertilizers and raw materials for their production in the world market, the exchange rate of the HRK against USD and EUR and their interrelationship. This was particularly evident in the first months of 2015, when the USD exchange has had a prominent growth.
- Natural gas as the most important raw material is supplied in the domestic market under contracts with two suppliers – INA d.d., Zagreb and Prvo plinarsko društvo d.o.o., Vukovar.
- Fertilizer sales prices in the world market are still under the influence of cyclical and seasonal changes.
- The fluctuations of raw material prices on the world market present so far will continue to have impact on the level of material costs in the next period.
- High cost of working capital - due to lack of own working capital, financing costs will continue to be significant in the following period.
- In the reporting period, a portion of the receivables one of large customers – Gorup d.o.o. is (due to their problem in business and insolvency) was, in agreement with commercial banks rescheduled for the following period and part of it was charged to Petrokemija d.d. as recourse debtor (HRK 47.5 million in the reporting period, and HRK 60.0 million at the date of the financial statements).
- For the amount of HRK 97.8 million, which relates to a receivable from Gorup d.o.o. that Petrokemija has failed to collect, no impairment loss was made in the reporting period. Gorup d.o.o. Has started the process of pre-bankruptcy settlement and there are significant uncertainties regarding the settlement of above claims by Petrokemija d.d. However, at the time of preparation of these financial statements there was not enough information to adequately quantify the impairment losses.

Statement of management liability

In line with Articles 407 through 410 of Capital Market Act (OG 88/08, 146/08, 74/09, 54/13 and 159/13), the Managing Board of Petrokemija d.d. Kutina, A. Vukovar 4 gives the following statement of liability:

This report may contain certain forward-looking statements relating to the business of Petrokemija d.d. and Petrokemija Group, which can be identified by the use of forward-looking terminology such as "will", "planned", "expectations", "forecast" and similar expressions, or by discussions of strategy, plans or intentions.

This report may contain certain statements relating to the future business of Petrokemija d.d. 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 d.d. or Petrokemija Group are heavily dependent on a large number of factors which may influence their being quite different from the originally set ones. These financial statements do not include the possible effects which would result from the Company's inability to continue operating as a going concern.

Nenad Zečević *President of the Management Board*	**Antonija Perošević Galović** *Member of the Management Board*	**23 March 2015** Aleja Vukovar 4 Kutina Croatia
Tamara Pernar *Member of the Management Board*	**Vladimir Fresl** *Member of the Management Board*	

PETROKEMIJA, d. d.
KUTINA, Aleja Vukovar 4 2

Petrokemija d.d.
Statement of Management'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 its subsidiaries (together referred to as "the Group") and of the results of their 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 Group and to prevent and detect fraud and other irregularities.

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

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

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

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Group 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 are published separately and issued simultaneously with these consolidated financial statements.

The consolidated financial statements were authorised by the Management Board on 23 March 2015 for issue to the Supervisory Board and are signed below to signify this:

Nenad Zečević
President of the Management Board

Antonija Perošević Galović
Member of the Management Board

23 March 2015
Aleja Vukovar 4
Kutina
Croatia

PETROKEMIJA, d. d.
KUTINA, Aleja Vukovar 4 (2)

Tamara Pernar
Member of the Management Board

Vladimir Fresl
Member of the Management Board

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

We have audited the accompanying consolidated financial statements of Petrokemija d.d. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for qualified opinion

1 As described in note 30, the Group has an obligation for land restoration. In accordance with International Financial Reporting Standards IAS 37 *Provisions, contingent liabilities and contingent assets*, the Group should recognise a provision for land restoration. As explained in note 30, the Group has not estimated and recognised the provision for costs of restoration and closure of the landfill as at 31 December 2014 and 31 December 2013. The effects of this departure from International Financial Reporting Standards on the financial statements have not been determined. Our opinion on the consolidated financial statements for the preceding period was also qualified in this respect.

2 At 31 December 2014, inventory includes items with a carrying value of HRK 97,363 thousand *(31 December 2013: HRK 95,267 thousand)* relating to major spare parts, stand-by equipment and spare parts that can be used only in connection with specific items of plant and equipment and which the Group expects to use during more than one period. In accordance with International Financial Reporting Standards IAS 16 *Property, plant and equipment*, these spare parts and stand-by equipment should be classified as part of plant and equipment. The Group has not completed the process of determining the value of spare parts that need to be re-classified from current to non-current assets as part of plant and equipment and calculated the effect of retroactive restatements related to depreciation. The effects of this departure from International Financial Reporting Standards on the financial statements have not been determined. Our opinion on the consolidated financial statements for the preceding period was also qualified in this respect.

3 As at 31 December 2014, the assets of the Group include property, plant and equipment with a carrying value of HRK 18,823 thousand *(31 December 2013: HRK 21,794 thousand)* and related spare parts and materials totaling HRK 20,324 thousand *(31 December 2013: HRK 20,387 thousand)* for which there are indications of impairment and lower net realisable values, respectively. As prescribed by International Financial Reporting Standards IAS 16 *Property, plant and equipment,* the Group is required to test these assets for impairment, and to assess their recoverable amount as well as to assess the net realisable value of related spare parts and materials in accordance with the requirements of IAS 2: *Inventories*. As the Group has not made such an estimate, the effects of this departure from International Financial Reporting Standards on the financial statements have not been determined. Our opinion on the consolidated financial statements for the preceding period was also qualified in this respect.

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

Basis for qualified opinion (continued)

4 As described in note 20, current trade receivables include HRK 97,812 thousand relating to receivables from a customer for which the Group has not raised an impairment allowance, and which the Group has been unable to collect. Significant uncertainty exists as to the form of settlement of this receivable, and its recoverability for the Group. The Group has not made an estimate of the required impairment allowance with respect to this receivable. The effects of this departure from International Financial Reporting Standards on the financial statements have not been determined.

Qualified opinion

In our opinion, except for the effects of matters described in the *Basis for qualified opinion*, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union**.**

Emphasis of Matter

Without further qualifying our opinion, we draw attention to note 2.4 to the consolidated financial statements. In the year ended 31 December 2014, the Group incurred an consolidated net loss of HRK 363,733 thousand *(2013: HRK 330,437 thousand)*. Furthermore, as at 31 December 2014, the Group’s consolidated current liabilities exceeded its consolidated current assets by HRK 312,591 thousand *(2013: HRK 203,550 thousand)*. If for any reason the Group is unable to continue as a going concern, then this could have an impact on the Group`s ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements. As at the date of this report, the Group has not agreed on the models for ensuring the liquidity of the Group with its creditors and financiers and the negotiations with strategic investors are not finalised and their outcome is uncertain. With respect to these conditions and others disclosed in note 2.4 and bearing in mind the potential effects of qualifications of our audit opinion as mentioned above, the ability of the Group to continue operating as a going concern is dependent on the ability of the Group to refinance its existing financial indebtedness and to recapitalise or on the outcome of the process of introduction of a strategic investor. These financial statements do not contain possible effects that would result from inability of the Group to continue operating as a going concern.

Other legal and regulatory requirements

Pursuant to legal and regulatory requirements, management has prepared the annual report set out on pages 1 to 12. Management is responsible for the preparation and content of the annual report in accordance with Article 18 of the Accounting Act of the Republic of Croatia. Our responsibility is to express an opinion on the consistency of the information in the annual report with the audited financial statements based on procedures we considered appropriate to perform in accordance with Article 17 of the Accounting Act of the Republic of Croatia. In our opinion, the information given in the accompanying annual report for the financial year for which the financial statements are prepared is consistent with those financial statements.

KPMG

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23 March 2015

Petrokemija d.d.

Consolidated statement of comprehensive income

for the year ended 31 December 2014

	Note	**2014** HRK '000	2013 HRK '000
Revenue from sales	*7*	**2,201,492**	2,518,580
Other income	*8*	**38,012**	47,753
Gross profit		**2,239,504**	2,566,333
Change in inventory of finished goods and work in progress		**9,042**	(170,888)
Raw materials, consumables and services used	*9*	**(2,034,401)**	(2,224,371)
Staff costs	*10*	**(327,782)**	(274,746)
Depreciation and amortisation	*14, 15*	**(96,948)**	(96,484)
Other operating expenses	*11*	**(97,910)**	(99,076)
Total operating expenses		**(2,547,999)**	(2,865,565)
Operating loss		**(308,495)**	(299,232)
Financial income	*12*	**9,415**	18,371
Financial expenses	*12*	**(64,283)**	(49,291)
Net finance costs		**(54,868)**	(30,920)
Loss before tax		**(363,363)**	(330,152)
Income tax	*13*	**(370)**	(285)
Loss for the period		**(363,733)**	(330,437)
Other comprehensive income:			
Exchange differences on translation of foreign operations		**(494)**	178
Total comprehensive loss		**(364,227)**	(330,259)
Loss attributable to:			
Equity holders of the parent		**(363,246)**	(329,615)
Non-controlling interests		**(487)**	(822)
Total comprehensive loss attributable to:			
Equity holders of the parent		**(363,740)**	(329,437)
Non-controlling interests		**(487)**	(822)
Loss per share (in HRK):			
- Basic and dilluted	*23*	**(81.88)**	(74.30)

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

Petrokemija d.d.

Consolidated statement of financial position

as at 31 December 2014

	Note	**31.12.2014. HRK '000**	31.12. 2013. HRK '000
ASSETS			
Non-current assets			
Property, plant and equipment	*14*	**658,085**	710,766
Intangible assets	*15*	**8,062**	8,214
Deferred tax assets		**313**	315
Non-current financial assets	*17*	**8**	8
		666,468	719,303
Current assets			
Inventories	*19*	**523,417**	448,553
Trade and other receivables	*20*	**322,587**	399,754
Current financial assets	*17*	**50,661**	9,803
Financial assets at fair value through profit and loss	*18*	**-**	10,499
Cash and cash equivalents	*21*	**11,479**	21,828
		908,144	890,437
Total assets		**1,574,612**	1,609,740
EQUITY AND LIABILITIES			
Equity			
Share capital	*22*	**386,135**	754,196
Reserves		**301,447**	7,967
Accummulated losses		**(364,612)**	(328,255)
Attributable to equity holders of the parent		**322,970**	433,908
Non-controlling interest		**3,666**	4,153
		326,636	438,061
Non-current liabilities			
Loans and borrowings	*24*	**17,015**	63,460
Provisions	*25*	**10,226**	14,232
		27,241	77,692
Current liabilities			
Trade and other payables	*26*	**647,854**	450,046
Income tax payable		**-**	279
Loans and borrowings	*24*	**572,881**	643,662
		1,220,735	1,093,987
Total equity and liabilities		**1,574,612**	1,609,740

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

Petrokemija d.d.

Consolidated statement of changes in equity

for the year ended 31 December 2014

(in HRK thousands)	Share capital	Other reserves	Accumulated losses	Attributable to equity holders of the parent	Non-controlling interest	Total equity
As at 1 January 2013	**902,102**	**-**	**(322,983)**	**579,119**	**4,975**	**584,094**
Comprehensive income	-	-	-	-	-	-
Loss for the period	**-**	**-**	**(329,615)**	**(329,615)**	**(822)**	**(330,437)**
Other comprehensive income	**-**	**-**	**178**	**178**	**-**	**178**
Total comprehensive income	**-**	**-**	**(329,437)**	**(329,437)**	**(822)**	**(330,259)**
Transactions with owners recognised directly in equity						
Decrease of share capital	(334,112)	9,947	324,165	-	-	-
Increase of share capital	186,206	(1,980)	-	184,226	-	184,226
Total transactions with owners recognised directly in equity	**(147,906)**	**7,967**	**324,165**	**184,226**	**-**	**184,226**
As at 31 December 2013	**754,196**	**7,967**	**(328,255)**	**433,908**	**4,153**	**438,061**

(in HRK thousands)	Share capital	Other reserves	Accumulated losses	Attributable to equity holders of the parent	Non-controlling interest	Total equity
As at 1 January 2014	**754.196**	**7.967**	**(328.255)**	**433.908**	**4.153**	**438.061**
Comprehensive income						
Loss for the period	-	-	(363.246)	(363.246)	(487)	**(363.733)**
Other comprehensive income	-	-	(494)	(494)	-	**(494)**
Total comprehensive income	**-**	**-**	**(363.740)**	**(363.740)**	**(487)**	**(364.227)**
Transfers	-	(7.967)	7.967	-	-	-
Transactions with owners recognised directly in equity						
Decrease of share capital (Note 22)	(621.103)	301.687	319.416	-	-	-
Paid but unregistered share capital (Note 22)*	253.042	(240)	-	252.802	-	252.802
Total transactions with owners recognised directly in equity	**(368.061)**	**301.447**	**319.416**	**252.802**	**-**	**252.802**
As at 31 December 2014	**386.135**	**301.447**	**(364.612)**	**322.970**	**3.666**	**326.636**

* Paid but unregistered share capital relates to the amount of increase in share capital which was paid by the shareholders as of 31 December 2014, but which is not registered at the Commercial Court at the reporting date. As at 18 February 2015 this increase in share capital was registered at the Commercial Court (for details see note 22).

Petrokemija d.d.

Consolidated statement of cash flows

for the year ended 31 December 2014

	Note	**2014**	2013
		HRK '000	HRK '000
Cash flows from operating activities			
Cash received from customers		**2,164,931**	2,293,115
Cash inflows from insurance for claim compensations		**4,727**	4,994
Cash inflows from tax returns		**345,538**	344,321
Other cash inflows		**5,500**	4,450
Total cash inflows from operating activities		**2,520,696**	2,646,880
Cash paid to suppliers		**2,180,493**	2,781,258
Cash paid to employees		**332,388**	280,857
Cash outflows for claim insurance		**12,991**	14,493
Interest paid		**37,892**	29,442
Taxes paid		**83,066**	112,356
Other cash outflows		**13,648**	14,317
Total cash outflows from operating activities		**2,660,478**	3,232,723
Net decrease of cash flows from operating activities		**(139,782)**	(585,843)
Cash flows from investment activities			
Proceeds from sale of property, plant, equipment and intangibles		**49**	10
Dividends received		**-**	1,005
Other cash inflows from investing activities		**10,039**	-
Total cash from investment activities		**10,088**	1,015
Cash outflows for purchase of property, plant, equipment and intangibles		**42,729**	65,213
Total cash outflows from investment activities		**42,729**	65,213
Net decrease of cash flows from investment activites		**(32,641)**	(64,198)
Cash flows from financing activities			
Cash inflow from share capital increase		**253,042**	186,206
Cash inflows from borrowings		**739,574**	2,024,800
Other cash inflows from financing activities		**283,396**	670,266
Total cash from inflows from financing activities		**1,276,012**	2,881,272
Cash outflows for repayment of borrowings		**938,931**	2,052,942
Other cash outflows from financing activities		**174,178**	200,519
Total cash outflows from financing activities		**1,113,109**	2,253,461
Net increase of cash flows from financing activities		**162,903**	627,811
Net decrease in cash and cash equivalents		**(9,520)**	(22,230)
Cash and cash equivalents at beginning of period		**28,433**	50,663
Cash and cash equivalents at the end of period	*21*	**18,913**	28,433

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

Petrokemija d.d.
Notes *(forming part of the financial statements)*

1 General information

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

As at 31 December 2014 the share capital amounts to HRK 386,135 thousand and it is divided into 12,871,180 non-materialized ordinary shares at a nominal value of HRK 30 each. As at 31 December 2014, the share capital of the Company comprises 8,434,733 ordinary shares with a total nominal value of HRK 253,042 thousand, paid in full by the shareholders, which are not registered at the Commercial Court as at the reporting date. The Company's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in note 22.

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

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

As at 31 December 2014, the Group employed 1,793 employees (*31 December 2013: 2,294 employees*).

Company bodies

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

Management Board

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

Dragan Marčinko	President until 18 November 2014
Karlo Došen	Member until 18 November 2014
Krešimir Kvaternik	Member until 18 November 2014
Nenad Zečević	Member until 18 November 2014 (President from 19 November 2014)
Antonija Perošević Galović	Member from 19 November 2014
Tamara Pernar	Member from 19 November 2014
Vladimir Fresl	Member from 19 November 2014

Supervisory Board

Members of the Supervisory Board are:

Tomislav Radoš	President until 29 July 2014
Dragutin Vajnaht	Member until 30 May 2014
Jozo Bilobrk	Member until 30 May 2014
Tomislav Pokaz	Member and President from 9 September 2014
Branimir Fleković	Member from 20 May 2014 (President from 29 July to 9 September 2014) (Vice president from 10 September 2014)
Sonja Ivoš	Member
Goran Kralj	Member
Krešimir Huljev	Member
Željko Klaus	Member
Davor Rakić	Member

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 adopted by the European Union ("IFRS").

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

These financial statements were authorised for issue by the Management Board on 23 March 2015.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Going concern

In the year ended 31 December 2014, the Group incurred a net loss of HRK 363,733 thousand *(31 December 2013: HRK 330,437 thousand).* Furthermore, as at 31 December 2014, the Group's current liabilities exceeded its current assets by HRK 312,591 thousand *(31 December 2013: HRK 203,550 thousand).*

As a result of continued losses and short-term liquidity deficits, in considering models of securing liquidity to stabilise its operations, including a capital injection from existing shareholders and potential strategic investors, during 2013 the Group prepared a restructuring and financial consolidation plan for a five-year period up to 2018. This plan, which was adopted by the Supervisory Board, among other things defined in detail the financing requirements necessary to create a basis for sustainable operations of the Group as well as assumptions and restructuring measures which included the following:

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

During 2014, in parallel with the implementation of restructuring measures envisaged in the adopted plan, the Group updated the existing plan and prepared a new five-year restructuring and financial consolidation plan for the period up to 2019. In updating the plan, several key changes to assumptions were made with respect to the structure of production and sales mix, activation of plants not in use, securing of long term sources of financing and realisation of lower prices of natural gas in accordance with the adopted natural gas procurement strategy.

2 Basis of preparation *(continued)*

2.4 Going concern (continued)

The most significant measures include the following:

- the implementation of a workforce restructuring programme with respect to which severances were paid to 492 employees totaling HRK 100,340 thousand, which should result in savings in employee expenses in the following years of around HRK 45 to 50 million per year

- reduction of the price of gas by 6.7% compared to 2013
- variations of terms with customers and increasing of the share of sales with advance payment terms
- stabilization of the structure and level of sales prices in the regional market, which resulted in an increase in average sales prices
- initiation of negotiations with suppliers of natural gas on the reduction of gas prices in the summer period
- repurposing of plants not in use in order to develop new products (granulated ammonium sulphate) for which the Group expects positive results after market penetration
- negotiations with a development bank on financing investments in production capacities

Taking into account the implemented restructuring measures and expected results, management believes that the Group will be able to create conditions for sustainable operations together with the support of creditors, financiers and shareholders.

Furthermore, as described in note 22, during 2014 the Company successfully increased its share capital on two occasions by a total amount of HRK 253,042 thousand by issuing new shares. Although the third round of the public offering of shares of Petrokemija d.d. did not result in subscription of new shares, the Group and its majority shareholder are in continuous negotiations regarding the introduction of a strategic partner which would recapitalize the Group and enable sufficient liquidity for the finalization of the restructuring process and the continuation of positive trends in operations.

Although as at the date of these financial statements a model for ensuring the liquidity of the Group has not been agreed with the creditors and financiers, and although the negotiations with strategic investors are not finalised, the Group is continuing with the process of restructuring and financial consolidation.

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

3 Significant accounting policies

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

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Petrokemija d.d. ("the Company") and entities controlled by the Company (its subsidiaries) as at and for the year ended 31 December 2014. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

(i) Subsidiaries

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

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

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

(ii) Transactions eliminated on consolidation

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

(iii) Loss of control

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

3.2 Goodwill

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

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

3 Significant accounting policies *(continued)*

3.3 Foreign currency

Foreign currency transactions

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

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

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

Group companies

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

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

Net investment in Group companies

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

3.4 Intangible assets

(i) Software licences and project documentation

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

Software and project documentation	3- 5 years

3 Significant accounting policies *(continued)*

3.5 Property, plant and equipment

(i) Owned assets

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

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

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

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

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

(ii) Assets under the concession arrangement

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

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

Maintenance expenditure

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

Capital expenditure into the concession area

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

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

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

Assets transferred to the Group by the concession Grantor

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

3 Significant accounting policies *(continued)*

3.6 Financial instruments

Non-derivative financial instruments

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

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

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

Cash and cash equivalents

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

Investments at fair value through profit or loss

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

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

Other

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

3.7 Inventories

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

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

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

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

3 Significant accounting policies *(continued)*

3.8 Impairment

(i) Financial assets

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

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

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

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

(ii) Non-financial assets

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

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

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

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

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

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

3.9 Employee benefits

(i) Defined pension fund contributions

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

(ii) Long-term employee benefits

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

(iii) Bonus plans

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

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

3.10 Provisions

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

3.11 Revenue

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

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

3.12 Financial income and expenses

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

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

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

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

3.13 Accounting for leases – where the Group is the lessee

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

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

3.14 Share capital

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

3.15 Dividends

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

3.16 Segment information

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

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

3 Significant accounting policies *(continued)*

3.17 Taxation

(i) Income tax

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

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

(ii) Deferred tax assets and liabilities

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

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

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

(iii) Tax exposures

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

(iv) Value added tax (VAT)

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

4 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2014, and/or have not been adopted by the European Union and as such have not been applied in preparing these financial statements. These standards are not expected to have a significant impact on the Group's financial statements.

5 Key accounting judgements and estimates

Critical judgements in applying accounting policies

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

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

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

(i) Deferred income tax assets recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (see accounting policy 3.17 and note 13).

(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 25).

(iii) Consequences of certain legal actions

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

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

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

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

Provisions for the Group's obligations arising legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 3.10 and 25).

5 Key accounting judgments and estimates *(continued)*

Critical judgements in applying accounting policies (continued)

(iv) Trade receivables - impairment

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

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

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

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

Each customer is 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 and security of payment (e.g. bill of exchange).

(v) Accounting for the concession arrangement

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

6 Determination of fair value

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

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

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

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

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

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

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

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

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

- Note 17: Financial assets
- Note 18: Financial assets at fair value through profit or loss

7 Revenue

	2014	2013
	HRK '000	HRK '000
Revenue from sale of products and merchandise	**2,197,360**	2,514,664
Revenue from services	**4,132**	3,916
	2,201,492	2,518,580

An overview of revenue per market is given below:

	2014	2013
	HRK '000	HRK '000
Croatia	**642,871**	879,807
Slovenia	**179,628**	193,616
Bosnia and Herzegovina	**127,395**	129,220
Serbia and Montenegro	**168,236**	200,171
Macedonia	**33,247**	18,207
Sales in countries outside the region	**1,050,115**	1,097,559
	2,201,492	2,518,580

8 Other operating income

	2014	2013
	HRK '000	HRK '000
Sale of raw materials	**3,966**	9,499
Manufacture of spare parts	**968**	2,604
Own consumption	**3,060**	10,611
Insurance reimbursements	**4,197**	5,216
Sale of manufactured packaging	**5,731**	4,101
Inventory surplus	**4,072**	5,058
Reversal of provisions	**8,709**	6,323
Other income	**7,309**	4,341
	38,012	47,753

9 Cost of goods sold

	2014	2013
	HRK '000	HRK '000
Raw materials and consumables used	**1,965,895**	2,114,121
Cost of wholesale and retail goods sold	**6,143**	28,446
Cost of production services	**62,363**	81,804
	2,034,401	2,224,371

10 Personnel expenses

	2014	2013
	HRK '000	HRK '000
Salaries	**140,427**	158,388
Contributions on salaries	**31,536**	32,891
Other staff costs	**155,819**	83,467
	327,782	274,746

The number of employees of the Group as at 31 December 2014 was 1,793 *(2013: 2,294)*.

During 2014, as part of the restructuring and financial consolidation plan described in more detail in note 2.4, the Group implemented the workforce restructuring programme whereby a total of 492 employees received termination benefits amounting to HRK 100,340 thousand *(2013: HRK 21,722 thousand)*. Termination benefits expenses relating to the workforce restructuring programme are included in other staff cots.

11 Other operating expenses

	2014	2013
	HRK '000	HRK '000
Impairment of inventories	**29**	2,212
Other fees and taxes	**44,692**	36,372
Other employee costs	**17,282**	21,607
Insurance	**12,472**	12,290
Increase in provision	**1,502**	716
Bank charges	**3,591**	6,555
Inventory loss	**1,639**	1,876
Impairment of trade receivables	**998**	354
Intellectual services	**5,089**	3,729
Travel expenses	**810**	1,440
Other	**9,806**	11,925
	97,910	99,076

Other taxes, fees and charges include HRK 24,854 thousand of fees for greenhouse gas emissions. After the Croatian accession to the European Union, Petrokemija d.d. as a plant operator is subject to obligation to purchase emission allowances.

12 Financial income and financial expenses

	2014	2013
	HRK '000	HRK '000
Interest income	**1,962**	1,919
Foreign exchange differences	**3,639**	11,443
Other financial income	**3,814**	5,009
Total financial income	**9,415**	18,371
Unrealised losses on financial assets	**(29)**	(1,829)
Interest expense	**(51,709)**	(39,795)
Foreign exchange losses	**(12,545)**	(7,667)
Total financial expenses	**(64,283)**	(49,291)
Net finance costs	**(54,868)**	(30,920)

13 Income tax expense

Recognised in the statement of comprehensive income:

	2014 HRK '000	2013 HRK '000
Current income tax	**683**	600
Deferred tax, net	**(313)**	(315)
	370	285

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:

	2014 HRK '000	2013 HRK '000
Profit/(loss) before taxation	**(363,363)**	(330,152)
Tax calculated at 20% *(2013: 20%)*	**(72,673)**	(66,030)
Non-deductible expenses and non-taxable income	**576**	878
Temproray differences and tax losses not recognised as deferred tax assets	**375**	984
Utilisation of temporary differences previously not recognised as deferred tax assets	**-**	(258)
Utilisation of tax losses previously not recognised as deferred tax assets	**(877)**	(679)
Tax recognised in the statement of comprehensive income	**72,171**	65,225
Effect of different tax rates	**798**	165
Tax expense recognised in the statement of comprehensive income	**370**	285
Effective tax rate	**0%**	0%

At the reporting date, carry forward tax losses of the Group amounting to HRK 982,825 thousand *(31 December 2013: HRK 793,010 thousand)* have not been recognised as a deferred tax asset as management believes it is not probable that future taxable profits will be available to utilise the unused tax losses.

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

	31.12.2014. HRK '000	31.12. 2013. HRK '000
Tax loss from 2009 - expires on 31 December 2014	**-**	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**	35,865
Tax loss from 2013 - expires on 31 December 2018	**65,225**	65,225
Tax loss from 2014 - expires on 31 December 2019	**72,171**	-
	196,565	158,602

Petrokemija d.d.
Notes *(continued)*

14 Property, plant and equipment

(in thousands of HRK)	Land	Buildings	Plant and equipment	Equipment and fittings	Assets under construction	Prepayments	Total
Cost							
At 1 January 2013	49,482	573,402	1,127,213	52,850	55,752	3,021	1,861,720
Additions	-	-	1,847	113	62,941	332	65,233
Transfers	-	6,658	50,400	5,951	(63,009)	-	-
Disposals	-	-	(1,518)	(393)	-	-	(1,911)
At 31 December 2013	**49,482**	**580,060**	**1,177,942**	**58,521**	**55,684**	**3,353**	**1,925,042**
Accumulated depreciation							
At 1 January 2013	-	281,666	801,097	39,006	-	-	1,121,769
Charge for the year	-	21,431	69,119	3,735	-	-	94,285
Disposals	-	-	(1,498)	(280)	-	-	(1,778)
At 31 December 2013	**-**	**303,097**	**868,718**	**42,461**	**-**	**-**	**1,214,276**
Carrying amount							
As at 31 December 2013	**49,482**	**276,963**	**309,224**	**16,060**	**55,684**	**3,353**	**710,766**
Cost							
At 1 January 2014	49,482	580,060	1,177,942	58,521	55,684	3,353	1,925,042
Additions	-	-	945	-	38,347	5,129	44,421
Transfer to intangible assets	-	-	-	-	(246)	-	(246)
Transfers	-	1,332	29,698	13,375	(44,405)	-	-
Disposals	-	(1,364)	(5,967)	(1,357)	-	-	(8,688)
At 31 December 2014	**49,482**	**580,028**	**1,202,618**	**70,539**	**49,380**	**8,482**	**1,960,529**
Accumulated depreciation							
At 1 January 2014	-	303,097	868,718	42,461	-	-	1,214,276
Charge for the period	-	20,595	68,508	5,936	-	-	95,039
Disposals	-	(98)	(5,439)	(1,334)	-	-	(6,871)
At 31 December 2014	**-**	**323,594**	**931,787**	**47,063**	**-**	**-**	**1,302,444**
Carrying amount							
At 31 December 2014	**49,482**	**256,434**	**270,831**	**23,476**	**49,380**	**8,482**	**658,085**

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

The Group's property amounting to HRK 187,887 thousand is mortgaged as security for loans and borrowings.

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

15 Intangible assets

(in thousands of HRK)	Assets under construction	Software and project documentation	Total
Cost			
At 1 January 2013	3.608	20.160	23.768
Additions	1.930	20	1.950
Transfers	(619)	619	-
Disposals	-	-	-
At 31 December 2013	**4.919**	**20.799**	**25.718**
Accumulated amortisation			
At 1 January 2013	-	15.611	15.611
Charge for the year	-	2.199	2.199
Disposals	-	(306)	(306)
At 31 December 2013	**-**	**17.504**	**17.504**
Carrying amount			
As at 31 December 2013	**4.919**	**3.295**	**8.214**
Cost			
At 1 January 2014	4.919	20.799	25.718
Additions	1.511	-	1.511
Transfer from tangible assets	-	246	246
Transfers	(2.497)	2.497	-
At 31 December 2014	**3.933**	**23.542**	**27.475**
Accumulated amortisation			
At 1 January 2014	-	17.504	17.504
Charge for the period	-	1.909	1.909
Disposals	-	-	-
At 31 December 2014	**-**	**19.413**	**19.413**
Carrying amount			
At 31 December 2014	**3.933**	**4.129**	**8.062**

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

16 Subsidiaries

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

Name of subsidiary	**Ownership interest in %** **31.12.2014.**	31.12.2013.
Petrokemija d.o.o., Novo Mesto	**-**	100%
Petrokemija d.o.o., Novi Sad	**100%**	100%
Restoran Petrokemija d.o.o., Kutina	**100%**	100%
Luka Šibenik d.o.o.	**80%**	80%

Subsidiary Petrokemija d.o.o. in Novo Mesto was closed on 20 February 2014.

17 Financial assets

	31.12.2014.	31.12. 2013.
	HRK '000	HRK '000
Non-current financial assets		
Investments in other equity instruments	**8**	8
Current financial assets		
Deposits	**7,434**	6,605
Financial assets held for trading	**43,094**	-
Current financial assets - other	**133**	3,198
	50,661	9,803

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

Fair value measurement

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

18 Financial assets at fair value through profit or loss

	31.12.2014.	31.12. 2013.
	HRK '000	HRK '000
Investment in equity securities	-	10,499
	-	10,499

	31.12.2014.	31.12. 2013.
	HRK '000	HRK '000
Opening carrying value	**10,499**	12,360
Effect of remeasurement at fair value	**(646)**	(1,861)
Disposal	**(9,853)**	-
Closing carrying value	-	10,499

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

Fair value measurement

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

19 Inventories

	31.12.2014.	31.12. 2013.
	HRK '000	HRK '000
Raw materials and supplies	**175,437**	113,041
Work in progress	**42,923**	42,596
Finished goods	**206,519**	194,190
Trade goods	**794**	1,237
Spare parts	**97,363**	95,267
Prepayments	**381**	2,222
	523,417	448,553

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

20 Trade and other receivables

	31.12.2014.	31.12. 2013.
	HRK '000	HRK '000
Current receivables		
Trade receivables	**117,951**	195,068
Trade receivables in factoring	**129,495**	125,013
Less: Provisions for impairment	**(9,950)**	(9,999)
Net trade receivables	**237,496**	310,082
Prepaid expenses	**544**	12,550
Receivables for taxes and contributions	**56,396**	71,782
Bills of exchange received	**27,447**	4,210
Receivables from employees	**13**	33
Other receivables	**691**	1,097
	322,587	399,754

Trade receivables including those in factoring include HRK 97,812 thousand relating to the customer Gorup d.o.o., of which HRK 92,812 thousand was due as at 31 December 2014. As at 6 February 2015, this customer entered into a process of pre-bankruptcy settlement. The current operational and financial restructuring plan of Gorup d.o.o. within the pre-bankruptcy settlement amongst other measures includes a partial write-off of debts and long-term refinancing of the remaining debt with a prerequisite of securing liquidity for financing working capital and restructuring costs as well as ownership restructuring. Due to the fact that the process of pre-bankruptcy settlement, which will define the recoverability of debts and whose implementation is a pre-requisite for the customer's ability to service its debts, is still in its starting phase, management considers that there is currently insufficient information and knowledge to enable an adequate quantification of the impairment allowance for this receivable as at 31 December 2014. Consequently, the Group has not raised an impairment allowance for receivables from this customer as at 31 December 2014.

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

	31.12.2014.	31.12. 2013.
	HRK '000	HRK '000
At 1 January	**9,999**	13,118
Increase	**998**	354
Amounts collected	**(108)**	(375)
Written off as uncollectible	**(939)**	(3,098)
At 31 December	**9,950**	9,999

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

20 Trade and other receivables

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

	31.12.2014. HRK '000	31.12. 2013. HRK '000
Not yet due	**71.517**	292.565
Overdue 0-90 days	**132.043**	17.239
Overdue 91-180 days	**1.484**	135
Overdue 181-360 days	**31.879**	134
Overdue over 1 year	**10.523**	10.008
	247.446	320.081

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

(in thousands of HRK)	**31.12.2014. HRK '000**	31.12.2013. HRK '000
Croatia (HRK)	215,955	275,843
European Union (EUR)	28,390	36,157
USA (USD)	3,101	8,081
	247,446	320,081

21 Cash and cash equivalents

	31.12.2014. HRK '000	31.12. 2013. HRK '000
Cash with banks	**11,472**	21,824
Cash in hand	**7**	4
	11,479	21,828
Deposits	**7,434**	6,605
Cash and cash equivalents as presented in the statement of cash flows	**18,913**	28,433

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

22 Share capital

	31.12.2014.	31.12. 2013.
	HRK '000	HRK '000
Share capital	**386,135**	754,196

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

Structure of ownership	**31.12.2014.** Number of shares	**% of ownership**	31.12.2013. Number of shares	% of ownership
DUUDI/Republic of Croatia	**1,944,642**	**43.83%**	1,944,642	43.83%
Societe Generale-Splitska banka d.d./AZ OMF	**399,932**	**9.01%**	399,932	9.01%
Hypo Alpe-Adria bank d.d./PBZ Croatia osiguranje d.d. OMF	**366,431**	**8.26%**	366,431	8.26%
Societe Generale-Splitska banka d.d. /Erste Plavi OMF	**332,883**	**7.50%**	332,883	7.50%
HPB d.d./Kapitalni fond d.d.	**126,713**	**2.86%**	126,713	2.86%
Societe Generale-Splitska banka d.d./AZ Profit DMF	**122,462**	**2.76%**	122,462	2.76%
HPB d.d./Fond za financiranje razgradnje NEK	**71,200**	**1.60%**	71,200	1.60%
PBZ d.d./CN ltd.	**50,793**	**1.14%**	65,235	1.47%
Zagrebačka banka d.d./State street bank and trust company	**43,425**	**0.98%**	-	0.00%
PBZ d.d./State street client account	**39,368**	**0.89%**	76,024	1.71%
Ostali dioničari	**938,598**	**21.16%**	930,925	20.98%
Total	**4,436,447**	**100.00%**	4,436,447	100.00%
Paid but unregistered shares	**8,434,733**		-	
Total share capital	**12,871,180**		4,436,447	

Share capital comprises 12,871,180 ordinary shares *(31 December 2013: 4,436,447 shares)* of a nominal value of HRK 30 *(31 December 2013: HRK 170)* per share out of which 8,434,733 ordinary shares are not registered at the Commercial Court as at 31 December 2014. Holders of registered ordinary shares have a right to receive dividends and a right for one vote per share at the General Assembly of the Company.

During 2014, the Company covered HRK 7,967 thousand of accumulated losses by transfer from other reserves and conducted a simplified reduction of share capital amounting to HRK 621,103 thousand in order to cover the loss from 2013 and increase other reserves by reducing the nominal value of the shares by HRK 140 from HRK 170 to HRK 30 per share. In the course of the reduction of share capital, the Company covered its loss realised from 1 January 2013 to 31 December 2013 in the amount of HRK 319,416 thousand while the remaining HRK 301,678 thousand was recorded as an increase in other reserves.

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

23 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.

	31.12.2014.	31.12.2013.
Loss attributable to equity holders of the parent (in thousands of HRK)	**(363,246)**	(329,615)
Weighted average number of registered shares	**4,436,447**	4,436,447
Basic and dilluted loss per share in HRK	**(81.88)**	(74.30)

24 Loans and borrowings

	31.12.2014. **HRK '000**	31.12. 2013. HRK '000
Non-current borrowings		
Banks	**17,015**	63,460
	17,015	63,460
Current borrowings		
Banks	**289,951**	362,389
Commercial papers	**13,421**	71,833
Factoring liabilities	**82,097**	125,013
Issued bills of exchange	**-**	20,000
Other loans	**187,412**	64,427
	572,881	643,662
Total borrowings	**589,896**	707,122

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

	31.12.2014. **HRK '000**	31.12. 2013. HRK '000
Up to 1 year	**572,881**	644,006
Between 1 and 2 years	**9,044**	47,284
Between 2 and 5 years	**7,971**	15,832
	589,896	707,122

Bank loans and commercial papers

Bank loans amounting to HRK 144,889 thousand have variable interest rates. The variable interest rates for bank loans included in the table above were in the range from 4.92% to 7.5%.

Bank loans amounting to HRK 162,077 thousand have fixed interest rates. The fixed interest rates for bank loans included in the table above were in the range from 4.0% to 7.5%.

Commercial papers have fixed interest rates. The interest rates for commercial papers included in the table above were in the range from 4.0% to 8.5%.

Security

Loans and borrowings are secured by mortgages over the Group's property amounting to HRK 187,887 thousand and inventories of finished products amounting to HRK 205,972 thousand as well as with bills of exchange and debentures.

Factoring liabilities

Factoring liabilities relate to short-term financing of operational cash flows relating to trade receivables. The factoring agreements entered into by the Group are with recourse and the risk of collection of trade receivables ultimately lies with the Group. Finance costs relating to factoring liabilities are entirely borne by the customer. As at 31 December 2014, total factoring liabilities include HRK 12,631 thousand of liabilities which are overdue and which relate to trade receivables from the customer Gorup d.o.o. Subsequent to the reporting date this liability was settled in full.

Other loans and borrowings

Other loans and borrowings relate to a loan from an insurance company in the amount of HRK 8,220 thousand (*2013: HRK 15,000 thousand)* carrying a fixed interest rate of 7% and loans from suppliers. As an instrument for managing current liquidity, during the year the Group has converted a part of its trade payables which fell due to short-term loans in the amount of HRK 179,192 thousand by signing agreements with suppliers on debt repayment bearing an average interest rate ranging from 7% to 12.29% per annum. Out of this amount, as at 31 December 2014 a total of HRK 160,792 thousand fell due. The Company is in the process of negotiating with suppliers on re-programming these liabilities.

25 Provisions

(in thousands of HRK)	Jubilee awards	Retirement benefits	Court cases	Total
At 31 December 2013				
Non-current	8,553	4,106	1,573	14,232
At 1 January 2014	**8,553**	**4,106**	**1,573**	**14,232**
Increase	943	259	300	1,502
Utilised	(3,224)	(1,554)	(730)	(5,508)
At 31 December 2014	**6,272**	**2,811**	**1,143**	**10,226**
At 31 December 2014				
Non-current	6,272	2,811	1,143	10,226

Court cases

There are a number of legal proceedings initiated against the Group for minor amounts as well as those initiated by the Group against others. A provision amounting to HRK 1,143 thousand was recognised in relation to legal proceedings. Management believes that no significant costs exceeding those provided for at the reporting date will occur as a result of ongoing legal proceedings.

Jubilee awards and regular retirement benefits

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

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

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

	31.12.2014.	31.12.2013.
Discount rate	**3.5%**	5.0%
Fluctuation rate	**4.1%**	4.1%

26 Trade and other payables

	31.12.2014.	31.12. 2013.
	HRK '000	HRK '000
Trade payables	**481,954**	285,051
Salaries and other benefits to employees	**16,198**	17,749
Accrued interest	**606**	1,470
Taxes, contributions and other duties	**7,837**	8,578
Advances received	**112,185**	108,333
Other	**29,074**	28,865
	647,854	450,046

27 Risk management

Financial risk management

Categories of financial instruments are as follows*:*

	2014	2013
	(in thousands of HRK)	
Financial assets at fair value through profit or loss	-	10,499
Financial assets at fair value through profit or loss	**-**	**10,499**
Short-term financial assets	50,661	9,803
Trade receivables	237,496	310,082
Bills of exchange	27,447	4,210
Cash and cash equivalents	11,479	21,828
Total loans and receivables	**327,083**	**345,923**
Total financial assets	**327,083**	**356,422**
Loan liabilities	589,896	707,122
Trade payables	481,954	285,051
Total financial liabilities at amortised cost	**1,071,850**	**992,173**
Total financial liabilities	**1,071,850**	**992,173**

Fair value of financial instruments

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

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

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

As at 31 December 2014, the carrying amounts of cash and cash equivalents, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair value due to the short-term nature of those assets and liabilities and due to the fact that a majority of short term assets and liabilities are at variable interest rates.

As at the reporting dates, the carrying amounts of borrowings arising from bank and other loans approximates their fair values as the majority of these borrowings bear variable interest rates or fixed interest rate approximating current market interest rates.

27 Risk management *(continued)*

Financial risk management *(continued)*

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management board which manages the Group's short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by monitoring the net current asset position and addressing any expected current liquidity deficits.

Liquidity risk analysis

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

as at 31 December 2014	**Carrying amount**	**Contractual cash flows**	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
		(in thousands of HRK)				
Non-interest bearing liabilities:						
Loan liabilities	**82,097**	**82,097**	82,097	-	-	-
Trade payables	**481,954**	**481,954**	481,954	-	-	-
	564,051	**564,051**	**564,051**	**-**	**-**	**-**
Interest bearing liabilities:						
Loan liabilities	**507,799**	**518,628**	500,707	9,328	8,593	-
	507,799	**518,628**	**500,707**	**9,328**	**8,593**	**-**
	1,071,850	**1,082,679**	**1,064,758**	**9,328**	**8,593**	**-**

as at 31 December 2014	**Carrying amount**	**Contractual cash flows**	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
		(in thousands of HRK)				
Non-interest bearing assets:						
Trade receivables	**237,496**	**237,496**	237,496	-	-	-
Bills of exchange received	**27,447**	**27,447**	27,447	-	-	-
	264,943	**264,943**	**264,943**	**-**	**-**	**-**
Interest bearing assets:						
Current financial assets	**50,661**	**50,914**	50,914	-	-	-
Cash and cash equivalents	**11,479**	**11,536**	11,536	-	-	-
	62,140	**62,450**	**62,450**	**-**	**-**	**-**
	327,083	**327,393**	**327,393**	**-**	**-**	**-**

The Group's analysis shows a deficit of short term contractual cash flows. In addition, contractual cash flows of trade receivables include cash flows from the customer Gorup d.o.o. where there is uncertainty regarding the collection of these debts which could increase the liquidity deficit of the Group (see note 20). The Group is currently implementing a number of financial and operational restructuring measures and is actively negotiating with creditors, majority owner and strategic investors in order to establish conditions for sustainable operations and bridge the liquidity deficit. The Group's activities in this regard are explained in more detail below and in note 2.4.

27 Risk management *(continued)*

Financial risk management *(continued)*

Liquidity risk* management *(continued)

Going concern

In the year ended 31 December 2014, the Group incurred a net loss of HRK 363,733 thousand *(31 December 2013: HRK 330,437 thousand)*. Furthermore, as at 31 December 2014, the Group's current liabilities exceeded its current assets by HRK 312,591 thousand *(31 December 2013: HRK 203,550 thousand)*.

As a result of continued losses and short-term liquidity deficits, in considering models of securing liquidity to stabilise its operations, including a capital injection from existing shareholders and potential strategic investors, during 2013 the Group prepared a restructuring and financial consolidation plan for a five-year period up to 2018. This plan, which was adopted by the Supervisory Board, among other things defined in detail the financing requirements necessary to create a basis for sustainable operations of the Group as well as assumptions and restructuring measures which included the following:

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

During 2014, in parallel with the implementation of restructuring measures envisaged in the adopted plan, the Group updated the existing plan and prepared a new five-year restructuring and financial consolidation plan for the period up to 2019. In updating the plan, several key changes to assumptions were made with respect to the structure of production and sales mix, activation of plants not in use, securing of long term sources of financing and realisation of lower prices of natural gas in accordance with the adopted natural gas procurement strategy.

The most significant measures include the following:

- the implementation of a workforce restructuring programme with respect to which severances were paid to 492 employees totaling HRK 100,340 thousand, which should result in savings in employee expenses in the following years of around HRK 45 to 50 million per year
- reduction of the price of gas by 6.7% compared to 2013
- variations of terms with customers and increasing of the share of sales with advance payment terms
- stabilization of the structure and level of sales prices in the regional market, which resulted in an increase in average sales prices
- initiation of negotiations with suppliers of natural gas on the reduction of gas prices in the summer period
- repurposing of plants not in use in order to develop new products (granulated ammonium sulphate) for which the Group expects positive results after market penetration
- negotiations with a development bank on financing investments in production capacities

Taking into account the implemented restructuring measures and expected results, management believes that the Group will be able to create conditions for sustainable operations together with the support of creditors, financiers and shareholders. Furthermore, as described in note 22, during 2014 the Company successfully increased its share capital on two occasions by a total amount of HRK 253,042 thousand by issuing new shares.

Although the third round of the public offering of shares of Petrokemija d.d. did not result in subscription of new shares, the Group and its majority shareholder are in continuous negotiations regarding the introduction of a strategic partner which would recapitalize the Group and enable sufficient liquidity for the finalization of the restructuring process and the continuation of positive trends in operations. Although as at the date of these financial statements a model for ensuring the liquidity of the Group has not been agreed with the creditors and financiers, and although the negotiations with strategic investors are not finalised, the Group is continuing with the process of restructuring and financial consolidation. Management acknowledges that uncertainty remains over the Group`s ability to meet its funding requirements and to refinance or repay its liabilities as they fall due. However, as described above, management has a reasonable expectation that the Group will secure adequate resources to continue in operational existence for the foreseeable future. If for any reason the Group is unable to continue as a going concern, then this could have an impact on the Group`s ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements.

27 Risk management (*continued*)

Financial risk management (*continued*)

Interest rate risk management

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

(in thousands of HRK)	**2014**	**2013**
ZIBOR based bank loans	5,000	20,000
Ministry of finance's Treasury bills based bank loans	139,889	181,000
	144,889	**201,000**

Interest rate sensitivity analysis

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

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

as at 31 December 2014	**Contractual cash flows**	up to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years
		(in thousands of HRK)				
At currently applicable int. rates	**147.446**	131.664	15.782	-	-	-
At currently applicable int. rates + 100 basis points	**147.885**	132.065	15.820	-	-	-
Effect of increase of int. rates by 100 basis points	**(439)**	**(401)**	**(38)**	**-**	**-**	**-**

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

27 Risk management (*continued*)

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

Currency risk management

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

	Liabilites	
	2014	**2013**
	(in thousands of HRK)	
European Union (EUR)	70,029	35,672
USA (USD)	143,019	44,075
	213,048	**79,747**

	Assets	
	2014.	**2013.**
	(in thousands of HRK)	
European Union (EUR)	37,066	40,980
USA (USD)	3,101	8,081
	40,167	**49,061**

Foreign currency sensitivity analysis

The Group is mainly exposed to the fluctuations in the exchange rate of Croatian kuna to Euro and US dollar, since the most of the transactions with international customers are in Euro and US dollar. Borrowings are denominated in Croatian kuna and the Company is not exposed to currency in this respect.

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

	EUR exposure	
	2014	**2013**
	(in thousands of HRK)	
Increase/(decrease) of net result	(330)	53

	USD exposure	
	2014	**2013**
	(in thousands of HRK)	
Increase/(decrease) of net result	(13,992)	(3,599)

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

27 Risk management (*continued*)

Financial risk management *(continued)*

Credit risk management

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

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

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

As described in note 20, the Group has trade receivables including those in factoring in the amount of HRK 97,812 thousand which relate to the customer Gorup d.o.o., of which HRK 92,812 thousand was due as at 31 December 2014 and for which recoverability is uncertain due to the customer entering into a pre-bankruptcy settlement process. Management considers the outcome of the pre-bankruptcy settlement process to be uncertain and has not raised an impairment allowance for this receivable as it considers that it currently has insufficient information and knowledge to enable an adequate quantification of the impairment allowance with respect to this receivable. The Group is actively participating in the process of pre-bankruptcy settlement as one of the key creditors and is also considering alternative possibilities of debt collection.

Operational risk management

Sales concentration risk management

The Group generates approximately 29% *(2013: 35%)* of its revenue from domestic customers, whereas around 71% *(2013: 65%)* of sales are generated from international customers (based on geographical location of customer). The Group determines the selling prices in accordance with the macroeconomic conditions prevailing in each of the markets where the customers are located.

The Group's revenues are to a significant extent exposed to volatility due to high concentration of revenues from a smaller number of customers. In 2014, top 10 customers of the Group generated approximately 63% of operating revenues *(2013: 45%)* while the top five customer generated approximately 36% of operating revenues *(2013: 34%)*. The Group's most significant customer is a Croatian conglomerate which accounts for approximately 41% of domestic sales (2013: 33%) and approximately 44% of total trade receivables from unrelated companies *(31 December 2013: 50%)*. The Group also has significant exposure to the customer Gorup d.o.o., amounting 46% of total trade receivables from unrelated companies. Recoverability of these receivables is currently uncertain due to customer entering into a pre-bankruptcy settlement process and its planned financial restructuring (for details see note 20).

As a result of its exposure to a small number of customer, the Group manages this risk through active and frequent communication with key customers, acquisitions of new customers, and through monitoring of relevant competitors and market conditions both locally and internationally.

Price risk

The most significant risk of the Group is linked to changes in prices of raw materials for production (primarily gas) which the Group aims to manage by defining long-term relationships with strategic suppliers (Prirodni plin d.o.o. and Prvo plinarsko društvo d.o.o.). The Group is currently in the process of initiating negotiations with suppliers of natural gas aimed at the reduction of gas prices in the summer period as a prerequisite for creating conditions for sustainable operations.

28 Contractual commitments

The Group has a contractual commitment for purchase of natural gas from the suppliers Prirodni Plin d.o.o. (a subsidiary of INA d.d. in which the Republic of Croatia has an ownership stake of 44.8%) and Prvo plinarsko društvo d.o.o., Vukovar. As per the contracts currently in force, the Group has an obligation to buy the total amount of natural gas required in its production cycle from these suppliers of which a part will be purchased based on a combination of the "oil index formula" and the spot price of gas while a part will be paid at a fixed price. These contractual commitments expire on 1 October 2015.

Agreement on priority concession

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

	31.12.2014. HRK '000
2012.-2017.	**30,100**
2016.-2020.	**32,745**
2020.-2025.	**35,780**
2025.-2026.	**6,000**
2026.-2029.	**11,100**
	115,725

29 Related party transactions

The most significant shareholder of Petrokemija d.d. is the Republic of Croatia which holds 43.83% of share capital and voting rights of the Company through the Government Asset Management Agency ("GAMA"). In addition, after registration of the issued shares, which resulted from the increase in share capital preformed on two occasions during 2014, at the Commercial Court as at 18 February 2015 the Republic of Croatia holds approximately 79.85% of voting rights in the Company at the date of issue of these financial statements.

The Group considers that it has an immediate related party relationship with its key shareholders (see note 22) and entities under their control or influence (subsidiaries and associates); key management personnel (see below); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 *Related Party Disclosures* ("IAS 24").

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

29 Related party transactions *(continued)*

Transactions with State related parties

Given that the Group's significant owner is the State, the Group is also in a related party relationship with state institutions and other companies in which the State is a majority owner or has a significant influence. Significant transactions of the Group with such entities relate to purchase of gas which as the primary raw material used in the Group's production cycle, freight rail transport services and supply of electricity. The Group is also in part financed by a bank where the majority owner is the State while as at 31 December 2013 it was also financed by a State owned insurance company (Croatia osiguranje d.d.) in the amount of HRK 15,000 thousand. As at 31 December 2014 this insurance company is no longer a related party as it is no longer in the majority ownership of the State. During 2014, the Group had the following transactions with State related entities:

	2014	2013
	HRK '000	HRK '000
Lučka uprava Šibenik		
Concession fee	**581**	545
Liabilities as at 31 December	**255**	324
Prirodni Plin d.o.o.		
Purchase of gas	**553.618**	1.511.258
Liabilities as at 31 December	**-**	166.048
Loans and borrowings payable at 31 December	**160.792**	49.427
Interest expense	**777**	273
INA d.d.		
Purchase of gas, other raw materials and services	**104.823**	2.406
Liabilities as at 31 December	**53.437**	85
HŽ Cargo d.o.o.		
Purchase of transport services	**62.657**	69.939
Liabilities as at 31 December	**6.983**	6.560
HEP Opskrba d.o.o.		
Purchase of electricity	**19.147**	19.328
Liabilities as at 31 December	**3.457**	8.647
HPB d.d.		
Loans and borrowings payable at 31 December	**130.061**	141.500
Interest payables at 31 December	**-**	171
Interest expense	**10.799**	9.178

Transactions with key management and Supervisory Board

Management Board remuneration relates to regular monthly payments for salaries and other benefits in kind. During 2014, remuneration paid to key management amounted to HRK 5,300 thousand *(2013: HRK 4,038 thousand)* and related to 7 persons *(2013: 9 persons)*.

Furthermore, during 2014, a total of HRK 266 thousand *(2013: HRK 410 thousand)* was paid to the members of the Supervisory Board and related to 8 persons *(2013: 11 persons)*.

30 Contingencies

Environmental provisions

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

Limitations with respect to estimating the cost of restoration and closure

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

- *Option 1*

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

- *Option 2*

  This option is developed on the basis of scientific research presented in the report "Gradual greening of phosphogypsum waste" 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 Group for minor amounts as well as those initiated by the Group against others. Management believes that no significant costs exceeding those provided for at the reporting date will occur as a result of ongoing legal proceedings as presented in note 25.

31 Events after the reporting date

As at 18 February 2015, the Commercial Court in Zagreb registered a share capital increase arising from the first and second round of increase in share capital performed in 2014 which resulted in an increase of share capital in the amount of HRK 253,042 thousand to HRK 386,135 thousand by issue of 8,434,733 new ordinary shares. After registration, the share capital is divided into 12,871,180 ordinary shares at a nominal value of HRK 30 each. Furthermore, as a consequence of the registration of new shares, as of the date of registration the Company is controlled by the Republic of Croatia which holds 79.85% of voting rights through the Government Asset Management Agency ("GAMA").

Attachment 1.
Reported period: 1.1.2014. to 31.12.2014.

Annual financial statements GFI-POD

Registation number (MB):	03674223
Registation number of subject (MBS):	080004355
Personal identification number (OIB):	24503685008
Issuer company:	PETROKEMIJA d.d.
Postal code and city:	44320 KUTINA
Street and number:	ALEJA VUKOVAR 4
E-mail:	fin@petrokemija.hr
Internet address:	www.petrokemija.hr
Code and city/municipality:	220 KUTINA
Code and county name:	3 SISAČKO-MOSLAVAČKA ŽUPANIJA
Nmber of employees: (at the end of the year)	1.793
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
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:	ZEČEVIĆ NENAD, PEROŠEVIĆ-GALOVIĆ ANTONIJA (authorized representatives)

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

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

(signature of authorized representative)

BALANCE SHEET

as at 31.12.2014.

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	719.303.117	666.469.845
I. INTANGIBLE ASSETS (004 do 009)	003	8.212.096	8.060.392
1. Expense for development	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	2.834.581	4.126.070
3. Goodwill	006		
4. Advances for intangible assets	007		
5. Intangible assets in progress	008	5.377.515	3.934.322
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 do 019)	010	710.518.222	658.048.220
1. Land	011	49.482.153	49.482.153
2. Buildings	012	276.722.239	256.096.185
3. Plant and equipment	013	309.397.663	267.358.049
4. Tools, plant inventory and transportation assets	014	15.626.648	24.269.004
5. Biological assets	015		
6. Advances for tangible assets	016	3.352.925	8.481.540
7. Tangibal assets in progres	017	55.434.274	51.009.926
8. Other tangible assets	018	502.320	1.351.363
9. Investments in real estates	019		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	020	7.537	7.537
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		
8. Investments accounted for using the equity method	028		
IV. TRADE RECEIVABLES (030 do 032)	029	250.168	40.574
1. Receivables from related companies	030		
2. Receivables for sales on loan	031		
3. Other receivables	032	250.168	40.574
V. DIFERRED TAX ASSETS	033	315.094	313.122
C) **SHORT-TERM ASSETS** (035+043+050+058)	034	877.887.496	907.602.604
I. INVENTORIES (036 do 042)	035	448.552.343	523.417.238
1. Raw and other material	036	208.306.972	272.799.333
2. Work in progress	037	42.595.847	42.922.687
3. Finished products	038	194.190.474	206.519.234
4. Merchandise inventory	039	1.237.523	795.403
5. Advances for inventories	040	2.221.527	380.581
6. Long-term assets intended for sale	041		
7. Biological assets	042		
II. TRADE RECEIVABLES (044 do 049)	043	382.994.741	294.596.077
1. Receivables from related companies	044		
2. Receivables from customers (buyers)	045	185.068.208	108.001.566
3. Receivables from participating interest	046		
4. Receivables from employees and members	047	35.289	14.964
5. Receivables from state and other institutions	048	71.782.384	56.397.097
6. Other receivbles	049	126.108.860	130.182.450
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	24.511.788	78.109.508
1. Investments (shares) in related companies	051		
2. Loans given to realted companies	052		
3. Participating interest (shares)	053	12.838.576	43.227.766
4. Loans given to companies with participating interest	054		
5. Investment in securities	055	5.068.235	27.447.774
6. Loans given, depsits and similar assets	056	6.604.977	7.433.968
7. Other financial assets	057		
IV. CASH IN BANK AND ON HAND	058	21.828.624	11.479.781
D) PREPAID EXPESES AND ACCRUED INCOME	059	12.550.972	543.800
E) **TOTAL ASSETS** (001+002+034+059)	060	1.609.741.585	1.574.616.249
F) OFF BALANCE SHEET ITEMS	061	513.934.610	963.867.837

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	438.063.174	326.636.096
I. SUBSCRIBED CAPITAL	063	754.195.990	133.093.410
II. CAPITAL RESERVES	064		554.488.994
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	7.967.248	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	7.967.248	
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	2.006.043	-879.831
1. Retained earning	073	3.858.116	827.918
2. Loss carried forward	074	1.852.073	1.707.749
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	075	-330.259.239	-363.732.586
1. Profit for the year	076		
2. Loss for the year	077	330.259.239	363.732.586
VII. MINORITY INTEREST	078	4.153.132	3.666.109
B) PROVISIONS (080 do 082)	079	14.231.661	10.226.111
1. Provisions for pensions, severance pay and similar labilites	080	12.659.799	9.084.249
2. Provisions for tax liabilities	081		
3. Other provisions	082	1.571.862	1.141.862
C) LONG-TERM LIABILITIES (084 do 092)	083	63.460.181	17.015.338
1. Liabilities to related companies	084		
2. Liabilities for loans, deposits and similar	085		
3. Liabilities to banks and other financial institutions	086	63.460.181	17.015.338
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	1.074.607.653	1.190.347.265
1. Liabilities to related companies	094		
2. Liabilities for loans, deposits and similar	095	64.427.181	187.412.038
3. Liabilities to banks and other financial institutions	096	362.388.889	289.952.694
4. Liabilities for advances	097	108.333.045	112.185.263
5. Liabilities to suppliers	098	285.051.764	481.954.886
6. Liabilities for securities	099	91.833.225	13.421.301
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	14.488.053	11.480.277
9. Liabilities for taxes, contributions and other payments	102	21.560.648	11.201.378
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	126.524.848	82.739.428
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	19.378.916	30.391.439
F) TOTAL LIABILITIES (062+079+083+093+106)	107	1.609.741.585	1.574.616.249
G) OFF BALANCE SHEET ITEMS	108	513.934.610	963.867.837
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	433.910.042	322.969.987
2. Credited to minority interest	110	4.153.132	3.666.109

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 01.01.2014. to 31.12.2014.

Petrokemija Group d.d.			
Position	AOP code	Previous year	Current year
1	2	3	4
I. OPERATING REVENUES (112+113)	111	**2.566.333.024**	**2.239.503.344**
1. Sales revenues	112	2.518.580.366	2.201.491.335
2. Other operating revenues	113	47.752.658	38.012.009
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	**2.865.566.221**	**2.547.997.132**
1. Changes in value of work in progress and finished products	115	170.888.173	-9.046.082
2. Material costs (117 do 119)	116	**2.224.370.068**	**2.034.402.896**
a) Cost of raw and production materials	117	2.114.120.585	1.965.896.286
b) Cost of goods sold	118	28.445.243	6.143.719
c) Other external costs	119	81.804.240	62.362.891
3. Employees costs (121 do 123)	120	**249.671.415**	**221.052.389**
a) Net salaries and wages	121	158.388.456	137.645.253
b) Costs for taxes and contributions from salaries	122	58.384.363	51.870.944
c) Contributions on salaries	123	32.898.596	31.536.192
4. Depreciation	124	**96.483.482**	**96.946.437**
5. Other costs	125	**115.734.117**	**195.754.876**
6. Value adjustments (127+128)	126	**4.442.533**	**2.666.155**
a) of long-term assets (except for financial assets)	127	20.318	29.261
b) of short-term assets (except for financial assets)	128	4.422.215	2.636.894
7. Provisions	129	**3.976.433**	**6.220.461**
8. Other operating expenses	130	**0**	**0**
III. FINANCIAL REVENUES (132 do 136)	131	**18.371.299**	**9.414.556**
1. Interest, exchange rate flucutations, dividends and similar from associated companies	132		
2. Interest, exchange rate flucuations, dividends and sikilar from non-associated companies ond others	133	18.371.299	9.414.556
3. Part of revenue from associated companies and prticipating interests	134		
4.Unrealised gains (revenues) from financial assets	135		
5. Other financial revenues	136		
IV. FINANCIAL EXPENSES (138 do 141)	137	**49.290.880**	**64.283.206**
1. Interest, exchange rate fluctuations and other costs with associated companies	138		
2. Interest, excehange rate flucutations and other costs eith non-associated companies	139	47.462.252	64.253.964
3. Unrealised losses (costs) from financial assets	140	1.828.628	29.242
4. Other financial expenses	141		
V. PORTION IN PROFIT OF ASSOCIATED COMPANIES	142		
VI. PORTION IN LOSS OF ASSOCIATED COMPANIES	143		
VII. EKSTRAORDINARY - OTHER REVENUES	144		
VIII. EXTRAORDINARY - OTHER EXPENSES	145		
IX. TOTAL REVENUES (111+131+142 + 144)	146	**2.584.704.323**	**2.248.917.900**
X. TOTAL EXPENSES (114+137+143 + 145)	147	**2.914.857.101**	**2.612.280.338**
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	**-330.152.778**	**-363.362.438**
1. Profit before taxation (146-147)	149	0	0
2. Loss before taxation (147-146)	150	330.152.778	363.362.438
XII. PROFIT TAX	151	284.461	370.148
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	**-330.437.239**	**-363.732.586**
1. Profit for the period (149-151)	153	0	0
2. Loss for the period (151-148)	154	330.437.239	363.732.586

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	-329.615.239	-363.247.445
2. Credited to minority interest	156	-822.000	-485.141
STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)			
I. PROFIT OR LOSS OF THE PERIOD (= 152)	157	-330.437.239	-363.732.586
II. OTHER COMPREHENSIVE GAINS/LOSS BEFORE TAXES (159 do 165)	158	178.000	-494.000
1. Exchange rate differences from translation of foreign currency operations	159	178.000	-494.000
2. Change in revaluation reserves of fixed tangible and intangible assets	160		
3. Gain or loss from revaluation of financial assets held for sale	161		
4. Gain or loss from effective cash flow hedge	162		
5. Gain or loss from effective hedge in net investments in abroad	163		
6. Portion in other comprehensive gain7loss of assocated companies	164		
7. Acutaral gains7losses on defined benefit plans	165		
III. TAX ON OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD	166		
IV. NET OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD (158-166)	167	178.000	-494.000
V. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD (157+167)	168	-330.259.239	-364.226.586
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	-329.437.239	-363.741.445
2. Credited to minority interest	170	-822.000	-485.141

CASH FLOW STATEMENT - Direct method

for the perod 01.01.2014. to 31.12.2014.

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	2.293.114.228	2.164.930.978
2. Cash increse from royalites, fees commissions and other	002		
3. Cash increse from insuarance compensations	003	4.994.325	4.727.521
4. Cash increase from tax return	004	344.321.282	345.537.947
5. Other cash increase	005	4.449.827	5.499.808
I. Total increase of cash flow from operating activities (001 do 005)	006	**2.646.879.662**	**2.520.696.254**
1. Expenses to suppliers	007	2.781.258.086	2.180.493.336
2. Expenses for employees	008	280.857.462	332.388.012
3. Expenses for insuarance compensations	009	14.493.411	12.990.716
4. Expenses for interest	010	29.441.416	37.892.071
5. Expenses for taxes	011	112.355.548	83.066.063
6. Other cash decrease	012	14.311.654	13.648.249
II. Total decrease in cash flow from operating activities (007 do 012)	013	**3.232.717.577**	**2.660.478.447**
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	**585.837.915**	**139.782.193**
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proseeds from sale of non-current tangible and intangible assets	016	9.563	48.530
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	1.005.704	
5. Other cash proceeds from investing activities	020		10.039.376
III. Total cash inflow from investing activities (016 do 020)	021	**1.015.267**	**10.087.906**
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	65.213.192	42.729.316
2. Cash outflow for acquisition of equity and debt financial instruments	023		
3. Other cash outflows from investing activities	024		
IV. Total cash outflow from investing activities (022 do 024)	025	**65.213.192**	**42.729.316**
B1) NET CASH FLOW FROM INVESTIN ACTIVITIES (021-025)	026	0	0
B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)	027	**64.197.925**	**32.641.410**
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash infows from issuance of equity and debt financial instruments	028	186.206.100	253.041.990
2. Cash inflows from loan pricipals, debentures, credits and other borrowings	029	2.024.800.000	739.574.046
3. Other inflows from financial activities	030	670.266.143	283.396.524
V. Total cash inflow from financial activities (028 do 030)	031	**2.881.272.243**	**1.276.012.560**
1. Cash outflows for repayment of loan principal and bonds	032	2.052.942.394	938.930.905
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	200.519.561	174.177.903
VI. Total cash outflow for financial activities (032 do 036)	037	**2.253.461.955**	**1.113.108.808**
C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)	038	**627.810.288**	**162.903.752**
C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)	039	0	0
Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)	040	0	0
Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)	041	**22.225.552**	**9.519.851**
Cash and cash equivalents at the begining of the period	042	50.659.153	28.433.601
Increase of cash and cash equivalents	043		
Decrease of cash adn cash equivalents	044	22.225.552	9.519.851
Cash and cash equivalents at the end of the period	045	28.433.601	18.913.750

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

STATEMENT OF CHANGES IN EQUITY

for the perod from 1.1.2014 to 31.12.2014

Position	AOP code	Previous year	Current year
1	2	3	4
1. Suscribed capital	001	754.195.990	133.093.410
2. Capital reserves	002		554.488.994
3. Reserves from profit	003	7.967.248	
4. Retained profit or loss carried forward	004	2.006.043	-879.831
5. Profit or loss for the year	005	-330.259.239	-363.732.586
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	4.153.132	3.666.109
10. Total capital and reserves (AOP 001 do 009)	010	**438.063.174**	**326.636.096**
11. Exchange differences on translationof financial statements of foreign operations	011		
12. Curent and deferred taxes (part))	012		
13.Protektion of cash flow	013		
14. Changes in accounting policies	014		
15. Adjustment of significant errors from previous period	015		
16. Other changes in captal	016		
17. Total increase or decrease of capital (AOP 011 do 016)	017	0	0
17 a. Creadited to parent company capital owners	018	433.910.042	322.969.987
17 b. Creadited to minority interest	019	**4.153.132**	**3.666.109**

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.

Petrokemija, Plc.
SUPERVISORY BOARD

Number: 5/ 2015
Kutina, 27.3.2015

Pursuant to Article 21 of the Articles of Association of Petrokemija, Plc. and Articles 300.c and 300.d of the Companies Act, at a meeting No. 12 /2015, held on 27.3.2015, the Supervisory Board of Petrokemija, Plc. adopted the following

D E C I S I O N

ON GRANTING APPROVAL TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR 2014

I

After reviewing the consolidated annual financial statements, Supervisory Board of Petrokemija, Plc. grants its approval to the Consolidated Annual Financial Statements of Petrokemija Group, Plc. for 2014.

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

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

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
- Notes on consolidated financial statements
- Petrokemija Group Annual Report and Consolidated Financial Reports for 2014 - Independent Auditor's Report to the shareholders of Petrokemija Plc. with notes

III

Consolidated Balance Sheet assets and liabilities are recorded in the amount of **HRK 1,574,616,248.70**

The consolidated loss of Petrokemija Group, Plc. business for 2014 amounts to **HRK 363,732,586.19** .

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

IV

This Decision shall enter into force upon its adoption.

President of the Supervisory Board:

/ Tomislav Pokaz/