

**Petrokemija d.d.**  
Unconsolidated  
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.**  
**Unconsolidated financial statements**

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# **Petrokemija d.d.**

## **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 2,242.2 million.
- Actual loss of Petrokemija d.d.: HRK 360.7 million (16% of total revenues), HRK 260.3 million without severance payments.
- EBITDA for Petrokemija d.d.: -213.2 million, EBITDA without severance HRK - 112.9 million.
- Equity at 31 December 2014: Petrokemija d.d.: HRK 326.8 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 2,242.2 million and total expense of HRK 2,602.9 million. The Company reported loss in business operations of HRK 360.7 million or 16% of the total revenue. On an annual basis, total revenues were 12.6% lower and total expenses 10.0% 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 12.4% 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 213.2 million negative. In 2013 EBITDA was HRK 200.9 million negative.

In the structure of loss, HRK 308.3 million or 85% was generated from operating activities, and HRK 52.4 million or 15% from financial operations.

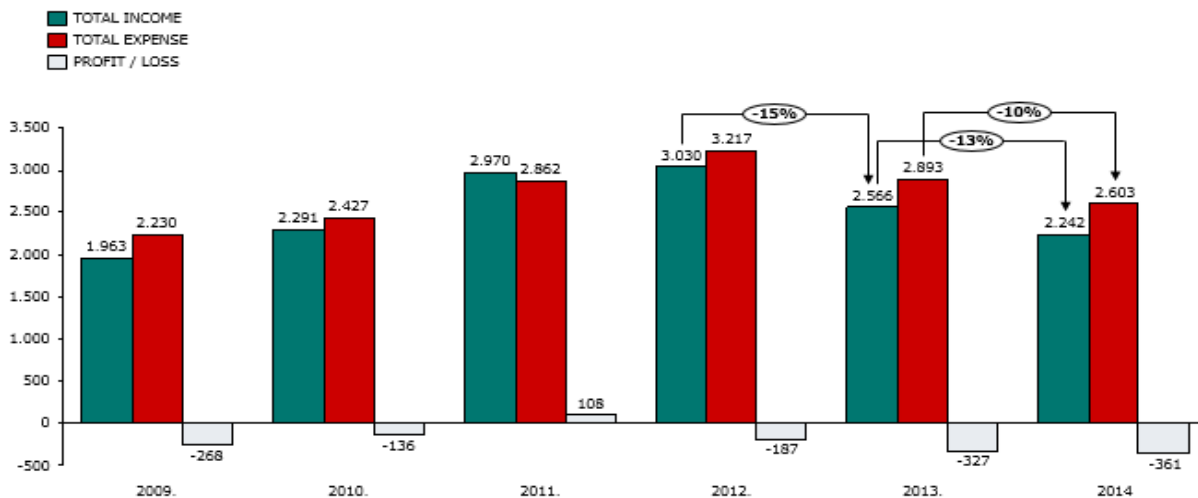
Due to the partial failure of achieving the assumptions of the Program of Restructuring and Financial Consolidation for 2014-2018, a Revision Program was made in late 2014 for the planned period 2015-2019. In the Revision, key changes in the assumptions were made with regard to changes in product range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

# Petrokemija d.d.

## Annual report for the year ended 31 December 2014 (continued)

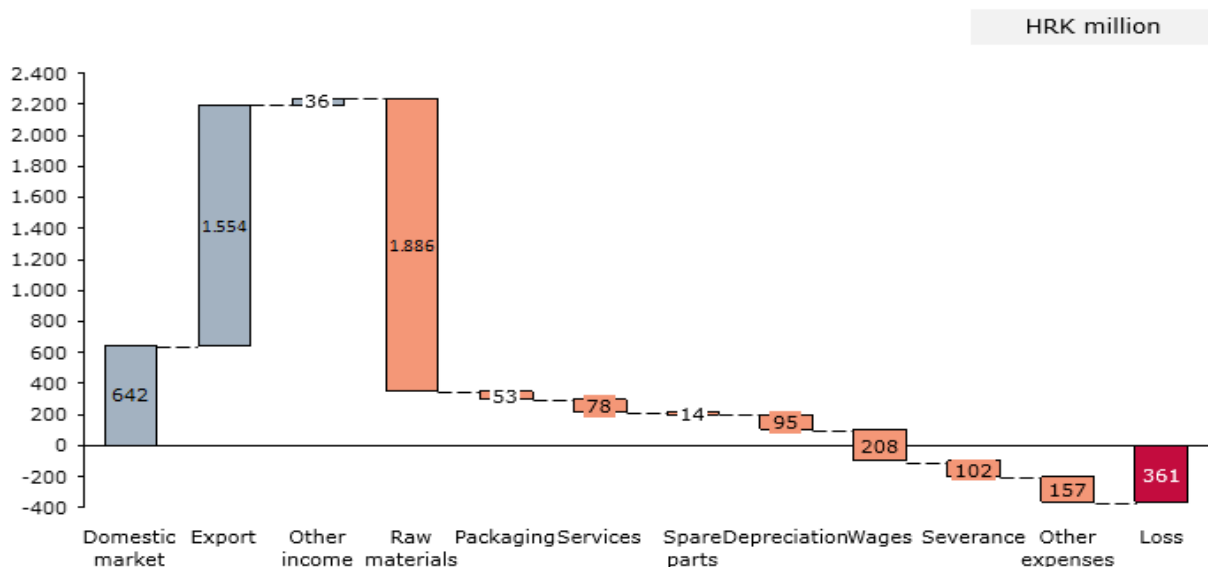
### Report on the Company operations for the year ended 31 December 2014 (continued)

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.



# Petrokemija d.d.

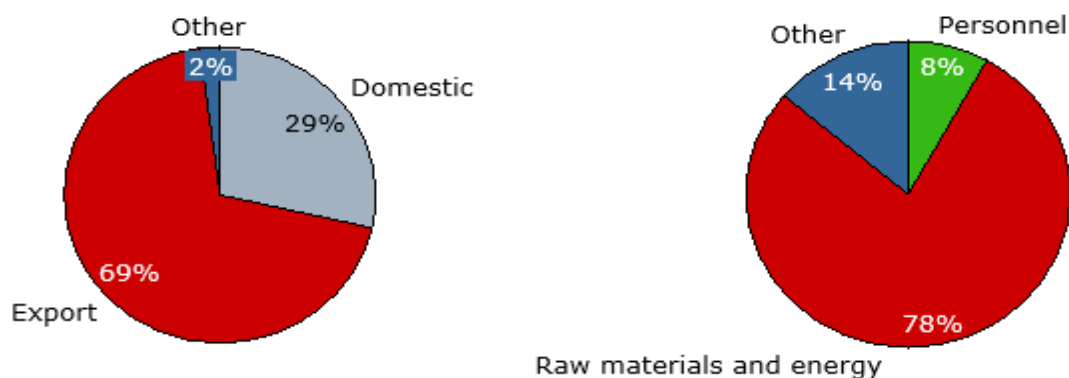
## Annual report for the year ended 31 December 2014 *(continued)*

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

#### 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%.



#### Key financial indicators

HRK 000

	Jan-Dec 2014	Jan-Dec 2013	Difference	% change
Operating revenue	2,231,495	2,548,507	-317,012	-12.44%
Operating expenses	2,539,839	2,844,107	-304,268	-10.70%
EBITDA	-213,199	-200,986	-12,213	-6.08%
<b>EBITDA without severance</b>	-112,859	-179,264	66,405	37.04%
Amortization and depreciation	95,145	94,614	531	0.56%
Net financial result	-52,405	-31,783	-20,622	-64.88%
Net result before taxation	-360,749	-327,383	-33,366	-10.19%
	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>		
Non-current assets	685,792	738,157	-52,365	-7.09%
Current assets	891,145	868,239	22,906	2.64%
Capital and reserves	326,833	434,780	-107,947	-24.83%
Non-current liabilities + provisions	25,144	75,210	-50,066	-66.57%
Current liabilities + provisions	1,224,960	1,096,406	128,554	11.73%

# Petrokemija d.d.

## Annual report for the year ended 31 December 2014 *(continued)*

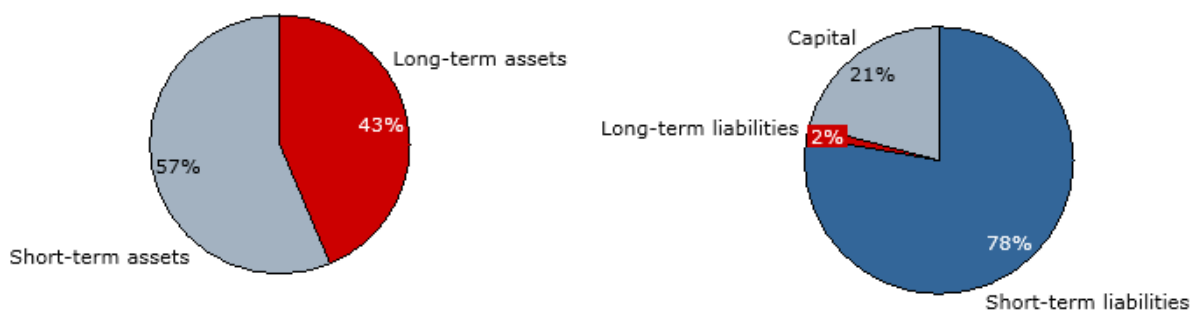
### Report on the Company operations for the year ended 31 December 2014 *(continued)*

#### *Structure of assets and liabilities at 31 December 2014*

At 31 Dec 2014, Petrokemija d.d. had 57% in value of short-term and 43% 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.

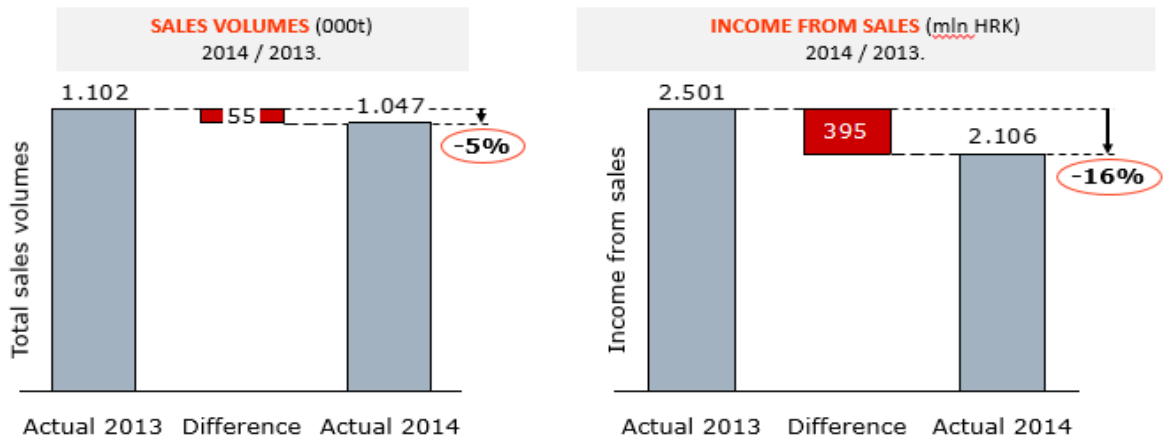


# Petrokemija d.d.

## Annual report for the year ended 31 December 2014 (continued)

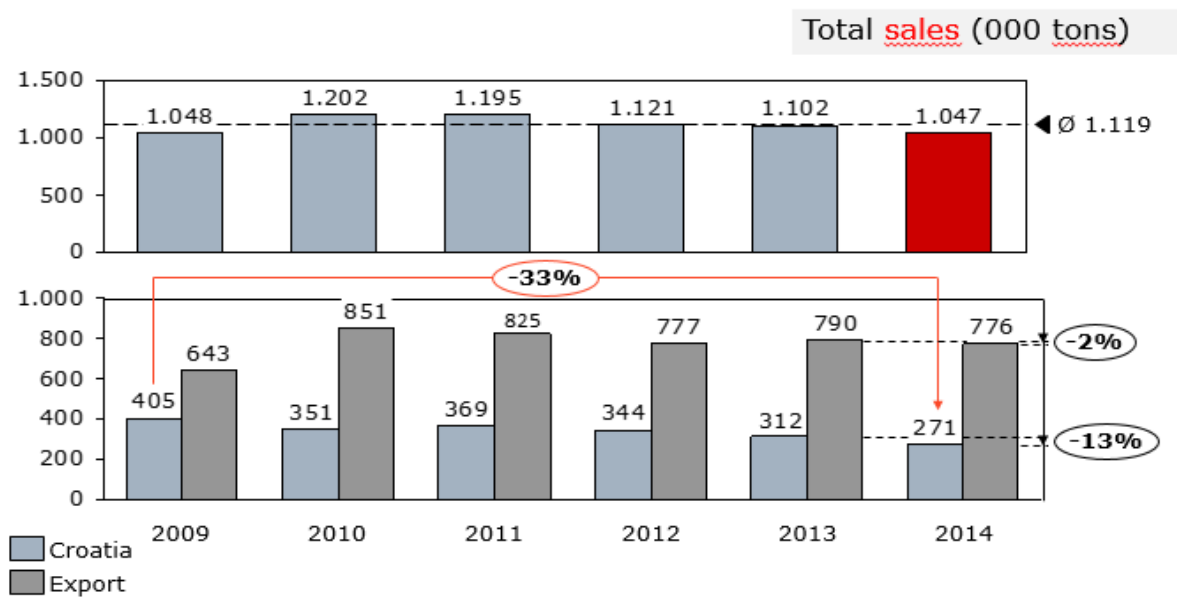
### Report on the Company operations for the year ended 31 December 2014 (continued)

#### 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



# Petrokemija d.d.

## Annual report for the year ended 31 December 2014 *(continued)*

### 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,

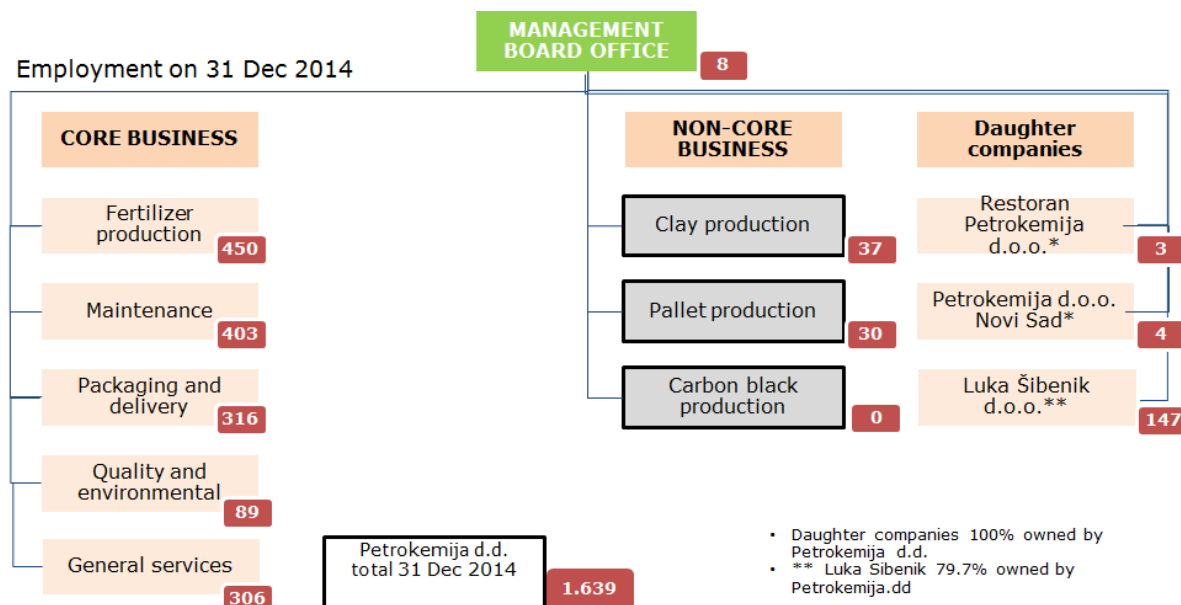
EBITDA (earnings before interest, taxes and depreciation) was negative HRK 211.5 million.

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*



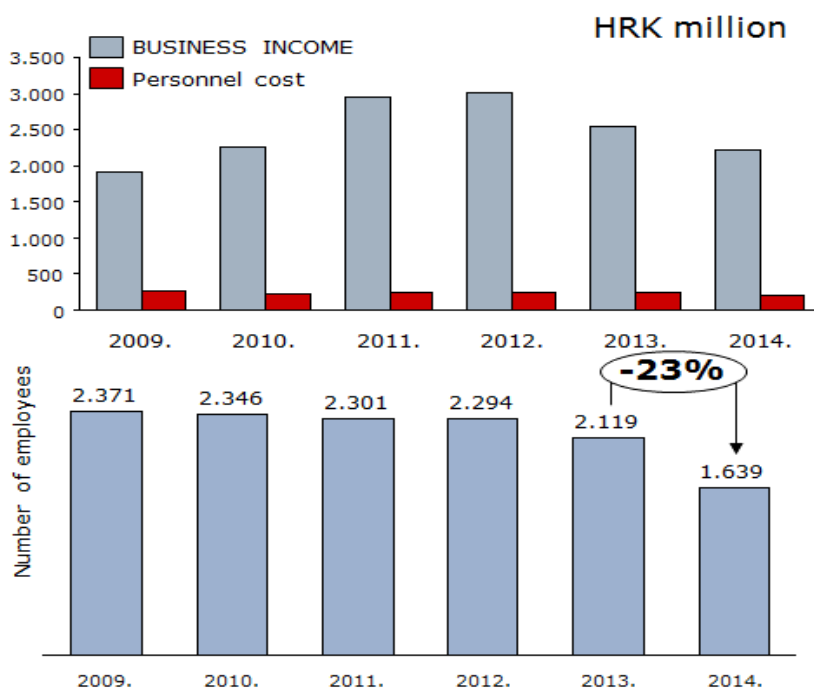


# Petrokemija d.d.

## Annual report for the year ended 31 December 2014 (continued)

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

Operational income, personnel costs, number of employees

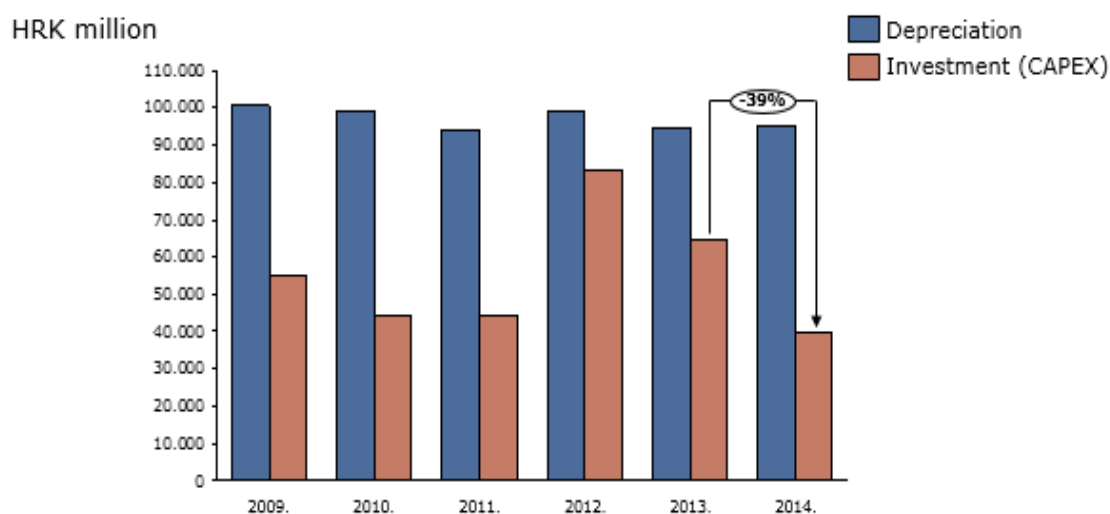


As at 31.12.2014, Petrokemija d.d. had 1,639 employees, and daughter companies - members of Petrokemija Group - had a total of 154 employees, which makes a total of 1,793 employees.

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.



# Petrokemija d.d.

## Annual report for the year ended 31 December 2014 (continued)

### 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 i K7) and the state monitoring station (DMP)



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

# Petrokemija d.d.

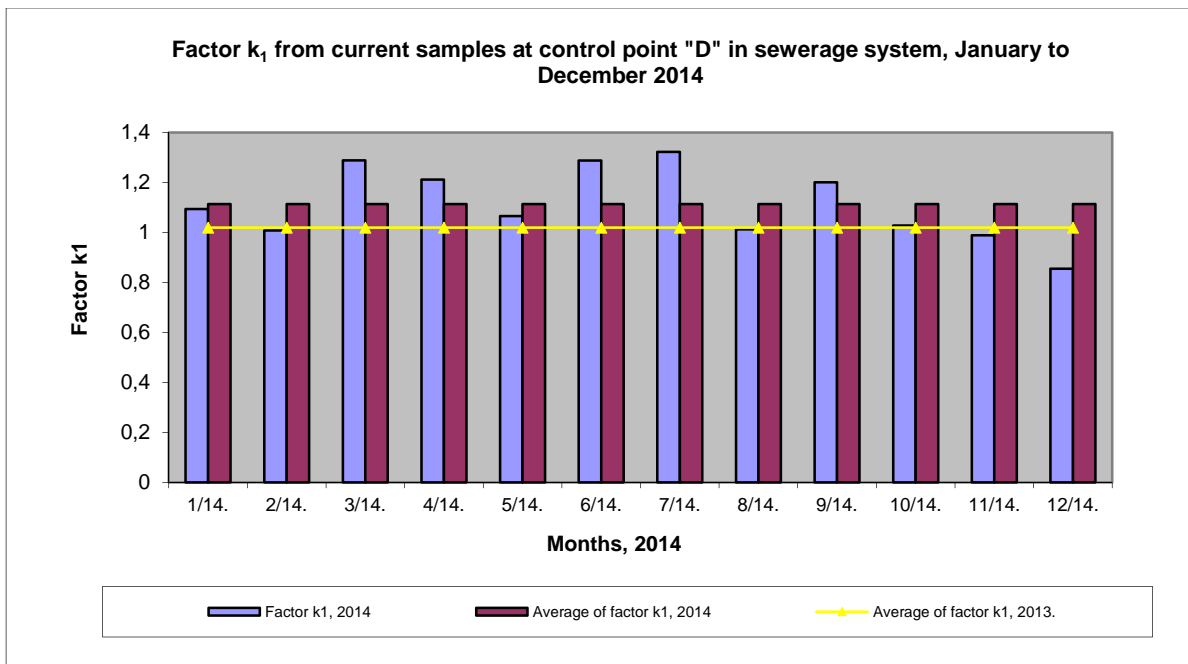
## Annual report for the year ended 31 December 2014 (continued)

### 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 (2 <sup>nd</sup> category)
<b>TOTAL</b>	<b>25</b>

#### Water management



The average value of  $k_1$  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 m<sup>3</sup>, which is 1.92 % less than average achieved in 2013.

# Petrokemija d.d.

## Annual report for the year ended 31 December 2014 (*continued*)

### 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, Martičeva 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 appointed 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.

# **Petrokemija d.d.**

## **Annual report for the year ended 31 December 2014 (*continued*)**

### **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.

# Petrokemija d.d.

## Annual report for the year ended 31 December 2014 (*continued*)

### 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.

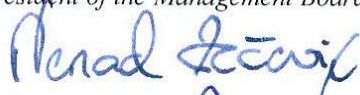
### Statement of management liability

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



## **Petrokemija d.d.**

### **Statement of Management's responsibilities**

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

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

Management acknowledges that uncertainty remains over the Company's ability to meet its funding requirements and to refinance or repay its liabilities as they fall due. However, as described in detail in note 2.4, management has a reasonable expectation that the Company 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 unconsolidated financial statements.

If for any reason the Company is unable to continue as a going concern, then this could have an impact on the Company's ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the unconsolidated financial statements. These financial statements do not include the possible effects which would result from the Company'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 company together with the annual consolidated and unconsolidated financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

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

The unconsolidated 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



**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 separate financial statements of Petrokemija d.d. ("the Company"), which comprise the unconsolidated statement of financial position as at 31 December 2014, the unconsolidated 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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

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

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

### *Basis for qualified opinion*

- 1 As described in note 29, the Company has an obligation for land restoration. In accordance with International Financial Reporting Standards IAS 37 *Provisions, contingent liabilities and contingent assets*, the Company should recognise a provision for land restoration. As explained in note 29, the Company 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 separate 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 Company 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 Company has not completed the process of determining the value of spare parts that need to be re-classified from current to non-current assets as part of plant and equipment and calculated the effect of retroactive restatements related to depreciation. The effects of this departure from International Financial Reporting Standards on the financial statements have not been determined. Our opinion on the separate financial statements for the preceding period was also qualified in this respect.
- 3 As at 31 December 2014, the assets of the Company 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 Company 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 Company 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 separate financial statements for the preceding period was also qualified in this respect.

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





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

### *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 Company has not raised an impairment allowance, and which the Company has been unable to collect. Significant uncertainty exists as to the form of settlement of this receivable, and its recoverability for the Company. The Company 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 separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2014, and of its unconsolidated financial performance and its unconsolidated 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 separate financial statements. In the year ended 31 December 2014, the Company incurred an unconsolidated net loss of HRK 360,749 thousand (2013: HRK 327,383 thousand). Furthermore, as at 31 December 2014, the Company's unconsolidated current liabilities exceeded its unconsolidated current assets by HRK 333,815 thousand (2013: HRK 228,167 thousand). If for any reason the Company is unable to continue as a going concern, then this could have an impact on the Company's ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the separate financial statements. As at the date of this report, the Company has not agreed on the models for ensuring the liquidity of the Company 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 Company to continue operating as a going concern is dependent on the ability of the Company 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 Company 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 Croatia d.o.o. za reviziju**  
Croatian Certified Auditors  
Eurotower, 17th floor  
Ivana Lučića 2a  
10000 Zagreb  
Croatia

**KPMG Croatia**  
d.o.o. za reviziju  
Eurotower, 17. kat  
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**23 March 2015**

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

# Petrokemija d.d.

## Unconsolidated statement of comprehensive income

for the year ended 31 December 2014

	<i>Note</i>	2014 HRK '000	2013 HRK '000
Revenue from sales	7	2,195,588	2,501,408
Other income	8	35,907	47,099
<b>Gross profit</b>		<b>2,231,495</b>	<b>2,548,507</b>
Change in inventory of finished goods and work in progress		9,046	(170,888)
Raw materials, consumables and services used	9	(2,045,308)	(2,224,574)
Staff costs	10	(314,711)	(260,379)
Depreciation and amortisation	14, 15	(95,145)	(94,614)
Other operating expenses	11	(93,721)	(93,652)
<b>Total operating expenses</b>		<b>(2,539,839)</b>	<b>(2,844,107)</b>
<b>Operating loss</b>		<b>(308,344)</b>	<b>(295,600)</b>
Financial income	12	10,662	17,429
Financial expenses	12	(63,067)	(49,212)
<b>Net finance costs</b>		<b>(52,405)</b>	<b>(31,783)</b>
<b>Loss before tax</b>		<b>(360,749)</b>	<b>(327,383)</b>
Income tax	13	-	-
<b>Loss for the period</b>		<b>(360,749)</b>	<b>(327,383)</b>
Other comprehensive income		-	-
<b>Total comprehensive loss</b>		<b>(360,749)</b>	<b>(327,383)</b>

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

# Petrokemija d.d.

## Unconsolidated statement of financial position

as at 31 December 2014

	<i>Note</i>	31.12.2014. HRK '000	31.12.2013. HRK '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	653,531	703,570
Intangible assets	15	8,060	8,212
Investment in subsidiaries	16	24,193	26,367
Non-current financial assets	17	8	8
		<b>685,792</b>	<b>738,157</b>
<b>Current assets</b>			
Inventories	19	519,657	444,534
Trade and other receivables	20	320,114	395,852
Current financial assets	17	43,227	3,198
Financial assets at fair value through profit and loss	18	-	9,853
Cash and cash equivalents	21	8,147	14,802
		<b>891,145</b>	<b>868,239</b>
<b>Total assets</b>		<b>1,576,937</b>	<b>1,606,396</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	22	386,135	754,196
Reserves		301,447	7,967
Accumulated losses		(360,749)	(327,383)
		<b>326,833</b>	<b>434,780</b>
<b>Non-current liabilities</b>			
Loans and borrowings	23	15,833	61,944
Provisions	24	9,311	13,266
		<b>25,144</b>	<b>75,210</b>
<b>Current liabilities</b>			
Trade and other payables	25	648,929	449,594
Loans and borrowings	23	576,031	646,812
		<b>1,224,960</b>	<b>1,096,406</b>
<b>Total equity and liabilities</b>		<b>1,576,937</b>	<b>1,606,396</b>

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

# Petrokemija d.d.

## Unconsolidated statement of changes in equity

for the year ended 31 December 2014

(in HRK thousands)

	Share capital	Other reserves	Accumulated losses	Total
<b>As at 1 January 2013</b>	<b>902,102</b>	-	<b>(324,165)</b>	<b>577,937</b>
<i>Comprehensive income</i>				
Loss for the period	-	-	(327,383)	(327,383)
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	-	-	<b>(327,383)</b>	<b>(327,383)</b>
<i>Transactions with owners recognised directly in equity</i>				
Decrease of share capital	(334,112)	9,947	324,165	-
Increase of share capital	186,206	(1,980)	-	184,226
<b>Total transactions with owners recognised directly in equity</b>	<b>(147,906)</b>	<b>7,967</b>	<b>324,165</b>	<b>184,226</b>
<b>As at 31 December 2013</b>	<b>754,196</b>	<b>7,967</b>	<b>(327,383)</b>	<b>434,780</b>

(in HRK thousands)

	Share capital	Other reserves	Accumulated losses	Total
<b>As at 1 January 2014</b>	<b>754,196</b>	<b>7,967</b>	<b>(327,383)</b>	<b>434,780</b>
<i>Comprehensive income</i>				
Loss for the period	-	-	(360,749)	(360,749)
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	-	-	<b>(360,749)</b>	<b>(360,749)</b>
Transfers	-	(7,967)	7,967	-
<i>Transactions with owners recognised directly in equity</i>				
Decrease of share capital (note 22)	(621,103)	301,687	319,416	-
Paid but unregistered share capital (note 22)*	253,042	(240)	-	252,802
<b>Total transactions with owners recognised directly in equity</b>	<b>(368,061)</b>	<b>301,447</b>	<b>319,416</b>	<b>252,802</b>
<b>As at 31 December 2014</b>	<b>386,135</b>	<b>301,447</b>	<b>(360,749)</b>	<b>326,833</b>

\* 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).

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

**Petrokemija d.d.**  
**Unconsolidated statement of cash flows**  
*for the year ended 31 December 2014*

(in HRK thousands)

	<u>31.12.2014.</u>	<u>31.12.2013.</u>
<b><u>Cash flows from operating activities</u></b>		
Cash received from customers	2.164.931	2.293.114
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
<i>Total cash inflows from operating activities</i>	<u>2.520.696</u>	<u>2.646.879</u>
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	29.441
Taxes paid	83.066	112.356
Other cash outflows	10.783	15.459
<i>Total cash outflows from operating activities</i>	<u>2.657.613</u>	<u>3.233.864</u>
<b>Net decrease of cash flows from operating activities</b>	<u>(136.917)</u>	<u>(586.985)</u>
<b><u>Cash flows from investment activities</u></b>		
Proceeds from sale of property, plant, equipment and intangibles	49	10
Dividends received	-	1.005
Other cash inflows from investment activities	10.039	-
<i>Total cash from investment activities</i>	<u>10.088</u>	<u>1.015</u>
Cash outflows for purchase of property, plant, equipment and intangibles	42.729	65.213
<i>Total cash outflows from investment activities</i>	<u>42.729</u>	<u>65.213</u>
<b>Net decrease of cash flows from investment activities</b>	<u>(32.641)</u>	<u>(64.198)</u>
<b><u>Cash flows from financing activities</u></b>		
Cash inflow from issue of equity and debt securities	253.042	186.206
Cash inflows from borrowings	739.574	2.024.800
Other cash inflows from financing activities	283.396	670.266
<i>Total cash from inflows from financing activities</i>	<u>1.276.012</u>	<u>2.881.272</u>
Cash outflows for repayment of borrowings	938.931	2.052.942
Other cash outflows from financing activities	174.178	200.520
<i>Total cash outflows from financing activities</i>	<u>1.113.109</u>	<u>2.253.462</u>
<b>Net increase of cash flows from financing activities</b>	<u>162.903</u>	<u>627.810</u>
Net decrease in cash and cash equivalents	(6.655)	(23.373)
<b>Cash and cash equivalents at beginning of period</b>	<u>14.802</u>	<u>38.175</u>
<b>Cash and cash equivalents at the end of period</b>	<u>8.147</u>	<u>14.802</u>

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The accompanying accounting policies and notes form an integral part of these 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.

As at 31 December 2014 the Company employed 1,639 employees (31 December 2013: 2,119 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.

# Petrokemija d.d.

## Notes (continued)

### 2 Basis of preparation

#### 2.1 Statement of compliance

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

These unconsolidated financial statements represent those of the Company only. The consolidated financial statements of the Company and its subsidiaries, which the Company has also prepared in accordance with IFRS, are published separately and issued simultaneously with these unconsolidated 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 Company incurred a net loss of HRK 360,749 thousand (*31 December 2013: HRK 327,383 thousand*). Furthermore, as at 31 December 2014, the Company's current liabilities exceeded its current assets by HRK 333,815 thousand (*31 December 2013: HRK 228,167 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 Company 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 Company 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 Company updated the existing plan and prepared a new five-year restructuring and financial consolidation plan for the period up to 2019. In updating the plan, several key changes to assumptions were made with respect to the structure of production and sales mix, activation of plants not in use, securing of long term sources of financing and realisation of lower prices of natural gas in accordance with the adopted natural gas procurement strategy.

# Petrokemija d.d.

## Notes *(continued)*

### 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 Company 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 Company 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 Company and its majority shareholder are in continuous negotiations regarding the introduction of a strategic partner which would recapitalize the Company 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 Company has not been agreed with the creditors and financiers, and although the negotiations with strategic investors are not finalised, the Company is continuing with the process of restructuring and financial consolidation.

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



# Petrokemija d.d.

## Notes (continued)

### 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### 3.1 Investments in subsidiaries and associates

##### (i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Investments in subsidiaries are accounted for initially at cost and subsequently at cost less impairment losses. Investments in subsidiaries are tested annually for impairment (accounting policy 3.7).

##### (ii) Associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for initially at cost and subsequently at cost less impairment losses. Investments in subsidiaries are tested annually for impairment (accounting policy 3.7).

#### 3.2 Foreign currency transactions

##### Transactions in foreign currencies

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.

#### 3.3 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
------------------------------------	-------------

# Petrokemija d.d.

## Notes (continued)

### 3 Significant accounting policies (continued)

#### 3.4 Property, plant and equipment

##### *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 Company. 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.

#### 3.5 Financial instruments

##### *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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

##### *Cash and cash equivalents*

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

##### *Investments at fair value through profit or loss*

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

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

##### *Other*

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

# Petrokemija d.d.

## Notes (continued)

### 3 Significant accounting policies (continued)

#### 3.6 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.

#### 3.7 Impairment

##### (i) Financial assets

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

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

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

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

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

##### (ii) Non-financial assets

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

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

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

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

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

# Petrokemija d.d.

## Notes (continued)

### 3 Significant accounting policies (continued)

#### 3.8 Employee benefits

##### (i) Defined pension fund contributions

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

##### (ii) Long-term employee benefits

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

##### (iii) Bonus plans

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

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

#### 3.9 Provisions

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

#### 3.10 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.

#### 3.11 Financial income and expenses

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

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

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

# **Petrokemija d.d.**

## **Notes (continued)**

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

#### **3.12 Accounting for leases – where the Company is the lessee**

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

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

#### **3.13 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.

#### **3.14 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.

#### **3.15 Segment information**

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

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

# Petrokemija d.d.

## Notes (continued)

### 3 Significant accounting policies (continued)

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

##### (iv) Value added tax (VAT)

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

### 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 Company's financial statements.

# Petrokemija d.d.

## Notes (continued)

### 5 Key accounting judgements and estimates

#### *Critical judgements in applying accounting policies*

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

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

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

#### *(i) Deferred income tax assets recognition*

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (see accounting policy 3.16 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 3.8 and note 24).

#### *(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 Company in respect of claims.

The Company 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 Company. The Company 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 Company.

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 Company is a plaintiff in a particular court case, any economic benefits expected to flow to the Company 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 Company's obligations arising legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 3.9 and 24).

# Petrokemija d.d.

## Notes (continued)

### 5 Key accounting judgements 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 Company 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 Company 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 Company actively negotiates with the respective debtors taking into account expectations of future business relations, significance of exposure to an individual debtor, possibilities of compensation, exercise of instruments of security (if any) or seizure of assets etc.

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



# Petrokemija d.d.

## Notes (continued)

### 6 Determination of fair value

The Company 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 Company 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

# Petrokemija d.d.

## Notes (continued)

### 7 Revenue

	2014	2013
	HRK '000	HRK '000
Revenue from sale of products and merchandise	2,191,456	2,497,492
Revenue from services	4,132	3,916
	<b>2,195,588</b>	<b>2,501,408</b>

An overview of revenue per market is given below:

	2014	2013
	HRK '000	HRK '000
Croatia	641,810	875,699
Slovenia	179,628	193,648
Bosnia and Herzegovina	127,395	129,220
Serbia and Montenegro	163,393	187,075
Macedonia	33,247	18,207
Sales in countries outside the region	1,050,115	1,097,559
	<b>2,195,588</b>	<b>2,501,408</b>

### 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	5,204	3,687
	<b>35,907</b>	<b>47,099</b>

### 9 Cost of goods sold

	2014	2013
	HRK '000	HRK '000
Raw materials and consumables used	1,962,556	2,110,121
Cost of wholesale and retail goods sold	5,140	18,220
Cost of production services	77,612	96,233
	<b>2,045,308</b>	<b>2,224,574</b>

# Petrokemija d.d.

## Notes (continued)

### 10 Personnel expenses

	2014	2013
	HRK '000	HRK '000
Salaries	129,127	148,869
Contributions on salaries	29,765	31,128
Other staff costs	155,819	80,382
	<b>314,711</b>	<b>260,379</b>

The number of employees as at 31 December 2014 in the Company was 1,639 (2013: 2,119).

During 2014, as part of the restructuring and financial consolidation plan described in more detail in note 2.4, the Company 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 is included in other staff costs.

### 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	20,421
Insurance	12,472	12,290
Increase in provision	1,493	539
Bank charges	3,591	6,555
Inventory loss	1,639	1,876
Impairment of trade receivables	495	354
Intellectual services	5,089	3,729
Travel expenses	810	1,440
Other	6,129	7,864
	<b>93,721</b>	<b>93,652</b>

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	3,209	983
Foreign exchange gains	3,639	11,437
Other financial income	3,814	5,009
<b>Total financial income</b>	<b>10,662</b>	<b>17,429</b>
Unrealised losses on financial assets	-	(1,699)
Interest expense	(50,522)	(39,846)
Foreign exchange losses	(12,545)	(7,667)
<b>Total financial expenses</b>	<b>(63,067)</b>	<b>(49,212)</b>
<b>Net finance costs</b>	<b>(52,405)</b>	<b>(31,783)</b>

# Petrokemija d.d.

## Notes (continued)

### 13 Income tax expense

Recognised in the statement of comprehensive income:

	2014 HRK '000	2013 HRK '000
Current income tax	-	-

#### 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
<b>Loss before taxation</b>	<b>(360,749)</b>	<b>(327,383)</b>
Tax calculated at 20% (2013: 20%)	<b>(72,150)</b>	<b>(65,477)</b>
Non-deductible expenses and non-taxable income	<b>810</b>	<b>696</b>
Temporary differences not recognised as deferred tax assets	<b>239</b>	<b>831</b>
Tax incentives	<b>-</b>	<b>(256)</b>
Utilisation of tax losses previously not recognised as deferred tax assets	<b>(877)</b>	<b>(679)</b>
Tax recognised in the statement of comprehensive income	<b>71,978</b>	<b>64,885</b>
Tax expense recognised in the statement of comprehensive income	<b>-</b>	<b>-</b>
<b>Effective tax rate</b>	<b>0.0%</b>	<b>0.0%</b>

At the reporting date, carry forward tax losses of the Company amounting to HRK 978,565 thousand (31 December 2013: HRK 789,715 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	<b>23,304</b>	23,304
Tax loss from 2012 - expires on 31 December 2017	<b>35,546</b>	35,546
Tax loss from 2013 - expires on 31 December 2018	<b>64,885</b>	64,885
Tax loss from 2014 - expires on 31 December 2019	<b>71,978</b>	-
	<b>195,713</b>	<b>157,943</b>

# Petrokemija d.d.

## Notes (continued)

### 14 Property, plant and equipment

(in thousands of HRK)

	Land	Buildings	Plant and equipment	Tools and fittings	Assets under construction	Advances	Total
<b>Cost</b>							
At 1 January 2013	49,482	571,093	1,138,560	52,765	55,752	3,021	1,870,673
Additions	-	-	-	113	62,941	332	63,386
Transfers	-	6,658	50,400	5,951	(63,009)	-	-
Disposals	-	-	(1,518)	(393)	-	-	(1,911)
<b>At 31 December 2013</b>	<b>49,482</b>	<b>577,751</b>	<b>1,187,442</b>	<b>58,436</b>	<b>55,684</b>	<b>3,353</b>	<b>1,932,148</b>
<b>Accumulated depreciation</b>							
At 1 January 2013	-	281,324	817,365	38,921	-	-	1,137,610
Charge for the year	-	21,418	67,593	3,735	-	-	92,746
Disposals	-	-	(1,498)	(280)	-	-	(1,778)
<b>At 31 December 2013</b>	<b>-</b>	<b>302,742</b>	<b>883,460</b>	<b>42,376</b>	<b>-</b>	<b>-</b>	<b>1,228,578</b>
<b>Carrying amount</b>							
<b>As at 31 December 2013</b>	<b>49,482</b>	<b>275,009</b>	<b>303,982</b>	<b>16,060</b>	<b>55,684</b>	<b>3,353</b>	<b>703,570</b>
<b>Cost</b>							
At 1 January 2014	49,482	577,751	1,187,442	58,436	55,684	3,353	1,932,148
Additions	-	-	-	-	38,347	5,129	43,476
Transfer to intangible assets	-	-	-	-	(246)	-	(246)
Transfers	-	1,332	29,698	13,375	(44,405)	-	-
Disposals	-	-	(4,976)	(1,357)	-	-	(6,333)
<b>At 31 December 2014</b>	<b>49,482</b>	<b>579,083</b>	<b>1,212,164</b>	<b>70,454</b>	<b>49,380</b>	<b>8,482</b>	<b>1,969,045</b>
<b>Accumulated depreciation</b>							
At 1 January 2014	-	302,742	883,460	42,376	-	-	1,228,578
Charge for the year	-	20,583	67,967	4,687	-	-	93,237
Disposals	-	-	(4,967)	(1,334)	-	-	(6,301)
<b>At 31 December 2014</b>	<b>-</b>	<b>323,325</b>	<b>946,460</b>	<b>45,729</b>	<b>-</b>	<b>-</b>	<b>1,315,514</b>
<b>Carrying amount</b>							
<b>At 31 December 2014</b>	<b>49,482</b>	<b>255,758</b>	<b>265,704</b>	<b>24,725</b>	<b>49,380</b>	<b>8,482</b>	<b>653,531</b>

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

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

Property, plant and equipment of the Company 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 Company 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 Company. The Company has not been able to make adequate impairment tests and assess the recoverable value of these non-operational assets.

# Petrokemija d.d.

## Notes (continued)

### 15 Intangible assets

(in thousands of HRK)

	Assets under construction	Software and project documentation	Total
<b>Cost</b>			
At 1 January 2013	3,608	20,151	23,759
Additions	1,931	-	1,931
Transfers	(619)	619	-
<b>At 31 December 2013</b>	<b>4,920</b>	<b>20,770</b>	<b>25,690</b>
<b>Accumulated amortisation</b>			
At 1 January 2013	-	15,610	15,610
Charge for the year	-	1,868	1,868
<b>At 31 December 2013</b>	<b>-</b>	<b>17,478</b>	<b>17,478</b>
<b>Carrying amount</b>			
<b>As at 31 December 2013</b>	<b>4,920</b>	<b>3,292</b>	<b>8,212</b>
<b>Cost</b>			
At 1 January 2014	4,920	20,770	25,690
Additions	1,510	-	1,510
Transfer from tangible assets	-	246	246
Transfers	(2,497)	2,497	-
<b>At 31 December 2014</b>	<b>3,933</b>	<b>23,513</b>	<b>27,446</b>
<b>Accumulated amortisation</b>			
At 1 January 2014	-	17,478	17,478
Charge for the year	-	1,908	1,908
<b>At 31 December 2014</b>	<b>-</b>	<b>19,386</b>	<b>19,386</b>
<b>Carrying amount</b>			
<b>At 31 December 2014</b>	<b>3,933</b>	<b>4,127</b>	<b>8,060</b>

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 Investments in subsidiaries and associates

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

Name of subsidiary	Ownership in %		Investment	
	31.12.2014.	31.12.2013.	31.12.2014. HRK '000	31.12.2013. HRK '000
Petrokemija d.o.o., Novo Mesto	-	100%	-	2,174
Petrokemija d.o.o., Novi Sad	100%	100%	259	259
Restoran Petrokemija d.o.o., Kutina	100%	100%	5,338	5,338
Luka Šibenik d.o.o.	80%	80%	18,596	18,596
			<b>24,193</b>	<b>26,367</b>

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

# Petrokemija d.d.

## Notes (continued)

### 17 Financial assets

	31.12.2014. HRK '000	31.12.2013. HRK '000
<b>Non-current financial assets</b>		
Investments in other equity instruments	8	8
<b>Current financial assets</b>		
Financial assets held for trading	43,094	-
Other	133	3,198
	<b>43,227</b>	<b>3,198</b>

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. HRK '000	31.12.2013. HRK '000
Investment in equity securities	-	9,853
	-	9,853
	31.12.2014. HRK '000	31.12.2013. HRK '000
Opening carrying value	9,853	11,552
Effect of remeasurement at fair value	-	(1,699)
Disposal	(9,853)	-
<b>Closing carrying value</b>	<b>-</b>	<b>9,853</b>

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

#### *Fair value measurement*

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

# Petrokemija d.d.

## Notes (continued)

### 19 Inventories

	31.12.2014. HRK '000	31.12.2013. HRK '000
Raw materials and supplies	171,738	109,152
Work in progress	42,923	42,596
Finished goods	206,519	194,190
Trade goods	733	1,107
Spare parts	97,363	95,267
Prepayments	381	2,222
	<b>519,657</b>	<b>444,534</b>

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

### 20 Trade and other receivables

	31.12.2014. HRK '000	31.12.2013. HRK '000
<b>Current receivables</b>		
Trade receivables	93,254	179,026
Trade receivables in factoring	129,495	125,013
Impairment allowance for trade receivables	(9,950)	(9,999)
Net trade receivables	<b>212,799</b>	<b>294,040</b>
Related party trade receivables	26,375	15,770
Prepaid expenses	306	12,235
Taxes and contributions	53,121	68,595
Bills of exchange received	26,838	4,210
Receivables from employees	13	33
Other receivables	662	969
	<b>320,114</b>	<b>395,852</b>

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 Company 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. HRK '000	31.12.2013. HRK '000
At the beginning of the period	9,999	13,118
Increase	495	353
Amounts collected	(108)	(375)
Written off as uncollectible	(436)	(3,097)
<b>At period end</b>	<b>9,950</b>	<b>9,999</b>

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



# Petrokemija d.d.

## Notes (continued)

### 20 Trade and other receivables

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

	<b>31.12.2014.</b>	31.12.2013.
	<b>HRK '000</b>	HRK '000
Not yet due	71,517	292,565
Overdue 0-120 days	132,043	16,967
Overdue 121-180 days	1,484	135
Overdue 181-360 days	31,879	134
Overdue over 1 year	9,587	10,008
	<b>246,510</b>	<b>319,809</b>

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

	<b>31.12.2014.</b>	31.12.2013.
	<b>HRK '000</b>	HRK '000
Croatia (HRK)	215,019	275,571
European Union (EUR)	28,390	36,157
USA (USD)	3,101	8,081
	<b>246,510</b>	<b>319,809</b>

### 21 Cash and cash equivalents

	<b>31.12.2014.</b>	31.12.2013.
	<b>HRK '000</b>	HRK '000
Cash with banks	8,140	14,798
Cash in hand	7	4
<b>Cash and cash equivalents as presented in the statement of cash flows</b>	<b>8,147</b>	<b>14,802</b>

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

# Petrokemija d.d.

## Notes (continued)

### 22 Share capital

	31.12.2014. HRK '000	31.12.2013. HRK '000
Share capital	<b>386,135</b>	754,196

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

Structure of ownership	31.12.2014.		31.12.2013.	
	Number of shares	% of ownership	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%
Other shareholders	938,598	21.16%	930,925	20.98%
<b>Total registered share capital</b>	<b>4,436,447</b>	<b>100.00%</b>	4,436,447	100.00%
Paid but unregistered shares	8,434,733		-	
<b>Total share capital</b>	<b>12,871,180</b>		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 301,687 thousand was recorded as an increase in other reserves.

Subsequent to the reduction of share capital, the Company increased its share capital on two occasions in the amount of HRK 253,042 thousand by issuing 8,434,733 ordinary shares with a nominal value of HRK 30 per share. Simultaneously, the Company's other reserves decreased by HRK 240 thousand with respect to the cost of issue of ordinary shares. This increase in share capital 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 30).

# Petrokemija d.d.

## Notes (continued)

### 23 Loans and borrowings

	31.12.2014. HRK '000	31.12.2013. HRK '000
<b>Non-current borrowings</b>		
Banks	15,833	61,944
	<b>15,833</b>	<b>61,944</b>
<b>Current borrowings</b>		
Banks	289,951	362,389
Commercial papers	13,421	71,833
Factoring liabilities	82,097	125,013
Issued bills of exchange	-	20,000
Related party loans	3,150	3,150
Other loans	187,412	64,427
	<b>576,031</b>	<b>646,812</b>
<b>Total borrowings</b>	<b>591,864</b>	<b>708,756</b>

*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	576,031	646,812
Between 1 and 2 years	8,333	46,111
Between 2 and 5 years	7,500	15,833
	<b>591,864</b>	<b>708,756</b>

#### **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 160,895 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%.

#### **Related party loans**

Loans from related party relate to loan from subsidiary Restoran Petrokemija d.o.o. carrying a fixed interest rate of 7%.

#### **Security**

Loans and borrowings are secured by mortgages over the Company'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 Company are with recourse and the risk of collection of trade receivables ultimately lies with the Company. Finance costs relating to factoring liabilities are entirely borne by the customer. 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 Company 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.

# Petrokemija d.d.

## Notes (continued)

### 24 Provisions

<i>(in thousands of HRK)</i>	<b>Jubilee awards</b>	<b>Retirement benefits</b>	<b>Court cases</b>	<b>Total</b>
<b>As at 31 December 2013</b>				
Non-current	8,082	3,773	1,411	13,266
At 1 January 2014	<b>8,082</b>	<b>3,773</b>	<b>1,411</b>	<b>13,266</b>
Increase in provisions	943	250	300	1,493
Released	(3,224)	(1,494)	(730)	(5,448)
<b>At 31 December 2014</b>	<b>5,801</b>	<b>2,529</b>	<b>981</b>	<b>9,311</b>
<b>As at 31 December 2014</b>				
Non-current	5,801	2,529	981	9,311

#### *Court cases*

There are a number of legal proceedings initiated against the Company for minor amounts as well as those initiated by the Company against others. A provision amounting to HRK 981 thousand was recognised in relation to legal proceedings. Management believes that no significant costs exceeding those provided for at the reporting date will occur as a result of ongoing legal proceedings.

#### *Jubilee awards and regular retirement benefits*

According to the Collective Agreement the Company has an obligation to pay jubilee awards, retirement and other benefits to employees. In accordance with the respective agreement, the employees are entitled to a regular retirement benefit (without stimulating retirement benefit) in the net amount of HRK 8 thousand. No other post-retirement benefits are provided. During 2014, the Company 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:

	<b>31.12.2014.</b>	31.12.2013.
Discount rate	<b>3.5%</b>	5.0%
Fluctuation rate	<b>4.1%</b>	4.1%

### 25 Trade and other payables

	<b>31.12.2014.</b>	31.12.2013.
	<b>HRK '000</b>	HRK '000
Trade payables	<b>480,400</b>	283,369
Related party payables	<b>4,956</b>	3,709
Salaries and other benefits to employees	<b>15,451</b>	16,896
Accrued interest	<b>606</b>	1,470
Taxes, contributions and other duties	<b>6,571</b>	7,854
Advances received	<b>112,185</b>	108,333
Other	<b>28,760</b>	27,963
	<b>648,929</b>	449,594

# Petrokemija d.d.

## Notes (continued)

### 26 Risk management

#### Financial risk management

Categories of financial instruments are as follows:

	<b>2014</b>	<b>2013</b>
	<i>(in thousands of HRK)</i>	
Financial assets at fair value through profit or loss	-	9,853
<b>Financial assets at fair value through profit or loss</b>	<b>-</b>	<b>9,853</b>
Short-term financial assets	43,227	3,198
Trade receivables	236,560	294,040
Bills of exchange	26,838	4,210
Cash and cash equivalents	8,147	14,802
<b>Total loans and receivables</b>	<b>314,772</b>	<b>316,250</b>
<b>Total financial assets</b>	<b>314,772</b>	<b>326,103</b>
Loan liabilities	591,864	708,756
Trade payables	480,400	283,369
<b>Total financial liabilities at amortised cost</b>	<b>1,072,264</b>	<b>992,125</b>
<b>Total financial liabilities</b>	<b>1,072,264</b>	<b>992,125</b>

#### 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.

# Petrokemija d.d.

## Notes (continued)

### 26 Risk management (continued)

#### Financial risk management (continued)

##### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management board which manages the Company's short, medium and long-term funding and liquidity requirements. The Company 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 Company'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.

<i>as at 31 December 2014</i>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
			<i>(in thousands of HRK)</i>			
<i>Non-interest bearing liabilities:</i>						
Loan liabilities	82,097	82,097	82,097	-	-	-
Trade payables	480,400	480,400	480,400	-	-	-
	<b>562,497</b>	<b>562,497</b>	<b>562,497</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Interest bearing liabilities:</i>						
Loan liabilities	509,767	520,462	503,414	8,940	8,108	-
	<b>509,767</b>	<b>520,462</b>	<b>503,414</b>	<b>8,940</b>	<b>8,108</b>	<b>-</b>
	<b>1,072,264</b>	<b>1,082,959</b>	<b>1,065,911</b>	<b>8,940</b>	<b>8,108</b>	<b>-</b>
<i>as at 31 December 2014</i>						
	<b>Carrying amount</b>	<b>Contractual cash flows</b>	up to 1 year	1 - 2 years	2 - 5 years	over 5 years
			<i>(in thousands of HRK)</i>			
<i>Non-interest bearing assets:</i>						
Trade receivables	236,560	236,560	236,560	-	-	-
Bills of exchange received	26,838	26,838	26,838	-	-	-
	<b>263,398</b>	<b>263,398</b>	<b>263,398</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Interest bearing assets:</i>						
Current financial assets	43,227	43,443	43,443	-	-	-
Cash and cash equivalents	8,147	8,188	8,188	-	-	-
	<b>51,374</b>	<b>51,631</b>	<b>51,631</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>314,772</b>	<b>315,029</b>	<b>315,029</b>	<b>-</b>	<b>-</b>	<b>-</b>

The Company'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 Company (see note 20). The Company 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 Company's activities in this regard are explained in more detail on the following page and in note 2.4.

# Petrokemija d.d.

## Notes (continued)

### 26 Risk management (continued)

#### Financial risk management (continued)

#### Liquidity risk management (continued)

##### Going concern

In the year ended 31 December 2014, the Company incurred a net loss of HRK 360,749 thousand (31 December 2013: HRK 327,383 thousand). Furthermore, as at 31 December 2014, the Company's current liabilities exceeded its current assets by HRK 333,815 thousand (31 December 2013: HRK 228,167 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 Company 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 Company 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 Company updated the existing plan and prepared a new five-year restructuring and financial consolidation plan for the period up to 2019. In updating the plan, several key changes to assumptions were made with respect to the structure of production and sales mix, activation of plants not in use, securing of long term sources of financing and realisation of lower prices of natural gas in accordance with the adopted natural gas procurement strategy.

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 Company 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 Company 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 Company has not been agreed with the creditors and financiers, and although the negotiations with strategic investors are not finalised, the Company is continuing with the process of restructuring and financial consolidation. Management acknowledges that uncertainty remains over the Company's ability to meet its funding requirements and to refinance or repay its liabilities as they fall due. However, as described above, management has a reasonable expectation that the Company will secure adequate resources to continue in operational existence for the foreseeable future. If for any reason the Company is unable to continue as a going concern, then this could have an impact on the Company's ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the unconsolidated financial statements.

# Petrokemija d.d.

## Notes (continued)

### 26 Risk management (continued)

#### Financial risk management (continued)

##### Interest rate risk management

The Company 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:

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

##### 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 Company's result before tax for the reporting periods is as follows:

<i>as at 31 December 2014</i>	<b>Contractual cash flows</b>	<b>up to 6 months</b>	<b>from 6 to 12 months</b>	<b>from 1 to 2 years</b>	<b>from 2 to 5 years</b>	<b>over 5 years</b>
At currently applicable interest rates	147,446	131,664	15,782	-	-	-
At currently applicable interest rates + 100 basis points	147,885	132,065	15,820	-	-	-
<b>Effect of increase of interest rate by 100 basis points</b>	<b>(439)</b>	<b>(401)</b>	<b>(38)</b>	-	-	-

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



# Petrokemija d.d.

## Notes (continued)

### 26 Risk management (continued)

#### Financial risk management (continued)

##### Currency risk management

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

	<b>Liabilities</b>	
	<b>2014</b>	<b>2013</b>
	<i>(in thousands of HRK)</i>	
European Union (EUR)	70,029	35,672
USA (USD)	143,019	44,075
	<b>213,048</b>	<b>79,747</b>

	<b>Assets</b>	
	<b>2014</b>	<b>2013</b>
	<i>(in thousands of HRK)</i>	
European Union (EUR)	37,066	40,980
USA (USD)	3,101	8,081
	<b>40,167</b>	<b>49,061</b>

##### Foreign currency sensitivity analysis

The Company 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 Company'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.

	<b>EUR exposure</b>	
	<b>2014</b>	<b>2013.</b>
	<i>(in thousands of HRK)</i>	
Increase/(decrease) of net result	(330)	53

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

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

# Petrokemija d.d.

## Notes (continued)

### 26 Risk management (continued)

#### Financial risk management (continued)

##### *Credit risk management*

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

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

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

As described in note 20, the Company 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 Company 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 Company 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 Company determines the selling prices in accordance with the macroeconomic conditions prevailing in each of the markets where the customers are located.

The Company'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 Company generated approximately 63% of operating revenues (2013: 45%) while the top five customer generated approximately 36% of operating revenues (2013: 34%). The Company'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 Company 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 Company 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 Company is linked to changes in prices of raw materials for production (primarily gas) which the Company aims to manage by defining long-term relationships with strategic suppliers (Prirodni plin d.o.o. and Prvo plinarsko društvo d.o.o.). The Company 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.

# Petrokemija d.d.

## Notes (continued)

### 27 Contractual commitments

The Company 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 Company 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.

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

#### *Transactions with subsidiaries*

	2014 HRK '000	2013 HRK '000
Petrokemija d.o.o., Novi Sad	127,268	118,713
Restoran Petrokemija d.o.o., Kutina	95	95
Luka Šibenik d.o.o.	-	5
<b>Sale of goods and services</b>	<b>127,363</b>	<b>118,813</b>
Petrokemija d.o.o., Novo Mesto	-	1
Petrokemija d.o.o., Novi Sad	2,796	374
<b>Financial income</b>	<b>2,796</b>	<b>375</b>
	<b>31.12.2014.</b>	<b>31.12.2013.</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Petrokemija d.o.o., Novi Sad	26,345	15,770
<b>Receivables at 31 December</b>	<b>26,345</b>	<b>15,770</b>

# Petrokemija d.d.

## Notes (continued)

### 28 Related party transactions (continued)

#### Transactions with subsidiaries (continued)

	2014 HRK '000	2013 HRK '000
Petrokemija d.o.o., Novo Mesto	-	469
Petrokemija d.o.o., Novi Sad	356	222
Restoran Petrokemija d.o.o., Kutina	252	418
Luka Šibenik d.o.o.	17,353	15,184
<b>Purchase of goods and services</b>	<b>17,961</b>	<b>16,293</b>
Petrokemija d.o.o., Novo Mesto	-	2
Petrokemija d.o.o., Novi Sad	47	47
Restoran Petrokemija d.o.o., Kutina	221	221
<b>Financial expenses</b>	<b>268</b>	<b>270</b>
Petrokemija d.o.o., Novo Mesto	-	35
Petrokemija d.o.o., Novi Sad	47	45
Restoran Petrokemija d.o.o., Kutina	88	66
Luka Šibenik d.o.o.	4,821	3,563
<b>Liabilities at 31 December</b>	<b>4,956</b>	<b>3,709</b>
Petrokemija d.o.o., Novo Mesto	-	-
Petrokemija d.o.o., Novi Sad	-	-
Restoran Petrokemija d.o.o., Kutina	3,150	3,150
<b>Loans and borrowings payable at 31 December</b>	<b>3,150</b>	<b>3,150</b>

#### Transactions with state related parties

Given that the Company's significant owner is the State, the Company is also in a related party relationship with state institutions and other companies in which the State is a majority owner or has a significant influence. Significant transactions of the Company with such entities relate to purchase of gas which as the primary raw material used in the Company's production cycle, freight rail transport services and supply of electricity. The Company is also in part financed by a bank where the majority owner is the State while 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 Company had the following transactions with State related entities:

	2014 HRK '000	2013 HRK '000
<b>Prirodni Plin d.o.o.</b>		
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
<b>INA d.d.</b>		
Purchase of gas, other raw materials and services	104,823	2,406
Liabilities as at 31 December	53,437	85
<b>HŽ Cargo d.o.o.</b>		
Purchase of transport services	62,657	69,939
Liabilities as at 31 December	6,983	6,560
<b>HEP Opskrba d.o.o.</b>		
Purchase of electricity	19,147	19,328
Liabilities as at 31 December	3,457	8,647
<b>HPB d.d.</b>		
Loans and borrowings payable at 31 December	130,061	141,500
Interest payables at 31 December	-	171
Interest expense	10,799	9,178

# Petrokemija d.d.

## Notes (continued)

### 28 Related party transactions (continued)

#### *Transactions with key management and Supervisory Board*

Management Board remuneration relates to regular monthly payments for salaries and other benefits in kind. During 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).

### 29 Contingencies

#### **Environmental provisions**

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

#### *Limitations with respect to estimating the cost of restoration and closure*

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

- *Option 1*

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

- *Option 2*

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

- *Option 3*

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

#### **Court cases**

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

### 30 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**

Registration number (MB): 03674223

Registration 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

Number of employees: 1.639  
(at the end of the year)

Consolidated Report: NO

Code of NKD: 20.15

Entities in consolidation (according to IFRS):

Registered seat:

Registration number (MB):

Entities in consolidation (according to IFRS):	Registered seat:	Registration number (MB):

Book-keeping office:

Contact person: MARINA MARIĆ

(name and surname of the contact person)

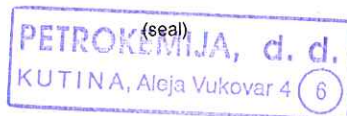
Telephone number: 044-647-829

Fax: 044-682-819

E-mail: marina.maric@petrokemija.hr

Name and surname: NENAD ZEČEVIĆ, ANTONIJA PEROŠEVIĆ-GALOVIĆ  
(authorized representatives)**Documentation to be published:**

1. Audited annual financial statements with Independent Auditors report
2. Management Board's Report
3. Statement of person in charge of making Financial Statements
4. Decision of the Supervisory board (proposed) on determining annual financial statements
5. Decision on proposed allocation of profit or covering loss



(signature of authorized representative)

**BALANCE SHEET**  
as at 31.12.2014.

Petrokemija d.d.	Position	AOP code	Prethodna godina (neto)	Tekuća godina (neto)
1	2	3	4	
<b>A) RECIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL</b>	<b>001</b>			
<b>B) LONG-TERM ASSETS (003+010+020+029+033)</b>	<b>002</b>	<b>738.156.275</b>	<b>685.791.426</b>	
<b>I. INTANGIBLE ASSETS (004 do 009)</b>	<b>003</b>	<b>8.212.096</b>	<b>8.060.392</b>	
1. Expense for development	004			
2. Concessions, patents, licences, trade and service marks, software and other rights	005	3.291.706	4.126.070	
3. Goodwill	006			
4. Advances for intangible assets	007			
5. Intangible assets in progress	008	4.920.390	3.934.322	
6. Other intangible assets	009			
<b>II. TANGIBLE ASSETS (011 do 019)</b>	<b>010</b>	<b>703.319.704</b>	<b>653.489.935</b>	
1. Land	011	49.482.151	49.482.151	
2. Buildings	012	275.009.650	255.758.904	
3. Plant and equipment	013	303.981.972	264.490.841	
4. Tools, plant inventory and transportation assets	014	15.556.412	24.241.491	
5. Biological assets	015			
6. Advances for tangible assets	016	3.352.925	8.481.540	
7. Tangible assets in progress	017	55.434.274	50.552.801	
8. Other tangible assets	018	502.320	482.207	
9. Investments in real estates	019			
<b>III. LONG-TERM FINANCIAL ASSETS (021 do 028)</b>	<b>020</b>	<b>26.374.307</b>	<b>24.200.525</b>	
1. Investments (shares) in related companies	021	26.366.770	24.192.988	
2. Loans given to related 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			
<b>IV. TRADE RECEIVABLES (030 do 032)</b>	<b>029</b>	<b>250.168</b>	<b>40.574</b>	
1. Receivables from related companies	030			
2. Receivables for sales on loan	031			
3. Other receivables	032	250.168	40.574	
<b>V. DEFERRED TAX ASSETS</b>	<b>033</b>			
<b>C) SHORT-TERM ASSETS (035+043+050+058)</b>	<b>034</b>	<b>856.005.143</b>	<b>890.840.500</b>	
<b>I. INVENTORIES (036 do 042)</b>	<b>035</b>	<b>444.533.679</b>	<b>519.656.798</b>	
1. Raw and other material	036	204.418.531	269.100.524	
2. Work in progress	037	42.595.846	42.922.688	
3. Finished products	038	194.190.474	208.519.234	
4. Merchandise inventory	039	1.107.301	733.771	
5. Advances for inventories	040	2.221.527	380.581	
6. Long-term assets intended for sale	041			
7. Biological assets	042			
<b>II. TRADE RECEIVABLES (044 do 049)</b>	<b>043</b>	<b>379.408.393</b>	<b>292.970.295</b>	
1. Receivables from related companies	044	15.770.480	26.375.193	
2. Receivables from customers (buyers)	045	169.026.869	83.303.467	
3. Receivables from participating interest	046			
4. Receivables from employees and members	047	33.257	13.346	
5. Receivables from state and other institutions	048	68.595.613	53.121.883	
6. Other receivables	049	125.982.174	130.156.406	
<b>III. SHORT-TERM FINANCIAL ASSETS (051 do 057)</b>	<b>050</b>	<b>17.260.794</b>	<b>70.066.075</b>	
1. Investments (shares) in related companies	051			
2. Loans given to related companies	052			
3. Participating interest (shares)	053	12.838.576	43.227.765	
4. Loans given to companies with participating interest	054			
5. Investment in securities	055	4.422.218	26.838.310	
6. Loans given, deposits and similar assets	056			
7. Other financial assets	057			
<b>IV. CASH IN BANK AND ON HAND</b>	<b>058</b>	<b>14.802.277</b>	<b>8.147.332</b>	
<b>D) PREPAID EXPENSES AND ACCRUED INCOME</b>	<b>059</b>	<b>12.235.439</b>	<b>305.647</b>	
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>	<b>1.606.396.857</b>	<b>1.576.937.573</b>	
<b>F) OFF BALANCE SHEET ITEMS</b>	<b>061</b>	<b>513.934.610</b>	<b>963.867.837</b>	

<b>LIABILITIES</b>			
<b>A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)</b>	<b>062</b>	<b>434.780.415</b>	<b>326.833.551</b>
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 investment (deductible 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	0	0
1. Retained earning	073		
2. Loss carried forward	074		
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	075	-327.382.823	-360.748.853
1. Profit for the year	076		
2. Loss for the year	077	327.382.823	360.748.853
VII. MINORITY INTEREST	078		
<b>B) PROVISIONS (080 do 082)</b>	<b>079</b>	<b>13.265.513</b>	<b>9.311.039</b>
1. Provisions for pensions, severance pay and similar liabilities	080	11.854.385	8.329.911
2. Provisions for tax liabilities	081		
3. Other provisions	082	1.411.128	981.128
<b>C) LONG-TERM LIABILITIES (084 do 092)</b>	<b>083</b>	<b>61.944.444</b>	<b>15.833.333</b>
1. Liabilities to related companies	084		
2. Liabilities for loans, deposits and similar	085		
3. Liabilities to banks and other financial institutions	086	61.944.444	15.833.333
4. Liabilities for advances	087		
5. Liabilities to suppliers	088		
6. Liabilities for securities	089		
7. Liabilities to companies with participating interest	090		
8. Other long-term liabilities	091		
9. Deferred tax liability	092		
<b>D) SHORT-TERM LIABILITIES (094 do 105)</b>	<b>093</b>	<b>1.077.916.064</b>	<b>1.194.869.065</b>
1. Liabilities to related companies	094	6.858.939	8.105.708
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	289.950.321
4. Liabilities for advances	097	108.333.045	112.185.262
5. Liabilities to suppliers	098	283.369.197	480.400.459
6. Liabilities for securities	099	91.833.225	13.421.301
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	13.635.074	10.732.944
9. Liabilities for taxes, contributions and other payments	102	20.557.948	9.934.955
10. Liabilities as per share in result	103		
11. Liabilities as per long-term assets intended for sales	104		
12. Other short-term liabilities	105	126.512.566	82.726.077
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>106</b>	<b>18.490.421</b>	<b>30.090.585</b>
<b>F) TOTAL LIABILITIES (062+079+083+093+106)</b>	<b>107</b>	<b>1.606.396.857</b>	<b>1.576.937.573</b>
<b>G) OFF BALANCE SHEET ITEMS</b>	<b>108</b>	<b>513.934.610</b>	<b>963.867.837</b>
<b>APPENDIX TO BALANCE SHEET (to be completed by companies that prepare consolidated financial statements)</b>			
<b>A) CAPITAL AND RESERVES</b>			
1. Credited to parent company capital owners	109		
2. Credited to minority interest	110		

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



**PROFIT AND LOSS ACCOUNT**  
for the period 01.01.2014. to 31.12.2014.

Petrokemija d.d.			
Position	AQP code	Previous year	Current year
1	2	3	4
<b>I. OPERATING REVENUES (112+113)</b>	<b>111</b>	<b>2.548.507.384</b>	<b>2.231.495.340</b>
1. Sales revenues	112	2.501.407.971	2.195.588.442
2. Other operating revenues	113	47.099.413	35.906.898
<b>II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)</b>	<b>114</b>	<b>2.844.107.697</b>	<b>2.539.839.038</b>
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	2.224.573.523	2.045.307.863
a) Cost of raw and production materials	117	2.110.121.212	1.962.556.113
b) Cost of goods sold	118	18.219.726	5.140.234
c) Other external costs	119	96.232.585	77.611.516
3. Employees costs (121 do 123)	120	235.332.787	207.980.930
a) Net salaries and wages	121	148.869.427	129.127.025
b) Costs for taxes and contributions from salaries	122	55.327.997	49.088.765
c) Contributions on salaries	123	31.135.363	29.765.140
4. Depreciation	124	94.613.842	95.145.253
5. Other costs	125	110.456.991	192.075.964
6. Value adjustments (127+128)	126	4.442.415	2.163.545
a) of long-term assets (except for financial assets)	127	20.318	29.261
b) of short-term assets (except for financial assets)	128	4.422.097	2.134.284
7. Provisions	129	3.799.966	6.211.565
8. Other operating expenses	130		
<b>III. FINANCIAL REVENUES (132 do 136)</b>	<b>131</b>	<b>17.429.194</b>	<b>10.662.166</b>
1. Interest, exchange rate fluctuations, dividends and similar from associated companies	132	375.285	2.796.132
2. Interest, exchange rate fluctuations, dividends and similar from non-associated companies and others	133	17.053.909	7.866.034
3. Part of revenue from associated companies and participating interests	134		
4. Unrealised gains (revenues) from financial assets	135		
5. Other financial revenues	136		
<b>IV. FINANCIAL EXPENSES (138 do 141)</b>	<b>137</b>	<b>49.211.704</b>	<b>63.067.321</b>
1. Interest, exchange rate fluctuations and other costs with associated companies	138	269.551	267.102
2. Interest, exchange rate fluctuations and other costs with non-associated companies	139	47.243.101	62.800.219
3. Unrealised losses (costs) from financial assets	140	1.699.052	
4. Other financial expenses	141		
<b>V. PORTION IN PROFIT OF ASSOCIATED COMPANIES</b>	<b>142</b>		
<b>VI. PORTION IN LOSS OF ASSOCIATED COMPANIES</b>	<b>143</b>		
<b>VII. EKSTRAORDINARY - OTHER REVENUES</b>	<b>144</b>		
<b>VIII. EXTRAORDINARY - OTHER EXPENSES</b>	<b>145</b>		
<b>IX. TOTAL REVENUES (111+131+142 + 144)</b>	<b>146</b>	<b>2.565.936.578</b>	<b>2.242.157.506</b>
<b>X. TOTAL EXPENSES (114+137+143 + 145)</b>	<b>147</b>	<b>2.893.319.401</b>	<b>2.602.906.359</b>
<b>XI. PROFIT OR LOSS BEFORE TAXATION (146-147)</b>	<b>148</b>	<b>-327.382.823</b>	<b>-360.748.853</b>
1. Profit before taxation (146-147)	149	0	0
2. Loss before taxation (147-146)	150	327.382.823	360.748.853
<b>XII. PROFIT TAX</b>	<b>151</b>		
<b>XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	<b>152</b>	<b>-327.382.823</b>	<b>-360.748.853</b>
1. Profit for the period (149-151)	153	0	0
2. Loss for the period (151-148)	154	327.382.823	360.748.853

APPENDIX TO PLA (to be completed by companies that prepare consolidated financial statements)			
<b>XIV. PROFIT OR LOSS FOR THE PERIOD</b>			
1. Credited to parent company capital owners	155		
2. Credited to minority interest	156		
<b>STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)</b>			
I. PROFIT OR LOSS OF THE PERIOD (= 152)	157	-327.382.823	-360.748.853
II. OTHER COMPREHENSIVE GAINS/LOSS BEFORE TAXES (159 do 165)	158	0	0
1. Exchange rate differences from translation of foreign currency operations	159		
2. Change in revaluation reserves of fixed tangible and intangible assets	160		
3. Gain or loss from revaluation of financial assets held for sale	161		
4. Gain or loss from effective cash flow hedge	162		
5. Gain or loss from effective hedge in net investments in abroad	163		
6. Portion in other comprehensive gain/loss of associated companies	164		
7. Actuarial gains/losses on defined benefit plans	165		
III. TAX ON OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD	166		
IV. NET OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD (158-166)	167	0	0
V. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD (157+167)	168	-327.382.823	-360.748.853
<b>APPENDIX TO STATEMENT OF COMPREHENSIVE INCOME (to be completed by companies that prepare consolidated financial statements)</b>			
<b>VI. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD</b>			
1. Credited to parent company capital owners	169		
2. Credited to minority interest	170		

## CASH FLOW STATEMENT - Direct method

for the period 01.01.2014. to 31.12.2014.

Petrokemija d.d.			
Position	AOP code	Previous year	Current year
1	2	3	4
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
1. Cash increase from buyers	001	2.293.114.228	2.164.930.978
2. Cash increase from royalties, fees commissions and other	002		
3. Cash increase from insurance 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
<b>I. Total increase of cash flow from operating activities (001 do 005)</b>	<b>006</b>	<b>2.646.879.662</b>	<b>2.520.696.254</b>
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 insurance 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	15.454.417	10.783.343
<b>II. Total decrease in cash flow from operating activities (007 do 012)</b>	<b>013</b>	<b>3.233.860.340</b>	<b>2.657.613.541</b>
<b>A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)</b>	<b>014</b>	<b>0</b>	<b>0</b>
<b>A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)</b>	<b>015</b>	<b>586.980.678</b>	<b>136.917.287</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
1. Cash proceeds 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
<b>III. Total cash inflow from investing activities (016 do 020)</b>	<b>021</b>	<b>1.015.267</b>	<b>10.087.906</b>
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		
<b>IV. Total cash outflow from investing activities (022 do 024)</b>	<b>025</b>	<b>65.213.192</b>	<b>42.729.316</b>
<b>B1) NET CASH FLOW FROM INVESTING ACTIVITIES (021-025)</b>	<b>026</b>	<b>0</b>	<b>0</b>
<b>B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)</b>	<b>027</b>	<b>64.197.925</b>	<b>32.641.410</b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>			
1. Cash inflows from issuance of equity and debt financial instruments	028	186.206.100	253.041.990
2. Cash inflows from loan principals, debentures, credits and other borrowings	029	2.024.800.000	739.574.046
3. Other inflows from financial activities	030	670.266.144	283.396.524
<b>V. Total cash inflow from financial activities (028 do 030)</b>	<b>031</b>	<b>2.881.272.244</b>	<b>1.276.012.560</b>
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. Cash outflow for financial lease	034		
4. Cash outflows for buyback of own shares	035		
5. Other cash outflows for financial activities	036	200.519.561	174.177.903
<b>VI. Total cash outflow for financial activities (032 do 036)</b>	<b>037</b>	<b>2.253.461.955</b>	<b>1.113.108.808</b>
<b>C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)</b>	<b>038</b>	<b>627.810.289</b>	<b>162.903.752</b>
<b>C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)</b>	<b>039</b>	<b>0</b>	<b>0</b>
<b>Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)</b>	<b>040</b>	<b>0</b>	<b>0</b>
<b>Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)</b>	<b>041</b>	<b>23.368.314</b>	<b>6.654.945</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>042</b>	<b>38.170.591</b>	<b>14.802.277</b>
<b>Increase of cash and cash equivalents</b>	<b>043</b>		
<b>Decrease of cash and cash equivalents</b>	<b>044</b>	<b>23.368.314</b>	<b>6.654.945</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>045</b>	<b>14.802.277</b>	<b>8.147.332</b>

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

## STATEMENT OF CHANGES IN EQUITY

for the period from 1.1.2014 to 31.12.2014

Position 1	AOP code 2	Previous year 3	Current year 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		
5. Profit or loss for the year	005	-327.382.823	-360.748.853
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		
<b>10. Total capital and reserves (AOP 001 do 009)</b>	<b>010</b>	<b>434.780.415</b>	<b>326.833.551</b>
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		
<b>17. Total increase or decrease of capital (AOP 011 do 016)</b>	<b>017</b>	<b>0</b>	<b>0</b>
17 a. Creadited to parent company capital owners	018		
17 b. Creadited to minority interest	019		

Items that decrease the capital are entered with a minus sign.

Items under AOP marke 001 to 009 are entered as status on balance sheet date.

**Petrokemija, Plc.**  
**SUPERVISORY BOARD**

Number: 4/2015  
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 No12 /2015 held on 27.3.2015, the Supervisory Board of Petrokemija, Plc. adopted the following

**D E C I S I O N**

**ON GRANTIG APPROVAL TO THE FINANCIAL STATEMENTS FOR YEAR 2014**

**I**

After reviewing the annual financial statements, Supervisory Board of Petrokemija, Plc. grants its approval for the Annual Financial Statements of Petrokemija, Plc. for 2014 as prepared by the Company Management Board.

By the above approval, the financial statements are considered confirmed by the Management and Supervisory Board.

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

**II**

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

- Balance Sheet
- Profit and Loss Account
- Cash Flow Statement
- Statement of Changes in Equity
- Petrokemija, Plc. Annual Report and Non-Consolidated Financial Reports for 2014 - Independent Auditor's Report to the shareholders of Petrokemija, Plc. with notes

**III**

Balance sheet assets and liabilities are recorded in the amount of **HRK 1,576,937,573.50**.

The actual loss of business in 2014 amounts to **HRK 360,748,853.45**.

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 /

**Petrokemija, Plc.**  
**SUPERVISORY BOARD**

Number : 6 / 2015  
Kutina, 27.3. 2015

Pursuant to Article 21 of the Articles of Association of Petrokemija, Plc. and Articles 220 through 223 and in line with Article 300 b. pt.2 of the Companies Act, at a meeting No. 12 /2015 held on 27.3.2015, the Supervisory Board of Petrokemija, Plc. adopted the following

**DECISION**  
**on coverage of loss for the year 2014**

**I**

Adoption of the proposal of the Management Board that the actual operational loss for the year 2014 in the amount of **HRK 360,748,853.45** is covered for the account of capital reserves reduced by costs of capital increase, in the amount of **HRK 300,903,004.70** and the remaining amount of **HRK 59,845,848.75** is carried forward as uncovered loss into the year 2015.

Thus established proposal for the loss coverage will be jointly addressed to the General Meeting by the Company's Management and Supervisory Boards.

**II**

This Decision shall enter into force upon its adoption.

President of the Supervisory Board:

  
/ Tomislav Pokaz /