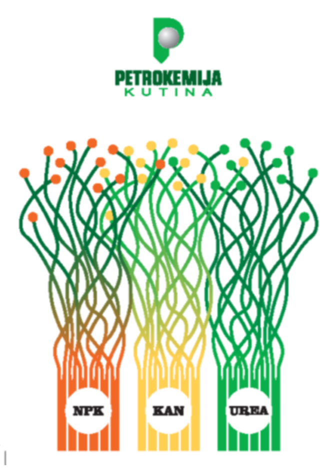
UNAUDITED
UNCONSOLIDATED

QUARTERLY REPORT
PETROKEMIJA Plc. KUTINA

REPORT FOR PERIOD January to September 2014
INTERIM REPORT FOR PERIOD July to September 2014



Kutina, October 2014

Key indicators for Petrokemija, Plc. for January to September 2014

- Actual production of fertilizers - 814 thousand tons, 1.3% more than the previous year
- In assortment: production of NPK decreased by 33.6%, CAN increased by 14.5% while Urea recorded an increase of 15.4%
- Yield of currently installed plant capacities: up to 80.4%
- Fertilizer sales – 756.2 thousand tons, 0.6% higher than in the same period last year. A significant decrease in sales of NPK (index 67.9%), while sales of Urea are 18.3% higher compared to the same period last year. Sales of CAN are 9.6% higher than in the same period last year
- Share of fertilizer sales in the domestic market is 27%
- Domestic sales - 205 thousand tons, export - 551 thousand tons of mineral fertilizer
- Actual total revenues of Petrokemija, Plc. - HRK 1,616.4 million
- Actual loss of Petrokemija, Plc. - HRK 286.8 million, which includes HRK 100.5 million provision for employee severance
- EBITDA Petrokemija, Plc. – HRK - 177.1 million
- Equity and reserves at 30 September 2014 of Petrokemija, Plc. - HRK 400.7 million
- Invested in Petrokemija, Plc. - HRK 36.1 million
- Number of employees at 30 September 2014: Petrokemija, Plc. - 1,644, Petrokemija Group – 1,802

Business of Petrokemija, Plc. for January to September 2014 is marked by :

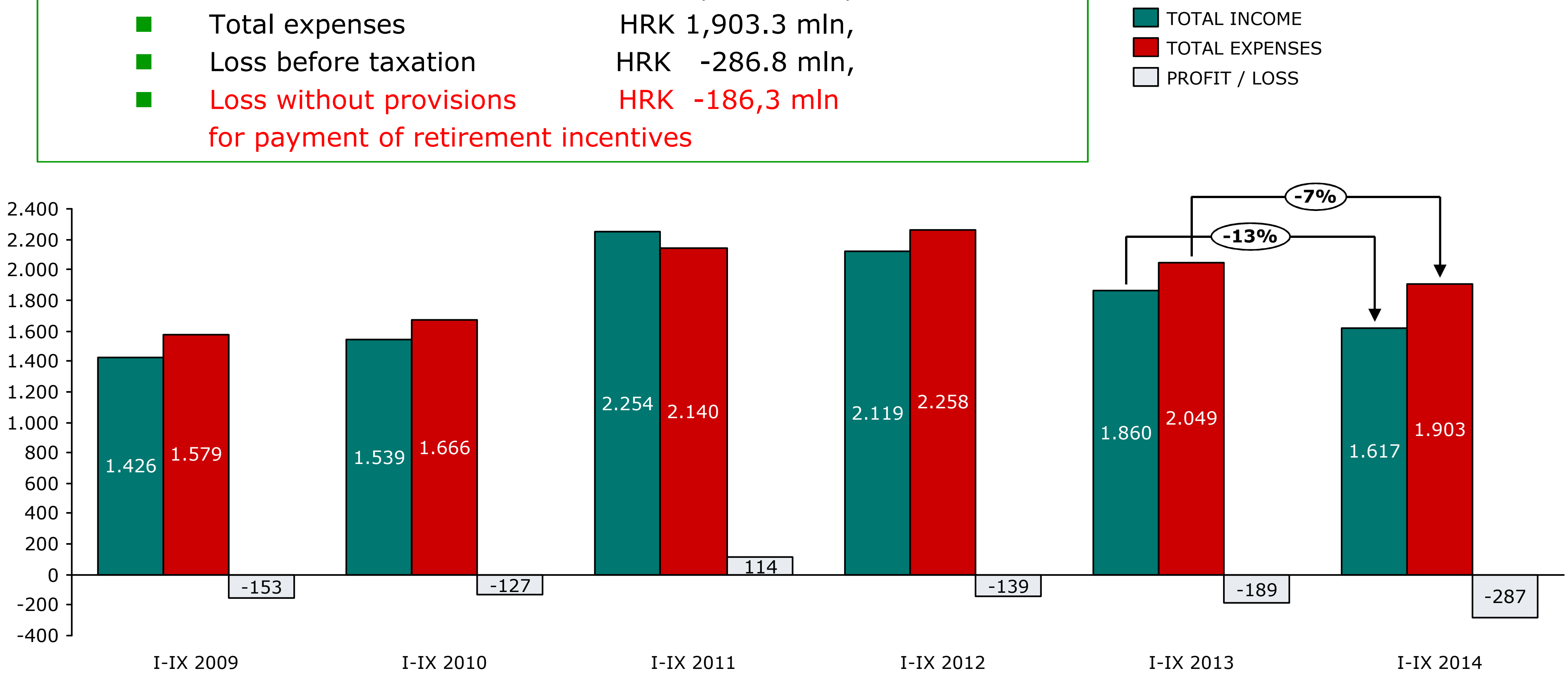
- Total revenues of Petrokemija Plc. - HRK 1,616.5 million, 13.1% less than in the same period of 2013
- Total expenses of Petrokemija Plc. - HRK 1,903.3 million, 7.1% less than in the same period od 2013
- Operating income – HRK 1,609.6 million, 12.8% less than in the same period of 2013
- Operating expenses – HRK 1,859.3 million, 7.5% less than in the same period of 2013, without cost of severance, lower operating expenses by 12.5% than in the first nine months of 2013,
- Losses from business activities - HRK 249.7 million, from financial activities - HRK 37.1 million, total loss - HRK 286.8 million, out of which HRK 100.5 million accounts for provisions for payment of retirement incentives;
- Higher sales - 0.6%, while average selling prices are by 14.3% lower compared to the same period in 2013;
- Income from domestic sales - 30.9% or HRK 500 million, 22.5% less than in the same period of 2013, income from export - 67% or HRK 1,085 million, 7.1% less than in the same period of 2013
- Domestic sales volumes – 6.1% lower than in the same period of 2013
- Export sales volumes – 3.4% higher than in the same period of 2013
- Sales of clay products and liquid fertilizers - 6,3% lower than in the same period of 2013

Business of Petrokemija, Plc. for January to September 2014 is marked by:

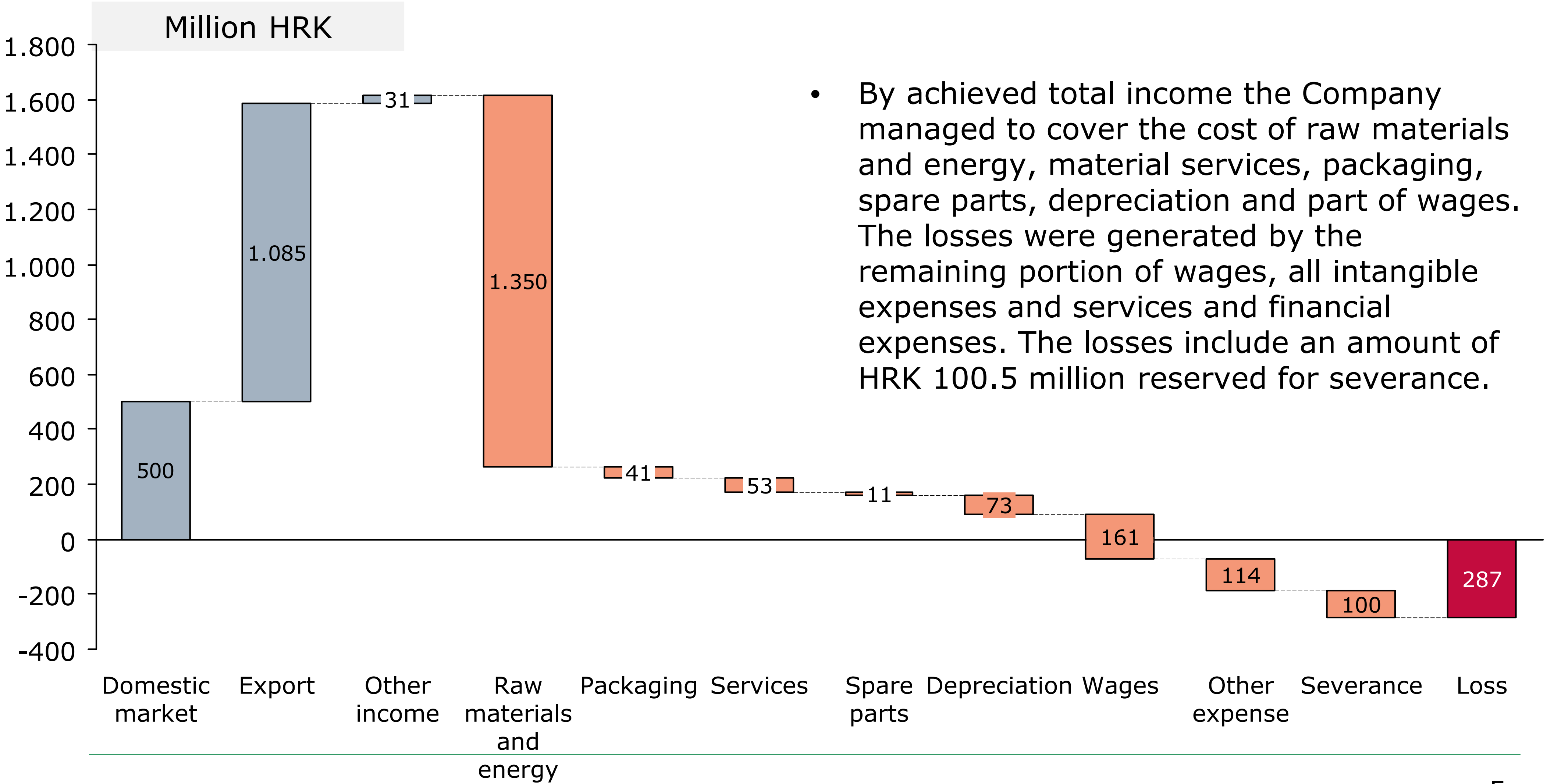
- Despite the raised HRK 253 million in the first two rounds of capital increase, current liquidity indicator is below the recommended values with a decline compared to the same period of 2013 (negative working capital of HRK 99 million)
- Current assets - by 23.9% lower compared to the same period of 2013; current liabilities by 20.1% lower
- Financial stability indicator below the recommended values, indicators of debt and own funding significantly exacerbated compared to the same period of 2013, which is why the capital increase is necessary
- Average actual gas price – 11.1% lower compared to the same period of 2013
- Total number of employees is 1,644. Until 30 September 2014, according to the Redundancy Programe 481 employment contracts were terminated. By 31 December 2014, 11 more employees will leave the Company by the same Program
- Actual investment in the period was HRK 36.1 million, which is 66% lower compared to the same period of 2013 (delayed overhaul and liquidity problems)

Profit and Loss Account of Petrokemija, Plc. for January to September 2009-2014

■	Total income	HRK 1,616.5 mln,
■	Total expenses	HRK 1,903.3 mln,
■	Loss before taxation	HRK -286.8 mln,
■	Loss without provisions for payment of retirement incentives	HRK -186,3 mln



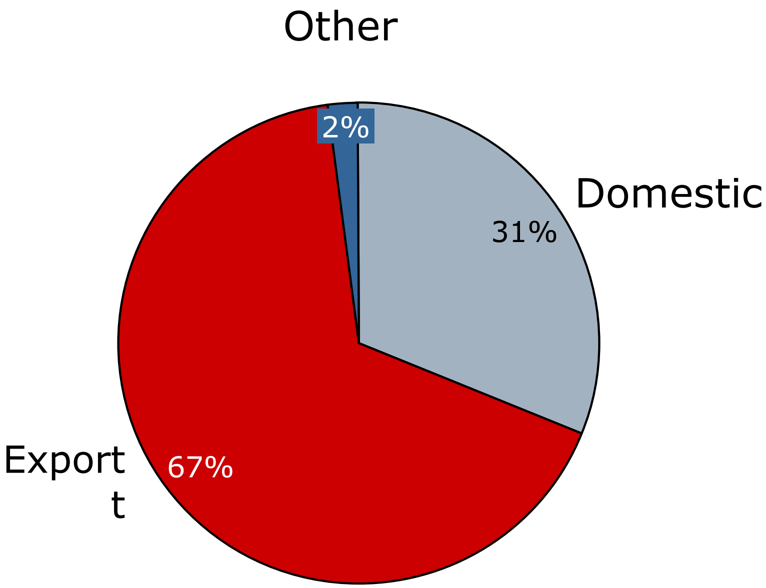
Structure of profit and loss in 2014

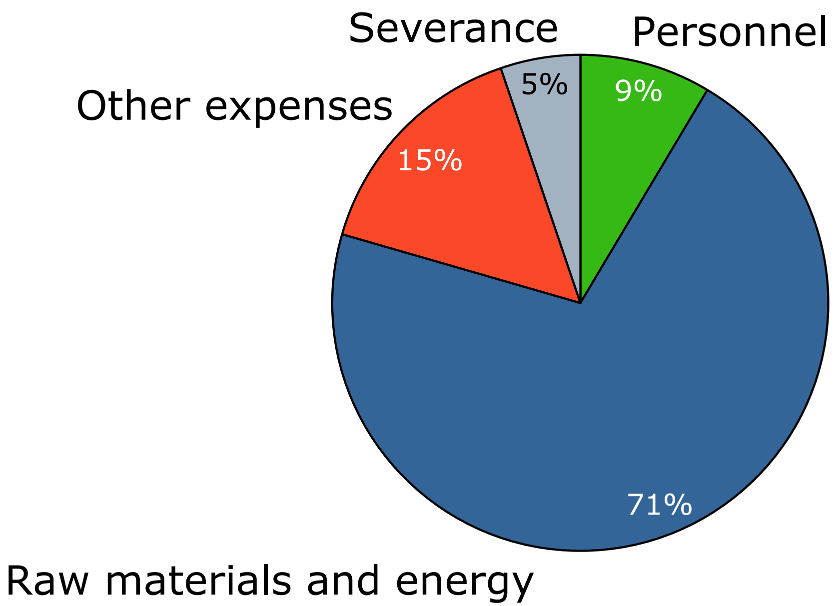


- By achieved total income the Company managed to cover the cost of raw materials and energy, material services, packaging, spare parts, depreciation and part of wages. The losses were generated by the remaining portion of wages, all intangible expenses and services and financial expenses. The losses include an amount of HRK 100.5 million reserved for severance.

Structure of income and expenses January – September 2014

- In the January – September 2014 period, Petrokemija earned 31% income from domestic market, 67% income from export, and financial and other income accounted for 2.0% of total income
- In the structure of total expenses, the dominant 71% account for raw materials and energy; personnel costs for 8,5%, while all other costs make 20.5% (15.3% other costs and 5.2% severance)





Key financial indicators January - September 2014

(HRK 000)

	I-IX 2014.	I-IX 2013.	Difference	% changes
Operating income	1.609.580	1.846.662	-237.082	-12,84%
Operating expense	1.859.307	2.010.470	-151.163	-7,52%
EBITDA	-177.085	-91.898	-85.187	92,70%
EBITDA without provisions for payment of retirement incentives	-76.574			
Amortization	72.642	71.910	732	1,02%
Net financial income (expenses)	-37.094	-25.546	-11.548	45,20%
Net extraordinary income (expenses)	0	0	0	
Profit / loss / before taxation	-286.821	-189.354	-97.467	51,47%
	30.IX.2014.	31.XII 2013.		
Fixed assets	702.100	738.156	-36.056	-4,88%
Current assets	900.363	868.240	32.123	3,70%
Capital and reserves	400.761	434.780	-34.019	-7,82%
Long-term liabilities + provisions*	202.271	75.210	127.061	168,94%
Current liabilities + provisions	999.431	1.096.406	-96.975	-8,84%

* Included is the loan liabilitiy amounting to HRK 122.1 million, maturing in 2015, explained in more details in the Review of Financial Statements (page 5 and page 26, note 23), published on 30 October 2014, Auditor KPMG Croatia Auditing Company, Zagreb

Operating results for the period July - September 2014

- In July to September 2014 period, Petrokemija, Plc. had actual total revenues of HRK 501.2 million, total expenses of HRK 562.3 million and reported losses of HRK 61.0 million. On a quarterly basis, total revenues decreased by 19.7% compared to the third quarter of 2013, while total expenses decreased by 26.4%.
- At the EBITDA level, the losses of the first and second quarters of 2014 were approximately equal, at about 29 million (excluding provisions for severance payments madein June of the current year for severances that were paid in August of the fiscal year). In the third quarter EBITDA was HRK -18.2 million, which is by 39.7% better result compared to the average of the previous two quarters.
- In the third quarter, Petrokemija Plc. was able to negotiate more favorable purchase terms for gas supplies from the previously agreed ones, which had a positive effect on the result despite the export sales at relatively unfavorable prices. To maintain continuity of production and liquidity during this period, Petrokemija Plc. was still forced to sell significant volumes of fertilizers to distant markets, achieving worse financial impacts due to lower prices and high transportation costs.

Key financial indicators in July – September 2014

PETROKEMIJA KUTINA

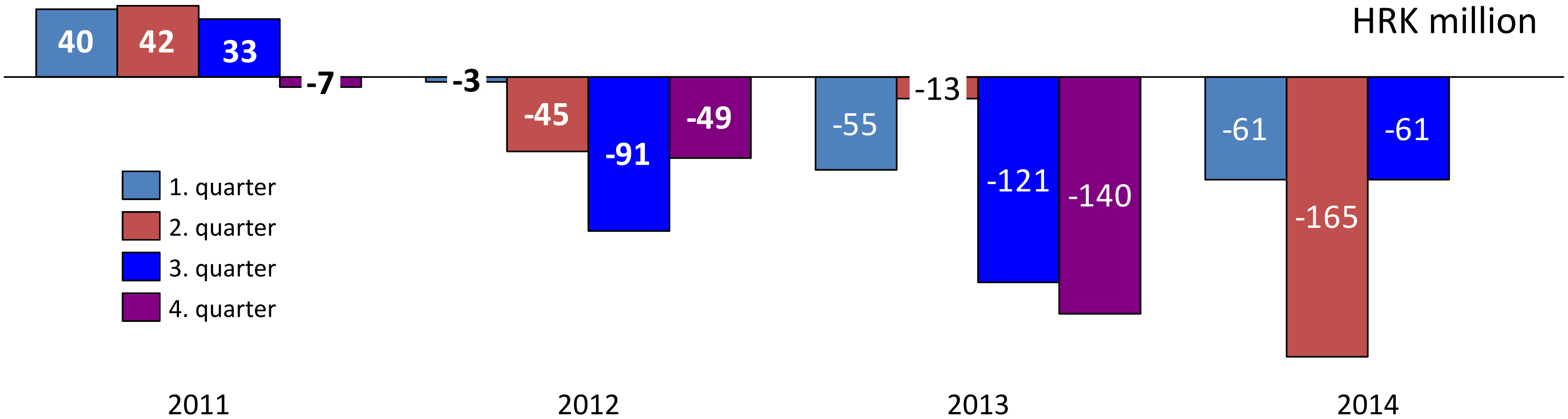
(HRK 000)

	I-VI 2014.	VII-IX 2014.	I-IX 2014.
Operating income	1.110.877	498.703	1.609.580
Operating expense	1.317.832	541.475	1.859.307
EBITDA *	-158.861	-18.224	-177.085
EBITDA without provisions for payment of retirement incentives	-58.842	-17.732	-76.574
Amortization	48.094	24.548	72.642
Net financial income (expenses)	-18.846	-18.248	-37.094
Net extraordinary income (expenses)	0	0	0
Profit / loss / before taxation	-225.801	-61.020	-286.821

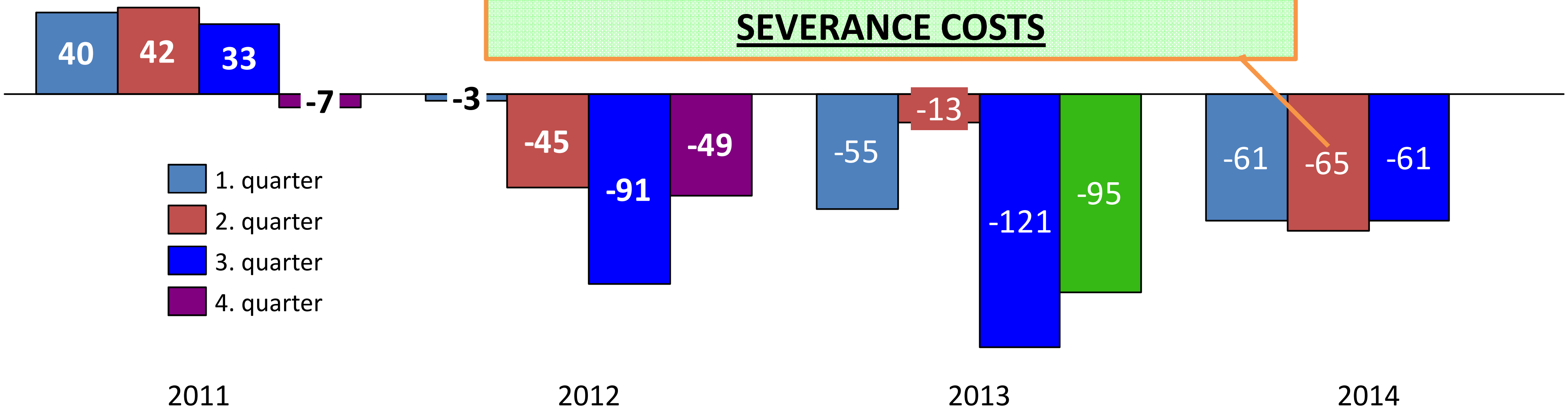
The loss in the third quarter is HRK 61.0 million. Compared to the same period last year, the loss in the third quarter is HRK 60.2 million lower. The EBITDA indicator for the third quarterly 2014 is HRK -18.2 million, while in the same period last year it was HRK – 89.1 million.

* EBITDA= profit before interest, taxation depreciation and amortization

Quarterly losses 2011 - 2014

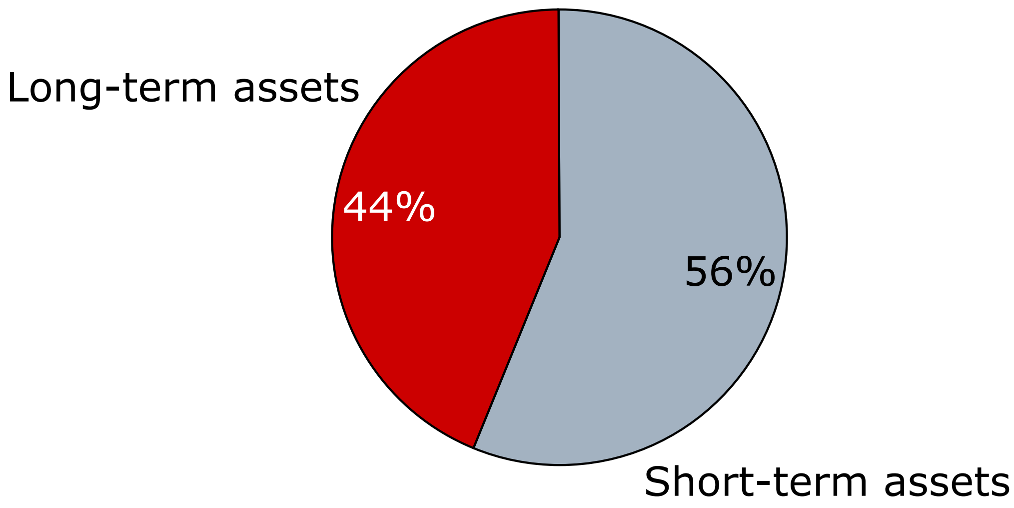


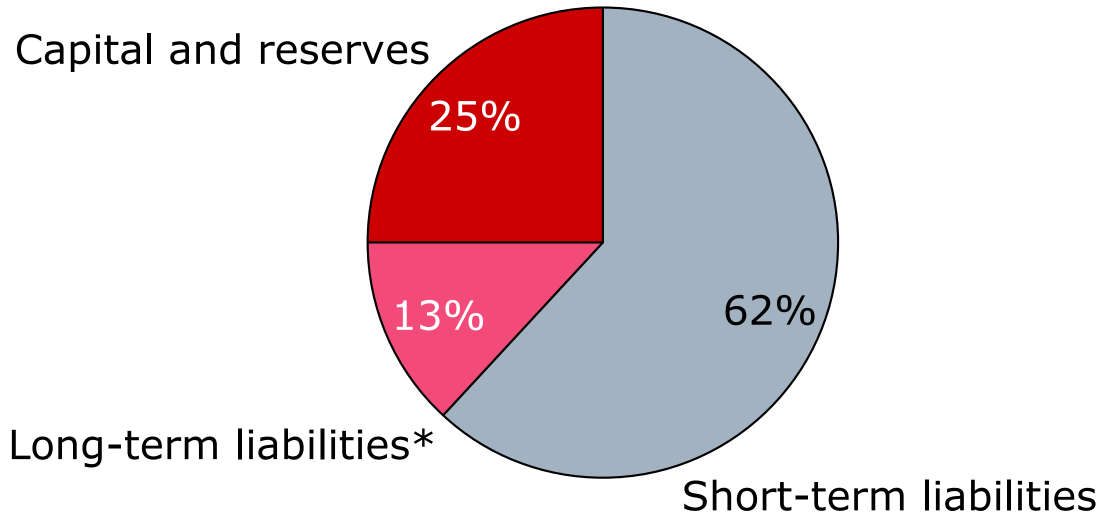
ACTUAL LOSS **WITHOUT EXCEPTIONAL SEVERANCE COSTS**



Structure of assets and liabilities at 30 September 2014

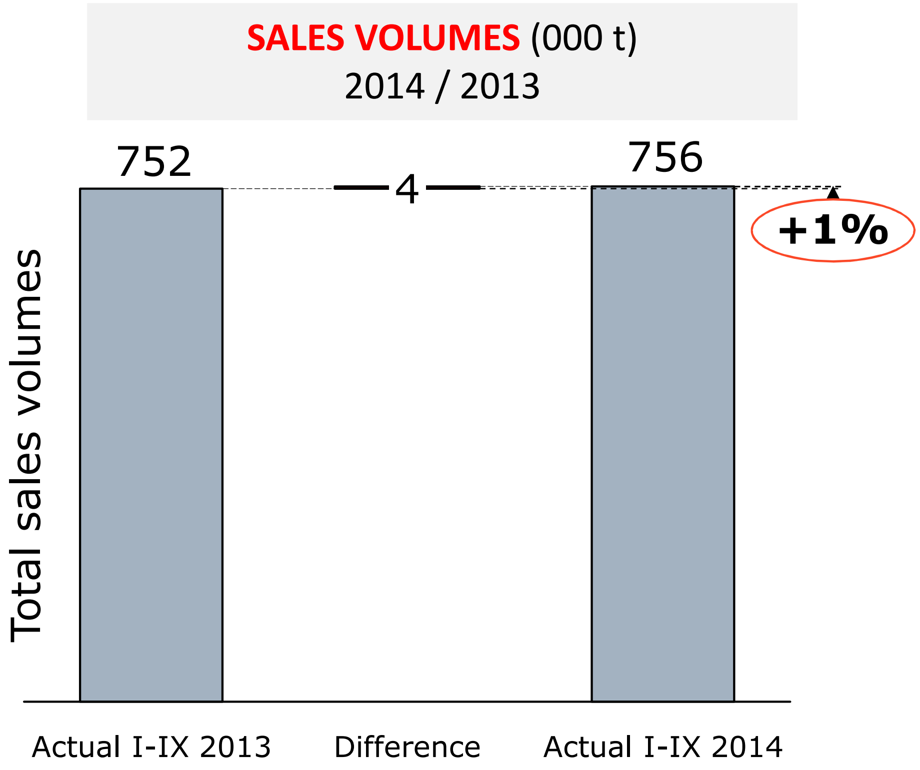
- At 30 September 2014, Petrokemija, Plc. had 56% in value of short-term and 44% of long-term assets, which can be interpreted as the result of relatively high depreciation and the age of production and auxiliary facilities.
- The level of capital with reserves and stake (investment) before incorporation in the Court Register reflects the capital reduction in 2014 and deduction for loss in the first half of 2014, and increase in reserves of HRK 253 million from the first two rounds of capital increase. The structure of debt is dominated by short-term sources of debt due to the failure to obtain long-term loans on the domestic financial market (global crisis, losses, ownership structure).

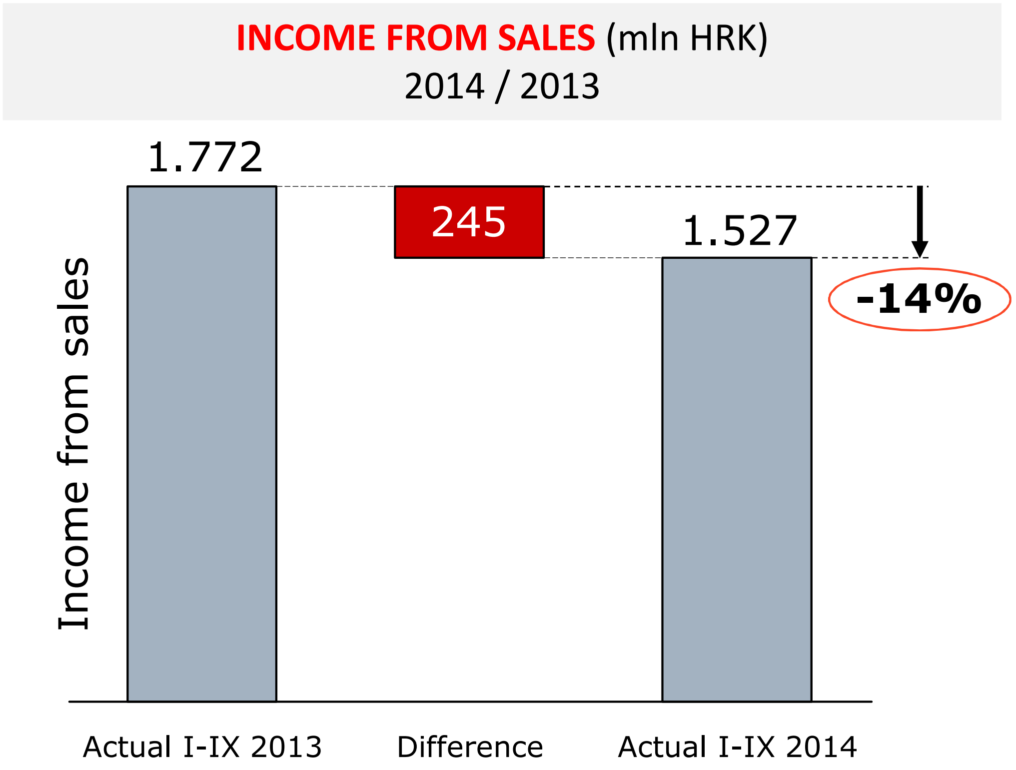




* Included is the loan liabilitiy amounting to HRK 122.1 million, maturing in 2015, explained in more details in the Review of Financial Statements (page 5 and page 26, note 23), published on 30 October 2014, Auditor KPMG Croatia Auditing Company, Zagreb

Total fertilizer sales

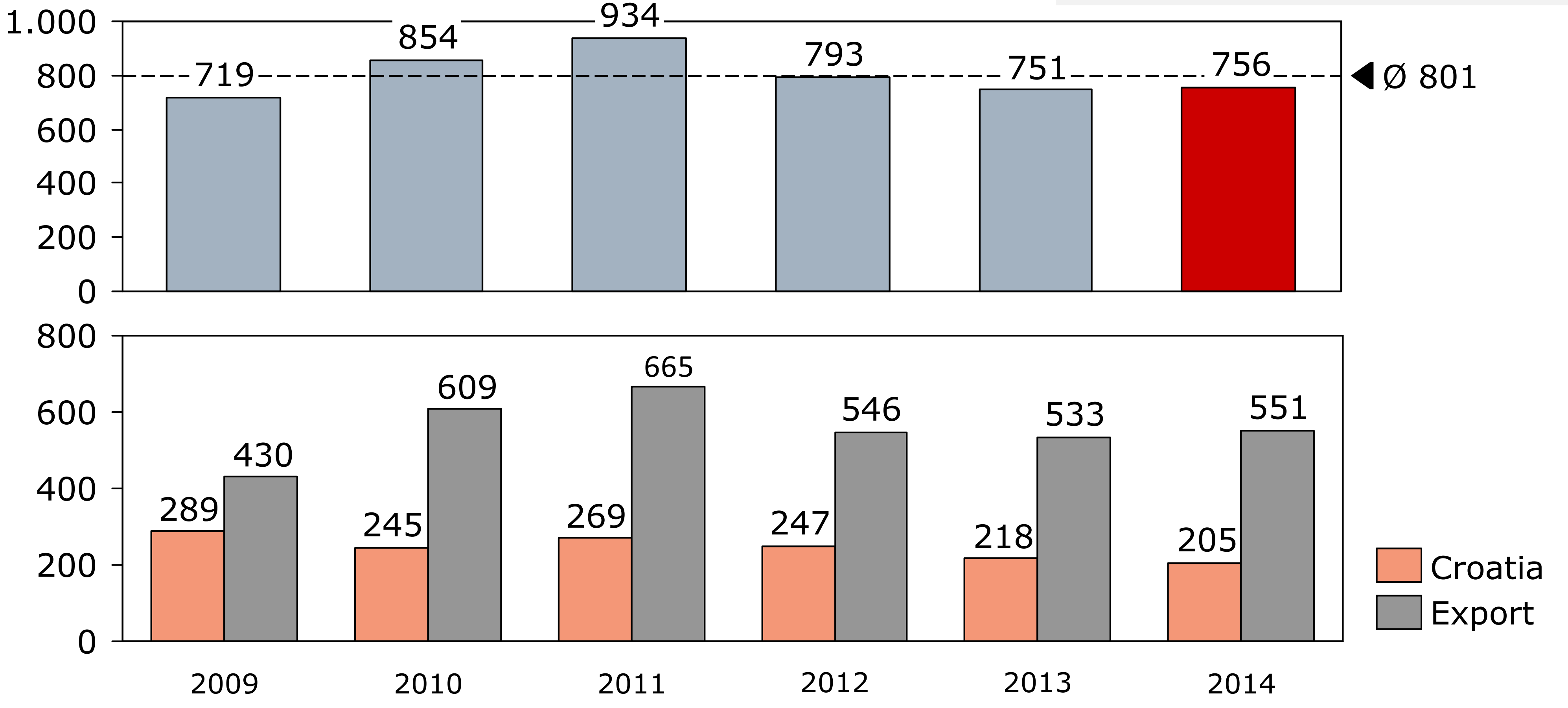




In spite of the actual growth in sales volume of 1%, the actual revenues from sales were lower by 14%, indicating a significant decline in average selling prices

Actual fertilizer sales in Jan-September 2014

Total sales (000 tons)



Business results of Petrokemija Group for January-September 2014

PETROKEMIJA
KUTINA

- After the consolidation of financial results of Petrokemija, Plc. and its subsidiaries Restoran Petrokemija, Ltd. Kutina, Petrokemija, Ltd. Novi Sad, Petrokemija, Ltd. Novo Mesto and Luka Šibenik, Ltd., the financial results of Petrokemija Group for the period January-September 2014 are as follows:

  - Total revenues HRK 1,623.6 million
  - Total expenses HRK 1,911.2 million
  - Loss before tax HRK -287.6 million

- EBITDA (earnings before interest, taxes and depreciation) was HRK 176.1 million in the negative.
- Petrokemija, Ltd. Novi Sad made profit of HRK 1.669 thousand, while other companies operated with a loss (Restoran Petrokemija, Ltd. HRK -125 thousand, Luka Šibenik, Ltd. HRK -2.357 thousand). Luka Šibenik, Ltd. reported loss due to low turnover and high fixed costs.
- On February 20, 2014 subsidiary Petrokemija, Ltd. 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, Plc. and Petrokemija Group

PETROKEMIJA KUTINA

Employment on 30.09.2014

MANAGEMENT BOARD OFFICE 8

CORE BUSINESS

- Fertilizer production 439
  - Phosphogypsum disposal **
- Maintenance 416
- Packaging and delivery 317
- Quality and environmental 90
- General services 304

NON-CORE BUSINESS

- Clay production 39
- Pallet production 31
- Carbon black production

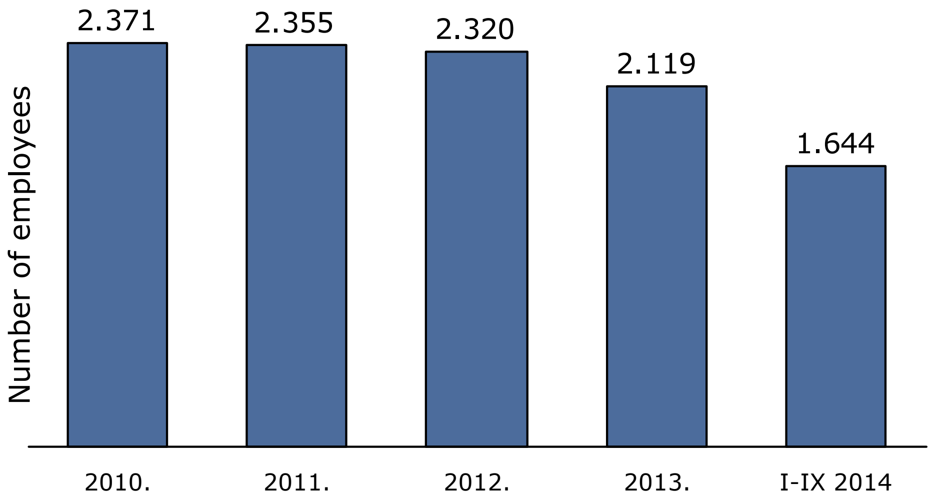
Daughter companies

- Restoran Petrokemija, Ltd. * 3
- Petrokemija, Ltd. Novi Sad* 4
- Luka Šibenik, Ltd. 151

Employment on 30.09.2014 Petrokemija Plc. 1.644

* Daughter companies 100% owned by Petrokemija, Plc.
** Landfill that is to be environmentally restored

Operational income, personnel costs, number of employees

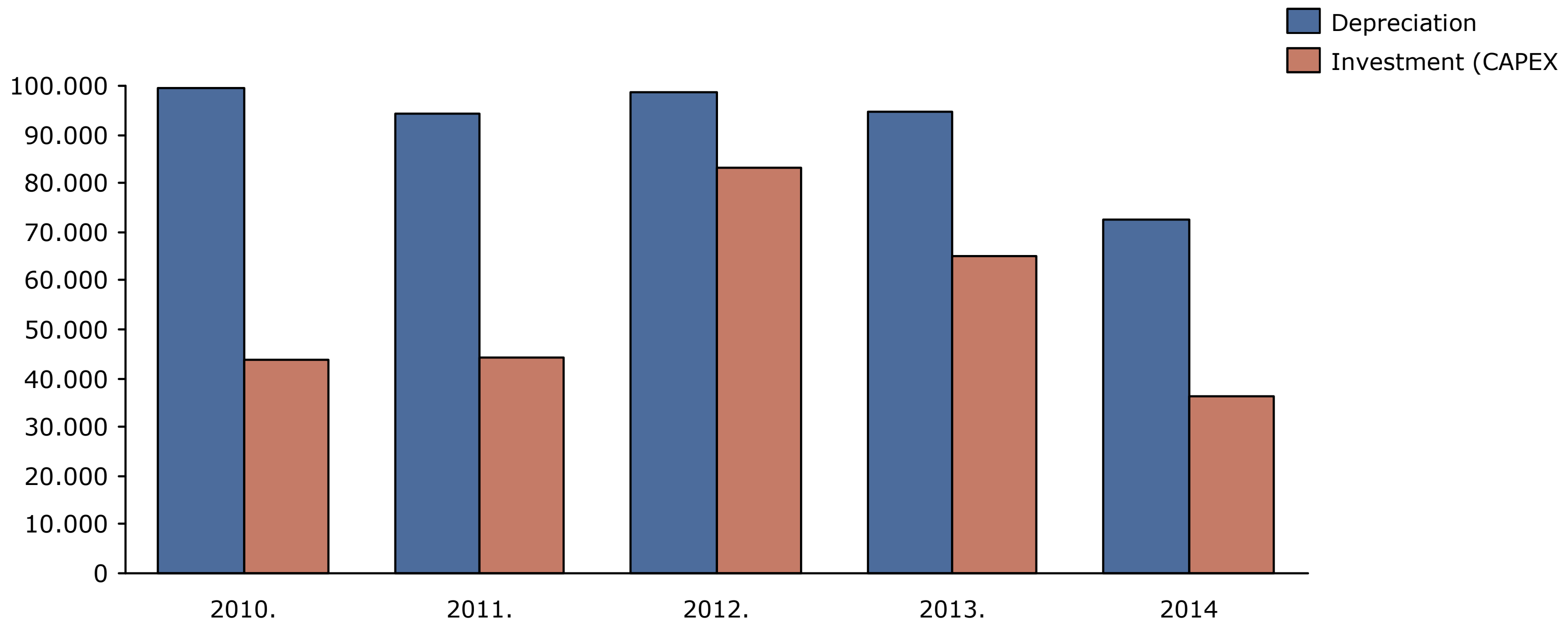


As at 30.09.2014, Petrokemija, Plc had 1,644 employees, and daughter companies - members of Petrokemija Group - had a total of 158 employees, which makes a total of 1,802 employees.

The share of personnel costs in operating revenues were 9.99%, and in operating expenses 8.65%.

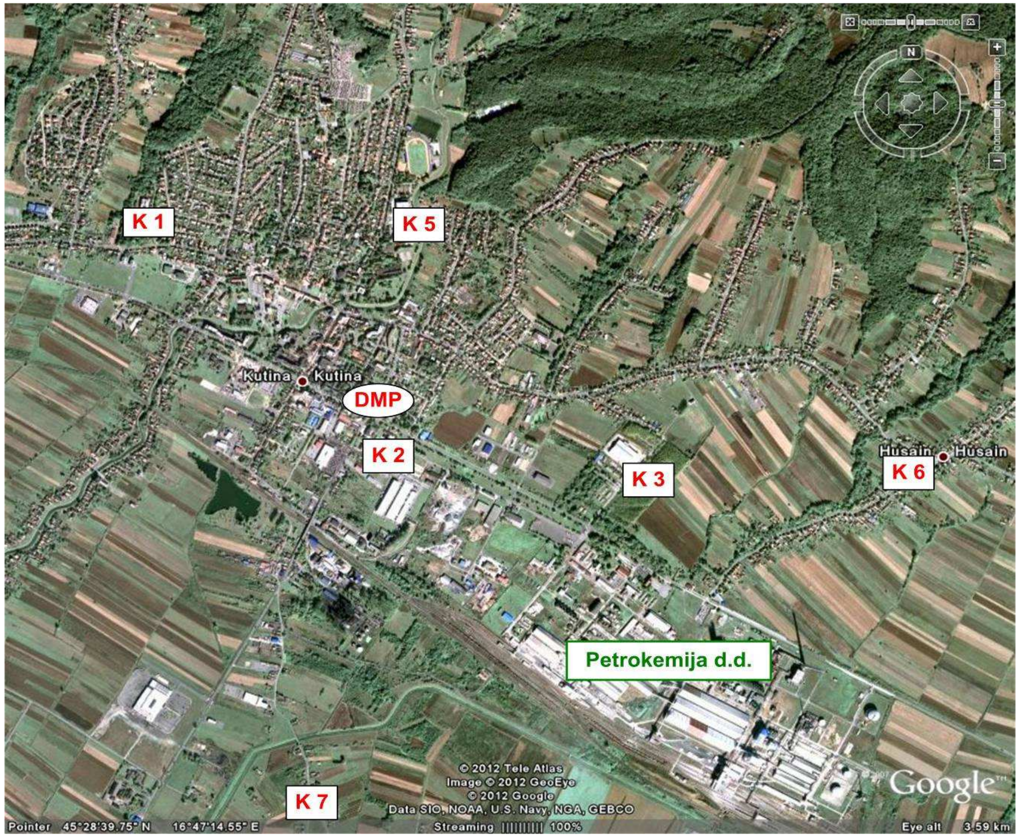
Realized investment

- Investment realized in the period January-September 2014 amounted to HRK 36.1. million, which is HRK 18.8 million or 34.3% lower than in the same time previous year.
- Lower realization of investments is partly due to the postponement of the annual overhaul for 2015.



Air quality in the Kutina area for *January to September 2014* period at local monitoring station (K1,K2,K3,K5,K6 i K7) and the state monitoring station (DMP)

PETROKEMIJA KUTINA



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

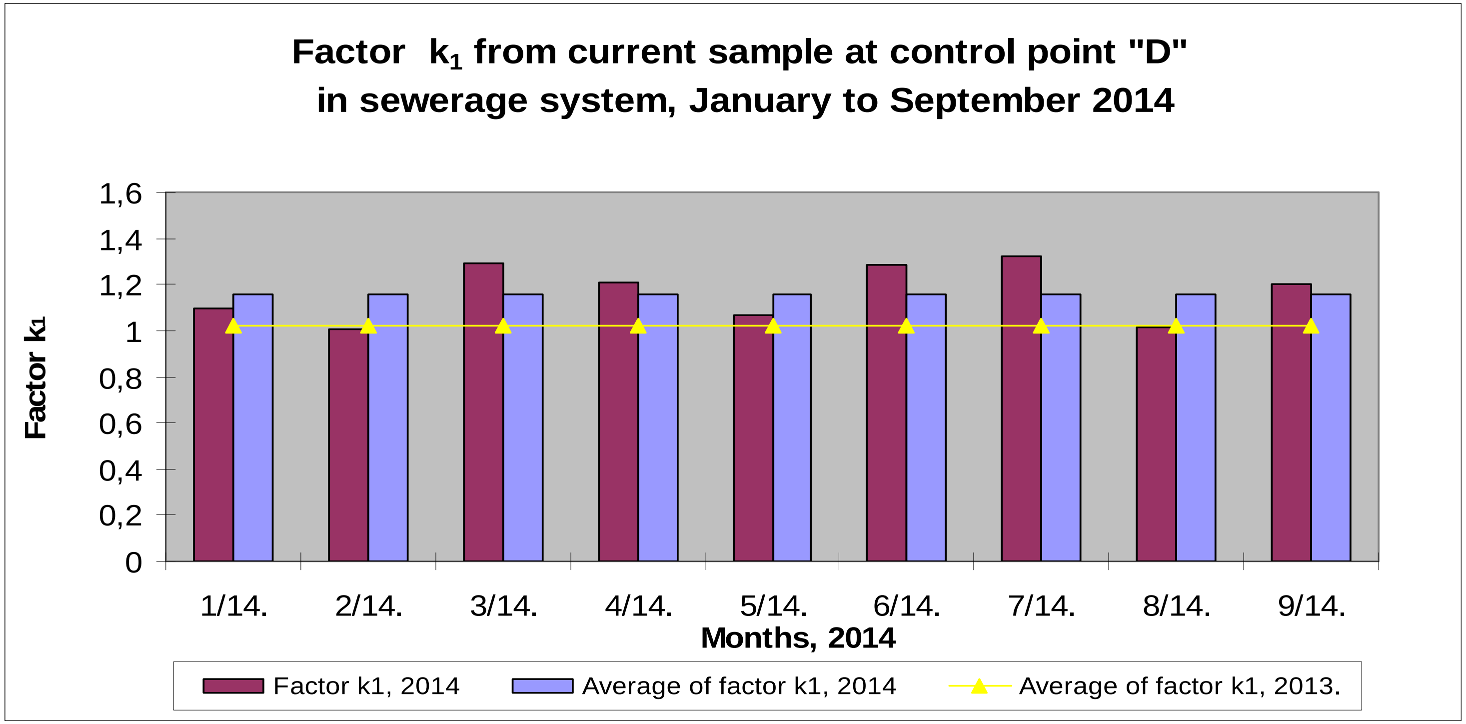
Note: The official categorization of air quality at local monitoring station and national network will be determined after the validation of data by the end of the year.

Ambient air limit value(LV) exceedance of AMMONIA in the January to September 2014 period (local network)

PETROKEMIJA KUTINA

Measuring station	*The number of limit value (LV) exceedances in the January to September 2014 period/ permitted exceedance number*
K 1 - Dom zdravlja	0 / 7
K 2 - Vatrogasni dom	4 / 7
K 3 - Meteorološki krug	5 / 7
K 5 - Dom športova	1 / 7
K 6 - Husain	0 / 7
K 7 - Krč	0 / 7
TOTAL	**10**

Water management



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

Average consumption of raw water in period from January to September 2014 was 614.761 m^3, which is 0,3 % less than average achieved in 2013.

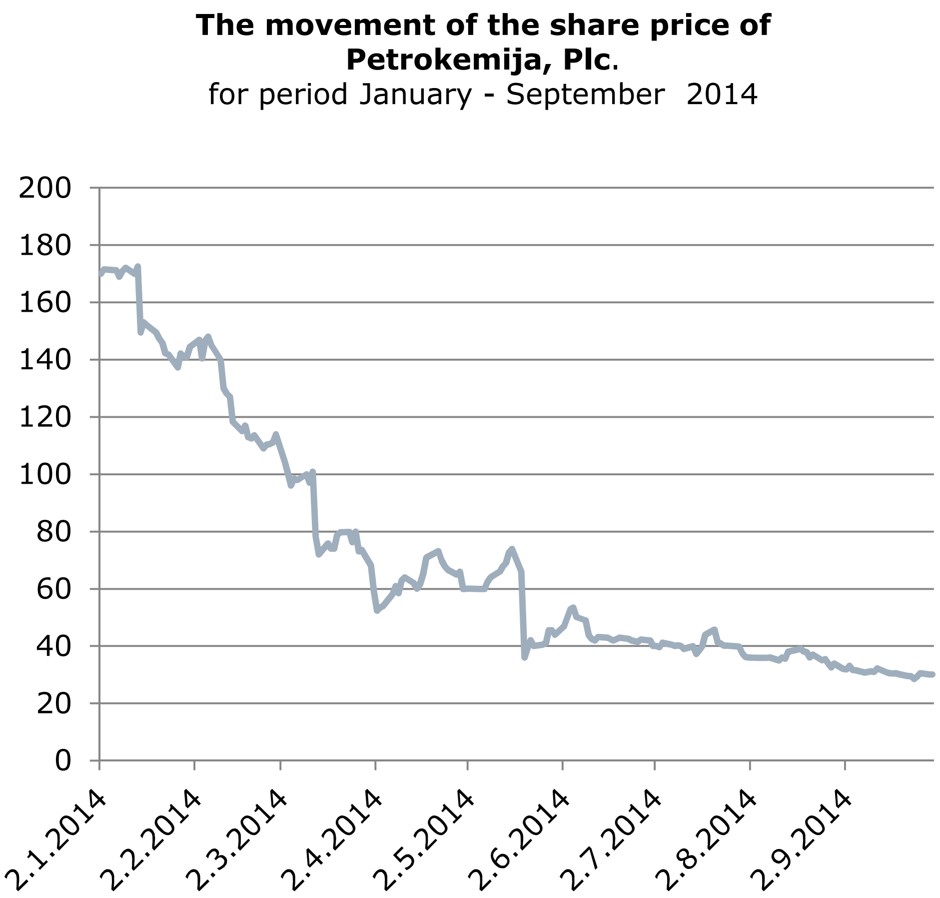
Company share capital and market value of shares

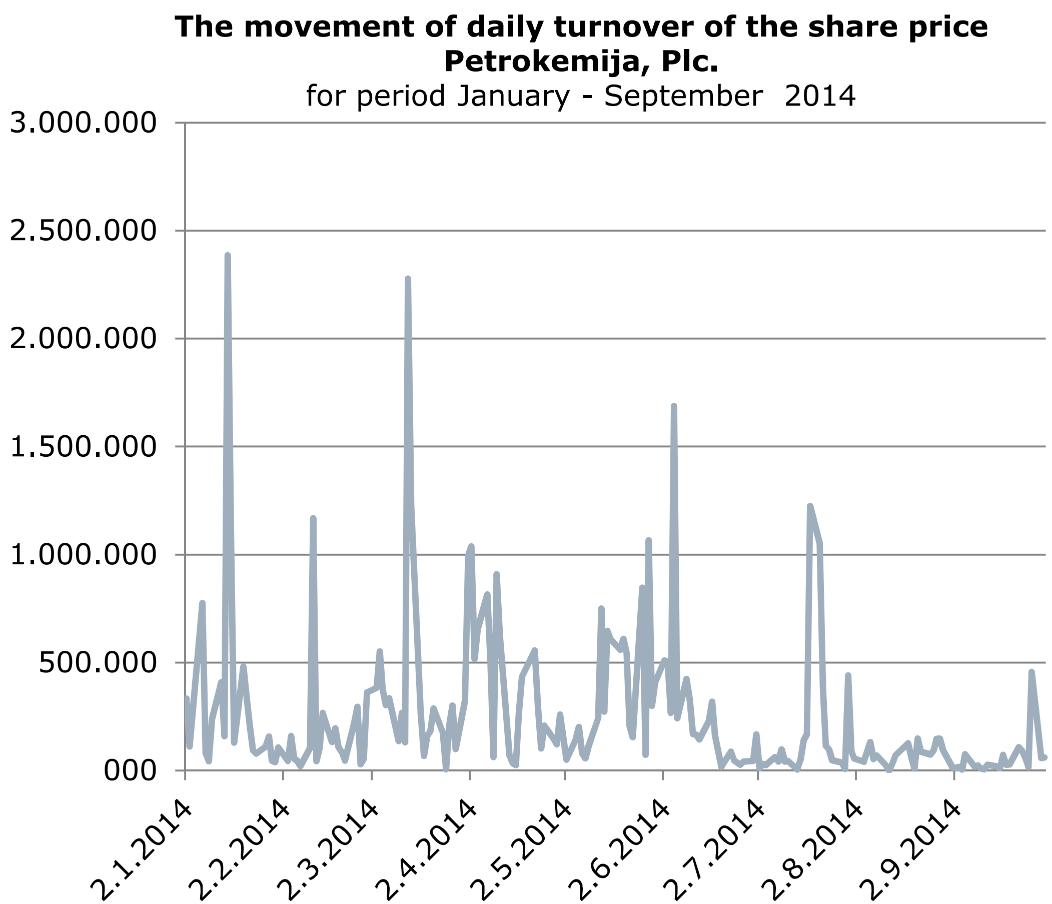
- General Meeting of Petrokemija, Plc. of 20 May 2014 adopted a Decision on simplified reduction of the share capital for loss coverage, by reduction of the nominal amount of the ordinary shares (ticker:PTKM-RA) of HRK 170.00 by an amount of HRK 140.00 to the amount of HRK 30.00.

- Thus the Company share capital was reduced from the amount of HRK 754,195,990.00 by HRK 621,102,580.00 to the amount of HRK 133,093,410.00 and is divided into 4,436,447 registered ordinary shares of HRK 30.00 nominal value each.

- On 31 December 2013, the share value was HRK 167.99, while on 31 March 2014 its average price was HRK 68.01 (down 59.5%). On 30 June 2014 it was HRK 41.90 and on 30 September 2014 HRK 30.09. (down 82.09% compared to 31.12.2013; down 28.18% compared to 30.06.2014)

The movement of the share price and the daily turnover of Petrokemija, Plc.





Changes in the Supervisory Board in 2014

PETROKEMIJA
KUTINA

- 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, Plc., 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, where the number of Supervisory Board members is reduced from nine to seven and DUUDI's authority to appoint two members is removed.
- The President of the Supervisory Board, Tomislav Radoš resigned from the membership in the Supervisory Board of Petrokemija, Plc. for the sake of 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, PhD terminated on 29 July 2014, due to his resignation on grounds of a new appointment incompatible with his membership in the Supervisory Board. Tomislav Pokaz, BE, from Zagreb, Martićeva 4, 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, Plc. appointed Tomislav Pokaz as chairman of the Supervisory Board. The former SB chairman, Branimir Fleković was apponted vice-chairman of the Supervisory Board.

Key events in 2014

- At its session held on 30 July 2013, the Croatian Government launched the process of selecting a strategic partner for Petrokemija.
- 14 November 2013 - Croatian Governmet made a decision on the establishment of a Commission for selection of strategic partner for Petrokemija, Plc. Company, Kutina. The Minister of Economy, Ivan Vrdoljak was appointed chairman of the Commission, and as its members Mladen Pejnović, Head of the National Office for State Property Management, Tomislav Radoš, Chairman of the Supervisory Board of Petrokemija, Dragan Marčinko, President of the Petrokemija Management Board, Goran Kralj and Željko Klaus, members of the Company Supervisory Board and Karlo Došen, member of the Management Board of Petrokemija. The Commission was commissioned to carry out the process of selecting a strategic partner for Petrokemija in accordance with applicable regulations, whereby the Republic of Croatia would retain at least 25 % + one share.
- 12 March 2014 - in the required period no binding offer was received which would be in accordance with the transaction documents. Two potential investors sent letters to express their serious interest in the investment and the willingness to continue the talks.
- 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 Conclusions and Decisions relating to the Commission for the selection of a strategic partner of Petrokemija, Plc.
- After the expiry of the procedure for selecting strategic partner that did not result in the actual choosing 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.

Key events in 2014 (cont.)

- At its meeting held on 9 April 2014, the Supervisory Board of Petrokemija, Plc. 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, Plc. convened the General Meeting.
- The main prerequisites for the realization of the objectives are a competitive price of natural gas, lower operating costs and available financial resources. The Program of Restructuring and Financial Consolidation is based on a comprehensive set of activities that are to be taken in the coming years in order to provide the Company with resources for a successful business. If the measures are not fully realized or some parts are not implemented, it will potentially lead to the collapse of the whole project and its impacts. The management must implement operational restructuring in order to make cost savings from operations of HRK 626 million.
- The Management, in cooperation with financial institutions, must implement financial consolidation in the amount of HRK 676 million for financing working capital, severance for redundancy program, investments and rescheduling of loans.
- Unions, General Workers’ Council and the Association of Croatian Homeland War Veterans of Petrokemija have actively supported the implementation of the program.

Key events in 2014 (cont.)

- The restructuring and financial consolidation are necessary to ensure long-term viability of the Company and will cover the key elements of business - the mid-term solution of gas supply at competitive market terms, modernization of facilities and logistics and organizational changes of processes within the company in order to reduce operating costs. In this way, Petrokemija would be able to respond to the challenges encountered in the near and wider market environment. The Management Board believes that, despite the current difficult situation, the Company possesses vast potential that can be realized in the medium term through the process of restructuring, investment in modernization and complete financial consolidation, as stable positive business in the interest of the owners, employees and the wider community.

- After intensive negotiations with companies Prirodni plin, d.o.o., a member of INA Group and Prvo plinarsko društvo, d.o.o. Vukovar, the Management of Petrokemija managed to negotiate more favorable terms for the purchase of natural gas in 2014 with both suppliers, and for a part of the volumes for 2015. The supplier of natural gas for Petrokemija Plc. during the summer months (June-September) was Prvo plinarsko društvo, d.o.o. Vukovar and from 1 October 2014 to 1 October 2015 gas will be supplied by both suppliers - PPD and Prirodni plin (for gas year 2014/2015). This was the first prerequisite for the implementation of the program of restructuring and financial consolidation 2014-2018 which rests on three key assumptions: competitive natural gas prices, lower operating costs and available financial resources. Completed negotiations with suppliers of natural gas at this stage are a precondition for the implementation of the program and continuing the process of recapitalization of the Company.

Key events in 2014 (cont.)

- The government adopted a Decision on Recapitalization of the Petrokemija, Plc. Company. The Restructuring and Sale Center is 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 100.00 per share, pursuant to Public Invitation for subscription and payment of new ordinary Company shares, published on 7 July 2014.
- The decision on the final price at which subscription and payment of shares is carried out will be made by the State Office for State Property Management with the approval of the Ministry of Economy.
- Restructuring and Sale Center will make the payment for the shares from funds generated from the management of shares/equity owned by the Republic of Croatia and managed by the Center.
- In the first round, which lasted from 12.00 hrs on 7 July 2014 to 12.00 hrs on 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.
- Existing shareholders of the Company, who had the right to subscribe for new shares in the first and second round, subscribed and paid for 8,434,733 new shares. Thus, in accordance with the resolution of the General Meeting, the requirement that the issue of new shares would be considered successfully completed if at least 8,333,333 new shares were subscribed and paid for in the set deadlines, was met.
- Decision about the implementation of the third round of the share capital increase has been postponed until 22 December 2014 to ensure sufficient time for negotiations with potential financial and / or strategic partners.
- Ministry of Finance, Customs Administration has awarded Petrokemija AEOC certificate - the status of authorized economic operator - customs simplifications.

Significant financial risks in 2014

PETROKEMIJA
KUTINA

Overall, the business position of Petrokemija, Plc. in 2014 will depend a number of factors, whose impact is extremely difficult to assess. However, in view of the present market situation, losses in business are expected, whose level will depend on the following risks:

- Outcome of the recapitalization process and support from business banks in securing the necessary working capital
- The possibility of collection of receivables for the supplied fertilizer and regressive factoring from customer Gorup Ltd.
- Petrokemija's business result is highly dependent on the price movement of fertilizers and raw materials for their production in the world market, the exchange rate of USD and EUR and their interrelationship.
- Natural gas as the most important raw material is supplied in the domestic market under contracts with two suppliers – Prirodni plin, Ltd. Zagreb and Prvo plinarsko društvo, Ltd., Vukovar. The Management Board managed to negotiate more favorable terms for the purchase of natural gas with two suppliers in the summer of 2014 and in the next period of 2014 the price of gas will slightly rise.
- The sales prices of fertilizers in the world market are still under the influence of cyclical and seasonal changes. In the reporting period they were stagnating, and at the time of preparation of this report there is no indication of price growth, which could be interpreted as a seasonal occurrence.
- 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

Significant financial risks in 2014

- High cost of working capital - due to lack of own working capital, and high-cost short-term financing (including default interest for due debt to gas suppliers), financing costs will continue to be present in the following period.
- In reporting the status of factoring of major domestic customers and potential liabilities to factoring companies (so-called extrinsic or recourse factoring), on 30 September 2014 Petrokemija, Plc. reported these liabilities in the balance sheet positions in the amount of HRK 169.6 million. In the reporting period, a portion of liabilities of one of the Company's customers – Gorup, Ltd. (due to their problems with liquidity) was rescheduled for the next period in cooperation with commercial banks; another portion was collected by writ of execution from Petrokemija as recourse debtor (HRK 5 million in the reporting period).
- For the amount of HRK 97.96 million, which are the receivables from the customer Gorup Ltd. and which Petrokemija, Plc. failed to collect, no impairment allowance was raised in the reporting period. The customer GORUP Ltd.'s account is blocked, they initiated the process of financial restructuring and there is considerable uncertainty with regard to the settlement of the said claims by the Company. However, at the time of compilation of the financial statements there is not enough information for adequate quantification of the impairment allowance. It is assumed that by the end of the current year there will be enough information for adequate assessment deadlines, form and amount of recoverability.
- The most significant individual risk is further decline in sales prices of fertilizers in the world, regional and local markets.

Statement of management liability

In line with Articles 407 through 410 of Capital Market Act (OG 88/08, 146/08, 74/09 and 54/13), the Managing Board of Petrokemija, Plc. Kutina, A. Vukovar 4, makes a

Statement on Management Liability

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

Financial reports for the January 1 to September 30, 2014 period, make an exact and true account of the Company financial status and the business and cash flow results, in compliance with the applicable accounting standards.

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

President of Petrokemija Management Board	Member of Petrokemija Management Board	Member of Petrokemija Management Board	Member of Petrokemija Management Board
Dragan Marčinko, BE	Karlo Došen, MBA	Krešimir Kvaternik, MBA	Nenad Zečević, BE

Attachments:

- Company Quarterly Financial Report - TFI-POD Petrokemija, Plc.:

  - Balance Sheet
  - Profit and Loss Account
  - Report on Cash Flow
  - Report on Capital Change
  - Notes
  - Unconsolidated interim financial statements for the nine month period ended 30 September 2014

Attachment 1.

Reported period: **01.01.2014.** **to** **30.09.2014.**

Quarterly financial statements TFI-POD

Registation number (MB):	**03674223**		
Registation number of subject (MBS):	**080004355**		
Personal identification number (OIB):	**24503685008**		
Issuer company:	**PETROKEMIJA d.d.**		
Postal code and city:	**44320**	**KUTINA**	
Street and number:	**ALEJA VUKOVAR 4**		
E-mail:	fin@petrokemija.hr		
Internet address:	www.petrokemija.hr		
Code and city/municipality:	**220**	**KUTINA**	
Code and county name:	**3**	**SISAČKO-MOSLAVAČKA ŽUPANIJA**	Nmber of employees: (at the end of the year) **1.644**
Consolidted Report:	**NO**		Code of NKD: **20.15**

Entities in consolidation (according to IFRS):	Registered seat:	Registration umber (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:	**DRAGAN MARČINKO, KARLO DOŠEN** (authorized representatives)	

Documentation to be published:

1. Financial Statements (Balance Sheet, Profit and Loss Account, Cash Flow Statement, Change in Capital Statement and Notes to Financial Statements
2. Management Board's Report
3. Statement of persons in charge of making Financial Statements

(seal)

(signature of authorized representative)

BALANCE SHEET

as at 30.09.2014.

Petrokemija d.d.			
Position	**AOP code**	**Previous year (31.12.)**	**Current year**
1	**2**	**3**	**4**
A) RECIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL	**001**		
B) LONG-TERM ASSETS (003+010+020+029+033)	**002**	**738.156.275**	**702.100.109**
I. INTANGIBLE ASSETS (004 do 009)	**003**	**8.212.096**	**8.557.950**
1. Expense for development	**004**		
2. Concessions, patents, licences, trade and service marks, software and other rights	**005**	3.291.706	2.126.770
3. Goodwill	**006**		
4. Advances for intangible assets	**007**		
5. Intangible assets in progress	**008**	4.920.390	6.431.180
6. Other intangible assets	**009**		
II. TANGIBLE ASSETS (011 do 019)	**010**	**703.319.704**	**663.713.322**
1. Land	**011**	49.482.151	49.482.151
2. Buildings	**012**	275.009.650	260.784.167
3. Plant and equipment	**013**	303.981.972	256.777.686
4. Tools, plant inventory and transportation assets	**014**	15.556.412	27.912.032
5. Biological assets	**015**		
6. Advances for tangible assets	**016**	3.352.925	6.047.920
7. Tangibal assets in progres	**017**	55.434.274	62.227.145
8. Other tangible assets	**018**	502.320	482.221
9. Investments in real estates	**019**		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	**020**	**26.374.307**	**24.200.524**
1. Investments (shares) in related companies	**021**	26.366.770	24.192.987
2. Loans given to realted companies	**022**		
3. Participating interest (shares)	**023**	7.537	7.537
4. Loans given to companies with participating interest	**024**		
5. Investment in securities	**025**		
6. Loans given, deposits and similar assets	**026**		
7. Other long-term financial assets	**027**		
8. Investments accounted for using the equity method	**028**		
IV. TRADE RECEIVABLES (030 do 032)	**029**	**250.168**	**5.628.313**
1. Receivables from related companies	**030**		
2. Receivables for sales on loan	**031**		
3. Other receivables	**032**	250.168	5.628.313
V. DIFERRED TAX ASSETS	**033**		
C) SHORT-TERM ASSETS (035+043+050+058)	**034**	**856.005.143**	**899.668.673**
I. INVENTORIES (036 do 042)	**035**	**444.533.679**	**485.821.888**
1. Raw and other material	**036**	204.418.531	211.942.850
2. Work in progress	**037**	42.595.846	40.230.657
3. Finished products	**038**	194.190.474	229.582.099
4. Merchandise inventory	**039**	1.107.301	824.576
5. Advances for inventories	**040**	2.221.527	3.241.706
6. Long-term assets intended for sale	**041**		
7. Biological assets	**042**		
II. TRADE RECEIVABLES (044 do 049)	**043**	**379.408.393**	**353.393.596**
1. Receivables from related companies	**044**	15.770.480	26.345.077
2. Receivables from customers (buyers)	**045**	169.026.869	78.607.214
3. Receivables from participating interest	**046**		
4. Receivables from employees and members	**047**	33.257	26.924
5. Receivables from state and other institutions	**048**	68.595.613	77.230.111
6. Other receivbles	**049**	125.982.174	171.184.270
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	**050**	**17.260.794**	**42.530.910**
1. Investments (shares) in related companies	**051**		
2. Loans given to realted companies	**052**		
3. Participating interest (shares)	**053**	12.838.576	8.779.203
4. Loans given to companies with participating interest	**054**		
5. Investment in securities	**055**	4.422.218	33.751.707
6. Loans given, depsits and similar assets	**056**		
7. Other financial assets	**057**		
IV. CASH IN BANK AND ON HAND	**058**	14.802.277	17.922.279
D) PREPAID EXPESES AND ACCRUED INCOME	**059**	**12.235.439**	**694.201**
E) TOTAL ASSETS (001+002+034+059)	**060**	**1.606.396.857**	**1.602.462.983**
F) OFF BALANCE SHEET ITEMS	**061**	513.934.610	910.114.329

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	**062**	**434.780.415**	**400.761.150**
I. SUBSCRIBED CAPITAL	**063**	754.195.990	133.093.410
II. CAPITAL RESERVES	**064**		554.488.994
III. RESERVES FROM PROFIT (066+067-068+069+070)	**065**	**7.967.248**	**0**
1. Legal reserves	**066**		
2. Reserve for treasury shares	**067**		
3. Treasury shares and invesment (deductable item)	**068**		
4. Statutory reserves	**069**		
5. Other reserve	**070**	7.967.248	
IV. REVALUATION RESERVES	**071**		
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	**072**	**-327.382.823**	**0**
1. Retained earning	**073**		
2. Loss carried forward	**074**	327.382.823	
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	**075**	**0**	**-286.821.254**
1. Profit for the year	**076**		
2. Loss for the year	**077**		286.821.254
VII. MINORITY INTEREST	**078**		
B) PROVISIONS (080 do 082)	**079**	**13.265.513**	**10.265.039**
1. Provisions for pensions, severance pay and similar labilites	**080**	11.854.385	9.368.911
2. Provisions for tax liabilities	**081**		
3. Other provisions	**082**	1.411.128	896.128
C) LONG-TERM LIABILITIES (084 do 092)	**083**	**61.944.444**	**192.005.877**
1. Liabilities to related companies	**084**		
2. Liabilities for loans, deposits and similar	**085**	61.944.444	192.005.877
3. Liabilities to banks and other financial institutions	**086**		
4. Liabilities for advances	**087**		
5. Liabilities to suppliers	**088**		
6. Liabilities for securities	**089**		
7. Liabilities to companies with participating interest	**090**		
8. Other long-term liabilities	**091**		
9. Deferred tax liability	**092**		
D) SHORT-TERM LIABILITIES (094 do 105)	**093**	**1.077.916.064**	**973.666.758**
1. Liabilities to related companies	**094**	6.858.939	6.449.227
2. Liabilities for loans, deposits and similar	**095**	64.427.181	12.330.000
3. Liabilities to banks and other financial institutions	**096**	362.388.889	168.527.778
4. Liabilities for advances	**097**	108.333.045	40.695.493
5. Liabilities to suppliers	**098**	283.369.197	517.685.885
6. Liabilities for securities	**099**	91.833.225	43.171.240
7. Liabilities to companies with participating interest	**100**		
8. Liabilities to employees	**101**	13.635.074	10.136.466
9. Liabilities for taxes, contributions and other payments	**102**	20.557.948	9.282.229
10. Liabilities as per share in result	**103**		
11. Liabilities as per long-tem assets intended for sales	**104**		
12. Other short-term liabilities	**105**	126.512.566	165.388.440
E) ACCRUED EXPENSES AND DEFERRED INCOME	**106**	**18.490.421**	**25.764.159**
F) TOTAL LIABILITIES (062+079+083+093+106)	**107**	**1.606.396.857**	**1.602.462.983**
G) OFF BALANCE SHEET ITEMS	**108**	513.934.610	910.114.329
APPENDIX TO BALANCE SHEET (to be completed by companies that prepare consolidated financial statements)			
A) CAPITAL AND RESERVES			
1. Credited to parent company capital owners	**109**		
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 30.09.2014.

Petrokemija d.d.

Position	AOP code	Previous year		Current year	
		Comulative	Quarterly	Comulative	Quarterly
1	2	3	4	5	6
I. OPERATING REVENUES (112+113)	**111**	**1.846.661.547**	**620.680.917**	**1.609.579.988**	**498.703.420**
1. Sales revenues	**112**	1.814.296.445	608.015.308	1.585.300.531	486.492.444
2. Other operating revenues	**113**	32.365.102	12.665.609	24.279.457	12.210.976
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	**114**	**2.010.469.941**	**734.168.739**	**1.859.306.909**	**541.474.955**
1. Changes in value of work in progress and finished products	**115**	-16.118.180	33.858.067	-33.026.435	-50.911.779
2. Material costs (117 do 119)	**116**	**1.720.293.942**	**590.077.426**	**1.491.891.017**	**489.821.598**
a) Cost of raw and production materials	**117**	1.646.402.009	554.576.322	1.435.607.884	467.158.958
b) Cost of goods sold	**118**	6.738.850	4.424.571	3.232.685	2.057.134
c) Other external costs	**119**	67.153.083	31.076.533	53.050.448	20.605.506
3. Employees costs (121 do 123)	**120**	**175.621.598**	**59.076.569**	**160.945.909**	**50.370.528**
a) Net salaries and wages	**121**	111.115.595	37.314.154	100.038.470	30.918.794
b) Costs for taxes and contributions from salaries	**122**	41.272.570	13.946.661	38.052.519	12.049.869
c) Contributions on salaries	**123**	23.233.433	7.815.754	22.854.920	7.401.865
4. Depreciation	**124**	**71.909.554**	**24.406.911**	**72.641.503**	**24.547.946**
5. Other costs	**125**	**55.580.605**	**24.086.723**	**158.014.155**	**118.876.788**
6. Value adjustments (127+128)	**126**	**291.567**	**22.188**	**151.932**	**100.036**
a) of long-term assets (except for financial assets)	**127**	16.988		27.820	16.925
b) of short-term assets (except for financial assets)	**128**	274.579	22.188	124.112	83.111
7. Provisions	**129**	**2.890.855**	**2.640.855**	**8.688.828**	**-91.330.162**
8. Other operating expenses	**130**				
III. FINANCIAL REVENUES (132 do 136)	**131**	**13.048.484**	**3.660.452**	**6.896.530**	**2.533.334**
1. Interest, exchange rate flucutations, dividends and similar from associated companies	**132**	329.606	274.145	107.207	85.043
2. Interest, exchange rate flucuations, dividends and sikilar from non-associated companies ond others	**133**	12.718.878	3.386.307	6.789.323	2.448.291
3. Part of revenue from associated companies and prticipating interests	**134**				
4.Unrealised gains (revenues) from financial assets	**135**				
5. Other financial revenues	**136**				
IV. FINANCIAL EXPENSES (138 do 141)	**137**	**38.593.837**	**11.441.068**	**43.990.863**	**20.782.419**
1. Interest, exchange rate fluctuations and other costs with associated companies	**138**	207.854	77.282	188.794	74.425
2. Interest, excehange rate flucutations and other costs eith non-associated companies	**139**	36.800.413	10.457.746	43.802.069	20.707.994
3. Unrealised losses (costs) from financial assets	**140**	1.585.570	906.040		
4. Other financial expenses	**141**				
V. PORTION IN PROFIT OF ASSOCIATED COMPANIES	**142**				
VI. PORTION IN LOSS OF ASSOCIATED COMPANIES	**143**				
VII. EKSTRAORDINARY - OTHER REVENUES	**144**				
VIII. EXTRAORDINARY - OTHER EXPENSES	**145**				
IX. TOTAL REVENUES (111+131+142 + 144)	**146**	**1.859.710.031**	**624.341.369**	**1.616.476.518**	**501.236.754**
X. TOTAL EXPENSES (114+137+143 + 145)	**147**	**2.049.063.778**	**745.609.807**	**1.903.297.772**	**562.257.374**
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	**148**	**-189.353.747**	**-121.268.438**	**-286.821.254**	**-61.020.620**
1. Profit before taxation (146-147)	**149**	0	0	0	0
2. Loss before taxation (147-146)	**150**	189.353.747	121.268.438	286.821.254	61.020.620
XII. PROFIT TAX	**151**				
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	**152**	**-189.353.747**	**-121.268.438**	**-286.821.254**	**-61.020.620**
1. Profit for the period (149-151)	**153**	0	0	0	0
2. Loss for the period (151-148)	**154**	189.353.747	121.268.438	286.821.254	61.020.620

APPENDIX TO PLA (to be completed by companies that prepare consolidated financial statements)					
XIV. PROFIT OR LOSS FOR THE PERIOD					
1. Credited to parent company capital owners	**155**				
2. Credited to minority interest	**156**				
STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)					
I. PROFIT OR LOSS OF THE PERIOD (= 152)	**157**	**-189.353.747**	**-121.268.438**	**-286.821.254**	**-61.020.620**
II. OTHER COMPREHENSIVE GAINS/LOSS BEFORE TAXES (159 do 165)	**158**	**0**	**0**	**0**	**0**
1. Exchange rate differences from translation of foreign currency operations	**159**				
2. Change in revaluation reserves of fixed tangible and intangible assets	**160**				
3. Gain or loss from revaluation of financial assets held for sale	**161**				
4. Gain or loss from effective cash flow hedge	**162**				
5. Gain or loss from effective hedge in net investments in abroad	**163**				
6. Portion in other comprehensive gain7loss of assocated companies	**164**				
7. Acutaral gains7losses on defined benefit plans	**165**				
III. TAX ON OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD	**166**				
IV. NET OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD (158-166)	**167**	0	0	0	0
V. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD (157+167)	**168**	**-189.353.747**	**-121.268.438**	**-286.821.254**	**-61.020.620**
APPENDIX TO STATEMENT OF COMPREHESIVE INCOME (to be completed by companies that prepare consolidated financial statements)					
VI. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD					
1. Credited to parent company capital owners	**169**				
2. Credited to minority interest	**170**				

CASH FLOW STATEMENT - Direct method

for the perod 01.01.2014. to 31.09.2014.

Petrokemija d.d.			
Position	**AOP code**	**Previous year**	**Current year**
1	2	3	4
CASH FLOW FROM PPERATIONG ACTIVITIES			
1. Cash increase from buyers	001	1.663.108.825	1.462.257.633
2. Cash increse from royalites, fees commissions and other	002		
3. Cash increse from insuarance compensations	003	4.285.614	2.833.322
4. Cash increase from tax return	004	260.020.917	226.105.336
5. Other cash increase	005	4.500.667	3.844.159
I. Total increase of cash flow from operating activities (001 do 005)	006	**1.931.916.023**	**1.695.040.450**
1. Expenses to suppliers	007	2.130.253.096	1.595.598.670
2. Expenses for employees	008	193.750.757	276.568.605
3. Expenses for insuarance compensations	009	10.240.972	11.275.565
4. Expenses for interest	010	26.925.554	31.363.163
5. Expenses for taxes	011	100.385.903	58.761.424
6. Other cash decrease	012	13.661.021	11.928.262
II. Total decrease in cash flow from operating activities (007 do 012)	013	**2.475.217.303**	**1.985.495.689**
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)	014	**0**	**0**
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)	015	**543.301.280**	**290.455.239**
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proseeds from sale of non-current tangible and intangible assets	016	3.250	11.043
2. Cash proceeds from sale of equity and debt security instruments	017		
3. Cash proceeds from interest payment*	018		
4. Cash proceeds of dividend payment*	019	1.005.704	
5. Other cash proceeds from investing activities	020		10.039.376
III. Total cash inflow from investing activities (016 do 020)	021	**1.008.954**	**10.050.419**
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	52.292.328	33.236.596
2. Cash outflow for acquisition of equity and debt financial instruments	023		
3. Other cash outflows from investing activities	024		
IV. Total cash outflow from investing activities (022 do 024)	025	**52.292.328**	**33.236.596**
B1) NET CASH FLOW FROM INVESTIN ACTIVITIES (021-025)	026	**0**	**0**
B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)	027	**51.283.374**	**23.186.177**
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash infows from issuance of equity and debt financial instruments	028	186.206.100	253.041.990
2. Cash inflows from loan pricipals, debentures, credits and other borrowings	029	1.612.800.000	739.574.046
3. Other inflows from financial activities	030	611.359.013	266.648.399
V. Total cash inflow from financial activities (028 do 030)	031	**2.410.365.113**	**1.259.264.435**
1. Cash outflows for repayment of loan principal and bonds	032	1.611.150.000	855.470.905
2. Cash outflows for dividend payment	033		
3. Cas outflow for financial lease	034		
4. Cash outflows for buybackof own shares	035		
5. Other cash outflows for financial activities	036	169.049.621	87.032.112
VI. Total cash outflow for financial activities (032 do 036)	037	**1.780.199.621**	**942.503.017**
C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)	038	**630.165.492**	**316.761.418**
C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)	039	**0**	**0**
Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)	040	**35.580.838**	**3.120.002**
Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)	041	**0**	**0**
Cash and cash equivalents at the begining of the period	042	38.170.591	14.802.277
Increase of cash and cash equivalents	043	35.580.838	3.120.002
Decrease of cash adn cash equivalents	044	0	0
Cash and cash equivalents at the end of the period	045	73.751.429	17.922.279

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

STATEMENT OF CHANGES IN EQUITY

for the perod from 1.1.2014 to 30.9.2014

Position	AOP code	Previous year	Current year
1	2	3	4
1. Suscribed capital	001	754.195.990	133.093.410
2. Capital reserves	002		554.488.994
3. Reserves from profit	003	7.967.248	
4. Retained profit or loss carried forward	004		
5. Profit or loss for the year	005	-327.382.823	-286.821.254
6. Revaluation of fixed tangeble assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluation	009		
10. Total capital and reserves (AOP 001 do 009)	**010**	**434.780.415**	**400.761.150**
11. Exchange differences on translationof financial statements of foreign operations	011		
12. Curent and deferred taxes (part))	012		
13.Protektion of cash flow	013		
14. Changes in accounting policies	014		
15. Adjustment of significant errors from previous period	015		
16. Other changes in captal	016		
17. Total increase or decrease of capital (AOP 011 do 016)	**017**	**0**	**0**
17 a. Creadited to parent company capital owners	018		
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.

Note

PETROKEMIJA, Plc.

In the period from January to September 2014, Petrokemija, Plc. had total actual income of HRK 1,616.5 million and total expense of HRK 1,903.3 million; thus the Company reported losses in business operations of HRK 286.8 million (17.7% of the total revenues). Out of the total loss, HRK 100.5 million accounts for the retirement severance payments. Without this one-time cost for funding the already started process of Company restructuring, the loss would amount to HRK 186.3 million or 11.5% of the total revenues. The loss in the same period last year was HRK 189.4 million.

In the first nine months, total revenues were by 13.1% lower compared to the same period of 2013, while total expenditures were down by 7.1%. With exclusion of the severance costs, total expenses were by 12.0% lower than in the same period last year. The intensive fall in the price of fertilizers is evident from the fact that with the approximately same fertilizer sales volumes (index 100.6), Petrokemija generated 12.8% lower income.

In the loss breakdown, HRK 249.7 million or 87.1% was generated from operating activities, and HRK 37.1 million or 12.9% from financial operations. EBITDA (earnings before interest, taxes, depreciation and amortization) was negative in the amount of HRK 177.1 million, or HRK 76.6 million without provisions for severance payments. In the same period of 2013, the EBITDA was HRK 91.9 million negative.

In the July to September 2014 period, the Company had actual total revenues of HRK 501.2 million, total expenses of HRK 562.2 million and the reported operating losses of HRK 61.0 million (HRK 60.2 million lower compared to the same period of 2013). On a quarterly basis, total revenues were down by 19.7% and total expenditures were down by 24.6% on the third quarter of 2013.

The trend of prices and supply and demand in the global mineral fertilizers market did not significantly change compared to the second half of 2013. Petrokemija has taken measures to reduce the production costs (lower gas price, rationalization of labor costs, etc.), which should in the second half of 2014 reduce the losses as compared to the second half of last year. The main disparity in revenues and expenses was generated by the low prices of fertilizers in the global and regional markets, which, with minor fluctuations, have been at a very low level since June 2013.

The main export product of Petrokemija - nitrogen fertilizer Urea, achieved approximately 20% lower price in the EU in the 2013/2014 than in the 2012/2013 agricultural season, the main exporting countries being Egypt and Russia. Low actual sales in domestic market are the result of the generally poor state of agriculture, higher competition, reduction of state subsidies and adverse weather conditions.

The reporting period is marked by an imbalance in supply of raw material prices and selling prices of fertilizers. In this general trend, the price of gas is an isolated phenomenon and is the result of specific factors on the Croatian gas market and position of Petrokemija, as one of the two largest customers, on the still relatively undeveloped domestic gas market. For the first time since opening of the Croatian gas market, in the summer of 2014, gas supply terms were contracted for a part of the gas supply that corresponded to the level of gas prices on the European spot market. This has mitigated the losses resulting from the low price of nitrogen fertilizers in the world market.

Due to the relatively small sales volumes, which did not allow for optimum use of capacities, there was an increased fixed cost per unit of production and loss in business. In the observed period, there was an occasional further lowering of prices of finished products in the global fertilizer market, which in some markets could not even cover the direct costs of raw materials and energy. This effect worked cumulatively with a pronounced decline in demand in the domestic market and in the wider region, so the losses in business exceeded the level of the previous dynamic estimates. At the same time, the prices of some raw materials for the production of fertilizers changed differently, depending on market influences, but were in general lower than in the same period last year.

It should be noted that, regardless of the business moves of the Company, when the prices in the market keep almost continually falling for a longer period, a third negative effect appears – wholesalers refrain from purchase and farmers delay the purchase of fertilizer to the last minute of wholesalers refrain from purchase and farmers delay the purchase of fertilizer to the last minute of application.

An additional negative effect on the fall in demand were the low prices of basic agricultural products and the lack of available funds of farmers. It was the result of the lower yields due to negative effects of the high rainfall in the 2013/2014 season as well as floods in some parts of Croatia and long-term adverse circumstances of agricultural production in the value chain of food production.

In the reporting period, the operating income was 12.8% lower compared to the first nine months of 2013, mostly due to the falling prices of fertilizers in domestic, regional and world markets. Total volume of fertilizer sales was 0,6% higher – the sales in the domestic market were down by 6.1% while exports were up by 3.4%, on the same period last year.

Actual operating expenses were lower by 7.5% compared to the same period last year and are the result of changes in product range and lower average input prices of raw materials. There was a slight decline in purchase prices of almost all key raw materials. The average actual purchase price of gas in the first nine months of 2014 was by 11.1% lower than in the same period of 2013.

In the first nine months of 2014, Petrokemija Plc. achieved a 1.3% higher overall level of production as compared with the same period last year, but with the change in structure: 15.4% increase of Urea and 14.5% of KAN production, with 33.6% decrease of the NPK fertilizers production.

Natural gas as the most important raw material is supplied in the domestic market under contracts with two suppliers – Prirodni plin Ltd from Zagreb and Prvo Plinarsko društvo Ltd from Vukovar. At the time of preparation of these financial statements, the gas was during the summer season procured at more favorable price terms than those achieved in the first five months. The price of gas in the last quarter is estimated to be higher than in the third quarter due to higher purchase price and higher average USD exchange rate.

For market reasons, some facilities have been temporarily shut down since the second half of 2009 and this issue was carried over into the fourth quarter of 2014. The crisis caused by the disparity of in- and output prices on the carbon black market is still present. Petrokemija is influenced by developments in the global market, which gives space to significant potential price risks and financial fluctuations to be continued in 2015.

Next to own working capital, short-term bank loans and long-term loans of CBRD, Petrokemija, Plc secured its source of financing working capital partly by issuing commercial papers at the Zagreb Stock Exchange, through Privredna Banka Zagreb as the dealer and agent of the program. Financing through commercial papers in 2014 year has been brought to a minimum. Furthermore, the Company has, due to delays in the capital increase process, rescheduled the maturity of part of its own short-term liabilities to financial institutions, and debts to large suppliers of raw materials (gas) have grown. The further course of relations with banks and large suppliers will depend on the results of the recapitalization. The first two rounds were successfully completed in July and August (HRK 253 million was subscribed). The decision on the implementation of the third round of the share capital increase has been prolonged until 22 December 2014 to ensure sufficient time for discussions with potential financial and / or strategic partners.

Due to the long collection time of receivables for fertilizers in the domestic market, liquidity problems of domestic customers and its own lack of working capital, Petrokemija has been using factoring as a means of financing and the collection of receivables in the agreed due payment period (with the obligation of the customer to bear all costs and interest associated with the factoring).

In reporting the status of current assets (accounts receivable) and current liabilities (contingent recourse obligations to the factoring companies, in the event that the debtors fail to meet their obligation), Petrokemija included these liabilities and receivables in the Balance Sheet as of 30 September 2014. In the Balance Sheet positions, they are indicated in the current assets and liabilities for HRK 169.6 million. Compared with the balance of 31 December 2013, the status of these transactions is by HRK 44.5 million or 35.6% higher. In the current liabilities, HRK 164.6 million was declared, as HRK 5 million was collected from Petrokemija as recourse debtor by a commercial bank. In the Cash Flow Statement, inflows (receipts) from the collection of trade receivables through factoring are indicated in inflows from financial activities for the first nine months of 2014 amounting to HRK 236.9 million, while for the same period last year they amounted to HRK 430.8 million.

In the reporting period, a portion of receivables from one of the big customers - Gorup Ltd. (because of their problems with liquidity), was rescheduled for the following period in cooperation with commercial banks, and a portion was collected by writ of execution from Petrokemija as recourse debtor by a commercial bank (HRK 5 million in the reporting period).

For the amount of HRK 97.96 million, which are the receivables from the customer Gorup Ltd. and which Petrokemija, Plc. was unable to collect, no impairment allowance was raised in the reporting period. The customer GORUP Ltd.'s account is blocked, they initiated the process of financial restructuring and there is considerable uncertainty with regard to the settlement of the said claims by the Company. However, at the time of compilation of the financial statements there is not enough information for adequate quantification of the impairment allowance. It is assumed that by the end of the current year there will be enough information for adequate assessment deadlines, form and amount of recoverability.

In addition to the above, the future movements in financial results of Petrokemija Plc. will be affected by a number of factors. Besides the gas price, which is predominantly set in the domestic market, most of the future risks come from the international environment, mainly through:

Changes in raw materials prices in the world market (MAP, DAP, phosphate, potassium chloride, sulfur),

Changes in demand and selling prices of fertilizers,

Price trends of energy – gas and fuel oil,

Price trends of basic agricultural crops,

The exchange rate of USD and EUR to the local currency,

Financing costs and cross-currency relations.

The Company has prepared a Program of Restructuring and Financial Consolidation of Petrokemija Plc. for 2014-2018. In the Program, detailed requirements and restructuring measures are defined, as well as the financing requirements necessary to create a basis for the Company's sustainable operations. The mentioned measures include among others, the implementation of a comprehensive restructuring, optimization of procurement costs, refocus of production activities, optimization of working structure, disinvestment of inoperative and non-core assets and the measures of debt refinancing and capital increase.

The above Program of Restructuring and Financial Consolidation of Petrokemija was made by the Management Board and approved by the Supervisory Board after the process of finding a suitable strategic partner had failed. The Program resulted in the Decision on the Company Capital Increase. The losses for the January-September 2014 period reached the level of 41.7% of the share capital and reserves, including the HRK 253 million from the first two rounds of recapitalization in the capital reserves.

Actual market and financial results in the first nine months, as well as the rating of the market position at the time of preparation of these financial statements indicate caution in predicting future trends in the business, with the possibility of occasional downtime of parts of the facilities and significant changes in the organization of the Company.

Petrokemija d.d.

Unconsolidated
interim financial statements for
the nine month period ended
30 September 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 interim financial statements

Contents

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

The Management Board is required to prepare unconsolidated interim financial statements 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 interim 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 Group will ensure adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the unconsolidated interim 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 interim 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 consolidated and unconsolidated interim financial statements.

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

The unconsolidated interim financial statements were authorised by the Management Board on 29 October 2014 for issue to the Supervisory Board and are signed below to signify this.

Dragan Marčinko
President of the Management Board

Karlo Došen
Member of the Management Board

29 October 2014
Aleja Vukovar 4
Kutina
Croatia

Krešimir Kvaternik
Member of the Management Board

Nenad Zečević
Member of the Management Board

PETROKEMIJA, d. d.
KUTINA, Aleja Vukovar 4 1

Independent Auditors' Report to the Shareholders of Petrokemija d.d. on the Review of Interim Financial Statements

Introduction

We have reviewed the accompanying unconsolidated statement of financial position of Petrokemija d.d. ("the Company") as at 30 September 2014, the unconsolidated statements of comprehensive income, changes in equity and cash flows for the nine month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information ("the unconsolidated interim financial statements"). Management is responsible for the preparation and fair presentation of these unconsolidated interim financial statements in accordance with International Financial Reporting Standards as adopted by the European Union which include the requirements of IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these unconsolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

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 30 September 2014 and 31 December 2013. The effects of this departure from International Financial Reporting Standards on the financial statements have not been determined.

2. At 30 September 2014, inventory includes items with a carrying value of HRK 94,007 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.

3. As at 30 September 2014, the assets of the Company include property, plant and equipment with a carrying value of HRK 19,381 thousand *(31 December 2013: HRK 21,794 thousand)* and related spare parts and materials totaling HRK 20,332 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.

Independent Auditors' Report to the Shareholders of Petrokemija d.d. on the Review of Interim Financial Statements *(continued)*

Basis for Qualified Conclusion (continued)

4. As described in note 20, current trade receivables include HRK 97,962 thousand relating to receivables from the customer Gorup d.o.o. for which the Company has not raised an impairment allowance, and which the Company has been unable to collect. Significant uncertainty exist 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 Conclusion

Based on our review, except for the effects of the matters described in the *Basis for Qualified Conclusion* paragraph, nothing has come to our attention that causes us to believe that the accompanying unconsolidated interim financial statements do not give a true and fair view of the financial position of the Company as at 30 September 2014, and of its financial performance and its cash flows for the nine month period then ended in accordance with International Financial Reporting Standards which include the requirements of IAS 34 *Interim Financial Reporting*.

Emphasis of Matter

Without further qualifying our conclusion, we draw attention to note 2.4 to the unconsolidated interim financial statements. In the nine month period ended 30 September 2014, the Company incurred an unconsolidated net loss of HRK 286,822 thousand. Furthermore, as at 30 September 2014, the Company's unconsolidated current liabilities exceeded its unconsolidated current assets by HRK 221,205 thousand. Management is considering models of securing liquidity to stabilise its operations, including a capital injection from existing shareholders and potential strategic investors. 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 interim 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 respect to these conditions and others disclosed in note 2.4, 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.

Other matters

Corresponding figures in the unconsolidated interim financial statements, presented for the nine month period ended 30 September 2013, were not reviewed.

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

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

29 October 2014

Petrokemija d.d.

Unconsolidated statement of comprehensive income

for the nine month period ended 30 September

(in thousands of HRK)	*Note*	**1.1.-30.9. 2014. HRK '000**	1.1.-30.9. 2013. HRK '000
Revenue from sales	*7*	**1,585,300**	1,814,297
Other income	*8*	**24,280**	32,365
Gross profit		**1,609,580**	1,846,662
Change in inventory of finished goods and work in progress		**33,026**	16,118
Raw materials, consumables and services used	*9*	**(1,491,891)**	(1,720,293)
Staff costs	*10*	**(262,929)**	(176,933)
Depreciation and amortisation		**(72,641)**	(71,909)
Other operating expenses	*11*	**(64,872)**	(57,451)
Total operating expenses		**(1,859,307)**	(2,010,468)
Operating loss		**(249,727)**	(163,806)
Financial income	*12*	**6,896**	13,047
Financail expenses	*12*	**(43,991)**	(38,593)
Net finance costs		**(37,095)**	(25,546)
Loss before tax		**(286,822)**	(189,352)
Income tax	*13*	**-**	-
Loss for the period		**(286,822)**	(189,352)
Other comprehensive income		**-**	-
Total comprehensive loss		**(286,822)**	(189,352)

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

Petrokemija d.d.

Unconsolidated statement of financial position

as at 30 September 2014 and 31 December 2013

(in thousands of HRK)	***Note***	**30.9. 2014. HRK '000**	31.12. 2013. HRK '000
ASSETS			
Non-current assets			
Property, plant and equipment	*14*	**669,340**	703,570
Intangible assets	*15*	**8,558**	8,212
Investment in subsidiares	*16*	**24,193**	26,367
Non-current financial assets	*17*	**8**	8
		702,099	738,157
Current assets			
Inventories	*19*	**485,823**	444,534
Trade and other receivables	*20*	**387,839**	395,852
Current financial assets	*17*	**8,779**	3,198
Financial assets at fair value through profit and loss	*18*	**-**	9,853
Cash and cash equivalents	*21*	**17,922**	14,802
		900,363	868,239
Total assets		**1,602,462**	1,606,396
EQUITY AND LIABILITIES			
Equity			
Share capital	*22*	**386,135**	754,196
Reserves		**301,447**	7,967
Accumulated losses		**(286,822)**	(327,383)
		400,760	434,780
Non-current liabilities			
Loans and borrowings	*23*	**69,869**	61,944
Provisions	*24*	**10,265**	13,266
		80,134	75,210
Current liabilities			
Trade and other payables	*25*	**414,038**	449,594
Loans and borrowings	*23*	**707,530**	646,812
		1,121,568	1,096,406
Total equity and liabilities		**1,602,462**	1,606,396

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

Petrokemija d.d.

Unconsolidated statement of changes in equity

for the nine month period ended 30 September

(in HRK thousands)	Share capital	Other reserves	Accumulated losses	Total
As at 1 January 2014	**754,196**	**7,967**	**(327,383)**	**434,780**
Comprehensive income				
Loss for the period	-	-	(286,822)	(286,822)
Other comprehensive income	-	-	-	-
Total comprehensive income	**-**	**-**	**(286,822)**	**(286,822)**
Transactions with owners recognised directly in equity				
Decrease of share capital (note 22)	(621,103)	293,720	327,383	-
Paid but unregistered share capital (note 22)*	253,042	(240)	-	252,802
Total transactions with owners recognised directly in equity	**(368,061)**	**293,480**	**327,383**	**252,802**
As at 30 September 2014	**386,135**	**301,447**	**(286,822)**	**400,760**

(in HRK thousands)	Share capital	Other reserves	Accumulated losses	Total
As at 1 January 2013	**902,102**	**-**	**(324,165)**	**577,937**
Comprehensive income				
Loss for the period	-	-	(189,352)	(189,352)
Other comprehensive income	-	-	-	-
Total comprehensive income	**-**	**-**	**(189,352)**	**(189,352)**
Transactions with owners recognised directly in equity				
Decrease of share capital (note 22)	(334,112)	9,947	324,165	-
Paid but unregistered share capital (note 22)*	186,206	-	-	186,206
Total transactions with owners recognised directly in equity	**(147,906)**	**9,947**	**324,165**	**186,206**
As at 30 September 2013	**754,196**	**9,947**	**(189,352)**	**574,791**

* Paid but unregistered share capital relates to the amount of increase in share capital which was paid by the shareholders as of 30 September 2014 and 30 September 2013, respectively, but which is not registered at the Commercial Court at the respective reporting dates *(for details see note 22).*

Petrokemija d.d.
Unconsolidated statement of cash flows
for the nine month period ended 30 September

(in HRK thousands)		**1.1.-30.9. 2014. HRK '000**	1.1.-30.9. 2013. HRK '000
Cash flows from operating activities			
Cash received from customers		**1,462,258**	1,663,109
Cash inflows from insurance for claim compensations		**2,833**	4,286
Cash inflows from tax returns		**226,105**	260,021
Other cash inflows		**3,844**	4,501
Total cash inflows from operating activities		**1,695,040**	1,931,917
Cash paid to suppliers		**1,595,599**	2,130,253
Cash paid to employees		**276,569**	193,751
Cash outflows for claim insurance		**11,276**	10,241
Interest paid		**31,363**	26,926
Taxes paid		**58,761**	100,386
Other cash outflows		**11,927**	13,661
Total cash outflows from operating activities		**1,985,495**	2,475,218
Net cash flows from operating activities		**(290,455)**	(543,301)
Cash flows from investment activities			
Proceeds from sale of property, plant, equipment and intangibles		**11**	3
Dividends received		**-**	1,006
Other cash inflows from investing activities		**10,039**	-
Total cash from investment activities		**10,050**	1,009
Cash outflows for purchase of property, plant, equipment and intangibles		**33,236**	52,292
Total cash outflows from investment activities		**33,236**	52,292
Net cash from investment activites		**(23,186)**	(51,283)
Cash flows from financing activities			
Cash inflow from issue of equity and debt securities		**253,042**	186,206
Cash inflows from borrowings		**739,574**	1,612,800
Cash inflows relating to factoring		**236,924**	430,807
Other cash inflows from financing activities		**29,724**	180,551
Total cash from inflows from financing activities		**1,259,264**	2,410,364
Cash outflows for repayment of borrowings		**855,471**	1,611,150
Other cash outflows from financing activities		**87,032**	169,050
Total cash outflows from financing activities		**942,503**	1,780,200
Net cash from financing activities		**316,761**	630,164
Net increase in cash and cash equivalents		**3,120**	35,580
Cash and cash equivalents at beginning of period		**14,802**	38,171
Cash and cash equivalents at the end of period	*21*	**17,922**	73,751

The accompanying notes form an integral 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 30 September 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 30 September 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.

As at 30 September 2014 the Company employed 1,644 employees *(30 September 2013: 2,288 employees).*

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

Company bodies

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

Management Board

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

Dragan Marčinko	President
Karlo Došen	Member
Krešimir Kvaternik	Member
Nenad Zečević	Member

Supervisory Board

Members of the Supervisory Board are:

Tomislav Pokaz	Member and President from 9 September 2014
Tomislav Radoš	President until 29 July 2014
Branimir Fleković	Member from 20 May 2014 (President from 29.7. to 9.9.2014.) (Vice president from 10 September 2014)
Dragutin Vajnaht	Member until 30 May 2014
Jozo Bilobrk	Member until 30 May 2014
Željko Klaus	Member
Goran Kralj	Member
Krešimir Huljev	Member
Sonja Ivoš	Member
Davor Rakić	Member

General Assembly

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

2 Basis of preparation

2.1 Statement of compliance

The unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union ("IFRS") including the requirements of International Accounting Standard IAS 34 *Interim Financial Reporting*.

These unconsolidated interim financial statements represent those of the Company only. The consolidated interim 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 interim financial statements.

These financial statements were authorised for issue by the Management Board on 29 October 2014.

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 nine month period ended 30 September 2014, the Company incurred a net loss of HRK 286,822 thousand. Furthermore, as at 30 September 2014, the Company's current liabilities exceeded its current assets by HRK 221,205 thousand.

The Company is considering models of securing liquidity to stabilise its operations, including a capital injection from existing shareholders and potential strategic investors. With this in regard, the Company prepared the "Programme for restructuring and financial consolidation of Petrokemija d.d. for the period 2014 to 2018" which was adopted by the Supervisory Board and is currently being implemented. This document defines detailed assumptions and restructuring measures as well as funding requirements necessary to ensure a basis for sustainable operations of the Company. These measures, of which some have already been implemented, amongst other include the implementation of a comprehensive restructuring process, optimisation of procurement costs, refocusing production activities, work force optimisation, divestment of non-operational and non-core assets as well as debt refinancing measures and re-capitalisation.

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 of the Company, and although the negotiations with strategic investors in which the Company was involved during 2014 did not result in the inclusion of a strategic partner, the Company is continuing with the process of restructuring and financial consolidation.

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. Also, management expects to further increase the share capital of the Company by issue of new shares by the end of the current year which would secure the liquidity necessary to stabilise its operations, and with this in regard is actively negotiating with existing shareholders and potential investors.

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 interim financial statements.

Petrokemija d.d.

Notes *(continued)*

2 Basis of preparation *(continued)*

2.5 Use of estimates and judgements

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

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

Judgements made by management in the application of accounting policies that have significant effect on the amounts recognised in the financial statements are discussed in a separate note. Key assumptions concerning the future on which significant estimates are based, and other key sources of estimation uncertainty, which involve a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year, are also disclosed in note 5.

3 Significant accounting policies

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

3.1 Foreign currency

Foreign currency transactions

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

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

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

3.2 Intangible assets

(i) Software licences and project documentation

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

Software and project documentation	3 - 5 years

3 Significant accounting policies *(continued)*

3.3 Property, plant and equipment

(i) Owned assets

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

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

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

3.4 Investment in subsidiaries

Subsidiaries are entities in which the Company has the power, directly or indirectly, to exercise control over the operations. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

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).

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 and 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.

3 Significant accounting policies *(continued)*

3.5 Financial instruments (continued)

Investments at fair value through profit or loss

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

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

Other

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

3.6 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.

3 Significant accounting policies *(continued)*

3.7 Impairment (continued)

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

3.8 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 Significant accounting policies *(continued)*

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.

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 Investment in associates

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

3.14 Share capital

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

3 Significant accounting policies *(continued)*

3.15 Dividends

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

3.16 Segment information

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

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

3.17 Taxation

(i) Income tax

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

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

(ii) Deferred tax assets and liabilities

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences related to investments in associates and joint arrangements when it is probable that no changes will occur in the near future. 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 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 period ended 30 September 2014 and/or are not adopted by the European Union, and have not been applied in preparing these financial statements. It is not expected that these standards are relevant for the Company's financial statements.

5 Key accounting judgements and estimates

Critical judgements in applying accounting policies

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

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

(i) Deferred income tax assets recognition

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

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

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see accounting policy 3.8 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 the provisions for the Company's obligations arising from these legal actions are recognised on a consistent basis (see accounting policy 3.9 and note 24).

(iv) Trade receivables - impairment

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

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, dealer, broker, industry group, pricing service, 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

	1.1.-30.9. 2014. **HRK '000**	1.1.-30.9. 2013. HRK '000
Revenue from sale of products and merchandise	**1,582,340**	1,811,536
Revenue from services	**2,960**	2,761
	1,585,300	1,814,297

An overview of revenue per market is given below:

	1.1.-30.9. 2014. **HRK '000**	1.1.-30.9. 2013. HRK '000
Croatia	**500,472**	645,957
Slovenia	**135,020**	131,609
Bosnia and Hezegovina	**94,920**	121,218
Serbia and Montenegro	**113,469**	126,749
Macedonia	**27,246**	12,904
Sales in countries outside the region	**714,173**	775,860
	1,585,300	1,814,297

8 Other operating income

	1.1.-30.9. 2014. **HRK '000**	1.1.-30.9. 2013. HRK '000
Sale of raw materials	**2,159**	6,414
Manufacture of spare parts	**841**	2,190
Own consumption	**1,627**	8,318
Insurance reimbursements	**3,289**	4,113
Manufacture of packaging	**4,417**	3,262
Other income	**11,947**	8,068
	24,280	32,365

9 Cost of goods sold

	1.1.-30.9. 2014. **HRK '000**	1.1.-30.9. 2013. HRK '000
Raw materials and consumables used	**1,435,608**	1,639,952
Cost of wholesale and retail goods sold	**3,233**	13,188
Cost of production services	**53,050**	67,153
	1,491,891	1,720,293

10 Personnel expenses

	1.1.-30.9. 2014.	1.1.-30.9. 2013.
	HRK '000	HRK '000
Salaries	**100,038**	111,116
Contributions on salaries	**22,855**	23,226
Other staff costs	**140,036**	42,591
	262,929	176,933

The number of employees as at 30 September 2014 in the Company was 1,644 *(2013: 2,288)*. Personnel costs include HRK 28,848 thousand *(2013: HRK 30,963 thousand*) for the Company of defined pension contributions paid into obligatory state funds. Contributions are calculated as a percentage of employees' gross salaries.

During 2014, as part of the "Programme for restructuring and financial consolidation of Petrokemija d.d. for the period 2014 to 2018" described in more detail in note 2.4, the Company implemented the workforce restructuring programme whereby a total of 481 employees received incentivised severance payments amounting to HRK 97,351 thousand.

11 Other operating expenses

	1.1.-30.9. 2014.	1.1.-30.9. 2013.
	HRK '000	HRK '000
Impairment of inventories	**28**	92
Other fees and taxes	**27,761**	16,361
Other employee costs	**11,532**	13,179
Insurance	**10,624**	10,591
Increase in provision	**4,080**	2,891
Bank charges	**2,795**	7,084
Inventory loss	**3**	-
Impairment of trade receivables	**121**	199
Intellectual services	**2,818**	924
Travel expenses	**621**	987
Other	**4,489**	5,143
	64,872	**57,451**

Other taxes, fees and charges include HRK 13,269 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

	1.1.-30.9. 2014.	1.1.-30.9. 2013.
	HRK '000	HRK '000
Interest	**2,878**	751
Foreign exchange gains	**3,030**	7,480
Other financial income	**988**	4,816
Total financial income	**6,896**	**13,047**
Unrealised losses on financial assets	**-**	(1,586)
Interest expense	**(37,875)**	(30,264)
Foreign exchange losses	**(6,116)**	(6,743)
Total financial expenses	**(43,991)**	**(38,593)**
Net finance costs	**(37,095)**	(25,546)

Petrokemija d.d.

Notes *(continued)*

13 Income tax expense

Recognised in the statement of comprehensive income:

	1.1.-30.9. 2014.	1.1.-30.9. 2013.
	HRK '000	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:

	1.1.-30.9. 2014.	1.1.-30.9. 2013.
	HRK '000	HRK '000
Loss before taxation	**(286,822)**	(189,352)
Tax calculated at 20% (2013: 20%)	**(57,364)**	(37,870)
Non-deductible expenses and non-taxable income	**597**	410
Temproray differences not recognised as deferred tax assets	**189**	130
Tax incentives	**-**	-
Utilisation of tax losses previously not recognised as deferred tax assets	**(2,285)**	-
Tax recognised in the statement of comprehensive income	**58,863**	37,330
Tax expense recognised in the statement of comprehensive income	**-**	-
Effective tax rate	**0.0%**	0.0%

At the reporting date, carry forward tax losses of the Company amounting to HRK 1,084,030 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:

	30.9. 2014.	31.12. 2013.
	HRK '000	HRK '000
Tax loss from 2009 - expires on 31 December 2014	**34,208**	34,208
Tax loss from 2010 - expires on 31 December 2015	**23,304**	23,304
Tax loss from 2012 - expires on 31 December 2017	**35,546**	35,546
Tax loss from 2013 - expires on 31 December 2018	**64,885**	64,885
Tax loss for the period 1 Jan -30 Sep 2014 - expires on 31 December 2019	**58,863**	-
	216,806	157,943

Petrokemija d.d.

Notes *(continued)*

14 Property, plant and equipment

(in thousands of HRK)	Land	Buildings	Plant and equipment	Tools and fittings	Other assets	Assets under construction	Advances	Total
Cost								
At 1 January 2013	49,482	571,093	1,138,560	52,265	500	55,752	3,021	1,870,673
Additions	-	-	-	113	-	62,941	332	63,386
Transfers	-	6,658	50,400	5,948	3	(63,009)	-	-
Disposals	-	-	(1,518)	(393)	-	-	-	(1,911)
At 31 December 2013	**49,482**	**577,751**	**1,187,442**	**57,933**	**503**	**55,684**	**3,353**	**1,932,148**
Accumulated depreciation								
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)
At 31 December 2013	**-**	**302,742**	**883,460**	**42,376**	**-**	**-**	**-**	**1,228,578**
Carrying amount								
As at 31 December 2013	**49,482**	**275,009**	**303,982**	**15,557**	**503**	**55,684**	**3,353**	**703,570**
Cost								
At 1 January 2014	49,482	577,751	1,187,442	57,933	503	55,684	3,353	1,932,148
Additions	-	-	-	-	-	34,338	2,695	37,033
Transfers	-	1,332	8,431	12,357	-	(22,120)	-	-
Disposals	-	-	(632)	(348)	(21)	-	-	(1,001)
At 30 September 2014	**49,482**	**579,083**	**1,195,241**	**69,942**	**482**	**67,902**	**6,048**	**1,968,180**
Accumulated depreciation								
At 1 January 2014	-	302,742	883,460	42,376	-	-	-	1,228,578
Charge for the year	-	15,557	55,626	-	-	47	-	71,230
Disposals	-	-	(622)	(346)	-	-	-	(968)
At 30 September 2014	**-**	**318,299**	**938,464**	**42,030**	**-**	**47**	**-**	**1,298,840**
Carrying amount								
At 30 September 2014	**49,482**	**260,784**	**256,777**	**27,912**	**482**	**67,855**	**6,048**	**669,340**

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

The Company has mortgages amounting to HRK 187,887 thousand over its property as security for loans and borrowings.

Property, plant and equipment of the Company include non-operational assets with a net book value amounting to HRK 19,381 thousand which relates to plant for the production of phosphoric acid and 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
Cost			
At 1 January 2013	3,608	20,151	23,759
Additions	1,931	-	1,931
Transfers	(619)	619	-
At 31 December 2013	**4,920**	**20,770**	**25,690**
Accumulated amortisation			
At 1 January 2013	-	15,610	15,610
Charge for the year	-	1,868	1,868
At 31 December 2013	**-**	**17,478**	**17,478**
Carrying amount			
As at 31 December 2013	**4,920**	**3,292**	**8,212**
Cost			
At 1 January 2014	4,920	20,770	25,690
Additions	1,757	-	1,757
Transfers	(246)	246	-
At 30 September 2014	**6,431**	**21,016**	**27,447**
Accumulated amortisation			
At 1 January 2014	-	17,478	17,478
Charge for the year	-	1,411	1,411
At 30 September 2014	**-**	**18,889**	**18,889**
Carrying amount			
At 30 September 2014	**6,431**	**2,127**	**8,558**

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**	
			30.9. 2014.	31.12. 2013.
	30.9.2014.	31.12.2013.	**HRK '000**	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
			24,193	26,367

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

17 Financial assets

	30.9.2014.	31.12.2013.
	HRK '000	HRK '000
Non-current financial assets		
TV Moslavina, Kutina (ownership share of 12%)	**8**	8
Current financial assets		
Financial assets held for trading	**8,646**	-
Other	**133**	3,198
	8,779	3,198

Financial asset held for trading relate to investments in cash funds.

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).

18 Financial assets at fair value through profit or loss

	30.9.2014.	31.12.2013.
	HRK '000	HRK '000
Investment in equity securities	**-**	9,853
	-	9,853

	30.9.2014.	31.12.2013.
	HRK '000	HRK '000
Opening carrying value	**9,853**	11,552
Effect of remeasurement at fair value	**-**	(1,699)
Disposal	**(9,853)**	-
Closing carrying value	**-**	9,853

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

Fair value measurement

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

19 Inventories

	30.9.2014. HRK '000	31.12.2013. HRK '000
Raw materials and supplies	**117,936**	109,152
Work in progress	**40,231**	42,596
Finished goods	**229,582**	194,190
Trade goods	**825**	1,107
Spare parts	**94,007**	95,267
Prepayments	**3,242**	2,222
	485,823	444,534

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

	30.9.2014. HRK '000	31.12.2013. HRK '000
Current receivables		
Trade receivables	**88,539**	179,026
Trade receivables in factoring	**169,571**	125,013
Impairment allowance for trade receivables	**(9,932)**	(9,999)
Net trade receivables	**248,178**	294,040
Related party trade receivables	**26,345**	15,770
Prepaid expenses	**694**	12,235
Taxes and contributions	**77,231**	68,595
Bills of exchange received	**33,752**	4,210
Receivables from employees	**26**	33
Other receivables	**1,613**	969
	387,839	395,852

Trade receivables including those in factoring include HRK 97,962 thousand relating to customer Gorup d.o.o., of which HRK 85,652 thousand is overdue as at 30 September 2014. At the end of September 2014, the customer's accounts were frozen as a result of which the Company, in its intention to collect these receivables, initiated the process of financial restructuring of the customer together with other key creditors and the owner. Due to the fact that the process of financial restructuring, 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 30 September 2014. Consequently, the Company has not raised an impairment allowance for receivables from this customer as at 30 September 2014 and management expects to have new information which would enable them to quantify this impairment allowance by the end of the current year.

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

	30.9.2014. HRK '000	31.12.2013. HRK '000
At the beginning of the period	**9,999**	13,118
Increase	**118**	353
Amounts collected	**(104)**	(375)
Written off as uncollectible	**(81)**	(3,097)
At period end	**9,932**	9,999

Petrokemija d.d.

Notes *(continued)*

21 Cash and cash equivalents

	30.9.2014.	31.12.2013.
	HRK '000	HRK '000
Cash with banks	**17,912**	14,798
Cash in hand	**10**	4
Cash and cash equivalents as presented in the statement of cash flows	**17,922**	14,802

22 Share capital

	30.9.2014.	31.12.2013.
	HRK '000	HRK '000
Share capital	**386,135**	754,196

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

	30.9.2014.		31.12.2013.	
Structure of ownership	**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**	**9.02%**	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%
Hrvatska poštanska banka 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%
Erste&Steiermarkische bank d.d./Custody account	**70,000**	**1.58%**	80,000	1.80%
PBZ d.d./CN ltd.	**50,793**	**1.15%**	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	**-**	**0.00%**	76,024	1.71%
Other shareholders	**907,966**	**20.46%**	850,925	19.18%
Total registered share capital	**4,436,447**	**100.00%**	4,436,447	100.00%
Paid but unregistered shares	8,434,733		-	
Total share capital	**12,871,180**		4,436,447	

Share capital comprises 12,871,180 ordinary shares *(31 December 2013: 4,436,447 shares)* of a nominal value of HRK 30 *(31 December 2013: HRK 170)* per share out of which 8,434,733 ordinary shares are not registered at the Commercial Court as at 30 September 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 2013, the Company conducted a simplified reduction of share capital in order to cover accumulated losses amounting to HRK 334,112 thousand by reducing nominal value of the shares for HRK 100 from HRK 270 to HRK 170. In the course of this transaction the Company covered it accumulated losses in the amount of HRK 324,165 thousand with the remaining HRK 9,947 thousand being recorded as an increase in other reserves.

Subsequent to the reduction of share capital, in second half of 2013 the Company increased its share capital in two issues by the amount of HRK 186,206 thousand by issuing 1,095,330 ordinary shares with a nominal value of HRK 170 per share. Simultaneously, the Company's other reserves decreased by HRK 1,980 thousand with respect to the cost of issue of ordinary shares.

22 Share capital *(continued)*

During 2014, the Company 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 nominal value of the shares for HRK 140 from HRK 170 to HRK 30 per share. In the course of this transaction the Company covered its loss realised from 1 January 2013 to 31 December 2013 in the amount of HRK 327,383 thousand while the remaining HRK 293,720 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 30 September 2014 and related mostly to a re-capitalization from the state.

Furthermore, the Company plans to further increase its share capital by issuing new shares which management xpects to finalise by the end of 2014.

23 Loans and borrowings

	30.9. 2014.	31.12. 2013.
	HRK '000	HRK '000
Non-current borrowings		
Banks	**69,869**	61,944
	69,869	61,944
Current borrowings		
Banks	**290,664**	362,389
Commercial papers	**43,171**	71,833
Factoring liabilities	**169,571**	125,013
Issued bills of exchange	**-**	20,000
Related party loans	**3,150**	3,150
Other loans	**200,974**	64,427
	707,530	646,812
Total borrowings	**777,399**	708,756

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

	30.9. 2014.	31.12. 2013.
	HRK '000	HRK '000
Up to 1 year	**707,530**	646,812
Between 1 and 2 years	**61,119**	46,111
Between 2 and 5 years	**5,000**	15,833
Over 5 years	**3,750**	-
	777,399	708,756

Bank loans and commercial papers

Bank loans amounting to HRK 165,889 thousand have variable interest rates. The variable interest rates for bank loans included in the table above were in the range from 5.35% to 8%.

Bank loans amounting to HRK 194,644 thousand have fixed interest rates. The fixed interest rates for bank loans included in the table above were in the range from 4.0% to 7.5%.

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

Security

Loans and borrowings are secured by mortgages over the Company's property amounting to HRK 187,887 thousand and inventories of finished products amounting to HRK 201,199 thousand as well as with bills of exchange and debentures.

23 Loans and borrowings *(continued)*

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 30 September 2014, total factoring liabilities include HRK 53,028 thousand of liabilities which are overdue and which relate to trade receivables from customer Gorup d.o.o. The Company is in the process of negotiating with factoring companies on the settlement of these liabilities and in the process of restructuring the customer (for details see note 20).

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 188,644 thousand by signing agreements with suppliers on debt repayment bearing an average interest rate ranging from 8% to 12.3% per annum. Out of this amount, as at 30 September 2014 a total of HRK 160,792 fell due. The Company is in the process of negotiating with suppliers on re-programming these liabilities bearing in mind the expected re-capitalisation.

24 Provisions

(in thousands of HRK)	**Jubilee awards**	**Retirement benefits**	**Court cases**	**Total**
As at 31 December 2013				
Non-current	8,082	3,773	1,411	13,266
At 1 January 2014	**8,082**	**3,773**	**1,411**	**13,266**
Increase in provisions	943	3,136	-	4,079
Released	(2,185)	(1,494)	(515)	(4,194)
At 30 September 2014	**6,840**	**5,415**	**896**	**13,151**
As at 30 September 2014				
Non-current	6,840	2,529	896	10,265

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 896 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.

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:

	30.9.2014. HRK '000	31.12.2013. HRK '000
Discount rate	**3.5%**	5.0%
Fluctuation rate	**4.1%**	4.1%

25 Trade and other payables

	30.9.2014.	31.12.2013.
	HRK '000	HRK '000
Trade payables	**328,765**	283,369
Related party payables	**3,299**	3,709
Salaries and other benefits to employees	**17,632**	16,896
Accrued interest	**1,084**	1,470
Taxes, contributions and other duties	**6,134**	7,854
Advances received	**40,695**	108,333
Other	**16,429**	27,963
	414,038	449,594

26 Risk management

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

- credit risk
- liquidity risk
- market risk

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

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

Credit risk

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

Exposure to credit risk

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

	30.9.2014.	31.12.2013.
	HRK '000	HRK '000
Non-current investments and financial assets	**24,201**	26,375
Current financial assets	**8,779**	3,198
Financial assets at fair value through profit or loss	**-**	9,853
Trade and other receivables	**387,839**	395,852
Cash and cash equivalents	**17,922**	14,802
	438,741	450,080

Trade and other receivables

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

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

26 Risk management (continued)

Credit risk (continued)

Trade and other receivables (continued)

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

	30.9. 2014. HRK '000	31.12. 2013. HRK '000
Domestic trade receivables	**245,782**	275,572
Foreign trade receivables	**38,673**	44,237
	284,455	319,809

The Company's most significant customer is a Croatian conglomerate which accounts for approximately 33% of domestic sales and approximately 51% 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 39% of total trade receivables from unrelated companies. Recoverability of these receivables is currently uncertain considering the customer's frozen accounts and planned financial restructuring (for details see note 20).

The ageing of trade receivables (including those in factoring) at the reporting date was:

	30.9. 2014. HRK '000	31.12. 2013. HRK '000
Not yet due	**157,313**	292,565
Overdue 0-120 days	**42,579**	16,967
Overdue 121-180 days	**32,970**	135
Overdue 181-360 days	**41,535**	134
Overdue over 1 year	**10,058**	10,008
	284,455	319,809

Liquidity risk

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

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

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

	Future contracted cash flows		Finance cost		Present value	
	2014	2013	2014	2013	2014	2013
			(in thousands of HRK)			
Other payables	414,038	449,594	-	-	414,038	449,594
Trade and other payables	**414,038**	**449,594**	**-**	**-**	**414,038**	**449,594**
Up to 1 year	726,315	657,567	(18,785)	(10,755)	707,530	646,812
Between 1 and 2 years	63,646	48,093	(2,527)	(1,982)	61,119	46,111
Between 2 and 5 years	6,013	17,045	(1,013)	(1,212)	5,000	15,833
After 5 years	3,851	-	(101)	-	3,750	-
Borrowings	**799,825**	**722,705**	**(22,426)**	**(13,949)**	**777,399**	**708,756**
Total	**1,213,863**	**1,172,299**	**(22,426)**	**(13,949)**	**1,191,437**	**1,158,350**

	2014	2013
Included in the financial statements within:		
Current borrowings	707,530	646,812
Non-current borrowings	69,869	61,944
Trade and other payables	414,038	449,594
	1,191,437	**1,158,350**

26 Risk management *(continued)*

Liquidity risk *(continued)*

During 2014, the Company issued 24th installment of commercial papers in the amount of HRK 6,611 thousand and 25th installment of commercial papers in the amount of HRK 6,779 thousand with maturity on 15 April 2015. As at the reporting date, total exposure relating to commercial papers amounted to HRK 43,171 thousand.

Going concern

In the nine month period ended 30 September 2014, the Company incurred a net loss of HRK 286,822 thousand. Furthermore, as at 30 September 2014, the Company's current liabilities exceeded its current assets by HRK 221,205 thousand.

The Company is considering models of securing liquidity to stabilise its operations, including a capital injection from existing shareholders and potential strategic investors. With this in regard, the Company prepared the "Programme for restructuring and financial consolidation of Petrokemija d.d. for the period 2014 to 2018" which was adopted by the Supervisory Board and is currently being implemented. This document defines detailed assumptions and restructuring measures as well as funding requirements necessary to ensure a basis for sustainable operations of the Company. These measures, of which some have already been implemented, amongst other include the implementation of a comprehensive restructuring process, optimisation of procurement costs, refocusing production activities, work force optimisation, divestment of non-operational and non-core assets as well as debt refinancing measures and re-capitalisation.

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 of the Company, and although the negotiations with strategic investors in which the Company was involved during 2014 did not result in the inclusion of a strategic partner, the Company is continuing with the process of restructuring and financial consolidation.

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. Also, management expects to further increase the share capital of the Company by issue of new shares by the end of the current year which would secure the liquidity necessary to stabilise its operations, and with this in regard is actively negotiating with existing shareholders and potential investors.

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 interim financial statements.

Market risk

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

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.)

Currency risk

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

Petrokemija d.d.

Notes *(continued)*

26 Risk management *(continued)*

Market risk *(continued)*

Currency risk (continued)

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

	Average rate		Reporting date spot rate	
	1.1.-30.9. 2014.	1.1.-30.9. 2013.	**30.9.2014.**	31.12.2013.
EUR	**7.619965**	7.556617	**7.626267**	7.637643
USD	**5.587155**	5.738435	**6.015355**	5.549000

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

	30.9.2014.	31.12.2013.	**30.9.2014.**	31.12.2013.
	EUR '000	EUR '000	**USD '000**	USD '000
Trade and other receivables	**5,445**	5,365	**844**	1,456
Trade and other payables	**(5,631)**	(4,671)	**(9,834)**	(7,943)
	(186)	694	**(8,990)**	(6,487)

Currency risk sensitivity analysis with respect to EUR denominated balances

The strengthening of EUR by 1% in relation to HRK at the reporting date would have decreased result of the Company by HRK 14 thousand *(2013: increased by HRK 53 thousand)*, assuming all other variables, in particular interest rates, remain constant. A 1% percent weakening of EUR against HRK at the reporting date would have had the equal but opposite effect on the result before tax, on the basis that all other variables remain constant.

Currency risk sensitivity analysis with respect to USD denominated balances

The strengthening of USD by 1% in relation to HRK at the reporting date would have decreased result of the Company by HRK 541 thousand *(2013: decreased by HRK 360 thousand)*, assuming all other variables, in particular interest rates, remain constant. A 1% percent weakening of USD against HRK at the reporting date would have had the equal but opposite effect on the result before tax, on the basis that all other variables remain constant.

Interest rate risk

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

	30.9. 2014.	31.12. 2013.
	HRK '000	HRK '000
Instruments with fixed interest rate		
Financial assets	**-**	-
Financial liabilities	**236,566**	193,410
	236,566	193,410
Instruments with variable interest rate		
Financial assets	**8,646**	-
Financial liabilities	**371,262**	390,333
	379,908	390,333

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 it 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").

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

	1.1.-30.9. 2014.	1.1.-30.9. 2013.
	HRK '000	HRK '000
Petrokemija d.o.o., Novi Sad	**89,569**	76,485
Restoran Petrokemija d.o.o., Kutina	**71**	71
Luka Šibenik d.o.o.	**-**	5
Sale of goods and services	**89,640**	76,561
Petrokemija d.o.o., Novo Mesto	**-**	1
Petrokemija d.o.o., Novi Sad	**107**	329
Financial income	**107**	330

	30.9. 2014.	31.12. 2013.
	HRK '000	HRK '000
Petrokemija d.o.o., Novi Sad	**26,345**	15,770
Receivables at 30 September	**26,345**	15,770

28 Related party transactions *(continued)*

Transactions with subsidiaries (continued)

	1.1.-30.9. 2014. HRK '000	1.1.-30.9. 2013. HRK '000
Restoran Petrokemija d.o.o., Kutina	**172**	343
Luka Šibenik d.o.o.	**11,559**	10,029
Purchase of goods and services	**11,731**	10,372
Petrokemija d.o.o., Novo Mesto	**-**	1
Petrokemija d.o.o., Novi Sad	**24**	42
Restoran Petrokemija d.o.o., Kutina	**165**	165
Financial expenses	**189**	208

	30.9. 2014. HRK '000	31.12. 2013. HRK '000
Petrokemija d.o.o., Novo Mesto	**-**	35
Petrokemija d.o.o., Novi Sad	**53**	45
Restoran Petrokemija d.o.o., Kutina	**37**	66
Luka Šibenik d.o.o.	**3,209**	3,563
Liabilities at 30 September	**3,299**	3,709
Restoran Petrokemija d.o.o., Kutina	**3,150**	3,150
Loans and borrowings payable at 30 September	**3,150**	3,150

Transactions with state related parties

Given that the state is 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. Furthermore, the state has re-capitalised the Company during 2014 and it is expected that the state will again become the majority shareholder once this increase in share capital is registered at the court. Significant transactions of the Company with such entities relate to purchase of gas which is the basic raw material used in the Company's production cycle, freight rail transport services and supply of electricity. The Company is also in part financed by a bank where the majority owner is the State.

During 2014, the Company had the following transactions with State related entities:

	2014. HRK '000	2013. HRK '000
Prirodni Plin d.o.o.		
Purchase of gas	**546,677**	1,511,258
Liabilities as at 31 December	**160,792**	166,048
HŽ Cargo d.o.o.		
Purchase of transport services	**43,898**	69,939
Liabilities as at 31 December	**5,135**	6,560
HEP Opskrba d.o.o.		
Purchase of electricity	**15,661**	19,328
Liabilities as at 31 December	**4,555**	8,647
HPB d.d.		
Borrowings as at 31 December	**160,061**	141,500

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 the nine month period ended 30 September 2014, remuneration paid to key management amounted to HRK 2,297 thousand *(1.1.-30.9.2013: HRK 3,024 thousand)* and related to 4 persons *(30 September 2013: 9 persons).*

Furthermore, during the nine month period ended 30 September 2014, a total of HRK 206 thousand *(1.1.-30.9.2013: HRK 316 thousand)* was paid to the members of the Supervisory Board and related to 9 persons *(30 September 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.