



PETROKEMIJA **KUTINA**

Petrokemija, Plc. Fertilizer Company
Aleja Vukovar 4, 44320 Kutina, Croatia
Ordinary share, PTKM-R-A ISIN HRPTKMRA0005
listed on the Official Market of the Zagreb Stock Exchange
Notice pursuant to the Capital Market Act

Pursuant to the provisions of Article 277 of the Companies Act and Article 13 of the Articles of Association of the Company, on 30 April 2015 the Management of Petrokemija, Plc. passed a decision on the convocation and invites you to participate in the work of

**GENERAL MEETING of Petrokemija, Plc.
on Friday 12 June 2015 at 12.00 hours at Petrokemija, Plc. Headquarters
in Kutina, Aleja Vukovar 4**

The proposed A G E N D A of the Meeting is as follows:

1. Opening of the Meeting and checking the attendance list
2. Annual financial statements for 2014, after having been approved by the Management and Supervisory Board and the Management Board Report on the Company
3. Report of the Supervisory Board;
4. Decision on loss coverage;
5. Decision on granting clearance to the Management Board and the Supervisory Board:
 - A - Decision on granting clearance to Management Board members
 - B - Decision on granting clearance to Supervisory Board members
6. Decision on the appointment of auditors for 2015
7. Decision on amendments to the Articles of Association

DECISION PROPOSALS

In Item 4, the Management and Supervisory Board propose to the General Meeting to adopt the following decision:

Ad - 4

On the basis of Article 275 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11 and 152/11), the General Meeting of Petrokemija, Plc. adopts the following

**DECISION
ON COVERING COMPANY LOSSES**

Article 1

Actual operating loss for 2014 of HRK 360,748,853.45 is charged to capital reserves net of the cost of recapitalization for HRK 300,903,004.70, and the remaining uncovered loss amounting to HRK 59,845,848.75 is carried over to 2015.

Article 2

This decision shall enter into force upon its adoption.

In Item 5, the Management and Supervisory Boards propose to the General Meeting to pass the following decisions:

A – Pursuant to Article 276 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11 and 152/11), the General Meeting of Petrokemija, Plc. passes the following

DECISION ON GRANTING CLEARANCE TO MANAGEMENT BOARD MEMBERS

Article 1

It has been established that in 2014, the members of the Petrokemija, Plc. Management Board were running the Company business in accordance with the law and the Articles of Association, so they are granted clearance.

Article 2

This Decision shall enter into force upon its adoption.

B - On the basis of Article 276 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11 and 152/11) the General Meeting Petrokemija, Plc. passes the following

DECISION ON GRANTING CLEARANCE TO THE SUPERVISORY BOARD MEMBERS

Article 1

It has been established that in 2014, the members of Petrokemija, Plc. Supervisory Board were performing their functions in accordance with the law and the Articles of Association, so they are granted clearance.

Article 2

This Decision shall enter into force upon its adoption.

Ad-6

In Item 6, The Supervisory Board proposes to the General Meeting to adopt the following decision:

Pursuant to Article 275, paragraph 1, item 4 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11 and 152/11), the General Meeting of Petrokemija, Plc. passes the following

DECISION ON THE APPOINTMENT OF AUDITOR FOR PETROKEMIJA, PLC. FOR 2015

Article 1

KPMG Croatia d.o.o. from Zagreb is appointed auditor of Petrokemija, Plc. for 2015.

Article 2

This Decision shall enter into force upon its adoption.

Ad-7

In Item 7, Management and Supervisory Board propose to the General Meeting to adopt the following decision:

According to Article 301 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11 and 152/11) and Article 38, paragraph 1, of the Articles of Association of Petrokemija, Plc. - complete/revised text of 17 May 2012, the Company General Meeting passes the following

DECISION on amendments to the Articles of Association

Article 1

In the Articles of Association of Petrokemija, Plc. – complete/revised text of 4 February 2015, Article 17, paragraph 1 is amended to read as follows:

"The Supervisory Board has five (5) members."

Article 4

This Decision shall enter into force on the day of its valid from its entry in the court register.

All Company shareholders are entitled to take part and vote at the General Meeting provided they send in their applications for participation in writing to the Company Management Board by 5 June 2015.

Applications for participation are submitted to the Board Office of Petrokemija, Plc, Aleja Vukovar 4, Kutina.

A shareholder of the Company shall be any legal entity registered in the Book of shares as at 5 June 2015, according to the list compiled by the Central Depository and Clearing Company at the end of business hours on that day.

Shareholders – natural persons may be represented at the General Meeting by their proxies with full powers of attorney certified by a notary public or by an authorized person in the Department of Legal Affairs, Headquarters Building of Petrokemija, Plc., Aleja Vukovar 4, Kutina, weekdays 8:00 to 12:00 a.m.

Shareholders – legal entities shall have the power of attorney signed by an authorized person and certified by a stamp made out on the official stationery of the said entity, containing the data from Article 21 of the Companies Act.

An insight into the materials for the General Meeting can be made in Finance and Controlling Department of the Company, Ulica Kralja Petra Krešimira IV, Kutina, from 8:00 to 14:00 hours every business day (Monday to Friday), starting from the date of publication of the call. The materials are also available on the Company website, www.petrokemija.hr, where the data will be published in accordance with Article 280a of the Companies Act. In accordance with Article 277 paragraph (4) of the Companies Act, the shareholders are informed as follows:

– Shareholders who together have shares amounting to the twentieth part of the Company share capital have the right to require an item to be placed on the General Meeting Agenda and their request

to be announced. Such a request must have an explanation and a decision proposal and must be received by the Company at least 30 days before the General Meeting, excluding the day of the receipt of the request by the Company;

– Each shareholder has the right to submit a counter proposal to the decision proposal which was given to the General Meeting by the Company Management Board and / or Supervisory Board. This includes the proposal of shareholders for the election of a member of the Supervisory Board or the appointment of company auditors. The Company must receive such a request at least 14 days before the General Meeting (where not using this right does not result in the loss of the right to put up the counter proposal at the General Meeting of the Company). If the request is made within this period, the Management Board of the Company shall submit such request to all persons referred to in Art. 281 of the Companies Act, except in cases of Art. 282 paragraph (2) and Art. 283 of the Companies Act;

– Each shareholder has the right to request information about the affairs of the Company from the Company Management Board at the General Meeting if it is necessary for them to assess issues on the agenda of the General Meeting, except in cases provided for in Art. 287, paragraph (2) of the Companies Act.

The registration of participants of the General Meeting will take place on 12 June 2015 in the lobby of the Headquarters Building of Petrokemija, Plc., Aleja Vukovar 4, Kutina, from 10.00 to 11.30 inclusive, after which registration will not be possible. The investors (shareholders) are asked to register on time.

If the requirements of the quorum at the regular annual General Meeting, required by the provisions of the Company Articles of Association are not met, the new session of the General Meeting with the same agenda and the same decision proposals will take place on Friday, 19 June, 2015, starting at 12.00 hours.

This call for the regular General Meeting will be published in the Official Gazette, and posted on the website of the Zagreb Stock Exchange (www.zse.hr), via HINA, on the website of the Croatian Agency for Supervision of Financial Services (www.hanfa.hr) and on the Company website (www.petrokemija.hr).

Every shareholder or their representative or proxy, shall bear the cost of their participation in the General Meeting.

Source:

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Petrokemija, Plc.
SUPERVISORY BOARD

Number: 4/2015
Kutina, 27.3.2015

Pursuant to Article 21 of the Articles of Association of Petrokemija, Plc. and Articles 300.c and 300.d of the Companies Act, at a meeting No12 /2015 held on 27.3.2015, the Supervisory Board of Petrokemija, Plc. adopted the following

D E C I S I O N

ON GRANTIG APPROVAL TO THE FINANCIAL STATEMENTS FOR YEAR 2014

I

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

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

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

II

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

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

III

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

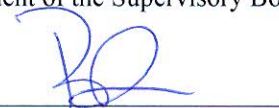
The actual loss of business in 2014 amounts to **HRK 360,748,853.45**.

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

IV

This Decision shall enter into force upon its adoption.

President of the Supervisory Board:



/ Tomislav Pokaz /

Petrokemija, Plc.
SUPERVISORY BOARD

Number: 5/2015
Kutina, 27.3.2015

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

D E C I S I O N

**ON GRANTING APPROVAL TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR
2014**

I

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

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

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

II

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

- Consolidated Balance
- Consolidated Profit and Loss Account
- Consolidated Cash Flow Statement
- Consolidated Statement of Changes in Equity
- Notes on consolidated financial statements
- Petrokemija Group Annual Report and Consolidated Financial Reports for 2014 - Independent Auditor's Report to the shareholders of Petrokemija Plc. with notes

III

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

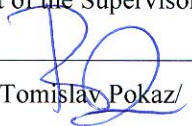
The consolidated loss of Petrokemija Group, Plc. business for 2014 amounts to **HRK 363,732,586.19** .

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

IV

This Decision shall enter into force upon its adoption.

President of the Supervisory Board:



/ Tomislav Pokaz/

Petrokemija, Plc.
SUPERVISORY BOARD

Number : 6 / 2015
Kutina, 27.3. 2015

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

DECISION
on coverage of loss for the year 2014

I

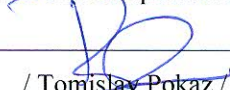
Adoption of the proposal of the Management Board that the actual operational loss for the year 2014 in the amount of **HRK 360,748,853.45** is covered for the account of capital reserves reduced by costs of capital increase, in the amount of **HRK 300,903,004.70** and the remaining amount of **HRK 59,845,848.75**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

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

II

This Decision shall enter into force upon its adoption.

President of the Supervisory Board:


/ Tomislav Pokaz /



PETROKEMIJA
KUTINA

MANAGEMENT BOARD

Kutina, 19.03.2015.g.

Management Report on the Company as of 31 December 2014

Introduction

For Petrokemija, Plc. as a company undergoing a multi-year process of restructuring and adjustment to the EU market environment, the previous year was extremely dynamic and challenging. It began with the continuation of the process of selecting strategic partners launched during 2013, and after an unsuccessful completion, the drafting of the Program of Restructuring and Financial Consolidation 2014 – 2018 started. The program resulted in a capital increase and reduction of the workforce. At the end of the year, due to only a partial realization of the Program of Restructuring and Financial Consolidation, which resulted in the solvency problems, the previous Management Board was changed. The newly appointed Management has prepared the Revised Program of Restructuring and Financial Consolidation 2015 – 2019, with a partial shift in key assumptions for future operations. The key problem that occurred at the turn of 2014/2015 was financing of current operations due to uncovered losses of the previous years and reduced placement of short-term loans by commercial banks.

In 2014, Petrokemija achieved an average yield of 80% of total production capacity and was faced with a pronounced problem of falling sales price of fertilizers in the global market, as well as with sales drop both in volume and value in the domestic market, with growth of stocks and the threat of insolvency. The conducted recapitalization of the company enabled the necessary minimum positive financial impact and the time necessary for the preparation and implementation of the restructuring in 2015.

Changes in the Management and Supervisory Boards in the course of 2014

Due to partial completion of the Program of Restructuring and Financial Consolidation, the Supervisory Board changed the composition of the Management Board in the second half of November 2014. From the beginning of the year to 18 November 2014 the Board was made up of President Dragan Marčinko and members Karlo Došen, Krešimir Kvaternik and Nenad Zečević. Since 19 November 2014, the Board President is Nenad Zečević and the members of the Board are Antonija Perošević-Galović, Tamara Pernar and Vladimir Fresl.

At the General Meeting of 20 May 2014, Branimir Fleković was appointed member of the Supervisory Board; also the number of Supervisory Board members was reduced from nine to seven, so at the date of entry in the court register – May 30, 2014 – the membership expired for Dragutin Vajnaht and Jozo Bilobrk. Tomislav Radoš was the president of the Supervisory Board until July 29, 2014, when he resigned to take up a new job. From 29 July 2014 to 9 September 2014, the position of President of the Supervisory Board was held by Branimir Fleković. Tomislav Pokaz was appointed member of the Supervisory Board at the General Meeting of 9 September 2014, whereafter he was appointed President of the Supervisory Board at the Board's meeting on that same day. Branimir Fleković was appointed vice president of the Supervisory Board. At 31 December 2014, the Supervisory Board was composed of: Tomislav

Pokaz, President, Branimir Fleković, Vice President and as members: Goran Kralj, Krešimir Huljev, Sonja Ivoš, Željko Klaus and Davor Rakić.

Strategic Partner Selection Procedure

At its session held on 30 July 2013, the Croatian Government commissioned competent bodies to initiate a process of selecting a strategic partner. The basic requirement of the Croatian Government was retaining at least 25% plus one share as ownership of the state. A Committee of the Croatian Government was established to define terms of approach to a strategic partner and control of the procedure for the selection process. After the completed procedure of selecting a strategic partner, at the session of the Committee of the Croatian Government in the Ministry of Economy on March 31 2014, it was established that no binding offer had been received in the requested deadline. The Croatian Government accepted the Committee's conclusion at its 162nd session on May 22, 2014. Accordingly, the Croatian Government adopted a decision on the completion of work of the Committee.

The Program of Restructuring, Financial Consolidation and Recapitalization

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 restructuring process in collaboration with its current owners – the Government and pension funds.

At the meeting of 9 April 2014, the Supervisory Board approved the Program of Restructuring and Financial Consolidation of the Company 2014–2018. In addition, draft resolutions on the reduction and increase of the share capital were adopted at the meeting, which were referred to the Company General Meeting.

In the set deadlines for subscription and payment of the Company new in the 1st, 2nd and 3rd. rounds, investors subscribed and paid for a total of 8,434,733 new shares of the Company. Therefore, in accordance with the resolution of the General Meeting on share capital increase against contributions in cash with partial exclusion of pre-emptive rights of existing shareholders and amendments to the Statute of 20 May 2014 (Decision on Capital Increase), the requirement for the issue of new shares to be considered successfully completed, if at least 8,333,333 new shares were subscribed and paid for in the set deadlines, was met. The Company Board, with the consent of the Supervisory Board and based on the Decision on Capital Increase, established the exact number of new shares of the Company: the share capital was increased by issuing 8,434,733 new dematerialized ordinary registered shares, of HRK 30.00 nominal value each, at a price corresponding to the nominal amount of the Company shares and determined the exact amount of the Company share capital increase. The share capital was increased from HRK 133,093,410.00 by the amount of HRK 253,041,990.00 to HRK 386,135. After the incorporation of the share capital increase in the Commercial Court in Zagreb, the share capital of the Company amounts to HRK 386,135,400.00 and is divided into 12,871,180 dematerialized ordinary registered shares, of HRK 30.00 nominal value each.

Actual results:

In 2014, the total revenue was HRK 2242.2 million, total expenses HRK 2602.9 million and the reported operating loss was HRK 360.7 million. Out of the HRK 360.7 million loss, HRK 100.4 million accounts for the of incentive severance payments. Without this one-off cost, for the initiated process of restructuring of the Company, the loss would amount to HRK 260.3 million or 11.6% of total revenues. In 2013, the total loss was HRK 327.4 million, and the amount of redundancy costs in that year (HRK 20.5 million), the comparable loss was HRK

306.9 million. Thus, the adjusted operating loss in 2014 was by HRK 46.6 million or 15.2% lower than in 2013.

The trend of prices and supply and demand in the global mineral fertilizers market did not significantly change compared to 2013. In very limited conditions, Petrokemija, Plc. has taken measures to reduce the production costs (lower gas price, rationalization of labor costs, etc.), which should strengthen the trend of loss reduction in 2015 compared to the previous years. 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 - Urea nitrogen fertilizer, achieved approximately 20% lower price in the EU countries in 2013/2014 than in the 2012/2013 agricultural season, the main exporting countries being Egypt and Russia. The average price of Urea in the global market was about 7% lower than the previous year.

As for domestic market, next to the generally poor state of agriculture, the strengthening of competition, reduction of state subsidies and adverse weather conditions, an additional burden to Petrokemija's business were business problems of one of the largest customers in the domestic market – Gorup, d.o.o., which resulted in loss of part of the market and the risk of increased loss of Petrokemija, Plc. due to inability to collect the receivables for fertilizer delivered from the previous and current period.

Because of the losses in previous periods, Petrokemija. uses current assets financed by short-term bank loans and prolonged deadlines for payment of liabilities to suppliers of natural gas. Financing through commercial papers was brought to a minimum in 2014. Also, due to delays in the process of recapitalization, the Company had to reschedule the maturity of a part of its short-term liabilities to financial institutions. The debts to suppliers of raw materials (natural gas) grew. A portion of short-term liabilities to financial institutions was repaid in the course of 2014 (about 230 million), which at the beginning of 2015 is reflected in the change of the current liabilities structure (increase in debt to suppliers of natural gas under unfavorable financing terms).

Due to the long collection time of receivables for fertilizers in the domestic market, liquidity problems of domestic customers and mostly due to lack of own working capital, Petrokemija has been using recourse factoring as a means of financing and collection of receivables in the agreed due payment periods (with the obligation of the customer to bear all costs and interest associated with the factoring. The above collection method was limited only to major customers – Žito d.o.o, Agrokor trgovina, d.d and Gorup d.o.o.)

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 31 December 2014. In the balance-sheet positions, they are indicated in the amount of HRK 129.5 million in the current assets and HRK 82.1 million in short-term liabilities. The difference was charged to Petrokemija, Plc. in the reporting period by the commercial banks. Compared to 31 Dec 2013, the state of receivables based on these transactions is by HRK 94.7 million or 16.7% lower and the liabilities arising from recourse factoring are lower by HRK 142.1 million or 63.4%. In the cash flow statement, the receipts from the collection of customer receivables through recourse factoring are indicated in revenues from financial activities for 2014 for HRK 253.6 million, while in the previous year they amounted to HRK 459.9 million.

In the reporting period, a part of the receivables of Gorup, d.o.o. Company was, due to their problems in business and insolvency rescheduled in agreement with commercial banks for the following period and another part of it was charged to Petrokemija, Plc. as recourse debtor

(HRK 47.5 million in the reporting period and HRK 60,0 million at the time of drafting the financial statements). For HRK 97.8 million, i.e. the receivables that Petrokemija failed to collect from Gorup, d.o.o., no impairment loss was made in the reporting period. Gorup, d.o.o. started the process of pre-bankruptcy settlement and so the settlement of the above claims by Petrokemija Plc. is quite uncertain. However, at the time of preparation of financial statements there was not enough information for adequate determination of the impairment loss. It is assumed that in the course of 2015 there will be sufficient information for an adequate assessment of deadlines, form and amount of collectability of the receivables.

Petrokemija, Plc. has since 2008 reduced the number of employees by over a thousand people, which required significant changes in internal processes in the Company. As part of this multi-year process, in 2014 the number of employees decreased by 23% compared to 2013. For the 492 employees who are covered by the Restructuring Plan, HRK 100.4 million was paid in severances, which increased the loss of business. Since 1 August 2014, organizational changes have taken place, the most significant being in the area of centralization of maintenance. During previous years, workers from plants that had been stalled (Phosphoric Acid, Sulfuric Acid, MAP/NPK-2, Carbon Black Production) were involved in the processes in other organizational units and in the forthcoming period decisions will be made on the permanent status of the plants.

Petrokemija, Plc. conducted the consolidation of the financial statements of the parent company Petrokemija, Plc. Kutina and its 100% owned subsidiaries - Restaurant Petrokemija, Ltd. Kutina, Petrokemija, Ltd. Novi Sad, Petrokemija, Ltd. Novo Mesto (closed in 2014) and the Port of Šibenik, Ltd. (since 2012 in Petrokemija's majority ownership), with the result expressed consolidated at the Petrokemija Group level. All the financial statements of the Petrokemija Group for the business year 2014 were identified, reviewed and made public, in accordance with International Financial Reporting Standards approved for use in the Republic of Croatia.

The Petrokemija Group achieved total consolidated revenues of HRK 2,248.9 million, total expenditure HRK 2612.3 million, so that the loss before tax in 2014 was HRK 363.4 million. Out of the HRK 363.4 million loss, HRK 100.4 million accounts for the of incentive severance payments. Without this one-off cost, for the initiated process of restructuring of the Company, the loss would amount to HRK 263.0 million or 11.7% of the total revenues. In 2013, the total loss was HRK 330.2 million, and without the amount of redundancy costs in that year (HRK 20.5 million), the comparable loss was HRK 309.7 million. Thus, the adjusted operating loss in 2014 was by HRK 46.7 million or 15.1 %lower than in 2013.

In the course of 2014 the share of Petrokemija, Plc. was traded with on the Zagreb Stock Exchange, and in the same market commercial papers were traded, issued in cooperation with Privredna banka d.d. Zagreb as agents and brokers. The nominal value of the share after the Decision on Simplified Reduction of Capital to cover the loss was reduced in the General Meeting of 20 May 2014 from the amount of HRK 170.00 to HRK 30.00. On December 31, 2012 the share value was HRK 214.45, on 31 December 2013 its average price was HRK 168.38 (down 21.5%), while on 31 December 2014 the average price was HRK 27.50. At the time of compiling this report (17 March 2015), the share price was HRK 18.22 and it is estimated that the actual decline is the consequence of the loss, i.e. the uncertainty of future operations (challenge of going concern).

In line with the commitment on the establishment of high standards of transparency in business, Petrokemija, Plc. has been applying the Code of Corporate Governance of the Zagreb Stock Exchange since 2007, which was continued in 2014. Since September 2011, the adopted Code of Business Conduct of Petrokemija, Plc. has been applied.

Rating of operational risks

At the turn of 2014/2015, the following operating risks are observed:

- Petrokemija's result is highly dependent on the movements of fertilizer and their raw material prices on the world market, the exchange rate of HRK against USD and EUR and their interrelationship. This is particularly pronounced in the first months of 2015, when the dollar has had a prominent growth.
- Natural gas, as the most important raw material, is still supplied in the domestic market, according to contracts concluded with two suppliers – INA, d.d. Zagreb and Prvo plinarsko društvo d.o.o. from Vukovar. The price of natural gas is pursuant to the agreements still very high compared to the competitors, which makes the competition unfair.
- Sales of fertilizers in the world market continue to be affected by cyclical and seasonal changes with further tendency of sharp decline.
- The fluctuations in prices of other raw materials for the production of NPK complex fertilizers in the world market, which have already been present so far, will have impact on material costs in the next period, especially as they are purchased in USD.
- High costs of working capital - because of insufficient own working capital, financing costs will continue to be significant in the following period.
- In the reporting period a part of receivables of one of the major customers - Gorup d.o.o. was (because of their problems in business and insolvency) rescheduled for the following period in cooperation with commercial banks, while another portion was collected by writ of execution from Petrokemija (HRK 47.5 million in the reporting period, and HRK 60.0 million at the date of the financial statements).
- For the amount of HRK 97.8 million, which relates to a receivable from Gorup d.o.o., which Petrokemija failed to collect, no impairment loss allowance was made in the reporting period. Gorup d.o.o. initiated the process of pre-bankruptcy settlement and there are significant uncertainties regarding the settlement of the said claims by the Company. However, at the time of preparation of financial statements there is no sufficient information for an adequate quantification of the impairment.

Estimating business in the coming years at this point it is very difficult to predict due to the mentioned impact on the financial result. In estimating operational risks for subsidiaries in 2015, the conclusion is that these companies have no substantial influence on the results of the Petrokemija Group because of their small share in the total business results.

The Program of Restructuring and Financial Consolidation

The Program of Restructuring and Financial Consolidation for the period 2014 to 2018 had been approved by the Supervisory Board. Its key objectives were only partially achieved. The Program was revised by the newly appointed Management Board at the end of the year and new strategic objectives were set out for the period 2015 – 2019. In the revised program there is a partial shift in the key premises of future business – a new strategy of procuring natural gas and changing the product range is defined, with less emphasis on the price-wise unfavorable Urea. Also, the Company is introducing changes in the structure of sales by orientation to the market in the region with maximum reduction in export sales. Internal restructuring measures will be continued with outsourcing of non-core activities. In order to further stabilize the Company, a necessary new investment cycle will be implemented, which will meet all the energy and environmental requirements, while reducing the overall level of investment.

Conclusion

Finally, I would like to thank the Supervisory Board, the unions and Workers' Council for their good cooperation, and all shareholders and partners for the confidence they had in the previous year. In 2015, we expect a significant change in business due to possible change in ownership structure and the necessary changes in business brought about by stronger competition in the domestic and regional markets. Lower natural gas prices and cost efficiency, together with the change in product range and concentration of sales in the region, are the main keys to move closer to positive EBITDA in 2015. At the turn of 2014/2015, there are negative growth trends of USD to HRK and EUR, which could erode the positive effects of the measures taken in the Program of Restructuring and Financial Consolidation. A key constraint in 2015 remains a problem of illiquidity, i.e. inadequate structure of funding sources, which are planned to be resolved by rescheduling maturing short-term liabilities, long-term loans for investment or new recapitalization and finding a strategic partner.

From you, our shareholders, we expect the trust and support in taking measures of consolidation of the Company, the rationalization of operations and the opening of intensive investment cycle from 2015 to 2019.

President of the Board of Petrokemija, Plc.:
Nenad Zečević, BS



Pursuant to Article 263, paragraph 3 and Article 300c of the Companies Act, the Supervisory Board Petrokemija, Plc. Kutina at its 16 / 2015 meeting held on 30.4.2015 adopted:

Report of the Supervisory Board

to the General Meeting of Petrokemija, Plc. for 2014

I In the course of 2014, 39 meetings of the Supervisory Board of Petrokemija, Plc. (hereinafter: Supervisory Board) were held to discuss issues related to business, provided for by the law and the Company Articles of Association.

II Composition of the Supervisory Board

In 2014, there were changes in the composition of the Supervisory Board as follows:

- At the General Meeting of 20 May 2014, Branimir Fleković was appointed member of SB; the number of SB members was reduced from nine to seven. As a result, on the day of incorporation in the court register on 30 May 2014, Dragutin Vajnaht and Jozo Bilobrk ceased to be members of the SB;
- On 29 July 2014, SB member Tomislav Radoš, who was also SB President, resigned from his SB membership;
- At the Supervisory Board meeting of 29 July 2014, Branimir Fleković was appointed Supervisory Board President;
- At the General Meeting of 9 September 2014, Tomislav Pokaz was appointed member of the Supervisory Board;
- At the Supervisory Board meeting of 9 September 2014, Tomislav Pokaz was appointed President of the SB and Branimir Fleković Vice President.

On 31 December 2014, Supervisory Board was composed of, as follows:

1. Tomislav Pokaz, President
2. Branimir Fleković, Vice President
3. Goran Kralj, SB member,
4. Sonja Ivoš, SB member,
5. Krešimir Huljev, SB member,
6. Željko Klaus, SB member,
7. Davor Rakić, SB member.

Members of the Supervisory Board Goran Kralj and Krešimir Huljev did not participate in the work of the Supervisory Board at most meetings held in 2014.

III In the reporting period, the Supervisory Board performed their tasks and made decisions according to the law and the authority defined by the Articles of Association.

Through written and oral reports, Supervisory Board was regularly kept informed about the business policy, business plans, business results of Petrokemija, Plc. and other important issues **such as:**

- Gas supply,
- Fertilizer prices,
- Annual Report for 2013,
- Report of the Audit Committee,
- Auditor's Report,
- Annual Code of Corporate Governance Questionnaire of the Zagreb Stock Exchange,
- Preparations for the Company General Meeting,
- Business Report – Jan – March 2014,
- Business Report – Jan – June 2014,
- Business Report – Jan – Sept 2014,
- Various approvals for business deals worth over 10% of the share capital, for lien on real estate and mineral fertilizer stocks, for additional borrowing and for business cooperation contracts,
- Liabilities and credit indebtedness of the Company, relationships with commercial banks,
- Appointment of the members of the Audit Committee and the Committee on Appointments and Rewards,
- Appointment of members of the Board,
- Termination of membership in the Management Board by mutual consent,
- Decisions in the process of recapitalization of the Company,
- The Program of Restructuring and Financial Consolidation of Petrokemija, Plc. 2014-2018,
- Revised Program of Restructuring and Financial Consolidation of Petrokemija, Plc. 2015-2019 with Gas Procurement Strategy,
- The process of selecting a strategic partner,
- The program of incentive severance payments,
- Preparation of overhaul in 2015,
- Business Information System,
- Information on cooperation with AT Kearney consultants,
- Information on customer Gorup d.o.o. Klanjec,
- Business Plan for 2015,
- Calendar of important events in 2015

The Supervisory Board concludes that the Management Board reported to the Supervisory Board pursuant to the law and the Company Articles of Association.

IV Supervisory Board's Working Bodies

In 2014, working bodies of the Supervisory Board operated as follows:

- Audit Committee – held five meetings,
- The Appointment and Rewards Committee – did not hold a single meeting

The Supervisory Board finds that the Audit Committee participated well in the preparation of key topics within its competence.

V The Supervisory Board examined the report of the auditor, KPMG Croatia d.o.o. Zagreb that had audited the annual financial statements of Petrokemija, Plc. for the year ended 31 December 2014, and approved the Auditor's Report.

The audited annual financial statements were prepared in accordance with the accounting records of the Company and give a true and accurate account of the assets and business position of the Company.

VI The Supervisory Board examined the annual financial statements for 2014, which had been prepared by the Management Board, as follows:

- Annual Financial Report for 2014 for Petrokemija, Plc.,
- Consolidated Financial Report for 2014 for the Petrokemija Group.

The Supervisory Board found that financial reports were prepared in compliance with the accounting records and give a true and accurate account of the property and business status of Petrokemija, Plc.

The Supervisory Board approved the reports and in accordance with the provisions of Art. 300.d. of the Companies Act, these reports are considered verified.

An integral part of the Annual Financial Statements for the year ended 31 December 2014 and that the preceding approval of the Supervisory Board refers to, are:

For Petrokemija d.d. .:

1. Balance Sheet,
2. Profit and Loss Account,
3. Statement of Cash Flows,
4. Statement of Changes in Equity,
5. Auditor's Report with Notes to Financial Statements
6. Annual Report,
7. Management Board's Report,
8. Code of Corporate Governance - Annual Questionnaire.

For Petrokemija Group:

1. Balance Sheet,
2. Profit and Loss Account,
3. Statement on Cash Flow,
4. Statement on Changes in Equity,
5. Auditor's Report with Notes to Financial Statements
6. Annual Report.

VII The reduction of share capital and capital increase in 2014

After the completion of the procedure for selecting a strategic partner that did not result in a change in ownership structure, i.e. in actually selecting one, Petrokemija, Plc. began rapid restructuring in cooperation with its current owners - the government and pension funds. At the meeting of 9 April 2014, the Supervisory Board approved the Program of Restructuring and Financial Consolidation of the Company 2014-2018 and, in connection with it, the draft decisions on the reduction and the increase of the share capital to be submitted to the General Meeting. At the General Meeting held on 20 May 2014, the Company adopted the Decision on simplified reduction of share capital to cover the losses, by reducing the nominal amount of ordinary shares PTKM-R-A from the amount of HRK 170.00 by HRK 140.00 to the amount of HRK 30.00 HRK. Thus the share capital HRK 754,195,990.00 was reduced by HRK

621,102,580.00 to HRK133,093,410.00. During the recapitalization, a total of 8,434,733 new shares of the Company had been subscribed and paid for and so the Company's share capital increased from HRK 133,093,410.00 by HRK 253,041,990.00 to HRK 386,135,400.00. After the incorporation of the share capital increase in the Commercial Court Register in Zagreb (18 February 2015), the Company share capital amounts to HRK 386,135,400.00 and is divided into 12,871,180 dematerialized ordinary registered shares, with a nominal value of HRK 30.00.

VIII Loss Coverage for 2014

The actual loss of Petrokemija, Plc. in business of HRK 360,748,853.45 for 2014, is covered by debit to capital reserves reduced by the cost of capital increase amounting to HRK 300,903,004.70. The remaining uncovered loss of HRK 59,845,848.75 will be carried over to 2015. The Management Board and Supervisory Board will jointly submit the established proposal for the loss coverage to the General Meeting.

IX Assessment of overall success of the Company business

The Supervisory Board's assessment is that the Company's business in 2014, with the exclusion of the incentive severance payment costs, decreased the losses compared to the year 2013. Namely, when the costs for the severance payments of HRK 100.4 million that account for the begin of the Company restructuring process are excluded from the actual loss of HRK 360.7 million, the loss amounts to HRK 260.3 million; in 2013, the total loss was HRK 327.4 million, and without the severance payment costs in that year (HRK 20.5 million), the comparable loss was HRK 306.9 million. Thus, the adjusted operating loss in 2014 was by HRK 46.6 million or 15.2% lower.

The factors that had led to adverse financial results were the fall in fertilizer prices in the global market, low sales in the domestic market (as a reflection of the years of crisis in the Croatian agriculture), the necessity of selling to distant markets at unfavorable prices in order to preserve liquidity and continuity of production and the high price of natural gas compared to the average market price. The transferred negative effects of one of the largest domestic customers, Gorup d.o.o. Company, which, because of its financial difficulties prejudice the collection of receivables by Petrokemija, Plc., had an additional negative impact on liquidity and financial solvency of the Company

There are indications that by a complete liberalization of the gas market in the Republic of Croatia, restructuring and modernization of the Company and by overcoming the global crisis, there are prospects for improvement of the financial results in the next period.

X Performance Evaluation of the Management Board

Upon evaluation that the key objectives of the Company would not be achieved, the Supervisory Board passed a decision at the year-end to change the composition of the Management Board. In doing so, the Supervisory Board selected new Board members in accordance with the desired direction of change in the Company.

This direction is primarily focused on the preservation of market position, the stability of cash flows, technical and technological safety, environmental responsibility, investing in spite of limited long-term funding sources, and the preservation of the level of social dialogue and general social responsibility. The result crisis partly reflects the predominant action of adverse factors in the surroundings, and therefore significant efforts made to consolidate the financial effects resulted in only limited effects.

After the process of finding a strategic partner had failed, Petrokemija, Ple., in collaboration with the current owners began a rapid restructuring process, approved at the meeting of 9 April 2014. Following the decision on reduction of the share capital and recapitalization of the Company, through the process of restructuring, 492 employees left the Company, and the new Board prepared a Revised Program of Restructuring and Financial Consolidation for the period from 2015 to 2019.

XI Review of the cooperation of the Supervisory Board with the Management

The Supervisory Board finds that the cooperation with the Company Board in 2014 was fair, with partial achievement of the set goals, useful in the interest of the Company, with mutual respect and respect for the law. All decisions adopted at the Supervisory Board meetings, with the voting results, were recorded in the minutes of the meetings.

XII Conclusion of the Supervisory Board for 2014

Despite numerous changes in the composition of the Supervisory Board, its continuity was maintained and progress was made in approach to key development issues of the Company, with the contribution of each member to the joint work of the Board and with respect for legality in the Company business. It is estimated that the targeted operational objectives of the Company and part of the Program of Restructuring and Financial Consolidation for the period 2014-2018 on an annual basis were partly realized, and there is an open prospect for addressing strategic development issues in the next period through the Revised Program of Restructuring and Financial Consolidation for 2015-2019.

In 2014, the Company operated in accordance with the law, the Company by-laws and the resolutions of the General Meeting.

XIII The Supervisory Board shall submit this Report on the Supervision of Operations for 2014 to the Company General Meeting with a proposal adopt it.

Supervisory Board President:

Tomislav Pokaz

