

AUDITED
CONSOLIDATED



ANNUAL REPORT PETROKEMIJA GROUP KUTINA

REPORT FOR PERIOD January to December 2013



Kutina, April, 2014

Key indicators for Petrokemija Plc. for 2013



- ❑ Produced fertilizers: 1,078 thousand tons, 4.2% less than the previous year,
- ❑ Yield of currently installed plant capacities: up to 80%,
- ❑ Sales of fertilizers: 1,102 thousand tons, 1.7% less than the previous year,
- ❑ Domestic sales: 312,000 tons, 9.2% less than the previous year,
- ❑ Exports: 790,000 tons, 1.7% more than the previous year,
- ❑ Actual total revenues of Petrokemija Group: HRK 2,584.7 million, 15.4% less than the previous year,
- ❑ Actual loss of Petrokemija Group: HRK 330.2 million (12.8% of total revenues),
- ❑ EBITDA for Petrokemija Group: -202.7 million,
- ❑ Equity at 31 December 2013: Petrokemija Group: HRK 438.1 million
- ❑ Invested in Petrokemija Plc.: HRK 64.9 million
- ❑ Number of employees at 31 Dec 2013: Petrokemija Plc. 2,119, Petrokemija Group 2,294

Management Board report on the Petrokemija Group status for January–December 2013 period



- In Jan-Dec period 2013 Petrokemija Group had total income of HRK 2,584.7 million and total expense of HRK 2,914.9 million. The Company reported loss in business operations of HRK -330.2 million or 12.8% of the total revenues. On an annual basis, total revenues were by 15.4% lower and total expenses by 10.0 % lower than in 2012.
- **The main cause of decline in fertilizer prices is the situation in the global market** - The reporting period was marked by a general downward trend in the purchase prices of raw materials and sales prices of fertilizers. The faster decline in revenue compared to the cost reduction was caused by a sharp decline in fertilizer price in the world market, particularly in the second half of 2013, which led to a large increase in losses in the third and fourth quarters. Thereby the negative exposure of Petrokemija to the world market risk was fully revealed. In fact, only 28% of fertilizers was sold in Croatia, and the rest was sold in export. As a result of lower sales, the production plants ran below installed capacity which also increased the variable and fixed costs per unit of product.
- **Another key cause of loss in 2013 are still high gas prices.** Years-long imbalance between the purchase price of natural gas (as the major raw material) on the Croatian market and sales prices of nitrogen fertilizer Urea and CAN in the world market could not be solved by measures inside the company and remains a strategic element in defining the business operations in the next period.
- **A third set of challenges in business that caused the loss are the Company internal inefficiencies**– technological and energy inefficiency due to the low investment in modernization, under-utilization of human resources, and organizational and informational constraints which generate high overheads.

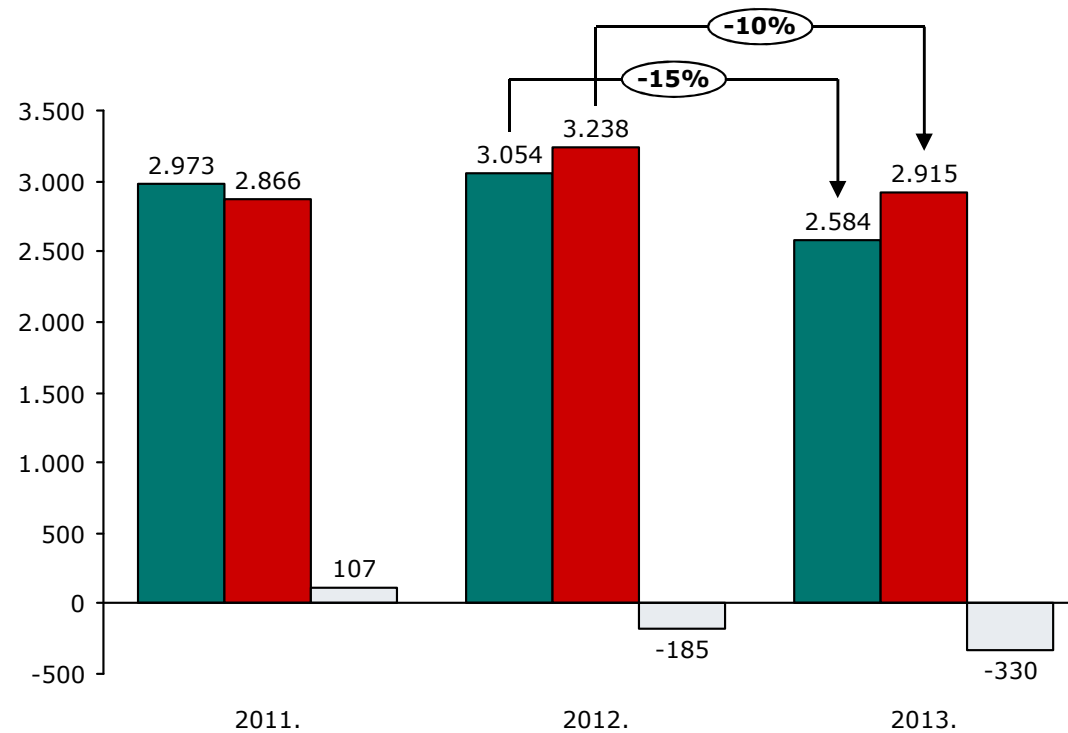
Management Board report on the Petrokemija Group status for January–December 2013 (continued)



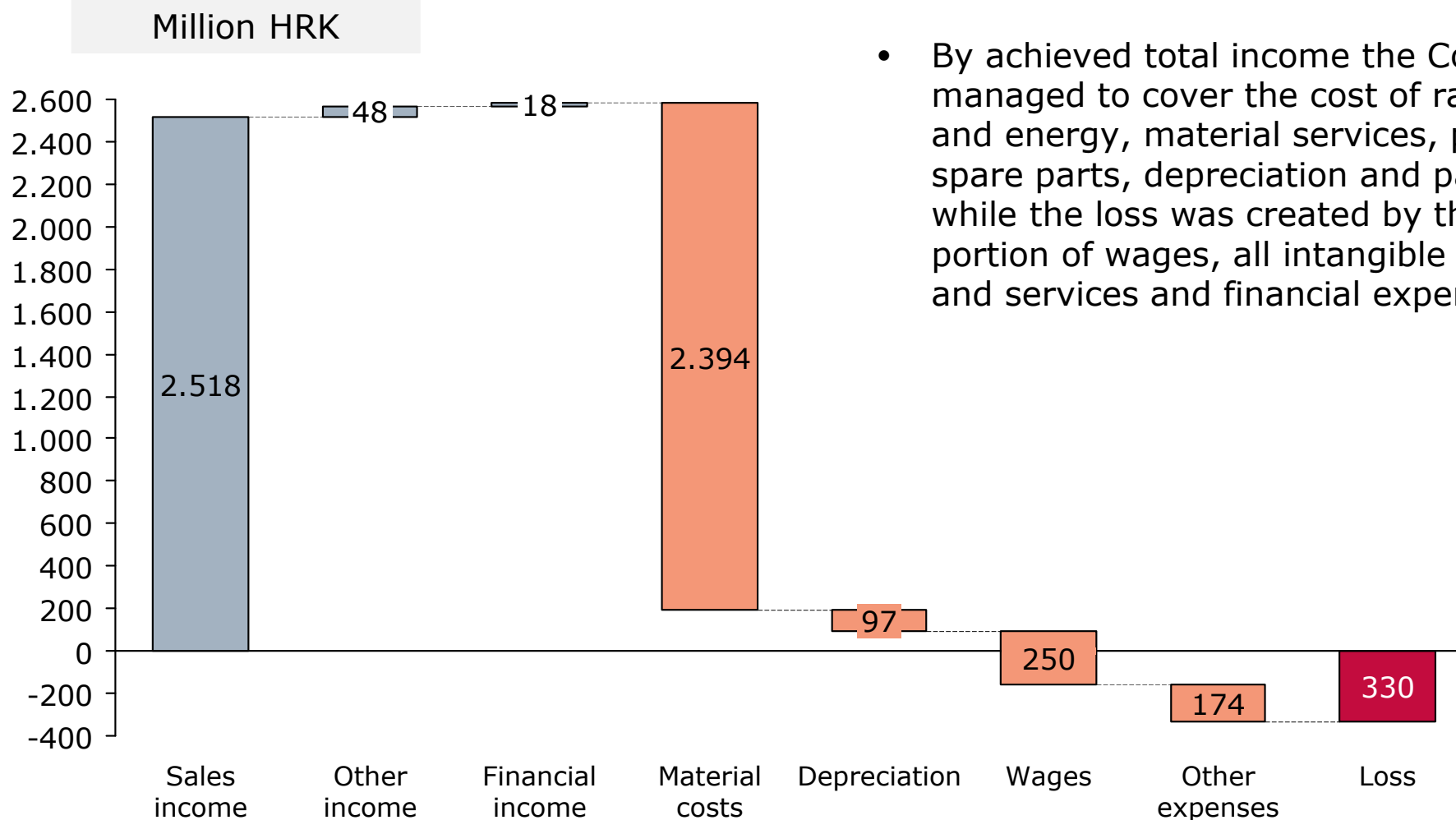
- In the reporting period operating income was 15.2% lower than in 2012, due to fall of prices of fertilizers in all markets. Total sales volumes of fertilizers decreased by 1.7% compared to the previous year.
- Lower operating expenses compared to the previous year, are the result of lower average input prices of raw materials. There was a slight decline in purchase prices of key raw materials and in natural gas this was somewhat more pronounced. Average actual gas purchase price in 2013, after a long period of continuous growth trend, was 15% lower than in 2012, but still 12% higher than in 2011.
- The yearly loss was increased by redundancy costs in the amount of 20.5 million for the employees who left the Company as part of the restructuring program and rationalization of operations.
- Income from domestic sales decreased by 14% in 2013 as compared to 2012 and income from exports decreased by 16%.
- EBITDA indicator (earnings before interest, taxes, depreciation and amortization) was HRK 202.7 million negative. In 2012 EBITDA was HRK 64.7 million negative.
- In the structure of loss, HRK 299.2 million or 90.7% was generated from operating activities, and HRK 30.9 million or 10% from financial operations.

Profit and Loss 2009-2013

■ TOTAL INCOME
■ TOTAL EXPENSE
■ PROFIT / LOSS



Structure of profit and loss in 2013



- 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, while the loss was created by the remaining portion of wages, all intangible expenses and services and financial expenses.

Structure of income and expenses in 2013

- In the year 2013, three subsidiaries within the Petrokemija Group operated with profit, whereas Luka Šibenik, Ltd. realized a loss of HRK 3.2 million, because the existing level of traffic cannot cover fixed costs.
- The subsidiary Petrokemija, Ltd. Novo Mesto was in the process of closing down (it was closed down on February 20, 2014) because after Croatian accession to the EU, REACH program operations can be performed in the parent company in Kutina.

<i>Description</i>	<i>Restoran Petrokemija Ltd.</i>	<i>Petrokemija Novi Sad Ltd.</i>	<i>Petrokemija Novo Mesto Ltd.</i>	<i>Luka Šibenik Ltd.</i>
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
TOTAL INCOME	2.198	132.653	517	18.918
TOTAL EXPENSES	2.018	131.048	494	22.310
<i>Therein:</i>				
<i>Material costs</i>	1.302	129.330	132	4.052
<i>Depreciation</i>	2	36	94	1.738
<i>Wages</i>	627	741	234	12.736
<i>Other costs</i>	87	941	34	3.784
PROFIT OR LOSS BEFORE TAXATION	180	1.605	23	-3.392

Key financial indicators



(HRK 000)

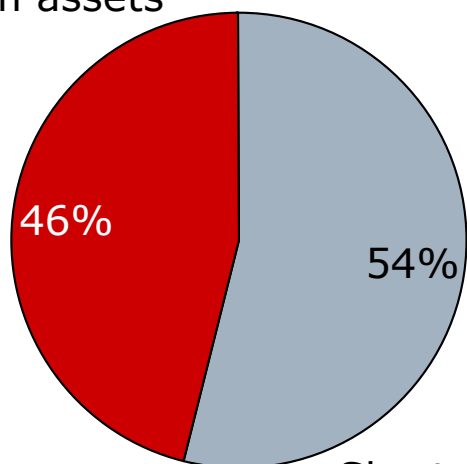
	Jan-Dec 2013	Jan-Dec 2012	Difference	% changes
Operating income	2.566.333	3.021.959	-455.626	-15,08%
Operating expense	2.865.566	3.186.439	-320.873	-10,07%
EBITDA *	-202.750	-64.714	-138.036	213,30%
Amortization	96.483	99.766	-3.283	-3,29%
Net financial income (expenses)	-30.920	-20.184	-10.736	53,19%
Net extraordinary income (expenses)	0	0	0	
Profit / loss / before taxation	-330.153	-184.665	-145.488	78,78%
		<u>31.12.2012</u>		
Fixed assets	719.303	749.049	-29.746	-3,97%
Current assets	890.438	1.186.720	-296.282	-24,97%
Capital and reserves	438.063	584.299	-146.236	-25,03%
Long-term liabilities + provisions	77.692	138.428	-60.736	-43,88%
Current liabilities + provisions	1.093.986	1.213.042	-119.056	-9,81%

* EBITDA= profit before interest, taxation depreciation and amortization

Structure of assets and liabilities at 31 December 2013

- At 31.Dec 2013, Petrokemija, Plc. had 54% in value of short-term and 46% in long-term assets, which can be interpreted with relatively high depreciation and the age of production and auxiliary facilities.
- The level of capital is the result of capital increase 2013 of HRK 186.2 million, and the liabilities structure is dominated by short-term debts, due to impossibility to obtain long-term loans in the domestic financial market (the global crisis, losses, ownership structure).

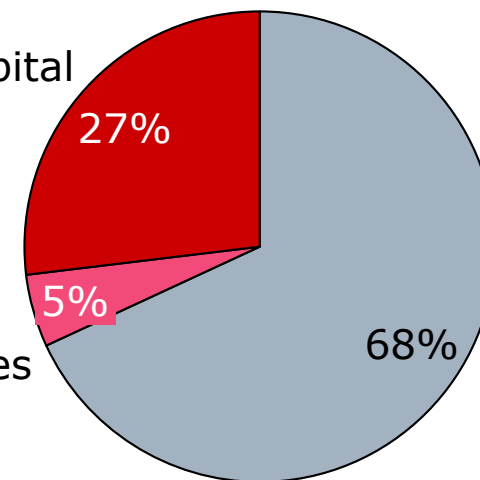
Long-term assets



Short-term assets

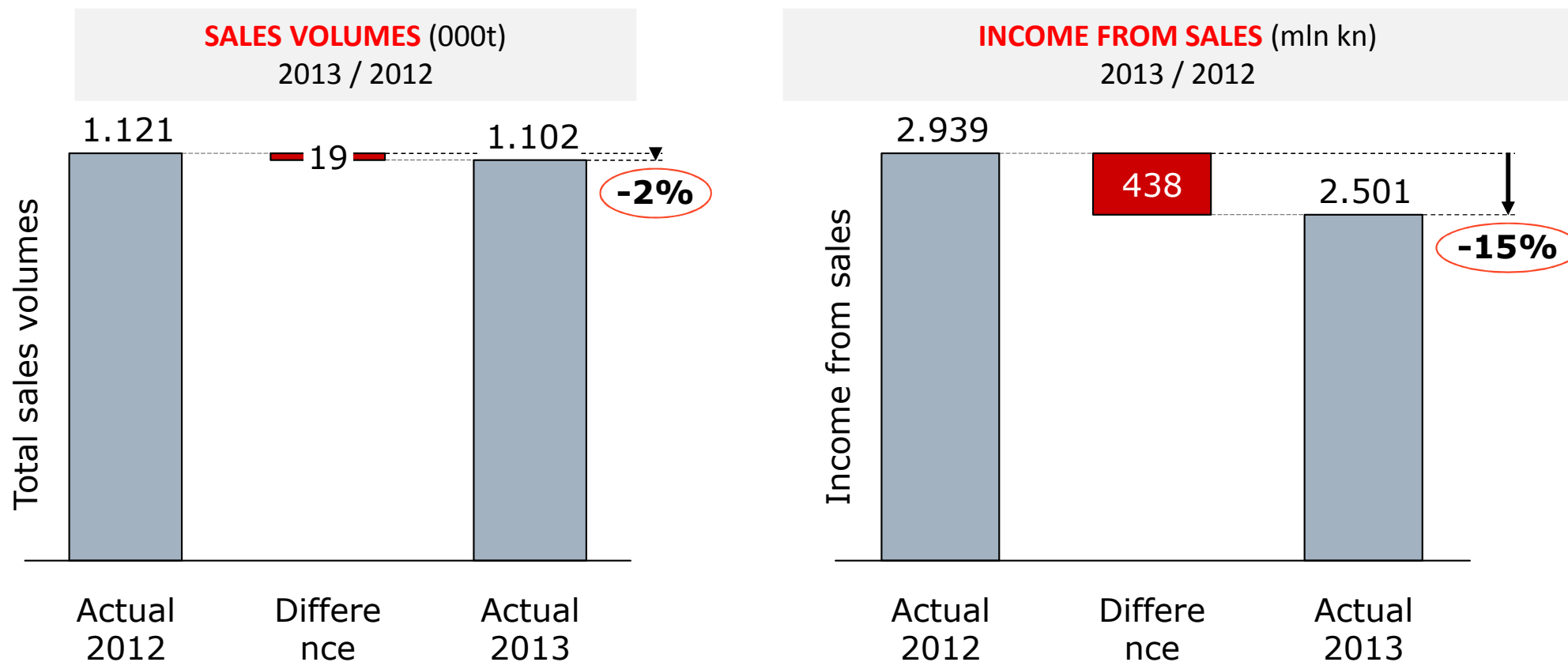
Capital

Long-term liabilities



Short-term liabilities

Total fertilizer sales

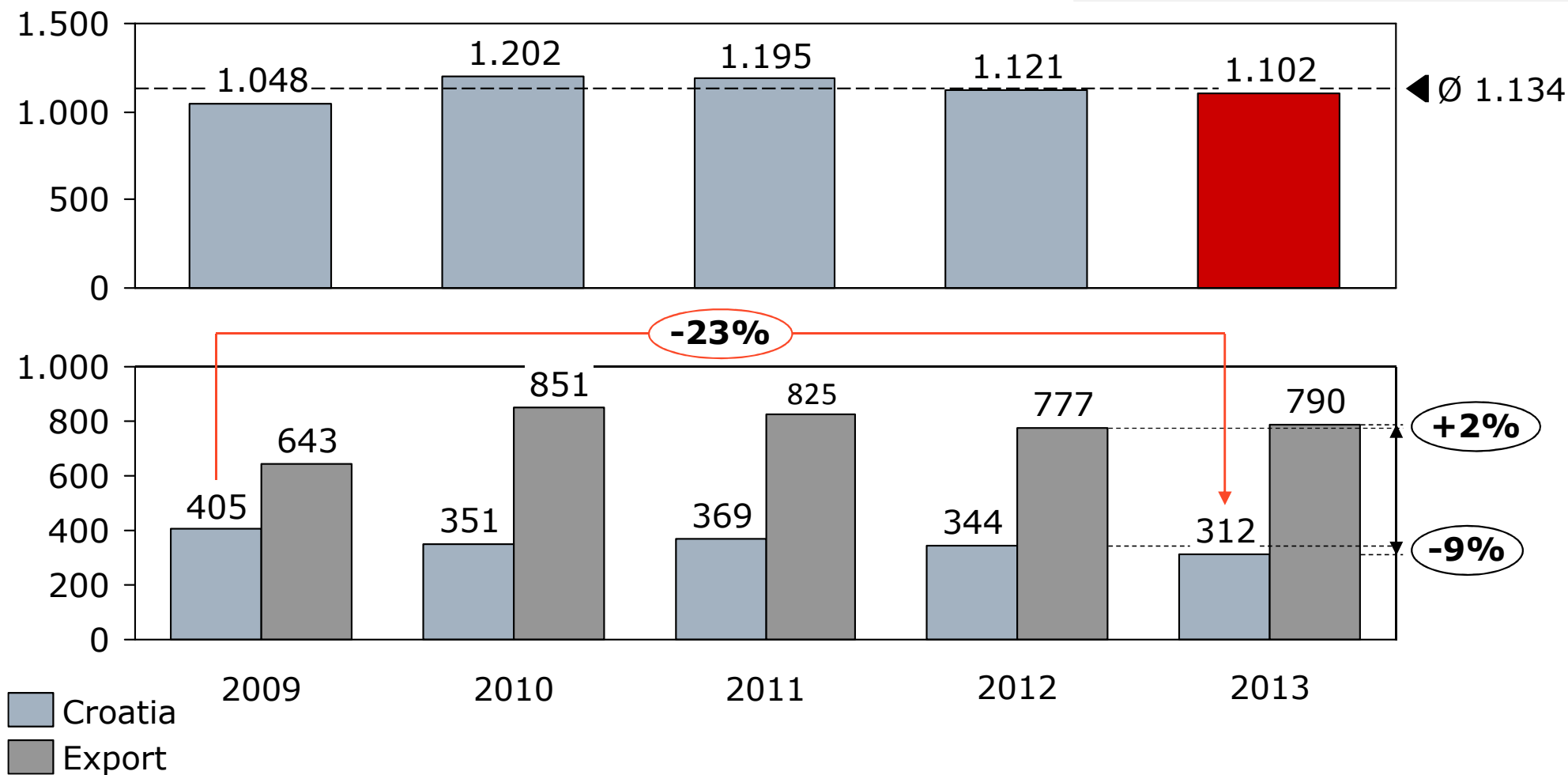


Actual fall in sales volumes of 2% influenced the fall of income from sales by 15%, which indicates significant fall in average sales prices.

Actual fertilizer sales in 2013



Total sales (000 tona)



Note: Data for Petrokemija Plc.

Business results of Petrokemija Group for Jan-Dec 2013

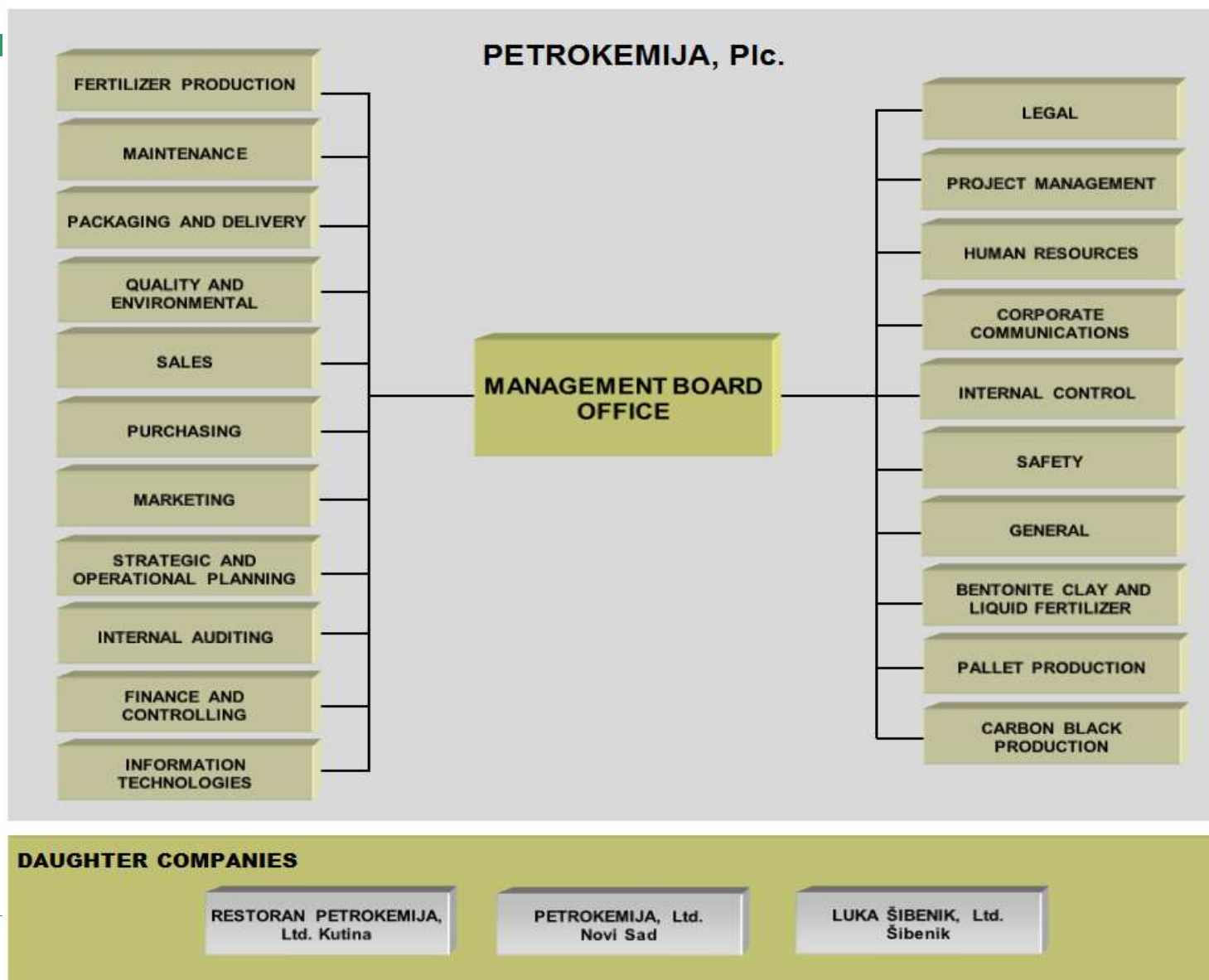


- After the consolidation of financial results of Petrokemija, Plc. and its subsidiaries Restaurant Petrokemija, Ltd. Kutina, Petrokemija, Ltd. Novi Sad, Petrokemija, Ltd. Novo Mesto and Luka Šibenik, Ltd., the financial results for the period January-December 2013 are as follows:

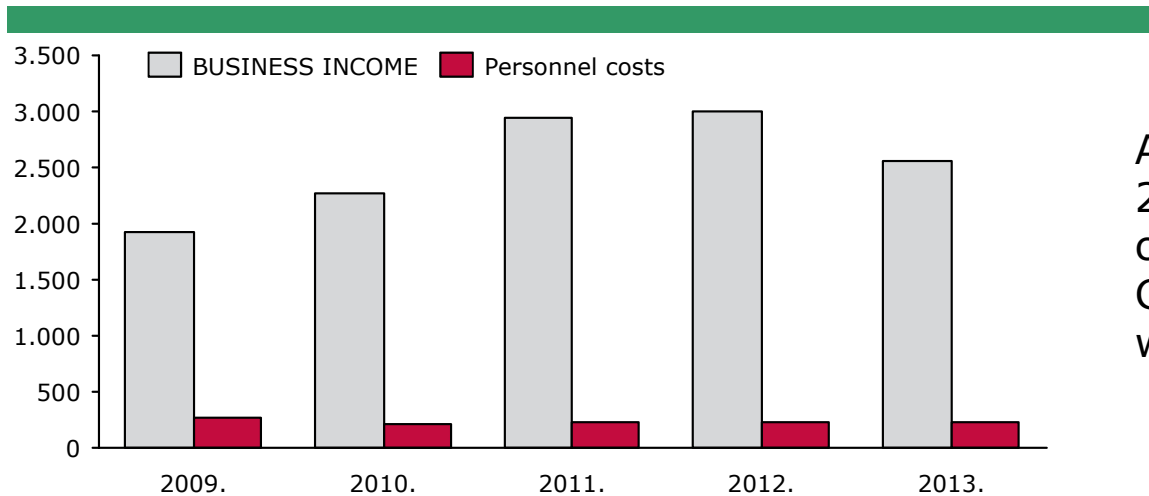
Total revenues	HRK 2,584.7 million,
Total expenses	HRK 2,914.9 million,
Loss before tax	HRK -330.2 million.

- EBITDA (earnings before interest, taxes and depreciation) was HRK 202.7 million in the negative.
- In the reporting period, one subsidiary operated at a loss – Luka Šibenik, Ltd. of HRK 3.4 million. Luka Šibenik reported loss due to the small volume of traffic and high fixed costs
- The procedure of closing down the subsidiary Petrokemija, Ltd. Novo Mesto was initiated because there is no justification for continuing its operations. On 20 February 2014 the subsidiary Petrokemija Ltd. Novo Mesto was closed.
- The report on the Petrokemija Group's business includes detailed information on the operations of the subsidiaries.

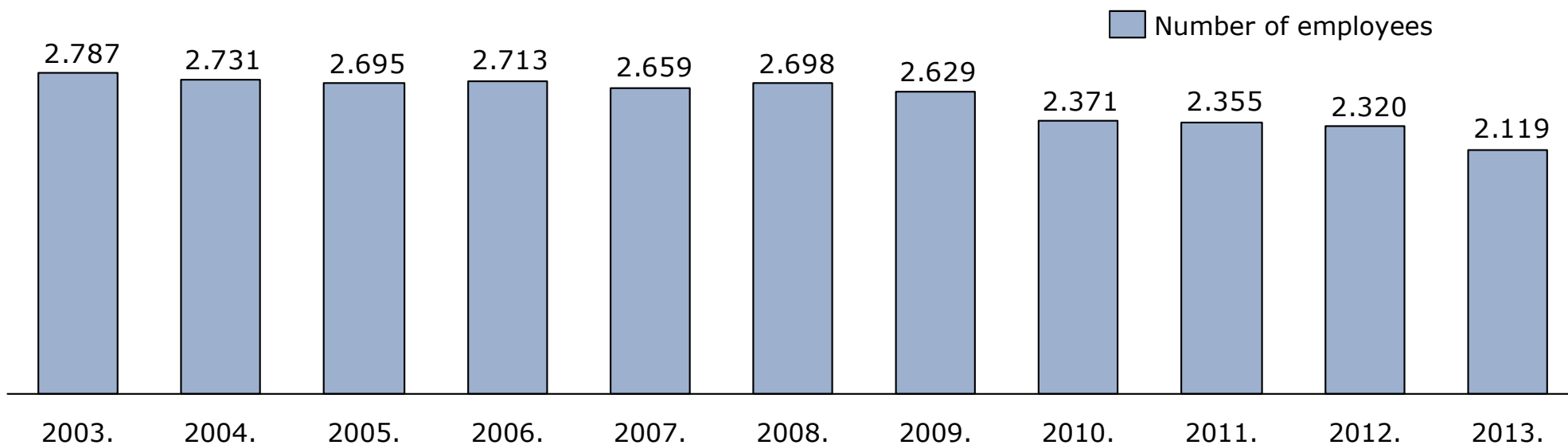
Organization chart of Petrokemija, Plc. and Petrokemija Group



Operational income, personnel costs, number of employees



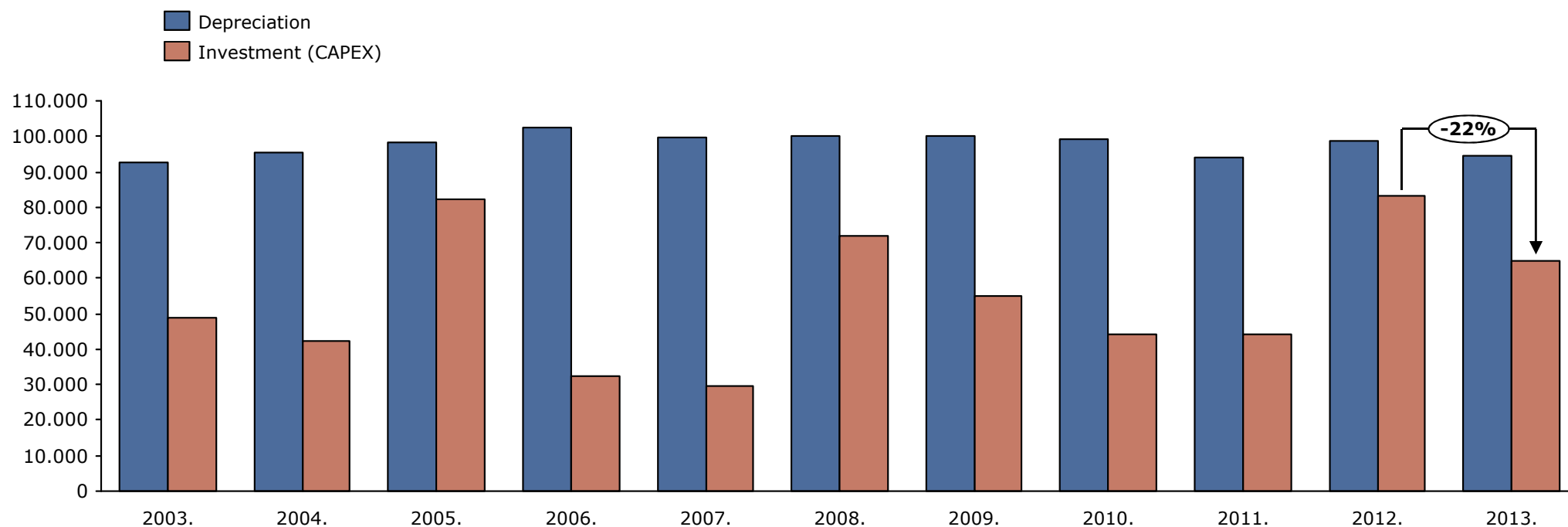
As at 31.12.2013 Petrokemija, Plc. had 2,119 employees, and daughter companies, members of Petrokemija Group, had a total of 175 employees, which gives a total of 2,294 employees.



Note: Data for Petrokemija Plc.

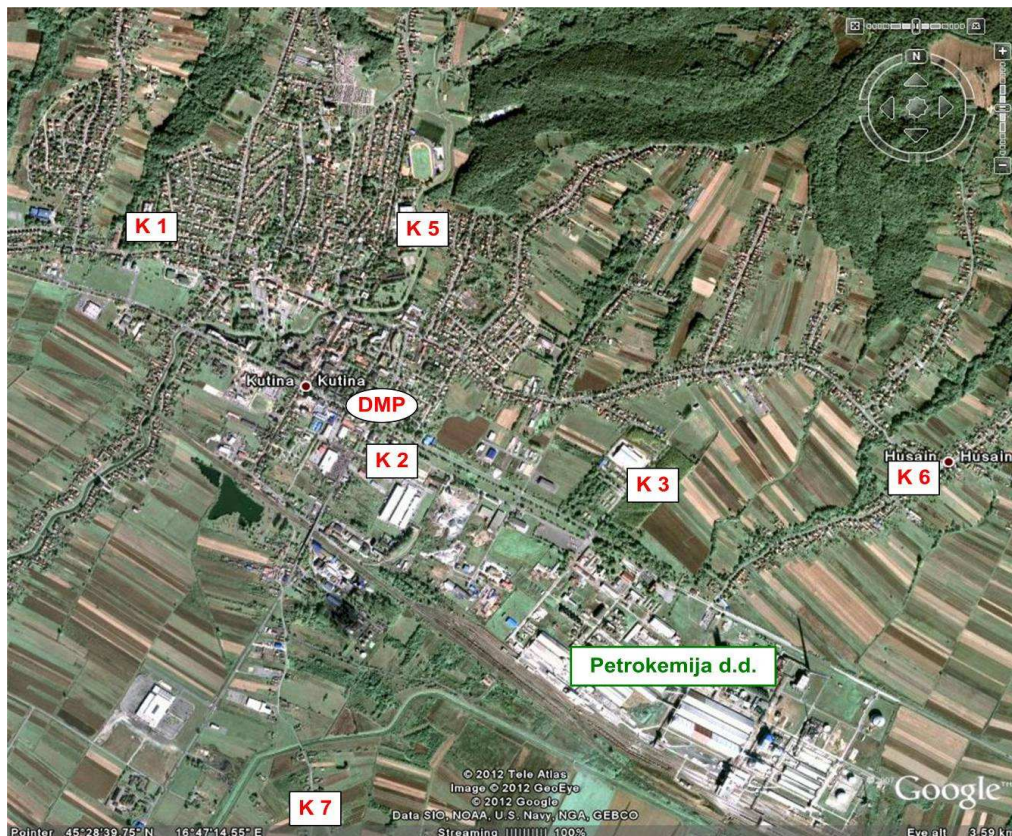
Realized investment

Investment realized in the period January-December 2013 amounted to EUR 64.9 million - 18.2 million or 22% lower than in the previous year. Despite the high loss and limited funding sources, in 2013 necessary investment was made partly by funds from the recapitalization.



Note: Data for Petrokemija Plc.

Environmental Protection: Air quality in the Kutina area in 2013 at local monitoring stations (K1, K2, K3, K5, K6 and K7) and the state monitoring station (DMP)



Clean or slightly polluted air	Polluted air	Pollutants
1 st category C<GV	2 nd category C>GV	
K2, K7, DMP		Sulphur dioxide (SO ₂)
K1, K2, K3, K5, K6, K7		Smoke
K1, K2, K3, K6, K7		Sediment
K1, K3, K5, K6, K7	K2, DMP	Ammonia (NH ₃)
K1, K2, K3, K5, K6, K7, DMP		Nitrogen dioxide (NO ₂)
K2, K7	DMP	Hydrogen sulphide (H ₂ S)
K1, K2, K3, K5, K6, K7		Fluorides
	DMP	PM10

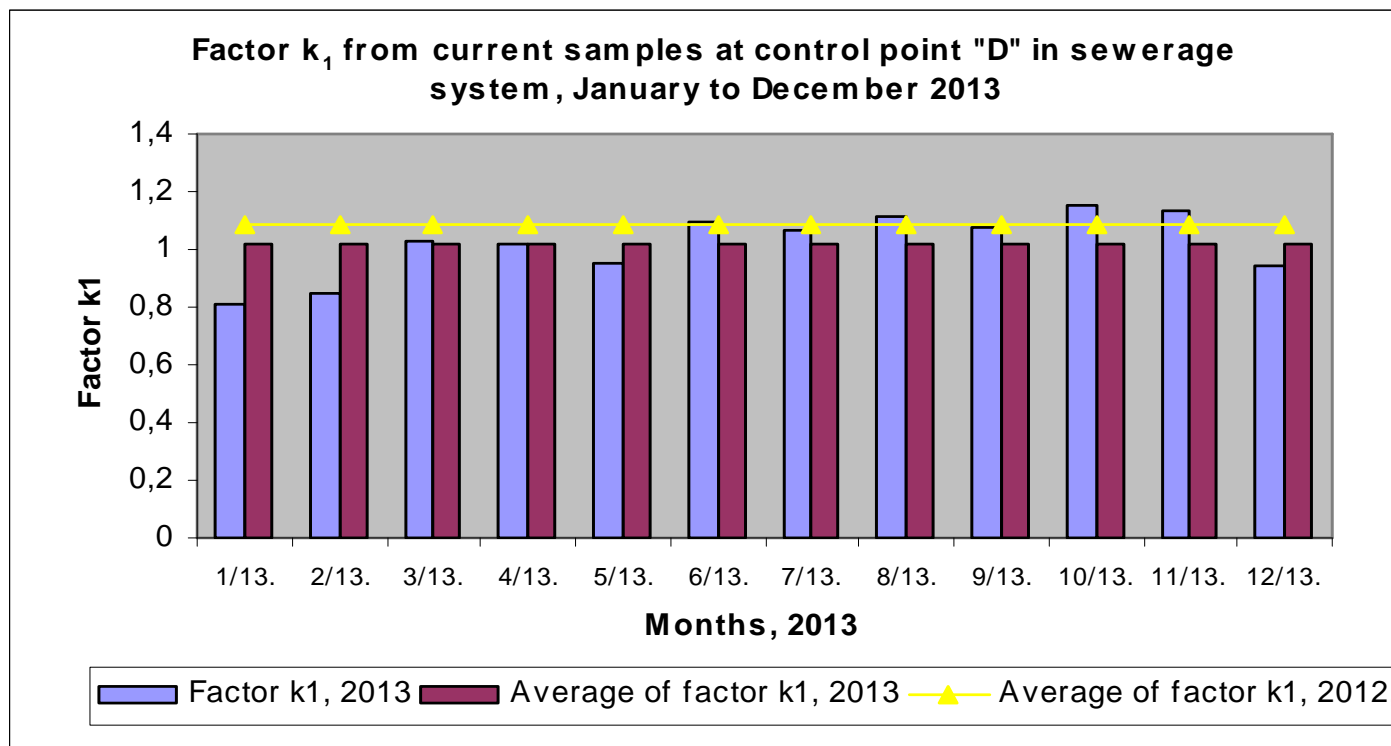
Note: The categorization of air quality can be changed at DMP after validation of data that has not yet been made by the competent institution.

Ambient air limit value exceedances for AMMONIA in 2012/2013 (local network)

Measuring station	The number of limit value (LV) exceedances 2012 / permitted exceedance number	The number of limit value (LV) exceedances 2013 / permitted exceedance number
K 1-Dom zdravlja	0 / 7	1 / 7
K 2-Vatrogasni dom	6 / 7	12 / 7 (2nd category)
K 3- Meteorološki krug	9 / 7 (2nd category)	3 / 7
K 6- Husain	3 / 7	0 / 7
TOTAL	18	16

The air quality for PM10 (39 exceedances LV-24h), in addition to Petrokemija's activities, is influenced by traffic and emissions from household heating.

Water management



The average value of k_1 factor for the period from January to December 2013 is lower compared to average achieved in 2012.

Consumption of raw water in 2013 was 7,400,683 m³, which is 11.5% less than in 2012.

Share capital of the Company and market value of the shares

- Petrokemija, Plc. is listed on the Zagreb Stock Exchange. The nominal value of the share was HRK 270.00 until the decision of the General Meeting of 15 July 2013 when it was reduced to HRK 170.00 and the process of the share capital increase was initiated.
- In accordance with the decision of the General Assembly of 15 July 2013, capital increase was carried out by subscription of new shares so that the registered share capital of HRK 567,989,890.00 was increased by HRK 186,206,100.00 to HRK 754,195,990.00. Following the completion of the share capital increase by subscription of new shares the nominal value of each share is HRK 170.00. The capital increase was conducted by the Company Board.
- After the increase, the Company share capital amounts to HRK 754,195,990.00 and is divided into 3,341,117 ordinary shares (ticker PTKM-R-A, of HRK 170,00 nominal value and 1,095,330 ordinary shares (ticker PTKM-R-B) of HRK 170.00 nominal value.
- On 31 December 2012 the share value was HRK 214.45, while on 31 December 2013 its average price was HRK 168.38 (down 21.5 %).

Changes in percentage of voting rights of Republic of Croatia



- In the process of the share capital increase by the decision of the General Assembly of Petrokemija of 15 July 2013, the Agency for State Property Management subscribed for 252,900 Petrokemija's shares of HRK 170.00 nominal value and now holds a total of 1,944,642 shares or 43.83% of the voting rights of Petrokemija. On 14 October 2013, Commercial Court in Zagreb issued a decision on entry of the share capital increase into the Register.
- On 22 October 2013, Petrokemija received a notice of the Centre for Restructuring and Sale (CERP), legal successor of the Agency for State Property Management and legal representative of Republic of Croatia, on decline of the voting rights in the issuer Petrokemija, Plc. below 50%.

Changes in Management and Supervisory Boards in 2013



- On 10 January 2013 upon approval of the State Office for State Property Management, the Croatian Government passed a decision to propose to Supervisory Board of Petrokemija, Plc. the recall of previous members of the Board - Tomislav Seletković, Antonija Perošević-Galović and Nenad Marinović - and appointment of Žarko Rijetković, Krešimir Kvaternik and Karlo Došen as new Board members.
- At the meeting of 4 February 2013, the Supervisory Board of Petrokemija adopted a decision to, as of 14 February 2013, terminate the mandate of members of the Management Board Tomislav Seletković, Antonija Perošević-Galović and Nenad Marinović. The Supervisory Board appointed three new members of the Board of Petrokemija, namely Karlo Došen, Krešimir Kvaternik, and Žarko Rijetković. The mandate of the appointed members of the Board began on 15 February 2013 and lasts until 14 February 2017.
- On 15 July, the General Assembly recalled Supervisory Board member Ivan Nekvapil and appointed a new Supervisory Board member, Tomislav Radoš.
- At the meeting of 6 September 2013, the Supervisory Board of Management Board Josip Jaguš and Board member Žarko Rijetković. The Board appointed Dragan Marčinko as President and Nenad Zečević as member of the Management Board of Petrokemija. The mandate of the appointed members of the Board commences on 7 September 2013 and lasts until 6 September 2017.
- Member of the Supervisory Board, Ivan Majstrovic gave on 11 September 2013 his irrevocable resignation from membership in the Supervisory Board of Petrokemija.
- At the Supervisory Board meeting of 30 September 2013, Tomislav Radoš was elected President of the Supervisory Board.
- On 19 December 2013, Ivan Čar's mandate as workers' representative in Supervisory Board expired and he was replaced by Davor Rakić.

The process of choosing strategic partner



- At its session held on 30 July 2013, Croatian Government obliged all competent bodies to initiate the process of choosing a strategic partner for Petrokemija, whereby the state would retain at least 25 percent plus one share of the Company. The stake of the state in Petrokemija is at present 43.83 percent.
- At the session of the Croatian Government of 14 November 2013, a decision was adopted on the establishment of a Commission to select a strategic partner for the Petrokemija 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 Board of Petrokemija.
- The Commission was obliged to carry out the process of selecting a strategic partner for the Petrokemija, Plc. Company in accordance with applicable regulations, whereby the Republic of Croatia would retain at least 25 % + one share.
- Four non-binding offers were received in response to the Call for Tenders for the Privatization of Petrokemija and in mid-January the Commission decided on the three bidders to go into the second round and allowed them a detailed analysis of Petrokemija's business. At the time of this report, due diligence by potential strategic partners is in progress in the Company.
- 12 March 2014 - in the required period no binding offer was received which would be in accordance with the transaction documentation. 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.
- The Commission submitted the report on the process of selecting strategic partner to the Government and thus Commission's work finished.

Significant financial risks in 2014

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

- The outcome of the process of finding a strategic partner and the activities that will follow.
- 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 against the 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. At the time of this report, activities of finding favorable terms for gas supply in the next period are in progress.
- The sales price of fertilizers in the world market are still under the influence of cyclical and seasonal changes. In the reporting period they had a falling trend, and at the time of preparation of this report the price of some products are rising, which could be interpreted as a seasonal occurrence.
- The fluctuations of raw material prices on the world market present so far, will have impact on material costs in the next period, too. High cost of working capital - due to lack of own working capital, 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 31 Dec 2013 Petrokemija, Plc. reported these liabilities in the balance sheet positions in the amount of HRK 125 million. During the reporting period, these claims were fully collected, as in previous years.
- The most significant individual risk is further decline in sales prices of fertilizers in the world, regional and local markets. Currently prices are growing, which can only be a seasonal occurrence.

Key determinants of Petrokemija, Plc. business in 2014



- The outcome of the process of finding a strategic partner will determine the future ownership structure, from which key business events will be defined, such as recapitalization, restructuring, modernization and capacity use, secondary production programs, etc.
- Financing the business is still relying on banking sources, because the buyers in the domestic market have limited financing options of long reproduction process in agriculture, all of which results in reduced fertilizer use,
- The price of gas in 2014 is unlikely to reach market relationships achieved by certain European fertilizer manufacturers in the wider environment. However, further action will be taken to reduce this cost,
- In 2014 at least essential modernization of the facilities will be continued:
 - environmental protection in accordance with EU standards,
 - energy efficiency,
 - adjustment of product range to market requirements,
- Unfavorable sales structure imposes the necessity of redefining the position of Petrokemija in markets of:
 - Republic of Croatia – increase of fertilizer consumption,
 - EU and the region (increasing the presence and share in the markets of neighboring countries),
 - Export to distant markets at a level that would meet the continuous utilization of production capacity, because it is hard for Petrokemija to be competitive in these markets due to the relatively expensive raw material base and high transportation costs.
- The process of internal organizational changes will be continued in 2014, particularly in rationalizing energy and raw material consumption, efficient maintenance of facilities, rationalization of procurement and sales systems, and other services.
- The Management is considering models of securing liquidity to stabilize its operations, including a capital injection from existing shareholders and the issue of debt instruments. To this end, the Company prepared the Program for Restructuring and Financial Consolidation of Petrokemija, Plc. for 2014 – 2018.

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, make a

Statement on Management Liability

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

Financial reports for the January 1 to December 31, 2013 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 annual financial report - GFI-POD Petrokemija Group:**
 - **Balance Sheet**
 - **Profit and Loss Account**
 - **Report on Cash Flow**
 - **Report on Principal Capital Change**
 - **Notes**

Attachment 1.

Reported period:

1.1.2013.

to

31.12.2013.

Annual financial statements GFI-POD

Registration number (MB): 03674223

Registration number of subject (MBS): 080004355

Personal identification number (OIB): 24503685008

Issuer company: PETROKEMIJA d.d.

Postal code and city: 44320

KUTINA

Street and number: ALEJA VUKOVAR 4

E-mail: fin@petrokemija.hr

Internet address: www.petrokemija.hr

Code and city/municipality: 220 KUTINA

Code and county name: 3 SISAČKO-MOSLAVAČKA ŽUPANIJA

Number of employees: 2.294

(at the end of the year)

Consolidated Report: YES

Code of NKD: 20.15

Entities in consolidation (according to IFRS):

Registered seat:

Registration number (MB):

Entities in consolidation (according to IFRS)	Registered seat	Registration number (MB)
RESTORAN PETROKEMIJA d.o.o.	KUTINA	01335316
PETROKEMIJA d.o.o.	NOVI SAD	08754608
PETROKEMIJA d.o.o.	NOVO MESTO	12034614
LUKA ŠIBENIK d.o.o.	ŠIBENIK	03037525

Book-keeping office:

Contact person: MARINA MARIĆ

(name and surname of the contact person)

Telephone number: 044-647-829

Fax: 044-682-819

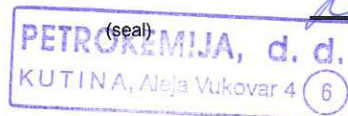
E-mail: marina.maric@petrokemija.hr

Name and surname: DRAGAN MARČINKO, KARLO DOŠEN

(authorized representatives)

Documentation to be published:

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



(signature of authorized representative)

BALANCE SHEET
as at 31.12.2013.

Petrokemija Group d.d.			
Position	AOP code	Prethodna godina (neto)	Tekuća godina (neto)
1	2	3	4
A) RECIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL	001		
B) LONG-TERM ASSETS (003+010+020+029+033)	002	749.049.633	719.303.117
I. INTANGIBLE ASSETS (004 do 009)	003	11.585.806	8.212.096
1. Expense for development	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	7.541.608	2.834.581
3. Goodwill	006		
4. Advances for intangible assets	007		
5. Intangible assets in progress	008	4.044.198	5.377.515
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 do 019)	010	736.523.100	710.518.222
1. Land	011	49.482.153	49.482.153
2. Buildings	012	291.532.788	276.722.239
3. Plant and equipment	013	322.709.000	309.397.663
4. Tools, plant inventory and transportation assets	014	13.526.223	15.626.648
5. Biological assets	015		
6. Advances for tangible assets	016	3.020.898	3.352.925
7. Tangible assets in progress	017	55.752.053	55.434.274
8. Other tangible assets	018	499.985	502.320
9. Investments in real estates	019		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	020	815.524	7.537
1. Investments (shares) in related companies	021		
2. Loans given to related companies	022		
3. Participating interest (shares)	023	7.537	7.537
4. Loans given to companies with participating interest	024		
5. Investment in securities	025		
6. Loans given, deposits and similar assets	026		
7. Other long-term financial assets	027	807.987	
8. Investments accounted for using the equity method	028		
IV. TRADE RECEIVABLES (030 do 032)	029	125.203	250.168
1. Receivables from related companies	030		
2. Receivables for sales on loan	031		
3. Other receivables	032	125.203	250.168
V. DEFERRED TAX ASSETS	033		315.094
C) SHORT-TERM ASSETS (035+043+050+058)	034	1.184.010.885	877.887.496
I. INVENTORIES (036 do 042)	035	663.118.778	448.552.343
1. Raw and other material	036	251.954.508	208.306.972
2. Work in progress	037	70.216.160	42.595.847
3. Finished products	038	333.852.838	194.190.474
4. Merchandise inventory	039	5.141.432	1.237.523
5. Advances for inventories	040	1.953.840	2.221.527
6. Long-term assets intended for sale	041		
7. Biological assets	042		
II. TRADE RECEIVABLES (044 do 049)	043	453.135.176	382.994.741
1. Receivables from related companies	044		
2. Receivables from customers (buyers)	045	152.077.790	185.068.208
3. Receivables from participating interest	046		
4. Receivables from employees and members	047	56.426	35.289
5. Receivables from state and other institutions	048	72.517.668	71.782.384
6. Other receivables	049	228.483.292	126.108.860
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	50.266.588	24.511.788
1. Investments (shares) in related companies	051		
2. Loans given to related companies	052		
3. Participating interest (shares)	053	11.552.010	12.838.576
4. Loans given to companies with participating interest	054		
5. Investment in securities	055	5.545.769	5.068.235
6. Loans given, deposits and similar assets	056	33.168.809	6.604.977
7. Other financial assets	057		
IV. CASH IN BANK AND ON HAND	058	17.490.343	21.828.624
D) PREPAID EXPENSES AND ACCRUED INCOME	059	2.709.319	12.550.972
E) TOTAL ASSETS (001+002+034+059)	060	1.935.769.837	1.609.741.585
F) OFF BALANCE SHEET ITEMS	061	297.989.133	513.934.610

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	584.299.328	438.063.174
I. SUBSCRIBED CAPITAL	063	902.101.590	754.195.990
II. CAPITAL RESERVES	064		
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	0	7.967.248
1. Legal reserves	066		
2. Reserve for treasury shares	067		
3. Treasury shares and investment (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	-138.286.230	2.006.043
1. Retained earning	073	565.720	3.858.116
2. Loss carried forward	074	138.851.950	1.852.073
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	075	-184.491.370	-330.259.239
1. Profit for the year	076		
2. Loss for the year	077	184.491.370	330.259.239
VII. MINORITY INTEREST	078	4.975.338	4.153.132
B) PROVISIONS (080 do 082)	079	15.094.519	14.231.661
1. Provisions for pensions, severance pay and similar liabilities	080	13.126.437	12.659.799
2. Provisions for tax liabilities	081		
3. Other provisions	082	1.968.082	1.571.862
C) LONG-TERM LIABILITIES (084 do 092)	083	123.333.333	63.460.181
1. Liabilities to related companies	084		
2. Liabilities for loans, deposits and similar	085		
3. Liabilities to banks and other financial institutions	086	123.333.333	63.460.181
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	1.209.069.277	1.074.607.653
1. Liabilities to related companies	094		
2. Liabilities for loans, deposits and similar	095	4.500.000	64.427.181
3. Liabilities to banks and other financial institutions	096	323.166.667	362.388.889
4. Liabilities for advances	097	61.023.431	108.333.045
5. Liabilities to suppliers	098	485.963.926	285.051.764
6. Liabilities for securities	099	82.000.000	91.833.225
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	14.247.067	14.488.053
9. Liabilities for taxes, contributions and other payments	102	12.447.592	21.560.648
10. Liabilities as per share in result	103		
11. Liabilities as per long-term assets intended for sales	104		
12. Other short-term liabilities	105	225.720.594	126.524.848
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	3.973.380	19.378.916
F) TOTAL LIABILITIES (062+079+083+093+106)	107	1.935.769.837	1.609.741.585
G) OFF BALANCE SHEET ITEMS	108	297.989.133	513.934.610
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	579.323.990	433.910.042
2. Credited to minority interest	110	4.975.338	4.153.132

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 01.01.2013. to 31.12.2013.

Petrokemija Group d.d.			
Position	AOP code	Previous year	Current year
1	2	3	4
I. OPERATING REVENUES (112+113)	111	3.021.959.070	2.566.333.024
1. Sales revenues	112	2.955.393.778	2.518.580.366
2. Other operating revenues	113	66.565.292	47.752.658
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	3.186.439.177	2.865.566.221
1. Changes in value of work in progress and finished products	115	-66.873.283	170.888.173
2. Material costs (117 do 119)	116	2.799.341.706	2.224.370.068
a) Cost of raw and production materials	117	2.664.773.523	2.114.120.585
b) Cost of goods sold	118	45.213.593	28.445.243
c) Other external costs	119	89.354.590	81.804.240
3. Employees costs (121 do 123)	120	242.951.099	249.671.415
a) Net salaries and wages	121	153.851.618	158.388.456
b) Costs for taxes and contributions from salaries	122	55.948.237	58.384.363
c) Contributions on salaries	123	33.151.244	32.898.596
4. Depreciation	124	99.765.978	96.483.482
5. Other costs	125	82.953.277	115.734.117
6. Value adjustments (127+128)	126	21.439.019	4.442.533
a) of long-term assets (except for financial assets)	127	12.839.915	20.318
b) of short-term assets (except for financial assets)	128	8.599.104	4.422.215
7. Provisions	129	6.861.381	3.976.433
8. Other operating expenses	130	0	0
III. FINANCIAL REVENUES (132 do 136)	131	31.740.582	18.371.299
1. Interest, exchange rate fluctuations, dividends and similar from associated companies	132		
2. Interest, exchange rate fluctuations, dividends and similar from non-associated companies and others	133	27.562.401	18.371.299
3. Part of revenue from associated companies and participating interests	134		
4. Unrealised gains (revenues) from financial assets	135	4.178.181	
5. Other financial revenues	136		
IV. FINANCIAL EXPENSES (138 do 141)	137	51.924.555	49.290.880
1. Interest, exchange rate fluctuations and other costs with associated companies	138		
2. Interest, exchange rate fluctuations and other costs with non-associated companies	139	51.924.555	47.462.252
3. Unrealised losses (costs) from financial assets	140		1.828.628
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	1.045	
IX. TOTAL REVENUES (111+131+142 + 144)	146	3.053.699.652	2.584.704.323
X. TOTAL EXPENSES (114+137+143 + 145)	147	3.238.364.777	2.914.857.101
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	-184.665.125	-330.152.778
1. Profit before taxation (146-147)	149	0	0
2. Loss before taxation (147-146)	150	184.665.125	330.152.778
XII. PROFIT TAX	151	133.762	282.461
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	-184.798.887	-330.435.239
1. Profit for the period (149-151)	153	0	0
2. Loss for the period (151-148)	154	184.798.887	330.435.239

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	-185.042.811	-329.615.239
2. Credited to minority interest	156	243.924	-822.000
STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)			
I. PROFIT OR LOSS OF THE PERIOD (= 152)	157	-184.798.887	-330.435.239
II. OTHER COMPREHENSIVE GAINS/LOSS BEFORE TAXES (159 do 165)	158	287.272	178.000
1. Exchange rate differences from translation of foreign currency operations	159	287.272	178.000
2. Change in revaluation reserves of fixed tangible and intangible assets	160		
3. Gain or loss from revaluation of financial assets held for sale	161		
4. Gain or loss from effective cash flow hedge	162		
5. Gain or loss from effective hedge in net investments in abroad	163		
6. Portion in other comprehensive gain/loss of associated companies	164		
7. Actuarial gains/losses on defined benefit plans	165		
III. TAX ON OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD	166		
IV. NET OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD (158-166)	167	287.272	178.000
V. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD (157+167)	168	-184.511.615	-330.257.239
APPENDIX TO STATEMENT OF COMPREHENSIVE 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	-184.755.539	-329.437.239
2. Credited to minority interest	170	243.924	-822.000

CASH FLOW STATEMENT - Direct method

for the period 01.01.2013. to 31.12.2013.

Petrokemija Group d.d.			
Position	AOP code	Previous year	Current year
1	2	3	4
CASH FLOW FROM PERATIONG ACTIVITIES			
1. Cash increase from buyers	001	2.530.921.226	2.293.114.228
2. Cash increase from royalties, fees commissions and other	002		
3. Cash increase from insurance compensations	003	3.834.347	4.994.325
4. Cash increase from tax return	004	317.933.980	344.321.282
5. Other cash increase	005	9.791.149	4.449.827
I. Total increase of cash flow from operating activities (001 do 005)	006	2.862.480.702	2.646.879.662
1. Expenses to suppliers	007	2.934.657.128	2.781.258.086
2. Expenses for employees	008	259.338.542	280.857.462
3. Expenses for insurance compensations	009	14.698.097	14.493.411
4. Expenses for interest	010	25.627.780	29.441.416
5. Expenses for taxes	011	138.295.849	112.355.548
6. Other cash decrease	012	21.581.850	14.311.654
II. Total decrease in cash flow from operating activities (007 do 012)	013	3.394.199.246	3.232.717.577
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	531.718.544	585.837.915
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proceeds from sale of non-current tangible and intangible assets	016	272.215	9.563
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	677.265	1.005.704
5. Other cash proceeds from investing activities	020		
III. Total cash inflow from investing activities (016 do 020)	021	949.480	1.015.267
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	60.656.714	65.213.192
2. Cash outflow for acquisition of equity and debt financial instruments	023	13.630.000	
3. Other cash outflows from investing activities	024	20.020	
IV. Total cash outflow from investing activities (022 do 024)	025	74.306.734	65.213.192
B1) NET CASH FLOW FROM INVESTIN ACTIVITIES (021-025)	026	0	0
B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)	027	73.357.254	64.197.925
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash inflows from issuance of equity and debt financial instruments	028		186.206.100
2. Cash inflows from loan principals, debentures, credits and other borrowings	029	2.302.466.500	2.024.800.000
3. Other inflows from financial activities	030	679.616.364	670.266.143
V. Total cash inflow from financial activities (028 do 030)	031	2.982.082.864	2.881.272.243
1. Cash outflows for repayment of loan principal and bonds	032	2.233.188.722	2.052.942.394
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	121.141.495	200.519.561
VI. Total cash outflow for financial activities (032 do 036)	037	2.354.330.217	2.253.461.955
C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)	038	627.752.647	627.810.288
C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)	039	0	0
Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)	040	22.676.849	0
Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)	041	0	22.225.552
Cash and cash equivalents at the begining of the period	042	27.982.304	50.659.153
Increase of cash and cash equivalents	043	22.676.849	
Decrease of cash adn cash equivalents	044		22.225.552
Cash and cash equivalents at the end of the period	045	50.659.153	28.433.601

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

STATEMENT OF CHANGES IN EQUITY

for the period from **1.1.2013** to **31.12.2013**

Position 1	AOP code 2	Previous year 3	Current year 4
1. Suscribed capital	001	902.101.590	754.195.990
2. Capital reserves	002		
3. Reserves from profit	003		7.967.248
4. Retained profit or loss carried forward	004	-138.286.230	2.006.043
5. Profit or loss for the year	005	-184.491.370	-330.259.239
6. Revaluation of fixed tangeble assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluation	009	4.975.338	4.153.132
10. Total capital and reserves (AOP 001 do 009)	010	584.299.328	438.063.174
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	579.323.990	433.910.042
17 b. Creadited to minority interest	019	4.975.338	4.153.132

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

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

NOTES

PETROKEMIJA GROUP

As can be seen from the data in the tables of the Profit and Loss account and Balance sheet, the subsidiaries have no significant impact on the performance of the Petrokemija Group. Subsidiaries are: Restoran Petrokemija, Ltd. Kutina, Petrokemija, Ltd. Novi Sad, Petrokemija Ltd. Novo Mesto and Luka Šibenik, Ltd. Šibenik.

In the period from January to December of 2013, Petrokemija Group had total actual income of HRK 2,584.7 million and total expense of HRK 2,914.9 million; thus the Company reported loss in business operations of HRK 330.2 million or 12.8% of the total revenues. For the year, the total income was by 15.4% lower and the total expense by 10.0% lower than for 2012.

Out of the total loss, HRK 299.2 million or 90.7% is loss from business operations, while HRK 30.8 or 9.3% is loss from financial operations. The costs related to the recapitalization in the amount of HRK 1.9 million were recorded on behalf of other reserves in equity and thus reduced the loss for the year.

The EBITDA indicator (earnings before interest, taxes, depreciation and amortization) is HRK 202.7 million in the negative. The EBITDA for 2012 was HRK 64.7 million in the negative.

The major part of the disparity in revenues and expenses was generated by a decline in demand in the global and regional markets and the associated decline in fertilizer prices. Lower achievement in domestic market reflects the general poor state of agriculture, increase of competition, the reduction and delay in the payment of state subsidies, and adverse weather conditions. The reporting period was marked by a general downward trend in the purchase prices of raw materials and sales prices of fertilizers. The price of gas in this general trend is a peculiarity and is influenced by specific factors in the Croatian gas market and Petrokemija's position as one of the two largest customers in the still relatively undeveloped domestic gas market.

Due to the lower sales, there were higher fixed costs per unit of product and loss in business operations. Additional adverse impacts on business in the first half of 2013 were the expenses for the annual fertilizer facilities overhaul carried out in January and the impact of a part of stocks carried over from 2012.

During the fourth quarter of 2013 when the Management Board consisting of Dragan Marčinko, President and Karlo Došen, Krešimir Kvaternik and Nenad Zečević as board members, took management of the company, the trend of concurrent action of several factors with negative impact on the financial results of Petrokemija was continued. In the period, there was a further fall of prices of finished products in the global fertilizer market.

This had a cumulative effect with a pronounced decline in demand in the domestic market and the wider region, so that the losses exceeded the level of the previous dynamic estimates. At the same time, prices of majority of raw materials used in the manufacture of fertilizers were falling.

It should be noted that, regardless of the business activities of the Company, when the prices in the market keep 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 moment of application.

An additional negative effect on the fall in demand was a decrease in prices of basic agricultural products and the lack of available funds of farmers. It was the result of the lower yields due to drought in previous years, and long-term adverse circumstances of agricultural production in the food production value chain.

In the reporting period, the operating income was 15.1% lower compared to 2012, due to the drop of fertilizer prices in domestic, regional and world markets. The total sales of fertilizers fell by 1.7% compared to the previous year.

Lower actual operating expenses compared for the same period previous year were caused by the lower sales and lower average input prices of raw materials. There was a slight decline in purchase prices of all key raw materials, and for natural gas this was even somewhat more pronounced. The average actual purchase price of gas in 2013, after a long period of constant increase trend, was 15% lower than in 2012, but still 12% higher than in 2011.

In 2013 Petrokemija had lower actual production by 4.2% than in the year before, but with the change in the product structure – Urea production was increased by 2.4%, CAN by 14.3% and the production of NPK fertilizers was reduced by 27.8%.

Natural gas as the most important raw material was supplied from the domestic market under contracts with two suppliers – Prirodni plin d.o.o., Zagreb and Prvo plinarsko društvo d.o.o., Vukovar.

Due to the market situation, some facilities had been halted in the second half of 2009 and this problem was carried over into 2014. The crisis caused by disparity of in- and output prices in the carbon black market is still ongoing. Petrokemija is influenced by developments in the global market which gives space to significant potential price risks and financial fluctuations to be continued in 2014.

In addition to their own working capital, short-term bank loans and long-term loans from the Croatian Bank for Reconstruction and Development, Petrokemija secured their working capital partly by the issuing of commercial papers in the Zagreb Stock Exchange through Privredna Banka Zagreb as agent and dealer of the program.

Because of the prolonged collection of outstanding debts for fertilizers in the domestic market and the liquidity

Because of the prolonged collection of outstanding debts for fertilizers in the domestic market and the liquidity problems of domestic customers due to their own lack of working capital, Petrokemija has been using factoring as a form of financing and debt collection in the agreed due payment period (with the obligation of the buyer to bear all costs and interest associated with the factoring).

In reporting the status of current assets (accounts receivable) and current liabilities (contingent recourse obligations to the factoring companies, in the event that the debtors fail to meet their obligation), as of 31 December 2013 Petrokemija included these claims in their Balance Sheet. In the Balance Sheet positions they are indicated in the current assets and liabilities in the amount of HRK 125 million. Compared with the balance of December 31, 2012 before the year 2012, the status of these transactions is by HRK 99 million or 44.2% decreased. In the Cash Flow Statement inflows (receipts) from the collection of trade receivables through factoring are included in inflows from financial activities for 2013 in the amount of HRK 459.9 million, while for the same period last year they amounted to HRK 557.6 million.

The future trends in financial results of Petrokemija, Plc. will be influenced by many factors. In addition to the gas price, which is predominantly set in the domestic market, the majority of future risk comes from the global environment, i.e. mainly through:

1. Change in price of basic raw materials in the world market (MAP, DAP, phosphate, potassium chloride and sulfur);
2. Change in demand and sales price of fertilizers;
3. Price movement of energy fluids - gas and heating oil;
4. Price movement of basic agricultural crops;
5. Exchange rate of USD and EUR to the local currency and
6. Financing costs and inter-currency relations.

In the reporting period, the impact of unfavorable weather conditions proved to be a very unpredictable risk, which greatly disrupted the dynamics of fertilizer deliveries and consequently the related revenues on the domestic and regional markets.

The Company is considering models of securing liquidity to stabilize its operations, including a capital injection from existing shareholders and the issue of debt instruments. To this end, the Company prepared the Program for Restructuring and Financial Consolidation of Petrokemija, Plc. for 2014–2018. This document defines detailed prerequisites and restructuring measures as well as funding requirements necessary to ensure a basis for sustainable operations of the Company. These measures include, amongst other the implementation of a comprehensive restructuring process, optimization of procurement costs, refocusing production activities, work force optimization, divestment of non-operational and non-core assets as well as debt refinancing measures and recapitalization.

Petrokemija d.d.

Consolidated
financial statements
31 December 2013

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

Petrokemija d.d.
Consolidated financial statements

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Petrokemija d.d.

Statement of Management and Supervisory Board's responsibilities

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

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

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 consolidated 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 consolidated financial statements. These financial statements do not include the possible effects which would result from the Company's inability to continue operating as a going concern.

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

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

The consolidated financial statements were authorised by the Management Board on 2 April 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

2 April 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.

We have audited the accompanying consolidated financial statements of Petrokemija d.d. ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for qualified opinion

1 As described in note 31, 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 31, the Company has not estimated and recognised the provision for costs of restoration and closure of the landfill as at 31 December 2013 and 31 December 2012. The effects of this departure from International Financial Reporting Standards on the financial statements have not been determined.

2 At 31 December 2013, inventory includes items with a carrying value of HRK 95,267 thousand (2012: HRK 94,663 thousand) relating to major spare parts, stand-by equipment and spare parts that can be used only in connection with specific items of plant and equipment and which the Company expects to use during more than one period. In accordance with International 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.

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



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

Basis for qualified opinion (continued)

3 As at 31 December 2013, the assets of the Company include property, plant and equipment with a carrying value of HRK 21,794 thousand and related spare parts and materials totalling 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.

Qualified opinion

In our opinion, except for the effects of matters described in the *Basis for qualified opinion*, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to note 2.4 to the consolidated financial statements. In the year ended 31 December 2013, the Company incurred a consolidated net loss of HRK 330,437 thousand. Furthermore, as at 31 December 2013, the Company's consolidated current liabilities exceeded its consolidated current assets by HRK 203,550 thousand. Management is considering models of securing liquidity to stabilise its operations, including a capital injection from existing shareholders and the issue of debt instruments and is also considering the introduction of a strategic partner. 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 consolidated financial statements. As at the date of this report, the Company has not agreed on the models for ensuring the liquidity of the Company and the outcome of the process to introduce a strategic partner is uncertain. With respect to these conditions and others disclosed in note 2.4, the ability of the Company's to continue operating as a going concern is dependent on the ability of the Company to refinance its existing financial indebtedness and to recapitalise or the outcome of the process of introduction of a strategic investor.

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

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

2 April 2014

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

Petrokemija d.d.

Consolidated statement of comprehensive income

for the year ended 31 December 2013

(in thousands of HRK)

	Note	2013	2012
Revenue from sales	7	2,518,580	2,955,395
Other income	8	47,753	66,565
Gross profit		2,566,333	3,021,960
Change in inventory of finished goods and work in progress		(170,888)	66,872
Raw materials, consumables and services used	9	(2,224,371)	(2,801,129)
Staff costs	10	(274,746)	(246,970)
Depreciation and amortisation		(96,484)	(99,766)
Other operating expenses	11	(99,076)	(105,539)
Total operating expenses		(2,865,565)	(3,186,532)
Operating loss		(299,232)	(164,572)
Financial income	12	18,371	31,740
Financial expenses	12	(49,291)	(50,949)
Net finance costs		(30,920)	(19,209)
Share in profit/(loss) of associate		-	(884)
Profit/(loss) before tax		(330,152)	(184,665)
Income tax	13	(285)	(134)
Profit/(loss) for the year		(330,437)	(184,799)
Other comprehensive income:			
Exchange differences on translation of foreign operations		178	287
Total comprehensive income/(loss)		(330,259)	(184,512)
Profit/(loss) attributable to:			
Equity holders of the parent		(329,615)	(185,043)
Non-controlling interests		(822)	244
Total comprehensive income/(loss) attributable to:			
Equity holders of the parent		(329,437)	(184,756)
Non-controlling interests		(822)	244
Earnings/(loss) per share (in HRK):			
- Basic and diluted	27	(74.30)	(55.83)

The accompanying notes form an integral part of the financial statements

Petrokemija d.d.

Consolidated statement of financial position

as at 31 December 2013

(in thousands of HRK)

	<i>Note</i>	31.12.2013	31.12.2012
ASSETS			
Non-current assets			
Property, plant and equipment	14	710,766	739,951
Intangible assets	15	8,214	8,157
Deferred tax assets		315	-
Non-current financial assets	17	8	8
		<u>719,303</u>	<u>748,116</u>
Current assets			
Inventories	19	448,553	663,118
Trade and other receivables	20	399,754	461,513
Current financial assets	17	9,803	33,169
Financial assets at fair value through profit and loss	18	10,499	12,360
Cash and cash equivalents	21	21,828	17,494
		<u>890,437</u>	<u>1,187,654</u>
Total assets		<u>1,609,740</u>	<u>1,935,770</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	22	754,196	902,102
Reserves		7,967	-
Accumulated losses	23	(328,255)	(322,983)
Attributable to equity holders of the parent		433,908	579,119
Non-controlling interest		4,153	4,975
		<u>438,061</u>	<u>584,094</u>
Non-current liabilities			
Loans and borrowings	24	63,460	123,333
Provisions	25	14,232	15,094
		<u>77,692</u>	<u>138,427</u>
Current liabilities			
Trade and other payables	26	450,046	579,356
Income tax payable		279	64
Loans and borrowings	24	643,662	633,829
		<u>1,093,987</u>	<u>1,213,249</u>
Total equity and liabilities		<u>1,609,740</u>	<u>1,935,770</u>

The accompanying notes form an integral part of the financial statements

Petrokemija d.d.

Consolidated statement of changes in equity for the year ended 31 December 2013

(in HRK thousands)

	Share capital	Reserves	Accumulated losses	Attributable to equity holders of the parent	Non-controlling interest	Total equity
As at 1 January 2012	902,102	-	(138,227)	763,875	-	763,875
<i>Comprehensive income</i>						
Loss for the year	-	-	(185,043)	(185,043)	244	(184,799)
Other comprehensive income	-	-	287	287	-	287
Total comprehensive income	-	-	(184,756)	(184,756)	244	(184,512)
<i>Transactions with owners recognised directly in equity</i>						
Acquisition of subsidiary with non-controlling interests	-	-	-	-	4,731	4,731
Total transactions with owners recognised directly in equity	-	-	-	-	4,731	4,731
As at 31 December 2012	902,102	-	(322,983)	579,119	4,975	584,094
As at 1 January 2013	902,102	-	(322,983)	579,119	4,975	584,094
<i>Comprehensive income</i>						
Loss for the year	-	-	(329,615)	(329,615)	(822)	(330,437)
Other comprehensive income	-	-	178	178	-	178
Total comprehensive income	-	-	(329,437)	(329,437)	(822)	(330,259)
<i>Transactions with owners recognised directly in equity</i>						
Decrease of share capital (Note22)	(334,112)	9,947	324,165	-	-	-
Increase of share capital (Note22)	186,206	(1,980)	-	184,226	-	184,226
Total transactions with owners recognised directly in equity	(147,906)	7,967	324,165	184,226	-	184,226
As at 31 December 2013	754,196	7,967	(328,255)	433,908	4,153	438,061

The accompanying notes form an integral part of the financial statements

Petrokemija d.d.

Consolidated statement of financial position

as at 31 December 2013

(in HRK thousands)

	2013	2012
<u>Cash flows from operating activities</u>		
Cash received from customers	2,293,115	2,530,922
Cash inflows from insurance for claim compensations	4,994	3,833
Cash inflows from tax returns	344,321	317,934
Other cash inflows	4,450	9,791
<i>Total cash inflows from operating activities</i>	<u>2,646,880</u>	<u>2,862,480</u>
Cash paid to suppliers	2,781,258	2,934,657
Cash paid to employees	280,857	259,339
Cash outflows for claim insurance	14,493	14,698
Interest paid	29,442	25,628
Taxes paid	112,356	138,295
Other cash outflows	14,317	21,582
<i>Total cash outflows from operating activities</i>	<u>3,232,723</u>	<u>3,394,199</u>
Net cash flows from operating activities	<u>(585,843)</u>	<u>(531,719)</u>
<u>Cash flows from investment activities</u>		
Proceeds from sale of property, plant, equipment and intangibles	10	272
Dividends received	1,005	677
<i>Total cash from investment activities</i>	<u>1,015</u>	<u>949</u>
Cash outflows for purchase of property, plant, equipment and intangibles	65,213	60,657
Cash outflows for purchase of equity and debt instruments	-	20
Acquisition of subsidiary - net of cash acquired	-	13,630
<i>Total cash outflows from investment activities</i>	<u>65,213</u>	<u>60,677</u>
Net cash from investment activities	<u>(64,198)</u>	<u>(73,358)</u>
<u>Cash flows from financing activities</u>		
Cash inflow from share capital increase	186,206	-
Cash inflows from borrowings	2,024,800	2,302,466
Other cash inflows from financing activities	670,266	679,616
<i>Total cash from inflows from financing activities</i>	<u>2,881,272</u>	<u>2,982,082</u>
Cash outflows for repayment of borrowings	2,052,942	2,233,189
Other cash outflows from financing activities	200,519	121,137
<i>Total cash outflows from financing activities</i>	<u>2,253,461</u>	<u>2,354,326</u>
Net cash from financing activities	<u>627,811</u>	<u>627,756</u>
Net increase in cash and cash equivalents	(22,230)	22,679
Cash and cash equivalents at beginning of year	<u>50,663</u>	<u>27,984</u>
Cash and cash equivalents at the end of year	<u>28,433</u>	<u>50,663</u>

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The accompanying notes form an integral part of the financial statements

Petrokemija d.d.

Notes (forming part of the financial statements)

1 General information

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

As at 31 December 2013 the share capital amounts to HRK 754,196 thousand and it is divided into 4,436,447 non-materialized ordinary shares at a nominal value of HRK 170 each. 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 31 December 2013, the Company employed 2,294 employees (31 December 2012: 2,481 employees).

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

Company bodies

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

Management Board

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

Josip Jaguš	President until 6 September 2013
Antonija Perošević - Galović	Member until 14 February 2013
Tomislav Seletković	Member until 14 February 2013
Nenad Marinović	Member until 14 February 2013
Karlo Došen	Member from 15 February 2013
Krešimir Kvaternik	Member from 15 February 2013
Žarko Rijetković	Member from 15 February 2013 until 6 September 2013
Nenad Zečević	Member from 7 September 2013
Dragan Marčinko	President from 7 September 2013

Supervisory Board

Members of the Supervisory Board are:

Tomislav Radoš	Member from 15 July 2013 (President from 30 Septemeber 2013)
Željko Klaus	Member
Ivan Čar	Member until 19 December 2013
Dragutin Vajnaht	Member
Jozo Bilobrk	Member
Goran Kralj	Member from 30 September 2013 (President until 30 September 2013)
Ivan Majstrovic	Vice President until 11 September 2013
Ivan Nekvapil	Member until 15 July 2013
Krešimir Huljev	Member
Sonja Ivoš	Member
Davor Rakić	Member from 20 December 2013

General Assembly

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

Petrokemija d.d.

Notes *(forming part of the financial statements)*

2 Basis of preparation

2.1 Statement of compliance

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

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

These financial statements were authorised for issue by the Management Board on 2 April 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 year ended 31 December 2013, the Company incurred a consolidated net loss of HRK 330,437 thousand. Furthermore, as at 31 December 2013, the Company's consolidated current liabilities exceeded its consolidated current assets by HRK 203,550 thousand.

Management is considering models of securing liquidity to stabilise its operations, including a capital injection from existing shareholders and the issue of debt instruments. With this in regard, the Company prepared the "Programme for restructuring and financial consolidation of Petrokemija d.d. for the period 2014 to 2018". 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 include, amongst other, 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.

Furthermore, the Company is also in the process of introducing a strategic investor which would secure liquidity necessary to stabilise its operations. Although as at the date of these financial statements no binding offers from potential strategic partners have been submitted and the outcome of the process is uncertain, the Company is continuing with the process and is, in parallel, planning the process of restructuring and financial consolidation.

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

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.

Petrokemija d.d.

Notes (continued)

3 Significant accounting policies

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

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Petrokemija d.d. ("the Company") and entities controlled by the Company (its subsidiaries) as at and for the year ended 31 December 2013. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

(i) Subsidiaries

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

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

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

(ii) Transactions eliminated on consolidation

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

(iii) Loss of control

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

Petrokemija d.d.

Notes (continued)

3 Significant accounting policies (continued)

3.2 Foreign currency

Foreign currency transactions

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

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

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

Group companies

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

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

Net investment in Group companies

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

3.3 Goodwill

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

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

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

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

Petrokemija d.d.

Notes (continued)

3 Significant accounting policies (continued)

3.4 Property, plant and equipment

(i) Owned assets

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

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

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

3.5 Intangible assets

(i) Software licences and project documentation

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

Software and project documentation	3 - 5 years
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Petrokemija d.d.

Notes (continued)

3 Significant accounting policies (continued)

3.6 Financial instruments

Non-derivative financial instruments

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

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

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

Cash and cash equivalents

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

Investments at fair value through profit or loss

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

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

Other

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

3.7 Inventories

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

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

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

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

Petrokemija d.d.

Notes (continued)

3 Significant accounting policies (continued)

3.8 Impairment

(i) Financial assets

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

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

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

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

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

(ii) Non-financial assets

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

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

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

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

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

Petrokemija d.d.

Notes (continued)

3 Significant accounting policies (continued)

3.9 Employee benefits

(i) Defined pension fund contributions

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

(i) Long-term employee benefits

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

(ii) Bonus plans

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

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

3.10 Provisions

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

3.11 Revenue

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

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

3.12 Financial income and expenses

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

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

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

Petrokemija d.d.

Notes (continued)

3 Significant accounting policies (continued)

3.13 Accounting for leases – where the Company is the lessee

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

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

3.14 Investment in associates

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

3.15 Share capital

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

3.16 Dividends

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

3.17 Segment information

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

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

Petrokemija d.d.

Notes (continued)

3 Significant accounting policies (continued)

3.18 Taxation

(i) Income tax

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

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

(ii) Deferred tax assets and liabilities

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

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

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

(iii) Tax exposures

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

(iv) Value added tax (VAT)

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

Petrokemija d.d.

Notes (continued)

4 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2013, and/or have not been adopted by the European Union and as such have not been applied in preparing these financial statements. These standards are not expected to have a significant impact on the Company's financial statements.

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 net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (see accounting policy 3.18 and note 13).

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

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see accounting policy 3.9 and note 25).

(iii) Consequences of certain legal actions

There are a number of legal actions which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal actions, and the provisions for the Company's obligations arising from these legal actions are recognised on a consistent basis (see accounting policy 3.10 and note 25).

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

Petrokemija d.d.

Notes (continued)

6 Determination of fair value

Effective as of the reporting date, the Company adopted IFRS 13: *Fair value measurement* which represents a single framework for measuring fair value and making disclosure about fair value measurements when such measurements are required or permitted by other IFRSs. IFRS 13 unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurement in other IFRSs. As a result the Company has included additional disclosures with respect to fair value measurement as explained below.

In accordance with the transitional provisions of IFRS 13, the Company applied the new fair value measurement guidance prospectively and has not any comparative information of new disclosures. Notwithstanding the above, the change had no significant impact on the measurement of the Company's assets and liabilities.

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 to 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 18: Financial assets at fair value through profit or loss

Petrokemija d.d.

Notes (continued)

7 Revenue

	2013 HRK '000	2012 HRK '000
Revenue from sale of products and merchandise	2,514,664	2,951,245
Revenue from services	3,916	4,150
	<u>2,518,580</u>	<u>2,955,395</u>

An overview of revenue per market is given below:

	2013 HRK '000	2012 HRK '000
Croatia	879,807	1,016,013
Slovenia	193,616	192,440
Bosnia and Hezegovina	129,220	145,828
Serbia and Montenegro	200,171	310,576
Macedonia	18,207	23,099
Sales in countries outside the region	1,097,559	1,267,439
	<u>2,518,580</u>	<u>2,955,395</u>

8 Other operating income

	2013 HRK '000	2012 HRK '000
Sale of raw materials	9,499	18,480
Manufacture of spare parts	2,604	8,193
Own consumption	10,611	7,251
Insurance reimbursements	5,216	7,701
Manufacture of packaging	4,101	5,719
Inventory surplus	5,058	2,789
Other income	10,664	16,432
	<u>47,753</u>	<u>66,565</u>

9 Cost of goods sold

	2013 HRK '000	2012 HRK '000
Raw materials and consumables used	2,114,121	2,664,776
Cost of wholesale and retail goods sold	28,446	45,214
Cost of production services	81,804	91,139
	<u>2,224,371</u>	<u>2,801,129</u>

Petrokemija d.d.

Notes (continued)

10 Personnel expenses

	2013	2012
	HRK '000	HRK '000
Salaries	158,388	155,506
Contributions on salaries	32,891	33,139
Other staff costs	83,467	58,325
	<u>274,746</u>	<u>246,970</u>

The number of employees as at 31 December 2013 in the Group was 2,294 (2012: 2,481). Personnel costs include HRK 41,356 thousand (2012: HRK 40,142 thousand) of defined pension contributions paid into obligatory state funds. Contributions are calculated as a percentage of employees' gross salaries. Other staff costs include HRK 64 thousand of employee retirement and HRK 21,722 thousand of business conditioned severance payments.

11 Other operating expenses

	2013	2012
	HRK '000	HRK '000
Impairment of inventories	2,212	100
Other fees and taxes	36,372	26,171
Other employee costs	21,607	21,436
Impairment of goodwill	-	12,587
Insurance	12,290	11,795
Increase in provision	716	2,887
Bank charges	6,555	6,600
Inventory loss	1,876	6,312
Impairment of trade receivables	354	2,440
Intellectual services	3,729	2,772
Travel expenses	1,440	1,544
Other	11,925	10,895
	<u>99,076</u>	<u>105,539</u>

Other taxes, fees and charges include HRK 15,229 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

	2013	2012
	HRK '000	HRK '000
Interest	1,919	3,057
Foreign exchange differences	11,443	18,810
Other financial income	5,009	5,604
Gain on remeasurement of interest in former associate	-	4,269
Total financial income	<u>18,371</u>	<u>31,740</u>
Unrealised losses on financial assets	(1,829)	-
Interest expense	(39,795)	(34,210)
Foreign exchange losses	(7,667)	(16,739)
Total financial expenses	<u>(49,291)</u>	<u>(50,949)</u>
Net finance costs	<u>(30,920)</u>	<u>(19,209)</u>

Petrokemija d.d.

Notes (continued)

13 Income tax expense

Recognised in the statement of comprehensive income:

	2013 HRK '000	2012 HRK '000
Current income tax	600	134
Deferred tax, net	(315)	-
	<u>285</u>	<u>134</u>

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:

	2013 HRK '000	2012 HRK '000
Profit/(loss) before taxation	<u>(330,152)</u>	<u>(184,665)</u>
Tax calculated at 20% (2012:20%)	(66,030)	(36,933)
Non-deductible expenses and non-taxable income	878	181
Temporary differences and tax losses not recognised as deferred tax assets	984	1,987
Utilisation of temporary differences previously not recognised as deferred tax assets	(258)	(529)
Utilisation of tax losses previously not recognised as deferred tax assets	(679)	-
Tax recognised in the statement of comprehensive income	65,225	35,557
Effect of different tax rates	165	(129)
Tax expense recognised in the statement of comprehensive income	<u>285</u>	<u>134</u>
Effective tax rate	<u>(0.1%)</u>	<u>(0.1%)</u>

At the reporting date, carry forward tax losses of the Company amounting to HRK 793,010 thousand (2012: HRK 466,885 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:

	2013 HRK '000	2012 HRK '000
Tax loss from 2009 - expires on 31 December 2014	34,208	34,208
Tax loss from 2010 - expires on 31 December 2015	23,304	23,304
Tax loss from 2012 - expires on 31 December 2017	35,865	35,865
Tax loss from 2013 - expires on 31 December 2018	65,225	-
	<u>158,602</u>	<u>93,377</u>

Petrokemija d.d.

Notes (continued)

14 Property, plant and equipment

(in thousands of HRK)

	Land	Buildings	Plant and equipment	Equipment and fittings	Other assets	Assets under construction	Prepayments	Total
Cost								
At 1 January 2012	49,412	565,536	1,083,829	48,917	494	13,828	3,082	1,765,098
Additions	-	134	11,438	-	-	80,809	-	92,381
Acquisition through business combination	-	-	5,631	85	-	-	-	5,716
Transfers	70	7,732	26,618	4,520	6	(38,885)	(61)	-
Disposals	-	-	(303)	(1,172)	-	-	-	(1,475)
At 31 December 2012	49,482	573,402	1,127,213	52,350	500	55,752	3,021	1,861,720
Accumulated depreciation								
At 1 January 2012	-	259,840	728,964	36,414	-	-	-	1,025,218
Charge for the year	-	21,826	72,386	3,762	-	-	-	97,974
Disposals	-	-	(253)	(1,170)	-	-	-	(1,423)
At 31 December 2012	-	281,666	801,097	39,006	-	-	-	1,121,769
Carrying amount								
As at 31 December 2012	49,482	291,736	326,116	13,344	500	55,752	3,021	739,951
Cost								
At 1 January 2013	49,482	573,402	1,127,213	52,350	500	55,752	3,021	1,861,720
Additions	-	-	1,847	113	-	62,941	332	65,233
Acquisition through business combination	-	-	-	-	-	-	-	-
Transfers	-	6,658	50,400	5,948	3	(63,009)	-	-
Disposals	-	-	(1,518)	(393)	-	-	-	(1,911)
At 31 December 2013	49,482	580,060	1,177,942	58,018	503	55,684	3,353	1,925,042
Accumulated depreciation								
At 1 January 2013	-	281,666	801,097	39,006	-	-	-	1,121,769
Charge for the year	-	21,431	69,119	3,735	-	-	-	94,285
Disposals	-	-	(1,498)	(280)	-	-	-	(1,778)
At 31 December 2013	-	303,097	868,718	42,461	-	-	-	1,214,276
Carrying amount								
As at 31 December 2013	49,482	276,963	309,224	15,557	503	55,684	3,353	710,766

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 21,794 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, ie, on the outcome of the process of involving strategic investors. Given the uncertain outcome of this process, 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

<i>(in thousands of HRK)</i>	Assets under construction	Software and project documentation	Total
Cost			
At 1 January 2012	1,975	19,520	21,495
Additions	2,273	-	2,273
Transfers	(640)	640	-
At 31 December 2012	3,608	20,160	23,768
Accumulated amortisation			
At 1 January 2012	-	13,819	13,819
Charge for the year	-	1,792	1,792
At 31 December 2012	-	15,611	15,611
Carrying amount			
As at 31 December 2012	3,608	4,549	8,157
Cost			
At 1 January 2013	3,608	20,160	23,768
Additions	1,930	20	1,950
Transfers	(619)	619	-
At 31 December 2013	4,919	20,799	25,718
Accumulated amortisation			
At 1 January 2013	-	15,611	15,611
Charge for the year	-	2,199	2,199
Disposals	-	(306)	(306)
At 31 December 2013	-	17,504	17,504
Carrying amount			
As at 31 December 2013	4,919	3,295	8,214

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

16 Subsidiaries

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

Name of subsidiary	Ownership interest in %	
	2013.	2012.
Petrokemija d.o.o., Novo Mesto	100%	100%
Petrokemija d.o.o., Novi Sad	100%	100%
Restoran Petrokemija d.o.o., Kutina	100%	100%
Luka Šibenik d.o.o.	80%	80%

Petrokemija d.d.

Notes (continued)

17 Financial assets

	2013 HRK '000	2012 HRK '000
Non-current financial assets		
TV Moslavina, Kutina (ownership share of 12%)	8	8
Current financial assets		
Deposits	6,605	33,169
Current financial assets - other	3,198	-
	9,803	33,169

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

18 Financial assets at fair value through profit or loss

	2013 HRK '000	2012 HRK '000
Investment in equity securities	10,499	12,360
	10,499	12,360

	2013 HRK '000	2012 HRK '000
Opening carrying value	12,360	10,759
Effect of remeasurement at fair value	(1,861)	793
Acquisition through business combination	-	808
Closing carrying value	10,499	12,360

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

Fair value measurement

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

Petrokemija d.d.

Notes (continued)

19 Inventories

	2013 HRK '000	2012 HRK '000
Raw materials and supplies	113,041	157,291
Work in progress	42,596	70,216
Finished goods	194,190	333,854
Trade goods	1,237	5,140
Spare parts	95,267	94,663
Prepayments	2,222	1,954
	<u>448,553</u>	<u>663,118</u>

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

	2013 HRK '000	2012 HRK '000
Current receivables		
Trade receivables	195,068	164,490
Trade receivables on factoring	125,013	224,162
Less: Provisions for impairment	(9,999)	(13,118)
Net trade receivables	<u>310,082</u>	<u>375,534</u>
Prepaid expenses	12,550	2,709
Receivables for taxes and contributions	71,782	72,519
Bills of exchange received	4,210	5,546
Receivables from employees	33	56
Other receivables	1,097	5,149
	<u>399,754</u>	<u>461,513</u>

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

	2013 HRK '000	2012 HRK '000
At 1 January	13,118	21,430
Increase	354	2,176
Amounts collected	(375)	(433)
Written off as uncollectible	(3,098)	(10,055)
At 31 December	<u>9,999</u>	<u>13,118</u>

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Notes (continued)

21 Cash and cash equivalents

	2013 HRK '000	2012 HRK '000
Cash with banks	21,824	17,480
Cash in hand	4	14
	<u>21,828</u>	<u>17,494</u>
Deposits	6,605	33,169
Cash and cash equivalents as presented in the statement of cash flows	<u>28,433</u>	<u>50,663</u>

Deposits related to bank deposits with maturity up to three months (see note 17).

22 Share capital

	2013 HRK '000	2012 HRK '000
Share capital	<u>754,196</u>	<u>902,102</u>

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

Structure of ownership	2013		2012	
	Number of shares	% of ownership	Number of shares	% of ownership
AUDIO/Republic of Croatia	1,944,642	43.83%	1,691,742	50.63%
Societe Generale-Splitska banka d.d./AZ OMF	399,932	9.01%	148,064	4.43%
Hypo Alpe-Adria bank d.d./PBZ Croatia osiguranje d.d.OMF	366,431	8.26%	160,549	4.81%
Societe Generale-Splitska banka d.d./Erste Plavi OMF	332,883	7.50%	184,883	5.53%
Hrvatska poštanska banka d.d./Kapitalni fond d.d.	126,713	2.86%	95,273	2.85%
Societe Generale-Splitska banka d.d./AZ Profit DMF	122,462	2.76%	72,462	2.17%
Erste&Steiermarkische bank d.d./Collective custodian accounts	80,000	1.80%	-	0.00%
PBZ d.d./State street client account	76,024	1.71%	59,011	1.77%
HPB d.d./Fond za financiranje razgradnje nekretnina	71,200	1.60%	-	0.00%
PBZ d.d./CN Ltd.	65,235	1.47%	-	0.00%
Other shareholders	850,925	19.18%	929,133	27.81%
Total	<u>4,436,447</u>	<u>100.00%</u>	<u>3,341,117</u>	<u>100.00%</u>

Share capital comprises 4,436,447 ordinary shares (2012: 3,341,117 shares) of a nominal value of HRK 170 (2012: HRK 270) per share. Holders of ordinary shares have a right to receive dividends and a right for one vote per share at the General Assembly of the Company.

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 its 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, the Company increased its share capital 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.

Petrokemija d.d.

Notes (continued)

23 Accumulated losses

	2013	2012
	HRK '000	HRK '000
As at 1 January	(322,983)	(138,227)
Loss for the year	(329,615)	(185,043)
Exchange differences on translation of foreign operations	178	287
Decrease of share capital (Note22)	324,165	-
As at 31 December	(328,255)	(322,983)

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

24 Loans and borrowings

	2013	2012
	HRK '000	HRK '000
Non-current borrowings		
Banks	63,460	123,333
	63,460	123,333
Current borrowings		
Banks	362,389	323,167
Commercial papers	71,833	82,000
Factoring liabilities	125,013	224,162
Issued bills of exchange	20,000	-
Other loans	64,427	4,500
	643,662	633,829
Total borrowings	707,122	757,162

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

	2013	2012
	HRK '000	HRK '000
Up to 1 year	644,006	633,829
Between 1 and 2 years	47,284	61,389
Between 2 and 5 years	15,832	59,444
Over 5 years	-	2,500
	707,122	757,162

Loans amounting to HRK 391,849 thousand have variable interest rates. The variable interest rates for bank loans included in the table above were in the range from 4% to 8.5%.

Bank loans amounting to HRK 118,427 thousand have fixed interest rates. The fixed interest rates for bank loans included in the table above were in the range from 4.6% to 9.5%.

Commercial papers have fixed interest rates. The interest rates for commercial papers included in the table above were in the range from 5.8% to 7.2%.

Group's borrowings are denominated in HRK.

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 328,093 thousand as well as with bills of exchange and debentures.

Factoring liabilities

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

Petrokemija d.d.

Notes (continued)

25 Provisions

<i>(in thousands of HRK)</i>	Jubilee awards	Retirement benefits	Legal actions	Total
At 31 December 2012				
Non-current	9,337	3,807	1,950	15,094
At 1 January 2013	9,337	3,807	1,950	15,094
Increase	683	371	442	1,496
Utilised	(1,467)	(72)	(819)	(2,358)
At 31 December 2013	8,553	4,106	1,573	14,232
At 31 December 2013				
Non-current	8,553	4,106	1,573	14,232

Court cases

There are a number of legal proceedings initiated against the Company for minor amounts as well as those initiated by the Company against others. A provision amounting to HRK 1,573 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:

	<i>Estimate</i>	
	2013	2012
Discount rate	5,0%	4,7%
Fluctuation rate	4,10%	3,35%

26 Trade and other payables

	2013	2012
	HRK '000	HRK '000
Trade payables	285,051	485,964
Salaries and other benefits to employees	17,749	18,220
Accrued interest	1,470	1,259
Taxes, contributions and other duties	8,578	8,301
Advances received	108,333	60,958
Other	28,865	4,654
	450,046	579,356

Petrokemija d.d.

Notes (continued)

27 Earnings/(loss) per share

Basic earnings/ (loss) per share

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

	2013	2012
Loss attributable to equity holders of the	(329,615)	(185,043)
Weighted average number of shares	4,436,447	3,314,117
Basic and diluted loss per share in HRK	(74.30)	(55.83)

28 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:

	2013	2012
	HRK '000	HRK '000
Non-current investments and financial assets	8	8
Current financial assets	9,803	33,169
Financial assets at fair value through profit or loss	10,499	12,360
Trade and other receivables	399,754	461,513
Cash and cash equivalents	21,828	17,494
	441,892	524,544

Trade and other receivables

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

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

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

Petrokemija d.d.

Notes (continued)

28 Risk management (continued)

Credit risk (continued)

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

	2013 HRK '000	2012 HRK '000
Domestic trade receivables	292,109	373,829
Foreign trade receivables	27,972	14,823
	<u>320,081</u>	<u>388,652</u>

The Company's most significant customer is a Croatian conglomerate which accounts for approximately 33% of domestic sales and approximately 56% of total trade receivables (2012: 63 %).

The ageing of trade receivables at the reporting date was:

	2013 HRK '000	2012 HRK '000
Not yet due	294,610	366,900
Overdue 0-120 days	15,194	6,362
Overdue 121-180 days	135	1,531
Overdue 181-360 days	134	939
Overdue over 1 year	10,008	12,920
	<u>320,081</u>	<u>388,652</u>

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:

<i>(in thousands of HRK)</i>	Future contracted cash flows		Finance cost		Present value of min. loan payments	
	2013	2012	2013	2012	2013	2012
Up to 1 year	450,046	579,356	-	-	450,046	579,356
Trade and other payables	450,046	579,356	-	-	450,046	579,356
Up to 1 year	654,766	653,329	(10,760)	(19,500)	644,006	633,829
Between 1 and 2 years	49,356	66,239	(2,072)	(4,850)	47,284	61,389
Between 2 and 5 years	17,045	64,594	(1,213)	(5,150)	15,832	59,444
After 5 years	-	2,568	-	(68)	-	2,500
Borrowings	<u>721,167</u>	<u>786,730</u>	<u>(14,045)</u>	<u>(29,568)</u>	<u>707,122</u>	<u>757,162</u>
Total	<u>1,171,213</u>	<u>1,366,086</u>	<u>(14,045)</u>	<u>(29,568)</u>	<u>1,157,168</u>	<u>1,336,518</u>

Included in the financial statements within:

Current borrowings	644,006	633,829
Non-current borrowings	63,116	123,333
Trade and other payables	450,046	579,356
	<u>1,157,168</u>	<u>1,336,518</u>

Petrokemija d.d.

Notes (continued)

28 Risk management (continued)

Liquidity risk (continued)

During 2013, 17th, 18th and 21st installment of commercial papers with maturity on 26 April, 4 September and 31 October 2013, respectively, were refinanced by issuing 19th installment in the amount of HRK 30,570 thousand, 20th installment in the amount of HRK 31,479 thousand and 23rd installment in the amount of HRK 29,781 thousand which mature on 18 April 2014, 31 October 2013 and 28 October 2013, respectively. As at the reporting date, total exposure relating to commercial papers amounted to HRK 71,833 thousand.

Going concern

In the year ended 31 December 2013, the Company incurred a consolidated net loss of HRK 330,437 thousand. Furthermore, as at 31 December 2013, the Company's consolidated current liabilities exceeded its consolidated current assets by HRK 203,550 thousand.

Management is considering models of securing liquidity to stabilise its operations, including a capital injection from existing shareholders and the issue of debt instruments. With this in regard, the Company prepared the "Programme for restructuring and financial consolidation of Petrokemija d.d. for the period 2014 to 2018". 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 include, amongst other, 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.

Furthermore, the Company is also in the process of introducing a strategic investor which would secure liquidity necessary to stabilise its operations. Although as at the date of these financial statements no binding offers from potential strategic partners have been submitted and the outcome of the process is uncertain, the Company is continuing with the process and is, in parallel, planning the process of restructuring and financial consolidation.

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

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

	Average rate		Reporting date spot rate	
	2013	2012	2013	2012
EUR	7.573548	7.517340	7.637643	7.545624
USD	5.705883	5.850861	5.549000	5.726794

28 Risk management (continued)

Petrokemija d.d.

Notes (continued)

Market risk (continued)

Currency risk (continued)

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

	2013 EUR '000	2012 EUR '000	2013 USD '000	2012 USD '000
Trade and other receivables	5,365	3,774	1,456	23
Trade and other payables	(4,671)	(14,256)	(7,943)	(17,879)
	694	(10,482)	(6,487)	(17,856)

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 increased result of the Company by HRK 53 thousand (2012: decrease HRK 791 thousand), assuming all other variables 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 360 thousand (2012: HRK 1,023 thousand), assuming all other variables 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.

	2013 HRK '000	2012 HRK '000
Instruments with fixed interest rate		
Financial assets	-	-
Financial liabilities	190,260	119,000
	190,260	119,000
Instruments with variable interest rate		
Financial assets	9,803	33,169
Financial liabilities	391,849	414,000
	401,652	447,169

Petrokemija d.d.

Notes (continued)

29 Contractual commitments

The Company has a contractual commitment for purchase of natural gas from the suppliers Prirodni Plin d.o.o. (a subsidiary of INA d.d. in which the Republic of Croatia has an ownership stake of 44.8%) and Prvo plinarsko društvo d.o.o., Vukovar. As per the contracts currently in force, the Company has an obligation to buy the total amount of natural gas required in its production cycle from these suppliers of which a part will be purchased based on a combination of the "oil index formula" and the spot price of gas while a part will be paid at a fixed price. These contractual commitments expire on 31 December 2014.

Agreement on priority concession

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

	<u>31.12.2013.</u> <u>'000 kn</u>
2012.-2017.	30,100
2016.-2020.	32,745
2020.-2025.	35,780
2025.-2026.	6,000
2026.-2029.	11,100
	<u>115,725</u>

30 Related party transactions

The majority owner 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; 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 State related parties

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

Petrokemija d.d.

Notes (continued)

30 Related party transactions (continued)

During 2013, the Company had the following transactions with State related entities:

	2013 HRK '000	2012 HRK '000
<i>Prirodni Plin d.o.o.</i>		
Purchase of gas	1,511,258	2,075,457
Liabilities as at 31 December	166,048	251,861
<i>HŽ Cargo d.o.o.</i>		
Purchase of transport services	69,939	66,031
Liabilities as at 31 December	6,560	4,359
<i>HEP Opskrba d.o.o.</i>		
Purchase of electricity	19,328	30,306
Liabilities as at 31 December	8,647	4,234
<i>HPB d.d.</i>		
Borrowings as at 31 December	141,500	91,500

Transactions with key management and Supervisory Board

Management Board remuneration relates to regular monthly payments for salaries and other benefits in kind. During 2013, remuneration paid to key management amounted to HRK 4,038 thousand (2012: HRK 2,143 thousand) and related to 9 persons (2012: 4 persons).

Furthermore, during 2013, a total of HRK 410 thousand (2012: HRK 414 thousand) was paid to the members of the Supervisory Board and related to 11 persons (2012: 12 persons).

Petrokemija d.d.

Notes (continued)

31 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 25.

32 Subsequent events

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

Petrokemija, Plc.
SUPERVISORY BOARD

Number: 2/2014
Kutina, 09 April 2014

Based on Article 21 of Statute of Petrokemija, Plc. and Articles 300.c and 300.d of the Companies Act, at a meeting No. 4/2014 held on 09 April 2014, the Supervisory Board of Petrokemija, Plc. issued the following

D E C I S I O N

ON GRANTING APPROVAL TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR 2013

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 2013.

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

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

II

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

- Consolidated Balance
- Consolidated Profit and Loss Account
- Consolidated Cash Flow Statement
- Consolidated Statement of Changes in Equity
- Notes on consolidated financial statements
- Petrokemija Group Annual Report
- Petrokemija, Plc. Management Board Report and Consolidated Financial Reports of 31 December 2013 (Independent Auditor's Opinion and Notes).

III

Consolidated Balance Sheet assets and liabilities are recorded in the amount of **HRK 1,609,741,584.86**

The consolidated loss of Petrokemija Group, Plc. business for 2013 amounts to **HRK 330,259,239.28.**

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 Radoš/