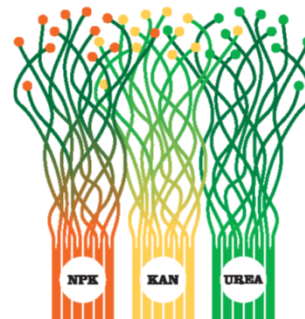


UNAUDITED  
UNCONSOLIDATED



# SEMI-ANNUAL REPORT PETROKEMIJA Plc. KUTINA

REPORT FOR PERIOD January to June 2014  
INTERIM REPORT FOR PERIOD April to June 2014



Kutina, July 2014

# Key indicators for Petrokemija, Plc for January to July 2014



- ❑ Actual production of fertilizers - 537 thousand tons, 3,3% more than the previous year;
- ❑ In assortment: production of NPK decreased by 33.6%, KAN increase 20.1%, while Urea recorded an increase of 15.6%;
- ❑ Yield of currently installed plant capacities: up to 80.0%;
- ❑ Fertilizer sales - 513,4 thousand tons, 12.3% higher than in the same period last year. A significant decrease is recorded in sales of NPK (index 72%), while sales of Urea are 33.8% higher compared to the same period last year. Sales of KAN are 23.3% higher than in the same period last year;
- ❑ Share of fertilizer sales in the domestic market is 34.6%.
- ❑ Domestic sales - 178 thousand tons, export - 335,4 thousand tons of mineral fertilizer;
- ❑ Actual total revenues of Petrokemija, Plc. - HRK 1,115.2 million;
- ❑ Actual loss of Petrokemija, Plc. - HRK 225.8 million, which includes HRK 100 million provision for employee severance;
- ❑ EBITDA Petrokemija, Plc. – HRK 159 million;
- ❑ Equity and reserves at 30 June 2014 of Petrokemija, Plc. - HRK 209 million;
- ❑ Invested in Petrokemija, Plc. - HRK 22.5 million;
- ❑ Number of employees at 30 June 2014: Petrokemija, Plc. - 2,123, Petrokemija Group - 2,284.

# **Business of Petrokemija, Plc. for January to June 2014 is characterized by:**



- ❑ Operating income - HRK 1,110.9 million, 9.4% less than in the same period of 2013;
- ❑ Actual operating expenses - HRK 1,317.8 million, 3.3% above the same period of 2013; without reservation of severance - lower operating expenses by 4.6% than in the first half of 2013;
- ❑ Losses from business activities - HRK 207.0 million, from financial activities - HRK 18.8 million, total loss of 225.8 million, out of which 100.0 million accounts for provisions for payment of retirement incentives;
- ❑ Higher sales 12.3%, while average selling prices are by 19.1% lower compared to the same period in 2013;
- ❑ Income from domestic sales is 38.7% or HRK 432 million, which is 22.4% less than in the same period of 2013; income from export is 59.8% or HRK 666.6 million which is 2.7% more than in the same period of 2013;
- ❑ Domestic sales - 7.3% lower than in the same period of 2013;
- ❑ Export sales - 26.4% or 70 thousand tons higher than in the same period of 2013;
- ❑ Sales of clay products and liquid fertilizers - 4.7% higher than planned, and by 15.5% or 1,308 tons lower than in the same period of 2013.

# **Business of Petrokemija, Plc. for the period January to June 2014 is characterized by (cont.)**

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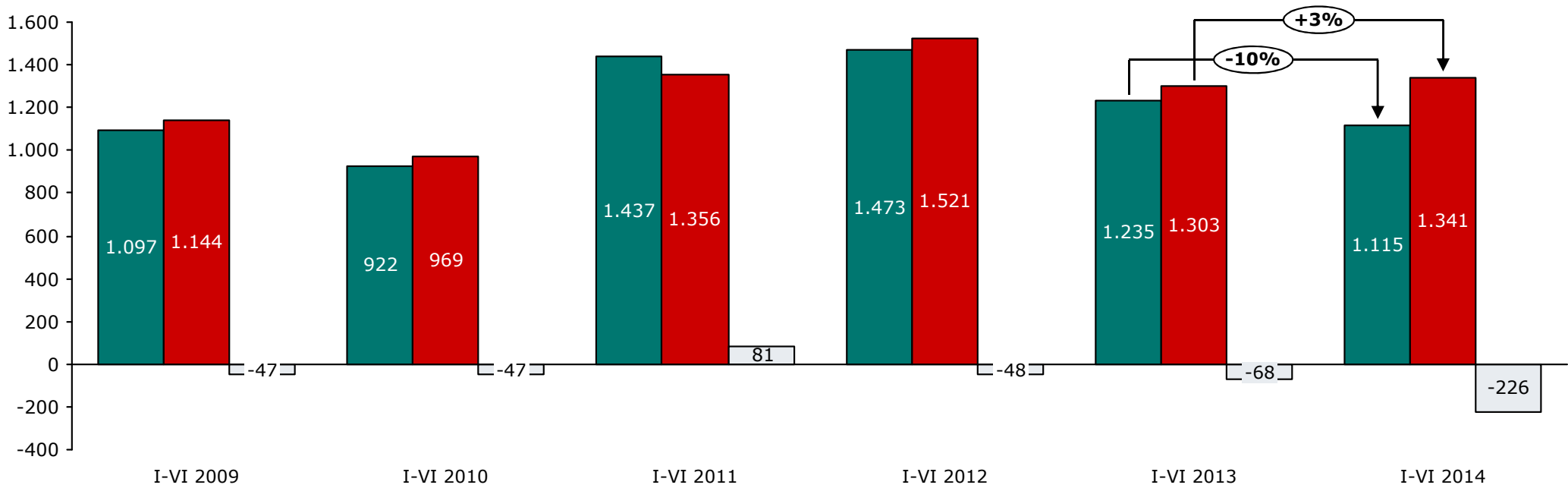
- ❑ Current ratio below the recommended values, with a decline compared to the same period of 2013 due to losses and delays in capital increase (negative working capital of HRK 427 million);
- ❑ Current assets less by 19.1% compared to the same period of 2013 while current liabilities less by 1.6%;
- ❑ Financial stability indicator below the recommended values, indicators of debt and own funding significantly exacerbated compared to the same period of 2013, which is why the capital increase is necessary;
- ❑ Average realized gas price - 8% lower compared to the same period of 2013;
- ❑ Total number of employees is 2,123, and significant reduction (492 workers) prepared for July 31 this year;
- ❑ Actual investment in the period of HRK 22.5 million, which is 52% compared to the same period of 2013 (delayed overhaul and liquidity problems).

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

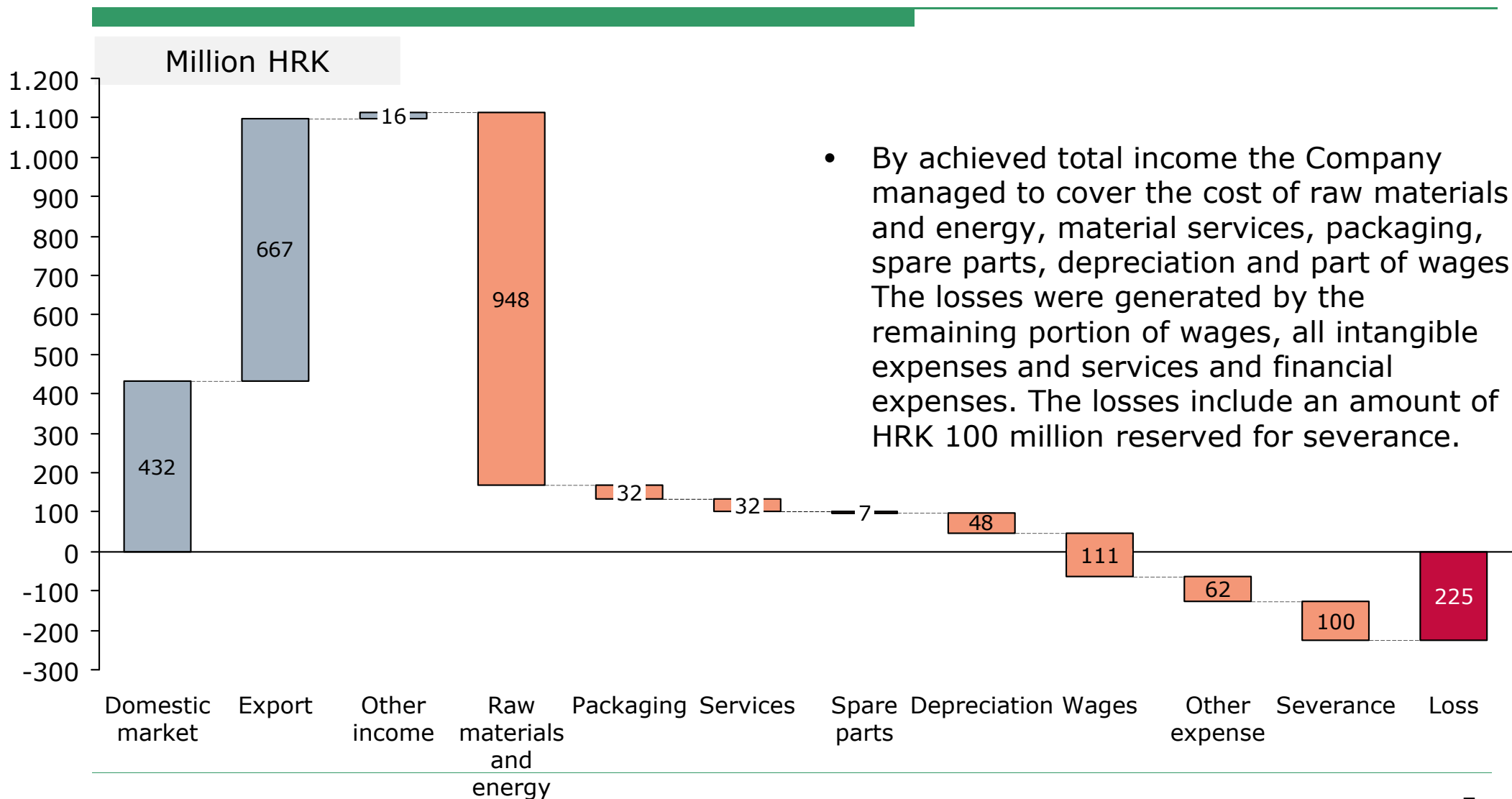


■ Total income	HRK 1,115.2 mln,
■ Total expenses	HRK 1,341.0 mln,
■ Loss before taxation	HRK -225,8 mln,
■ Loss without provisions for payment of retirement incentives	HRK -125.8 mln

■ TOTAL INCOME  
 ■ TOTAL EXPENSES  
 □ PROFIT / LOSS



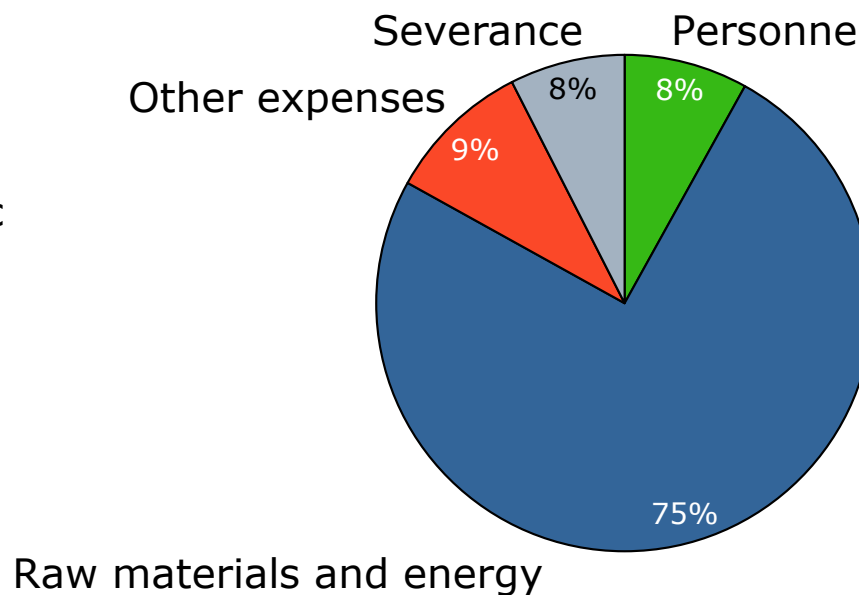
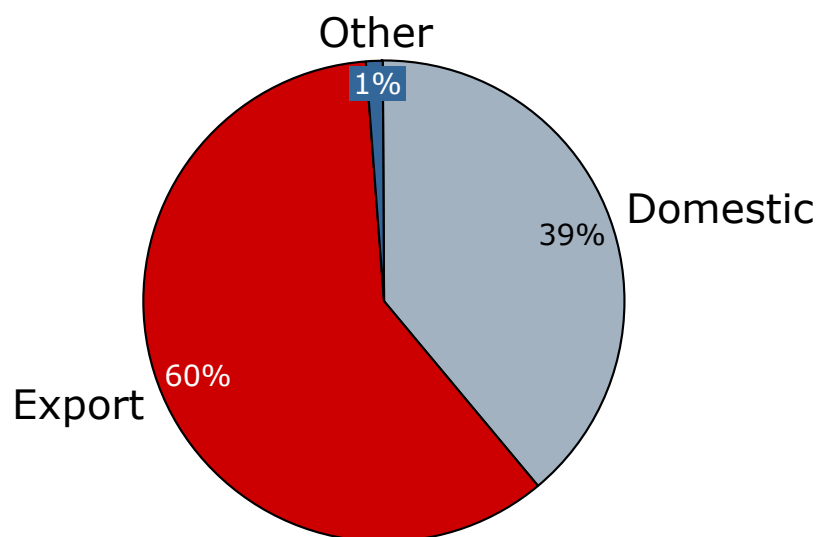
# Structure of profit and loss in 2014



- By achieved total income the Company managed to cover the cost of raw materials and energy, material services, packaging, spare parts, depreciation and part of wages. The losses were generated by the remaining portion of wages, all intangible expenses and services and financial expenses. The losses include an amount of HRK 100 million reserved for severance.

# Structure of income and expenses Jan - June 2014

- In the January – June 2014 period, Petrokemija earned 39% income from domestic market, 60% income from export, and financial and other income accounted for 1.0% of total income
- In structure of total expenses, the dominant 75% account for raw materials and energy; personnel costs for 8%, while all other costs make 17% (9.5% other costs and 7.5% severance)



# Key financial indicators Jan - June 2014



(HRK 000)

	I-VI 2014.	I-VI 2013.	Difference	% changes
Operating income	1.110.877	1.225.981	-115.104	-9,39%
Operating expense	1.317.832	1.276.301	41.531	3,25%
EBITDA *	-158.861	-2.817	-156.044	0,00%
EBITDA without provisions for payment of retirement incentives	<b>-58.842</b>			
Amortization	48.094	47.503	591	1,24%
Net financial income (expenses)	-18.846	-17.765	-1.081	6,08%
Net extraordinary income (expenses)	0	0	0	
Profit / loss / before taxation	-225.801	-68.085	-157.716	0,00%
	30.VI.2014.	31.XII 2013.		
Fixed assets	710.671	738.156	-27.485	-3,72%
Current assets	956.672	868.240	88.432	10,19%
Capital and reserves	208.980	434.780	-225.800	-51,93%
Long-term liabilities + provisions	74.687	75.209	-522	-0,69%
Current liabilities + provisions	1.383.676	1.096.406	287.270	26,20%

\* EBITDA= profit before interest, taxation depreciation and amortization



# Operating results for the period April - June 2014



- In April to June 2014 period, Petrokemija, Plc. had actual total revenues of HRK 519.4 million, total expenses of HRK 684.6 million and reported losses of HRK 165.2 million (HRK 100.0 million included provisions for severances). On a quarterly basis, total revenues decreased by 18.6% compared to the second quarter of 2013, while total expenses increased by 5.1%.
- When excluding provisions for severance, as a one-time cost of the restructuring process, the loss amounts to HRK 65.2 million, and is up by 7.5% on the first quarter of 2014 due to additional interest costs payable to suppliers (high debt due to gas).
- At the EBITDA level, the losses of the first and second quarters of 2014 were approximately equal at about 29 million (excluding provisions for severance payments made in June of the current year for severance that will be paid in the remaining fiscal year).
- Due to the impossibility of cancelling the previously agreed purchase of natural gas, to maintain continuity of production and maintain liquidity during this period, Petrokemija Plc. was still forced to sell significant quantities of fertilizer to distant markets, at which worse financial impacts are achieved due to lower prices and high transportation costs.

# Key financial indicators in April – June 2014



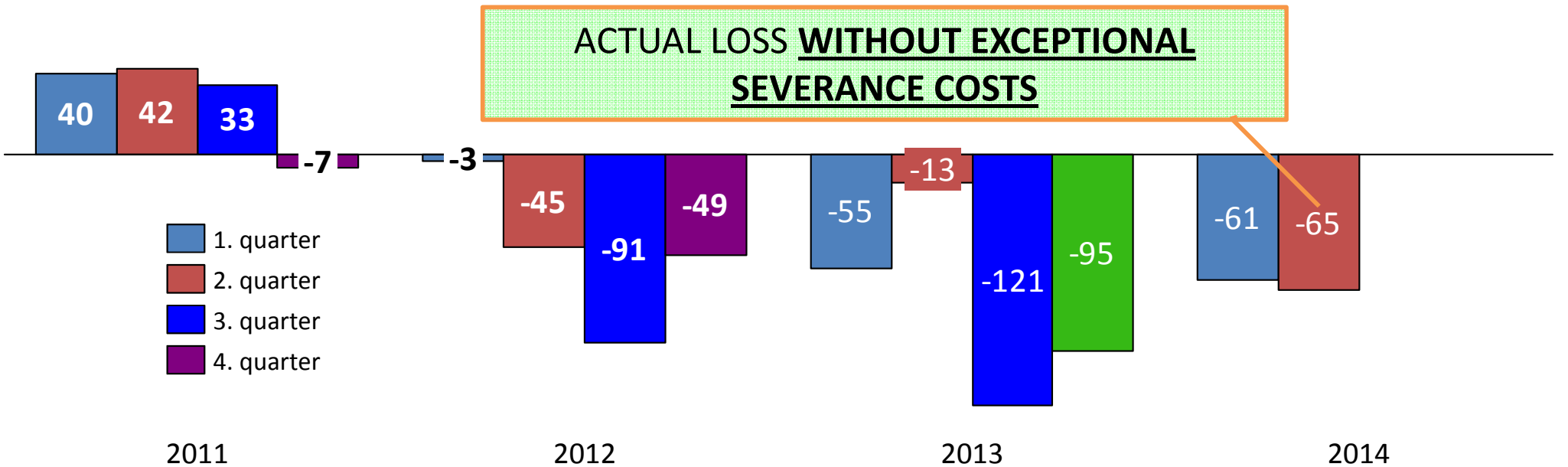
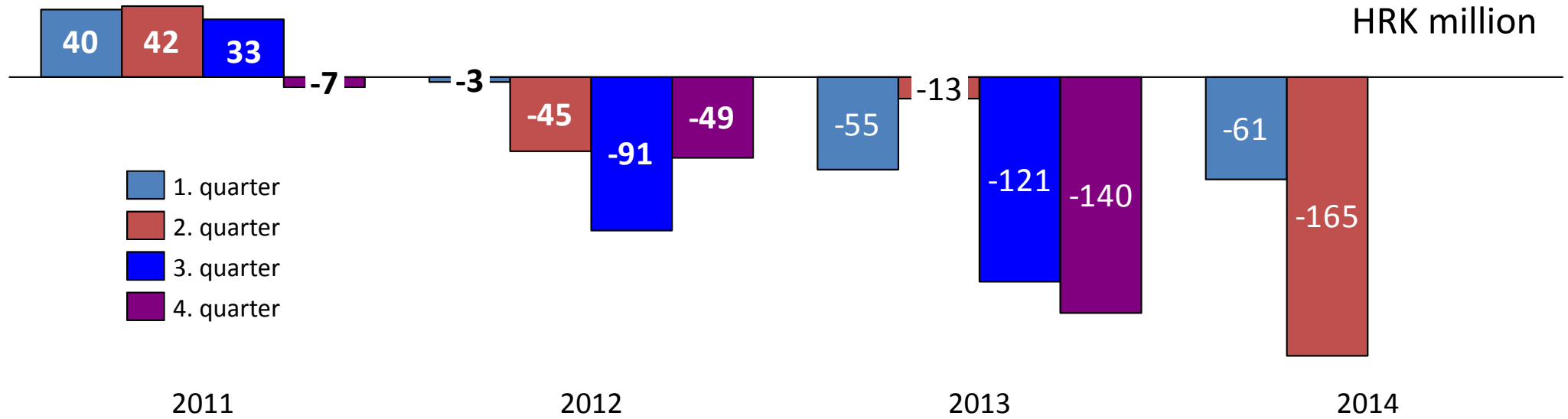
(HRK 000)

	<b>I-III 2014.</b>	<b>IV-VI 2014.</b>	<b>I-VI 2014.</b>
Operating income	594.623	516.254	1.110.877
Operating expense	647.644	670.188	1.317.832
EBITDA *	-29.132	-129.729	-158.861
EBITDA without provisions for payment of retirement incentives	<b>-29.132</b>	<b>-29.710</b>	<b>-58.842</b>
Amortization	23.889	24.205	48.094
Net financial income (expenses)	-7.601	-11.245	-18.846
Net extraordinary income (expenses)	0	0	0
Profit / loss / before taxation	-60.622	-165.179	-225.801

Compared to the same period last year, the loss in the second quarter of 2014 is HRK 104.6 million higher, which includes HRK 100.0 million, the amount of severance pay to workers for redundancy. The EBITDA indicator, without non-recurring severance costs is approximately at the same level as in the first and second quarter of the current year.

\* EBITDA= profit before interest, taxation depreciation and amortization

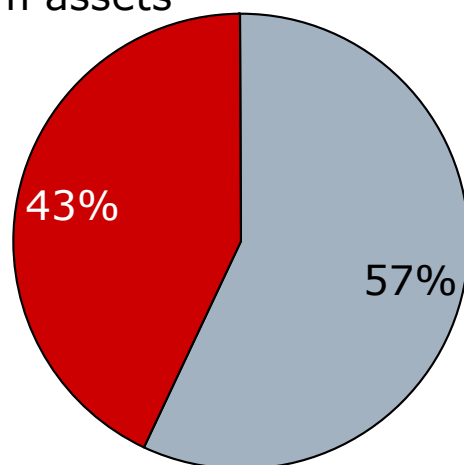
# Quarterly losses 2011 - 2014



# Structure of assets and liabilities at 30 June 2014

- At 30 June 2014 Petrokemija, Plc. had 57% in value of short-term and 43% in long-term assets, which can be interpreted as the result of relatively high depreciation and the age of production and auxiliary facilities.
- The level of capital reflects the capital reduction in 2014 and deduction for loss in the first half of 2014. The structure of debt is dominated by short-term sources of debt and failure to obtain long-term loans on the domestic market (global crisis, losses, ownership structure).

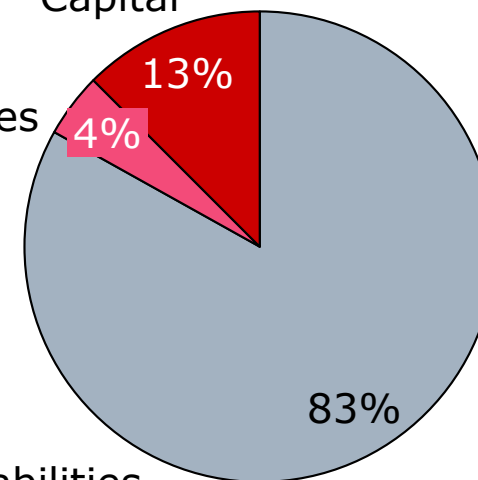
Long-term assets



Short-term assets

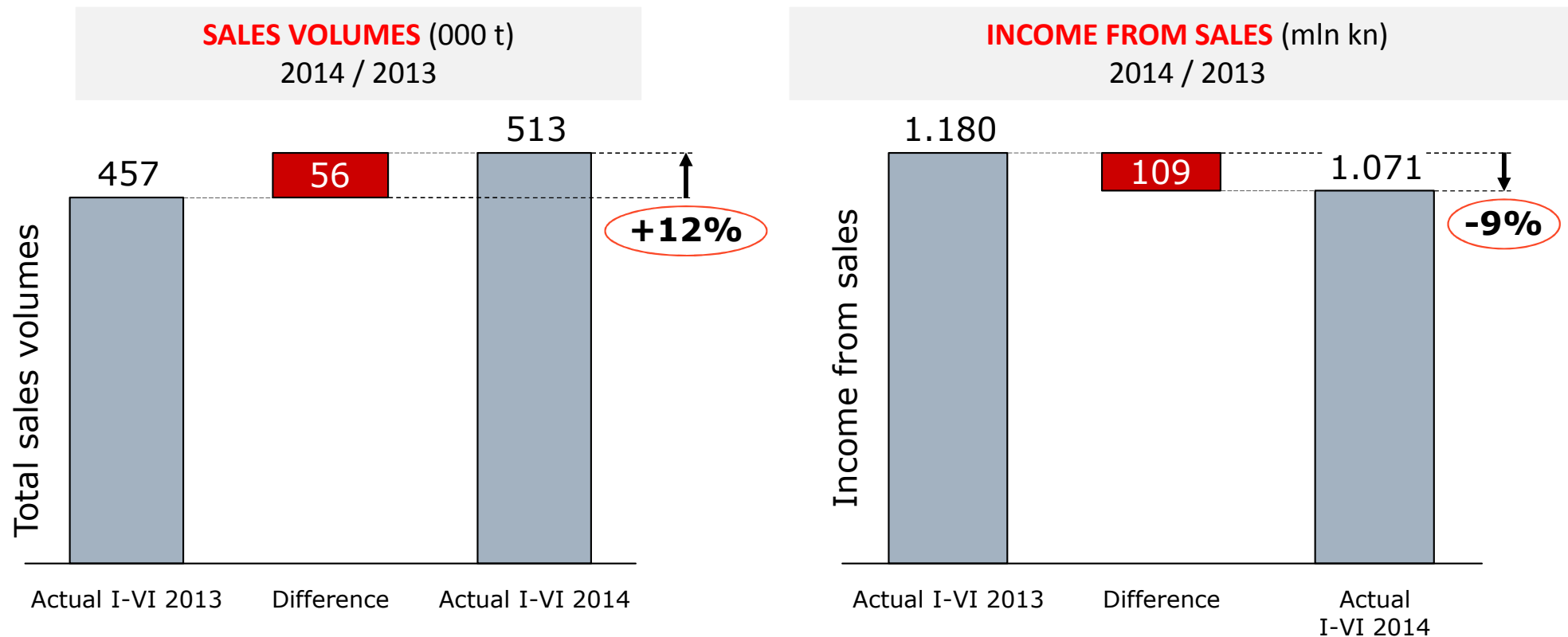
Capital

Long-term liabilities



Short-term liabilities

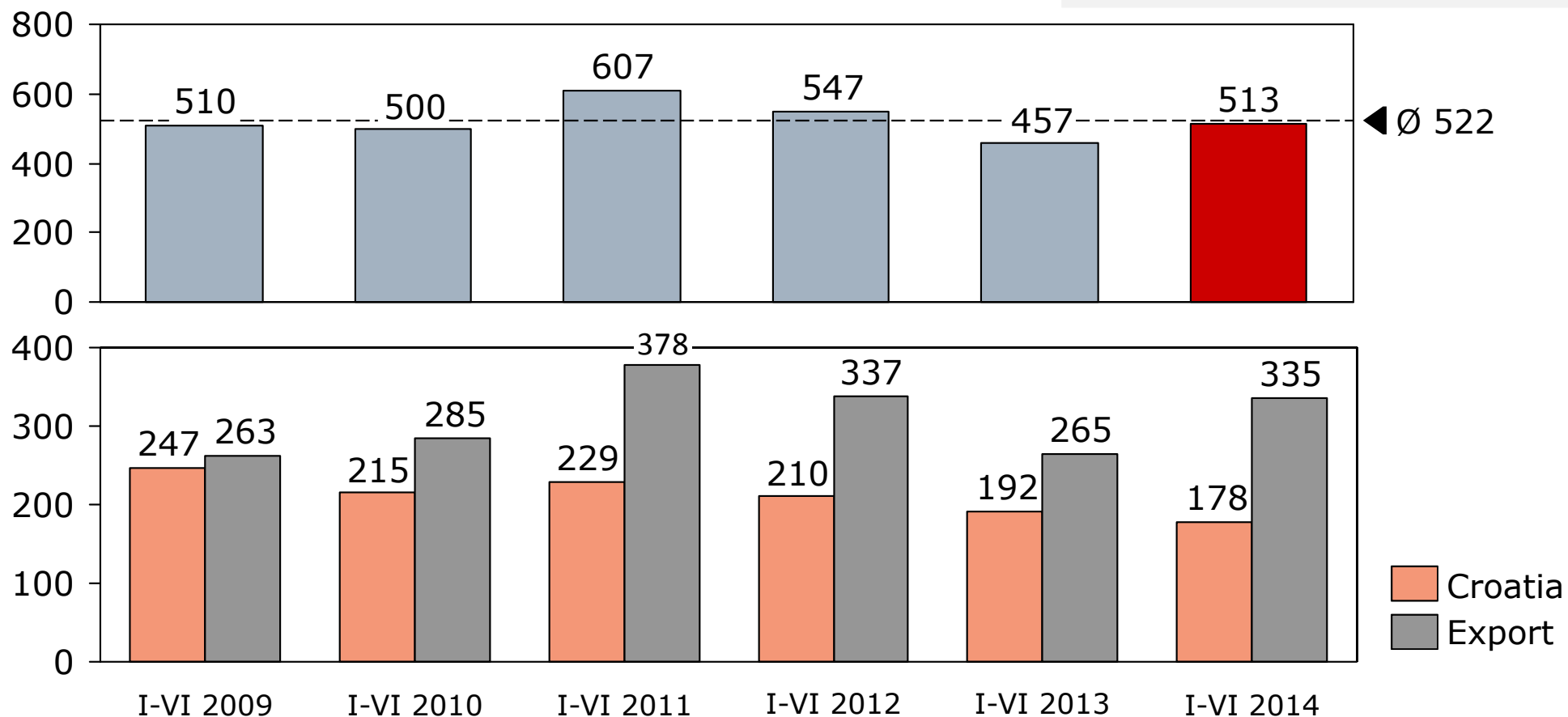
# Total fertilizer sales



In spite of the actual growth in volume sales of 12%, the actual revenues from the sales were lower by 9%, indicating a significant decline in average selling prices.

# Actual fertilizer sales in Jan-June 2014

Total sales (000 tons)



# Business results of Petrokemija Group for January-June 2014

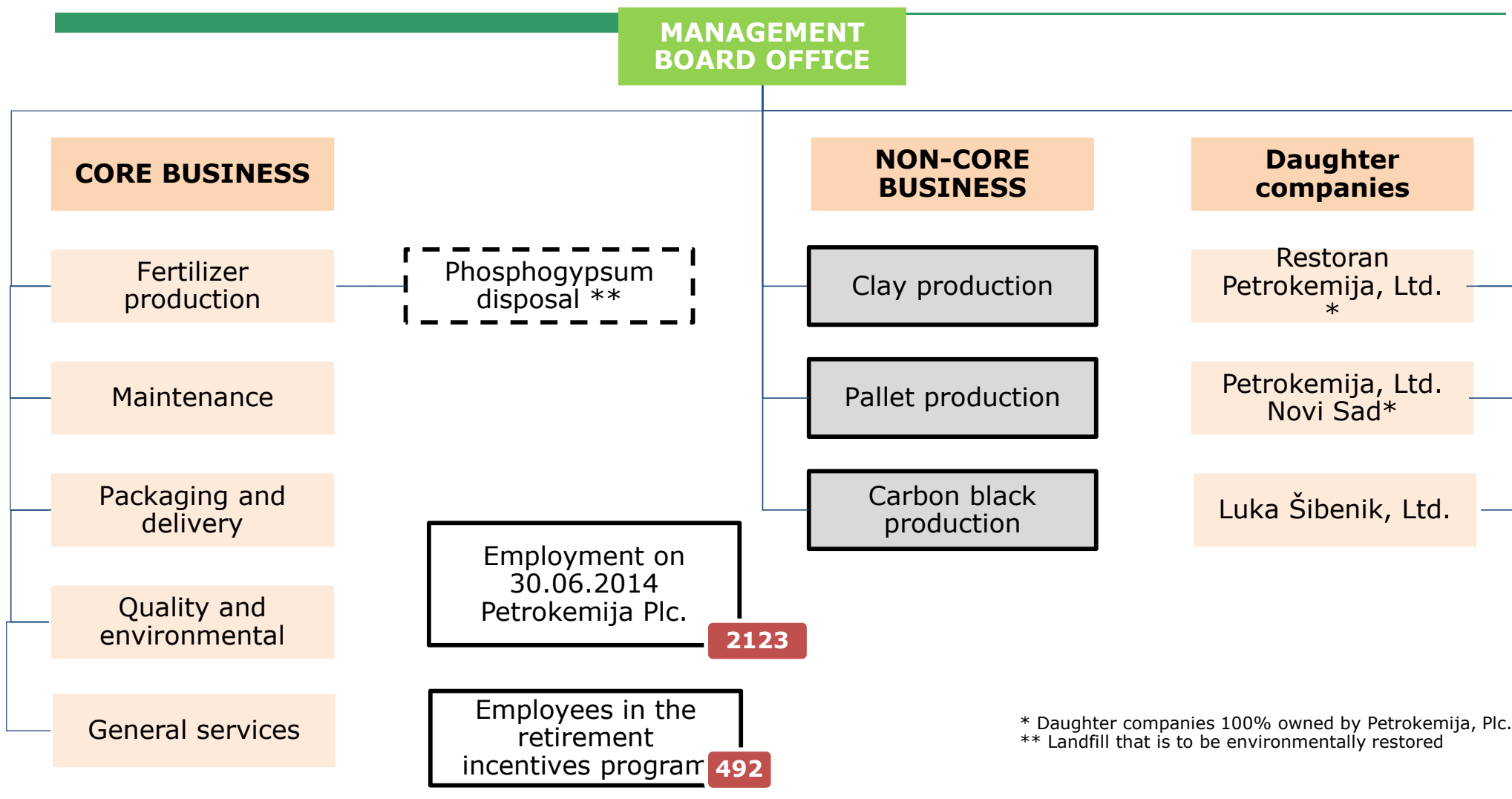


- After the consolidation of financial results of Petrokemija, Plc. and its subsidiaries Restoran Petrokemija, Ltd. Kutina, Petrokemija, Ltd. Novi Sad, Petrokemija, Ltd. Novo Mesto and Luka Šibenik, Ltd., the financial results of Petrokemija Group for the period January-June 2014 are as follows:

■ Total revenues	HRK 1.118,5 million,
■ Total expenses	HRK 1.346,0 million,
■ Loss before tax	HRK -227,5 million,

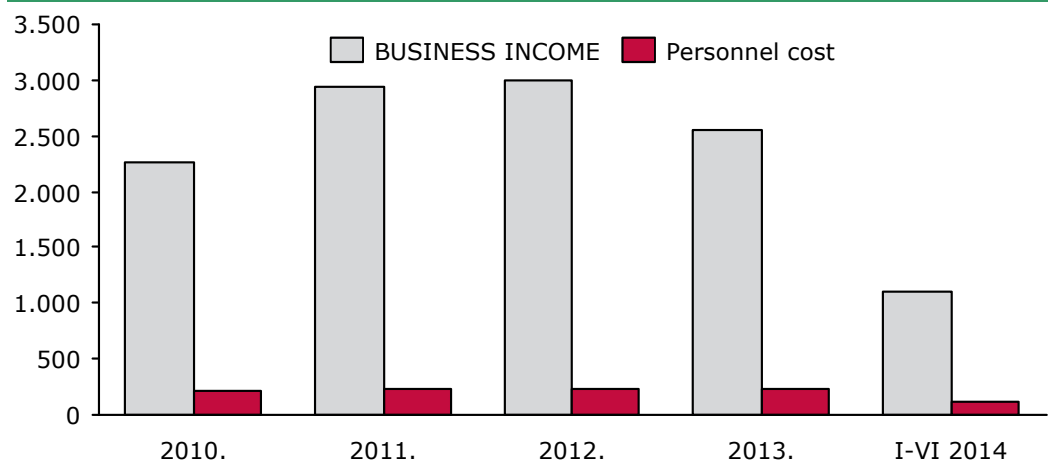
- EBITDA (earnings before interest, taxes and depreciation) was HRK 159.6 million in the negative.
- Restoran Petrokemija, Ltd. made a profit of HRK 106.7 thousand, while other companies operated with a loss (Petrokemija, Ltd. Novi Sad - HRK 108.7 thousand, Luka Šibenik - HRK 1.7 million). Luka Šibenik, Ltd. reported loss due to low volume of traffic and high fixed costs.
- On February 20, 2014 subsidiary Petrokemija, Ltd. Novo Mesto was closed.
- The report on the Petrokemija Group's business includes detailed information on the operations of the subsidiaries.

# Organization chart of Petrokemija, Plc. and Petrokemija Group



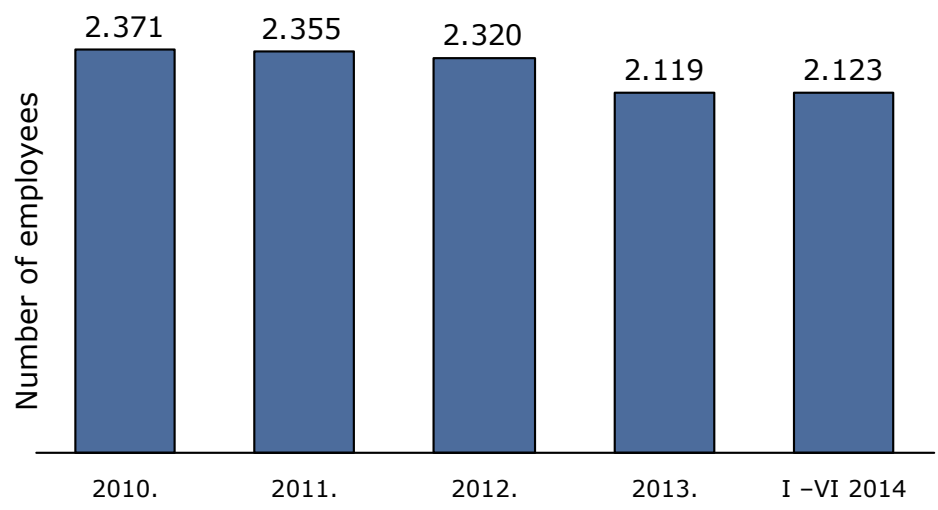


# Operational income, personnel costs, number of employees



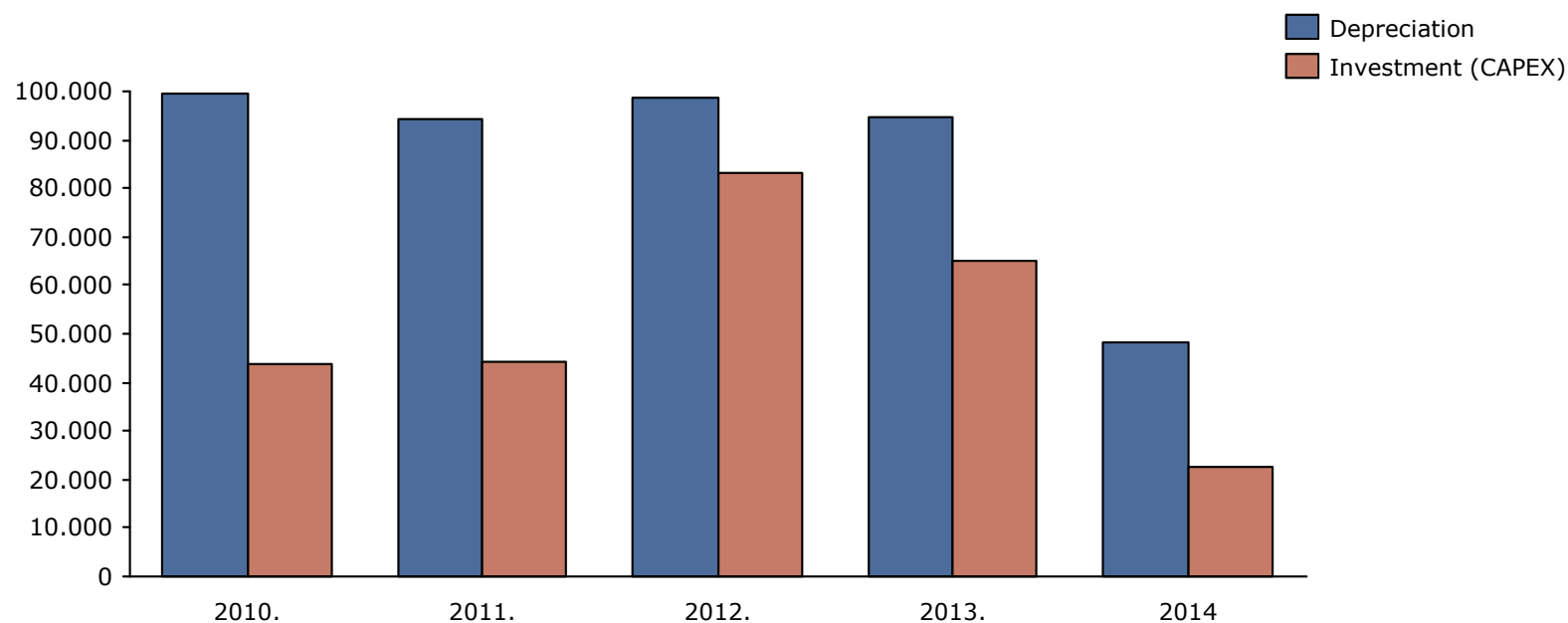
As at 30.06.2014 Petrokemija, Plc had 2,123 employees, and daughter companies - members of Petrokemija Group - had a total of 161 employees, which makes a total of 2,289 employees.

The share of personnel costs in operating revenues were 9.95%, and in operating expenses 8.39%.

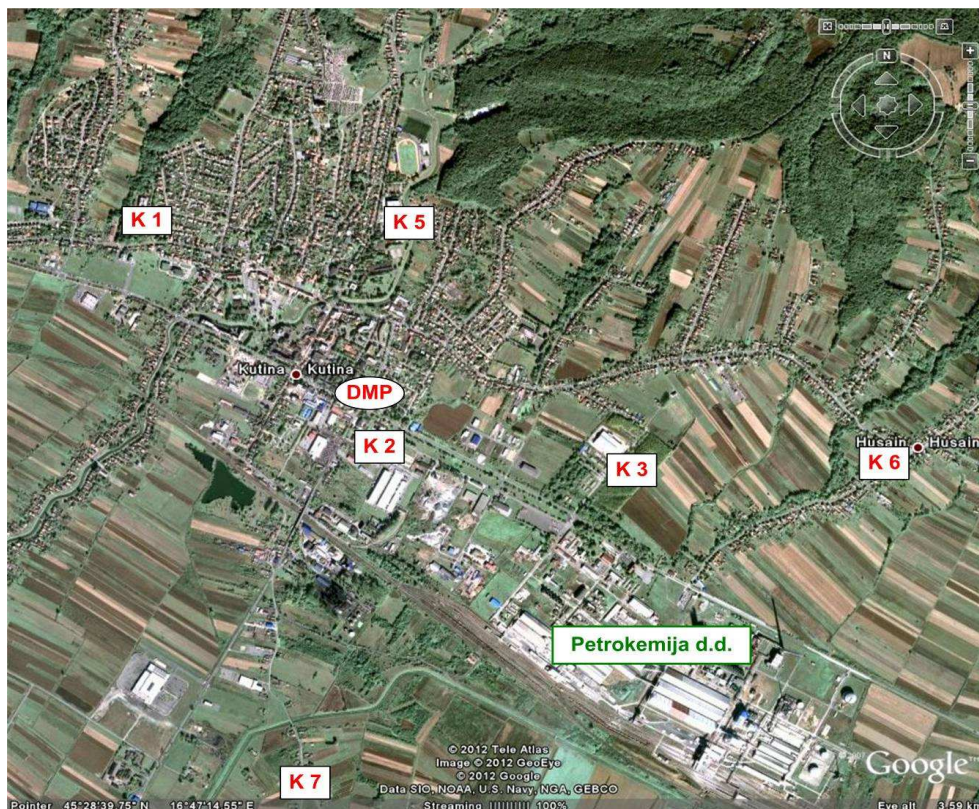


# Realized investment

- Investment realized in the period January-June 2014 amounted to HRK 22.5 million, which is HRK 20.8 million or 48% lower than in the same time previous year.
- Lower realization of investments is partly due to the postponement of the annual overhaul for 2015.



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



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

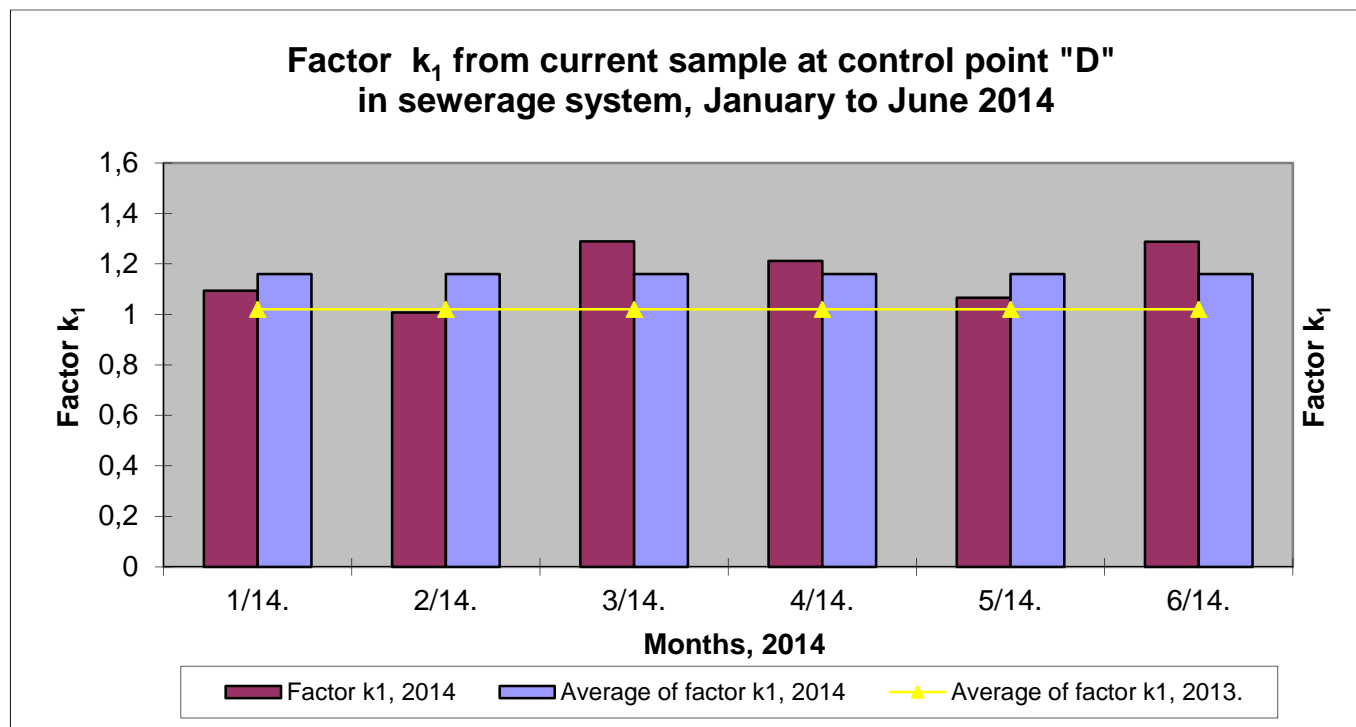
## Note:

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

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

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

# Water management



The average value of  $k_1$  factor for the period from January to June 2014 is slightly higher compared to average achieved in 2013.

Average consumption of raw water in period from January to June 2014 was 599.021 m<sup>3</sup>, which is 2.9 % less than average achieved in 2013.

# Company share capital and market value of shares

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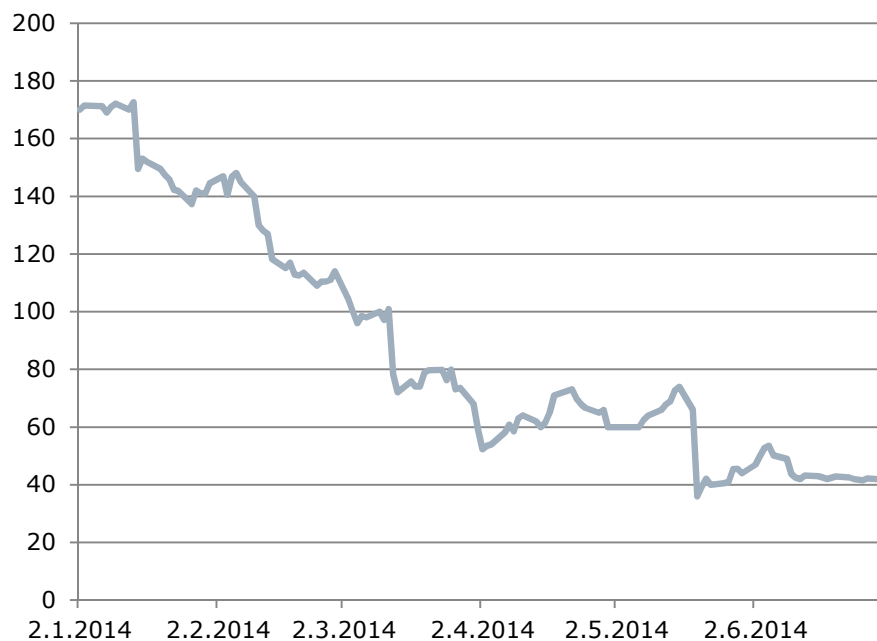


- General Meeting of Petrokemija, Plc. of 20 May 2014 adopted a Decision on simplified reduction of the share capital for loss coverage, by reduction of the nominal amount of the ordinary shares PTKM-RA of HRK 170.00 by an amount of HRK 140.00 to the amount of HRK 30.00.
- Thus the Company share capital was reduced from the amount of HRK 754,195,990.00 by of HRK 621,102,580.00 to the amount of HRK 133,093,410.00 and is divided into 4,436,447 registered ordinary shares of HRK 30.00 nominal value each.
- On 31 December 2013 the share value was HRK 167.99, while on 31 March 2014 its average price was HRK 68.01 (down 59.5%). On 30 June 2014 it was HRK 41.90.

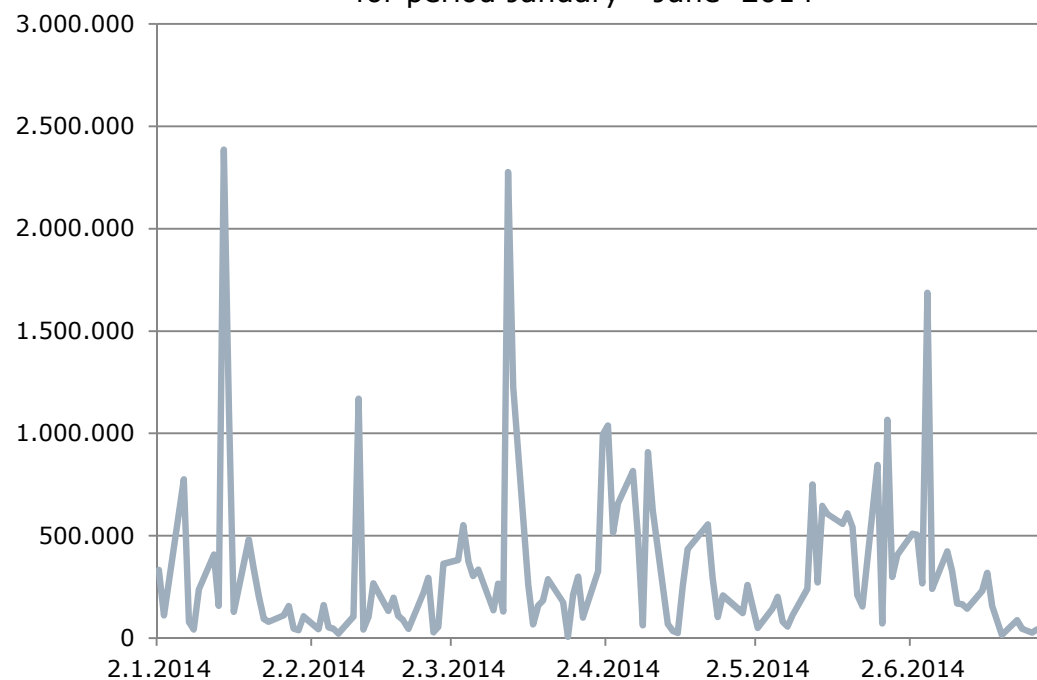
# The movement of the share price and the daily turnover of Petrokemija, Plc.



**The movement of the share price Petrokemija, Plc.**  
for period January - June 2014



**The movement of daily turnover of the share price Petrokemija, Plc.**  
for period January - June 2014



# Changes in the Supervisory Board in 2014

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- At the General Meeting held on 20 May 2014, a Decision was made on the appointment of Branimir Fleković, BEc from Zagreb, member of the Supervisory Board for a term of four years.
- Pursuant to Article 256 of the Companies Act and the provisions of the Articles of Association of Petrokemija, Plc., the State Office for State Property Management (DUUDI) passed a Decision on recall of members of the Supervisory Board, by which Jozo Bilobrck and Dragutin Vajnaht were recalled as Supervisory Board members.
- The decision on the recall was due to changes in the Articles of Association Petrokemija adopted by the General Meeting of 20 May 2014, where the number of Supervisory Board members is reduced from nine to seven members and DUUDI's authority to appoint two members is removed.



# Key events in 2014

- In 2013, at its session held on 30 July, the Croatian Government launched the process of selecting a strategic partner for Petrokemija.
- 14 November 2013 - Croatian Government made a decision on the establishment of a Commission for selection of strategic partner for Petrokemija, Plc. Company, Kutina. The Minister of Economy, Ivan Vrdoljak was appointed chairman of the Commission, and as its members Mladen Pejnović, Head of the National Office for State Property Management, Tomislav Radoš, Chairman of the Supervisory Board of Petrokemija, Dragan Marčinko, President of the Petrokemija Management Board, Goran Kralj and Željko Klaus, members of the Company Supervisory Board and Karlo Došen, member of the Management Board of Petrokemija. The Commission was commissioned to carry out the process of selecting a strategic partner for Petrokemija in accordance with applicable regulations, whereby the Republic of Croatia would retain at least 25 % + one share.
- 12 March 2014 - in the required period no binding offer was received which would be in accordance with the transaction documents. Two potential investors sent letters to express their serious interest in the investment and the willingness to continue the talks.
- 31 March 2014 - a session of the Government Commission for selection of strategic partner for Petrokemija was held at the Ministry of Economy. No binding offer was received in the required time limit.
- At its 162<sup>nd</sup> Session held on 22 May 2014, the Croatian Government adopted Conclusions and Decisions relating to the Commission for the selection of a strategic partner of Petrokemija, Plc.
- After the expiry of the procedure for selecting strategic partner that did not result in the actual choosing one, i.e. the change in ownership structure, Petrokemija has begun a rapid restructuring process in collaboration with its current owners – the Government and pension funds.

# Key events in 2014 (cont.)

- At its meeting held on 9 April 2014, the Supervisory Board of Petrokemija, Plc. approved the Program of Restructuring and Financial Consolidation of Petrokemija for 2014-2018 and in connection with this the proposal and decision on decrease and increase of the share capital to be submitted to the Company General Meeting. In accordance with the adopted decisions, Petrokemija, Plc. convened the General Meeting for 20 May 2014.
- The main prerequisites for the realization of the objectives are a competitive price of natural gas, lower operating costs and available financial resources. The program of restructuring and financial consolidation is based on a comprehensive set of activities that are to be taken in the coming years in order to provide the Company with resources for a successful business. If the measures are not fully realized or some parts are not implemented, it will potentially lead to the collapse of the whole project and its impacts.
- The management must implement operational restructuring in order to make cost savings from operations of HRK 626 million.
- The Management in cooperation with financial institutions must implement financial consolidation in the amount of HRK 676 million for financing working capital, severance for redundancy program, investments and rescheduling of loans.
- Unions, General Workers' Council and the Association of Croatian Homeland War Veterans of Petrokemija must actively support the implementation of the program.
- The shareholders are expected to approve the recapitalization in the amount of HRK 500 million in 2014 and HRK 400 million in 2015.

# Key events in 2014 (cont.)



- The restructuring and financial consolidation are necessary to ensure long-term viability of the Company and will cover the key elements of business - the mid-term solution of gas supply at competitive market terms, modernization of facilities and logistics and organizational changes of processes within the company in order to reduce operating costs. In this way, Petrokemija would be able to respond to the challenges encountered in the near and wider market environment. The Management Board believes that, despite the current difficult situation, the Company possesses vast potential that can be realized in the medium term through the process of restructuring, investment in modernization and complete financial consolidation, as stable positive business in the interest of the owners, employees and the wider community.
- After intensive negotiations with companies Prirodni plin, d.o.o., a member of INA Group and Prvo plinarsko društvo, d.o.o. Vukovar, the Management of Petrokemija managed to negotiate with both suppliers more favorable terms for the purchase of natural gas in 2014, and part of the volumes for 2015. Prvo plinarsko društvo, d.o.o. Vukovar will supply Petrokemija with gas during the summer months (June-September) and from 1 October 2014 to 1 October 2015 gas will be supplied by both suppliers PPD and Prirodni plin (for gas year 2014/2015). This created the first prerequisite for the implementation of the program of restructuring and financial consolidation 2014-2018 which is based on three key assumptions: competitive natural gas prices, lower operating costs and available financial resources. Completed negotiations with suppliers of natural gas at this stage are a precondition for the implementation of the program and continuing the process of recapitalization of the Company.

# Key events in 2014 (cont.)

- The government adopted a Decision on the recapitalization of the Petrokemija, Plc. Company. The Restructuring and Sale Center is commissioned to carry out the subscription and payment of a maximum of 8,333,333 Company shares in the name and for the account of Republic of Croatia at a price ranging from HRK 30.00 to 100.00 per share, pursuant to Public Invitation for subscription and payment of new ordinary Company shares, published on 7 July 2014.
- The decision on the final price at which subscription and payment of shares will be carried out will be made by the State Office for State Property Management with the approval of the Ministry of Economy
- Restructuring and Sale Center will carry out the payment for the shares from funds generated from the management of shares/equity owned by the Republic of Croatia and managed by the Center.
- In case of inability to timely raise funds for payment of shares, the Center will provide resources for payment of shares by borrowings from commercial banks, and in the case of obtaining funds from borrowings a consent is given to the Center to conclude a contract on collateral of the shares of Hrvatski Telekom d.d., the property of Republic of Croatia.
- In the first round, which lasted from 12.00 hrs on 7 July 2014 to 12.00 hrs on 21 July 2014, the existing shareholders who had their shares registered in dematerialized securities account with the Central Depository and Clearing Company Inc. on the date of the publication of Invitation to the General Meeting in the Official Gazette, subscribed and paid for a total of 434,733 shares.

# 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:

- ❑ Outcome of the capital increase and support from business banks
- ❑ 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 preparation of this report, the Management Board contracted more favorable terms for the purchase of natural gas with two suppliers in the summer of 2014.
- ❑ The sales prices of fertilizers in the world market are still under the influence of cyclical and seasonal changes. In the reporting period they were stagnating, and at the time of preparation of this report there is no indication of price growth, which could be interpreted as a seasonal occurrence.
- ❑ The fluctuations of raw material prices on the world market present so far will continue to have impact on material costs in the next period
- ❑ 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 30 June 2014 Petrokemija, Plc. reported these liabilities in the balance sheet positions in the amount of HRK 198 million. During the reporting period, due to problems with liquidity, for one of the largest buyers a part of these receivables was rescheduled for the next period.
- ❑ The most significant individual risk is further decline in sales prices of fertilizers in the world, regional and local markets

# Statement of management liability



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

## Statement on Management Liability

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

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

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

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

- 
- **Company Quarterly Financial Report - TFI-POD  
Petrokemija, Plc.:**
    - **Balance Sheet**
    - **Profit and Loss Account**
    - **Report on Cash Flow**
    - **Report on Capital Change**
    - **Notes**

**Attachment 1.**

Reported period:

01.01.2014.

to

30.06.2014.

**Quarterly financial statements TFI-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](mailto:fin@petrokemija.hr)Internet address: [www.petrokemija.hr](http://www.petrokemija.hr)

Code and city/municipality: 220 KUTINA

Code and county name: 3 SISAČKO-MOSLAVAČKA ŽUPANIJA

Number of employees: 2.123  
(at the end of the year)

Consolidated Report: NO

Code of NKD: 20.15

Entities in consolidation (according to IFRS):

Registered seat:

Registration number (MB):

Book-keeping office:

Contact person: MARINA MARIĆ

(name and surname of the contact person)

Telephone number: 044-647-829

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Name and surname: DRAGAN MARČINKO, KARLO DOŠEN

(authorized representatives)

**Documentation to be published:**

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

(seal)

(signature of authorized representative)



**BALANCE SHEET**  
as at 30.06.2014.

<b>Petrokemija d.d.</b>			
Position	AOP code	Previous year (31.12.)	Current year
1	2	3	4
<b>A) RECIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL</b>	<b>001</b>		
<b>B) LONG-TERM ASSETS (003+010+020+029+033)</b>	<b>002</b>	<b>738.156.275</b>	<b>710.671.003</b>
I. INTANGIBLE ASSETS (004 do 009)	003	8.212.096	8.499.812
1. Expense for development	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	3.291.706	2.603.904
3. Goodwill	006		
4. Advances for intangible assets	007		
5. Intangible assets in progress	008	4.920.390	5.895.908
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 do 019)	010	703.319.704	677.864.972
1. Land	011	49.482.151	49.482.151
2. Buildings	012	275.009.650	265.973.450
3. Plant and equipment	013	303.981.972	271.991.093
4. Tools, plant inventory and transportation assets	014	15.556.412	27.912.032
5. Biological assets	015		
6. Advances for tangible assets	016	3.352.925	3.641.830
7. Tangible assets in progress	017	55.434.274	58.362.626
8. Other tangible assets	018	502.320	501.790
9. Investments in real estates	019		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	020	26.374.307	24.200.524
1. Investments (shares) in related companies	021	26.366.770	24.192.987
2. Loans given to related companies	022		
3. Participating interest (shares)	023	7.537	7.537
4. Loans given to companies with participating interest	024		
5. Investment in securities	025		
6. Loans given, deposits and similar assets	026		
7. Other long-term financial assets	027		
8. Investments accounted for using the equity method	028		
IV. TRADE RECEIVABLES (030 do 032)	029	250.168	105.695
1. Receivables from related companies	030		
2. Receivables for sales on loan	031		
3. Other receivables	032	250.168	105.695
V. DEFERRED TAX ASSETS	033		
<b>C) SHORT-TERM ASSETS (035+043+050+058)</b>	<b>034</b>	<b>856.005.143</b>	<b>955.280.945</b>
I. INVENTORIES (036 do 042)	035	444.533.679	408.952.673
1. Raw and other material	036	204.418.531	185.620.979
2. Work in progress	037	42.595.846	39.958.018
3. Finished products	038	194.190.474	178.942.958
4. Merchandise inventory	039	1.107.301	1.001.675
5. Advances for inventories	040	2.221.527	3.429.043
6. Long-term assets intended for sale	041		
7. Biological assets	042		
II. TRADE RECEIVABLES (044 do 049)	043	379.408.393	385.110.645
1. Receivables from related companies	044	15.770.480	4.272.430
2. Receivables from customers (buyers)	045	169.026.869	122.569.028
3. Receivables from participating interest	046		
4. Receivables from employees and members	047	33.257	20.214
5. Receivables from state and other institutions	048	68.595.613	49.309.287
6. Other receivables	049	125.982.174	208.939.686
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	17.260.794	55.046.873
1. Investments (shares) in related companies	051		
2. Loans given to related companies	052		
3. Participating interest (shares)	053	12.838.576	19.143.895
4. Loans given to companies with participating interest	054		
5. Investment in securities	055	4.422.218	35.902.978
6. Loans given, deposits and similar assets	056		
7. Other financial assets	057		
IV. CASH IN BANK AND ON HAND	058	14.802.277	106.170.754
<b>D) PREPAID EXPENSES AND ACCRUED INCOME</b>	<b>059</b>	<b>12.235.439</b>	<b>1.390.799</b>
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>	<b>1.606.396.857</b>	<b>1.667.342.747</b>
<b>F) OFF BALANCE SHEET ITEMS</b>	<b>061</b>	<b>513.934.610</b>	<b>719.660.135</b>

<b>LIABILITIES</b>			
<b>A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)</b>	<b>062</b>	<b>434.780.415</b>	<b>208.979.780</b>
I. SUBSCRIBED CAPITAL	063	754.195.990	133.093.410
II. CAPITAL RESERVES	064		301.687.004
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	7.967.248	0
1. Legal reserves	066		
2. Reserve for treasury shares	067		
3. Treasury shares and investment (deductable item)	068		
4. Statutory reserves	069		
5. Other reserve	070	7.967.248	
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	-327.382.823	0
1. Retained earning	073		
2. Loss carried forward	074	327.382.823	
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	075	0	-225.800.634
1. Profit for the year	076		
2. Loss for the year	077		225.800.634
VII. MINORITY INTEREST	078		
<b>B) PROVISIONS (080 do 082)</b>	<b>079</b>	<b>13.265.513</b>	<b>12.742.513</b>
1. Provisions for pensions, severance pay and similar liabilities	080	11.854.385	11.846.385
2. Provisions for tax liabilities	081		
3. Other provisions	082	1.411.128	896.128
<b>C) LONG-TERM LIABILITIES (084 do 092)</b>	<b>083</b>	<b>61.944.444</b>	<b>61.944.444</b>
1. Liabilities to related companies	084		
2. Liabilities for loans, deposits and similar	085	61.944.444	61.944.444
3. Liabilities to banks and other financial institutions	086		
4. Liabilities for advances	087		
5. Liabilities to suppliers	088		
6. Liabilities for securities	089		
7. Liabilities to companies with participating interest	090		
8. Other long-term liabilities	091		
9. Deferred tax liability	092		
<b>D) SHORT-TERM LIABILITIES (094 do 105)</b>	<b>093</b>	<b>1.077.916.064</b>	<b>1.273.863.579</b>
1. Liabilities to related companies	094	6.858.939	6.512.054
2. Liabilities for loans, deposits and similar	095	64.427.181	14.000.000
3. Liabilities to banks and other financial institutions	096	362.388.889	325.414.294
4. Liabilities for advances	097	108.333.045	54.525.837
5. Liabilities to suppliers	098	283.369.197	592.496.382
6. Liabilities for securities	099	91.833.225	61.536.363
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	13.635.074	12.534.529
9. Liabilities for taxes, contributions and other payments	102	20.557.948	7.414.290
10. Liabilities as per share in result	103		
11. Liabilities as per long-term assets intended for sales	104		
12. Other short-term liabilities	105	126.512.566	199.429.830
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>106</b>	<b>18.490.421</b>	<b>109.812.431</b>
<b>F) TOTAL LIABILITIES (062+079+083+093+106)</b>	<b>107</b>	<b>1.606.396.857</b>	<b>1.667.342.747</b>
<b>G) OFF BALANCE SHEET ITEMS</b>	<b>108</b>	<b>513.934.610</b>	<b>719.660.135</b>
<b>APPENDIX TO BALANCE SHEET (to be completed by companies that prepare consolidated financial statements)</b>			
<b>A) CAPITAL AND RESERVES</b>			
1. Credited to parent company capital owners	109		
2. Credited to minority interest	110		

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

**PROFIT AND LOSS ACCOUNT**  
for the period 01.01.2014. to 30.06.2014.

Petrokemija d.d.					
Position	AOP code	Previous year		Current year	
		Comulative	Quarterly	Comulative	Quarterly
1	2	3	4	5	6
<b>I. OPERATING REVENUES (112+113)</b>	<b>111</b>	<b>1.225.980.630</b>	<b>631.264.857</b>	<b>1.110.876.568</b>	<b>516.252.992</b>
1. Sales revenues	112	1.206.281.137	619.869.513	1.098.808.087	508.424.187
2. Other operating revenues	113	19.699.493	11.395.344	12.068.481	7.828.805
<b>II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)</b>	<b>114</b>	<b>1.276.301.202</b>	<b>638.207.636</b>	<b>1.317.831.954</b>	<b>670.187.735</b>
1. Changes in value of work in progress and finished products	115	-49.976.247	-74.704.571	17.885.344	-19.225.230
2. Material costs (117 do 119)	116	1.130.216.516	613.144.465	1.002.069.419	484.222.381
a) Cost of raw and production materials	117	1.091.825.687	595.635.610	968.448.926	467.146.483
b) Cost of goods sold	118	2.314.279	1.596.823	1.175.551	566.507
c) Other external costs	119	36.076.550	15.912.032	32.444.942	16.509.391
3. Employees costs (121 do 123)	120	116.545.029	58.772.274	110.575.381	56.379.809
a) Net salaries and wages	121	73.801.441	37.161.490	69.119.676	34.889.146
b) Costs for taxes and contributions from salaries	122	27.325.909	13.833.546	26.002.650	13.204.444
c) Contributions on salaries	123	15.417.679	7.777.238	15.453.055	8.286.219
4. Depreciation	124	47.502.643	24.121.398	48.093.557	24.204.137
5. Other costs	125	31.493.882	16.388.844	39.137.367	24.536.426
6. Value adjustments (127+128)	126	269.379	235.226	51.896	51.222
a) of long-term assets (except for financial assets)	127	16.989	16.989	10.895	10.895
b) of short-term assets (except for financial assets)	128	252.390	218.237	41.001	40.327
7. Provisions	129	250.000	250.000	100.018.990	100.018.990
8. Other operating expenses	130				
<b>III. FINANCIAL REVENUES (132 do 136)</b>	<b>131</b>	<b>9.388.032</b>	<b>6.530.187</b>	<b>4.363.196</b>	<b>3.131.452</b>
1. Interest, exchange rate fluctuations, dividends and similar from associated companies	132	55.461	7.982	22.164	1.261
2. Interest, exchange rate fluctuations, dividends and similar from non-associated companies and others	133	9.332.571	7.394.269	4.341.032	3.130.191
3. Part of revenue from associated companies and participating interests	134				
4. Unrealised gains (revenues) from financial assets	135		-872.064		
5. Other financial revenues	136				
<b>IV. FINANCIAL EXPENSES (138 do 141)</b>	<b>137</b>	<b>27.152.769</b>	<b>12.857.423</b>	<b>23.208.444</b>	<b>14.375.228</b>
1. Interest, exchange rate fluctuations and other costs with associated companies	138	130.572	75.391	114.369	57.582
2. Interest, exchange rate fluctuations and other costs with non-associated companies	139	26.342.667	12.102.502	23.094.075	14.317.646
3. Unrealised losses (costs) from financial assets	140	679.530	679.530		
4. Other financial expenses	141				
<b>V. PORTION IN PROFIT OF ASSOCIATED COMPANIES</b>	<b>142</b>				
<b>VI. PORTION IN LOSS OF ASSOCIATED COMPANIES</b>	<b>143</b>				
<b>VII. EXTRAORDINARY - OTHER REVENUES</b>	<b>144</b>				
<b>VIII. EXTRAORDINARY - OTHER EXPENSES</b>	<b>145</b>				
<b>IX. TOTAL REVENUES (111+131+142 + 144)</b>	<b>146</b>	<b>1.235.368.662</b>	<b>637.795.044</b>	<b>1.115.239.764</b>	<b>519.384.444</b>
<b>X. TOTAL EXPENSES (114+137+143 + 145)</b>	<b>147</b>	<b>1.303.453.971</b>	<b>651.065.059</b>	<b>1.341.040.398</b>	<b>684.562.963</b>
<b>XI. PROFIT OR LOSS BEFORE TAXATION (146-147)</b>	<b>148</b>	<b>-68.085.309</b>	<b>-13.270.015</b>	<b>-225.800.634</b>	<b>-165.178.519</b>
1. Profit before taxation (146-147)	149	0	0	0	0
2. Loss before taxation (147-146)	150	68.085.309	13.270.015	225.800.634	165.178.519
<b>XII. PROFIT TAX</b>	<b>151</b>				
<b>XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	<b>152</b>	<b>-68.085.309</b>	<b>-13.270.015</b>	<b>-225.800.634</b>	<b>-165.178.519</b>
1. Profit for the period (149-151)	153	0	0	0	0
2. Loss for the period (151-148)	154	68.085.309	13.270.015	225.800.634	165.178.519

APPENDIX TO PLA (to be completed by companies that prepare consolidated financial statements)					
<b>XIV. PROFIT OR LOSS FOR THE PERIOD</b>					
1. Credited to parent company capital owners	155				
2. Credited to minority interest	156				
<b>STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)</b>					
<b>I. PROFIT OR LOSS OF THE PERIOD (= 152)</b>	<b>157</b>	<b>-68.085.309</b>	<b>-13.270.015</b>	<b>-225.800.634</b>	<b>-165.178.519</b>
<b>II. OTHER COMPREHENSIVE GAINS/LOSS BEFORE TAXES (159 do 165)</b>	<b>158</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
1. Exchange rate differences from translation of foreign currency operations	159				
2. Change in revaluation reserves of fixed tangible and intangible assets	160				
3. Gain or loss from revaluation of financial assets held for sale	161				
4. Gain or loss from effective cash flow hedge	162				
5. Gain or loss from effective hedge in net investments in abroad	163				
6. Portion in other comprehensive gain/loss of associated companies	164				
7. Actuarial gains/losses on defined benefit plans	165				
<b>III. TAX ON OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD</b>	<b>166</b>				
<b>IV. NET OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD (158-166)</b>	<b>167</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>V. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD (157+167)</b>	<b>168</b>	<b>-68.085.309</b>	<b>-13.270.015</b>	<b>-225.800.634</b>	<b>-165.178.519</b>
<b>APPENDIX TO STATEMENT OF COMPREHENSIVE INCOME (to be completed by companies that prepare consolidated financial statements)</b>					
<b>VI. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD</b>					
1. Credited to parent company capital owners	169				
2. Credited to minority interest	170				

## CASH FLOW STATEMENT - Direct method

for the period 01.01.2014. to 31.03.2014.

Petrokemija d.d.			
Position	AOP code	Previous year	Current year
1	2	3	4
<b>CASH FLOW FROM PPERATIONG ACTIVITIES</b>			
1. Cash increase from buyers	001	1.082.130.531	1.009.141.521
2. Cash incze from royalties, fees commissions and other	002		
3. Cash incze from insuarance compensations	003	2.397.414	1.479.718
4. Cash increase from tax return	004	162.106.768	156.670.670
5. Other cash increase	005	2.640.209	1.399.296
<b>I. Total increase of cash flow from operating activities (001 do 005)</b>	<b>006</b>	<b>1.249.274.922</b>	<b>1.168.691.205</b>
1. Expenses to suppliers	007	1.446.589.161	893.791.148
2. Expenses for employees	008	125.349.755	119.904.127
3. Expenses for insuarance compensations	009	6.726.260	7.429.265
4. Expenses for interest	010	18.577.889	15.210.604
5. Expenses for taxes	011	73.622.488	45.605.198
6. Other cash decrease	012	7.861.481	21.504.112
<b>II. Total decrease in cash flow from operating activities (007 do 012)</b>	<b>013</b>	<b>1.678.727.034</b>	<b>1.103.444.454</b>
<b>A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)</b>	<b>014</b>	<b>0</b>	<b>65.246.751</b>
<b>A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)</b>	<b>015</b>	<b>429.452.112</b>	<b>0</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
1. Cash proceeds from sale of non-current tangible and intangible assets	016		11.042
2. Cash proceeds from sale of equity and debt security instruments	017		
3. Cash proceeds from interest payment*	018		
4. Cash proceeds of dividend payment*	019	1.005.704	
5. Other cash proceeds from investing activities	020		10.039.376
<b>III. Total cash inflow from investing activities (016 do 020)</b>	<b>021</b>	<b>1.005.704</b>	<b>10.050.418</b>
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	43.515.999	21.994.018
2. Cash outflow for acquisition of equity and debt financial instruments	023		
3. Other cash outflows from investing activities	024		
<b>IV. Total cash outflow from investing activities (022 do 024)</b>	<b>025</b>	<b>43.515.999</b>	<b>21.994.018</b>
<b>B1) NET CASH FLOW FROM INVESTIN ACTIVITIES (021-025)</b>	<b>026</b>	<b>0</b>	<b>0</b>
<b>B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)</b>	<b>027</b>	<b>42.510.295</b>	<b>11.943.600</b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>			
1. Cash infows from issuance of equity and debt financial instruments	028		
2. Cash inflows from loan pricipals, debentures, credits and other borrowings	029	1.034.300.000	589.510.000
3. Other inflows from financial activities	030	485.182.668	204.449.986
<b>V. Total cash inflow from financial activities (028 do 030)</b>	<b>031</b>	<b>1.519.482.668</b>	<b>793.959.986</b>
1. Cash outflows for repayment of loan principal and bonds	032	969.022.222	676.911.776
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	109.081.401	78.982.884
<b>VI. Total cash outflow for financial activities (032 do 036)</b>	<b>037</b>	<b>1.078.103.623</b>	<b>755.894.660</b>
<b>C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)</b>	<b>038</b>	<b>441.379.045</b>	<b>38.065.326</b>
<b>C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)</b>	<b>039</b>	<b>0</b>	<b>0</b>
<b>Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)</b>	<b>040</b>	<b>0</b>	<b>91.368.477</b>
<b>Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)</b>	<b>041</b>	<b>30.583.362</b>	<b>0</b>
<b>Cash and cash equivalents at the begining of the period</b>	<b>042</b>	<b>38.170.591</b>	<b>14.802.277</b>
<b>Increase of cash and cash equivalents</b>	<b>043</b>		<b>91.368.477</b>
<b>Decrease of cash adn cash equivalents</b>	<b>044</b>	<b>30.583.362</b>	
<b>Cash and cash equivalents at the end of the period</b>	<b>045</b>	<b>7.587.229</b>	<b>106.170.754</b>

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

## STATEMENT OF CHANGES IN EQUITY

for the period from 1.1.2014 to 30.6.2014

Position 1	AOP code 2	Previous year 3	Current year 4
1. Suscribed capital	001	754.195.990	133.093.410
2. Capital reserves	002		301.687.004
3. Reserves from profit	003	7.967.248	
4. Retained profit or loss carried forward	004		
5. Profit or loss for the year	005	-327.382.823	-225.800.634
6. Revaluation of fixed tangeble assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluation	009		
<b>10. Total capital and reserves (AOP 001 do 009)</b>	<b>010</b>	<b>434.780.415</b>	<b>208.979.780</b>
11. Exchange differences on translationof financial statements of foreign operations	011		
12. Curent and deferred taxes (part))	012		
13. Protektion of cash flow	013		
14. Changes in accounting policies	014		
15. Adjustment of significant errors from previous period	015		
16. Other changes in captal	016		
<b>17. Total increase or decrease of capital (AOP 011 do 016)</b>	<b>017</b>	<b>0</b>	<b>0</b>
17 a. Creadited to parent company capital owners	018		
17 b. Creadited to minority interest	019		

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

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

## Note

PETROKEMIJA, Plc.

In the period from January to June of 2014, Petrokemija, Plc. had total actual income of HRK 1,115.2 million and total expense of HRK 1,341.0 million; thus the Company reported losses in business operations of HRK 225.8 million (20.2% of the total revenues). Out of the total loss, HRK 100.0 million accounts for reservations for the payment of retirement incentives in the remaining fiscal year. Without this one-time cost (reservation), for funding the already started process of Company restructuring, the loss would amount to HRK 125.8 million, or 11.3% of total revenues.

At the semi-annual basis, total revenues decreased by 9.7% compared to the same period of 2013, while total expenditures increased by 2.9%. Without the severance costs, total expenses would be by 4.8% lower than in the same period last year. The intensity of fall in the price of fertilizers is evident from the fact that with the 12.3% increase in fertilizer sales volumes, Petrokemija generated 9.4% less income.

In the structure of loss, HRK 207.0 million or 91.7% was generated from operating activities, and HRK 18.8 million or 8.3% from financial operations. EBITDA (earnings before interest, taxes, depreciation and amortization) was negative in the amount of HRK 158.9 million, or 58.9 million without provisions for severance payments. In the same period of 2013, the EBITDA was HRK 2.8 million negative.

In the April to June 2014 period, the Company had actual total revenues of HRK 519.4 million, total expenses of HRK 684.6 million and the reported operating losses of HRK 165.2 million (included is HRK 100.0 million provisions for severance payments). On a quarterly basis, total revenues decreased by 18.6% compared to the second quarter of 2013, while total expenditures increased by 5.1%, and without provisions for payment of retirement incentives are lower 10.2%

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

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

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

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

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

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

In the reporting period, the operating income was 9.4% lower compared to the first half of 2013, mostly due to the falling prices of fertilizers in domestic, regional and world markets. Total volume of fertilizer sales was 12.3% higher – the sales in the domestic market decreased by 7.3% while exports increased 26.4%, compared to the same period last year.

Actual operating expenses increased by 3.3%, compared to the same period last year and are the result of the 12.3% higher sales volumes, changes in product range and lower average input prices of raw materials. There was a slight decline in purchase prices of almost all key raw materials. Average actual purchase price of gas in the first half of 2014 was by 8.0% lower than in the same period of 2013.

In the first half of 2014, Petrokemija Plc. achieved a 3.3% higher overall level of production as compared with the same period last year, but with the change in structure: 15.6% increase of Urea production and 20.1% of KAN, with 33.6% decrease of the NPK fertilizers production.

Natural gas as the most important raw material is supplied in the domestic market under contracts with two suppliers – Prirodni plin Ltd from Zagreb and Prvo Plinarsko društvo Ltd from Vukovar. At the time of preparation of these financial statements, the gas is during the summer season procured at more favorable price terms than those achieved in the first five months.

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

Next to own working capital, short-term bank loans and long-term loans of CBRD, Petrokemija, Plc secured its source of financing working capital partly by issuing commercial papers at the Zagreb Stock Exchange, through Privredna Banka Zagreb as the dealer and agent of the program. Financing through commercial papers in 2014 year is minimized. Furthermore, the Company has, due to delays in the capital increase process, rescheduled the maturity of part of its own short-term liabilities to financial institutions, and large debts to suppliers of raw materials have grown. The further course of relations with banks and large suppliers will depend on the results of the capital increase, which was still in progress at the time of preparation of these financial statements.

Due to the long collection of receivables for fertilizers in the domestic market, liquidity problems of domestic customers and its own lack of working capital, Petrokemija has been using factoring as a form of financing and the collection of receivables 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 30 June 2014, Petrokemija included these claims in the Balance Sheet. In the Balance Sheet positions, they are indicated in the current assets and liabilities for HRK 198 million. Compared with 31 December 2013, the status of these transactions is by HRK 73 million or 58.4% decreased. In the Cash Flow Statement, inflows (receipts) from the collection of trade receivables through factoring are included in inflows from financial activities for the first half of 2014 amounting to HRK 174.8 million, while for the same period last year they amounted to HRK 359.3 million. In the reporting period, a part of the liabilities of one of the major customers (due the customer's liquidity problems) was rescheduled for the following period in cooperation with commercial banks.

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

1. Changes in raw materials prices in the world market (MAP, DAP, phosphate, potassium chloride, sulfur),
2. Changes in demand and selling prices of fertilizers,



3. Price trends of energy – gas and fuel oil,
4. Price trends of basic agricultural crops,
5. The exchange rate of USD and EUR to the local currency,
6. Financing costs and cross-currency relations.

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

The losses for the January-June 2014 period reached the level of 51.9% of the share capital, so after the process of finding a strategic partner had failed, the Management Board prepared the above mentioned Program of Restructuring and Financial Consolidation, which was adopted by the Company Supervisory Board. This program has resulted in the Decision on recapitalization.

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

At the time of preparation of these financial statements, the Company share capital increase is in progress, based on the Public Invitation to existing shareholders to subscribe for a maximum of 16,666,666 new ordinary shares of Petrokemija, Plc. Details on:

<http://en.petrokemija.hr/Portals/0/Dokapitalizacija/Public%20invitation%20for%20subscription%20of%20shares%202014%20I%20round.pdf>