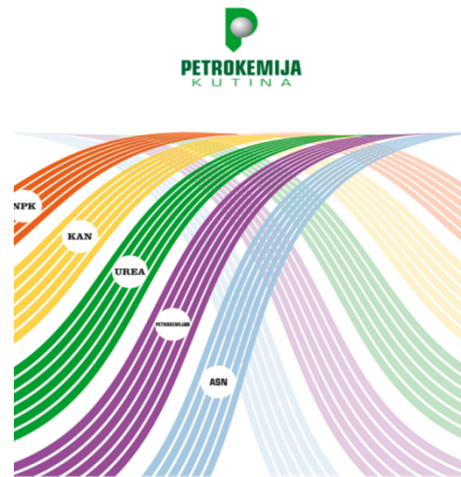


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ANNUAL REPORT PETROKEMIJA, Plc. KUTINA

REPORT FOR PERIOD January to December 2015
INTERIM REPORT FOR PERIOD October to December 2015



Kutina, February, 2015

Key indicators for Petrokemija, Plc. for 2015



- Actual total revenues of Petrokemija, Plc.: HRK 2,569.5 million, 14.6% more than the previous year,
- Operating loss of Petrokemija, Plc: HRK 40.3 million, financial loss HRK 52.2 million, actual loss of Petrokemija Plc: HRK 92.5 million.
- EBITDA for Petrokemija, Plc.: 51.9 million,
- Actual production of fertilizers 1.211 thousand tons. Despite the overhaul conducted in January 2015, 11.5% higher than in 2014, when the overhaul was not conducted.
- Compared to 2014, production of NPK complex fertilizers increased by 65.4%, the group of simple nitrogenous fertilizers CAN, AN, UAN, AS and ASN increased by 1.5%, while because of overhaul and the market situation, the production of Urea decreased by 3.7%
- Yield of currently installed plant capacities: up to 90%,
- Achieved sales of fertilizers 1,152 thousand tons, 10.0% higher than the previous year,
- The share of sales volume of fertilizers in the domestic market is 25%,
- Domestic sales: 286 thousand tons, export 866 thousand tons of fertilizers,
- Equity at 31 December 2014: Petrokemija, Plc. HRK 134.1 million,
- Invested in Petrokemija, Plc.: HRK 53.3 million,
- Number of employees at 31 Dec 2015: 1,617, Petrokemija Group 1,762.

Management Board Report on the Company Status for January – December 2015 period



- In Jan-Dec period 2015 Petrokemija, Plc. had total income of HRK 2,569.5 million and total expense of HRK 2,662.0 million. The Company reported loss in business operations of HRK 92.5 million or 3.6% of the total revenues.
- In the reporting period there was a high growth rate of USD (**19.4%** more than in 2014 and **23.6% more** than the average for the previous ten years), which is due to the procurement of natural gas at prices fixed in USD - single most significant financial risk in business of Petrokemija, Plc. The growth rate averaged **HRK 6.86** on annual basis caused additional negative financial impact on the result of **HRK 186 million**.
- In the structure of income, domestic sales amounted to 27.6% or HRK 708.8 million, which is 10.4% more than in 2014, while exports account for 70.0% or HRK 1,800.0 million, which is 15.8% more than in 2014.
- The higher sales volume was 10.0%, while the average selling price was 6.1% higher than in the same period of 2014,
- In assortment **higher realization** in 2015 compared to 2014 was achieved with **NPK complex fertilizers by 74.8%**, while the lower achievement was realized with Urea by 7.80% (unfavorable market price) and CAN 2.4%,
- Domestic sales 5.4% higher than in 2014,
- Export sales 11.6% higher than in 2014
- Sales of clay products and liquid mineral fertilizers 16.4% higher than in 2014.

Management Board Report on the Company Status for January – December 2015 period (cont)



PETROKEMIJA
KUTINA

- ❑ Despite the collected HRK 253 million in the capital increase process, the current liquidity ratio is below recommended levels (negative working capital of HRK 378 million),
- ❑ Short term assets decreased by 24.7% compared to the same period of 2014, while short-term liabilities decreased by 23.4%,
- ❑ Indicator of financial stability below recommended values, indicators of indebtedness and own financing deteriorated compared to 2014,
- ❑ Actual average gas price is 0.3% lower in HRK and 15.4% lower in USD compared to the same period of 2014,
- ❑ Total number of employees 1,617, 22 down on December 31, 2014;
- ❑ Achieved level of investment HRK 53.3 million, HRK 13.4 million up on the same period of 2014 because most of overhaul works were carried out as investments

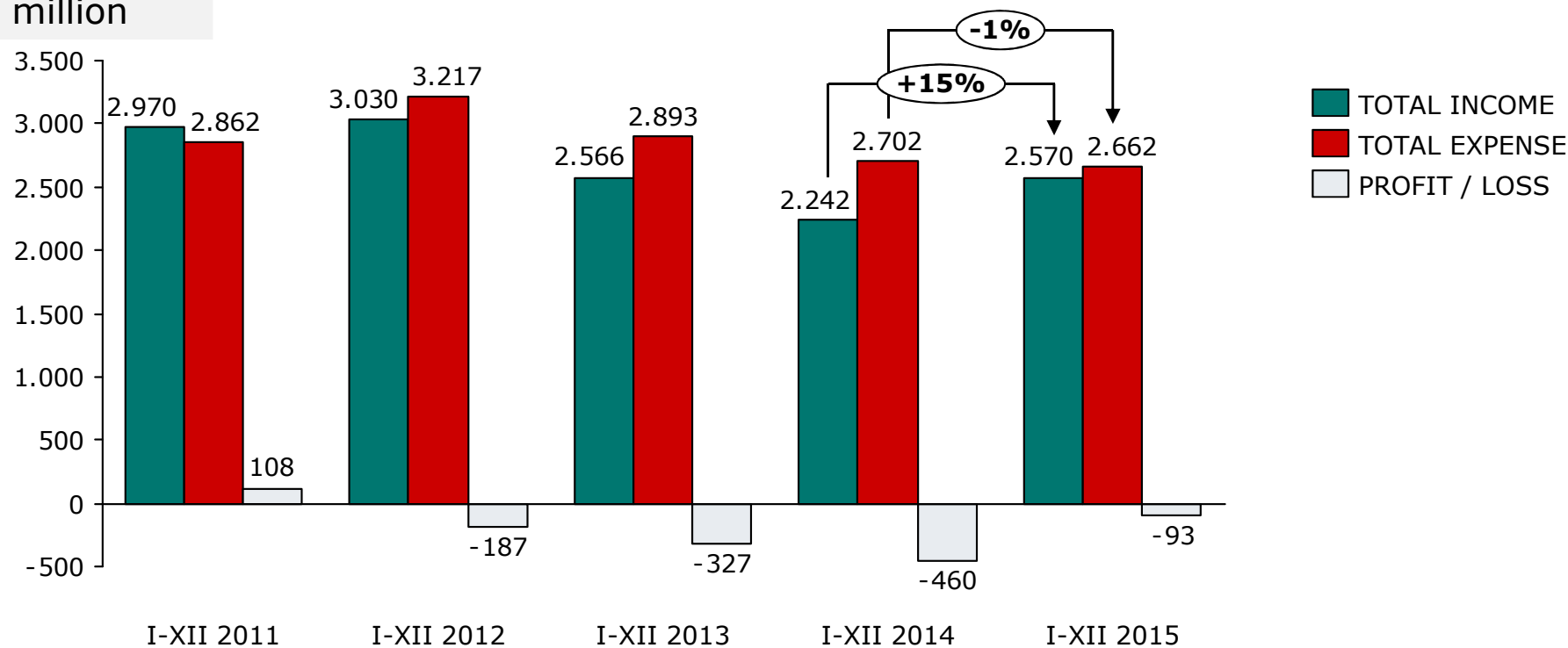


Profit and Loss of Petrokemija Plc for January – December 2011 - 2015



■ Total income	HRK 2,569.5 million,
■ Total expense	HRK 2,662.0 million,
■ Loss before taxation	HRK -92.5 million,
■ EBITDA	HRK +51,9 million

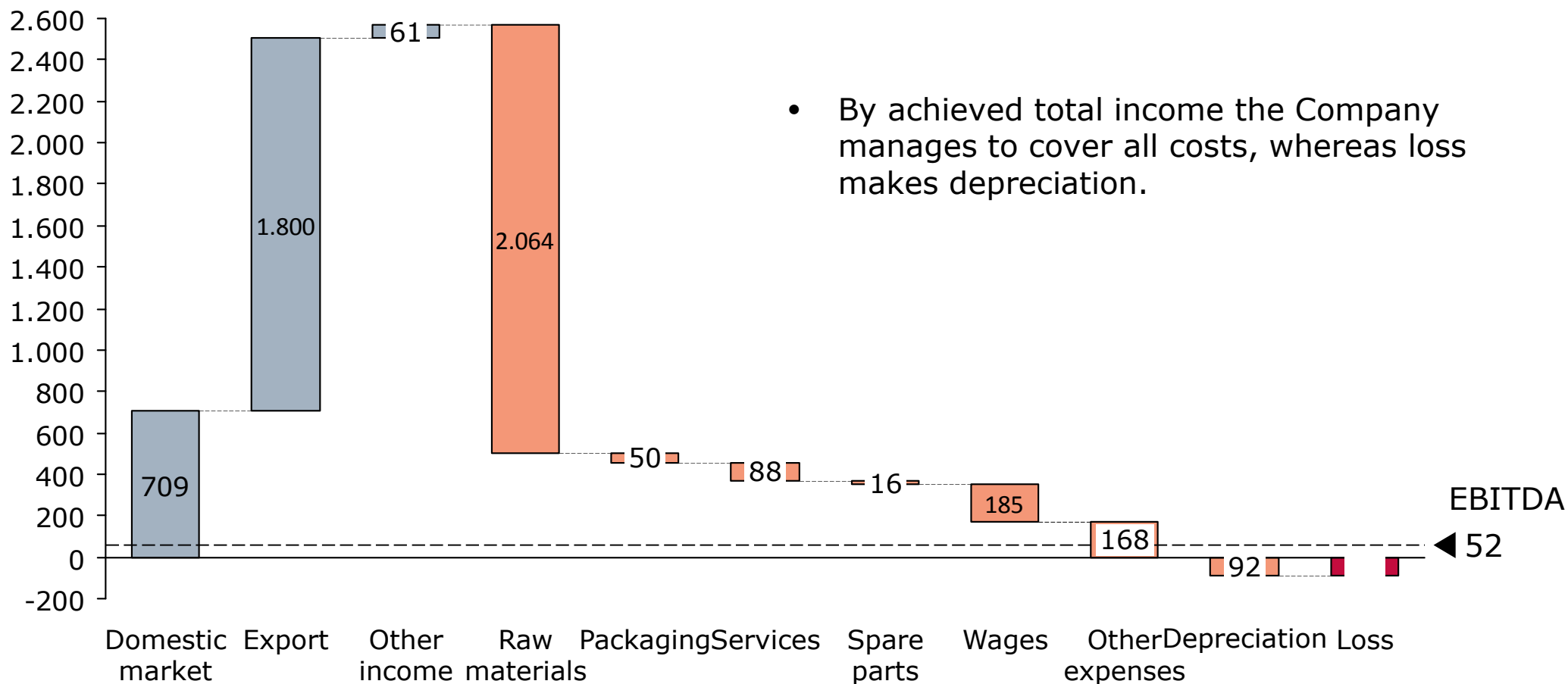
HRK million



Structure of Profit and Loss for January-December 2015



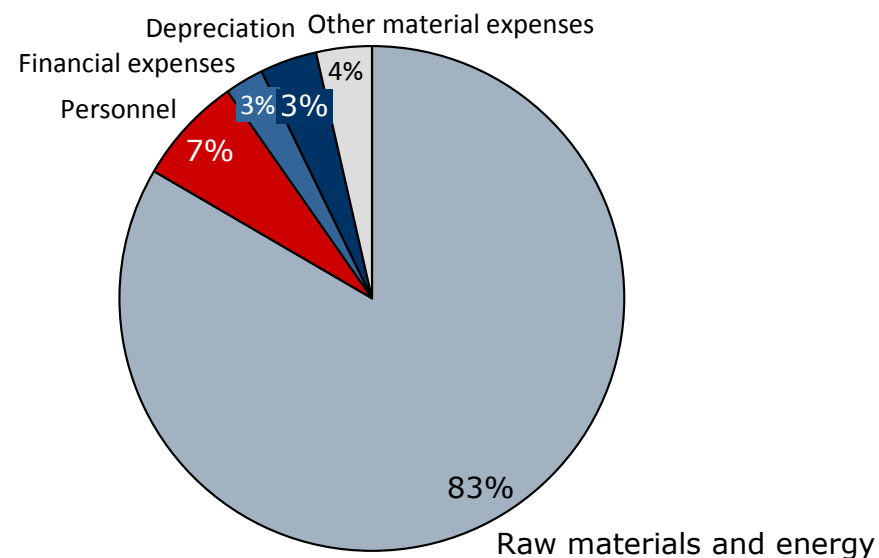
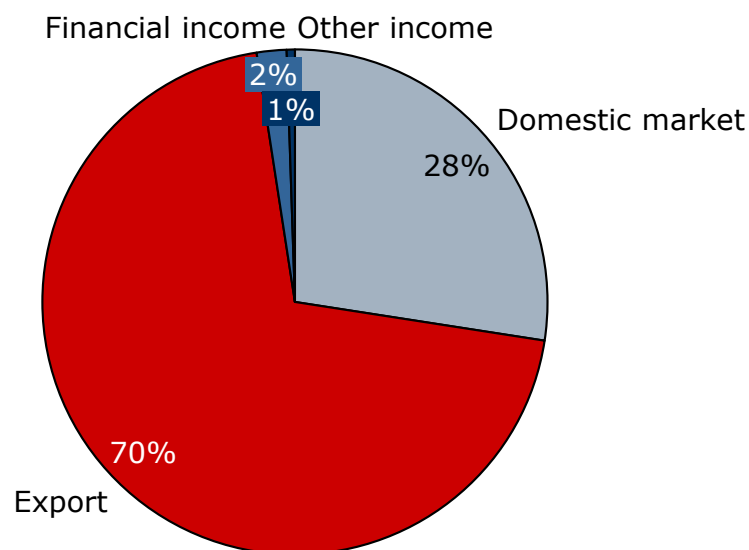
HRK million



- By achieved total income the Company manages to cover all costs, whereas loss makes depreciation.

Structure of Profit and Loss for January - December 2015

- In the January – December 2015 period, Petrokemija, Plc. achieved 28% of income from domestic market, 70% income from export, and financial and other income account for 2% of total income.
- In the structure of total expenses, the dominant 83% account for raw materials and energy; personnel costs for 7%, while all other costs make 10%.



Key financial indicators for January - December 2015



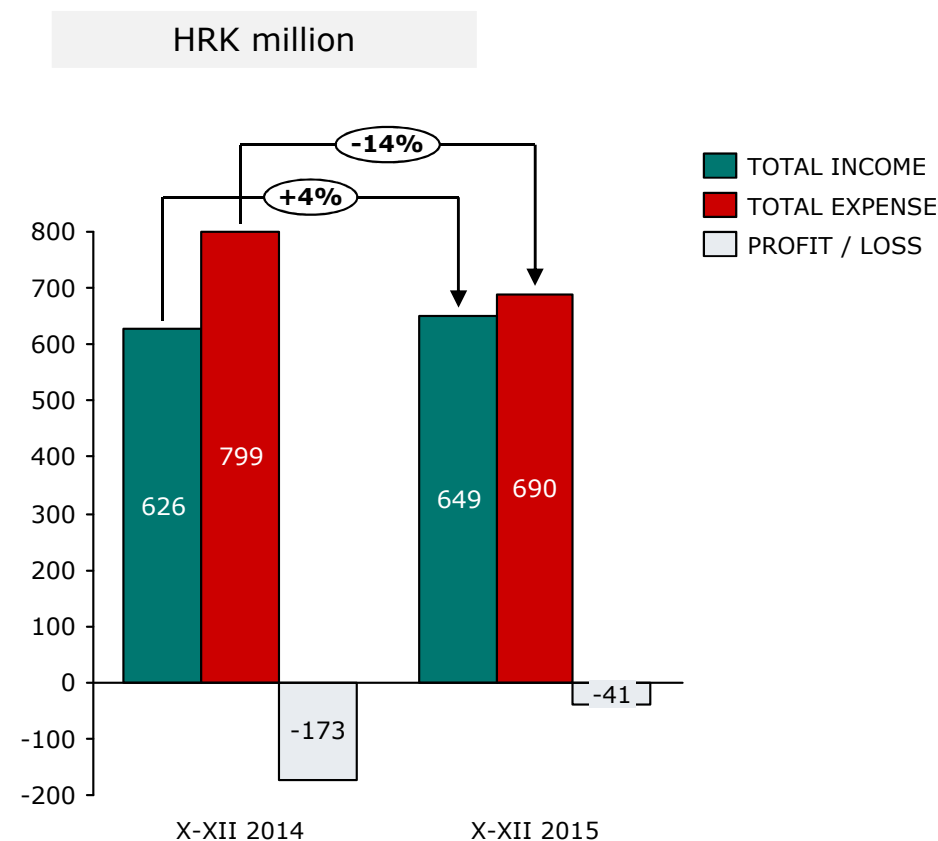
(HRK 000)

	Jan-Dec 2015	Jan-Dec 2014	Difference	% change
Operating income	2.551.763	2.231.495	320.268	14,35%
Operating expense	2.592.117	2.639.278	-47.161	-1,79%
EBITDA *	51.890	-312.638	364.528	
Amortization	92.244	95.145	-2.901	-3,05%
Net financial income /(expenses)	-52.158	-52.405	247	-0,47%
Net extraordinary income / (expenses)	0	0	0	
Profit / loss / before taxation	-92.512	-460.188	367.676	
	31 Dec 2015	31 Dec 2014		
Fixed assets	652.127	685.792	-33.665	-4,91%
Current assets	596.094	791.707	-195.613	-24,71%
Capital and reserves	134.138	227.395	-93.257	-41,01%
Long-term liabilities + provisions	139.935	25.144	114.791	456,53%
Current liabilities + provisions	974.148	1.224.960	-250.812	-20,48%

* Earnings before interest, taxes, depreciation and amortization

Operating results for October - December 2015

- In October – December 2015 period, Petrokemija, Plc. had actual total revenues of HRK 649.4 million, total expenses of HRK 690.1 million and reported **operating loss of HRK 40.7 million**
- On a quarterly basis, total revenues increased by 4% compared to the fourth quarter of 2014, while total expenses decreased by 14%;
- The first three quarters of 2015 were not charged with compensation costs for greenhouse gases, as Petrokemija used free quotas, so the fourth quarter was charged with HRK 28.7 million in the annual accounts for 2015, in accordance with the achieved production quantities and the stock exchange price of emission unit.
- Also, the fourth quarter of 2015 was charged with HRK 3.3 million in value adjustments of assets and HRK 8.0 million in provisions for risks and charges



Key financial indicators for October - December 2015

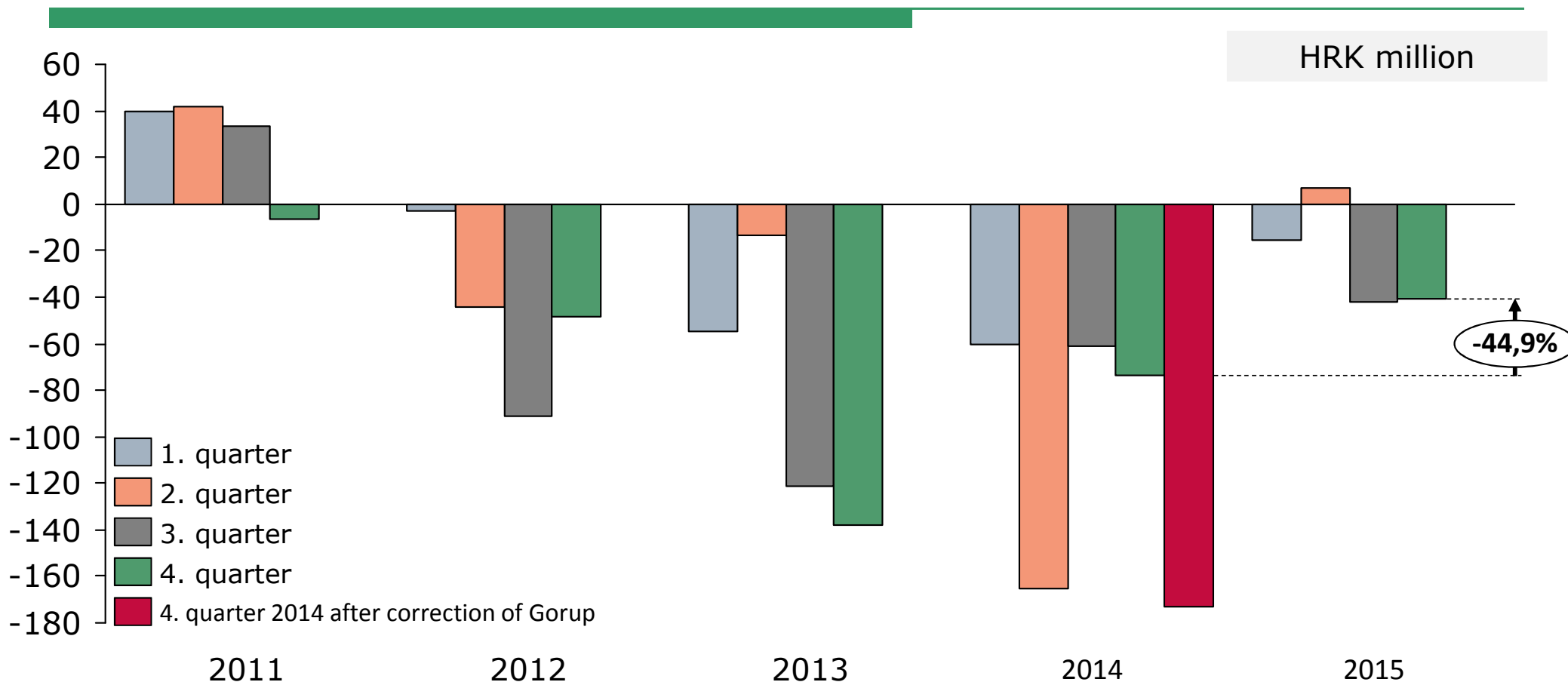
(HRK 000)

	Jan-Sept 2015	Oct-Dec 2015	Jan-Dec 2015
Operating income	1.904.184	647.579	2.551.763
Operating expense	1.917.641	674.476	2.592.117
EBITDA *	56.519	-4.629	51.890
Amortization	69.976	22.268	92.244
Net financial income / (expenses)	-38.358	-13.800	-52.158
Net extraordinary income / (expenses)	0	0	0
Profit / loss / before taxation	-51.815	-40.697	-92.512

* Earnings before interest, taxes, depreciation and amortization

- In the fourth quarter of 2015, a loss of HRK 40.7 million was reported, while in the same period in 2014 it was HRK 173.4 million (including impairment of receivables Gorup Ltd. of HRK 99.4 million).
- The EBITDA amounted to HRK -4.6 million.
- If the fourth quarter of 2015, was charged only with the corresponding part of compensation for greenhouse gas emissions, value adjustments and cost of risk (1/4 of the total annual amount), the corrected loss of the fourth quarter of 2015 would amount to HRK 10.7 million, and an indicator EBITDA would be a positive HRK 25.4 million.

Quarterly losses/profits for 2011-2015

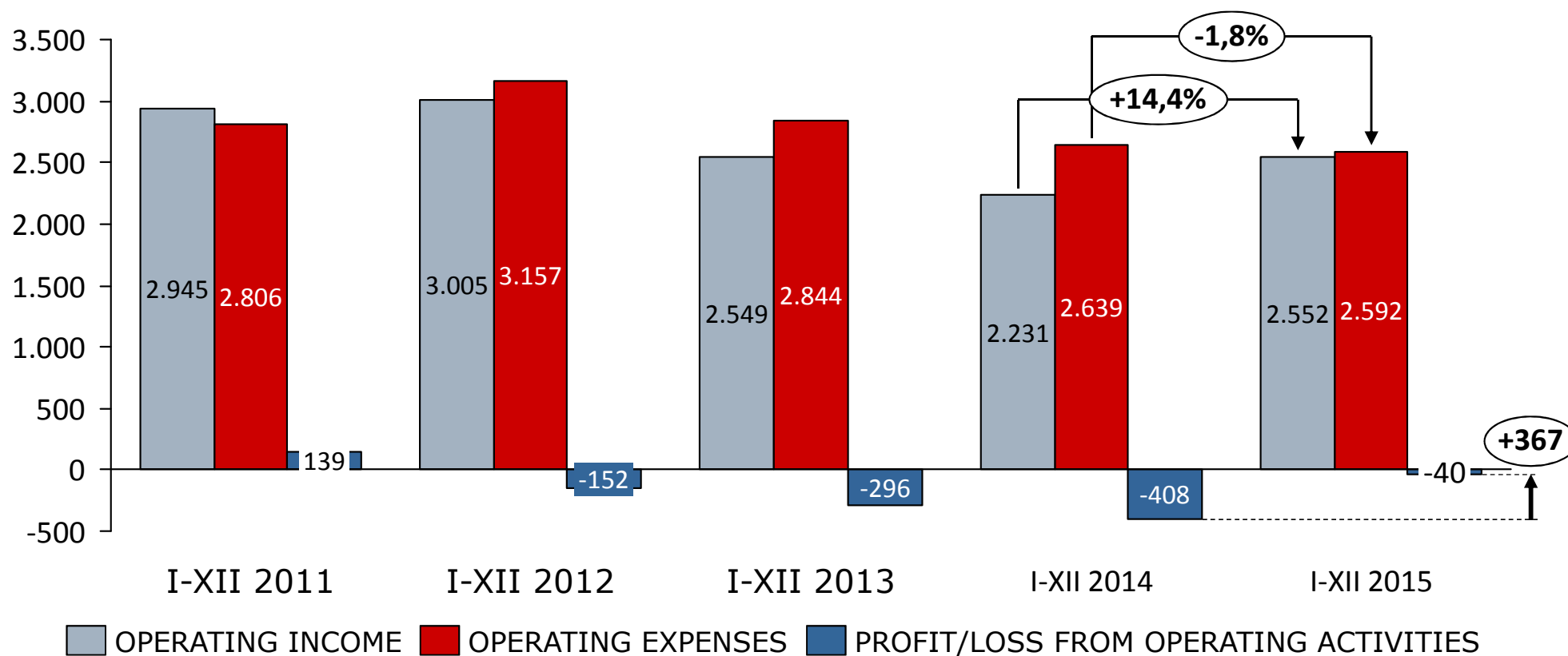


Note: ADJUSTED ACTUAL LOSS WITHOUT SEVERANCE COSTS TO EMPLOYEES:

- Q4/2013 – HRK 95 mln,
- Q2/2014 – HRK 65 mln.

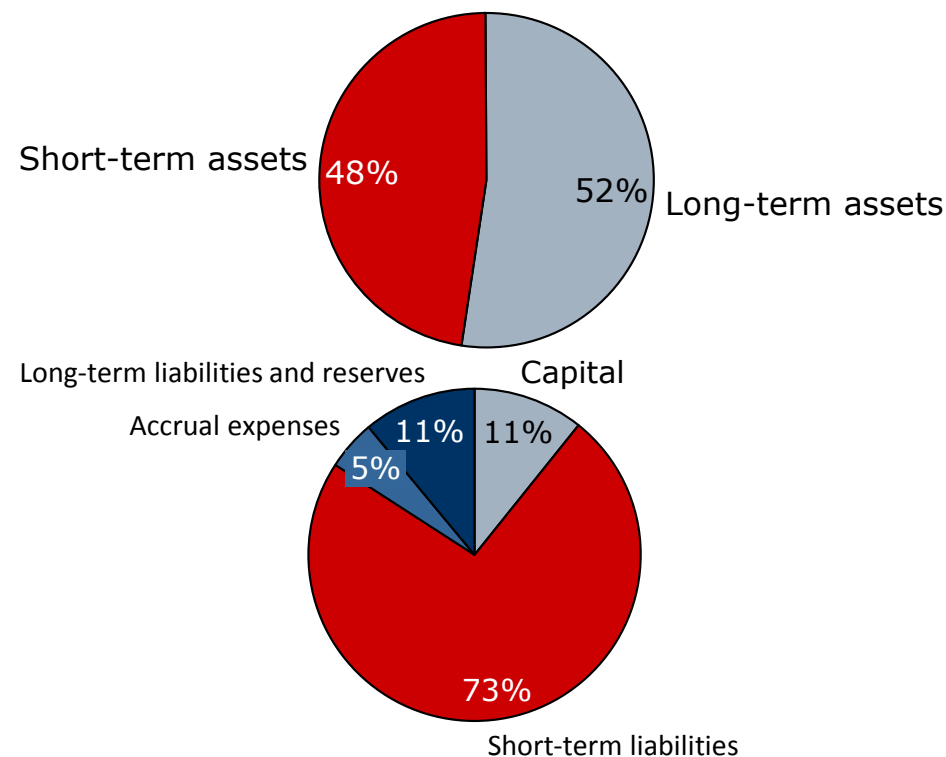
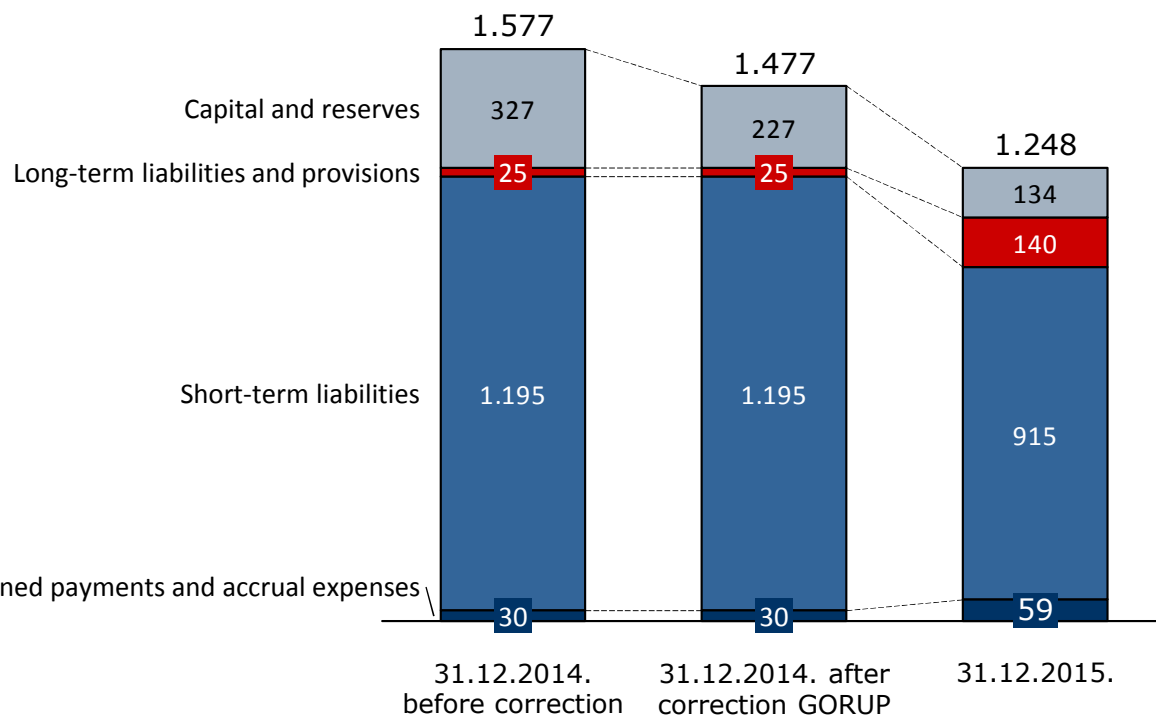
Profit and Loss from operating activities for January to December 2011-2015

HRK million



Structure of assets and liabilities at 31 December 2015

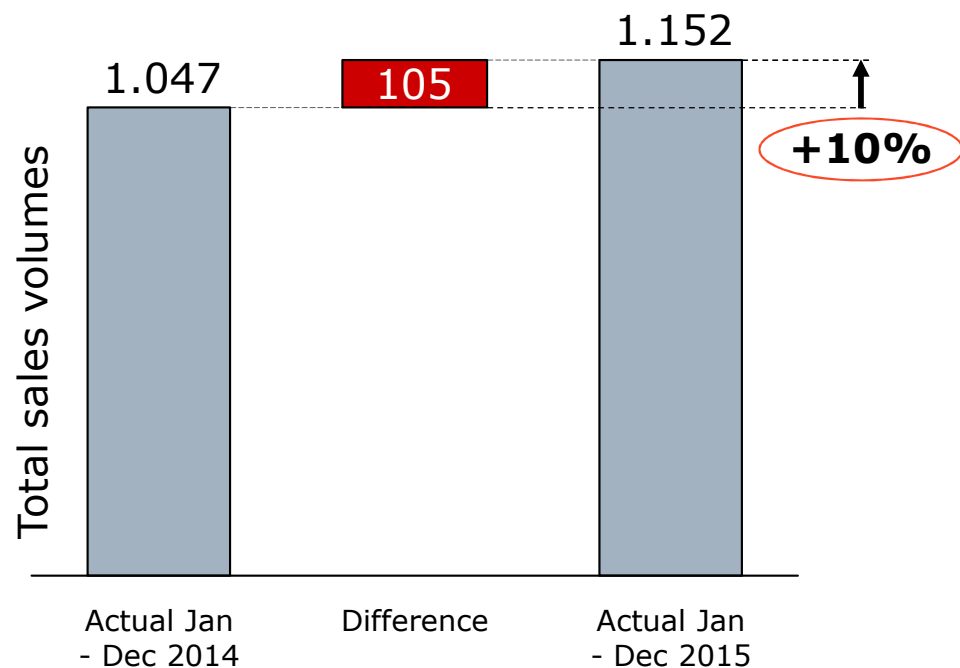
- At 31 December 2015, Petrokemija, Plc. had 48% in value of short-term and 52% in long-term assets, which can be attributed to relatively high depreciation and the age of production and auxiliary facilities.
- The level of capital with reserves and share before incorporation into the register reflects the capital reduction conducted in 2014, deduction of loss in 2014 and the subsequent capital increase of HRK 253 million collected in the recapitalization process. On 31 December 2014, the value of receivables was corrected for HRK 99.4 million from Gorup d.o.o. and charged to the 2014 result. The structure of debt is dominated by short-term sources.



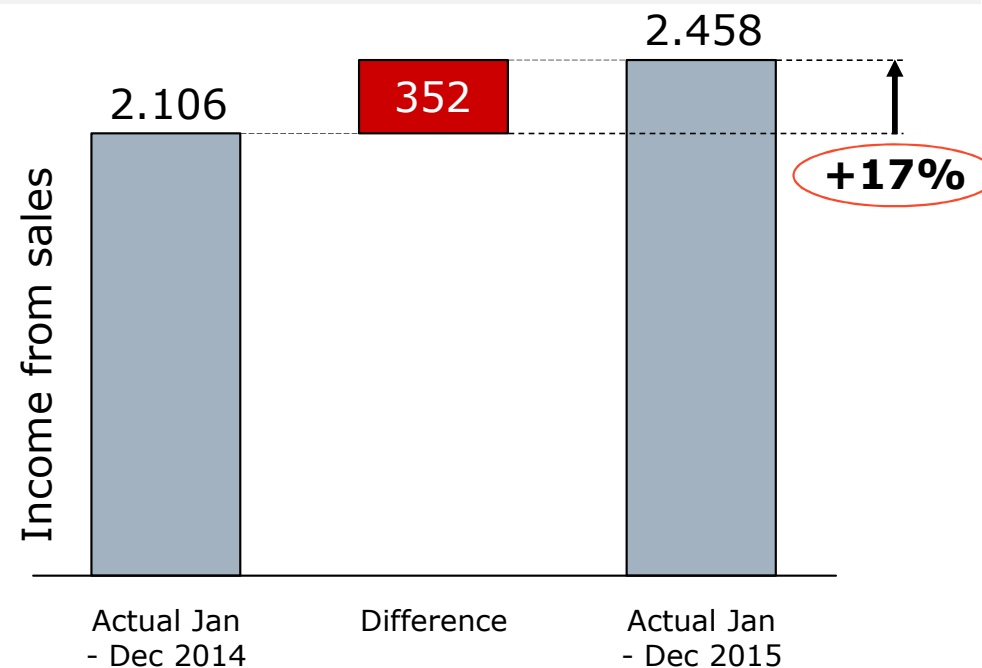
Total fertilizer sales



SALES VOLUMES (000 t)
2015 / 2014



INCOME FROM SALES (mln HRK)
2015 / 2014

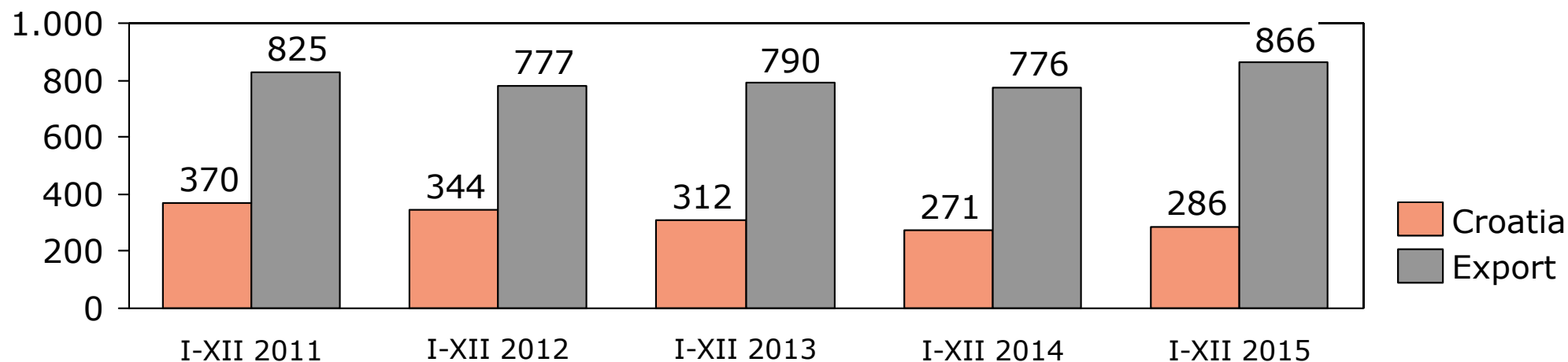
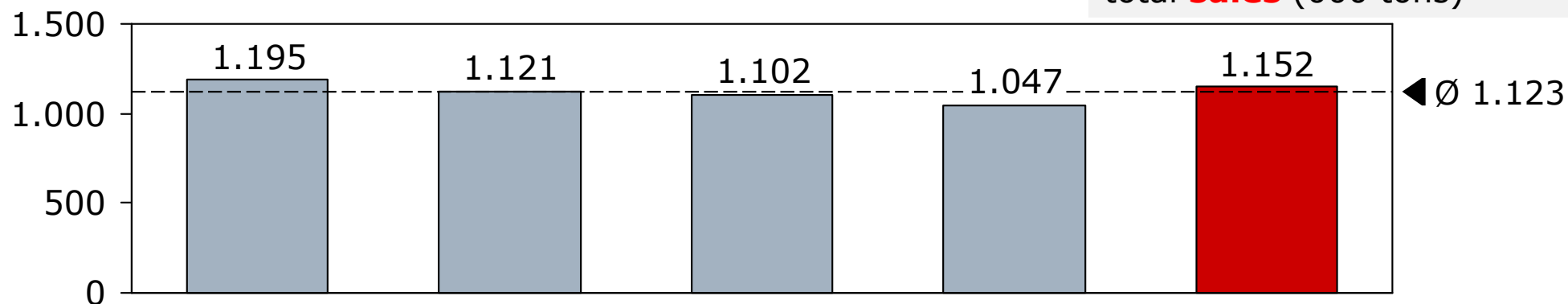


Actual rise in sales volumes of fertilizers of 10% and rise in income from sales of fertilizers of 17%, which indicates a slight increase in average selling prices.



Actual fertilizer sales for 2011 to 2015

total sales (000 tons)



Business Results of Petrokemija Group for January –December 2015

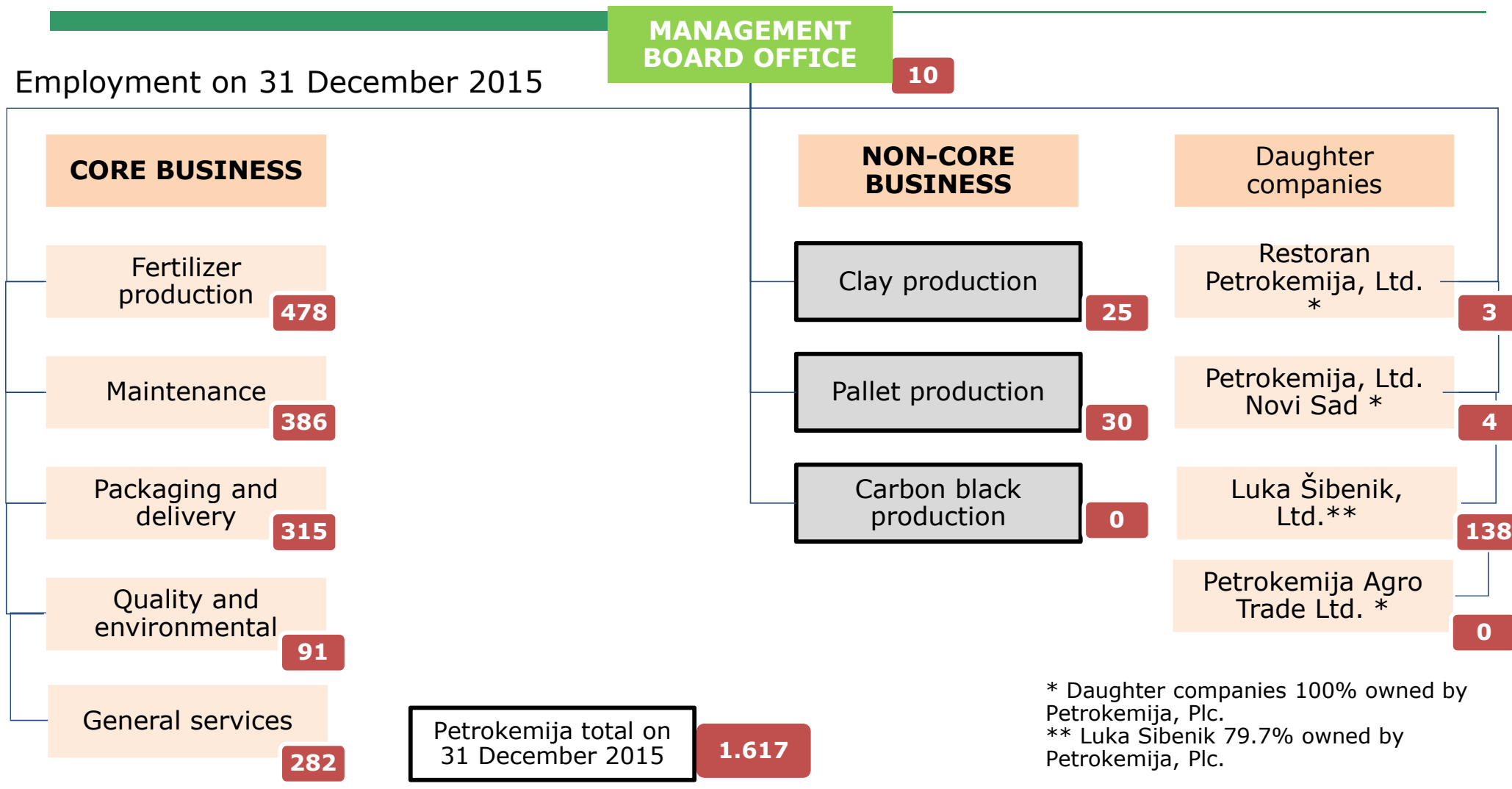


- After the consolidation of financial results of Petrokemija, Plc. and its subsidiaries - Restoran Petrokemija, Ltd. Kutina, Petrokemija, Ltd. Novi Sad, Luka Šibenik, Ltd. and Petrokemija Agro Trade, Ltd. - the financial results of Petrokemija Group for the period January - December 2015 are as follows:

■ Total revenues	HRK 2,582.5 mln,
■ Total expenses	HRK 2,675.4 mln,
■ Loss before tax	HRK - 92.9 mln,
■ Profit tax	HRK - 0.3 mln,
■ Loss after tax	HRK - 93.2 mln,

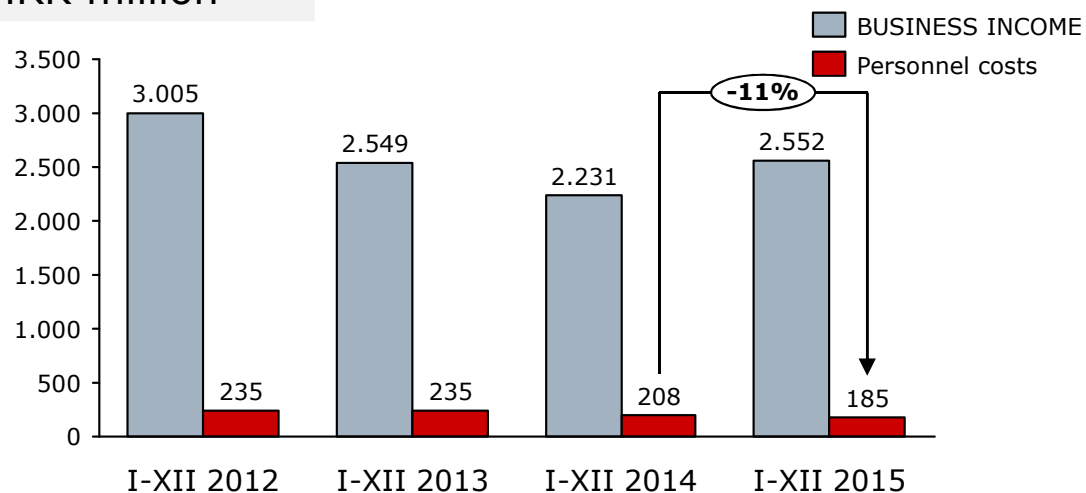
- EBITDA (earnings before interest, taxes and depreciation) was HRK 54.2 million in the positive.
- Petrokemija, Ltd. Novi Sad made profit of HRK 967 thousand, Restoran Petrokemija, Ltd. made profit of HRK 18 thousand, Luka Šibenik made profit of HRK 725 thousand.
- Petrokemija Agro Trade Ltd. did not have any transactions, except for the costs of establishing.
- 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



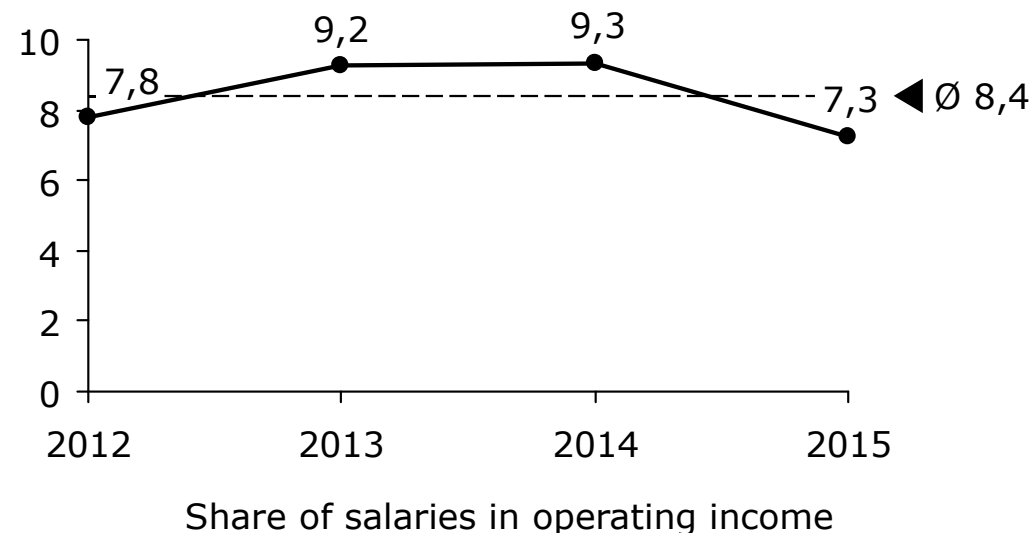
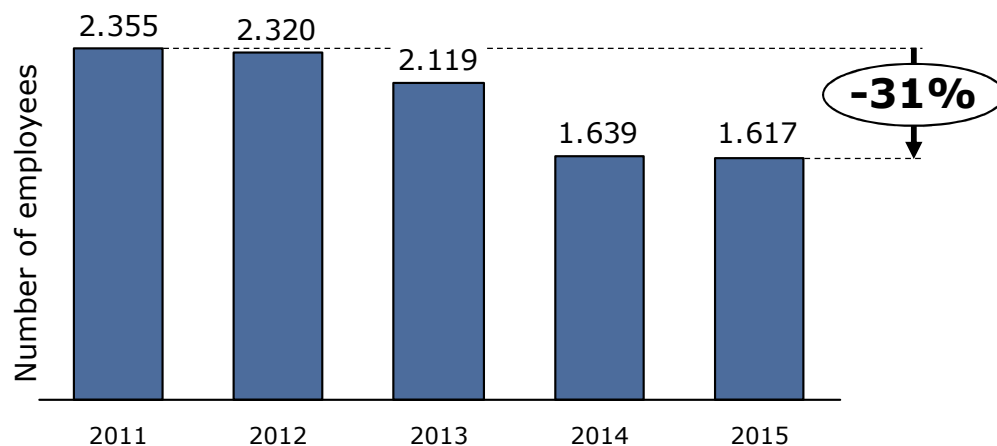
Operational income, personnel costs and number of employees

HRK million



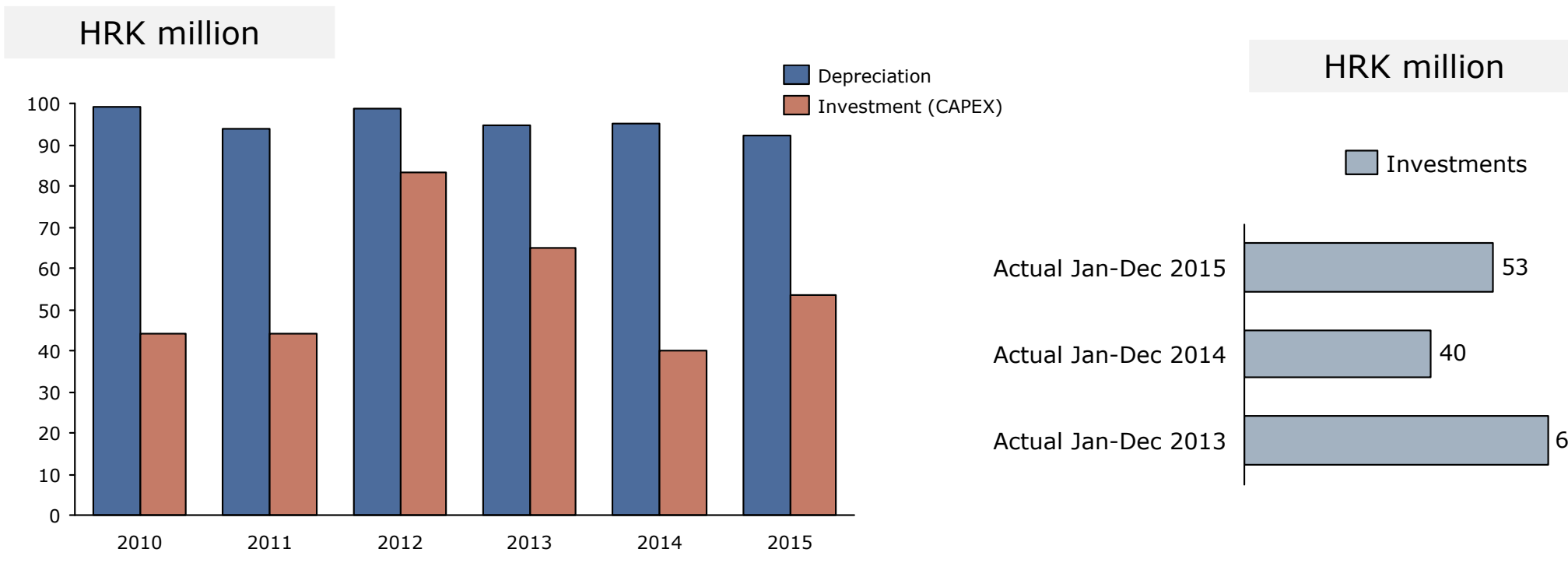
As at 31 December 2015 Petrokemija, Plc. had 1,617 employees, and its daughter companies - members of Petrokemija Group - 145, which is a total of 1,762 employees

Personnel costs share in operating revenues was 7.3% and in operating expenses 7.1%

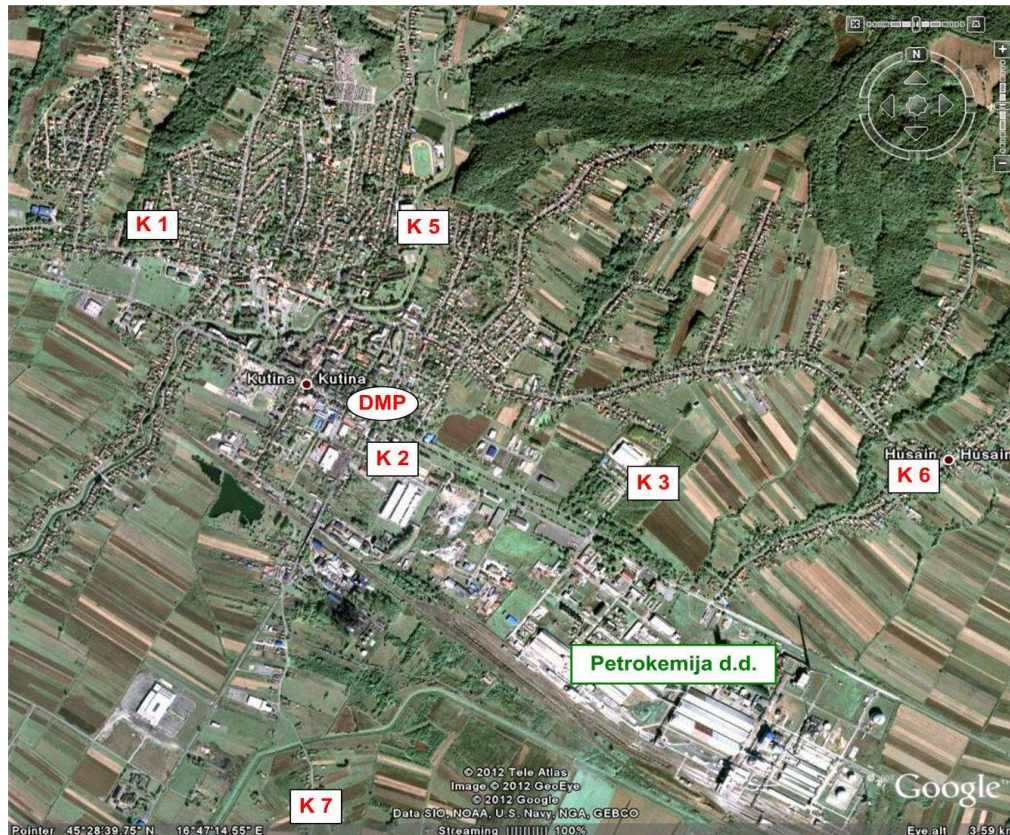


Realized investment

Investment realized in the reported period of 2015 amounted to HRK 53.3 million, which is HRK 13.4 million or 33.7% up on the same period of 2014. This is the result of conducted overhaul, which is treated as an investment



Air quality in the Kutina area for January to December 2015 period at local monitoring station (K1,K2,K3,K5,K6 i K7) and the state monitoring station (DMP)



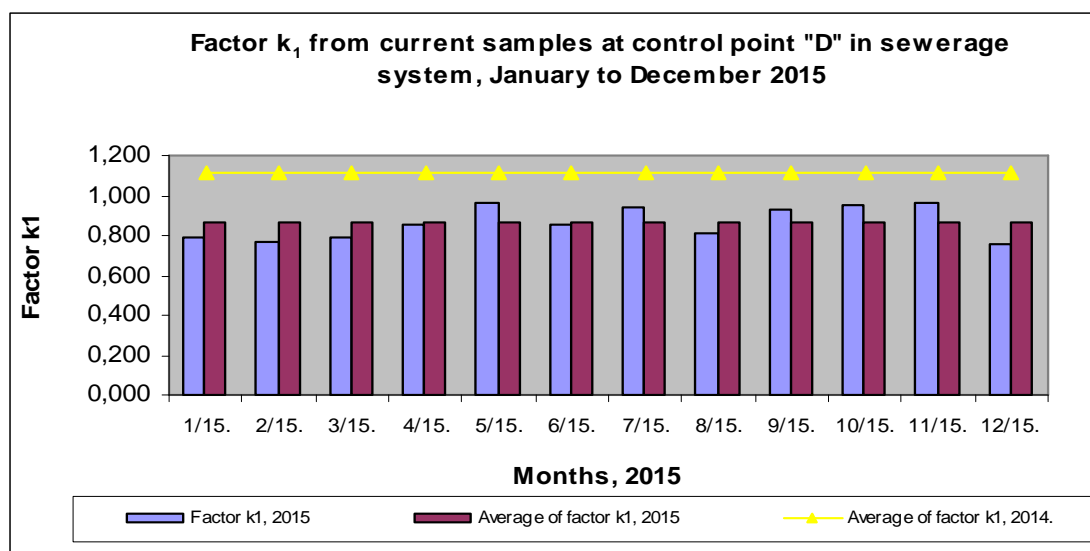
Clean or slightly polluted air 1 st category C<LV	Polluted air 2 nd category C>LV	Pollutants
K2,K7, DMP		Sulphur dioxide (SO ₂)
K1,K2,K3,K6,K7		sediment
K1,K2,K3,K5, K6, K7, DMP		Ammonia (NH ₃)
K1,K2,K3,K5, K6,K7, DMP		Nitrogen dioxide (NO ₂)
K2,K7, DMP		Hydrogen sulphide (H ₂ S)
	DMP	PM10

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

Ambient air limit value (LV) exceedance of AMMONIA in the *January to December 2015* period (local network)

Monitoring station	<i>The number of limit value (LV) exceedances in the <u>January to December 2015 period</u>/ permitted exceedance number</i>
K 1 - Dom zdravlja	2 / 7
K 2 - Vatrogasni dom	6 / 7
K 3 - Meteorološki krug	6 / 7
K 5 - Dom športova	1 / 7
K 6 - Husain	3 / 7
K 7 - Krč	0 / 7
TOTAL	18

Water management



In the period from January to December 2015, the average value of k_1 factor is lower than average value in the same period of 2014.

In the period from January to December 2015, monthly average consumption of raw water was 593.213m^3 , which is 2,06 % lower than average value in the same period of 2014.

Company share capital, market value of shares

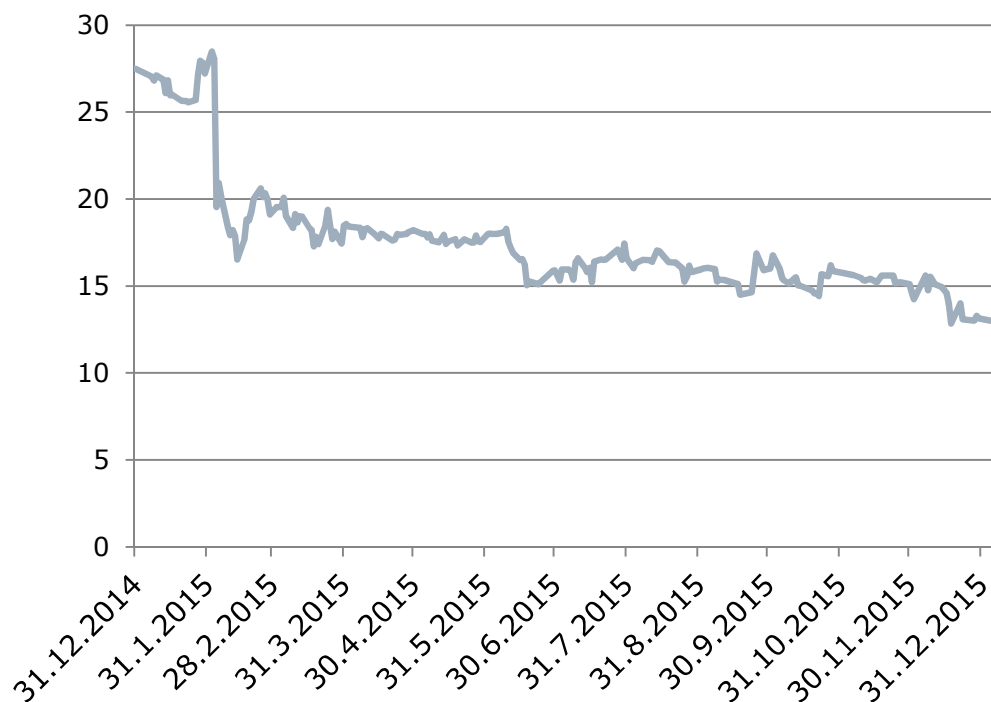


- General Meeting of Petrokemija, Plc. of 20 May 2014 adopted a Decision on simplified reduction of the share capital for loss coverage by reduction of the nominal amount of the ordinary shares (ticker: PTKM-R-A) of HRK 170.00 by HRK 140.00 to the amount of HRK 30.00.
- Therefore, the Company share capital was reduced from HRK 754,195,990.00 by HRK 621,102,580.00 to the amount of HRK 133,093,410.00 and was divided into 4,436,447 ordinary shares marked PTKM-R-A in the nominal amount of 30.00 HRK.
- In the 1st, 2nd and 3rd round of capital increase, a total of 8,434,733 new shares of the Company was subscribed and paid for. Accordingly, in line with the Decision of the General Meeting on the share capital increase against payments in cash with partial exclusion of pre-emptive rights of existing shareholders and amendments to the Articles of Association of 20 May 2014 (Decision on Capital Increase), the requirement for the new shares issue to be considered successfully completed if at least 8,333,333 new shares were subscribed and paid for within the set deadlines, was met.
- By Decision of the Commercial Court in Zagreb of 18 February 2015, the share capital of the Company was increased from the amount of HRK 133,093,410.00 by HRK 253,041,990.00 to the amount of HRK 386,135,400.00 by issuance of 8,434,733 ordinary shares marked PTKM-R-C, in the nominal amount of HRK 30.00. After the increase, the Company's share capital amounts to HRK 386,135,400.00 and is divided into 12,871,180 ordinary shares marked PTKM-R-A, with a nominal amount of HRK 30.00.
- On 31 December 2014, the average share value was HRK 27.50, whereas on 30 December 2015 its average price was HRK 13.14 (down 5.2 %). On December 31, 2015 there was no trading of Petrokemija's shares.

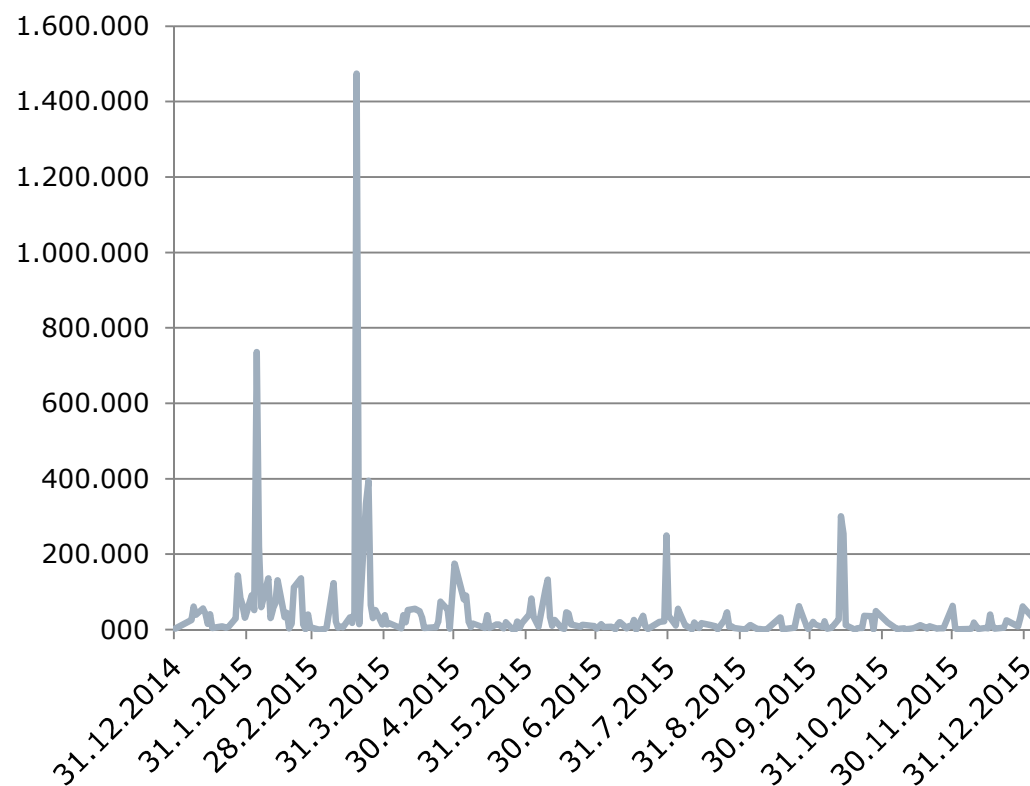
Petrokemija, Plc. share price and daily turnover movements



PETROKEMIJA'S SHARE PRICE MOVEMENTS for Jan - Dec 2015 (HRK/share)



PETROKEMIJA'S DAILY SHARE TURNOVER MOVEMENTS for Jan - Dec 2015 (HRK)



Changes in Supervisory Board of Petrokemija Plc.

- In the reporting period, the mandate of two members of the Supervisory Board of Petrokemija, Plc. expired: Goran Kralj (9 March 2015) and Željko Klaus (28 March 2015).
- By a decision of the General Meeting of Petrokemija, Plc. of 12 June 2015, the number of Supervisory Board members was reduced from seven to five.
- As of 30 July 2015, Davor Rakić resigned as the appointed representative of workers in the Supervisory Board and Željko Klaus, whose term began on 31 July 2015, was appointed to the of the Supervisory Board as a workers' representative for a term of 4 years.
- During the period of preparation of these financial statements, Chairman of the Supervisory Board of Petrokemija, Plc. Tomislav Pokaz submitted his resignation as President and member of the Supervisory Board of Petrokemija, Plc., effective as of 8 of February 2016, for reasons of taking up a new position that is incompatible with membership in the Supervisory Board.
- At the time of publication of the financial statements, the Management Board has no knowledge about any additional changes in the composition of the Supervisory Board of Petrokemija, Plc.

Key events in 2015



- ❑ After the unsuccessful result of the process of choosing a strategic partner in 2014, the Management and Supervisory Board initiated Program of Restructuring and Financial Consolidation for 2014-2018. The Program involved capital increase and reschedule of short-term debt, because in the meantime the financial position of the Company deteriorated to a level which could jeopardize the continuity of its business. In the first two rounds of the Company recapitalization process in 2014, HRK 253 million for 8.4 million shares was paid. In the third round, conducted at the turn of January and February 2015, there were no interested investors, so the process ended with incorporation of HRK 253 million capital and not HRK 500 million as planned.
- ❑ Due to the partial failure of the assumptions of the Program of Restructuring and Financial Consolidation for 2014-2018, a Revision Program for 2015-2019 period was adopted at the end of 2014. The Revision included key changes in terms of changes in assortment and the re-activation of plants that had been stalled (NPK-2 and Sulfuric Acid). The planned investment was also reduced, and accordingly the need for additional financing of the Program. In the reporting period, first of the planned activities have started to be realized - the purchase price of natural gas was reduced and changes in the product range and sales have been made.
- ❑ After two years of continuous operation, a comprehensive overhaul of the facilities was carried out in January 2015, which was marked by maximum engagement of own expert resources and austerity measures. After the, overhaul, all facilities started up and in the first quarter one of the assumptions of the Program of Restructuring was realized: test volumes of a new product - granular ammonium sulfate (AS) - were produced, showing first positive effects. If significant sales volumes of the new product, PETROKEMIJA and ASN are achieved, this will enable the production to move away from the price-unfavorable Urea that has an extremely low price on the spot market. Furthermore, the activities on adjustment of NPK fertilizer composition to market demand were successfully carried out.

Key events in 2015 (cont)

- ❑ In June 2015, potential interested investors, Prvo plinarsko društvo, d.o.o Vukovar and MET Holding AG, Switzerland, conducted due diligence of the Company in accordance with the requirements of the Croatian State Office for State Property Management. At the time of publication of the current financial statements, the Management Board has no knowledge of further intentions of the majority of owner or the potential investors.
- ❑ On 10 July 2015, upon request of the operator, Petrokemija, Plc. Fertilizer Company, the Croatian Ministry of Environment and Nature Protection adopted a Decision on Integrated Environmental Protection Requirements for the operation of the existing 14 fertilizer facilities of Petrokemija at Aleja Vukovar 4 in Kutina. The Decision was issued for a period of five years. The Decision is published in full on the website of the Ministry of Environment and Nature Protection of Croatia:
<http://www.mzoip.hr/doc/10072015 - petrokemija dd tvornica gnojiva kutina .pdf>
- ❑ As a result of an international tender, Petrokemija, Plc. has concluded new contracts for the supply of natural gas in the gas year 2015/2016. The contracts were signed with INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar, as the most competitive bidding suppliers. Furthermore, agreements have been reached with suppliers INA d.d. and PPD d.o.o. on the repayment of the debt for supplied gas as well as on the revised terms of gas supplies for Feb through Sept 2015.
- ❑ By the Decision of the Commercial Court in Zagreb Tt-15 / 21727-4 of 25 August 2015, the establishment of Petrokemija Agro Trade, Ltd. for trade and services was registered in the Court Register, based in Kutina, Aleja Vukovar 4. The only founder of the company is Petrokemija, Plc. Fertilizer Company in Kutina, Aleja Vukovar 4. In 2015, the company was not involved in any commercial activities.

Key events in 2015 (cont)

- ❑ In 2014, Petrokemija, Plc. had an outstanding claim from the company Gorup d.o.o. from Klanjac in the amount of about HRK 97 million, which was increased by interest determined (recognized) in the process of the pre-bankruptcy settlement of that company in the total registered amount of approximately HRK 99.9 million. The pre-settlement process of Gorup was launched on 6 February 2015. At the hearing in the process against the debtor on 4 September 2015, Petrokemija, as one of the creditors in the process, did not support the Revised Plan of Financial Restructuring of Gorup.
- ❑ Exceptional charging of financial results as a result of problems carried over from the previous period in the collection of receivables from Gorup d.o.o. and liabilities under recourse factoring for the above customer, was carried out in such a way that HRK 99.4 million was charged to the result of 2014 (in accordance with IAS 8), and HRK 0.6 million of accrued interest was charged to the result of 2015.
- ❑ In October 2015 an Invitation to Submit Indication of Interest to Subscribe for new ordinary shares of Petrokemija was published in accordance with the Decision of the Croatian Government of 24 September 2015 on granting authorization to the General Meeting to adopt the decision on capital increase in cash, assets and rights of the Petrokemija, Plc. Fertilizer Company, Kutina.
- ❑ Following the period from 2 to 23 October 2015, provided to all interested investors to express indicative interest for subscription of new shares of Petrokemija, Plc. in cash, goods and rights, the Company has received a number of Statements of expressions of interest and requests for conducting the due diligence of operations of Petrokemija. At its session on 24 November 2015, the Supervisory Board of Petrokemija gave consent to the Management for conducting the due diligence and opening data rooms, in accordance with the established data sheet and signed agreements on confidentiality. Due diligence was conducted in the period from 30 November to 21 December 2015.

Key events in 2015 (cont)

- In accordance with the Revised Program of Restructuring and Financial Consolidation 2015 – 2019, Petrokemija, Plc. produced and offered to the market the first amounts of another new product, granulated ammonium sulphonitrate (ASN). Granular ammonium sulphonitrate contains nitrogen in both forms, ammoniacal and nitrate and is suitable for top dressing and pre-sowing fertilization of all agricultural crops. In addition to nitrogen, it contains sulfur, which is also very important in the nutrition of crops. These product Because of the total nitrogen content of 26% in ammonium and nitrate form, this product is an ideal replacement for CAN. The increase of production and sales of this product will reduce the exposure to global market fluctuations related to Urea product.
- In December 2015, a certifying audit was held in Petrokemija, Plc. for the ISO50001: 2011 Standard, Energy Management System, by Lloyd's Register. Petrokemija is the second Croatian company to introduce this certification for Energy Management System. The ISO50001: 2011 Standard assists organizations in establishing the systems and procedures necessary to improve energy efficiency, which should lead to a reduction in the energy costs and long-term reduction of greenhouse gas emissions, i.e. costs related to them.

Significant financial risks in 2016

The overall business position of Petrokemija, Plc. in 2016, is characterized by numerous parameters, whose impact is very difficult to estimate. According to the current market situation, it is estimated that because of the low price of fertilizers in the world market, still relatively high purchase price of natural gas and the high cost of financing a loss will be reported, the level of which will depend on the following risks:

- ❑ Petrokemija Plc. is highly dependent on the movement of fertilizers and their raw material price in the global market, the exchange rate of the HRK against USD and EUR and their interrelationship. After the high growth rate of USD of on average 19.4% in 2015, further growth of the US dollar would cause additional negative effects in the business of Petrokemija, Plc. and Petrokemija Group,
- ❑ Natural gas as the most important raw material is still procured on the domestic market, according to contracts concluded with two suppliers – INA, d.d. Zagreb and Prvo plinarsko društvo d.o.o Vukovar. The price of natural gas is linked to the USD and EUR exchange rate and the movement of natural gas prices on the European spot market,
- ❑ The sales prices of fertilizers in the global market are still influenced by cyclical and seasonal changes, and the price of nitrogen fertilizer Urea is at a very low level,
- ❑ Fluctuations in raw material prices in the global market, which have so far been present, will have impact on material costs in the next period,
- ❑ High costs of working capital - because of insufficient own working capital, financing costs will be significant in the next period,
- ❑ High debts can result in occasional standstills in the delivery of natural gas and accordingly production, which would generate additional costs and jeopardize the long-term existence of the Company,
- ❑ Financing of investments will depend on the key decisions of the majority owner in terms of the continuing process of restructuring, capital increase and / or finding a strategic partner.

Statement of management liability



In line with Articles 407 through 410 of Capital Market Act (OG 88/08, 146/08, 74/09, 54/13, 159/13, 18/15, 110/15) 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, 2015 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 Bord

Member of Petrokemija
Management Board

Member of Petrokemija
Management Board

Member of Petrokemija
Management Board

Nenad Zečević, BE

Antonija Perošević Galović, BSEc

Tamara Pernar, BSEc

Vladimir Fresl, MS

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:

01.01.2015.

to

31.12.2015.

Quarterly financial statements TFI-POD

Registration number (MB): 03674223

Registration number of subject
(MBS): 080004355Personal 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.hrInternet address: www.petrokemija.hr

Code and city/municipality: 220 KUTINA

Code and county name: 3 SISAČKO-MOSLAVAČKA ŽUPANIJA

Number of employees: 1.617
(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

Fax: 044-682-819

E-mail: marina.maric@petrokemija.hr

Name and surname: NENAD ZEČEVIĆ, ANTONIJA PEROŠEVIĆ-GALOVIĆ

(authorized representatives)

Documentation to be published:

1. 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 31.12.2015.

Petrokemija d.d.			
Position	AOP code	Previous year (31.12.)	Current year
1	2	3	4
A) RECIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL	001		
B) LONG-TERM ASSETS (003+010+020+029+033)	002	685.791.426	652.126.997
I. INTANGIBLE ASSETS (004 do 009)	003	8.060.392	7.766.579
1. Expense for development	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	4.126.070	6.036.775
3. Goodwill	006		
4. Advances for intangible assets	007		
5. Intangible assets in progress	008	3.934.322	1.729.804
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 do 019)	010	653.489.935	620.139.893
1. Land	011	49.482.151	49.482.152
2. Buildings	012	255.758.904	237.655.207
3. Plant and equipment	013	264.490.841	236.606.850
4. Tools, plant inventory and transportation assets	014	24.241.491	19.908.525
5. Biological assets	015		
6. Advances for tangible assets	016	8.481.540	13.770.947
7. Tangible assets in progress	017	50.552.801	62.249.818
8. Other tangible assets	018	482.207	466.394
9. Investments in real estates	019		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	020	24.200.525	24.220.525
1. Investments (shares) in related companies	021	24.192.988	24.212.988
2. Loans given to related companies	022		
3. Participating interest (shares)	023	7.537	7.537
4. Loans given to companies with participating interest	024		
5. Investment in securities	025		
6. Loans given, deposits and similar assets	026		
7. Other long-term financial assets	027		
8. Investments accounted for using the equity method	028		
IV. TRADE RECEIVABLES (030 do 032)	029	40.574	0
1. Receivables from related companies	030		
2. Receivables for sales on loan	031		
3. Other receivables	032	40.574	
V. DEFERRED TAX ASSETS	033		
C) SHORT-TERM ASSETS (035+043+050+058)	034	791.401.569	596.093.720
I. INVENTORIES (036 do 042)	035	519.656.798	483.777.443
1. Raw and other material	036	269.100.524	201.680.135
2. Work in progress	037	42.922.688	23.265.819
3. Finished products	038	206.519.234	257.109.820
4. Merchandise inventory	039	733.771	1.121.455
5. Advances for inventories	040	380.581	600.214
6. Long-term assets intended for sale	041		
7. Biological assets	042		
II. TRADE RECEIVABLES (044 do 049)	043	193.531.364	77.349.481
1. Receivables from related companies	044	26.375.193	1.501.814
2. Receivables from customers (buyers)	045	50.164.464	10.259.372
3. Receivables from participating interest	046		
4. Receivables from employees and members	047	13.346	18.795
5. Receivables from state and other institutions	048	53.121.883	63.071.957
6. Other receivables	049	63.856.478	2.497.543
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	70.066.075	27.560.525
1. Investments (shares) in related companies	051		
2. Loans given to related companies	052		
3. Participating interest (shares)	053	43.227.765	26.546.147
4. Loans given to companies with participating interest	054		
5. Investment in securities	055	26.838.310	
6. Loans given, deposits and similar assets	056		1.014.378
7. Other financial assets	057		
IV. CASH IN BANK AND ON HAND	058	8.147.332	7.406.271
D) PREPAID EXPENSES AND ACCRUED INCOME	059	305.647	
E) TOTAL ASSETS (001+002+034+059)	060	1.477.498.642	1.248.220.717
F) OFF BALANCE SHEET ITEMS	061	963.867.837	1.175.630.879

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	227.394.620	134.138.298
I. SUBSCRIBED CAPITAL	063	133.093.410	386.135.400
II. CAPITAL RESERVES	064	554.488.994	-200.000
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	0	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		
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	-460.187.784	-159.284.780
1. Retained earning	073		
2. Loss carried forward	074	460.187.784	159.284.780
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	075	0	-92.512.322
1. Profit for the year	076		
2. Loss for the year	077		92.512.322
VII. MINORITY INTEREST	078		
B) PROVISIONS (080 do 082)	079	9.311.039	10.675.465
1. Provisions for pensions, severance pay and similar liabilities	080	8.329.911	9.870.883
2. Provisions for tax liabilities	081		
3. Other provisions	082	981.128	804.582
C) LONG-TERM LIABILITIES (084 do 092)	083	15.833.333	129.259.259
1. Liabilities to related companies	084		
2. Liabilities for loans, deposits and similar	085		95.833.333
3. Liabilities to banks and other financial institutions	086	15.833.333	33.425.926
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	1.194.869.065	914.975.693
1. Liabilities to related companies	094	8.105.708	17.722.984
2. Liabilities for loans, deposits and similar	095	187.412.038	142.583.026
3. Liabilities to banks and other financial institutions	096	289.950.321	91.296.296
4. Liabilities for advances	097	112.185.262	126.005.590
5. Liabilities to suppliers	098	480.400.459	511.627.525
6. Liabilities for securities	099	13.421.301	
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	10.732.944	10.764.135
9. Liabilities for taxes, contributions and other payments	102	9.934.955	12.174.427
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	82.726.077	2.801.710
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	30.090.585	59.172.002
F) TOTAL LIABILITIES (062+079+083+093+106)	107	1.477.498.642	1.248.220.717
G) OFF BALANCE SHEET ITEMS	108	963.867.837	1.175.630.879
APPENDIX TO BALANCE SHEET (to be completed by companies that prepare consolidated financial statements)			
A) CAPITAL AND RESERVES			
1. Credited to parent company capital owners	109		
2. Credited to minority interest	110		

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

PROFIT AND LOSS ACCOUNT
for the period 01.01.2015. to 31.12.2015.

Petrokemija d.d.					
Position	AOP code	Previous year		Current year	
		Comulative	Quarterly	Comulative	Quarterly
1	2	3	4	5	6
I. OPERATING REVENUES (112+113)	111	2.231.495.340	621.915.352	2.551.763.210	647.578.860
1. Sales revenues	112	2.195.588.442	610.287.911	2.508.752.889	634.637.731
2. Other operating revenues	113	35.906.898	11.627.441	43.010.321	12.941.129
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	2.639.277.969	779.971.060	2.592.117.309	674.476.539
1. Changes in value of work in progress and finished products	115	-9.046.082	23.980.353	-31.677.120	-16.704.161
2. Material costs (117 do 119)	116	2.045.307.863	553.416.846	2.248.564.257	563.280.273
a) Cost of raw and production materials	117	1.962.556.113	526.948.229	2.155.441.423	533.834.759
b) Cost of goods sold	118	5.140.234	1.907.529	5.630.116	3.158.548
c) Other external costs	119	77.611.516	24.561.068	87.492.718	26.286.966
3. Employees costs (121 do 123)	120	207.980.930	47.035.021	185.151.389	47.215.183
a) Net salaries and wages	121	129.127.025	29.088.555	116.045.959	29.562.070
b) Costs for taxes and contributions from salaries	122	49.088.765	11.036.246	42.032.113	10.750.221
c) Contributions on salaries	123	29.765.140	6.910.220	27.073.317	6.902.892
4. Depreciation	124	95.145.253	22.503.750	92.243.845	22.267.430
5. Other costs	125	192.075.964	34.061.809	85.795.988	47.166.655
6. Value adjustments (127+128)	126	101.602.476	101.450.544	4.051.166	3.263.375
a) of long-term assets (except for financial assets)	127	29.261	1.441	34.767	1.669
b) of short-term assets (except for financial assets)	128	101.573.215	101.449.103	4.016.399	3.261.706
7. Provisions	129	6.211.565	-2.477.263	7.987.784	7.987.784
8. Other operating expenses	130				
III. FINANCIAL REVENUES (132 do 136)	131	10.662.166	3.765.636	17.765.030	1.856.741
1. Interest, exchange rate fluctuations, dividends and similar from associated companies	132	2.796.132	2.688.925	2.261.556	13.495
2. Interest, exchange rate fluctuations, dividends and similar from non-associated companies and others	133	7.866.034	1.076.711	15.503.474	1.843.246
3. Part of revenue from associated companies and participating interests	134				
4. Unrealised gains (revenues) from financial assets	135				
5. Other financial revenues	136				
IV. FINANCIAL EXPENSES (138 do 141)	137	63.067.321	19.076.458	69.923.253	15.656.647
1. Interest, exchange rate fluctuations and other costs with associated companies	138	267.102	78.308	543.878	123.762
2. Interest, exchange rate fluctuations and other costs with non-associated companies	139	62.800.219	18.998.150	69.379.375	15.532.885
3. Unrealised losses (costs) from financial assets	140				
4. Other financial expenses	141				
V. PORTION IN PROFIT OF ASSOCIATED COMPANIES	142				
VI. PORTION IN LOSS OF ASSOCIATED COMPANIES	143				
VII. EXTRAORDINARY - OTHER REVENUES	144				
VIII. EXTRAORDINARY - OTHER EXPENSES	145				
IX. TOTAL REVENUES (111+131+142 + 144)	146	2.242.157.506	625.680.988	2.569.528.240	649.435.601
X. TOTAL EXPENSES (114+137+143 + 145)	147	2.702.345.290	799.047.518	2.662.040.562	690.133.186
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	-460.187.784	-173.366.530	-92.512.322	-40.697.585
1. Profit before taxation (146-147)	149	0	0	0	0
2. Loss before taxation (147-146)	150	460.187.784	173.366.530	92.512.322	40.697.585
XII. PROFIT TAX	151				
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	-460.187.784	-173.366.530	-92.512.322	-40.697.585
1. Profit for the period (149-151)	153	0	0	0	0
2. Loss for the period (151-148)	154	460.187.784	173.366.530	92.512.322	40.697.585
APPENDIX TO PLA (to be completed by companies that prepare consolidated financial statements)					
XIV. PROFIT OR LOSS FOR THE PERIOD					
1. Credited to parent company capital owners	155				
2. Credited to minority interest	156				

STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)					
I. PROFIT OR LOSS OF THE PERIOD (= 152)	157	-460.187.784	-173.366.530	-92.512.322	-40.697.585
II. OTHER COMPREHENSIVE GAINS/LOSS BEFORE TAXES (159 do 165)	158	0	0	0	0
1. Exchange rate differences from translation of foreign currency operations	159				
2. Change in revaluation reserves of fixed tangible and intangible assets	160				
3. Gain or loss from revaluation of financial assets held for sale	161				
4. Gain or loss from effective cash flow hedge	162				
5. Gain or loss from effective hedge in net investments in abroad	163				
6. Portion in other comprehensive gain/loss of associated companies	164				
7. Actuarial gains/losses on defined benefit plans	165				
III. TAX ON OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD	166				
IV. NET OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD (158-166)	167	0	0	0	0
V. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD (157+167)	168	-460.187.784	-173.366.530	-92.512.322	-40.697.585
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				
2. Credited to minority interest	170				

CASH FLOW STATEMENT - Direct method

for the period 01.01.2015. to 31.12.2015.

Petrokemija d.d.			
Position	AOP code	Previous year	Current year
1	2	3	4
CASH FLOW FROM PERATIONG ACTIVITIES			
1. Cash increase from buyers	001	2.164.930.978	2.891.419.545
2. Cash incze from royalties, fees commissions and other	002		
3. Cash incze from insurance compensations	003	4.727.521	4.883.096
4. Cash increase from tax return	004	345.537.947	355.990.344
5. Other cash increase	005	5.499.808	5.385.070
I. Total increase of cash flow from operating activities (001 do 005)	006	2.520.696.254	3.257.678.055
1. Expenses to suppliers	007	2.180.493.336	2.283.601.501
2. Expenses for employees	008	332.388.012	200.819.886
3. Expenses for insurance compensations	009	12.990.716	15.513.575
4. Expenses for interest	010	37.892.071	35.991.962
5. Expenses for taxes	011	83.066.063	117.861.148
6. Other cash decrease	012	10.783.343	6.728.627
II. Total decrease in cash flow from operating activities (007 do 012)	013	2.657.613.541	2.660.516.699
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)	014	0	597.161.356
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)	015	136.917.287	0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proceeds from sale of non-current tangible and intangible assets	016	48.530	28.750
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		4.649.343
5. Other cash proceeds from investing activities	020	10.039.376	
III. Total cash inflow from investing activities (016 do 020)	021	10.087.906	4.678.093
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	42.729.316	37.724.470
2. Cash outflow for acquisition of equity and debt financial instruments	023		
3. Other cash outflows from investing activities	024		20.000
IV. Total cash outflow from investing activities (022 do 024)	025	42.729.316	37.744.470
B1) NET CASH FLOW FROM INVESTIN ACTIVITIES (021-025)	026	0	0
B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)	027	32.641.410	33.066.377
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash infows from issuance of equity and debt financial instruments	028	253.041.990	
2. Cash inflows from loan pincipals, debentures, credits and other borrowings	029	739.574.046	8.200.000
3. Other inflows from financial activities	030	283.396.524	109.749.532
V. Total cash inflow from financial activities (028 do 030)	031	1.276.012.560	117.949.532
1. Cash outflows for repayment of loan principal and bonds	032	938.930.905	452.257.112
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	174.177.903	229.514.082
VI. Total cash outflow for financial activities (032 do 036)	037	1.113.108.808	681.771.194
C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)	038	162.903.752	0
C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)	039	0	563.821.662
Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)	040	0	273.317
Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)	041	6.654.945	0
Cash and cash equivalents at the begining of the period	042	14.802.277	8.147.332
Increase of cash and cash equivalents	043		273.317
Decrease of cash adn cash equivalents	044	6.654.945	
Cash and cash equivalents at the end of the period	045	8.147.332	8.420.649

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

STATEMENT OF CHANGES IN EQUITY

for the period from 1.1.2015 to 31.12.2015

Position 1	AOP code 2	Previous year 3	Current year 4
1. Suscribed capital	001	133.093.410	386.135.400
2. Capital reserves	002	554.488.994	-200.000
3. Reserves from profit	003		
4. Retained profit or loss carried forward	004		-159.284.780
5. Profit or loss for the year	005	-460.187.784	-92.512.322
6. Revaluation of fixed tangeble assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluation	009		
10. Total capital and reserves (AOP 001 do 009)	010	227.394.620	134.138.298
11. Exchange differences on translationof financial statements of foreign operations	011		
12. Curent and deferred taxes (part))	012		
13. Protektion of cash flow	013		
14. Changes in accounting policies	014		
15. Adjustment of significant errors from previous period	015		
16. Other changes in captal	016		
17. Total increase or decrease of capital (AOP 011 do 016)	017	0	0
17 a. Creadited to parent company capital owners	018		
17 b. Creadited to minority interest	019		

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

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

NOTES

PETROKEMIJA, Plc.

1. Financial result for January-December 2015

In the period Jan-Dec 2015, Petrokemija, Plc. had total revenues of HRK 2,569.5 million, total expense of HRK 2,662.0 million and reported a loss in operations of HRK 92.5 million, or 3.6% of total revenues. In the same period last year, the loss was HRK 460.2 million, which indicates a positive development in the financial result of HRK 367.7 million. With excluding one-time costs to employees as severance pay (HRK102.0 million) and impairment of claims against Gorup d.o.o. (HRK 99.4 million) from the total actual expenditures in 2014, the positive development in the financial result in 2015 amounted to HRK 166.3 million.

The EBITDA (earnings before interest, taxes, depreciation and amortization) was HRK 51.9 million positive, while for the previous year it was HRK 312.6 million negative. For 2015, total revenues increased by 14.6%, while total expenditures were down by 1.5% when compared to 2014. These data point to a significant improvement in the market position and a better balance of in- and output prices.

2. Structure of financial result

In the loss breakdown for 2015, HRK 52.2 million was from financial operations and HRK 40.3 million from operating activities, resulting in a total loss of HRK 92.5 million. In 2014, the loss from financial operations was HRK 52,4 million (up by 0.2 million) and loss from operating activities was HRK 407.8 million, or HRK 206.4 million when excluding employee severance in the restructuring process and impairment of claims against Gorup d.o.o. A positive development in the result in the segment of business activities for 2015 was HRK 166.1 million. This can be attributed to increased sales of fertilizers in the domestic and regional markets, as well as to the reduction of a part costs.

When compared to the year 2014, the savings on salaries and allowances to employees in 2015 were HRK 26.1 million, 14.1 million on overhead costs and 0.2 million in financial expenses. The positive effect of increased output and sales, and savings on direct production costs was HRK 126.1 million.

3. Financial result October-December 2015

In fourth quarter (Oct-Dec 2015), the reported loss was HRK 40.7 million. In comparison to the actual loss of HRK 173.4 million in fourth quarter of 2014, fourth quarter of 2015 showed a positive development of HRK 132.7 million. When, for the sake of realistic comparison, the one-time write-off, i.e. the impairment of claim against Gorup, d.o.o in the fourth quarter of 2014 is excluded, a positive development in the fourth quarter of 2015 amounted to HRK 33.3 million.

In the first three quarters of 2015, no cost of compensation for greenhouse gases was charged, because free quotas were used, so the fourth quarter was charged with HRK 28.7 million at annual accounts for 2015, in accordance with the achieved output and the stock exchange price of emission units. In addition, the fourth quarter of 2015 was charged with HRK 3.3 million for impairment of assets and HRK 8.0 million in provisions for risks and charges. If the fourth quarter of 2015 were charged only with the corresponding part of these charges and expenses (1/4 of the total annual amount), the corrected loss of the fourth quarter of 2015 would amount to HRK 10.7 million, and EBITDA would be HRK 25.4 mln positive.

4. Revenues

In the reporting period, the trend of falling prices of fertilizers expressed in HRK in most of the product range was stopped. This is supported by 10.0% increase in fertilizer sales volumes that resulted in 14.4% higher operating income. The revenue growth is partly the result of the growth of the US dollar

(on average 19.4% higher than the previous year).

Total sales volumes were 10.0% higher: fertilizer sales in the domestic market were up 5.4%, while export was 11.6% up on the previous year.

Sales in the domestic market were higher than in the previous year, but are still comparatively low with regard to the possible potential of the Croatian agriculture. Sales in Croatia and the region are under pressure from the generally poor state of agriculture and increased competition from other fertilizer suppliers (estimated imports in 2015 were about 90 thousand tons of mineral fertilizers).

The trend of movements of prices and supply and demand in the global market of fertilizers did not significantly change when compared to 2014, except that there is an even more pronounced fall in the price of Urea. The main export product of Petrokemija - nitrogen fertilizer Urea, achieved an additional fall in average price of 14% in the world market in 2015, while there was a price fall of 24% on a monthly basis Dec / 2015 compared to Dec / 2014. This indicates caution in predicting financial performance in 2016.

5. Expenses

The prices of certain raw materials in the production of mineral fertilizers changed differently depending on market forces. In their original currencies, prices in the world market were generally lower, except for potassium chloride. However, when expressed in kunas, the prices of major raw materials were higher than in the previous year due to the growth of the US dollar, which was on average 19.4% higher than in 2014.

Petrokemija tried to respond to the low price of fertilizers in the world market by lowering costs, with partial success only. In very limited circumstances, the Company took measures to lower production costs (lower purchase price of gas in USD, rationalization of overhead and labor costs, etc.), which should consolidate the trend of reducing the loss in 2016 compared to the previous years. The actual operating expenses were down by 1.8% on the previous year, in spite of 11.5% higher output and 10.0% higher sales. It should be pointed out that last year's result included HRK 102.0 million in severance costs and HRK 99.4 million of impairment of claims against Gorup d.o.o. Without this effect, operating expenses in 2015 would have been by 6.3% higher than in the previous year. The structure of costs shows first effects of the restructuring program – reduction of personnel costs and benefits to employees of HRK 26.1 million and HRK 14.1 million of various overheads. The most significant developments in direct costs were achieved in lowering the price of natural gas (in USD).

6. Natural gas supply

The reporting period is marked by an imbalance of supply prices of raw material and sales prices in a part of the fertilizer product range. The price of gas in this general trend is an isolated phenomenon and is under the influence of specific factors on the Croatian gas market and the position of the Company as one of the two largest customers in the still relatively underdeveloped domestic gas market. The average actual purchase price of gas in 2015 was by 15.4% lower, denominated in US dollars, and by 0.3% lower in HRK than in 2014 due to the dramatic growth of USD to HRK exchange rate.

Upon an international tender, in June 2015, Petrokemija, Plc. concluded new contracts for natural gas supply for the gas year 2015/2016. The contracts were concluded with INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar as the most competitive suppliers. Moreover, agreements were reached with these two suppliers on debt repayment for the supplied gas, as well as on the revised terms of gas supplies from February to September 2015. These contracts and agreements have ensured sufficient quantities of gas for the stable planned production of Petrokemija during the gas year 2015/2016. They have also provided for successful implementation of the goals related to natural gas of the Revised Program of Restructuring and Financial Consolidation 2015-2019 in accordance with the Procurement Strategy for Natural Gas, which is an integral part of the program. The achieved terms of gas supplies are one of the preconditions for further restructuring and financial consolidation of the Company.

A part of the positive effect achieved in reducing the purchase price of gas has been reduced by the increase in transportation costs in the Republic of Croatia in the gas year 2015/2016. It is estimated that the negative impact of this cost increase on the operating results of the Company in 2016 will be about HRK 25 million.

7. Production and capacity utilization

In 2015, the actual utilization of production capacities was 90%. The manufacture and sales of NPK fertilizers (not significantly related to the price of gas) was significantly increased, the sales of CAN and AN assortment reached its maximum, two new products have been launched and sales of Urea was adjusted to the available stocks, market conditions and the maintenance of liquidity.

In 2015, Petrokemija achieved 11.5% increase in the overall level of production as compared to the previous year, although a comprehensive overhaul (conducted every two years) was carried out in January 2015. In the production breakdown, there were changes as follows: 3.7% lower output of Urea, higher output of CAN (1.5%) and NPK fertilizers (65.4%).

Due to market reasons, some facilities have been stalled since mid-2009. This issue was carried over into the first quarter of 2016, with open possibilities to increase sulfuric acid production for the new product Petrokemijas (granular ammonium sulfate - AS) and improve the properties of NPK fertilizer by adding sulfur. The acquired own technology provided the basis for the production of ammonium sulfate (PetrokemijAS) and ammonium sulfonitrate (ASN), which will revitalize NPK 2 Plant and further increase the production of granular fertilizers.

Accordingly, facilities for the production of carbon black and phosphoric acid remain stalled. The crisis caused by the misbalance of in- and output prices on the carbon black market is still ongoing, and as far as the phosphoric acid is concerned, various options are being considered.

The Revised Program of Restructuring and Financial Consolidation 2015-2019 provided for the re-activation of two plants - NPK 2 and Sulfuric Acid Plant – that had been stalled or operated a very small number of days in a year and this goal has been achieved. Changes in assortment and introduction of new products are expected to bring about improvements towards optimizing energy costs and sales structure. However, financial effects of this process take time in technical performance and higher sales.

In December 2015, Petrokemija, Plc. was the second company in the Republic of Croatia that successfully introduced Energy Management System ISO 50001, which was one of the conditions stipulated by the Integrated Environmental Protection Requirements.

8. Environmental protection

On 10 July 2015, following the request by the operator, Petrokemija, Plc. Fertilizer Company, the Croatian Ministry of Environment and Nature Protection passed a Decision on Integrated Environmental Protection Requirements for the operation of the existing 14 fertilizer production facilities at Petrokemija, Plc. Aleja Vukovar 4 in Kutina.

The Decision was issued for a period of five years and published in full on the website of the Ministry of Environment and Nature Protection of Croatia. The Decision on Integrated Environmental Protection Requirements was a necessary precondition for obtaining all necessary permits related to the technical and technological operating conditions for manufacturing facilities of Petrokemija, Plc. in the next five years.

The environmental projects are becoming more and more important and the remaining deadlines for execution are getting shorter (31 December 2017), so in the coming years Petrokemija will be forced to urgent and significant investment. The balance of the funds and their sources of Petrokemija has been disturbed to such an extent that it is unrealistic to finance major financial operations from the current short-term sources, so that the pace of future investments will depend on available resources - capital increase or long-term bank loans.

9. Liquidity

Due to losses in previous periods, Petrokemija, Plc. has been using current assets financed by short-term bank loans and rescheduling deadlines for payment of liabilities to suppliers of gas. Financing through commercial papers in 2015 was brought to a minimum. Furthermore, due to delays in the process of recapitalization, the Company has rescheduled maturity of a portion of its own short-term liabilities to financial institutions; large debts to suppliers of raw materials (gas) have also grown. A part of short-term liabilities to financial institutions was repaid in 2014 (about 230 million), which in 2015 influenced the change in the structure of current liabilities (increase in debt to suppliers of gas). The adverse liquidity situation, as well as the impossibility to collect receivables from one of the three largest buyers in the domestic market - Gorup d.o.o. threatened the well-running mechanism of sales of receivables through factoring and created an additional burden on financial flows Petrokemija and relationships with banks. The entire debt of HRK 65.9 million, due under recourse factoring for Gorup d.o.o. was charged to and collected from Petrokemija as recourse debtor in 2014 and the first half of 2015.

In reporting the status of current assets (accounts receivable) and current liabilities (contingent recourse obligations to the factoring companies, in case the debtors fail to meet their obligation), Petrokemija included these liabilities and receivables in the Balance Sheet as of 31 December 2015. In the course of the year, this mechanism of collection of receivables was continually reduced, so that the balance of assets and liabilities under recourse factoring at 31 December 2015 was reduced to HRK 2.3 million.

10. Correction of financial results for 2014 in line with IAS 8

In the reporting period, an impairment was made for the amount of HRK 100.0 million, a receivable from Gorup d.o.o. that Petrokemija had failed to collect.

After the Decision of the Settlement Council of 11 September 2015 on suspension of the pre-settlement proceedings over the debtor Gorup, d.o.o., Klanjec had been adopted, the Management Board assessed that conditions were created for impairment incurred in previous periods. Based on the assessment that these receivables will not be collectible in the future, a correction of value of the receivables was made in the amount of HRK 99.439 million charged to the results of 2014 and HRK 0.558 million charged to 2015.

11. Capital increase and a change in ownership structure

The first two rounds of the recapitalization were conducted successfully in July and August 2014 (subscribed shares for HRK 253 million) but in the third round in late January and early February 2015, there were no interested investors. Partial success of recapitalization (planned HRK 500 mln) initiated the search for new solutions in the implementation of potential new process of recapitalization or rescheduling of short-term debt in 2015, which would provide for the necessary resources for investment and permanent working capital.

In June, potential interested investors, Prvo plinarsko društvo d.o.o. Vukovar and MET Holding AG, Switzerland, conducted a due diligence of Petrokemija, Plc. in accordance with the requirements of the Croatian State Office for State Property Management.

In October 2015, an Invitation to Submit Indication of Interest to Subscribe for new ordinary shares of Petrokemija was published, following the Decision of the Croatian Government of 24 September 2015 on granting authorization to the General Meeting to adopt the decision on conducting the capital increase in cash, assets and rights of the Petrokemija, Plc. Fertilizer Company, Kutina. During the fourth quarter of 2015, statements of interest were collected for a new recapitalization of the Company and two interested investors conducted the due diligence of the Company, after which binding offers from the potential investors are expected.

At the time of publication of these financial statements, the Management Board of Petrokemija has no knowledge of further intentions of the majority owner or potential investors.

A further course of relations with potential financial and / or strategic partners, banks and major

suppliers will depend not only on the results of the restructuring measures of the Company, but also on the future decisions of the majority owner.

12. Financial risks in the subsequent period

Besides the above mentioned, the future financial developments of Petrokemija will be influenced by numerous factors. In addition to the price of gas, which is predominantly set in the domestic market, the majority of future risks comes from the international surrounding, mainly through:

1. Change in price of basic raw materials in world market (MAP, DAP, phosphate, potassium chloride, sulfur);
2. Changes in demand and sales price of fertilizers;
3. Price fluctuation of energy fluids - gas and heating oil,
4. Price fluctuation of basic agricultural crops,
5. Exchange rate of USD and EUR to the local currency,
6. Costs of financing and cross-currency relations.
7. Agricultural policy of EU and Croatia.

After a suitable partner had not been found in the process of selecting a strategic partner, in 2014, the Board made a Program of Restructuring and Financial Consolidation for 2014-2018, which was approved by the Company Supervisory Board. The Program resulted in the process of recapitalization. Due to the partial failure to achieve the assumptions of the Program, in late 2014, a revision of the said Program was made for the planning period 2015-2019. The Revision included key changes in the assumptions with regard to product range and start-up of plants that had been stalled, as well as in reducing the amount of investment. At the time of publication of these financial statements, there is a preparation underway of an updated program for the period 2016-2020, which will include changes in operations that have occurred in the meantime (the fall in prices of raw materials and finished products, the growth of the US dollar, new products, etc.) and announce a potential new direction of departure from the production cost-unfavorable urea for agricultural use.

The exposure of Petrokemija, Plc. to developments in the global market, opens up significant potential risks in terms of price and financial fluctuations in the year 2016. At the turn of 2014/2015, an additional particularly pronounced risk appeared that derailed the planned result improvement. This refers to the growth of the USD exchange rate to the local currency (23.6% higher than the average in the last ten years), which directly affects the growth of the cost of gas and a part of other basic raw materials. A part of this growth, approximately one third, is neutralized by growth in revenue from exports, but certainly not entirely. Particularly negative effect is experienced in the domestic and regional markets where the payment is carried out in HRK and EUR and the room for price increase is limited by competition. The estimated negative impact of the growth of the US dollar in 2015 was about HRK 186 million.

Effective risk management of gas price growth (contracted price is in USD, although buying is done on the domestic market) and risk of USD exchange rate change in the procurement of other imported raw materials is limited by the lack of own working capital (negative working capital of HRK 378 million) and the lack of support of financial institutions in financing working capital.

The actual market and financial results for 2014 and 2015, 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 business, particularly in view of the vulnerable liquidity and solvency of the Company in 2016, with the possibility of occasional downtime of parts of the facilities and changes in the organization of the Company and Petrokemija Group.

The decisions of the majority owner on the form of future support to the Company will significantly affect the reduction of the risk of maintaining business continuity in the future period – whether it is finding a strategic partner, recapitalization or another form of financing the Company. This includes a syndicated long-term loan from banks for investment in modernization and working capital, which would enable the implementation of the Revised Program of Restructuring and Financial Consolidation.