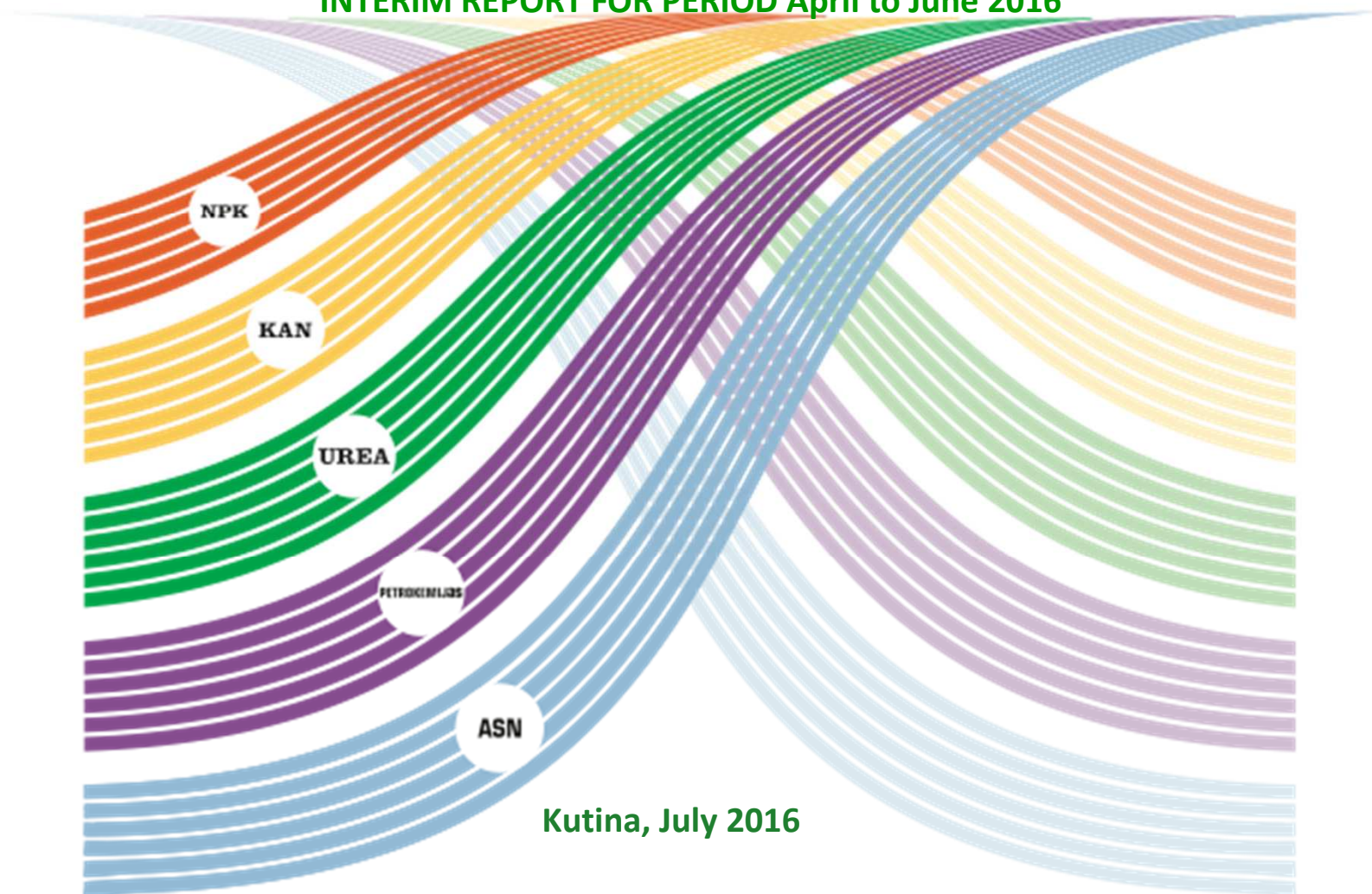


UNAUDITED
CONSOLIDATED



SEMI-ANNUAL REPORT PETROKEMIJA GROUP KUTINA

REPORT FOR PERIOD January to June 2016
INTERIM REPORT FOR PERIOD April to June 2016



Kutina, July 2016

Key indicators for Petrokemija Group for January - June 2016 period

- ❑ Actual total revenues of Petrokemija Group HRK 1,060.3 million, 19.1% down on the same period of 2015
- ❑ Profit in business operations HRK 16.1 million, loss in financial operations HRK 15.2 million, total profit HRK 0.9 million,
- ❑ Earnings before interest, taxes, depreciation and amortization (EBITDA) HRK 58.4 million,
- ❑ Actual production of fertilizers – 550 thousand tons, 5.0% less than in the same period of 2015,
- ❑ Compared to the same period of 2015, production of NPK fertilizers decreased by 29.5%, production of Urea decreased by 0.9%, whereas the production of CAN was 11.2% higher,
- ❑ Yield of currently installed plant capacities – up to 81.5%,
- ❑ Actual sales of fertilizers – 540 thousand tons, down 4.5% compared to the same period last year,
- ❑ Share of fertilizer sales in the domestic market – 24 %,
- ❑ Domestic sales – 131 thousand tons, exports – 409 thousand tons of fertilizers,
- ❑ Capital and reserves on 30.06.2016. for Petrokemija Group HRK 134 million,
- ❑ Invested in Petrokemija, Plc. – HRK 76.4 million,
- ❑ Employed on 30.06.2016: Petrokemija, Plc. – 1,602; Petrokemija Group – 1,742.

Management Board Report on the Petrokemija Group for January – June 2016 period

- In January – June 2016, Petrokemija Group had total income of HRK 1,060.3 million and total expense of HRK 1,059.3 million. The Company reported profit of HRK 0.9 million or 0.09% of the total revenues,
- After high growth of USD in 2015, during the reporting period there were no significant deviations, rise or fall of the USD and EUR compared to the same period of the previous year or to the planned values. Exchange rate of USD was 0.8% lower than in the same period last year. In procurement, the share of natural gas volumes purchased at prices set in USD was 65% and those in EUR 35% with a tendency to reduce dependence on the USD exchange rate, as the single most significant financial risk in business of Petrokemija, Plc. in the previous period.
- In the structure of income of Petrokemija, Plc., domestic sales amounted to 28.8% or HRK 304.5 million, 38.4% lower when compared to the same period 2015, while export accounted for 67.7% or HRK 715.9 million, 7.9% lower than in the same period 2015.
- Lower sales volumes by 4.5% and lower average sales by 16.7% compared to the same period of 2015;
- In assortment, compared to 2015, higher sales in 2016 of Urea by 15.4% and CAN by 3.9%, lower realization of NPK fertilizer sales by 34.3% (market reasons, the imbalance of phosphorus and potassium prices in relation to the NPK fertilizers);
- Domestic sales 36.4% lower than in the same period of 2015;
- Export sales 13.7% higher than in the same period 2015;
- Sales of clay-based products and liquid fertilizers 21.4% higher than in the same period 2015;
- Fall of fertilizer price in the world market was transferred to a significant extent to the EU and the region, which resulted in increased imports of cheaper fertilizers;

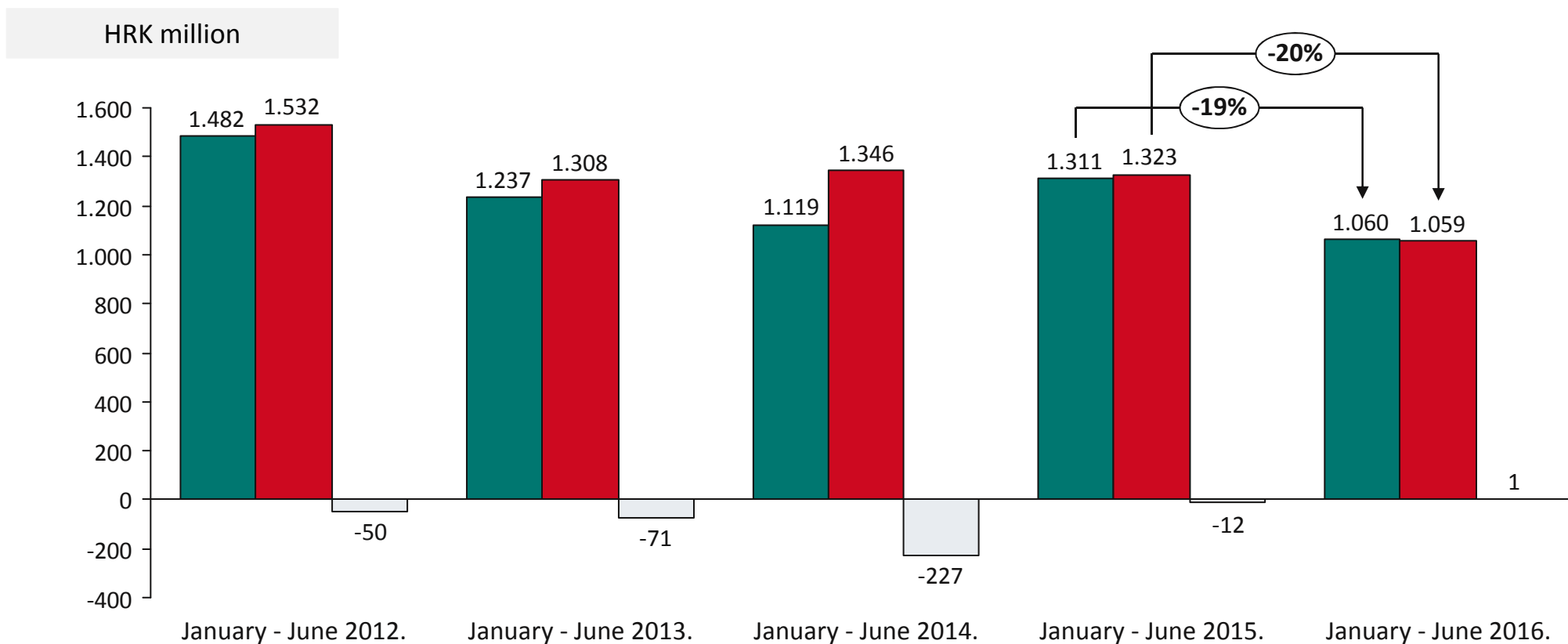
Management Board Report on the Petrokemija Group for January – June 2016 period

- ❑ Lower domestic sales were caused by the customers' liquidity problems (Petrokemija, Plc. has no sources of funding deferred payments, because banks refuse to support the spring sowing), delay in payment of state incentives to domestic market and the principle of buying last minute before application with direct manipulation in the field (partly due to the delay of the spring sowing season and application of fertilizers due to rain and low temperatures);
- ❑ Announcements of exceptionally low price of cereals and other products have resulted in the reduction of land sown with these crops, and consequently the use of mineral fertilizers per hectare, so even the largest buyers are reducing purchase of fertilizers;
- ❑ Liquidity indicators are below recommended values (negative working capital of HRK 194.6 million);
- ❑ Short-term assets decreased by 19.5 % compared to end 2015, and short-term liabilities decreased by 31.2 % (the effect of debt rescheduling for natural gas);
- ❑ Indicators of financial stability as well as indicators of indebtedness and own funding are below recommended values;
- ❑ Average realized natural gas price (without transport costs) was 39.3% lower in HRK and 37.7% lower in USD than in the same period of 2015, while transport costs of natural gas were 21.0% higher;
- ❑ Total number of employees of Petrokemija, Plc. is 1,602, a reduction of 15 or 0.9% as compared to 31.12. 2015. Total number of employees of Petrokemija Group is 1,742, a reduction of 20 or 1,1 % as compared to 31.12.2015.;
- ❑ Achieved level of investment was HRK 76.4 million, an increase of HRK 39.1 million as compared to the same period of 2015.

Profit and Loss of Petrokemija Group in the period January – June 2012 - 2016

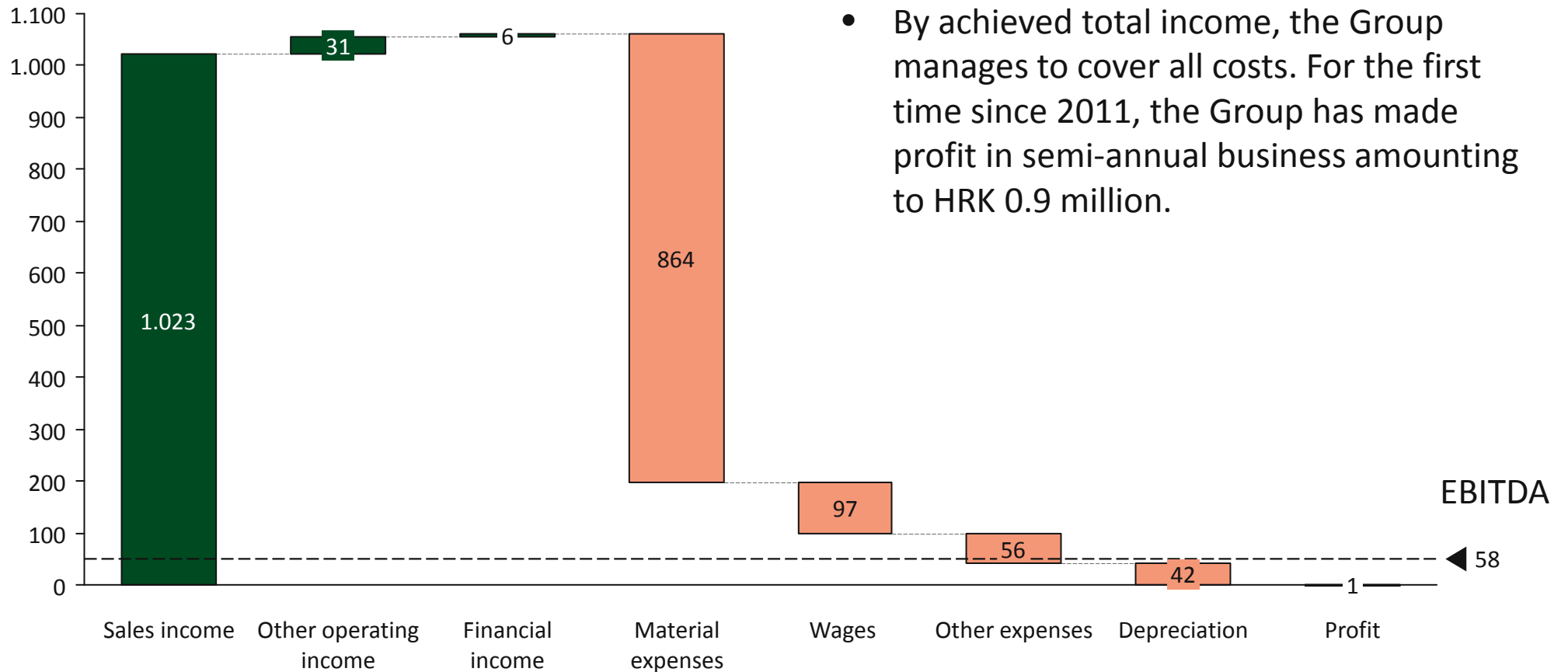
■	Total income	HRK 1,060.3 million,
■	Total expense	HRK 1,059.3 million,
■	Profit before taxation	HRK 0.9 million,
■	EBITDA	HRK 58,4 million.

■ TOTAL INCOME
 ■ TOTAL EXPENSE
 ■ PROFIT / LOSS



Structure of Profit and Loss of Petrokemija Group for period January – June 2016

HRK million



- By achieved total income, the Group manages to cover all costs. For the first time since 2011, the Group has made profit in semi-annual business amounting to HRK 0.9 million.

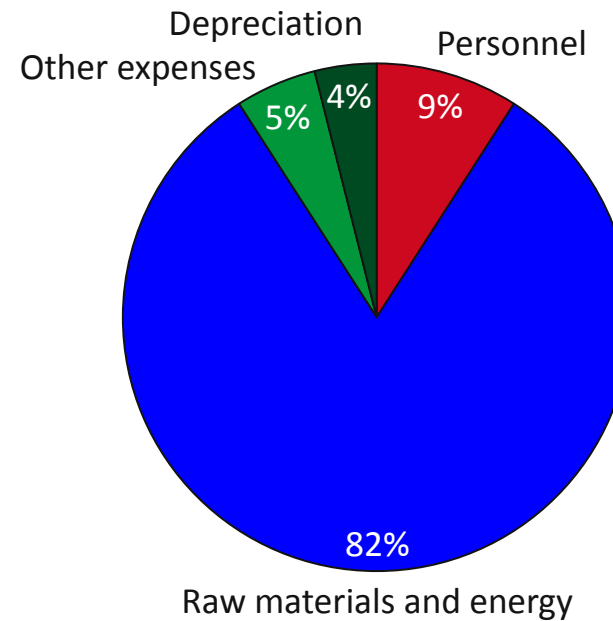
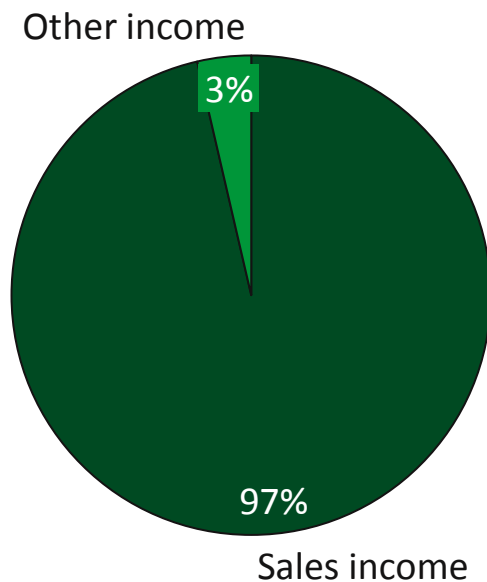
Actual financial results of subsidiaries in period January – June 2016

- In the period January to June 2016 Restoran Petrokemija, Ltd. and Petrokemija, Ltd. Novi Sad made profit, while Luka Šibenik, Ltd. operated with loss. Petrokemija Agro Trade, Ltd. did not have any transaction.

Description	(HRK 000)			
	<i>Restoran Petrokemija Ltd.</i>	<i>Petrokemija Novi Sad Ltd.</i>	<i>Luka Šibenik Ltd.</i>	<i>Petrokemija Agro Trade Ltd.</i>
1	2	3	5	6
TOTAL INCOME	755	19.803	9.814	0
TOTAL EXPENSES	730	19.731	10.228	1
<i>Therein:</i>				
<i>Material costs</i>	502	19.035	1.788	
<i>Depreciation</i>	0	7	396	
<i>Wages</i>	208	287	5.684	
<i>Other costs</i>	20	402	2.360	1
PROFIT OR LOSS BEFORE TAXATION	25	72	-414	-1

Structure of Profit and Loss Petrokemija Group in the period January – June 2016

- In period January – June 2016 Petrokemija, Plc. achieved 29% of income from domestic market, 68% income from export, and financial and other income account for 3% of total income. Out of total, 97% of Petrokemija Group income is from sales of products and services and 3% is from other income.
- The total expense breakdown of Petrokemija Group shows a dominant 82% for raw materials and energy, 9% for personnel costs, while all other costs make 9%.



Key financial indicators Petrokemija Group for period January – June 2016

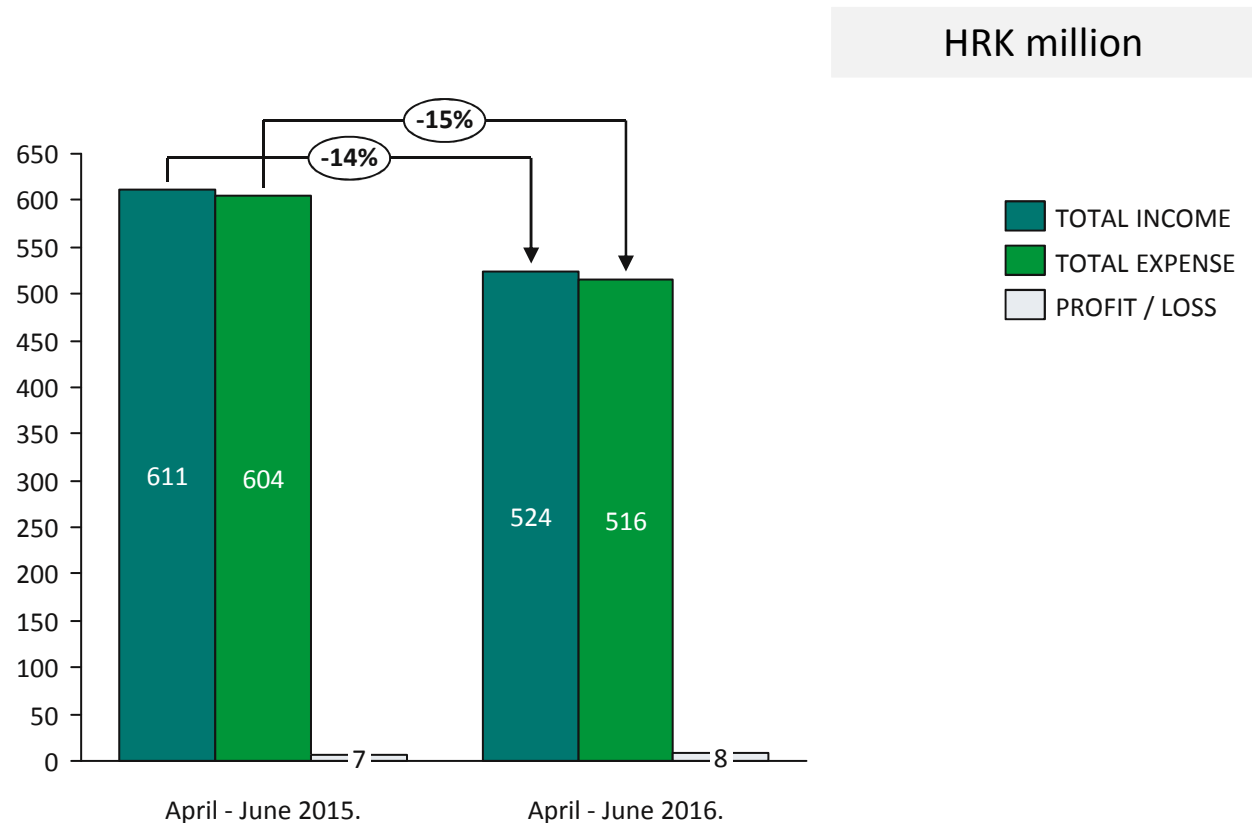
(HRK 000)

	January – June 2016	January – June 2015	Difference	% change
Operating income	1.054.260	1.299.828	-245.568	-18,89%
Operating expense	1.038.123	1.283.976	-245.853	-19,15%
EBITDA *	58.409	63.021	-4.612	-7,32%
Amortization	42.272	47.169	-4.897	-10,38%
Net financial income /(expenses)	-15.216	-27.478	12.262	-44,62%
Net extraordinary income / (expenses)	0	0	0	
Profit / loss / before taxation	921	-11.626	12.547	-107,92%
	30 June 2016	31 December 2015		
Fixed assets	654.027	632.601	21.426	3,39%
Current assets	485.765	603.659	-117.894	-19,53%
Capital and reserves	134.213	133.189	1.024	0,77%
Long-term liabilities + provisions	325.230	141.632	183.598	129,63%
Current liabilities + provisions	680.349	961.439	-281.090	-29,24%

* Earnings before interest, taxes, depreciation and amortization

Operating results Petrokemija Group April-June 2016

- In April to June 2016 period, Petrokemija Group had actual total revenues of HRK 523.9 million, total expenses of HRK 515.7 million and reported operating profit of HRK 8.2 million.
- On a quarterly basis, total revenues decreased by 14% compared to the second quarter of 2015, while total expenses decreased by 15%.



Key financial indicators Petrokemija Group for April-June 2016

(HRK 000)

	January – March 2016	April – June 2016	January – June 2016
Operating income	530.967	523.293	1.054.260
Operating expense	531.961	506.162	1.038.123
EBITDA *	20.764	37.645	58.409
Amortization	21.758	20.514	42.272
Net financial income / (expenses)	-6.293	-8.923	-15.216
Net extraordinary income / (expenses)	0	0	0
Profit / loss / before taxation	-7.287	8.208	921

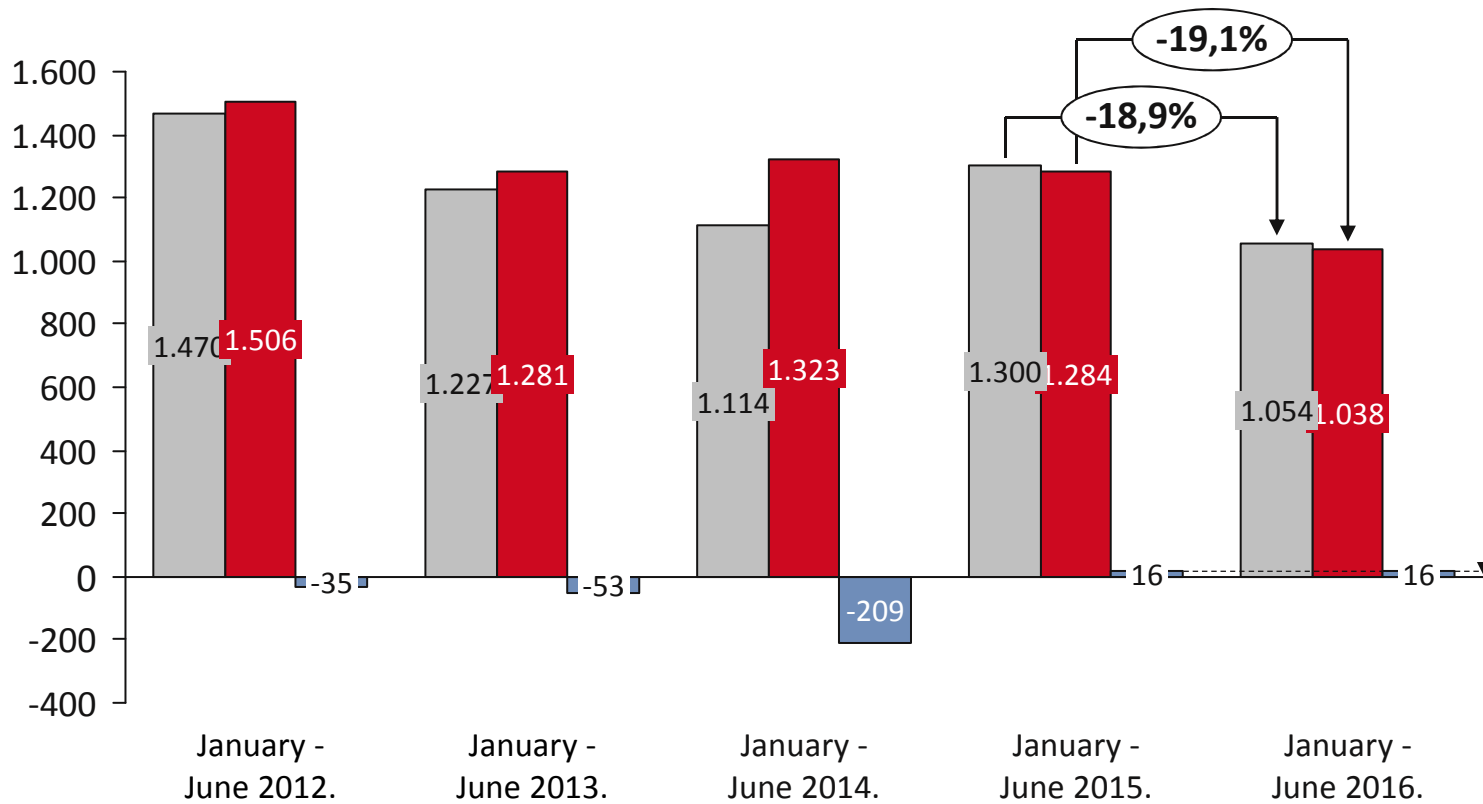
* Earnings before interest, taxes, depreciation and amortization

- In the second quarter of 2016, a profit of HRK 8.2 million was realized.
- The EBITDA amounted to HRK 37.6 million.

Profit and Loss from operating activities of Petrokemija Group for January to June 2012-2016

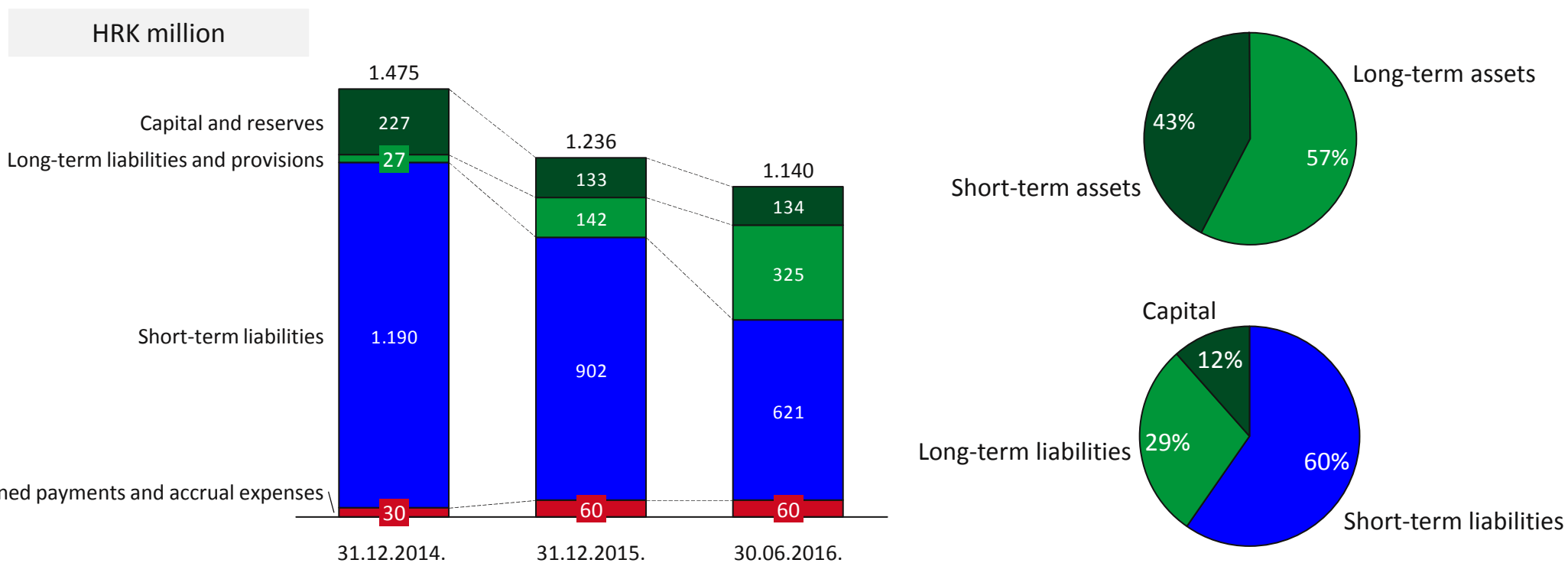
HRK million

OPERATING INCOME
 OPERATING EXPENSES
 PROFIT/LOSS FROM OPERATING ACTIVITIES



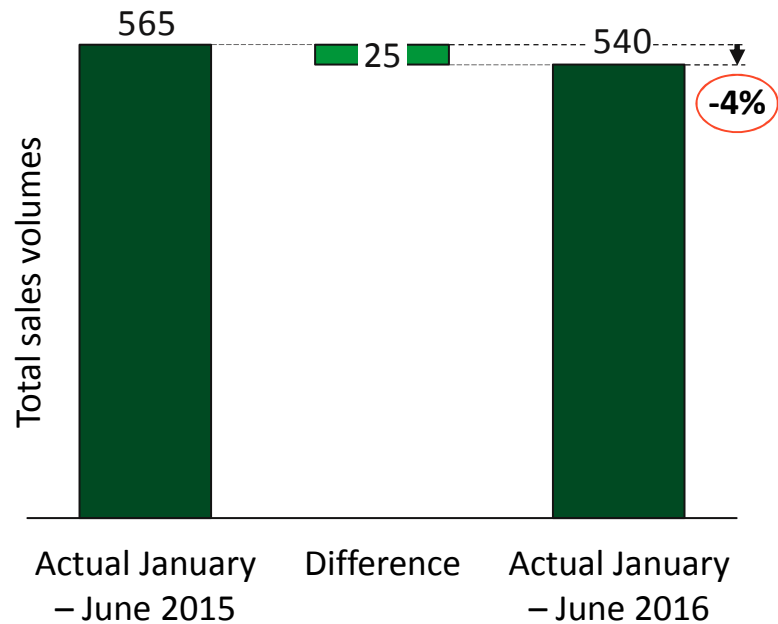
Structure of assets and liabilities of Petrokemija Group at 30 June 2016

- At 30 June 2016, Petrokemija Group had 43% in value of short-term and 57% in long-term assets.
- The level of capital reflects the capital reduction for losses reported in 2014 and 2015. The structure of debt is dominated by short-term sources.

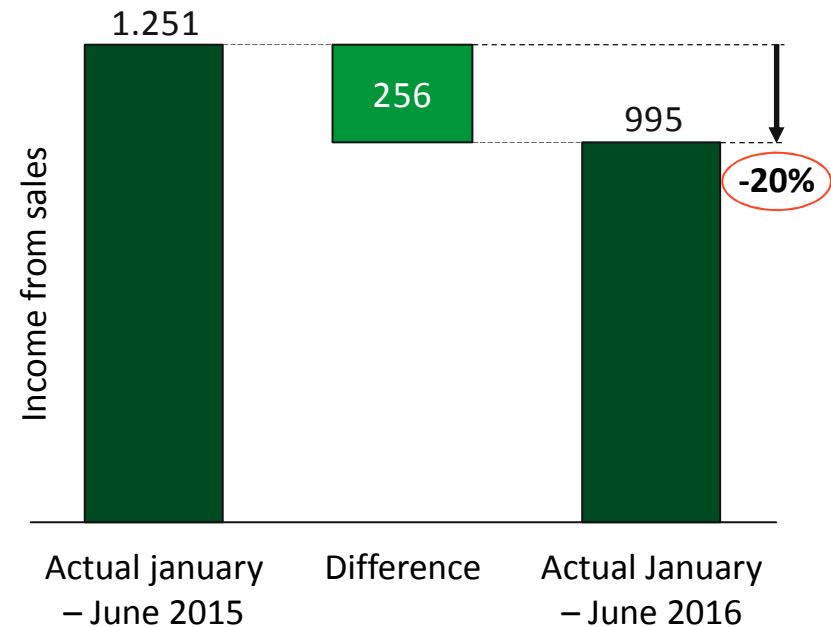


Total fertilizer sales

SALES VOLUMES (000 t)
2016 / 2015



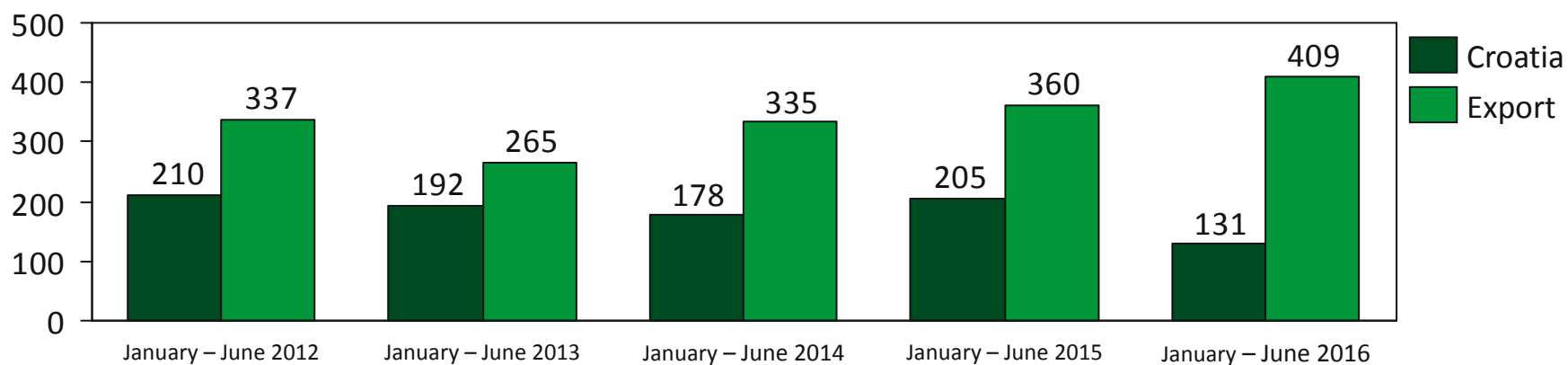
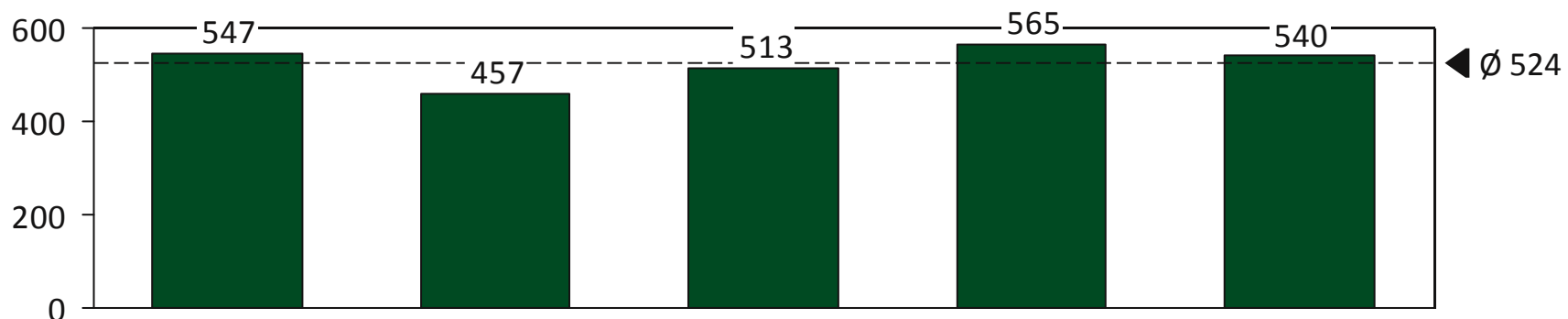
INCOME FROM SALES (mln HRK)
2016 / 2015



Actual down in fertilizer sales volumes of 4% and fall in income from fertilizer sales of 20%, which indicates a fall in average selling prices.

Actual fertilizer sales in January – June 2012 – 2016

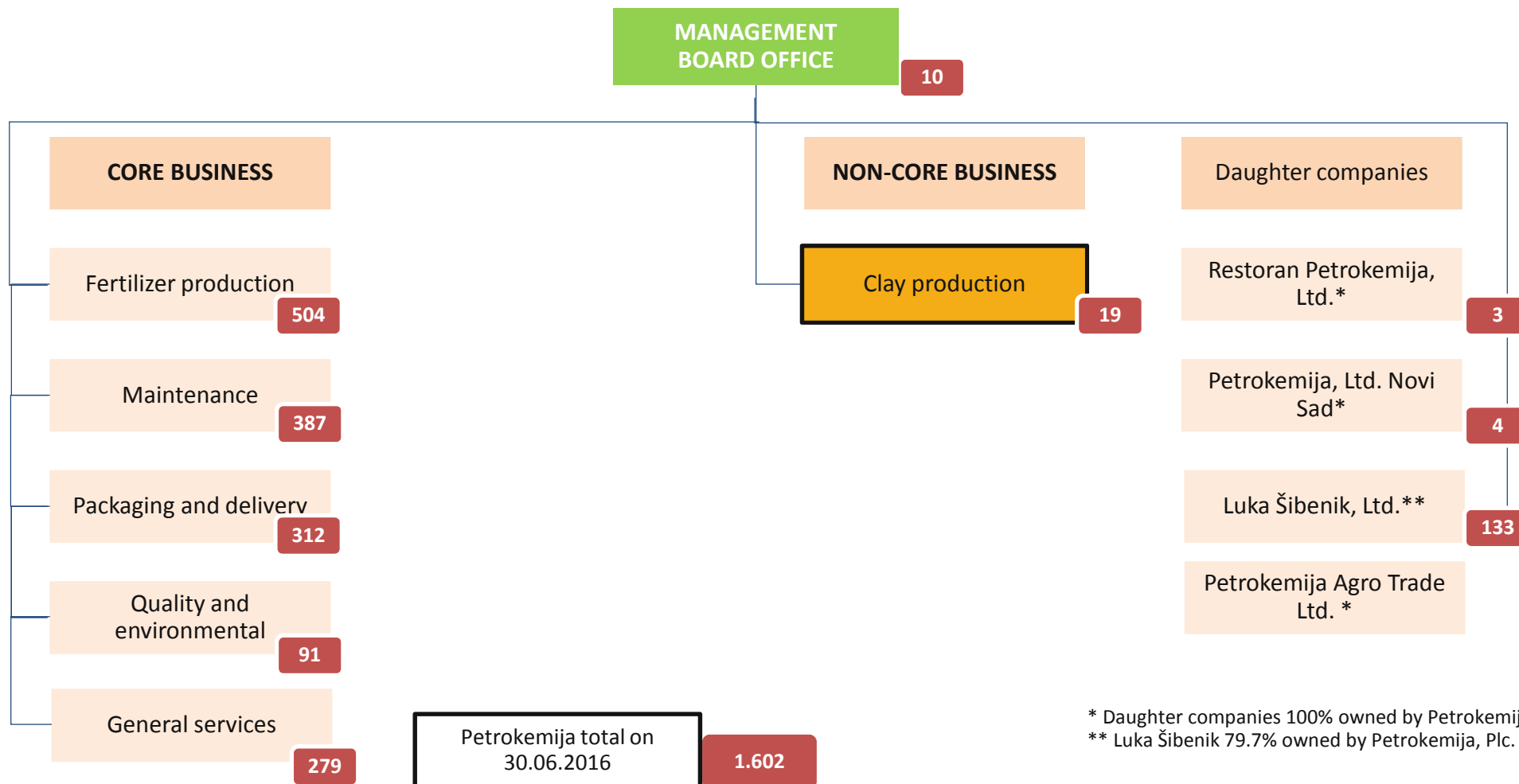
total sales (000 tons)



Business Results of Petrokemija Group for January – June 2016

- ❑ 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 – June 2016 are as follows:
 - ❑ Total revenues HRK 1,060.3 million
 - ❑ Total expenses HRK 1,059.4 million
 - ❑ Profit before tax HRK 0.9 million
 - ❑ Profit tax HRK -0.07 million
 - ❑ Profit after tax HRK 0.8 million
- ❑ EBITDA (earnings before interest, taxes and depreciation) was HRK 58.4 million in the positive.
- ❑ Petrokemija, Ltd. Novi Sad made profit of HRK 72 thousand, Restoran Petrokemija, Ltd. made profit of HRK 25 thousand, while Luka Šibenik, Ltd. made loss of HRK 414 thousand.
- ❑ Petrokemija Agro Trade, Ltd. did not have any transactions.
- ❑ The report on the Petrokemija Group's business includes detailed information on the operations of the subsidiaries.

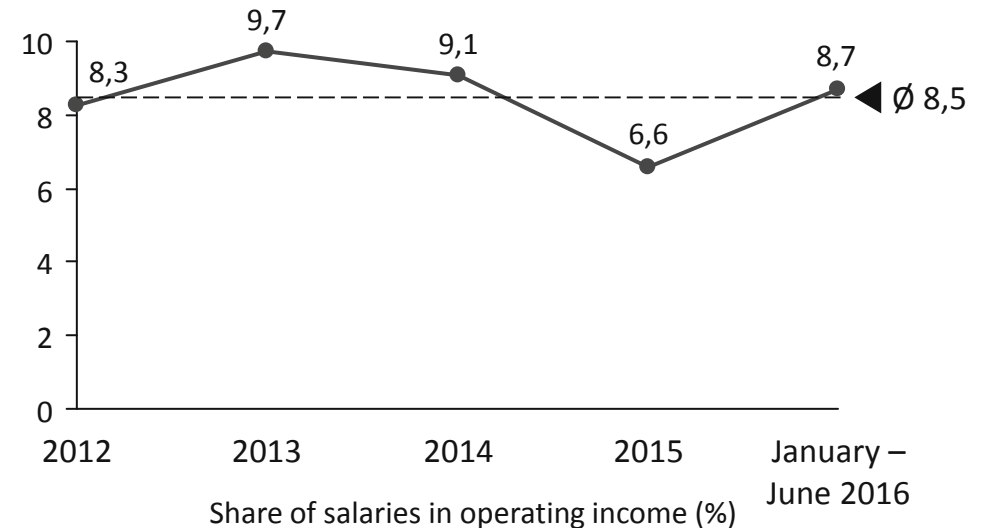
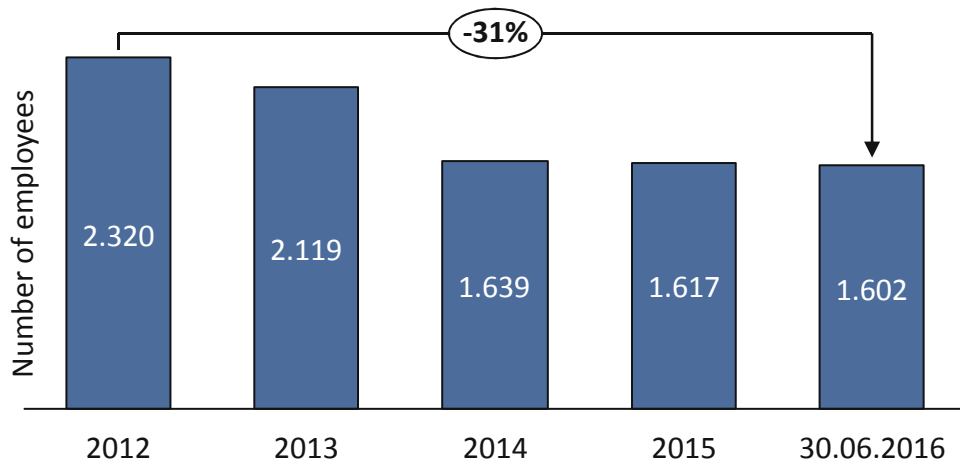
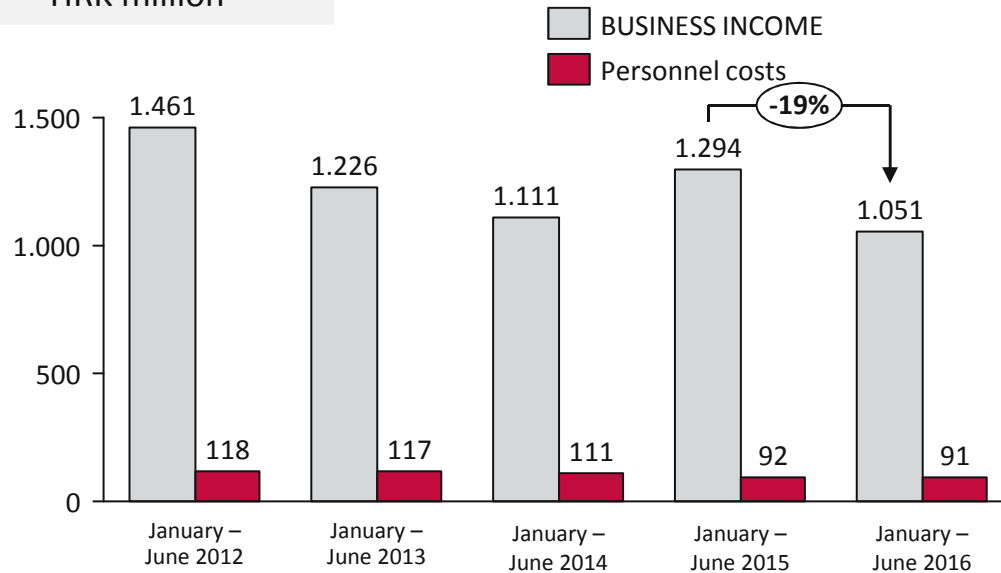
Organization Chart of Petrokemija, Plc. and Petrokemija Group



* Daughter companies 100% owned by Petrokemija, Plc.
 ** Luka Šibenik 79.7% owned by Petrokemija, Plc.

Operational income, personnel costs and number of employees

HRK million

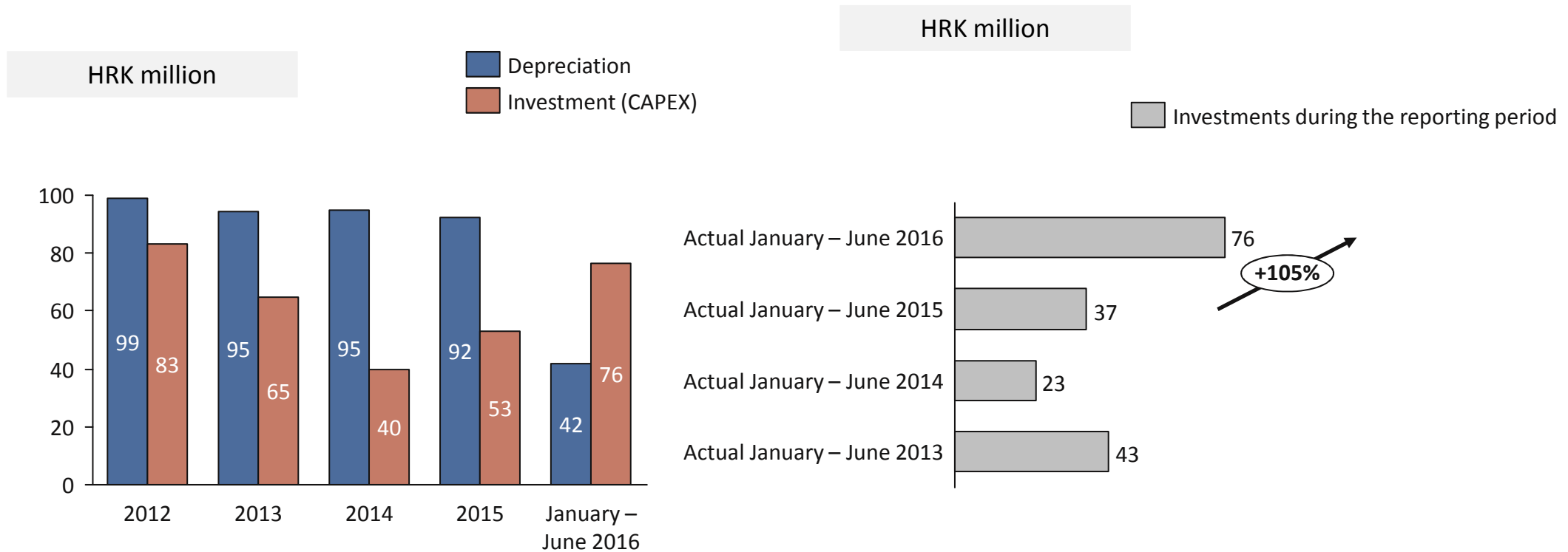


As at 30.06.2016, Petrokemija, Plc. had **1.602 employees**, and daughter companies - members of Petrokemija Group - had 140 employees, which is a total of 1,742 employees.

Personnel costs share in operating revenues was 8.7%.

Realized investment

- Investment realized in reporting period amounted to HRK 76.4 million. Compared to the same period of 2015, it is an increase of HRK 39.1 million or index 204.8.
- The realization of planned level of investment of HRK 173 million on an annual basis may be jeopardized because of the limited availability of funding.



Air quality in the Kutina area for January to June 2016 period at local (K1, K2, K6 and K7) and state monitoring stations (DMP)



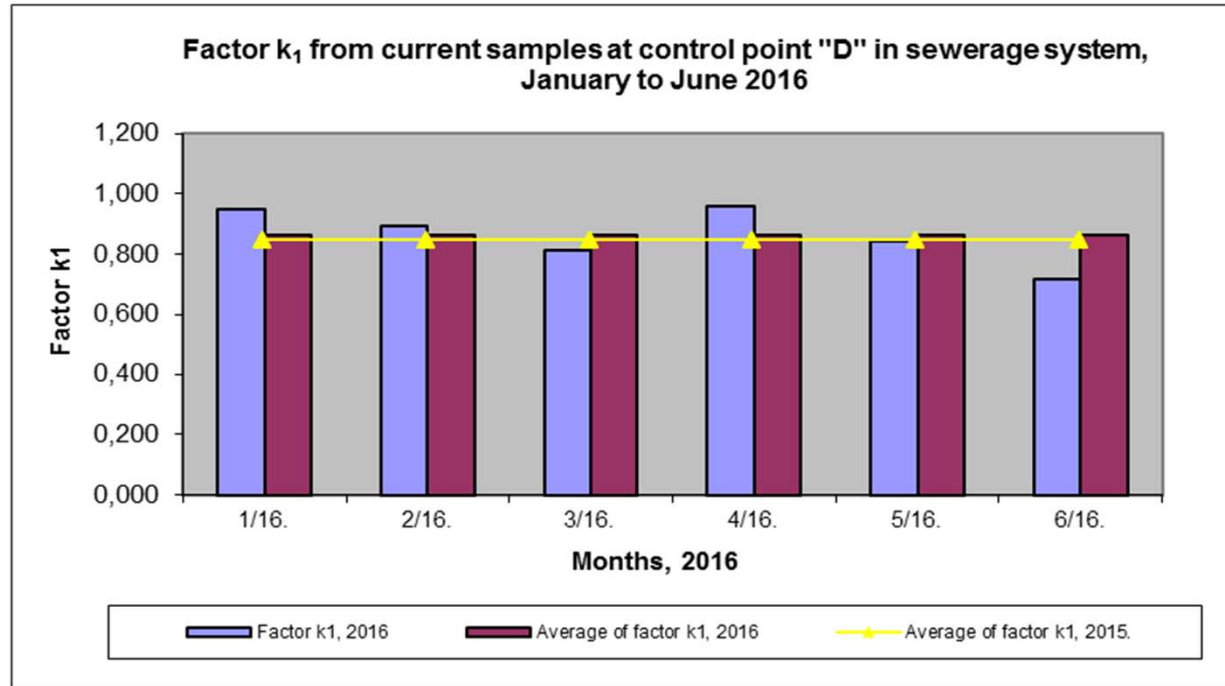
Clean or slightly polluted air	Polluted air	Pollutants
1 st category C<LV	2 nd category C>LV	
K2, K7, DMP		Sulphur dioxide (SO ₂)
K1, K2, K7		Sediment
K6, K7, DMP	K1, K2	Ammonia (NH ₃)
K1, K2, K6, K7, DMP		Nitrogen dioxide (NO ₂)
K2, K7, DMP		Hydrogen sulfide (H ₂ S)
DMP		PM10

Note: The categorization of air quality at DMP can be changed after validation of data by a competent institution.

Ambient air limit value (LV) exceedance of AMMONIA in the January to June 2016 period (local network)

Monitoring station	The number of limit value (LV) exceedances in the <u>January to June 2016 period</u> / permitted exceedance number
K 1 - Dom zdravlja	21 / 7
K 2 - Vatrogasni dom	13 / 7
K 6 - Husain	5 / 7
K 7 - Krč	2 / 7
TOTAL	41

Water management



In January to June 2016 period, the average value of k_1 factor is slightly higher than average value in the same period of 2015.

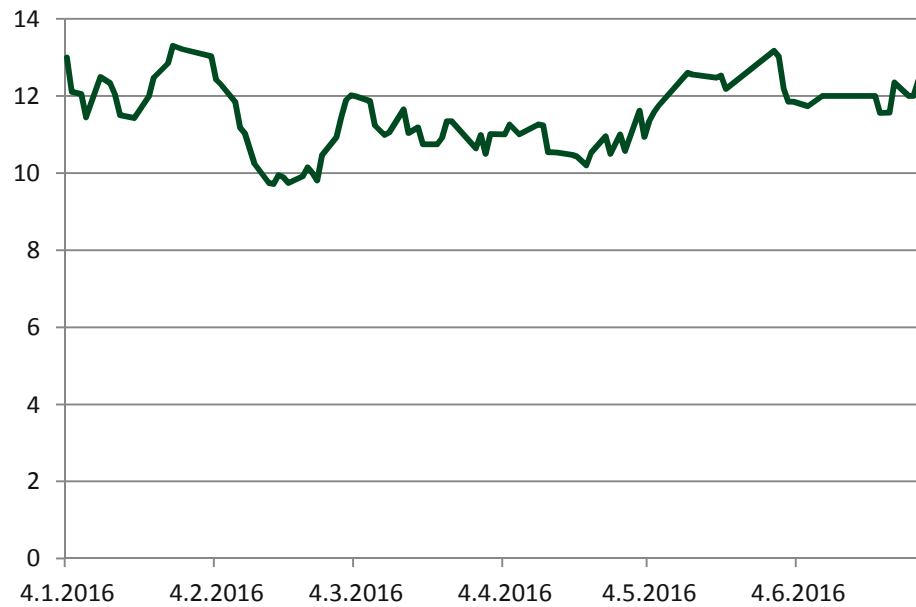
In January to June 2016 period, monthly average consumption of raw water is lower than average value in the same period of 2015.

Company share capital and market value of shares, changes in Supervisory Board

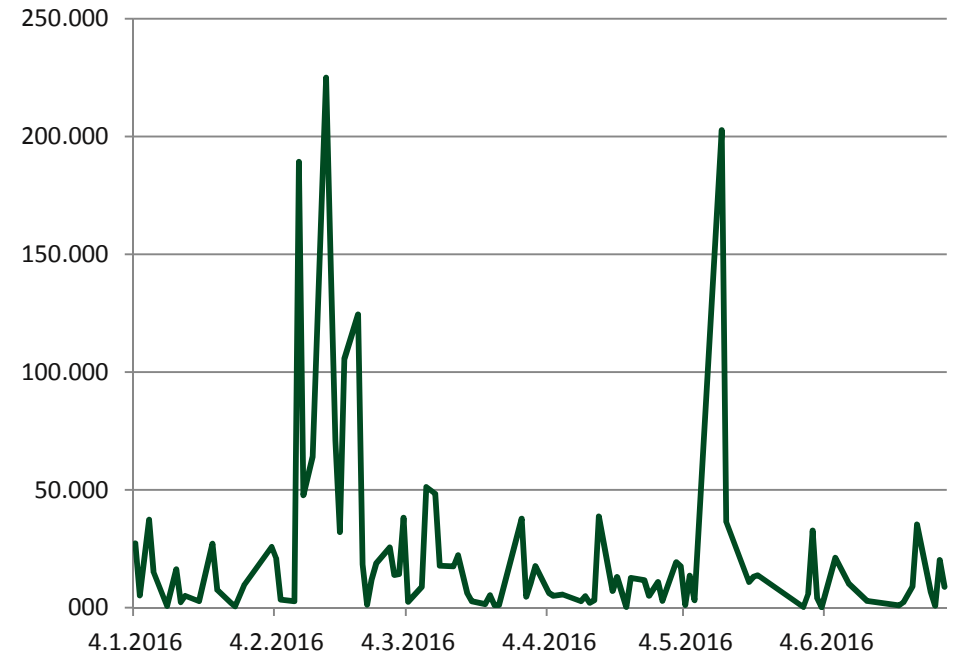
- ❑ After the increase in 2015 , the Company share capital amounts to HRK 386,135,400.00 and is divided into 12,871,180 ordinary shares marked PTKM-R-A, with a nominal amount of HRK 30.00.
- ❑ On 30 December 2015, the average share value was **HRK 13.14, and on 30 June 2016 it was HRK 12.40 (decrease of 5.6%)**.
- ❑ Tomislav Pokaz submitted his resignation as President and member of the Supervisory Board of Petrokemija, effective as of 8 February 2016, for reasons of a new position that is incompatible with membership in the Supervisory Board.
- ❑ At the meeting held on 19 February 2016, Branimir Fleković was appointed Chairman and Sonja Ivoš Vice Chairman of the Supervisory Board.
- ❑ General Meeting of Petrokemija, Plc. was held on 11 May 2016. A new Supervisory Board was appointed, consisting of Ladislav Turčinović, Marijan Kuprešak, Mladen Novak and Mijo Šepak. Željko Klaus remained appointed member of the Supervisory Board as workers' representative.
- ❑ At the Supervisory Board meeting held on 12 May, Marijan Kuprešak was elected Chariman and Željko Klaus Vice Chairman of the Board.
- ❑ Supervisory Board member, Mladen Novak, resigned from membership in the Supervisory Board of Petrokemija, effective as of 31 July 2016.

Petrokemija, Plc. share price and daily turnover movements

PETROKEMIJA'S SHARE PRICE MOVEMENTS
for January – June 2016 (HRK/share)



PETROKEMIJA'S DAILY SHARE TURNOVER MOVEMENTS
for January – June 2016 (HRK)



Key events in 2016

- ❑ In October 2015, 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 Petrokemija, Plc. Fertilizer Company, Kutina, a public call to submit indication of interest to subscribe for new ordinary shares of Petrokemija was published. After the conducted due diligence, one binding offer of a potential investor was received, which is being considered by competent bodies of the Croatian Government.
- ❑ Due to the partial failure to achieve the assumptions of the Program of Restructuring and Financial Consolidation for the period 2014 - 2018 and 2015 -2019, in the first quarter of 2016 a revised Program, i.e. Business Plan for the period 2016 -2020 was made, which includes changes in the assumptions with regard to the change of product range and the current level of input-output prices, the new capital increase and debt rescheduling as well as the reduction of the amount of investment.
- ❑ Through continuous and long negotiations with two natural gas suppliers, INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar, Petrokemija, Plc. managed to revise the terms of natural gas supplies for gas year 2015/2016 and also for the coming gas year 2016/2017 contracted certain volumes of natural gas under new terms.
- ❑ At the time of this report, the Company is completing the overhaul of fertilizer production facilities. The scope of work of this overhaul is one of the largest in recent years. During the overhaul, Measure M7 investment project is being carried out at Urea Plant, which will achieve significant improvement in environmental standards in terms of reducing pollution of waste water.

Key events in 2016 (cont)

- In order to improve energy efficiency, Petrokemija, Plc. carried out an investment project – construction of high-pressure natural gas pipeline from GMRS Kutina 1 to the Company site and further to Ammonia Plant. The investment, for the most part financed by the program Financing Projects of Environmental Protection, Energy Efficiency and Renewable Energy Resources of the Croatian Bank for Reconstruction and Development, has been successfully completed.
At the time of this report, the supply of power facilities with natural gas from the new pipeline has already begun. The first to start operation were the energy plants, to be followed by Nitric Acid Plant, NPK and CAN fertilizer plants. Overhaul works at Ammonia and Urea Plants progress according to plan, and their start is scheduled for the first week of August 2016.
- Upon an international tender, the Company concluded a new contract for supply of natural gas in the gas year 2016/2017 for the remainder of the necessary volumes. The contract was concluded with Prvo plinarsko društvo Ltd. Vukovar, as the most favorable supplier. With this contract, Petrokemija secured sufficient volumes of natural gas for a stable planned production in the gas year 2016/2017. The terms of natural gas supply have been one of the preconditions for further restructuring and financial consolidation of the Company.

Significant financial risks in 2016

The overall business position of Petrokemija, Plc. in 2016 depends on a number of factors, whose impact is very difficult to estimate. The contracted new terms of natural gas procurement and rescheduling of outstanding debt for natural gas have reduced a part of the risk transferred from the previous period.

However, according to the current market situation, it is estimated that in the next period of the year, negative impact of low fertilizer prices in the world market will continue to be very pronounced. Furthermore, the level of financial expenditure and operational business management will be significantly affected by the Company's insufficient liquidity and high cost of financing. The final financial result for the business year is likely to be more favorable than in the previous projections, but caution is still suggested due to the following risks:

- ❑ Petrokemija Plc. is highly dependent on the movements of fertilizers and their raw materials 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 USD would cause additional negative effects on 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 very low (short-term also influenced by cyclical and seasonal changes) and the price of nitrogen fertilizer Urea has been at a very low level for a long time now;

Significant financial risks in 2016 (cont)

- ❑ Fluctuations in raw material prices in the global market, which have so far been present, will continue to affect material costs in the next period;
- ❑ High costs of working capital – because of insufficient own working capital, financing costs will continue to be significant in the next period;
- ❑ A comprehensive overhaul was carried out in the summer months, partly financed by CBRD. The outstanding obligations are subject to a risk of settlement from the current liquidity of the Company;
- ❑ High debts to natural gas suppliers may 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;
- ❑ Funding of investment is still not covered by long-term funding sources and will depend on the key decisions of the majority owner in view of the continuing process of restructuring, recapitalization 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 June 30, 2016 period**, make an exact and true account of the Company and Petrokemija Group 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

Nenad Zečević, BE

Antonija Perošević Galović, BSEc

Tamara Pernar, BSEc

Vladimir Fresl , MS



Attachments:

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

Attachment 1.

Reported period:

01.01.2016.

to

30.06.2016.

Quarterly financial statements TFI-POD

Registration number (MB): 03674223

Registration number of subject
(MBS): 080004355Personal identification
number (OIB): 24503685008

Issuer company: PETROKEMIJA GROUP

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

Number of employees: 1.742
(at the end of the year)

Consolidated Report: YES

Code of NKD: 20.15

Entities in consolidation (according to IFRS):

Registered seat:

Registration number (MB):

RESTORAN PETROKEMIJA d.o.o.

KUTINA

01335316

PETROKEMIJA d.o.o.

NOVI SAD

08754608

LUKA ŠIBENIK d.o.o.

ŠIBENIK

03037525

PETROKEMIJA AGRO TRADE d.o.o.

KUTINA

4424085

Book-keeping office:

Contact person: MARINA MARIĆ

(name and surname of the contact person)

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(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 30.06.2016.

Issuer: PETROKEMIJA GROUP			
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	632.601.128	654.026.982
I. INTANGIBLE ASSETS (004 do 009)	003	7.766.579	7.473.479
1. Expense for development	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	6.036.775	5.242.525
3. Goodwill	006		
4. Advances for intangible assets	007		
5. Intangible assets in progress	008	1.729.804	2.230.954
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 do 019)	010	624.446.862	645.490.682
1. Land	011	49.482.153	48.506.703
2. Buildings	012	237.973.192	226.908.750
3. Plant and equipment	013	239.481.179	215.232.919
4. Tools, plant inventory and transportation assets	014	19.919.716	18.250.574
5. Biological assets	015		
6. Advances for tangible assets	016	13.770.947	1.239.890
7. Tangible assets in progress	017	62.706.943	134.285.182
8. Other tangible assets	018	1.112.732	1.066.664
9. Investments in real estates	019		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	020	7.537	7.537
1. Investments (shares) in related companies	021		
2. Loans given to related companies	022		
3. Participating interest (shares)	023	7.537	7.537
4. Loans given to companies with participating interest	024		
5. Investment in securities	025		
6. Loans given, deposits and similar assets	026		
7. Other long-term financial assets	027		
8. Investments accounted for using the equity method	028		
IV. TRADE RECEIVABLES (030 do 032)	029	0	675.134
1. Receivables from related companies	030		
2. Receivables for sales on loan	031		
3. Other receivables	032		675.134
V. DIFERRED TAX ASSETS	033	380.150	380.150
C) SHORT-TERM ASSETS (035+043+050+058)	034	603.628.992	485.558.314
I. INVENTORIES (036 do 042)	035	487.397.760	401.786.840
1. Raw and other material	036	205.262.118	159.262.838
2. Work in progress	037	23.265.819	28.718.548
3. Finished products	038	257.109.820	186.572.120
4. Merchandise inventory	039	1.159.789	592.429
5. Advances for inventories	040	600.214	26.640.905
6. Long-term assets intended for sale	041		
7. Biological assets	042		
II. TRADE RECEIVABLES (044 do 049)	043	76.426.033	48.426.421
1. Receivables from related companies	044		
2. Receivables from customers (buyers)	045	10.717.146	8.803.174
3. Receivables from participating interest	046		
4. Receivables from employees and members	047	19.795	25.331
5. Receivables from state and other institutions	048	63.163.775	39.298.680
6. Other receivables	049	2.525.317	299.236
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	30.382.105	21.446.565
1. Investments (shares) in related companies	051		
2. Loans given to related companies	052		
3. Participating interest (shares)	053	26.546.147	17.327.508
4. Loans given to companies with participating interest	054		
5. Investment in securities	055	215.093	215.093
6. Loans given, deposits and similar assets	056	3.620.865	3.903.964
7. Other financial assets	057		
IV. CASH IN BANK AND ON HAND	058	9.423.094	13.898.488
D) PREPAID EXPENSES AND ACCRUED INCOME	059	29.733	206.754
E) TOTAL ASSETS (001+002+034+059)	060	1.236.259.853	1.139.792.050
F) OFF BALANCE SHEET ITEMS	061	1.175.630.879	1.137.536.511

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	133.189.246	134.212.575
I. SUBSCRIBED CAPITAL	063	386.135.400	386.135.400
II. CAPITAL RESERVES	064	-200.000	-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	-163.356.072	-256.296.696
1. Retained earning	073		
2. Loss carried forward	074	163.356.072	256.296.696
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	075	-93.198.465	847.105
1. Profit for the year	076		847.105
2. Loss for the year	077	93.198.465	
VII. MINORITY INTEREST	078	3.808.383	3.726.766
B) PROVISIONS (080 do 082)	079	11.537.699	11.521.699
1. Provisions for pensions, severance pay and similar liabilities	080	10.572.383	10.556.383
2. Provisions for tax liabilities	081		
3. Other provisions	082	965.316	965.316
C) LONG-TERM LIABILITIES (084 do 092)	083	130.093.507	313.708.200
1. Liabilities to related companies	084		
2. Liabilities for loans, deposits and similar	085	95.833.333	266.343.793
3. Liabilities to banks and other financial institutions	086	34.260.174	47.364.407
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	901.901.660	620.652.377
1. Liabilities to related companies	094		
2. Liabilities for loans, deposits and similar	095	142.583.026	80.421.896
3. Liabilities to banks and other financial institutions	096	91.296.296	85.466.463
4. Liabilities for advances	097	127.348.404	37.743.399
5. Liabilities to suppliers	098	512.986.845	398.776.823
6. Liabilities for securities	099		
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	11.517.992	11.119.197
9. Liabilities for taxes, contributions and other payments	102	13.250.176	6.756.887
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	2.918.921	367.712
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	59.537.741	59.697.199
F) TOTAL LIABILITIES (062+079+083+093+106)	107	1.236.259.853	1.139.792.050
G) OFF BALANCE SHEET ITEMS	108	1.175.630.879	1.137.536.511
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	129.380.863	130.485.809
2. Credited to minority interest	110	3.808.383	3.726.766

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 01.01.2016. to 30.06.2016.

Issuer: PETROKEMIJA GROUP					
Position	AOP code	Previous year		Current year	
		Cumulative	Quarterly	Cumulative	Quarterly
1	2	3	4	5	6
I. OPERATING REVENUES (112+113)	111	1.299.828.192	603.811.433	1.054.259.622	523.292.691
1. Sales revenues	112	1.275.703.776	592.844.495	1.023.450.185	503.452.405
2. Other operating revenues	113	24.124.416	10.966.938	30.809.437	19.840.286
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	1.283.976.442	591.157.456	1.038.123.148	506.162.597
1. Changes in value of work in progress and finished products	115	5.806.087	-92.202.427	65.084.972	50.424.150
2. Material costs (117 do 119)	116	1.106.338.870	598.249.390	798.485.150	366.709.723
a) Cost of raw and production materials	117	1.073.508.544	578.476.142	760.028.232	346.422.277
b) Cost of goods sold	118	2.558.794	2.284.563	2.414.913	11.140.887
c) Other external costs	119	30.271.532	17.488.685	36.042.005	19.576.559
3. Employees costs (121 do 123)	120	97.702.449	49.184.296	97.471.562	48.917.158
a) Net salaries and wages	121	61.501.154	30.941.467	61.117.504	30.644.141
b) Costs for taxes and contributions from salaries	122	21.955.362	11.074.889	22.142.272	11.140.384
c) Contributions on salaries	123	14.245.933	7.167.940	14.211.786	7.132.633
4. Depreciation	124	47.169.239	23.596.132	42.272.048	20.514.035
5. Other costs	125	26.879.772	12.250.814	32.271.572	17.059.764
6. Value adjustments (127+128)	126	80.025	79.251	2.537.844	2.537.767
a) of long-term assets (except for financial assets)	127	33.097	33.097	2.530.348	2.530.348
b) of short-term assets (except for financial assets)	128	46.928	46.154	7.496	7.419
7. Provisions	129				
8. Other operating expenses	130				
III. FINANCIAL REVENUES (132 do 136)	131	11.111.750	7.440.851	6.008.634	643.079
1. Interest, exchange rate fluctuations, dividends and similar from associated companies	132				
2. Interest, exchange rate fluctuations, dividends and similar from non-associated companies and others	133	11.111.750	7.440.851	6.008.634	643.079
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	38.589.614	12.969.488	21.224.573	9.566.033
1. Interest, exchange rate fluctuations and other costs with associated companies	138				
2. Interest, exchange rate fluctuations and other costs with non-associated companies	139	38.589.614	12.969.488	21.224.573	9.566.033
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	1.310.939.942	611.252.284	1.060.268.256	523.935.770
X. TOTAL EXPENSES (114+137+143 + 145)	147	1.322.566.056	604.126.944	1.059.347.721	515.728.630
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	-11.626.114	7.125.340	920.535	8.207.140
1. Profit before taxation (146-147)	149	0	7.125.340	920.535	8.207.140
2. Loss before taxation (147-146)	150	11.626.114	0	0	0
XII. PROFIT TAX	151			73.430	38.091
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	-11.626.114	7.125.340	847.105	8.169.049
1. Profit for the period (149-151)	153	0	7.125.340	847.105	8.169.049
2. Loss for the period (151-148)	154	11.626.114	0	0	0

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	-11.412.604	7.118.600	931.090	8.072.501
2. Credited to minority interest	156	-213.510	6.740	-83.985	96.548
STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)					
I. PROFIT OR LOSS OF THE PERIOD (= 152)	157	-11.626.114	7.125.340	847.105	8.169.049
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	-11.626.114	7.125.340	847.105	8.169.049
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	-11.412.604	7.118.600	931.090	8.072.501
2. Credited to minority interest	170	-213.510	6.740	-83.985	96.548

CASH FLOW STATEMENT - Direct method

for the period 01.01.2016. to 30.06.2016.

Issuer: PETROKEMIJA GROUP			
Position	AOP code	Previous year	Current year
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Cash increase from buyers	001	1.394.777.389	1.005.901.384
2. Cash increase from royalties, fees commissions and other	002		
3. Cash increase from insurance compensations	003	2.350.977	3.119.797
4. Cash increase from tax return	004	128.431.878	120.294.578
5. Other cash increase	005	2.000.853	79.521
I. Total increase of cash flow from operating activities (001 do 005)	006	1.527.561.097	1.129.395.280
1. Expenses to suppliers	007	1.166.342.329	870.349.697
2. Expenses for employees	008	97.539.514	97.974.921
3. Expenses for insurance compensations	009	5.853.618	6.253.705
4. Expenses for interest	010	15.320.765	23.771.926
5. Expenses for taxes	011	62.521.870	17.730.498
6. Other cash decrease	012	4.981.397	4.315.528
II. Total decrease in cash flow from operating activities (007 do 012)	013	1.352.559.493	1.020.396.275
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)	014	175.001.604	108.999.005
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)	015	0	0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proceeds from sale of non-current tangible and intangible assets	016	28.750	1.722.737
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	4.649.344	
5. Other cash proceeds from investing activities	020		
III. Total cash inflow from investing activities (016 do 020)	021	4.678.094	1.722.737
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	16.890.509	37.097.912
2. Cash outflow for acquisition of equity and debt financial instruments	023		
3. Other cash outflows from investing activities	024		
IV. Total cash outflow from investing activities (022 do 024)	025	16.890.509	37.097.912
B1) NET CASH FLOW FROM INVESTING ACTIVITIES (021-025)	026	0	0
B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)	027	12.212.415	35.375.175
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash inflows from issuance of equity and debt financial instruments	028		
2. Cash inflows from loan principals, debentures, credits and other borrowings	029	2.200.000	31.282.034
3. Other inflows from financial activities	030	105.999.531	26.546.147
V. Total cash inflow from financial activities (028 do 030)	031	108.199.531	57.828.181
1. Cash outflows for repayment of loan principal and bonds	032	153.079.136	109.606.811
2. Cash outflows for dividend payment	033		
3. Cash outflow for financial lease	034		
4. Cash outflows for buyback of own shares	035		
5. Other cash outflows for financial activities	036	127.303.173	17.086.706
VI. Total cash outflow for financial activities (032 do 036)	037	280.382.309	126.693.517
C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)	038	0	0
C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)	039	172.182.778	68.865.336
Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)	040	0	4.758.494
Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)	041	9.393.589	0
Cash and cash equivalents at the beginning of the period	042	18.913.750	13.043.958
Increase of cash and cash equivalents	043		4.758.494
Decrease of cash and cash equivalents	044	9.393.589	
Cash and cash equivalents at the end of the period	045	9.520.161	17.802.452

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

STATEMENT OF CHANGES IN EQUITY

for the period from 1.1.2016 to 30.6.2016

Position 1	AOP code 2	Previous year 3	Current year 4
1. Suscribed capital	001	386.135.400	386.135.400
2. Capital reserves	002	-200.000	-200.000
3. Reserves from profit	003		
4. Retained profit or loss carried forward	004	-163.356.072	-256.296.696
5. Profit or loss for the year	005	-93.198.465	847.105
6. Revaluation of fixed tangible assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluation	009	3.808.383	3.726.766
10. Total capital and reserves (AOP 001 do 009)	010	133.189.246	134.212.575
11. Exchange differences on translation of financial statements of foreign operations	011		
12. Current and deferred taxes (part)	012		
13. Protection of cash flow	013		
14. Changes in accounting policies	014		
15. Adjustment of significant errors from previous period	015		
16. Other changes in capital	016		
17. Total increase or decrease of capital (AOP 011 do 016)	017	0	0
17 a. Credited to parent company capital owners	018	129.380.863	130.485.809
17 b. Credited to minority interest	019	3.808.383	3.726.766

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

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

Note

PETROKEMIJA GROUP

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

1. Financial result for January – June 2016

In the January – June 2016 period, Petrokemija Group had total revenues of HRK 1,060.3 million, total expense of HRK 1,059.4 million and reported a profit in operations of HRK 0.9 million, or 0.1 % of total revenues. In the same period of previous year, the Company sustained losses of HRK 11.6 million (0.9 % of total revenues), which shows a positive development in the financial result of HRK 12.5 million.

The EBITDA (earnings before interest, taxes, depreciation and amortization) was HRK 58.4 million. The total revenues for the first half of 2016 were down by 19.1% on the same period of 2015, while total expenditures were down by 19.9%. These figures indicate a lower scope of operations due to smaller sales volumes of fertilizers and lower sales and purchasing prices, but there is an obvious improvement of the financial result despite the adverse situation in the global market, marked by a significant fall of fertilizer prices.

The fall of fertilizer prices in world markets was carried over largely to the EU and the region, causing a major impact on the domestic market and increased imports of cheaper fertilizers by direct regional competitors. Lower domestic sales were caused by the customers' liquidity problems (Petrokemija has no sources of funding deferred payments, and banks refuse to support the spring sowing), delay in payment of Government incentives to domestic market and the increasing principle of buying last minute before application with direct manipulation in the field (thus avoiding costs of storing and reloading). Lower domestic sales volumes were also caused by poor agro-climatic conditions in the first quarter of 2016 (high precipitation and low temperatures) in Croatia and the region, which resulted in a significant delay of the spring sowing season and consequently in fertilizer application. Furthermore, announcements of exceptionally low price of cereals and other products have resulted in the reduction of land sown with these crops, and consequently the use of mineral fertilizers per hectare, so even the largest buyers are reducing purchase of fertilizers.

2. Structure of financial result

To be observed in the financial result structure for January – June 2016 is HRK 16.1 million operating profit, which was reduced by HRK 15.2 million loss generated from financial operations, resulting in a total profit of HRK 0.9 million. The loss from financial operations is the consequence of unfavorable financing structure, i.e. high debt to natural gas suppliers.

3. Revenues

In the reporting period, the trend of falling prices of mineral fertilizers had a significant negative impact on operating income, which is evident from the data that with the 4.5% reduction in sales volumes of fertilizers, the achieved operating income was 18.9% lower.

The actual domestic sales were lower than the in the previous year due not only to the economic exhaustion and poor liquidity of Croatian agriculture as well as insufficient support from business banks, but also due to bad agro-climatic conditions in the first quarter of 2016 and the delay in the payment of government subsidies. The sales in Croatia and the narrower region in the second quarter

of this year continue to be under pressure from the generally poor state of agriculture and increased competition from other fertilizer suppliers.

Lower sales are also the result of the financial inability of Petrokemija, Plc. to enable domestic customers to sell fertilizers with expected margins, rebates and with delayed payments of 60 to 180 days. An additional challenge in the sales of fertilizers in the domestic market will likely be the decrease in volumes and pressure to reduce prices of mineral fertilizers in the remaining year due to the application of the code of wheat purchase. According to the code of purchase, wheat is divided into classes and evaluated accordingly. High yields of relatively poor-quality wheat (low percentage of protein), will most likely result in a low purchase price and consequently in reducing the area and intensity of fertilization in the autumn sowing.

The trend of price movements and that of supply and demand in the global market of fertilizers has not significantly changed compared to 2015, except for an even more pronounced decline in the price of Urea. The fall of Urea price has significant influence on the fall in price of another major nitrogen fertilizer, CAN, which in previous years was exceptionally stable and achieved satisfactory margins. The main export product of Petrokemija - nitrogen fertilizer Urea - achieved a 14% decline in the average price in the world market in 2015, followed by an additional fall of 25% in the first half-year of 2016. This calls for caution in predicting the financial results for 2016. As a consequence of the fall of price of Urea, the price of CAN also fell by 30% in the first half of 2016 as compared to 2015.

4. Expenses

The actual operating expenses were by 19.1% lower compared to the previous year, reflecting 4.5% lower sales and lower purchasing prices of raw materials. The prices of certain raw materials for the production of fertilizers in the world market were generally lower, except for potassium chloride. As for direct costs, the most significant progress was achieved in lowering the price of natural gas (expressed in USD and HRK). Overhead costs were mainly at the level of the same period last year.

5. Natural gas supply

The reporting period is marked by an imbalance of supply prices of raw materials and sales prices for 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 (without transportation costs) in the first half-year of 2016 was by 37.7% lower denominated in USD, and by 39.3% lower in HRK than in the same period of 2015.

Based on an international tender in June 2015, Petrokemija, Plc. concluded contracts for natural gas supply for the gas year 2015/2016 with INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar as the most competitive suppliers.

In the reporting period, through continuous and long negotiations with the two gas suppliers, INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar, the Company managed to revise the terms of gas supplies for gas year 2015/2016. Furthermore, the Company contracted certain volumes of natural gas under new terms for the coming gas year 2016/2017.

Upon another international tender, in June 2016, Petrokemija, Plc. concluded a new contract for natural gas supply for the gas year 2016/2017 for the remaining necessary volumes. The contract was signed with Prvo plinarsko društvo d.o.o. Vukovar as the most competitive supplier. With this contract, Petrokemija secured sufficient volumes of natural gas for a stable planned production in the gas year 2016/2017. The contracted terms of natural gas supply are one of the preconditions for further

2016/2017. The contracted terms of natural gas supply 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 Croatia in the gas year 2015/2016. The negative impact of this cost increase on the operating results of the Company in 2016 is estimated to be about HRK 25 million. The transportation cost per standard cubic meter of natural gas increased by 21% compared to the same period in 2015.

6. Production and capacity utilization

In the first half-year of 2016, Petrokemija achieved 5.0 % lower production as compared to the previous year. In the production breakdown, there were changes as follows: 0.9% lower output of Urea, 11.2% higher output of CAN and 29.5% lower output of NPK fertilizers for market reasons. The Company's actual utilization of production capacities was 82%, mainly due to lower production of NPK fertilizers and adjustments to market conditions and limitations.

Due to market reasons, some facilities have been stalled since mid-2009. This issue has been carried over into the third quarter of 2016, with open possibilities to increase sulfuric acid production for the new product PETROKEMIJas (granular ammonium sulfate - AS) and to improve the properties of NPK fertilizer by adding sulfur. The acquired own technology in 2015 provided the basis for the production of ammonium sulfate (PETROKEMIJas) and ammonium sulfonitrate (ASN), which has led to revitalization of NPK 2 Plant and further increase of granular fertilizer production.

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

7. 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 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.

Environmental projects are becoming increasingly important and the remaining deadlines for the execution are getting shorter (31 December 2017), so in this and next year, Petrokemija will be forced to urgent and significant investment. The balance of Petrokemija's funds and their sources has been disturbed to such an extent that it is unrealistic to finance major financial operations from the current short-term sources. Thus, after an extensive overhaul, carried out in July this year and the completion of the high-pressure gas pipeline investment project, the pace of future investments will depend on available resources - capital increase or long-term bank loans.

8. Liquidity

Due to losses in previous periods, Petrokemija, Plc. has been using current assets financed by short-term bank loans and rescheduled deadlines for payment of liabilities to suppliers of natural gas. In

2015, this influenced the change of structure of the short-term liabilities (increase of debt to gas suppliers). Method of financing by commercial papers has not been used in 2016.

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), on 31 December 2015, Petrokemija's balance of assets and liabilities in respect of recourse factoring was HRK 2.3 million, and as on 30 June 2016 this was brought down to zero.

9. Capital increase and change in ownership structure

In October 2015, an Invitation to Submit Indication of Interest to Subscribe for new ordinary shares of Petrokemija was published as a result of 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 Petrokemija, Plc. Fertilizer Company, Kutina. After the conducted due diligence, one binding offer of a potential investor was received, which is still being considered by competent bodies of the Croatian Government.

At the time of these financial statements, the Management Board of Petrokemija has no precise 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 Company restructuring measures, but also on the future decisions of the majority owner.

10. Financial risks in the subsequent period

Besides the above mentioned, the future financial developments of Petrokemija's and the Petrokemija Group financial result 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 prices of fertilizers;
3. Price fluctuation of energy fluids – natural 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.

Due to the partial failure to achieve the assumptions of the Program of Restructuring and Financial Consolidation for 2015 – 2019, an updated Business Plan for 2016 – 2020 was made in 2016. The Plan includes the changes in business made in the meantime (price fall of raw materials and finished products, changes in foreign currency exchange rates, new products, etc.) and announces a potentially new direction of departure from the production of cost-unfavorable Urea for agricultural use. Operational measures are being undertaken to solve the most pressing problem of the current operating business – growing debt to suppliers of natural gas. The precondition for this is urgent finding at least partial long-term funding of working capital and continuation of business restructuring activities.

The exposure of Petrokemija, Plc. and the Petrokemija Group to developments in the global market, opens up significant potential risks in terms of price and financial fluctuations in the year 2016. Effective risk management of gas price growth (contracted price is in USD and EUR, although purchasing is done on the domestic market) and risk of USD and EUR exchange rate changes in the procurement of other imported raw materials is limited by the lack of own working capital (negative

working capital is HRK 213 million) and by the lack of support of financial institutions in financing working capital.

Contracted new terms of gas procurement and rescheduling of outstanding debt for gas have reduced a part of the risk transferred from the previous period. At the time of these financial statements, the actual market and financial results for 2015 and the first half-year of 2016, as well as the rating of market position, particularly in terms of declining domestic sales, threatened liquidity and solvency of the Company, suggest caution in predicting future trends in business in 2016, with the possibility of occasional downtime of some production facilities and changes in the organization of the Company and the Petrokemija Group.

The decisions of the majority owner on the model of future support to the Company will have significant effect on 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 permanent working capital, which would enable the implementation of the planned activities for restructuring and financial consolidation in the 2016 – 2020 period.