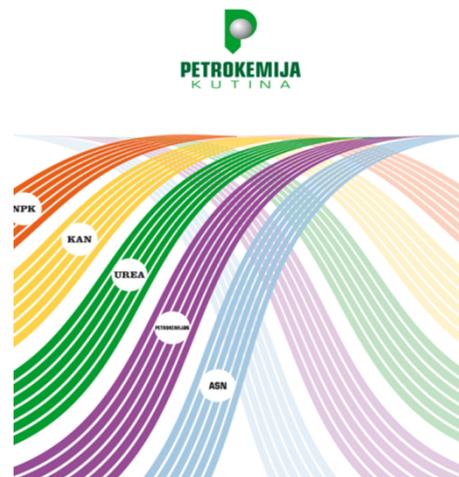


NON-AUDITED  
CONSOLIDATED



# QUARTERLY REPORT PETROKEMIJA GROUP KUTINA

REPORT FOR PERIOD January to March 2016



Kutina, April 2016

# Key indicators for Petrokemija Group for January - March 2016



- ❑ Total income of Petrokemija Group HRK 536.3 million, 23.3 % lower than in Q1 2015,
- ❑ Loss in business operations of Petrokemija Group HRK 1.0 million, loss in financial operations HRK 6.3 million, total loss HRK 7.3 million,
- ❑ EBITDA for Petrokemija Group: HRK 20.8 million
- ❑ Actual production of fertilizers 269 thousand tons, 3,5% higher than in Q1 2015,
- ❑ Compared to Q1 2015, production of NPK fertilizers decreased by 34.6%, while the production of Urea increased by 26.9% and CAN by 16.8%.
- ❑ Yield of currently installed plant capacities up to 73%
- ❑ Actual sales of fertilizer 253 thousand tons, decreased by 15.9% compared to the same period last year
- ❑ The share of fertilizers sales volumes in the domestic market was 25%,
- ❑ Domestic sales 63 thousand tons; exports 190 thousand tons of fertilizer,
- ❑ Capital and reserves on 31.03.2016 for Petrokemija Group HRK 126.1 million
- ❑ Invested in Petrokemija, Plc. HRK 32 million,
- ❑ Employed on 31.03.2016: Petrokemija, Plc. 1,611 employees; Petrokemija Group 1,753 employees.

# Company Management Board Report on the Petrokemija Group Status for January – March 2016

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- ❑ In Jan-March 2016 period, Petrokemija Group had total income of HRK 536.3 million, total expense of HRK 543.6 million and reported loss in business operations of HRK 7.3 million or 1.4% 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 planned values. Exchange rate of USD was **1.7% higher** than in Q1 2015. In procurement of natural gas the share of volumes purchased at prices set in USD was 78% and those in EUR 22%, with a tendency to reduce dependence on the USD exchange rate, as this was 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 28.6% or HRK 152.9 million, 44.5% less than in Q1 2015, while exports account for 68.4% or HRK 365.4 million, 10.1% less than in Q1 2015.
- ❑ Lower sales volumes by 15.9% and lower average sales prices by 9.6%, compared to Q1 2015,
- ❑ In assortment, compared to 2015, higher realized sales of CAN by 13.5, lower realization of Urea by 2.4% (unfavorable prices) and NPK fertilizer by 51.6%.
- ❑ Domestic sales by 47.5% lower than realized in Q1 2015,
- ❑ Export sales 5.1% higher than in Q1 2015,
- ❑ Sales of clay-based products and liquid fertilizers 16.6% higher than in Q1 2015,
- ❑ Decrease in price of fertilizers in world markets was transferred to a significant extent on the EU and the region, which resulted in increased imports of cheaper fertilizers.

# Company Management Board Report on the Petrokemija Group Status for January – March 2016

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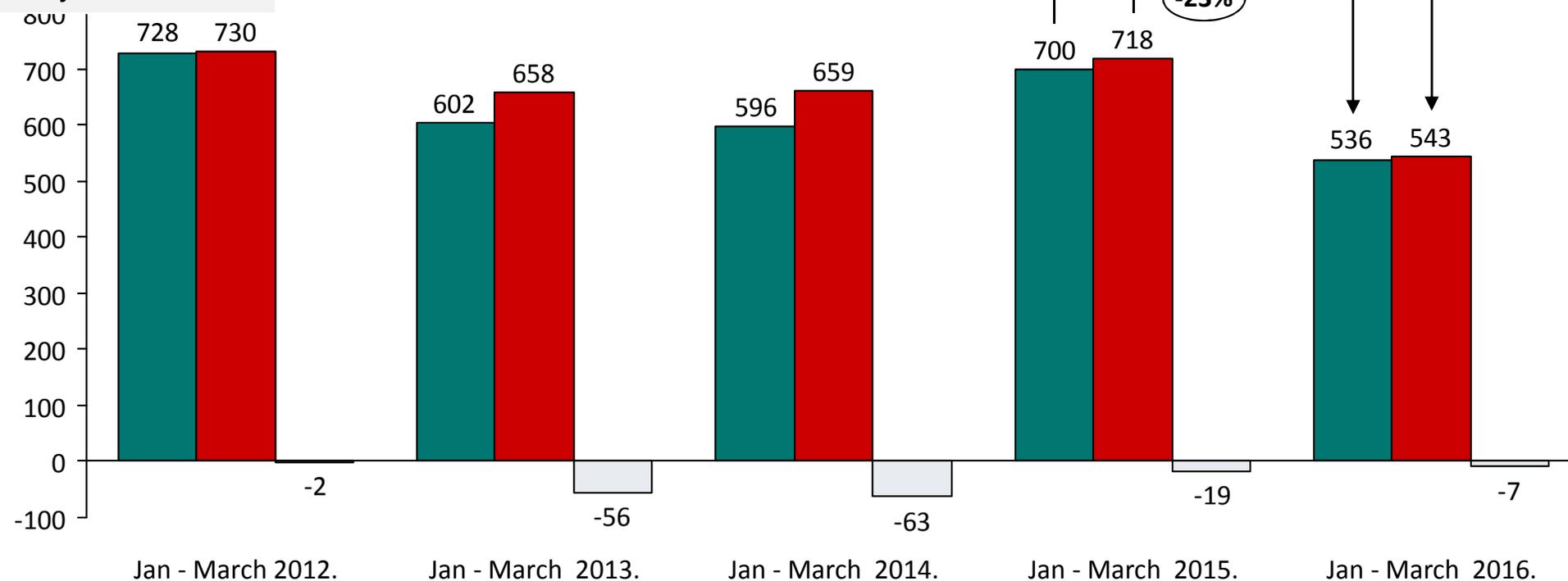
- ❑ Lower domestic sales caused by extremely poor agro-climatic conditions (high rainfall and low temperatures), which delayed the spring harvest season and the application of fertilizers, liquidity problems of buyers (Petrokemija, Plc. has no sources of funding deferred payments, and banks do not want to support the spring sowing ), delay in the payment of incentives to the domestic market and the principle of buying in the last minute of application with direct manipulation in the field,
- ❑ Announcements of exceptionally low price of grain and other products influence the reduction of land sown with cereals, and consequently the use of mineral fertilizers per hectare, so even the largest buyers are reducing purchase of fertilizers,
- ❑ Liquidity indicators are still very unfavorable, approximately at the level of the previous year,
- ❑ Short-term assets decreased by 4.2% compared to Q1 2015 and short-term liabilities decreased by 1.9%,
- ❑ Indicators of financial stability are under the recommended values, indicators of indebtedness and own funding are approximately at the level of the previous year, below the limit values,
- ❑ Average realized gas price was 32.9% lower in HRK and 34.0% lower in USD than in Q1 2015,
- ❑ The total number of employees of Petrokemija, Plc. is 1.611, a reduction of six employees compared to 31.12.2015.
- ❑ Achieved level of investment HRK 32.0 million, increase of HRK 0.7 million compared to Q1 2015, because most investment will follow in the next period of 2016 (overhaul July / August 2016).

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

■ Total income	HRK 536.3 million,
■ Total expense	HRK 543.6 million,
■ Loss before taxation	HRK -7.3 million,
■ EBITDA	HRK 20.8 million

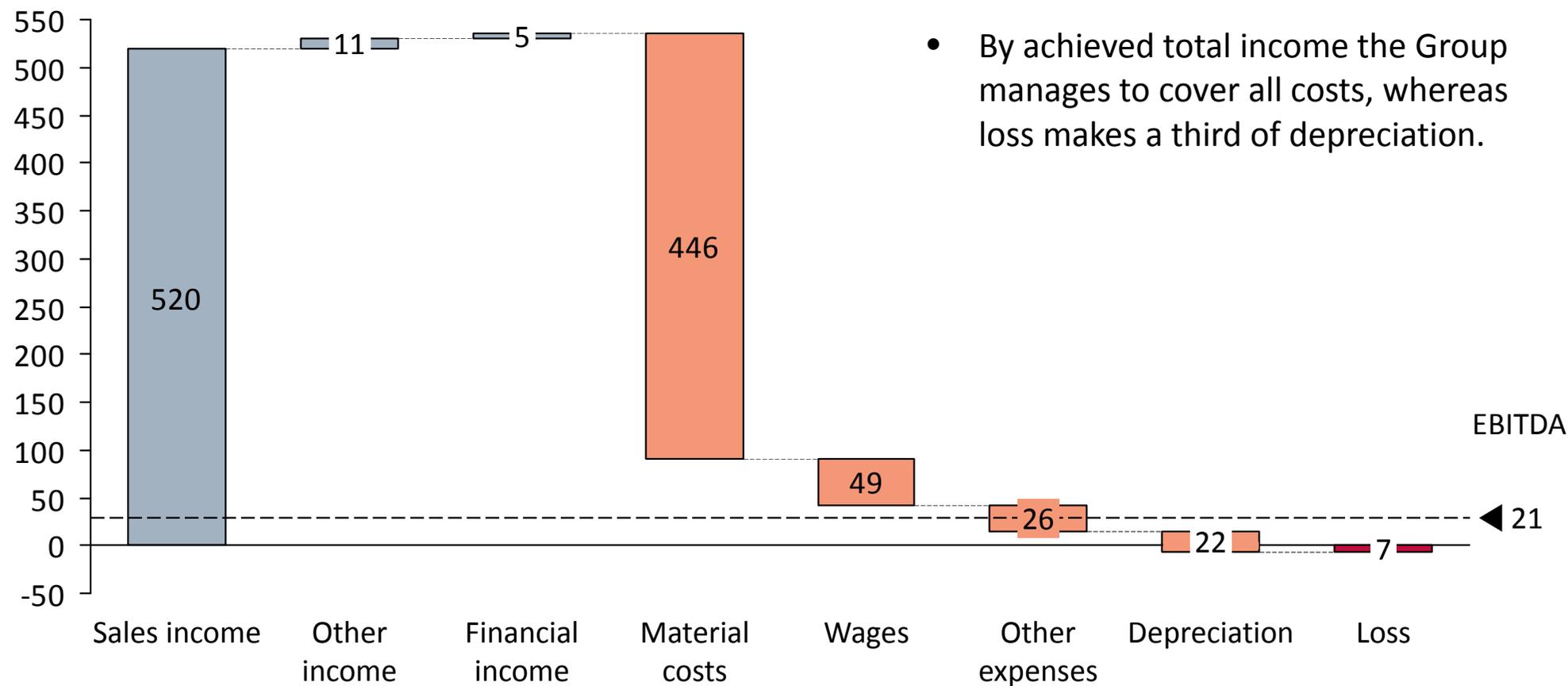
■ TOTAL INCOME
■ TOTAL EXPENSE
■ PROFIT / LOSS

Milijuna kuna



# Structure of Profit for Petrokemija Group

HRK million



- By achieved total income the Group manages to cover all costs, whereas loss makes a third of depreciation.

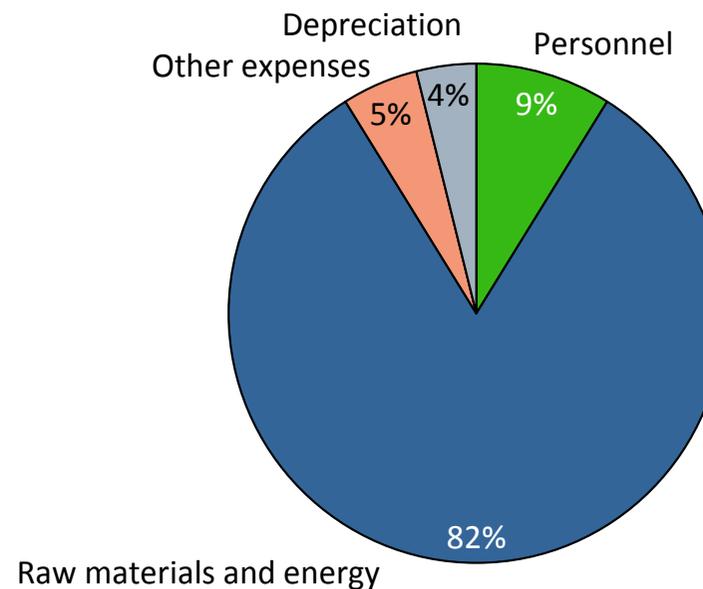
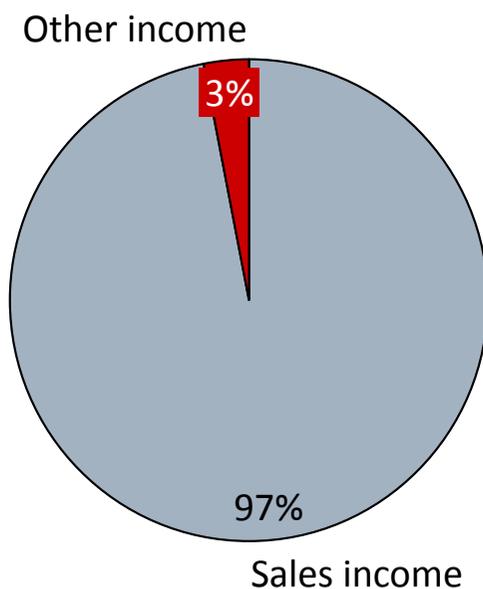
# Actual financial results of subsidiaries for the period January - March 2016

- In the first quarter of 2016. Restoran Petrokemija, Ltd. Kutina and Petrokemija, Ltd. Novi Sad operated with profit, while Luka Šibenik, Ltd. made a loss, and 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>	
	<b>1</b>	<b>2</b>	<b>3</b>	<b>5</b>	<b>6</b>
TOTAL INCOME	350	16.935	4.287	0	
TOTAL EXPENSES	341	16.762	5.177	1	
<i>Therein:</i>					
<i>Material costs</i>	227	16.308	1.440		
<i>Depreciation</i>	0	4	181		
<i>Wages</i>	105	143	2.795		
<i>Other costs</i>	9	307	761	1	
<b>PROFIT OR LOSS</b>	<b>9</b>	<b>173</b>	<b>-890</b>	<b>-1</b>	

# Structure of Profit and Loss for January – March 2016

- In period January – March 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.
- In the structure of total expenses of Petrokemija Group, the dominant 82% account for raw materials and energy; personnel costs for 9%, while all other costs make 9%.



# Key financial indicators for January - March 2016 for Petrokemija Group



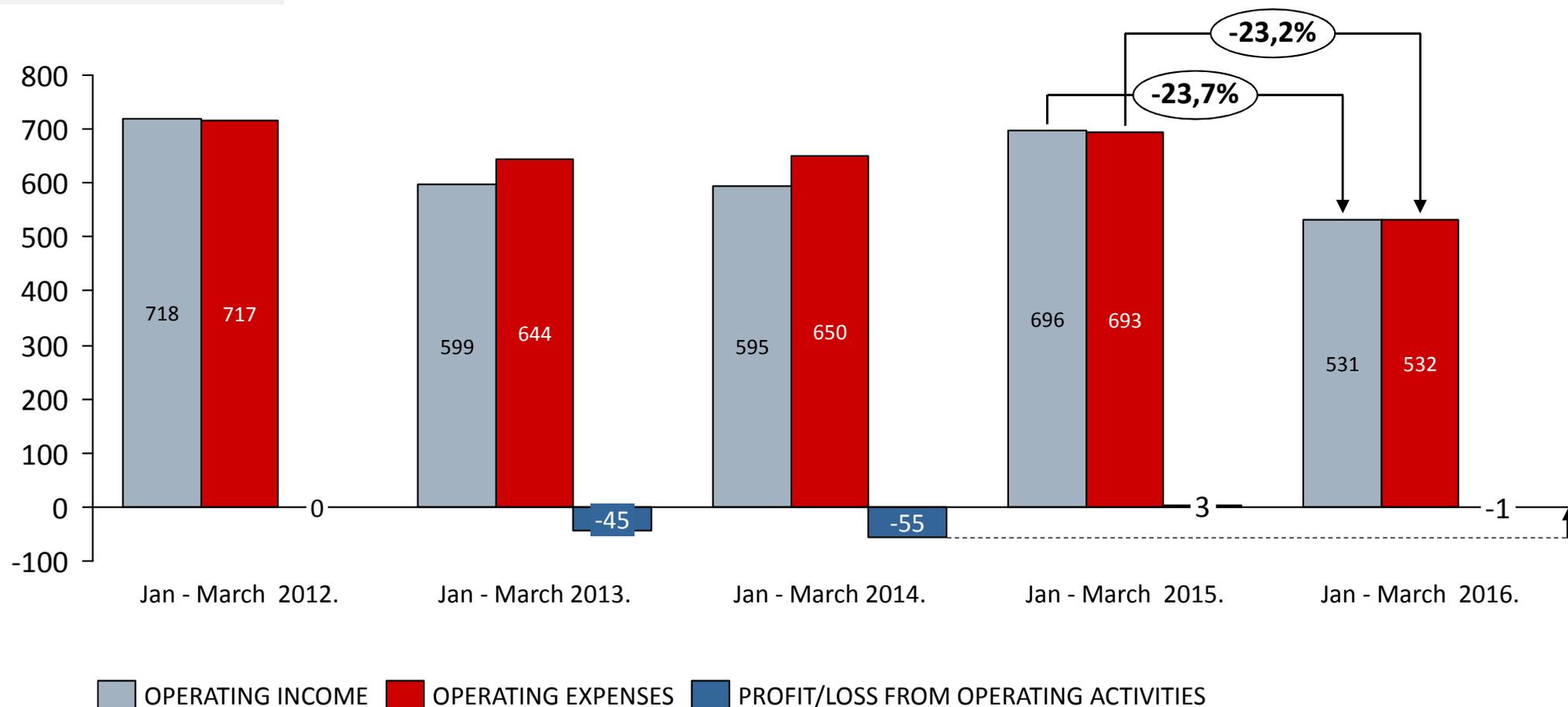
(HRK 000)

	Jan – March 2016	Jan – March 2015	Difference	% change
Operating income	530.967	696.017	-165.050	-23,71%
Operating expense	531.961	692.819	-160.858	-23,22%
EBITDA *	20.764	26.771	-6.007	-22,44%
Amortization	21.758	23.573	-1.815	-7,70%
Net financial income /(expenses)	-6.293	-21.949	15.656	-71,33%
Net extraordinary income / (expenses)	0	0	0	
Profit / loss / before taxation	-7.287	-18.751	11.464	-61,14%
	<b>31 March 2016</b>	<b>31 Dec 2015</b>		
Fixed assets	632.440	632.601	-161	-0,03%
Current assets	578.210	603.659	-25.449	-4,22%
Capital and reserves	126.055	133.189	-7.134	-5,36%
Long-term liabilities + provisions	141.526	141.632	-106	-0,07%
Current liabilities + provisions	943.069	961.439	-18.370	-1,91%

\* Earnings before interest, taxes, depreciation and amortization

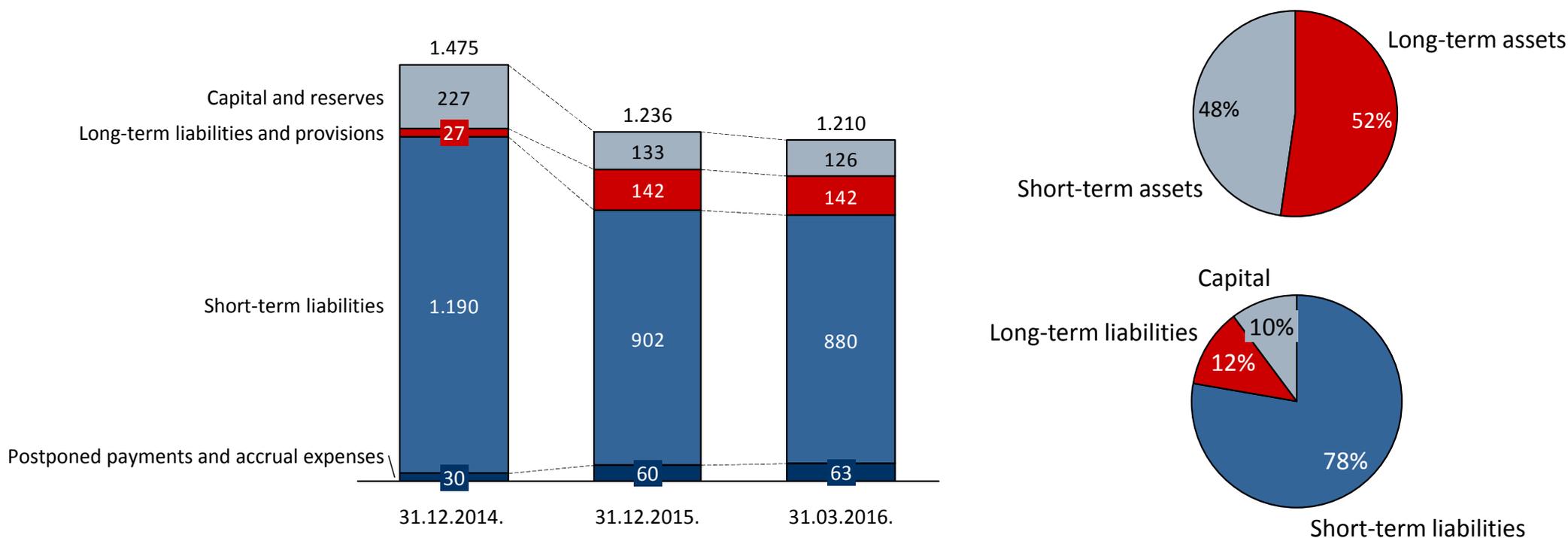
# Profit and Loss from operating activities for January to March 2012-2016 for Petrokemija Group

HRK million



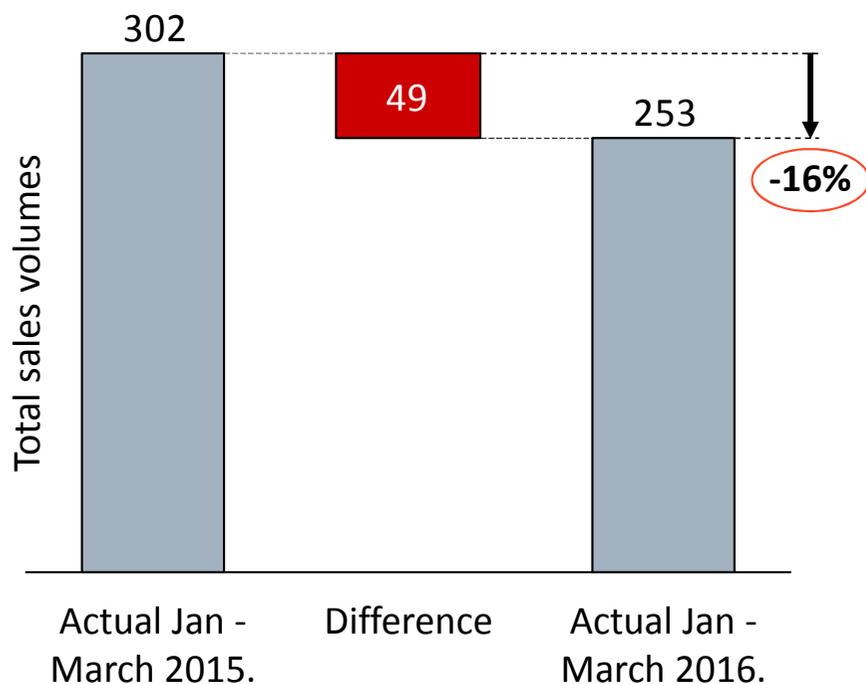
# Structure of assets and liabilities at 31 March 2016 of Petrokemija Group

- At 31 March 2016, Petrokemija Group 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. The structure of debt is dominated by short-term sources.

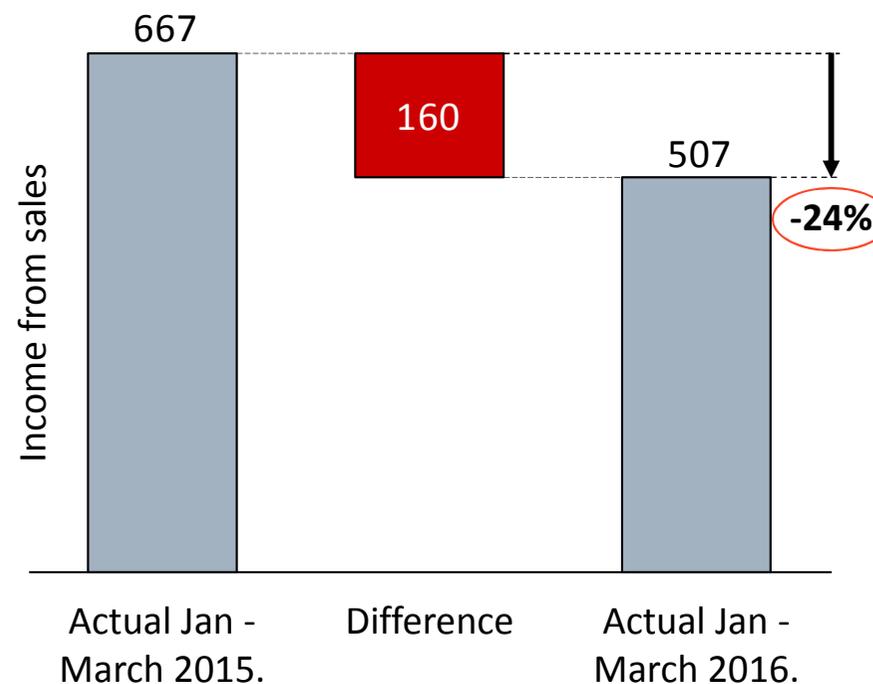


# Total fertilizer sales

**SALES VOLUMES** (000 t)  
2016 / 2015.



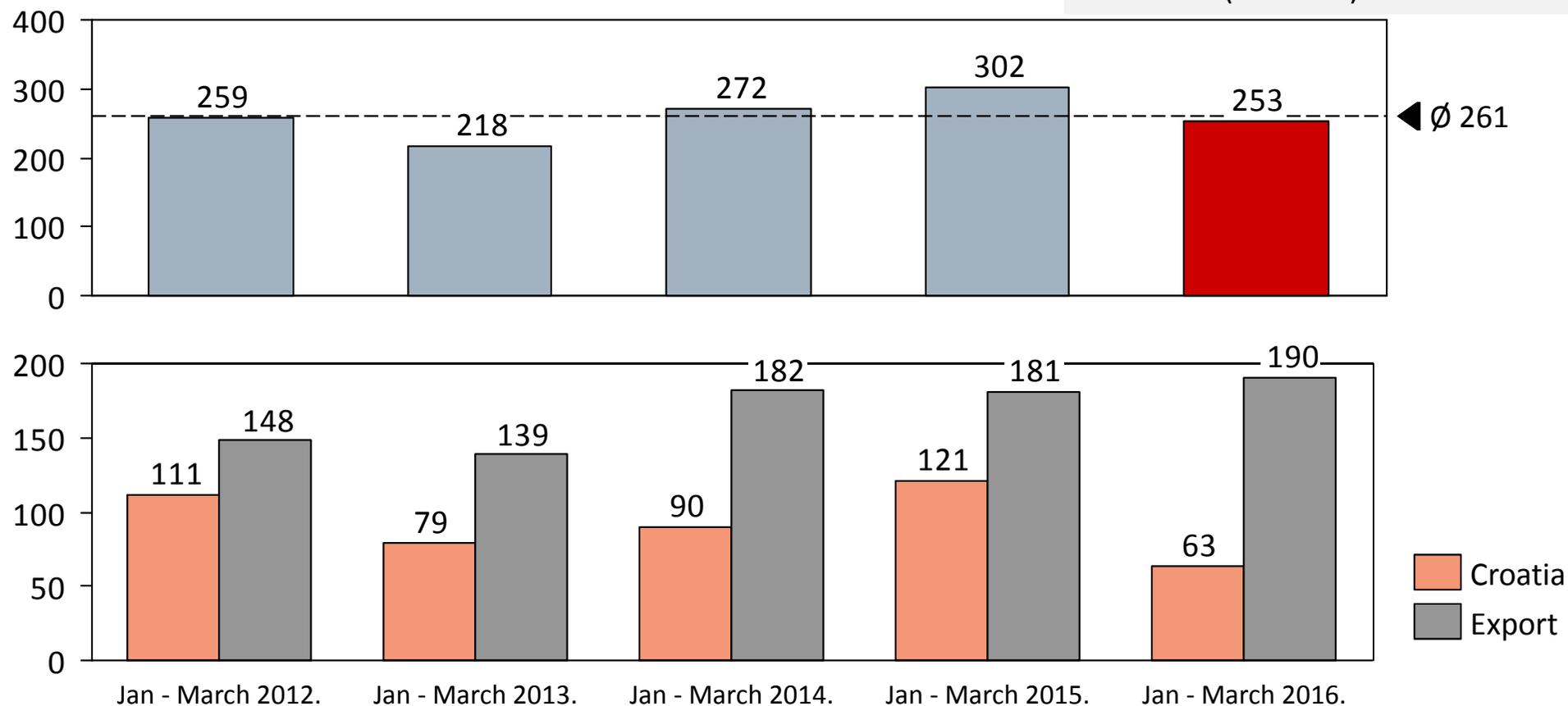
**INCOME FROM SALES** (mln HRK)  
2016 / 2015.



Actual down in fertilizer sales volumes of 16% and fall in income from fertilizer sales of 24%, which indicates a fall in average selling prices.

# Actual fertilizer sales in January – March 2012 - 2016

total sales (000 tons)



# Business Results of Petrokemija Group for January March 2016

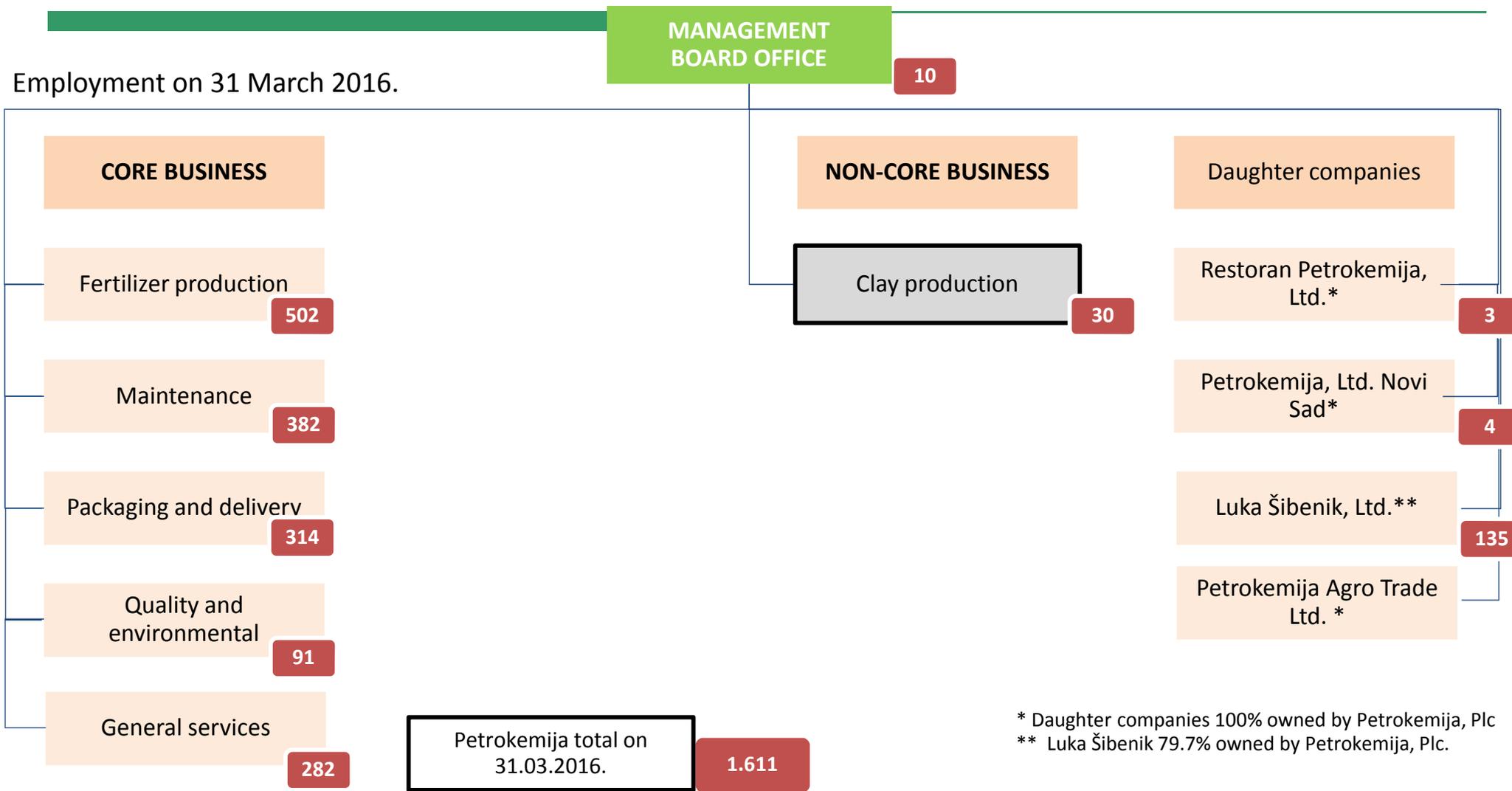


- After the consolidation of financial results of Petrokemija, Plc. and its subsidiaries - Restoran Petrokemija, Ltd. Kutina, Petrokemija, Ltd. Novi Sad, Luka Šibenik, Ltd. and Petrokemija Agro Trade, Ltd. - the financial results of **Petrokemija Group** for the period January – March 2016 are as follows:

■ Total revenues	HRK 536.3 million,
■ Total expenses	HRK 543.6 million,
■ Loss before tax	HRK -7.3 million,
■ Profit tax	HRK -0.04 million,
■ Loss after tax	HRK -7,3 million,

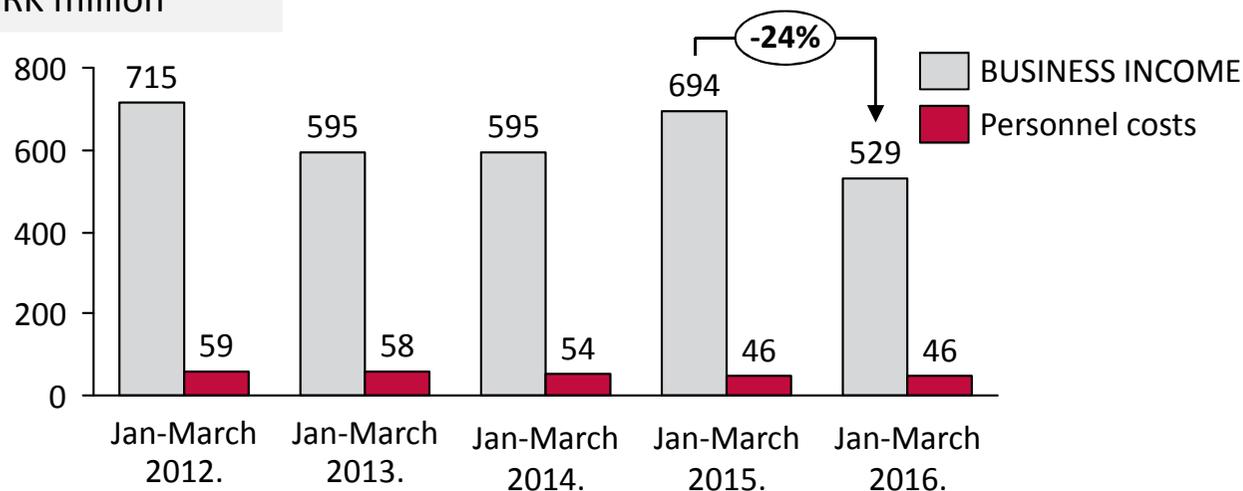
- EBITDA (earnings before interest, taxes and depreciation) was HRK 20.8 million in the positive.
- Petrokemija, Ltd. Novi Sad made profit of HRK 173 thousand, Restoran Petrokemija, Ltd. made profit of HRK 9 thousand, Luka Šibenik made loss of HRK 0.9 million.
- Petrokemija Agro Trade Ltd. did not have any transaction.

# Organization Chart of Petrokemija, Plc. and Petrokemija Group



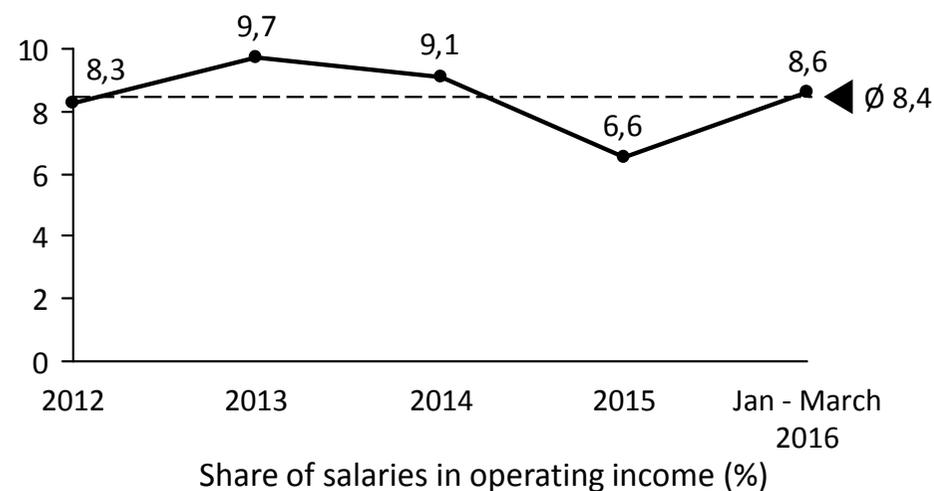
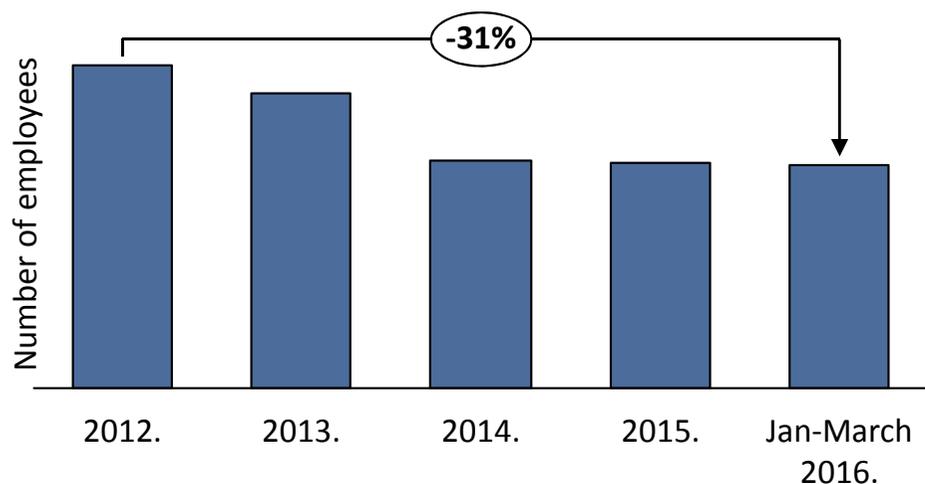
# Operational income, personnel costs and number of employees

HRK million



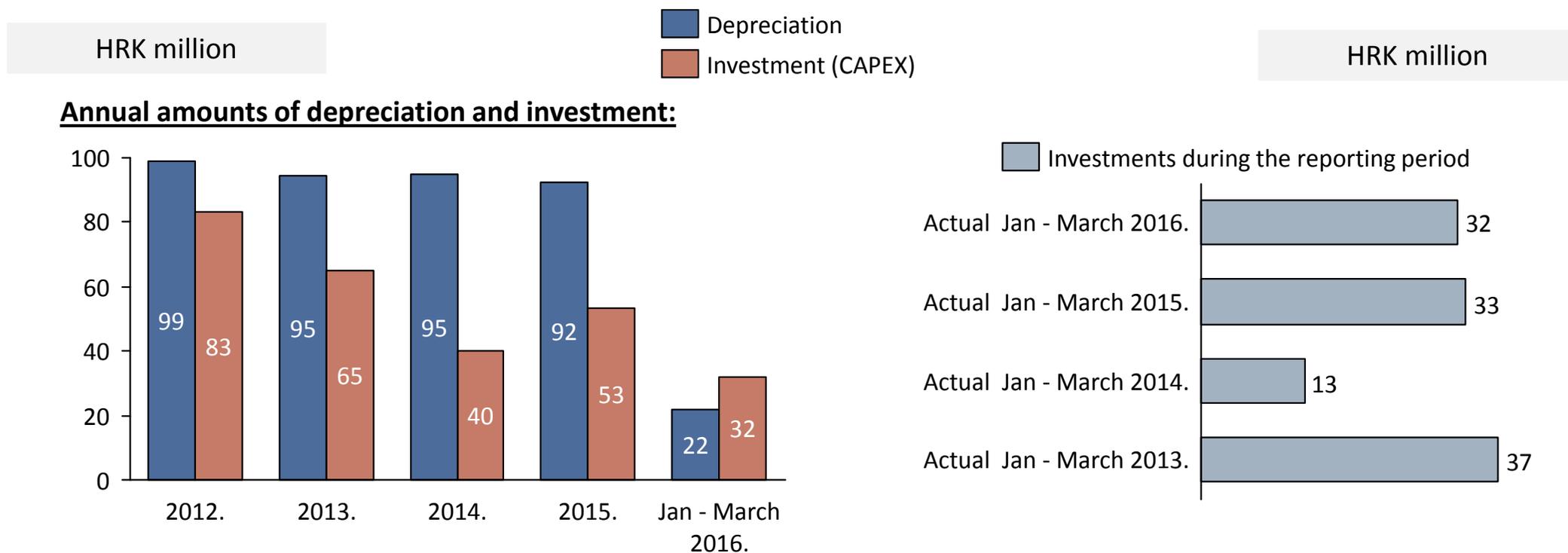
As at **31.03.2016** Petrokemija, Plc. had **1.611 employees**, and daughter companies - members of Petrokemija Group - had 142 employees, which is a total of 1.753 employees.

Personnel costs share in operating revenues was 8.6%.



# Realized investment

- Investment realized in Q1 2016 amounted to HRK 32 million, which is HRK 0,7 million or 2,1% lower than in the same time previous year because most investment will be in the next period of the year (overhaul July / August 2016)
- The realization of planned level of investment of HRK 173 million on an annual basis can be brought into question because of the limited availability of funding



Note: Data for Petrokemija Plc.

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



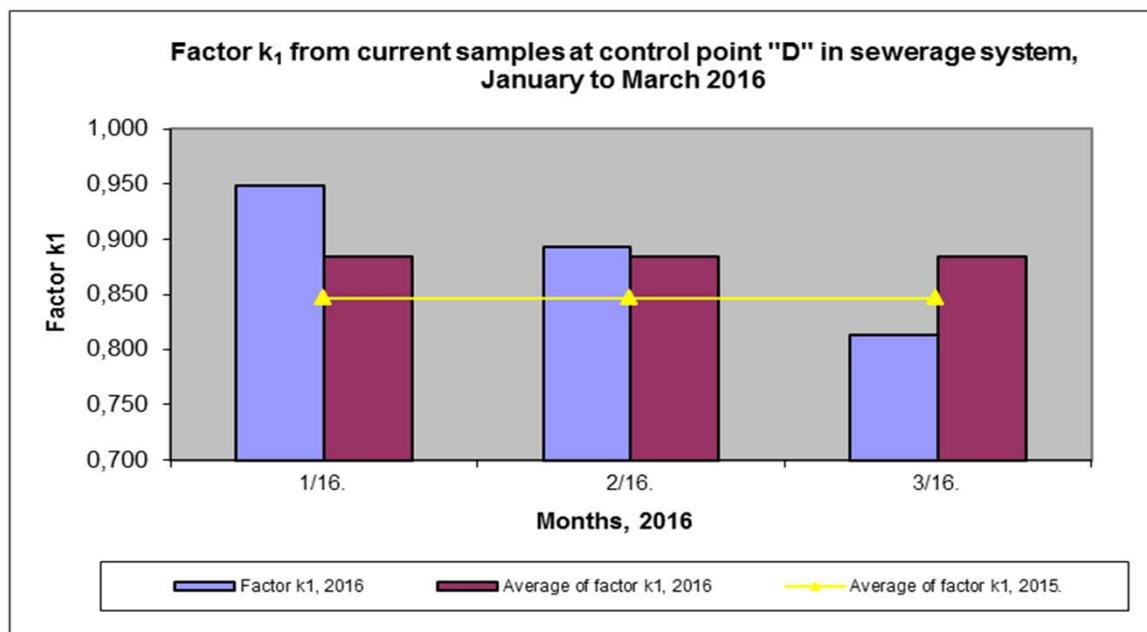
Clean or slightly polluted air	Polluted air	Pollutants
1 <sup>st</sup> category C<LV	2 <sup>nd</sup> category C>LV	
K2,K7, DMP		Sulphur dioxide (SO <sub>2</sub> )
K1,K2,K7		Sediment
K6,K7, DMP	K1,K2	Ammonia (NH <sub>3</sub> )
K1,K2,K6,K7, DMP		Nitrogen dioxide (NO <sub>2</sub> )
K2,K7, DMP		Hydrogen sulphide (H <sub>2</sub> 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 March 2016* period (local network)

Monitoring station	<i>The number of limit value (LV) exceedances in the <u>January to March 2016</u> period/ permitted exceedance number</i>
K 1 - Dom zdravlja	13 / 7
K 2 - Vatrogasni dom	12 / 7
K 6 - Husain	3 / 7
K 7 - Krč	1 / 7
<b>TOTAL</b>	<b>29</b>

# Water management



In the period from January to March 2016, the average value of  $k_1$  factor was slightly higher than average value in Q1 2015.

In the period from January to March 2016, monthly average consumption of raw water was lower than average value in Q1 2015.

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

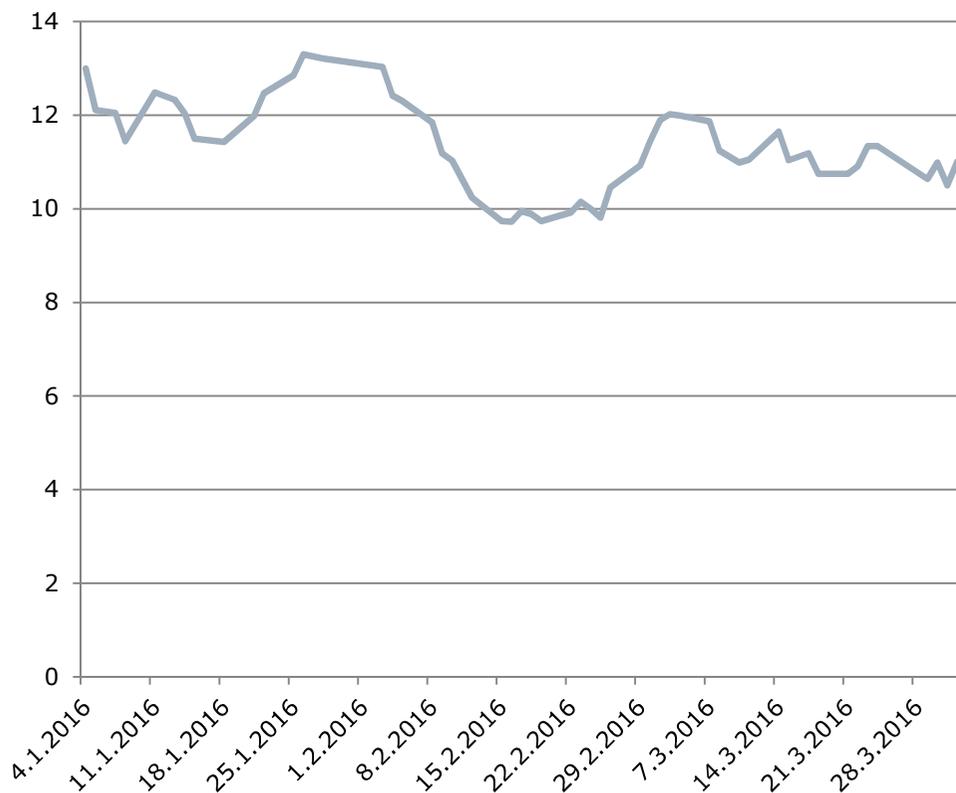


- Company share capital after the increase in 2015 amounted to HRK 386,135,400.00 and is divided into 12,871,180 ordinary shares marked PTKM-R-A, with a nominal amount of HRK 30.00.
- On 30 December 2015, the average share value was HRK 13.14, and on 31 March 2016, HRK 10.50 (decrease of 20.1%).
- Tomislav Pokaz submitted his resignation as President and member of the Supervisory Board of Petrokemija, Plc., effective as of 8 February 2016, for reasons of taking up a new position that is incompatible with membership in the Supervisory Board.
- At the session held on 19 February 2016, Branimir Fleković was appointed Chairman and Sonja Ivoš Vice Chairman of the Supervisory Board.
- On 29 March 2016, Management Board made a decision on the convocation of the General Meeting of Petrokemija for 11 May 2016, starting at 12.00 hours.

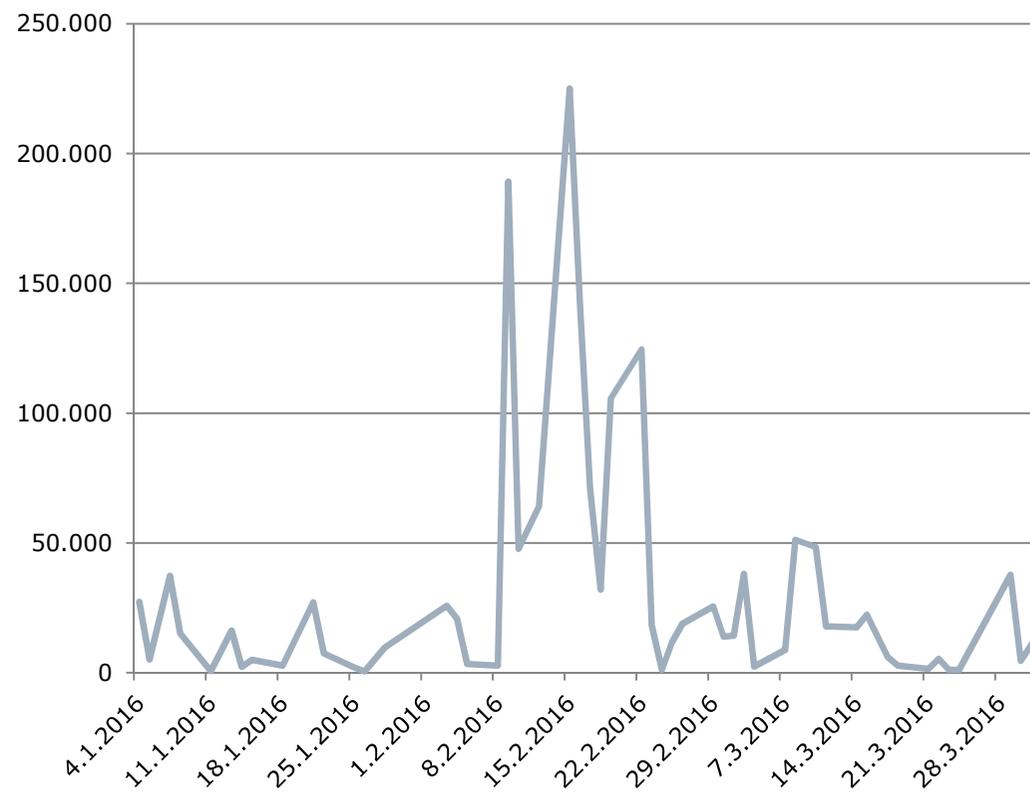
# Petrokemija, Plc. share price and daily turnover movements



PETROKEMIJA'S SHARE PRICE MOVEMENTS for Jan - March 2016 (HRK/share)



PETROKEMIJA'S DAILY SHARE TURNOVER MOVEMENTS for Jan - March 2016 (HRK)



Note: Data for Petrokemija Plc.

## Key events in 2016

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- In October 2015, a public call 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 Petrokemija, Plc. Fertilizer Company, Kutina. 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 or 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 the amount of investment.
- Through continuous and long negotiations with two gas suppliers, INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar, Petrokemija, Plc. 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.

# 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. Agreements on new terms of gas procurement and rescheduling of outstanding debt for 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. Also, the level of financial expenditure and operational business management, will be significantly affected by insufficient liquidity of the Company and the high cost of financing. The final financial result for the business year is likely to be more favorable than the previous projections, but caution is still suggested by the following risks:

- ❑ Petrokemija Plc. is highly dependent on the movements 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 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 and short-term also influenced by cyclical and seasonal changes, and the price of nitrogen fertilizer Urea has been at a very low level for longer period of time,

## Significant financial risks in 2016 (cont)

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- ❑ 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,
- ❑ A comprehensive overhaul is planned in the summer months, whose implementation and financing are subject to significant risks in terms of finding funding sources,
- ❑ 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 investment is still not covered by long-term sources of financing 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 March 31, 2016 period**, make an exact and true account of Company Petrokemija Plc 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:

1.1.2016.

to

31.3.2016.

**Quarterly financial statements TFI-POD**Registration number (MB): **03674223**Registration number of subject  
(MBS): **080004355**Personal identification  
number (OIB): **24503685008**Issuer company: **THE GROUP PETROKEMIJA**Postal code and city: **44320****KUTINA**Street and number: **ALEJA VUKOVAR 4**E-mail: [fin@petrokemija.hr](mailto:fin@petrokemija.hr)Internet address: [www.petrokemija.hr](http://www.petrokemija.hr)Code and city/municipality: **220** **KUTINA**Code and county name: **3** **SISAČKO-MOSLAVAČKA ŽUPANIJA**Number of employees: **1.753**  
(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)

Telephone number: **044-647-829**Fax: **044-682-819**E-mail: [marina.marić@petrokemija.hr](mailto:marina.marić@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 31.03.2016.

<b>The Group Petrokemija d.d.</b>			
Position	AOP code	Previous year (31.12.)	Current year
1	2	3	4
<b>A) RECIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL</b>	<b>001</b>		
<b>B) LONG-TERM ASSETS (003+010+020+029+033)</b>	<b>002</b>	<b>632.601.128</b>	<b>632.440.093</b>
<b>I. INTANGIBLE ASSETS (004 do 009)</b>	<b>003</b>	<b>7.766.579</b>	<b>7.866.596</b>
1. Expense for development	<b>004</b>		
2. Concessions, patents, licences, trade and service marks, software and other rights	<b>005</b>	6.036.775	5.635.642
3. Goodwill	<b>006</b>		
4. Advances for intangible assets	<b>007</b>		
5. Intangible assets in progress	<b>008</b>	1.729.804	2.230.954
6. Other intangible assets	<b>009</b>		
<b>II. TANGIBLE ASSETS (011 do 019)</b>	<b>010</b>	<b>624.446.862</b>	<b>623.903.425</b>
1. Land	<b>011</b>	49.482.153	49.482.153
2. Buildings	<b>012</b>	237.973.192	233.208.698
3. Plant and equipment	<b>013</b>	239.481.179	228.132.036
4. Tools, plant inventory and transportation assets	<b>014</b>	19.919.716	18.906.007
5. Biological assets	<b>015</b>		
6. Advances for tangible assets	<b>016</b>	13.770.947	3.369.091
7. Tangible assets in progress	<b>017</b>	62.706.943	89.715.837
8. Other tangible assets	<b>018</b>	1.112.732	1.089.603
9. Investments in real estates	<b>019</b>		
<b>III. LONG-TERM FINANCIAL ASSETS (021 do 028)</b>	<b>020</b>	<b>7.537</b>	<b>7.537</b>
1. Investments (shares) in related companies	<b>021</b>		
2. Loans given to related companies	<b>022</b>		
3. Participating interest (shares)	<b>023</b>	7.537	7.537
4. Loans given to companies with participating interest	<b>024</b>		
5. Investment in securities	<b>025</b>		
6. Loans given, deposits and similar assets	<b>026</b>		
7. Other long-term financial assets	<b>027</b>		
8. Investments accounted for using the equity method	<b>028</b>		
<b>IV. TRADE RECEIVABLES (030 do 032)</b>	<b>029</b>	<b>0</b>	<b>282.385</b>
1. Receivables from related companies	<b>030</b>		
2. Receivables for sales on loan	<b>031</b>		
3. Other receivables	<b>032</b>		282.385
<b>V. DIFERRED TAX ASSETS</b>	<b>033</b>	380.150	380.150
<b>C) SHORT-TERM ASSETS (035+043+050+058)</b>	<b>034</b>	<b>603.628.992</b>	<b>564.391.355</b>
<b>I. INVENTORIES (036 do 042)</b>	<b>035</b>	<b>487.397.760</b>	<b>469.721.879</b>
1. Raw and other material	<b>036</b>	205.262.118	198.624.285
2. Work in progress	<b>037</b>	23.265.819	27.040.465
3. Finished products	<b>038</b>	257.109.820	238.674.352
4. Merchandise inventory	<b>039</b>	1.159.789	645.261
5. Advances for inventories	<b>040</b>	600.214	4.737.516
6. Long-term assets intended for sale	<b>041</b>		
7. Biological assets	<b>042</b>		
<b>II. TRADE RECEIVABLES (044 do 049)</b>	<b>043</b>	<b>76.426.033</b>	<b>48.140.103</b>
1. Receivables from related companies	<b>044</b>		
2. Receivables from customers (buyers)	<b>045</b>	10.717.146	8.086.338
3. Receivables from participating interest	<b>046</b>		
4. Receivables from employees and members	<b>047</b>	19.795	8.098
5. Receivables from state and other institutions	<b>048</b>	63.163.775	39.987.006
6. Other receivables	<b>049</b>	2.525.317	58.661
<b>III. SHORT-TERM FINANCIAL ASSETS (051 do 057)</b>	<b>050</b>	<b>30.382.105</b>	<b>15.684.924</b>
1. Investments (shares) in related companies	<b>051</b>		
2. Loans given to related companies	<b>052</b>		
3. Participating interest (shares)	<b>053</b>	26.546.147	11.064.028
4. Loans given to companies with participating interest	<b>054</b>		
5. Investment in securities	<b>055</b>	215.093	215.093
6. Loans given, deposits and similar assets	<b>056</b>	3.620.865	4.405.803
7. Other financial assets	<b>057</b>		
<b>IV. CASH IN BANK AND ON HAND</b>	<b>058</b>	9.423.094	30.844.449
<b>D) PREPAID EXPENSES AND ACCRUED INCOME</b>	<b>059</b>	<b>29.733</b>	<b>13.818.200</b>
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>	<b>1.236.259.853</b>	<b>1.210.649.648</b>
<b>F) OFF BALANCE SHEET ITEMS</b>	<b>061</b>	1.175.630.879	1.137.512.153

<b>LIABILITIES</b>			
<b>A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)</b>	<b>062</b>	<b>133.189.246</b>	<b>126.054.680</b>
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	-256.188.995
1. Retained earning	073		
2. Loss carried forward	074	163.356.072	256.188.995
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	075	-93.198.465	-7.321.944
1. Profit for the year	076		
2. Loss for the year	077	93.198.465	7.321.944
VII. MINORITY INTEREST	078	3.808.383	3.630.219
<b>B) PROVISIONS (080 do 082)</b>	<b>079</b>	<b>11.537.699</b>	<b>11.521.699</b>
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
<b>C) LONG-TERM LIABILITIES (084 do 092)</b>	<b>083</b>	<b>130.093.507</b>	<b>130.004.438</b>
1. Liabilities to related companies	084		
2. Liabilities for loans, deposits and similar	085	95.833.333	95.833.333
3. Liabilities to banks and other financial institutions	086	34.260.174	34.171.105
4. Liabilities for advances	087		
5. Liabilities to suppliers	088		
6. Liabilities for securities	089		
7. Liabilities to companies with participating interest	090		
8. Other long-term liabilities	091		
9. Deferred tax liability	092		
<b>D) SHORT-TERM LIABILITIES (094 do 105)</b>	<b>093</b>	<b>901.901.660</b>	<b>880.246.275</b>
1. Liabilities to related companies	094		
2. Liabilities for loans, deposits and similar	095	142.583.026	96.229.352
3. Liabilities to banks and other financial institutions	096	91.296.296	87.549.296
4. Liabilities for advances	097	127.348.404	43.846.285
5. Liabilities to suppliers	098	512.986.845	632.438.603
6. Liabilities for securities	099		
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	11.517.992	11.288.336
9. Liabilities for taxes, contributions and other payments	102	13.250.176	8.507.953
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	386.450
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>106</b>	<b>59.537.741</b>	<b>62.822.556</b>
<b>F) TOTAL LIABILITIES (062+079+083+093+106)</b>	<b>107</b>	<b>1.236.259.853</b>	<b>1.210.649.648</b>
<b>G) OFF BALANCE SHEET ITEMS</b>	<b>108</b>	<b>1.175.630.879</b>	<b>1.137.512.153</b>
<b>APPENDIX TO BALANCE SHEET (to be completed by companies that prepare consolidated financial statements)</b>			
<b>A) CAPITAL AND RESERVES</b>			
1. Credited to parent company capital owners	109	129.380.863	122.424.461
2. Credited to minority interest	110	3.808.383	3.630.219

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 31.03.2016.

The Group Petrokemija d.d.					
Position	AOP code	Previous year		Current year	
		Comulative	Quarterly	Comulative	Quarterly
1	2	3	4	5	6
<b>I. OPERATING REVENUES (112+113)</b>	<b>111</b>	<b>696.016.759</b>	<b>696.016.759</b>	<b>530.966.931</b>	<b>530.966.931</b>
1. Sales revenues	112	682.859.281	682.859.281	519.997.780	519.997.780
2. Other operating revenues	113	13.157.478	13.157.478	10.969.151	10.969.151
<b>II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)</b>	<b>114</b>	<b>692.818.986</b>	<b>692.818.986</b>	<b>531.960.551</b>	<b>531.960.551</b>
1. Changes in value of work in progress and finished products	115	98.008.514	98.008.514	14.660.822	14.660.822
2. Material costs (117 do 119)	116	508.089.480	508.089.480	431.775.427	431.775.427
a) Cost of raw and production materials	117	495.032.402	495.032.402	413.605.955	413.605.955
b) Cost of goods sold	118	274.231	274.231	1.704.026	1.704.026
c) Other external costs	119	12.782.847	12.782.847	16.465.446	16.465.446
3. Employees costs (121 do 123)	120	48.518.153	48.518.153	48.554.404	48.554.404
a) Net salaries and wages	121	30.559.687	30.559.687	30.473.363	30.473.363
b) Costs for taxes and contributions from salaries	122	10.880.473	10.880.473	11.001.888	11.001.888
c) Contributions on salaries	123	7.077.993	7.077.993	7.079.153	7.079.153
4. Depreciation	124	23.573.107	23.573.107	21.758.013	21.758.013
5. Other costs	125	14.628.958	14.628.958	15.211.808	15.211.808
6. Value adjustments (127+128)	126	774	774	77	77
a) of long-term assets (except for financial assets)	127				
b) of short-term assets (except for financial assets)	128	774	774	77	77
7. Provisions	129				
8. Other operating expenses	130				
<b>III. FINANCIAL REVENUES (132 do 136)</b>	<b>131</b>	<b>3.670.899</b>	<b>3.670.899</b>	<b>5.365.555</b>	<b>5.365.555</b>
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	3.670.899	3.670.899	5.365.555	5.365.555
3. Part of revenue from associated companies and participating interests	134				
4. Unrealised gains (revenues) from financial assets	135				
5. Other financial revenues	136				
<b>IV. FINANCIAL EXPENSES (138 do 141)</b>	<b>137</b>	<b>25.620.126</b>	<b>25.620.126</b>	<b>11.658.540</b>	<b>11.658.540</b>
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	25.620.126	25.620.126	11.658.540	11.658.540
3. Unrealised losses (costs) from financial assets	140				
4. Other financial expenses	141				
<b>V. PORTION IN PROFIT OF ASSOCIATED COMPANIES</b>	<b>142</b>				
<b>VI. PORTION IN LOSS OF ASSOCIATED COMPANIES</b>	<b>143</b>				
<b>VII. EXTRAORDINARY - OTHER REVENUES</b>	<b>144</b>				
<b>VIII. EXTRAORDINARY - OTHER EXPENSES</b>	<b>145</b>				
<b>IX. TOTAL REVENUES (111+131+142 + 144)</b>	<b>146</b>	<b>699.687.658</b>	<b>699.687.658</b>	<b>536.332.486</b>	<b>536.332.486</b>
<b>X. TOTAL EXPENSES (114+137+143 + 145)</b>	<b>147</b>	<b>718.439.112</b>	<b>718.439.112</b>	<b>543.619.091</b>	<b>543.619.091</b>
<b>XI. PROFIT OR LOSS BEFORE TAXATION (146-147)</b>	<b>148</b>	<b>-18.751.454</b>	<b>-18.751.454</b>	<b>-7.286.605</b>	<b>-7.286.605</b>
1. Profit before taxation (146-147)	149	0	0	0	0
2. Loss before taxation (147-146)	150	18.751.454	18.751.454	7.286.605	7.286.605
<b>XII. PROFIT TAX</b>	<b>151</b>			<b>35.339</b>	<b>35.339</b>
<b>XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	<b>152</b>	<b>-18.751.454</b>	<b>-18.751.454</b>	<b>-7.321.944</b>	<b>-7.321.944</b>
1. Profit for the period (149-151)	153	0	0	0	0
2. Loss for the period (151-148)	154	18.751.454	18.751.454	7.321.944	7.321.944

<b>APPENDIX TO PLA (to be completed by companies that prepare consolidated financial statements)</b>					
<b>XIV. PROFIT OR LOSS FOR THE PERIOD</b>					
1. Credited to parent company capital owners	155	-18.531.204	-18.531.204	-7.141.411	-7.141.411
2. Credited to minority interest	156	-220.250	-220.250	-180.533	-180.533
<b>STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)</b>					
<b>I. PROFIT OR LOSS OF THE PERIOD (= 152)</b>	<b>157</b>	<b>-18.751.454</b>	<b>-18.751.454</b>	<b>-7.321.944</b>	<b>-7.321.944</b>
<b>II. OTHER COMPREHENSIVE GAINS/LOSS BEFORE TAXES (159 do 165)</b>	<b>158</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
1. Exchange rate differences from translation of foreign currency operations	159				
2. Change in revaluation reserves of fixed tangible and intangible assets	160				
3. Gain or loss from revaluation of financial assets held for sale	161				
4. Gain or loss from effective cash flow hedge	162				
5. Gain or loss from effective hedge in net investments in abroad	163				
6. Portion in other comprehensive gain/loss of associated companies	164				
7. Actuarial gains/losses on defined benefit plans	165				
<b>III. TAX ON OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD</b>	<b>166</b>				
<b>IV. NET OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD (158-166)</b>	<b>167</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>V. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD (157+167)</b>	<b>168</b>	<b>-18.751.454</b>	<b>-18.751.454</b>	<b>-7.321.944</b>	<b>-7.321.944</b>
<b>APPENDIX TO STATEMENT OF COMPREHENSIVE INCOME (to be completed by companies that prepare consolidated financial statements)</b>					
<b>VI. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD</b>					
1. Credited to parent company capital owners	169	-18.531.204	-18.531.204	-7.141.411	-7.141.411
2. Credited to minority interest	170	-220.250	-220.250	-180.533	-180.533

## CASH FLOW STATEMENT - Direct method

for the period 01.01.2016. to 31.03.2016.

<b>The Group Petrokemija d.d.</b>			
Position	AOP code	Previous year	Current year
1	2	3	4
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
1. Cash increase from buyers	001	707.793.246	475.988.507
2. Cash increase from royalties, fees commissions and other	002		
3. Cash increase from insurance compensations	003	1.778.283	2.156.900
4. Cash increase from tax return	004	58.517.724	80.963.235
5. Other cash increase	005	629.687	47.418
<b>I. Total increase of cash flow from operating activities (001 do 005)</b>	<b>006</b>	<b>768.718.940</b>	<b>559.156.060</b>
1. Expenses to suppliers	007	509.471.178	416.139.494
2. Expenses for employees	008	49.014.956	48.632.544
3. Expenses for insurance compensations	009	2.428.490	2.758.514
4. Expenses for interest	010	7.934.016	9.899.029
5. Expenses for taxes	011	29.651.389	11.571.379
6. Other cash decrease	012	1.086.654	1.423.347
<b>II. Total decrease in cash flow from operating activities (007 do 012)</b>	<b>013</b>	<b>599.586.683</b>	<b>490.424.307</b>
<b>A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)</b>	<b>014</b>	<b>169.132.257</b>	<b>68.731.753</b>
<b>A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)</b>	<b>015</b>	<b>0</b>	<b>0</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
1. Cash proceeds from sale of non-current tangible and intangible assets	016		6.313
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		
5. Other cash proceeds from investing activities	020		
<b>III. Total cash inflow from investing activities (016 do 020)</b>	<b>021</b>	<b>0</b>	<b>6.313</b>
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	19.625.170	11.910.218
2. Cash outflow for acquisition of equity and debt financial instruments	023		
3. Other cash outflows from investing activities	024		
<b>IV. Total cash outflow from investing activities (022 do 024)</b>	<b>025</b>	<b>19.625.170</b>	<b>11.910.218</b>
<b>B1) NET CASH FLOW FROM INVESTING ACTIVITIES (021-025)</b>	<b>026</b>	<b>0</b>	<b>0</b>
<b>B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)</b>	<b>027</b>	<b>19.625.170</b>	<b>11.903.905</b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>			
1. Cash inflows from issuance of equity and debt financial instruments	028		
2. Cash inflows from loan principals, debentures, credits and other borrowings	029		
3. Other inflows from financial activities	030	19.941.890	26.546.147
<b>V. Total cash inflow from financial activities (028 do 030)</b>	<b>031</b>	<b>19.941.890</b>	<b>26.546.147</b>
1. Cash outflows for repayment of loan principal and bonds	032	58.032.727	50.103.673
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	102.587.042	11.064.028
<b>VI. Total cash outflow for financial activities (032 do 036)</b>	<b>037</b>	<b>160.619.769</b>	<b>61.167.701</b>
<b>C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)</b>	<b>038</b>	<b>0</b>	<b>0</b>
<b>C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)</b>	<b>039</b>	<b>140.677.879</b>	<b>34.621.554</b>
<b>Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)</b>	<b>040</b>	<b>8.829.208</b>	<b>22.206.294</b>
<b>Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)</b>	<b>041</b>	<b>0</b>	<b>0</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>042</b>	18.913.750	13.043.958
<b>Increase of cash and cash equivalents</b>	<b>043</b>	8.829.208	22.206.294
<b>Decrease of cash and cash equivalents</b>	<b>044</b>		
<b>Cash and cash equivalents at the end of the period</b>	<b>045</b>	27.742.958	35.250.252

\*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 31.3.2016

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	-256.188.995
5. Profit or loss for the year	005	-93.198.465	-7.321.944
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	3.808.383	3.630.219
<b>10. Total capital and reserves (AOP 001 do 009)</b>	<b>010</b>	<b>133.189.246</b>	<b>126.054.680</b>
11. Exchange differences on translationof financial statements of foreign operations	011		
12. Curent and deferred taxes (part))	012		
13. Protektion of cash flow	013		
14. Changes in accounting policies	014		
15. Adjustment of significant errors from previous period	015		
16. Other changes in captal	016		
<b>17. Total increase or decrease of capital (AOP 011 do 016)</b>	<b>017</b>	<b>0</b>	<b>0</b>
17 a. Creadited to parent company capital owners	018	129.380.863	122.424.461
17 b. Creadited to minority interest	019	3.808.383	3.630.219

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

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

## Note

### **PETROKEMIJA 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-March 2016

In the period Jan-March 2016, Petrokemija Group had total revenues of HRK 536.3 million, total expense of HRK 543.6 million and reported a loss in operations of HRK 7.3 million, or 1.4 % of total revenues. In the same period of previous year, the loss was HRK 18.8 million (2.7 % of total revenues), which shows a positive development in the financial result of HRK 11.5 million.

The EBITDA (earnings before interest, taxes, depreciation and amortization) was HRK 20.7 million positive. The total revenues for the first quarter of 2016 were down by 23.3% on the same period of 2015, while total expenditures were down by 24.3%. These figures indicate a lower business operations due to smaller sales volumes of fertilizers and lower 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.

Reduction of fertilizer price 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 competition. Lower domestic sales volumes were also caused by extremely 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 harvest season and consequently in fertilizer application (optimum time for fertilization for some crops was practically lost). Other adverse effects on the domestic sales were caused by problems of customers' liquidity (Petrokemija has no sources of funding deferred payments, and banks refuse to support financing the spring sowing), delay in the payment of incentives to farmers in the domestic market, and finally, the principle of buying at the last minute before application with direct manipulation in the field (without the cost of storing and reloading). Due to announcements of extremely low prices of grain and other products, areas sown with cereals are being reduced, and as a result, the use of mineral fertilizers per hectare, so that even the largest buyers are buying less fertilizers.

#### 2. Structure of financial result

In the loss breakdown for Jan-March 2016, HRK 6.3 million was from financial operations (86.3% of the total loss) and HRK 994 thousand from operating activities (13.7% of the total loss), resulting in a total loss of HRK 6.6 million. The loss from financial operations is the result of unfavorable financing structure and high debt to 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 15.9% reduction in sales volumes of fertilizers, the achieved operating income was 23.7% lower.

The level of actual domestic sales was lower than the in the previous year due to the economic exhaustion and poor liquidity of Croatian agriculture, lack of support from banks but also due to bad 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 poor general state of agriculture and increased competition from other fertilizer suppliers.

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 main export product of Petrokemija, Plc. - nitrogen fertilizer Urea - achieved a 14% decline in the average price on the world market in 2015, while an additional decrease of 24% was achieved in the first three months of 2016. This calls for caution in predicting the financial results for 2016.

#### 4. Expenses

The actual operating expenses were by 23.2% lower compared to the previous year, reflecting 15.9% 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 advances were achieved in lowering the price of natural gas (expressed in USD and HRK). Overhead costs were mainly at the level of same period last year.

#### 5. 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 the first quarter of 2016 was by 34.0% lower denominated in US dollars, and by 32.9% lower in HRK than in the same period of 2015.

Based on an international tender, in June 2015, Petrokemija, Plc. concluded new contracts for natural gas supply for 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 suppliers.

In the reporting period, through continuous and long negotiations with the two gas suppliers, 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.

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. The negative impact of this cost increase on the operating results of the Company in 2016 is estimated be about HRK 25 million.

#### 6. Production and capacity utilization

In the first quarter of 2016, Petrokemija achieved 3.5 % increase in the overall level of production as compared to the previous year. In the production breakdown, there were changes as follows: 26.9% higher output of Urea, 16.8% higher output of CAN, and 34.6% lower output of NPK fertilizers. The Company's actual utilization of production capacities was 73%, 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 was carried over into the second 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 in 2015 provided the basis for the production of ammonium sulfate (PETROKEMIJaS) and ammonium sulfonitrate (ASN), which has revitalized NPK 2 Plant and further increased 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 for phosphoric acid, various options are being considered.

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

#### 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 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.

Environmental projects are becoming more and more important, 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 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.

#### 8. 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. In 2015, this influenced the change of structure of the short-term liabilities (increase of debt to gas suppliers).

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 on 31 March 2016 this was reduced 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, 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. 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. 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 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 Petrokemija Group financial results 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

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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 2014-2018, 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, an updated program for the period 2016-2020 has been made, which includes 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 announces a potentially new direction of departure from the production of cost-unfavorable Urea for agricultural use.

The exposure of Petrokemija, Plc. and 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 of HRK 384 million) and the lack of support of financial institutions in financing working capital.

Agreements on new conditions 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 preparation of these financial statements, the actual market and financial results for 2015 and the first quarter 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 the business in 2016, with the possibility of occasional downtime of some production plants and changes in the organization of the Company and the 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 permanent working capital, which would enable the implementation of the planned activities for restructuring and financial consolidation in the 2016-2020 period.