

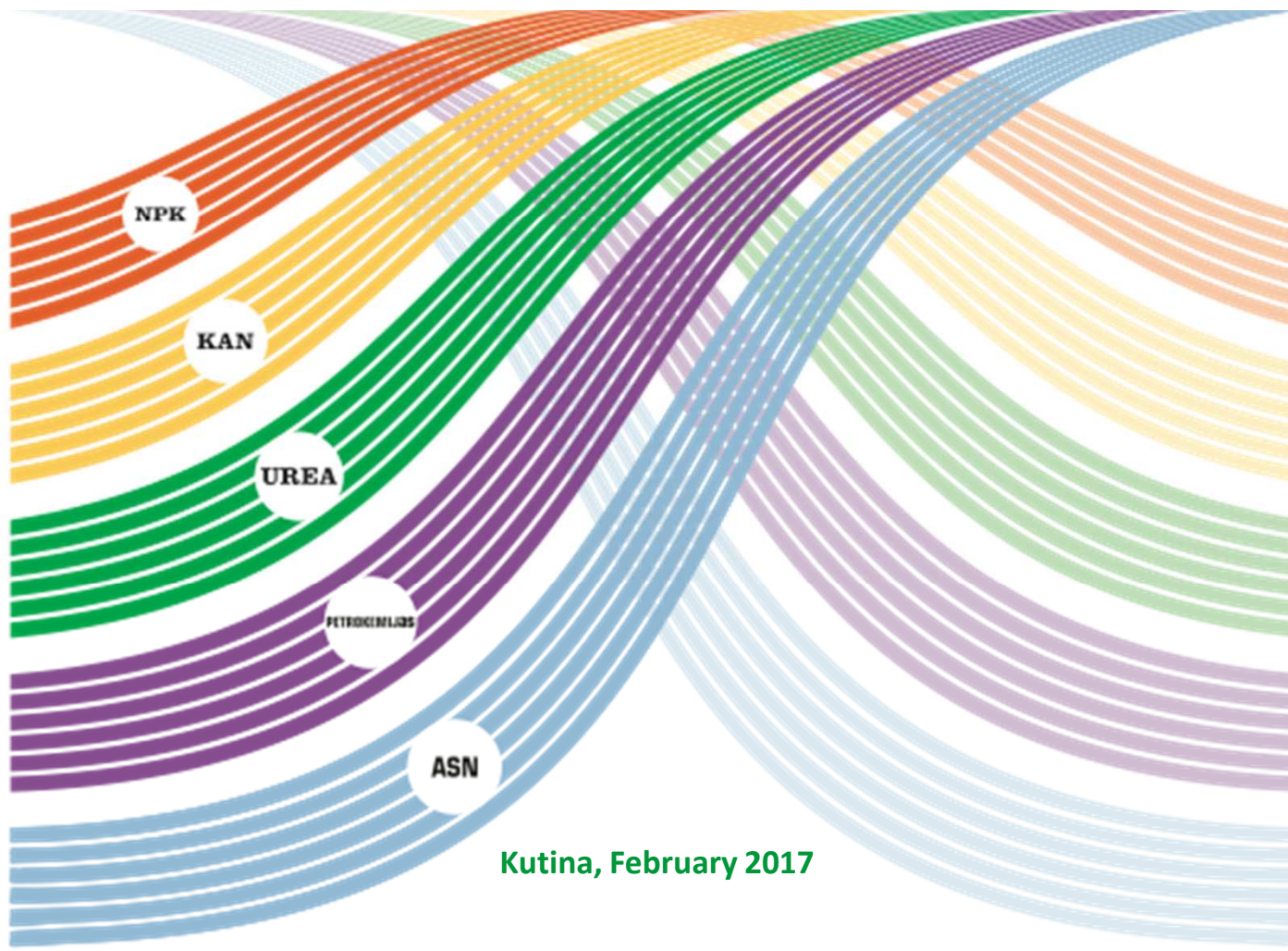
UNAUDITED
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ANNUAL REPORT

PETROKEMIJA, Plc. KUTINA

REPORT FOR PERIOD January to December 2016
INTERIM REPORT FOR PERIOD October to December 2016



Kutina, February 2017



PETROKEMIJA
KUTINA

Key indicators for Petrokemija, Plc. for 2016

- ❑ Earnings before interest, taxes, depreciation and amortization (EBITDA) – HRK 33.7 million,
- ❑ Loss in business operations – HRK 48.6 million, loss in financial operations – HRK 38.7 million, total loss – HRK 87.3 million (loss for 2015 - HRK 92.5 million),
- ❑ Actual total revenues of Petrokemija, Plc. – HRK 1,932.1 million, 24.81% down on 2015,
- ❑ Actual production of fertilizers – 1,069 thousand tons, 11.7% less than in 2015,
- ❑ Compared to 2015, production of NPK fertilizers decreased by 30.9%, production of Urea decreased by 12.1%, whereas the production of CAN was 4.6% higher,
- ❑ Utilization of currently installed production capacity of the facilities - 86.4% (taking into account the month of overhaul in July and part of August).
- ❑ Actual sales of fertilizers – 1,086 thousand tons, down 5.8% on last year,
- ❑ Share of fertilizer sales in the domestic market – 27 %,
- ❑ Domestic sales - 288 thousand tons, while 798,000 tons of mineral fertilizers sold in export,
- ❑ Capital and reserves on 31.12.2016 for Petrokemija, Plc. – HRK 46.8 million,
- ❑ Invested in Petrokemija, Plc. – HRK 148.2 million,
- ❑ Employed on 31.12.2016 : Petrokemija, Plc. – 1,595; Petrokemija Group – 1,733.

Management Board Report for 2016

- ❑ In January – December 2016, Petrokemija Plc. had total income of HRK 1,932.1 million and total expense of HRK 2,019.40 million. The Company reported loss of HRK 87.3 million or 4.5% of the total revenues.
- ❑ Lower sales volumes by 5.8% and lower average sales prices by 22.4% compared to 2015;
- ❑ In the structure of income, domestic sales amounted to 30.0% or HRK 581.0 million, 18.0% lower when compared to 2015, while export accounted for 65.5% or HRK 1,264.6 million, 29.7% lower than 2015.
- ❑ In assortment, compared to 2015, higher sales in 2016 of CAN by 19.1%, lower realization of NPK fertilizer sales by 33.6% (market reasons; lower consumption caused the imbalance of phosphorus and potassium prices in relation to the NPK fertilizers), and Urea by 5.1%,
- ❑ Domestic sales 0.6% higher in volume than in 2015;
- ❑ Export sales volumes 7.9% lower than in 2015;
- ❑ Sales volumes of clay-based products and liquid fertilizers 13.6% higher than in 2015;
- ❑ Fall of fertilizer prices in the world market was transferred to a significant extent to the EU and the region, which resulted in increased imports of cheaper fertilizers.
- ❑ After high growth of USD in 2015, in the reporting period there were no significant deviations, rise or fall of the USD and EUR compared to the previous year or to the planned values. Exchange rate of USD was **0.8%** lower than in 2015.
- ❑ In procurement of natural gas, the share of volumes in prices set in USD was 45%, and in those set in EUR 55% with a trend of lower dependence on the USD exchange rate, which was an individually most significant financial risk in the operations of Petrokemija, Plc. in the previous period.

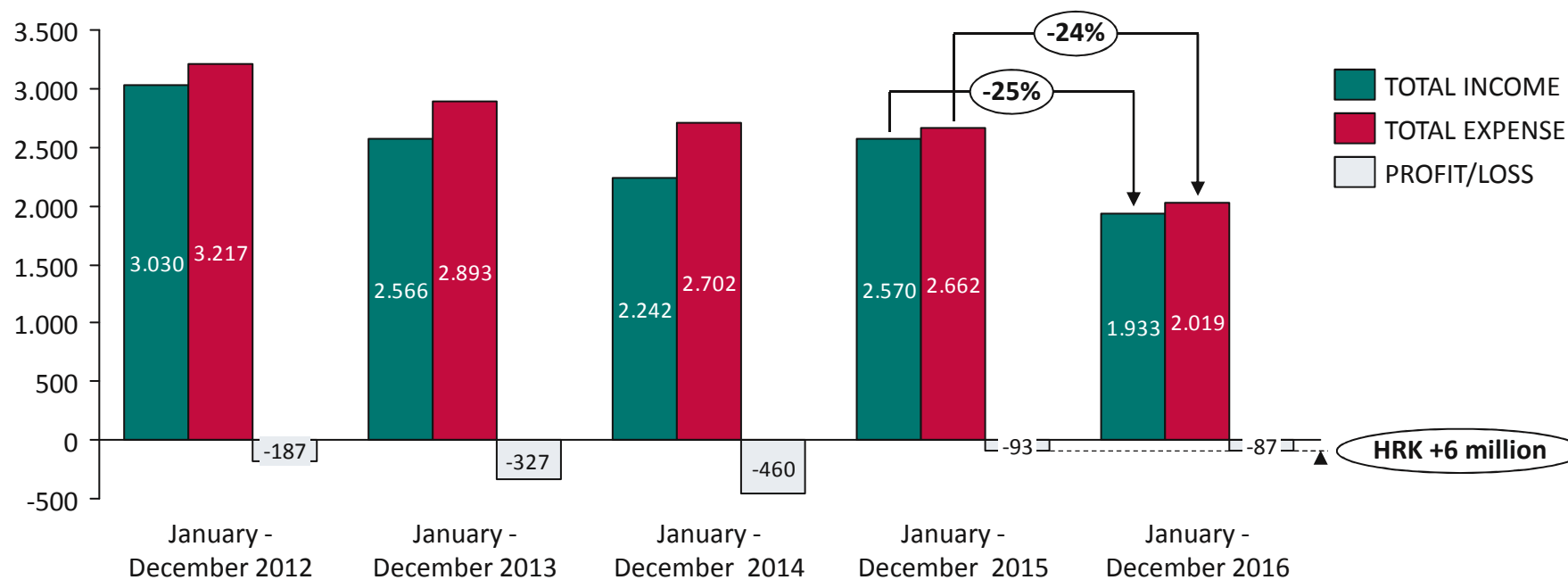
Management Board Report for 2016 (cont.)

- ❑ Lower domestic sales were caused by the customers' liquidity problems (Petrokemija, Plc. has no sources of funding deferred payments, and banks refuse to support the long production process in agriculture), delay in payment of state incentives to domestic market and the increasingly common 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, because of precipitation and low temperatures);
- ❑ Exceptionally low price of cereals and other agricultural 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 mineral fertilizers;
- ❑ Liquidity indicators are below recommended value, but significantly improved from last year (on 31.12.2016, negative working capital was HRK -278 million; on 31.12.2015 it was HRK - 377 million);
- ❑ Short-term assets decreased by 10.7% compared to end 2015, and short-term liabilities decreased by 19.0% (the effect of HBOR loan and debt rescheduling for natural gas);
- ❑ Indicator 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 34.7% lower in HRK and 33.87% lower in USD than in 2015, while transport costs of natural gas were 21.3% higher;
- ❑ Total number of employees of Petrokemija, Plc. is 1,595, a reduction of 22 or 1.4% as compared to 31.12. 2015;
- ❑ Achieved level of investment was HRK 148.2 million, an increase of HRK 94.9 million as compared to 2015.

Profit and Loss in the period January – December 2012 – 2016

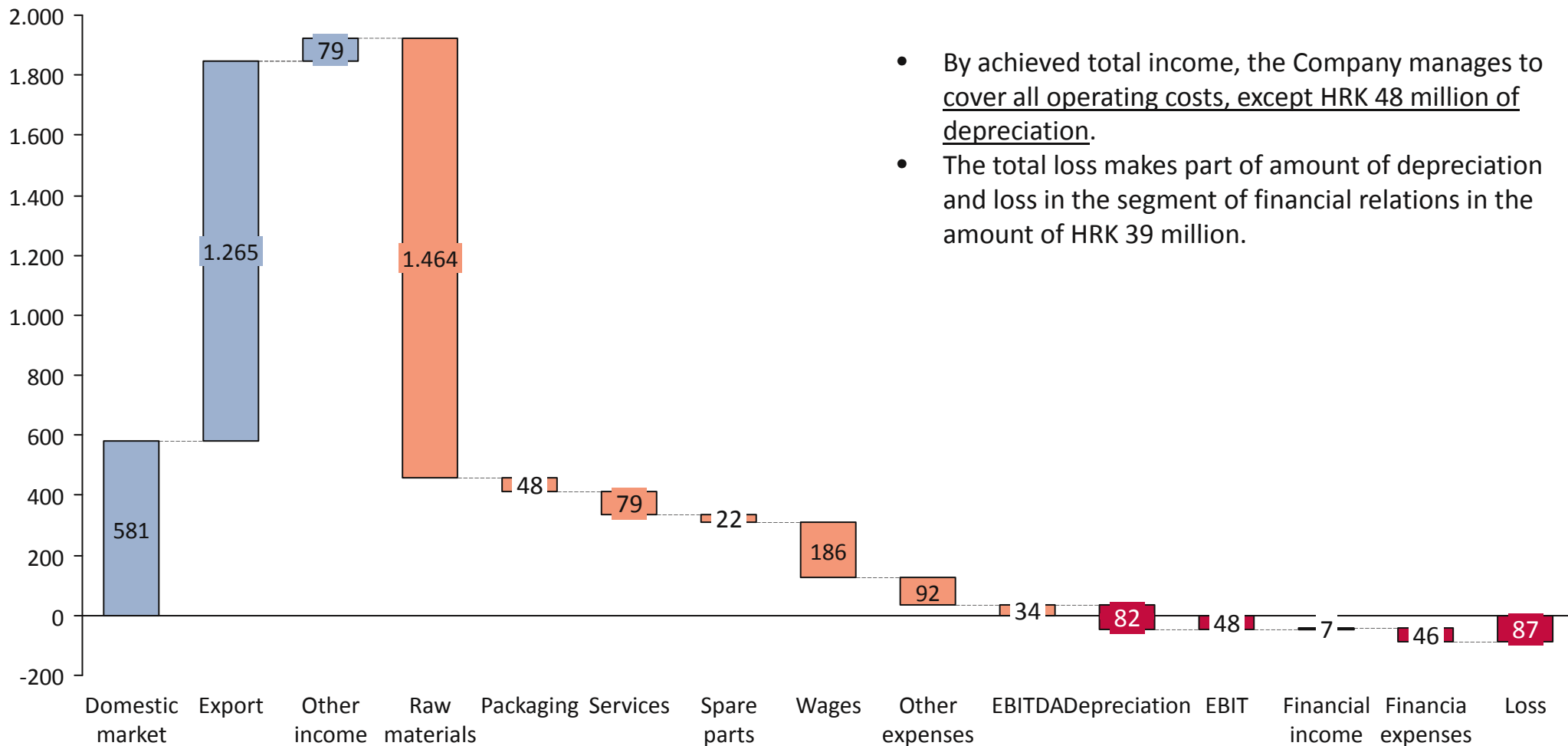
■ Total income	HRK 1,932.1 million,
■ Total expense	HRK 2,019.4 million,
■ Loss	HRK -87.3 million,
■ EBITDA	HRK 33.7 million,
■ EBITDA margin (%)	1.8%.

HRK million



Structure of Profit and Loss for January – December 2016

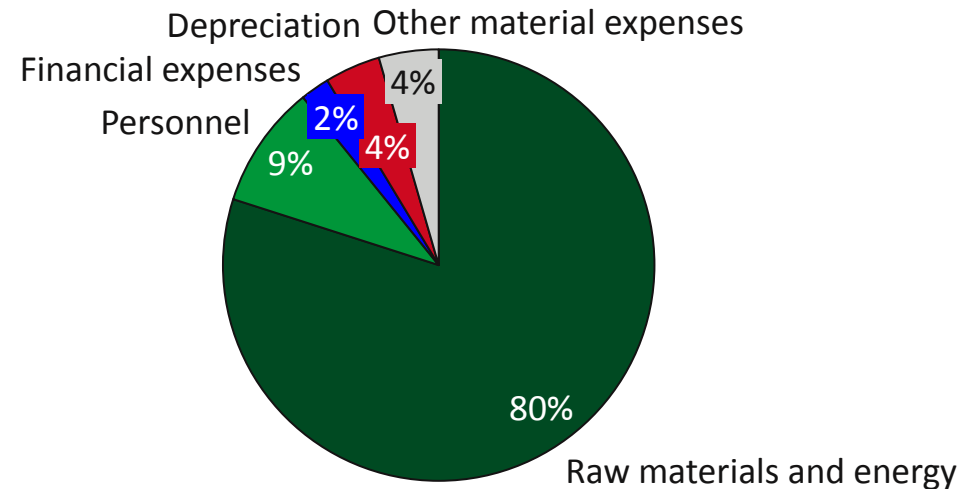
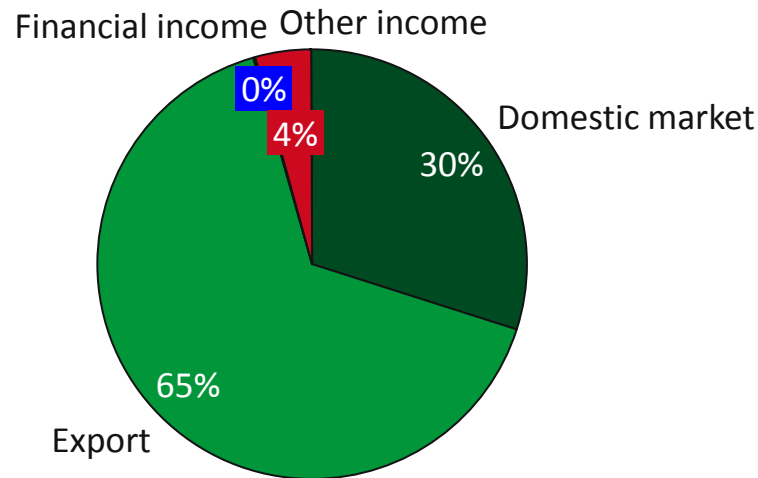
HRK million



- By achieved total income, the Company manages to cover all operating costs, except HRK 48 million of depreciation.
- The total loss makes part of amount of depreciation and loss in the segment of financial relations in the amount of HRK 39 million.

Structure of Profit and Loss for January – December 2016

- In January – December 2016 period, Petrokemija, Plc. earned 30% income from domestic market, 65% from export, and 5% from financial and other income.
- The total expense breakdown shows a dominant 80% for raw materials and energy, 9% for personnel costs, while all other costs make 11%.



Key financial indicators for January – December 2016

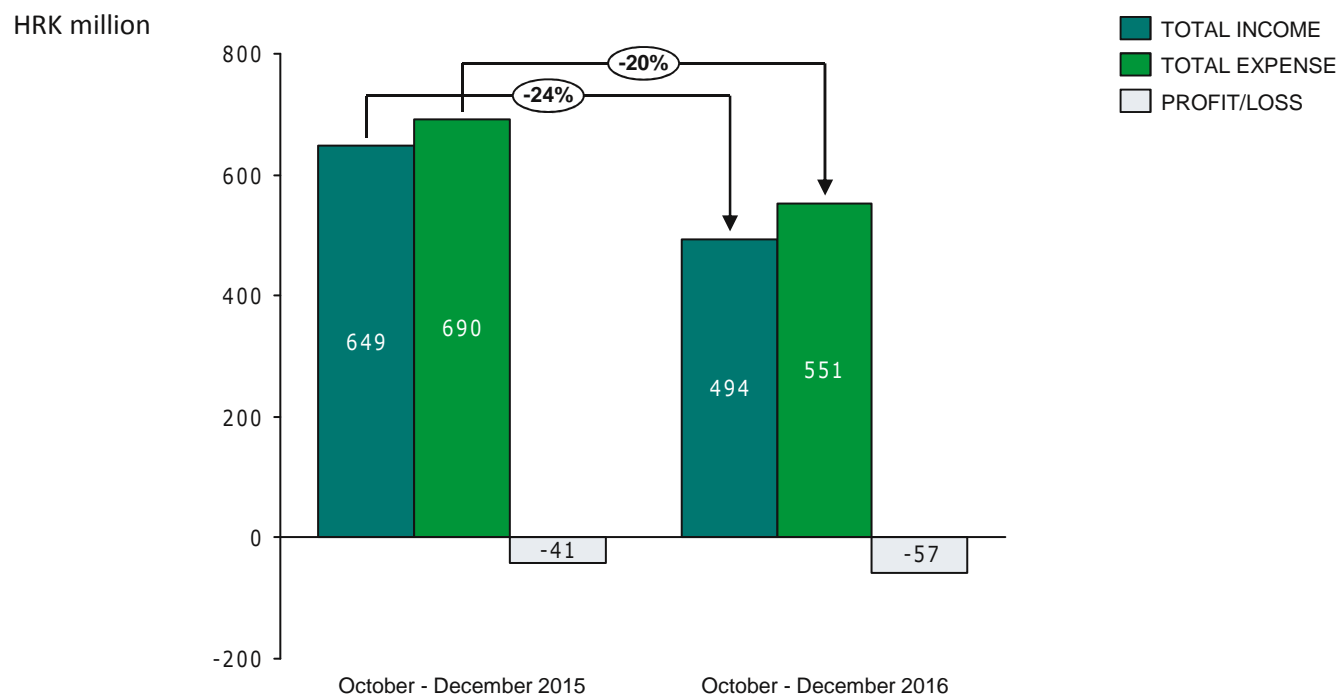
(HRK 000)

	January – December 2016	January – December 2015	Difference	% change
Operating income	1.925.228	2.551.763	-626.535	-24,55%
Operating expense	1.973.822	2.592.117	-618.295	-23,85%
EBITDA *	33.650	51.890	-18.240	-35,15%
Amortization	82.244	92.244	-10.000	-10,84%
Net financial income /(expenses)	-38.716	-52.158	13.442	-25,77%
Net extraordinary income / (expenses)	0	0	0	
Profit / loss / before taxation	-87.310	-92.512	5.202	-5,62%
	31 December 2016	31 December 2015		
Fixed assets	701.782	652.127	49.655	7,61%
Current assets	532.272	596.094	-63.822	-10,71%
Capital and reserves	46.828	134.138	-87.310	-65,09%
Long-term liabilities + provisions	377.044	139.935	237.109	169,44%
Current liabilities + provisions	810.182	974.148	-163.966	-16,83%

* Earnings before interest, taxes, depreciation and amortization

Operating results for October - December 2016

- In October – December 2016 period, Petrokemija, Plc. had actual total revenues of HRK 494 million, total expenses of HRK 551 million and reported operating loss of HRK 57 million.
- On a quarterly basis, total revenues decreased by 24% compared to the fourth quarter of 2015, while total expenses decreased by 20%.
- The loss in the fourth quarter of 2016 increased by 16 million or 39% on the same period last year because of growth of natural gas prices, which due to market conditions, could not be accompanied by a corresponding increase in prices of finished products. Moreover, in order to prevent imports to Croatia, sales prices of fertilizers were significantly reduced.



Key financial indicators for October to December 2016

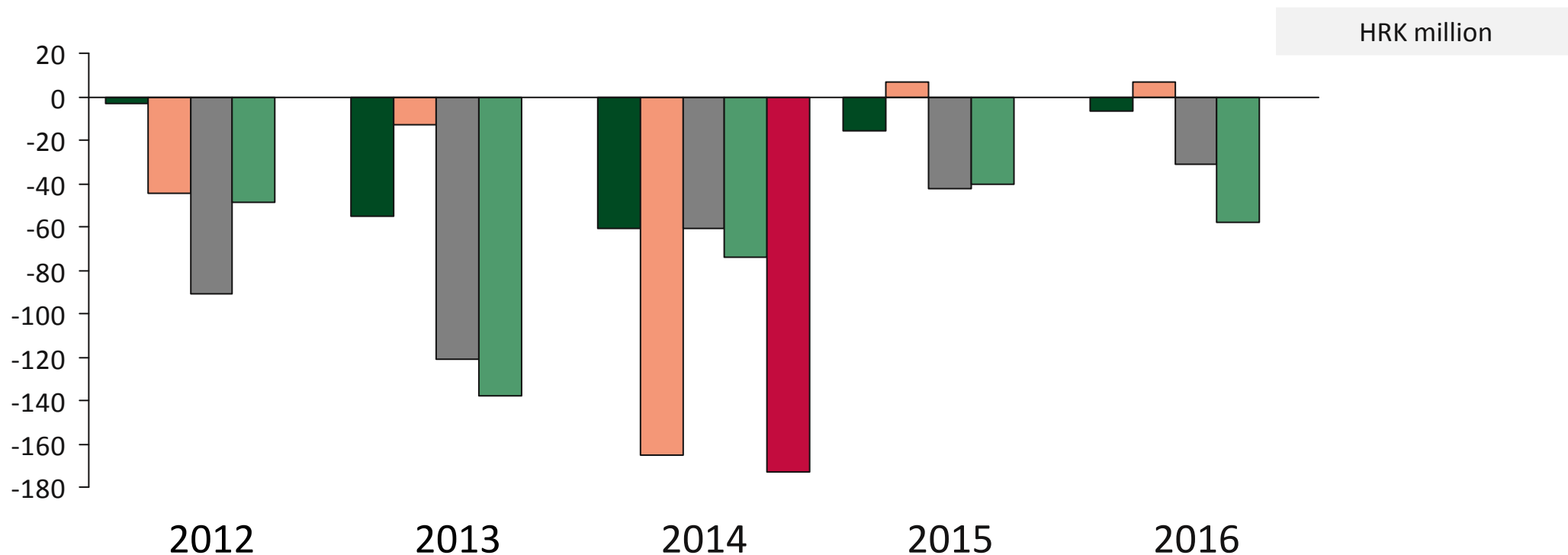
(HRK 000)

	January – September 2016	October – December 2016	January – December 2016
Operating income	1.431.796	493.432	1.925.228
Operating expense	1.441.478	532.344	1.973.822
EBITDA *	51.246	-17.596	33.650
Amortization	60.928	21.316	82.244
Net financial income / (expenses)	-20.022	-18.694	-38.716
Net extraordinary income / (expenses)	0	0	0
Profit / loss / before taxation	-29.704	-57.606	-87.310

*Earnings before interest, taxes, depreciation and amortization

- The adverse market situation in the fourth quarter of 2016 resulted in a loss of HRK 57.6 million, where 21.3 million account for value adjustment of assets and the provision of risk costs. Included are the provisions for payments to 46 employees who left the Company in January 2017 through a program of incentive severance pay, carried out to rationalize personnel costs in the next period.
- The EBITDA amounted to HRK -17.6 million.

Quarterly losses/profits for 2012 – 2016

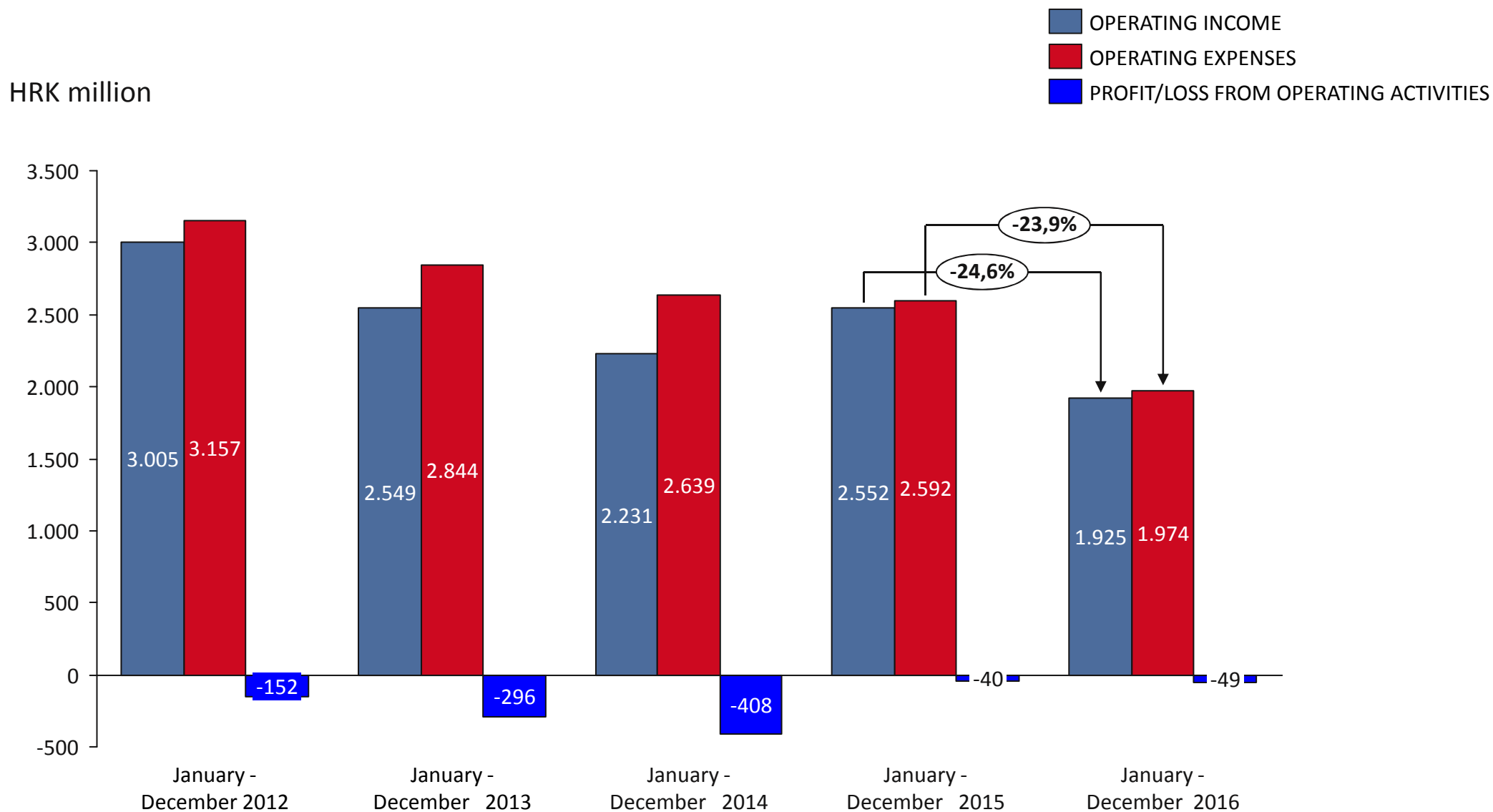


Note: ADJUSTED ACTUAL LOSS WITHOUT SEVERANCE COSTS TO EMPLOYEES:

- Q4/2013 – HRK 95 million,
- Q2/2014 – HRK 65 million
- Q4/2016 – HRK 52 million,

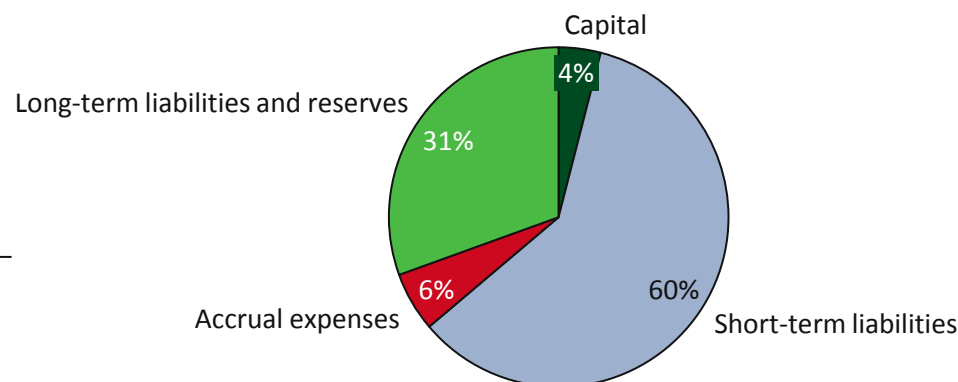
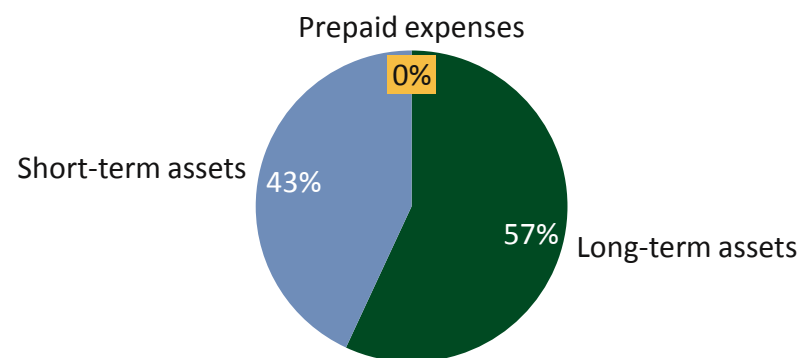
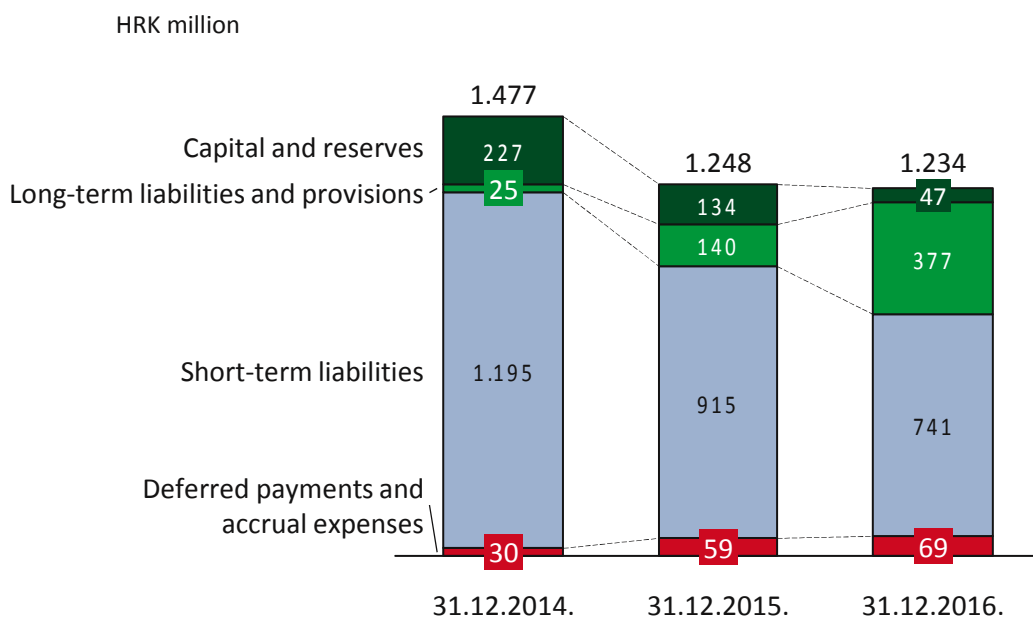
- 1st quarter
- 2nd quarter
- 3rd quarter
- 4th quarter
- 4th quarter after correction for Gorup

Profit and Loss from operating activities for January to December 2012 – 2016



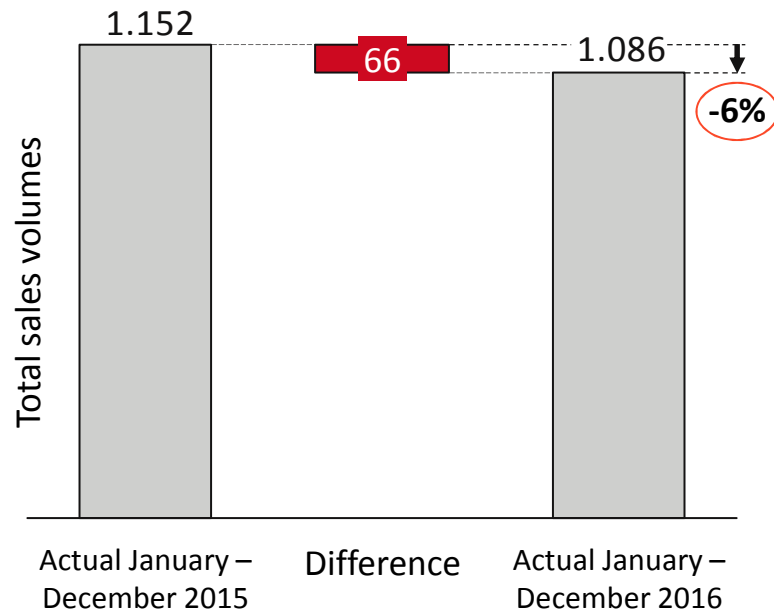
Structure of assets and liabilities at 31 December 2016

- As on 31.12.2016, Petrokemija had 43% value of short-term and 57% of long-term assets.
- The level of capital of HRK 47 million reflects the impairment for losses reported for 2014 - 2016 period.
- In the structure of debt during **the third quarter** there was a change in the structure and approximate equalization of long- and short-term sources, as a result of rescheduling debt for gas from the previous period and approval of HRK 200 million long-term loan from HBOR. At the end of the reporting period on 31.12.2016, a part of long-term liabilities falling due in 2017 was transferred to short-term liabilities and thus the negative working capital was increased again to HRK -278 million.

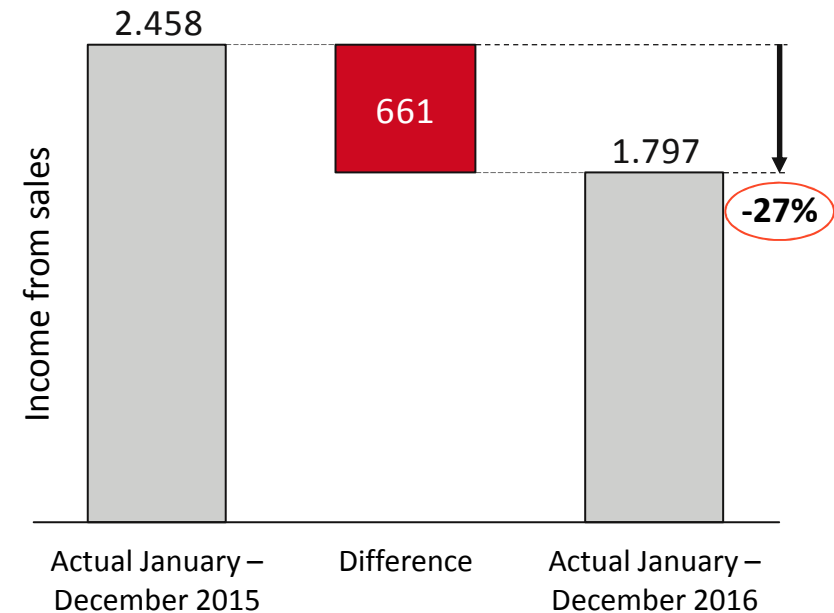


Total fertilizer sales

SALES VOLUMES (000 t)
2016 / 2015



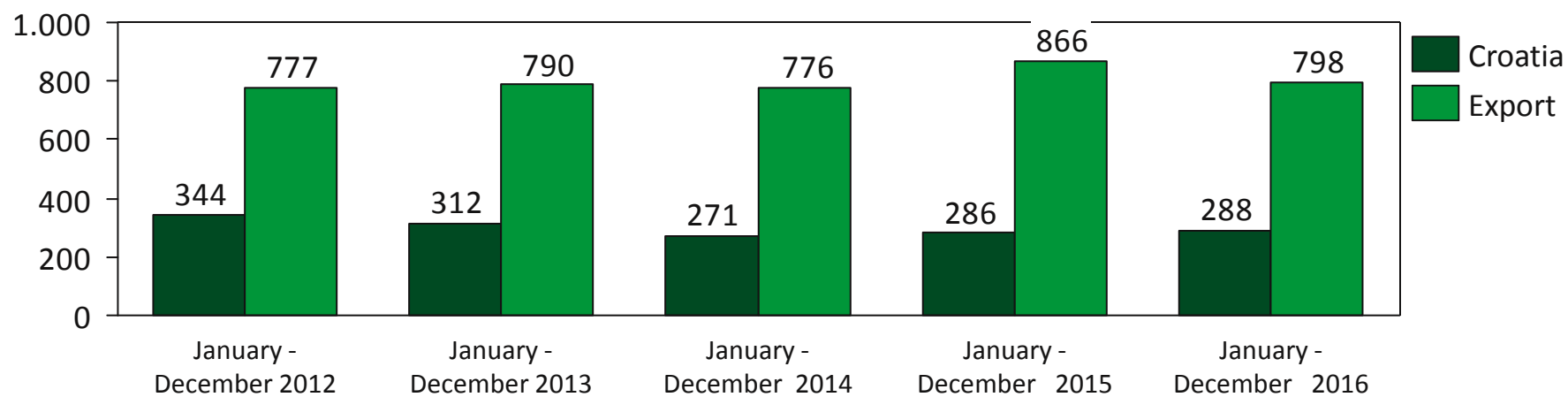
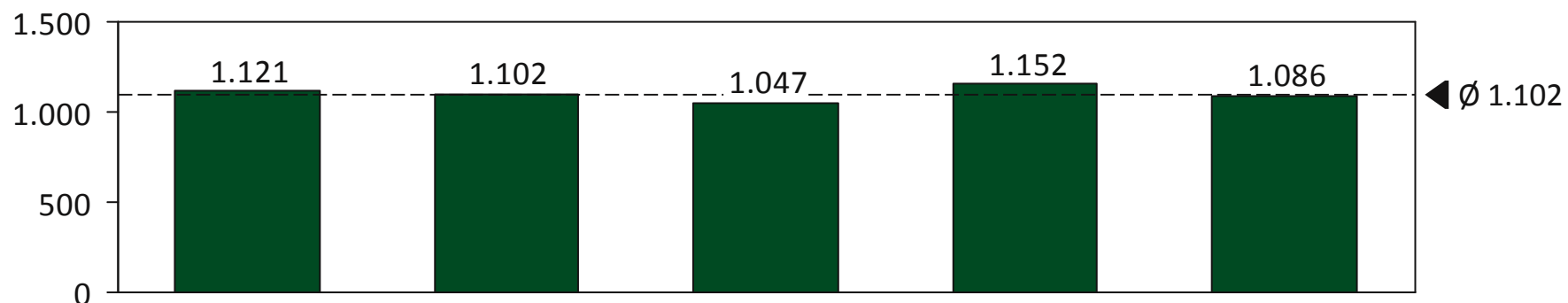
INCOME FROM SALES (mln HRK)
2016 / 2015



There was a decrease in fertilizer sales volumes of 6% and also a decrease in income from sales of 27%, indicating a significant decline in average sales prices. The fall of the price of fertilizer was most pronounced in the fourth quarter in order to prevent the import of fertilizers in Croatia.

Actual fertilizer sales in January – December 2012 – 2016

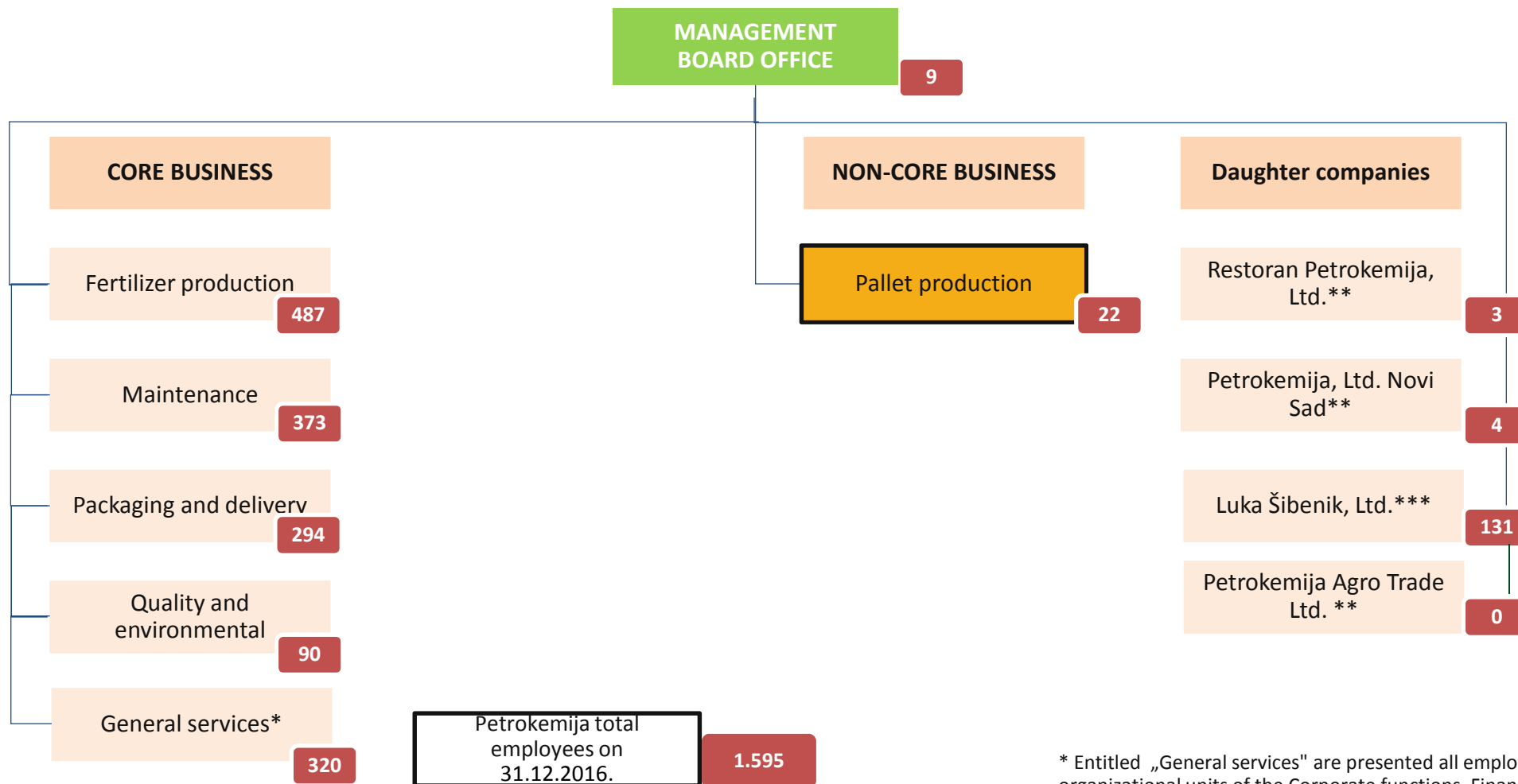
total sales (000 tons)



Business Results of Petrokemija Group for January – December 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 – December 2016 are as follows:
 - ❑ Total revenues HRK 1,940.7 million,
 - ❑ Total expenses HRK 2,028.3 million,
 - ❑ Loss before tax HRK -87.6 million,
 - ❑ Profit tax HRK 0.3 million,
 - ❑ Loss after tax HRK -87.9 million,
- ❑ EBITDA (earnings before interest, taxes and depreciation) was HRK 33.9 million in the positive.
- ❑ Petrokemija, Ltd. Novi Sad made profit of HRK 15 thousand (after tax), Restoran Petrokemija, Ltd. made profit of HRK 23 thousand, while Luka Šibenik, Ltd. reported loss of HRK 670 thousand (after tax).
- ❑ 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



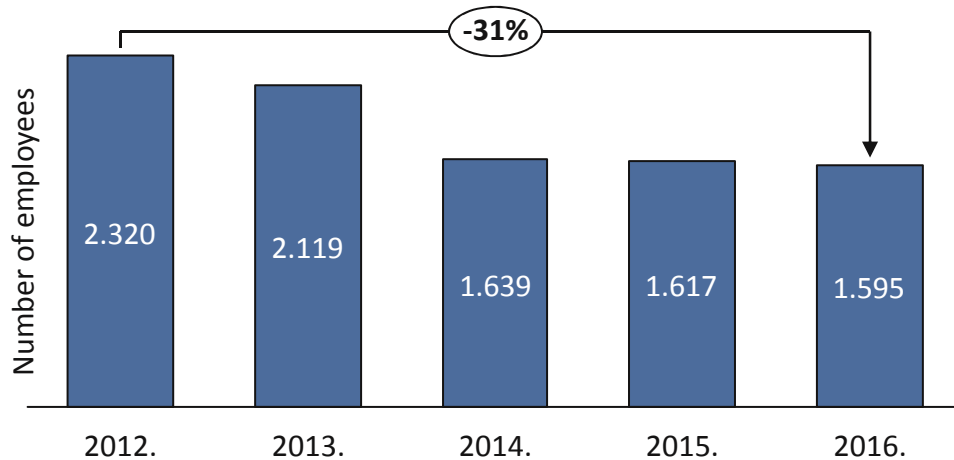
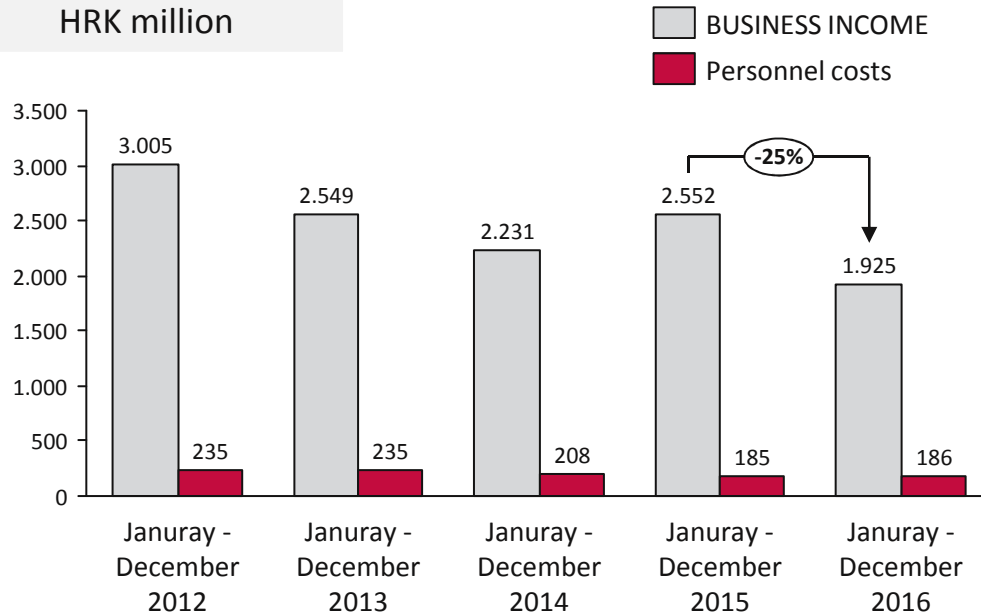
* Entitled „General services" are presented all employees in the organizational units of the Corporate functions, Finance and Controlling, Procurement, Sales and IT.

** Daughter companies 100% owned by Petrokemija, Plc.

*** Luka Šibenik 79.7% owned by Petrokemija, Plc.

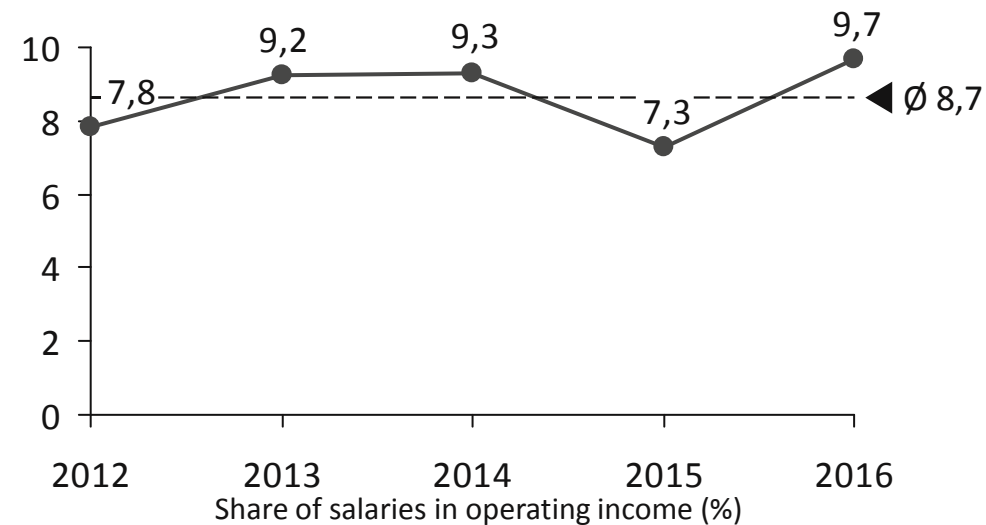
Operational income, personnel costs and number of employees

HRK million



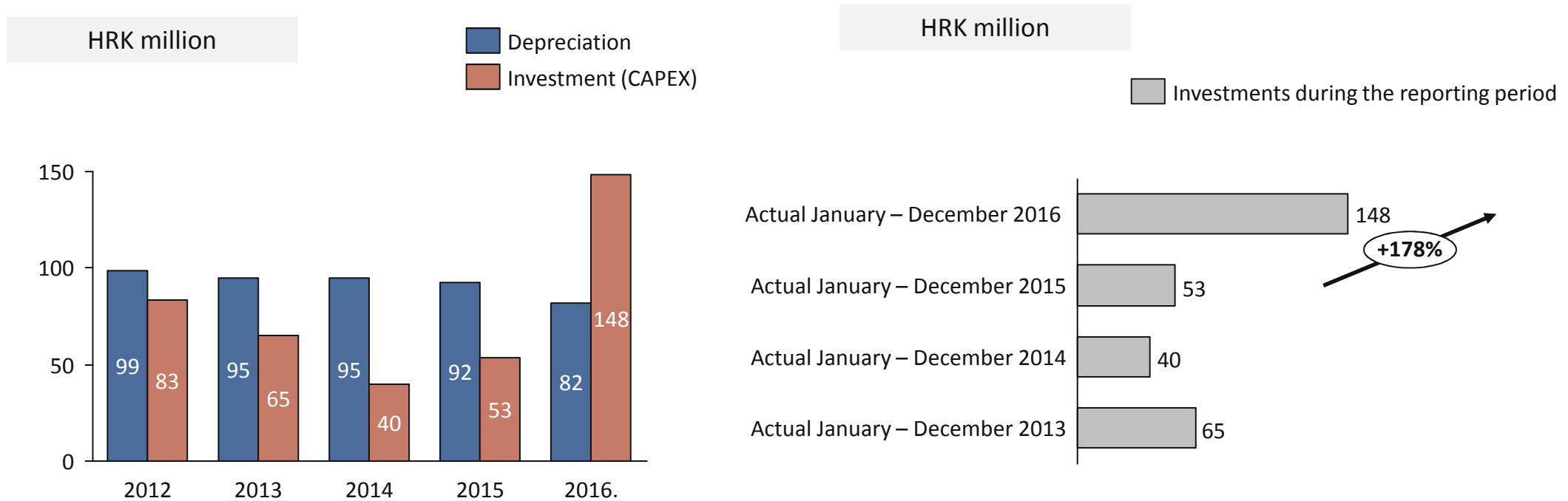
As at 31.12.2016, Petrokemija, Plc. had **1.595 employees**, and daughter companies - members of Petrokemija Group - had 138 employees, which is a total of 1,733 employees.

Personnel costs share in operating revenues was 9.7%.



Realized investment

- Investment realized in reporting period amounted to HRK 148.2 million. Compared to the same period of 2015, it is an increase of HRK 94.9 million or 178%.
- The realization of planned level of investment of HRK 173 million on an annual basis is not completely realized (index 86.2), due to limited funding opportunities, or lack of support for banks.



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



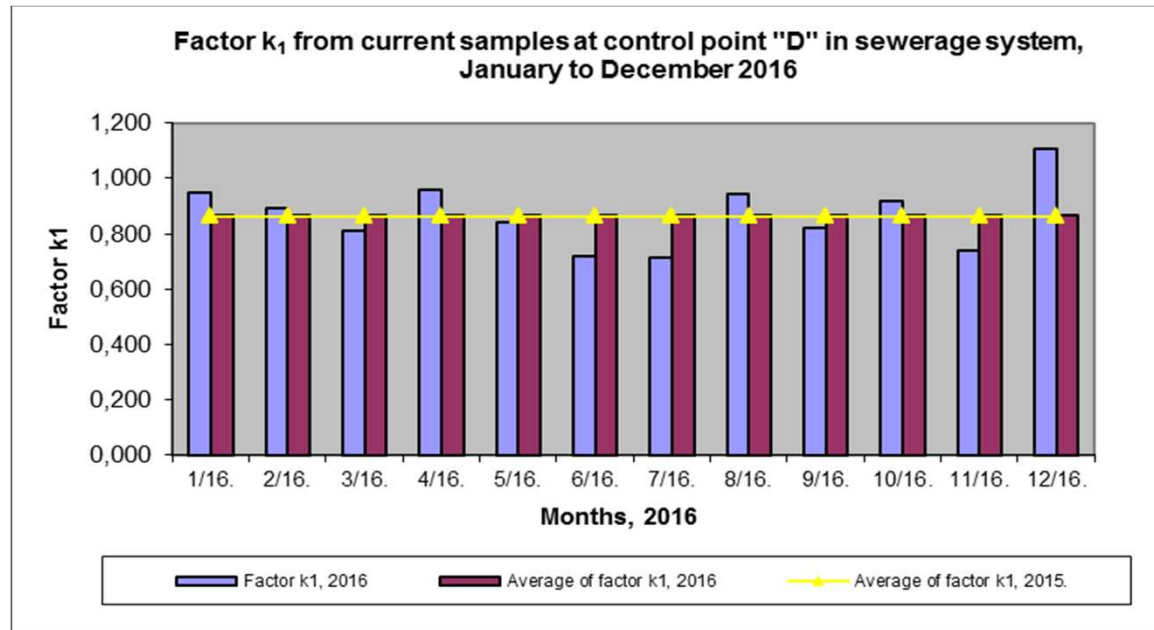
Clean or slightly polluted air	Polluted air	Pollutants
1 st category C<LV	2 nd category C>LV	
K2, K7, DMP		Sulphur dioxide (SO ₂)
K1, K2, K7		sediment
K6, K7	K1, K2, DMP	Ammonia (NH ₃)
K1, K2, K6, K7, DMP		Nitrogen dioxide (NO ₂)
K2, K7, DMP		Hydrogen sulphide (H ₂ S)
	DMP	PM10

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

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

Monitoring station	<i>The number of limit value (LV) exceedances in the <u>January to December 2016</u> period/ permitted exceedance number</i>
K 1 - Dom zdravlja	32 / 7
K 2 - Vatrogasni dom	25 / 7
K 6 - Husain	6 / 7
K 7 - Krč	3 / 7
TOTAL	66

Water management



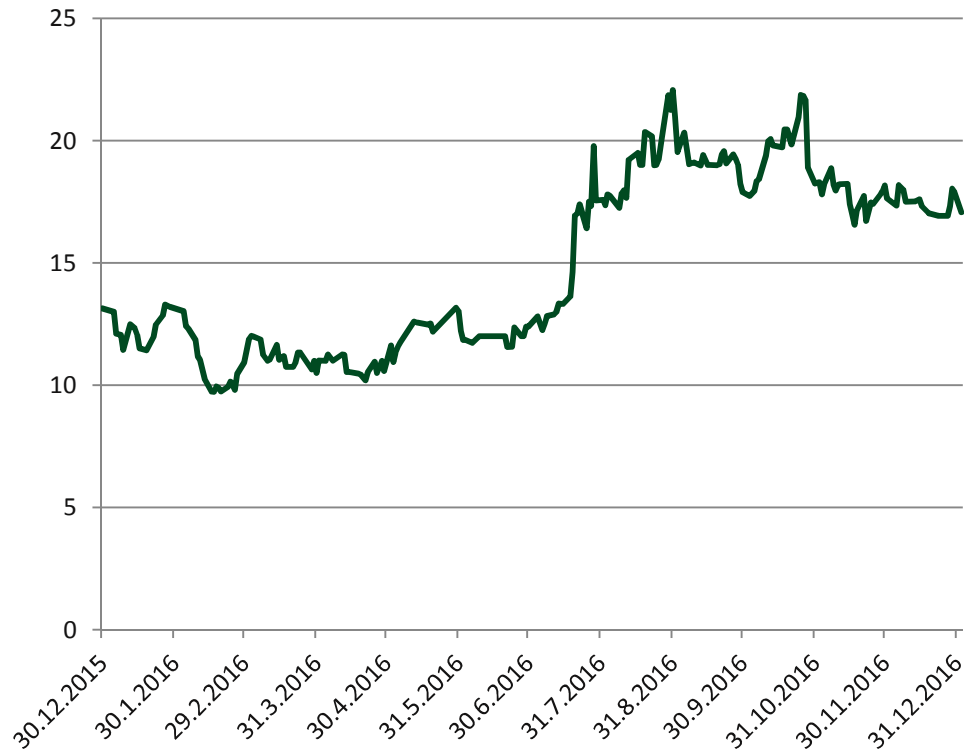
- ❑ In the period from January to December 2016, the average value of k_1 factor is on the same level than average value in the same period of 2015.
- ❑ In the period from January to December 2016, monthly average consumption of raw water is lower than average value in the same period of 2015.

Company share capital, market value of the share, changes in Supervisory Board

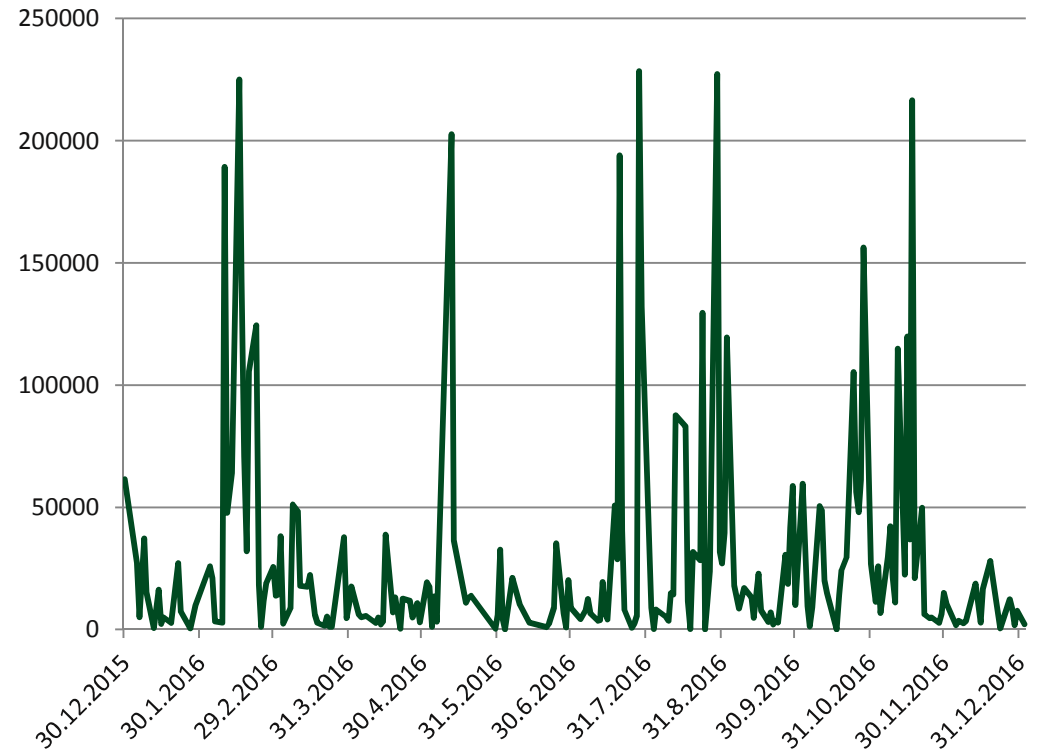
- ❑ After the conducted increase in 2015, the Company share capital amounts to HRK 386,135,400.00 and is divided into 12,871,180 ordinary shares marked PTKM-R-A, with a nominal amount of HRK 30.00.
- ❑ On 30 December 2015, the average share value was HRK 13.14, and on 30 December 2016 it was HRK 17.90 (increase of 36.15%).
- ❑ Tomislav Pokaz resigned 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 of 19 February 2016, Branimir Fleković was appointed President and Sonja Ivoš Vice President 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 of 12 May 2016, Marijan Kuprešak was elected President and Željko Klaus Vice President of the Board.
- ❑ Supervisory Board member, Mladen Novak, resigned from membership in the Supervisory Board of Petrokemija, effective as of 31 July 2016.
- ❑ At the meeting of 6 February 2017, Mijo Šepak was elected President of the Supervisory Board.
- ❑ At its meeting of 6 February 2017, the Supervisory Board passed a decision establishing the mandate termination as on that day of the President of the Management Board Nenad Zečević and members of the Board Antonija Perošević Galović, Tamara Pernar and Vladimir Fresl. The Supervisory Board appointed Đuro Popijač from Zagreb as President and Nenad Zečević member of the Management Board. The mandate of the appointed members of the Board began on 7 February 2017 and runs until 6 February 2021.

Petrokemija, Plc. share price and daily turnover movements

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



PETROKEMIJA'S DAILY SHARE TURNOVER MOVEMENTS
for January – December 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 was not realized by 31.12.2016. At the time of these financial report, the Company Board has no precise knowledge of the intentions of the majority owner or potential investors.
- ❑ Due to the partial failure to achieve the assumptions of the Program of Restructuring and Financial Consolidation for the period 2015 -2019, in the first quarter of 2016, a revised Program, i.e. Business Plan for 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 recapitalization and debt rescheduling as well as the reduction of the amount of investment.
- ❑ At the session held on 11 May 2016, the Croatian Government adopted the Decision on amending the Decision on establishing the list of companies and other legal entities of strategic and special interest for the Republic of Croatia. Petrokemija, Plc., Kutina was removed from the list of companies of special interest in which the Republic of Croatia has a majority share. Following the above mentioned Decision, on 6 July 2016 , a transfer of shares of Petrokemija Plc. was made, from the State Office for State Property Management (DUUDI) to the Centre for restructuring and sale (CERP), as a legal entity with public authority which specializes in the management of shares and interests in companies whose owner is the Republic of Croatia and which are not defined as companies of strategic and special interest for the Republic of Croatia.
- ❑ 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 existing terms of natural gas supplies for gas year 2015/2016. Moreover, the Company contracted certain volumes of natural gas under new terms for the gas year 2016/2017.

Key events in 2016 (cont)

- 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 contracted terms of natural gas supply are one of the preconditions for further restructuring and financial consolidation of the Company.
- According to Plans on Overhaul Works in 2016, overhauling of fertilizer production facilities was conducted in July and the first half of August. By the scope of work, it was one of the largest in the past decade. The total investment was about HRK 148 million, out of which, next to the co-financing by the Croatian Bank for Reconstruction and Development from the Loan Program for Financing Projects of Environmental Protection, Energy Efficiency and Renewable Energy Resources, 38 million kuna was invested in the construction of a new high-pressure gas pipeline, which now supplies natural gas to all production facilities of the Company. During the overhaul, Measure M7 investment was realized at Urea Plant, which will help achieve a significant improvement in environmental standards in terms of reducing pollution of waste water.
- At its 38th session held on 31 August 2016, the Croatian Government adopted the Decision on granting approval to Petrokemija, Plc, to take a loan of HRK 200 million from Croatian Bank for Reconstruction and Development for the implementation of the Company restructuring and financial consolidation and the Decision on granting state guarantee for the benefit of Croatian Bank for Reconstruction and Development for the loan . Details on the website of the Croatian Government: <https://vlada.gov.hr/sjednice/38-sjednica-vlade-republike-hrvatske-19380/19380>

Key events in 2016 (cont)

- ❑ Following the Government Decision on granting approval to Petrokemija, Plc, for a loan of HRK 200 million, Petrokemija and the Croatian Bank for Reconstruction and Development signed a loan agreement. The loan was used for settling the due liabilities for natural gas and the implementation of the Company restructuring and financial consolidation in accordance with the Government's decisions.
- ❑ The Supervisory Board of Petrokemija Plc. approved the selection of KPMG Croatia Ltd., Zagreb as the consultant for the development of the Company Restructuring Program in accordance with the prescribed activities from the Government Decision on approval for a loan of HRK 200 million from the Croatian Bank for Reconstruction and Development. Activities on the Restructuring Program began on 15 September 2016; by the end of reporting period the first draft was made. The completion and presentation of the Program to the competent institutions is scheduled for the first part of 2017.
- ❑ Petrokemija, Plc. and HEP-ESCO d.o.o. signed the Contract on the implementation of energy efficiency project Modernization of Electric Drive Systems at Water-2 Plant, Power Plant and Pakra Pumping Station and Modernization of Part of the System of Outdoor Lighting. These investments in energy efficiency measures will achieve electricity savings of around 3.4 GWh on an annual basis, with the intended return on investment within two years. HEP-ESCO will finance and manage the project, and the investment will be returned through savings.
- ❑ On 10 November 2016, a contract was signed on the merger of the company Restoran Petrokemija, Ltd. (Transferor company) and Petrokemija, Plc. (Transferee company). The merger agreement was received on 11 November 2016 by the Commercial Court in Zagreb under number: R3-16464 / 16. In 2017 Restoran has continued its regular activities as one of the organizational units within Petrokemija, Plc.

Significant financial risks in 2017

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 2017 there will continue to be a pronounced influence of variable levels of fertilizer prices in the world market and the relatively high level of natural gas price in Europe and Croatia. Extremely high financial burden on the business of Petrokemija, Plc. is exceptionally high price of natural gas transport, which is up to three times higher than in other EU countries. 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 2017 is likely to depend on the pace and scope of potential measures for restructuring of the Company and Petrokemija Group. In addition to the above, 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, in 2016 the USD exchange rate did not cause significant additional negative impacts 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 in 2017 is linked to the EUR exchange rate and the movement of natural gas prices on the European spot market,
- ❑ The sales prices of fertilizers in the global market have grown in late 2016 and early 2017, but 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; so in case of a more pronounced growth of natural gas price on the European spot market, profitability of production may come in question at certain time intervals,

Significant financial risks in 2017 (cont)

- ❑ Lower VAT in 2017 should have positive effects on mineral fertilizer sales in the domestic market.
- ❑ Purchasing prices of most primary raw materials are lower than in the previous period, but fluctuations in raw material prices on the world market, which have so far been present, will continue to have impact on material costs in the next period,
- ❑ High costs of working capital – because of insufficient own working capital, financing costs were reduced, but will continue to be significant in the next period,
- ❑ In 2016, an extensive overhaul was conducted, whose implementation was partly financed from long-term sources. However, the risks in terms of providing the remaining long-term financing sources are still present in 2017, and it is very difficult to finance the continuation of the investment process from operative business. Deadlines for implementation of part of the so-called 'environmental investment' by 31.12.2017, in accordance with the Decision of Integrated Environmental Requirements, will be very difficult to meet, and some investments are likely to be transferred to 2018 due to difficulties in financing.
- ❑ By settling the debt for natural gas supplied in the previous periods and approval of loan by HBOR of 200 million HRK in the third quarter of 2016, the risk of blockade and delays in the delivery of natural gas, and consequently production, was avoided. However, the price movements of natural gas on the European spot market calls for caution,
- ❑ As mentioned earlier, 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.
- ❑ Higher level of realized loss in the fourth quarter of 2016, compared to the earlier part of the year, suggests caution in predicting financial and operating results in 2017. A part of this negative impact will already be transferred to the result of the first quarter of 2017, due to the liabilities for delivery of fertilizers for received advance payments from the fourth quarter of 2016.

Statement of management liability

In line with Articles 407 through 410 of Capital Market Act (OG 88/08, 146/08, 74/09, 54/13, 159/13, 18/15, 110/15) the Managing Board of Petrokemija, Plc. Kutina, A. Vukovar 4, make a :

Statement on Management Liability

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

Financial reports for the **January 1 to December 31 2016 period**, make an exact and true account of the Company financial status and the business and cash flow results, in compliance with the applicable accounting standards.

This report may contain certain statements relating to the future business of Petrokemija, Plc. and Petrokemija Group, their strategy, plans and intentions which express a certain degree of uncertainty. They reflect the current position of the Company with regard to risks, uncertainties and assumptions about the future.

Currently, the results, effects and achievements of Petrokemija, Plc. or Petrokemija Group are heavily dependent on a large number of factors which may influence their being quite different from the originally set ones.

President of the Board:

Đuro Popijač, MS

Member of the Board:

Nenad Zečević, BE



PETROKEMIJA
KUTINA

Attachments:

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

Attachment 1.

Reported period:

01.01.2016.

to

31.12.2016.

Quarterly financial statements TFI-POD

Registration number (MB): 03674223

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

Issuer company: PETROKEMIJA, Plc. Fertilizer company

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: 1.595

(at the end of the year)

Consolidated Report: NO

Code of NKD: 20.15

Entities in consolidation (according to IFRS):

Registered seat:

Registration number (MB):

Book-keeping office:

Contact person: MARINA MARIĆ

(name and surname of the contact person)

Telephone number: 044-647-829

Fax: 044-682-796

E-mail: marina.maric@petrokemija.hr

Name and surname: ĐURO POPIJAČ, NENAD ZEČEVIĆ

(authorized representatives)

Documentation to be published:

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

(seal)

(signature of authorized representative)

BALANCE SHEET
as at 31.12.2016.

Issuer: PETROKEMIJA, d.d.			
Position	AOP code	Previous year (31.12.)	Current year
1	2	3	4
A) RECIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL	001		
B) LONG-TERM ASSETS (003+010+020+029+033)	002	652.126.997	701.782.032
I. INTANGIBLE ASSETS (004 do 009)	003	7.766.579	8.023.084
1. Expense for development	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	6.036.775	4.487.689
3. Goodwill	006		
4. Advances for intangible assets	007		
5. Intangible assets in progress	008	1.729.804	3.535.395
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 do 019)	010	620.139.893	669.390.841
1. Land	011	49.482.152	48.506.702
2. Buildings	012	237.655.207	224.148.613
3. Plant and equipment	013	236.606.850	345.925.594
4. Tools, plant inventory and transportation assets	014	19.908.525	16.704.376
5. Biological assets	015		
6. Advances for tangible assets	016	13.770.947	99.731
7. Tangible assets in progress	017	62.249.818	33.538.840
8. Other tangible assets	018	466.394	466.985
9. Investments in real estates	019		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	020	24.220.525	24.220.525
1. Investments (shares) in related companies	021	24.212.988	24.212.988
2. Loans given to related companies	022		
3. Participating interest (shares)	023	7.537	7.537
4. Loans given to companies with participating interest	024		
5. Investment in securities	025		
6. Loans given, deposits and similar assets	026		
7. Other long-term financial assets	027		
8. Investments accounted for using the equity method	028		
IV. TRADE RECEIVABLES (030 do 032)	029	0	147.582
1. Receivables from related companies	030		
2. Receivables for sales on loan	031		
3. Other receivables	032		147.582
V. DIFERRED TAX ASSETS	033		
C) SHORT-TERM ASSETS (035+043+050+058)	034	596.093.720	532.230.428
I. INVENTORIES (036 do 042)	035	483.777.443	397.600.114
1. Raw and other material	036	201.680.135	201.325.786
2. Work in progress	037	23.265.819	20.229.445
3. Finished products	038	257.109.820	164.942.675
4. Merchandise inventory	039	1.121.455	518.884
5. Advances for inventories	040	600.214	10.583.324
6. Long-term assets intended for sale	041		
7. Biological assets	042		
II. TRADE RECEIVABLES (044 do 049)	043	77.349.481	78.665.036
1. Receivables from related companies	044	1.501.814	1.190.352
2. Receivables from customers (buyers)	045	10.259.372	16.556.415
3. Receivables from participating interest	046		
4. Receivables from employees and members	047	18.795	6.931
5. Receivables from state and other institutions	048	63.071.957	35.436.528
6. Other receivables	049	2.497.543	25.474.810
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	27.560.525	33.632.160
1. Investments (shares) in related companies	051		
2. Loans given to related companies	052		
3. Participating interest (shares)	053	26.546.147	32.620.660
4. Loans given to companies with participating interest	054		
5. Investment in securities	055		
6. Loans given, deposits and similar assets	056	1.014.378	1.011.500
7. Other financial assets	057		
IV. CASH IN BANK AND ON HAND	058	7.406.271	22.333.118
D) PREPAID EXPENSES AND ACCRUED INCOME	059		41.229
E) TOTAL ASSETS (001+002+034+059)	060	1.248.220.717	1.234.053.689
F) OFF BALANCE SHEET ITEMS	061	1.175.630.879	1.335.568.822

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	134.138.298	46.827.900
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	-159.284.780	-251.797.101
1. Retained earning	073		
2. Loss carried forward	074	159.284.780	251.797.101
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	075	-92.512.322	-87.310.399
1. Profit for the year	076		
2. Loss for the year	077	92.512.322	87.310.399
VII. MINORITY INTEREST	078		
B) PROVISIONS (080 do 082)	079	10.675.465	12.000.758
1. Provisions for pensions, severance pay and similar liabilities	080	9.870.883	11.316.033
2. Provisions for tax liabilities	081		
3. Other provisions	082	804.582	684.725
C) LONG-TERM LIABILITIES (084 do 092)	083	129.259.259	365.042.685
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	33.425.926	269.209.352
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	914.975.693	740.933.779
1. Liabilities to related companies	094	17.722.984	13.783.657
2. Liabilities for loans, deposits and similar	095	142.583.026	225.163.666
3. Liabilities to banks and other financial institutions	096	91.296.296	51.925.926
4. Liabilities for advances	097	126.005.590	136.962.093
5. Liabilities to suppliers	098	511.627.525	287.685.453
6. Liabilities for securities	099		
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	10.764.135	10.757.706
9. Liabilities for taxes, contributions and other payments	102	12.174.427	7.658.852
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	2.801.710	6.996.426
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	59.172.002	69.248.567
F) TOTAL LIABILITIES (062+079+083+093+106)	107	1.248.220.717	1.234.053.689
G) OFF BALANCE SHEET ITEMS	108	1.175.630.879	1.335.568.822
APPENDIX TO BALANCE SHEET (to be completed by companies that prepare consolidated financial statements)			
A) CAPITAL AND RESERVES			
1. Credited to parent company capital owners	109		
2. Credited to minority interest	110		

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

PROFIT AND LOSS ACCOUNT

for the period 01.01.2016. to 31.12.2016.

Issuer: PETROKEMIJA, d.d.					
Position	AOP code	Previous year		Current year	
		Cumulative	Quarterly	Cumulative	Quarterly
1	2	3	4	5	6
I. OPERATING REVENUES (112+113)	111	2.551.763.210	647.578.860	1.925.227.744	493.431.472
1. Sales revenues	112	2.508.752.889	634.637.731	1.845.624.359	474.551.616
2. Other operating revenues	113	43.010.321	12.941.129	79.603.385	18.879.856
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	2.592.117.309	674.476.539	1.973.822.557	532.344.964
1. Changes in value of work in progress and finished products	115	-31.677.120	-16.704.161	94.926.654	-21.112.803
2. Material costs (117 do 119)	116	2.248.564.257	563.280.273	1.520.912.450	441.240.580
a) Cost of raw and production materials	117	2.155.441.423	533.834.759	1.439.247.783	421.118.008
b) Cost of goods sold	118	5.630.116	3.158.548	2.679.440	328.418
c) Other external costs	119	87.492.718	26.286.966	78.985.227	19.794.154
3. Employees costs (121 do 123)	120	185.151.389	47.215.183	185.984.975	46.493.135
a) Net salaries and wages	121	116.045.959	29.562.070	116.164.109	29.239.275
b) Costs for taxes and contributions from salaries	122	42.032.113	10.750.221	42.627.073	10.455.603
c) Contributions on salaries	123	27.073.317	6.902.892	27.193.793	6.798.257
4. Depreciation	124	92.243.845	22.267.430	82.244.182	21.316.349
5. Other costs	125	85.795.988	47.166.655	65.869.592	23.061.138
6. Value adjustments (127+128)	126	4.051.166	3.263.375	10.044.337	7.506.198
a) of long-term assets (except for financial assets)	127	34.767	1.669	7.509.700	4.979.352
b) of short-term assets (except for financial assets)	128	4.016.399	3.261.706	2.534.637	2.526.846
7. Provisions	129	7.987.784	7.987.784	13.840.367	13.840.367
8. Other operating expenses	130				
III. FINANCIAL REVENUES (132 do 136)	131	17.765.030	1.856.741	6.851.894	505.331
1. Interest, exchange rate fluctuations, dividends and similar from associated companies	132	2.261.556	13.495	47.496	9.997
2. Interest, exchange rate fluctuations, dividends and similar from non-associated companies and others	133	15.503.474	1.843.246	6.804.398	495.334
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	69.923.253	15.656.647	45.567.480	19.198.338
1. Interest, exchange rate fluctuations and other costs with associated companies	138	543.878	123.762	508.944	127.284
2. Interest, exchange rate fluctuations and other costs with non-associated companies	139	69.379.375	15.532.885	45.058.536	19.071.054
3. Unrealised losses (costs) from financial assets	140				
4. Other financial expenses	141				
V. PORTION IN PROFIT OF ASSOCIATED COMPANIES	142				
VI. PORTION IN LOSS OF ASSOCIATED COMPANIES	143				
VII. EXTRAORDINARY - OTHER REVENUES	144				
VIII. EXTRAORDINARY - OTHER EXPENSES	145				
IX. TOTAL REVENUES (111+131+142 + 144)	146	2.569.528.240	649.435.601	1.932.079.638	493.936.803
X. TOTAL EXPENSES (114+137+143 + 145)	147	2.662.040.562	690.133.186	2.019.390.037	551.543.302
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	-92.512.322	-40.697.585	-87.310.399	-57.606.499
1. Profit before taxation (146-147)	149	0	0	0	0
2. Loss before taxation (147-146)	150	92.512.322	40.697.585	87.310.399	57.606.499
XII. PROFIT TAX	151				
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	-92.512.322	-40.697.585	-87.310.399	-57.606.499
1. Profit for the period (149-151)	153	0	0	0	0
2. Loss for the period (151-148)	154	92.512.322	40.697.585	87.310.399	57.606.499

APPENDIX TO PLA (to be completed by companies that prepare consolidated financial statements)					
XIV. PROFIT OR LOSS FOR THE PERIOD					
1. Credited to parent company capital owners	155				
2. Credited to minority interest	156				
STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)					
I. PROFIT OR LOSS OF THE PERIOD (= 152)	157	-92.512.322	-40.697.585	-87.310.399	-57.606.499
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	-92.512.322	-40.697.585	-87.310.399	-57.606.499
APPENDIX TO STATEMENT OF COMPREHENSIVE INCOME (to be completed by companies that prepare consolidated financial statements)					
VI. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD					
1. Credited to parent company capital owners	169				
2. Credited to minority interest	170				

CASH FLOW STATEMENT - Direct method

for the period 01.01.2016. to 31.12.2016.

Issuer: PETROKEMIJA, d.d.			
Position	AOP code	Previous year	Current year
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Cash increase from buyers	001	2.891.419.545	1.995.150.376
2. Cash increase from royalties, fees commissions and other	002		
3. Cash increase from insurance compensations	003	4.883.096	6.914.953
4. Cash increase from tax return	004	355.990.344	220.528.428
5. Other cash increase	005	5.385.070	770.643
I. Total increase of cash flow from operating activities (001 do 005)	006	3.257.678.055	2.223.364.400
1. Expenses to suppliers	007	2.283.601.501	2.069.461.529
2. Expenses for employees	008	200.819.886	202.096.547
3. Expenses for insurance compensations	009	15.513.575	12.211.710
4. Expenses for interest	010	35.991.962	46.054.098
5. Expenses for taxes	011	117.861.148	45.857.144
6. Other cash decrease	012	6.728.627	7.138.931
II. Total decrease in cash flow from operating activities (007 do 012)	013	2.660.516.699	2.382.819.959
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)	014	597.161.356	0
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)	015	0	159.455.559
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proceeds from sale of non-current tangible and intangible assets	016	28.750	1.728.206
2. Cash proceeds from sale of equity and debt security instruments	017		
3. Cash proceeds from interest payment*	018		
4. Cash proceeds of dividend payment*	019	4.649.343	
5. Other cash proceeds from investing activities	020		
III. Total cash inflow from investing activities (016 do 020)	021	4.678.093	1.728.206
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	37.724.470	106.342.374
2. Cash outflow for acquisition of equity and debt financial instruments	023		
3. Other cash outflows from investing activities	024	20.000	
IV. Total cash outflow from investing activities (022 do 024)	025	37.744.470	106.342.374
B1) NET CASH FLOW FROM INVESTING ACTIVITIES (021-025)	026	0	0
B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)	027	33.066.377	104.614.168
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	8.200.000	536.934.785
3. Other inflows from financial activities	030	109.749.532	
V. Total cash inflow from financial activities (028 do 030)	031	117.949.532	536.934.785
1. Cash outflows for repayment of loan principal and bonds	032	452.257.112	257.941.089
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	229.514.082	
VI. Total cash outflow for financial activities (032 do 036)	037	681.771.194	257.941.089
C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)	038	0	278.993.696
C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)	039	563.821.662	0
Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)	040	273.317	14.923.969
Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)	041	0	0
Cash and cash equivalents at the beginning of the period	042	8.147.332	8.420.649
Increase of cash and cash equivalents	043	273.317	14.923.969
Decrease of cash and cash equivalents	044	0	
Cash and cash equivalents at the end of the period	045	8.420.649	23.344.618

*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 31.12.2016

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	-159.284.780	-251.797.101
5. Profit or loss for the year	005	-92.512.322	-87.310.399
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		
10. Total capital and reserves (AOP 001 do 009)	010	134.138.298	46.827.900
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		
17 b. Credited to minority interest	019		

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, Plc.

1. Financial result for January – December 2016

In the January – December 2016 period, Petrokemija, Plc. had total revenues of HRK 1932.1 million, total expense of HRK 2,019.4 million and reported a loss in operations of HRK 87.3 million, or 4.5% of total revenues. In the previous year, the Company sustained losses of HRK 92.5 million, which shows a positive development in the financial result of 5.6% or HRK 5.2 million.

The EBITDA (earnings before interest, taxes, depreciation and amortization) was positive amounting to HRK 33.7 million. The total revenues for year 2016 were down by 24.8% on 2015, while total expenditures were down by 24.1%. These figures indicate a lower scope of operations due to smaller sales volumes of fertilizers (-5.8%) and lower sales and purchasing prices (5 – 30%). However, 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 for the most part of the year, which can also be observed in other fertilizer manufacturers

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. Domestic sales volumes were nearly the same as in 2015 and even 6% higher than in 2014, but still at a low level. This was the result of the customers' liquidity problems (Petrokemija has no sources for funding deferred payments, and banks refused to support the spring sowing), delay in payment of Government incentives on the domestic market and the increasingly present 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 partly 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, low price of cereals and other products resulted in the reduction of land sown with these crops, and consequently lower use of mineral fertilizers per hectare, so even the largest buyers were reducing purchase of fertilizers.

2. Structure of financial result

To be observed in the financial result structure for January – December 2016 is HRK 48.6 million operating loss, which was increased by HRK 38.7 million losses generated from financial operations, resulting in a total loss of HRK 87.3 million. The loss from financial operations is the consequence of unfavorable financing structure, i.e. high debt to natural gas suppliers. However, it is by 34.8% lower than last year due to a lower negative impact of exchange rate difference but also to the successful reschedule of short-term debt to gas suppliers and financial institutions at more favourable interest.

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 fact that with the 5.8% lower fertilizer sales volumes, the achieved operating income was 24.6% lower.

The actual domestic sales were approximately at the same level as previous year (index 100.6), but it is considered still not satisfactory 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. Standstill of production during the capital overhaul works (45 calendar days), as well as the threatening blockage of natural gas deliveries and the suspension of production in July and August, led to a decline in sales of fertilizers in the third quarter. Furthermore, the volumes of mineral fertilizers under pledge had to be continuously kept in stock, so that even the volumes of finished products for which there was an interest in the market were not sold. The sales in Croatia and the immediate region in the second quarter of last year continued to be under pressure from the generally poor state of agriculture and increased competition from other fertilizer suppliers. Higher domestic sales could not be achieved also because of the financial inability of Petrokemija, Plc. to enable domestic customers sales of 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 were the decline in volumes and pressure to reduce prices of mineral fertilizers in the last quarter of 2016 due to the exceptionally high pressure of lower (even up to 20%) prices of competitor fertilizer manufacturers from the region (Hungary, Bosnia and Herzegovina, Serbia and Italy) and significant increase of natural gas price in the open market in the fourth quarter of 2016. The actual export sales volumes were 7.9% lower, mainly for market reasons. The trend of price movements and that of supply and demand in the global market of fertilizers did not significantly change compared to 2015, except for an even more pronounced decline in the price of Urea. The fall of Urea price had significant influence on the fall in price of another major nitrogen fertilizer, CAN, which in previous years had been 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 27% in 2016. This calls for caution in predicting the financial results for 2017. Furthermore, as a consequence of the fall of Urea price, the price of CAN also fell by 17 – 38% in 2016 as compared to 2015, depending on the consumption season. This is a significant deviation, compared to the previous years when CAN price retained profit over Urea, with regard to the unit nutrient content.

4. Expenses

The actual operating expenses were by 23.9% lower compared to the previous year, as a result of 5.8% lower sales and lower purchasing prices of raw materials. The prices of major raw materials for the production of fertilizers in the world market were lower (5 – 30%). The lowest fall was in the price of phosphates and the highest in that of natural gas, with significant rise in price of natural gas in the last quarter. Accordingly, the most significant progress in direct costs was achieved in lowering the price of natural gas (expressed in USD and HRK). Overhead costs were mainly at the level of 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 2016 was by 33.8% lower, denominated in USD, and by 34.7% lower in HRK than in 2015. This percent would have been even higher if the price of natural gas did not significantly rise in the last quarter (the average price in the last quarter was by 9.8% higher than the nine-month average).

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 (escalation formula based on the natural gas market TTF and VTP).

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, the Company 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 restructuring and financial consolidation of the Company. However, the growth rates of natural gas on the European spot market, particularly in the last quarter 2016, again actualize the imbalance between the purchase price of natural gas and prices of nitrogen fertilizers in the global market.

A part of the positive effect achieved by reducing the purchase price of gas was reduced by the increase in natural gas transportation costs in Croatia in the gas year 2015/2016 and 2016/2017. The negative impact of this cost increase on the operating results of the Company in 2016 is estimated to be about HRK 25 million a year. In 2016, the negative impact was HRK 22 million because of lower volumes of purchased natural gas (overhaul in July and August). The transportation cost per standard cubic meter of natural gas increased by 21.3% compared to the year 2015, due to new legal regulations imposed by HERA.

6. Production and capacity utilization

In 2016, Petrokemija achieved 11.7% lower production as compared to the previous year, partly as a result of the production standstill in the July and August overhaul (45 calendar days) days. In the production breakdown, there were changes as follows: 12.1% lower output of Urea, 1.4% higher output of CAN and 30.9% lower output of NPK fertilizers for market reasons. The Company's utilization of production capacities in 2016 was 86.4%, mainly due to the planned shutdown of facilities in July and August 2016 and lower output of NPK fertilizers, i.e. adjustments to market conditions and limitations.

Due to market reasons, facilities for production of phosphoric acid and carbon black have been stalled since mid-2009. This issue has been carried over into first quarter of 2017, 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 provided the basis for the production of ammonium sulfate (PETROKEMIJaS) and ammonium sulfonitrate (ASN), as which has led to widening of product range, revitalization of NPK 2 Plant and further increase of granular fertilizer production. The crisis caused by the misbalance of in - and output prices on the carbon black market is still ongoing. Various options and solutions are being considered both for the carbon black and phosphoric acid, including the calculations for the possible dismantling of facilities and site recovery.

7. Environmental protection

On 10 July 2015, following the request by the Croatian Petrokemija, Plc. Fertilizer Company, the

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 Croatian Ministry of Environment and Nature Protection. 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 this year Petrokemija is 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 further finance significant financial operations from the current short-term sources. Thus, after an extensive facilities overhaul, carried out in July and August this year and the completion of the high-pressure gas pipeline investment project in order to reduce energy consumption (partly financed by a loan from CBRD), the pace of future investments in 2017 will depend on available resources – capital increase or long-term bank loans. The value of the investments realized in 2016 was HRK 148.2 million – an increase of HRK 94.9 million compared to 2015. The investment includes the environmental capital investment for reducing the pollution of wastewater at Urea Plant in accordance with the Decision on Integrated Environmental Protection Requirements.

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 was manifested in the change of structure of the short-term liabilities (increase of debt to gas suppliers). Very unfavorable situation of threatened liquidity and solvency of the Company was alleviated by the HRK 200 million long-term loan from CBRD, with a 100% guarantee of the Croatian Government. It was used to settle a portion of the outstanding debt to suppliers of natural gas and a part of other liabilities in accordance with the Decision of the Croatian Government. The method of financing through commercial papers was not 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 31 December 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, Plc. 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 was not realized until 31.12.2016. At the time of preparation of these financial reports, the Company Board has no precise knowledge of the intentions of the majority owner and potential investors.

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.

knowledge of further intentions of the majority owner or potential investors.

In order to mitigate the imbalance in the balance of funding and maintain business continuity, in August 2016, the Company obtained a HRK 200 million long-term loan from CBRD, with a 100% guarantee of the Croatian Government, which provided for a part of the long-term funding of working capital and continuation of business restructuring activities.

Upon the Decision of the Croatian Government, the Company Management Board initiated the preparation of a Restructuring Program that is to be submitted to the competent authorities (Ministry of Economy, Ministry of Finance and CERP), so they would be able to carry out a possible procedure of pre-notification or notification before the EU Commission (DG Competition). For the preparation of the above Restructuring Program, Petrokemija has chosen consultants, KPMG d.o.o. Zagreb.

A further course of relations with potential financial and / or strategic partners, banks and major suppliers will depend on the measures laid down in the Company Restructuring Program and 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 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. Natural gas price trends;
2. Changes in price of basic raw materials in world market (MAP, DAP, phosphate, potassium chloride, sulfur);
3. Changes in demand and sales prices of fertilizers;
4. Price trends 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 that took place 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. For the purpose of the CBRD's loan, this Program was updated again and the time horizon was extended to 2026. The most important problem of the current operating business – growing debt to suppliers of natural gas – is mitigated at least in part by the long-term loan from CBRD of HRK 200 million, which secured a part of long-term sources of financing of working capital and continuation of the business restructuring activities.

The exposure of Petrokemija, Plc. to developments in the global market, opens up significant potential risks in terms of price and financial fluctuations in 2017. 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 -278 million, whereas on 31.12.2015 it was HRK -377 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. The actual market and financial

reduced a part of the risk transferred from the previous period. The actual market and financial results for 2015 and 2016, as well as the rating of market position at the time of these financial statements, particularly in terms of uncertain domestic sales, threatened liquidity and solvency of the Company, suggest caution in predicting future trends in business in 2017, with the possibility of occasional downtime of some production facilities and changes in the organization of the Company and the Petrokemija Group. The growth of natural gas price on the European spot market in the fourth quarter actualizes the imbalance between the purchase price of natural gas and price of nitrogen fertilizers in the global market. If this trend continues, it may have a negative impact on the operating result in 2017.

The decisions of the majority owner on the model of future support and their attitude 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 – 2026 period.