

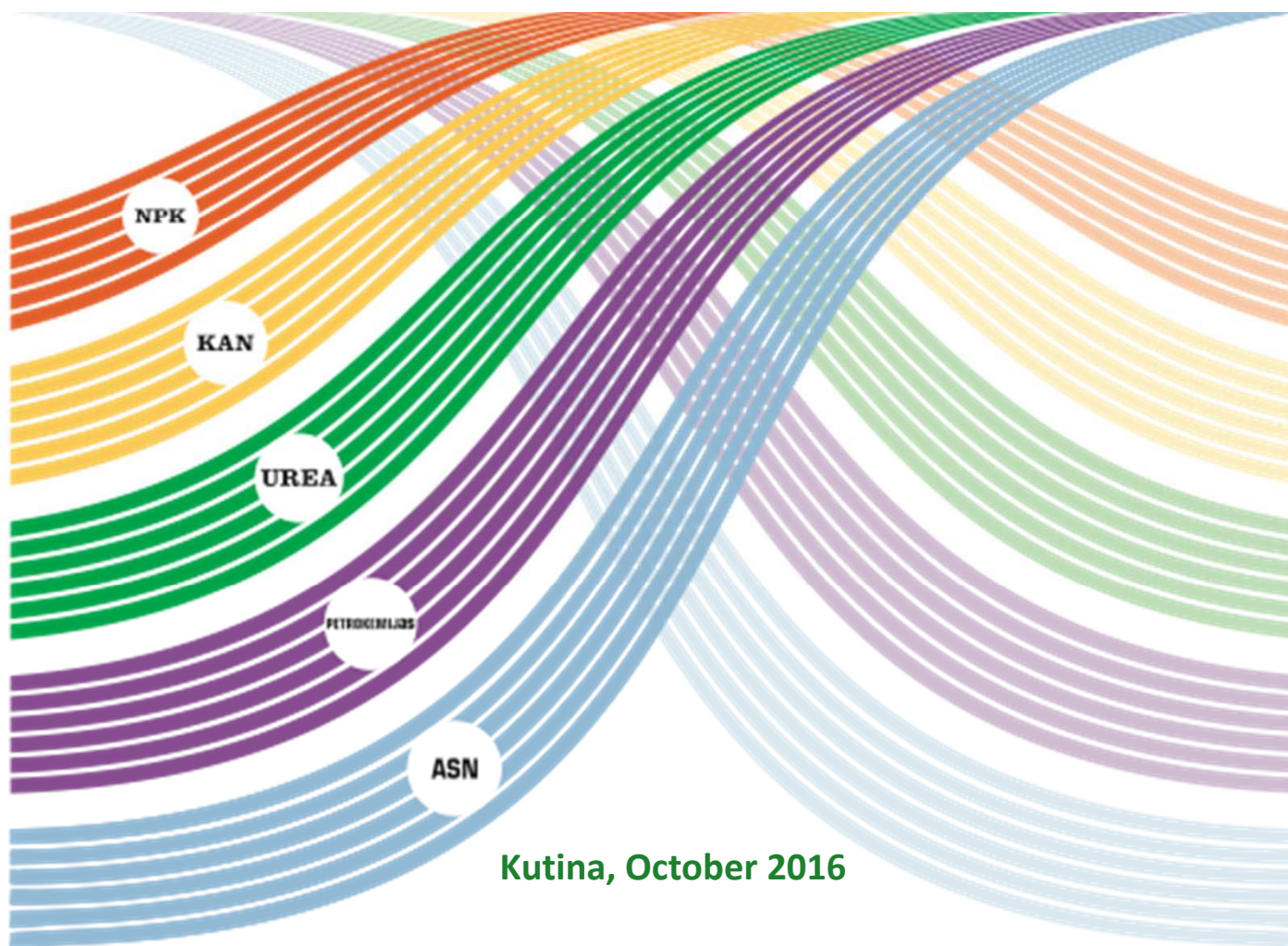
UNAUDITED  
UNCONSOLIDATED



# QUARTERLY REPORT

## PETROKEMIJA, Plc. KUTINA

REPORT FOR PERIOD January to September 2016  
INTERIM REPORT FOR PERIOD July to September 2016



## Key indicators for Petrokemija, Plc. for January – September 2016

- ❑ Earnings before interest, taxes, depreciation and amortization (EBITDA) – HRK 51.2 million,
- ❑ Loss in business operations – HRK 9.7 million, loss in financial operations – HRK 20.0 million, total loss – HRK 29.7 million (same period 2015 - loss HRK 51.8 million),
- ❑ Actual total revenues of Petrokemija, Plc. – HRK 1,438.1 million, 25.1% down on the same period of 2015,
- ❑ Actual production of fertilizers – 745 thousand tons, 16.1% less than in the same period of 2015,
- ❑ Compared to the same period of 2015, production of NPK fertilizers decreased by 36.3%, production of Urea decreased by 17.4%, whereas the production of CAN was 2.3% higher,
- ❑ Yield of currently installed plant capacities – up to 82.7% (taking into account one month of overhaul in July),
- ❑ Actual sales of fertilizers – 763 thousand tons, down 10.5% compared to the same period last year,
- ❑ Share of fertilizer sales in the domestic market – 24 %,
- ❑ Domestic sales – 183 thousand tons, exports – 580 thousand tons of fertilizers,
- ❑ Capital and reserves on 30.09.2016 for Petrokemija, Plc. – HRK 104 million,
- ❑ Invested in Petrokemija, Plc. – HRK 137.6 million,
- ❑ Employed on 30.09.2016: Petrokemija, Plc. – 1,597; Petrokemija Group – 1,736.

# Management Board Report for January – September 2016

- ❑ In January – September 2016, Petrokemija Plc. had total income of HRK 1,438.1 million and total expense of HRK 1,467.8 million. The Company reported loss of HRK 29.7 million or 2.1% of the total revenues.
- ❑ After high growth of USD in 2015, during the reporting period there were no significant deviations, rise or fall of the USD and EUR compared to the same period of the previous year or to the planned values. Exchange rate of USD was **1.0%** lower than in the same period last year. In procurement, the share of natural gas volumes purchased at prices set in USD fell, which resulted in a tendency to reduce dependence on the USD exchange rate, as an individually most significant financial risk in the operations of Petrokemija, Plc. in the previous period.
- ❑ In the structure of income, domestic sales amounted to 28.3% or HRK 407.4 million, 28.8% lower when compared to the same period 2015, while export accounted for 67.0% or HRK 963.7 million, 26.0% lower than in the same period 2015.
- ❑ Lower sales volumes by 10.5% and lower average sales by 18.8% compared to the same period of 2015;
- ❑ In assortment, compared to 2015, higher sales in 2016 of CAN by 5.7%, lower realization of NPK fertilizer sales by 32.4% (market reasons, the imbalance of phosphorus and potassium prices in relation to the NPK fertilizers) and Urea by 5.6%,
- ❑ Domestic sales 21.2% lower than in the same period of 2015;
- ❑ Export sales 6.5% lower than in the same period 2015;
- ❑ Sales of clay-based products and liquid fertilizers 16.2% higher than in the same period 2015;
- ❑ Fall of fertilizer price in the world market was transferred to a significant extent to the EU and the region, which resulted in increased imports of cheaper fertilizers.

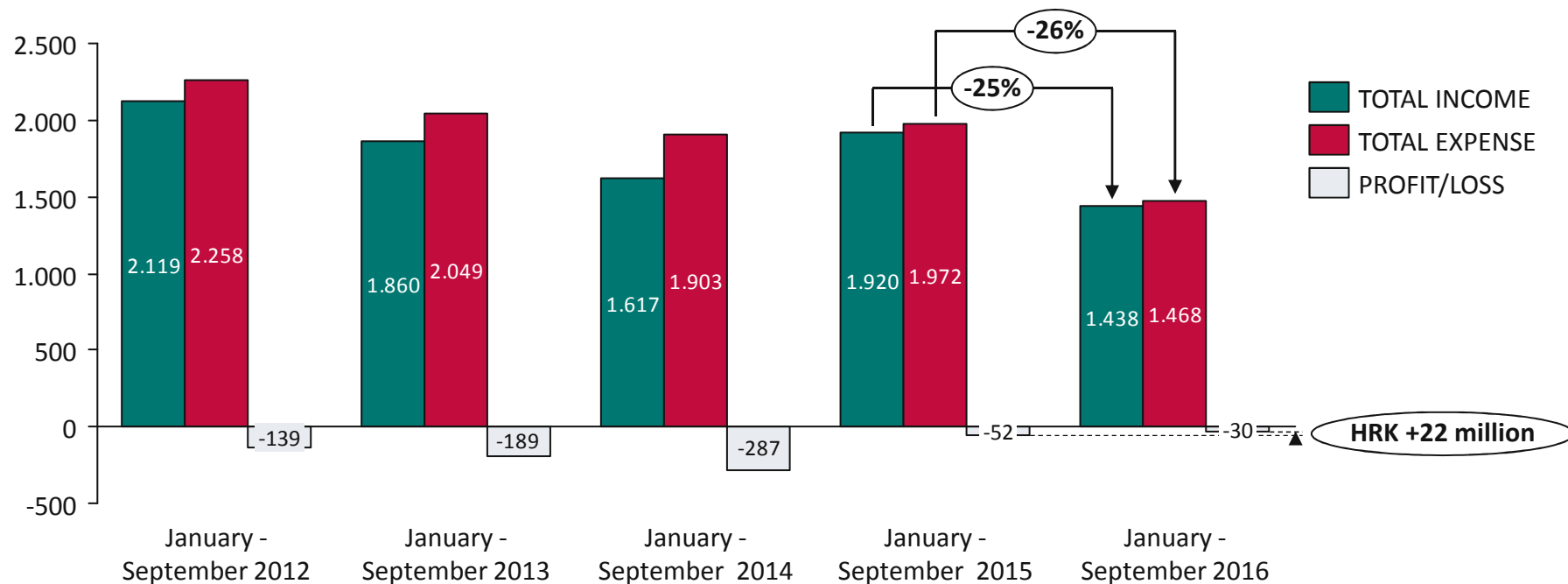
# Management Board Report for January – September 2016

- ❑ Lower domestic sales were caused by the customers' liquidity problems (Petrokemija, Plc. has no sources of funding deferred payments, because banks refuse to support the spring sowing), delay in payment of state incentives to domestic market and the principle of buying last minute before application with direct manipulation in the field (partly due to the delay of the spring sowing season and application of fertilizers, because of rain and low temperatures);
- ❑ Announcements of exceptionally low price of cereals and other products have resulted in the reduction of land sown with these crops, and consequently the use of mineral fertilizers per hectare, so even the largest buyers are reducing purchase of fertilizers;
- ❑ Liquidity indicators are below recommended values (negative working capital of HRK 87 million; working capital on 31.12.2015 HRK - 377 million);
- ❑ Short-term assets decreased by 25.2% compared to end 2015, and short-term liabilities decreased by 48.2% (the effect of HBOR loan and debt rescheduling for natural gas);
- ❑ Indicators of financial stability as well as indicators of indebtedness and own funding are below recommended values;
- ❑ Average realized natural gas price (without transport costs) was 38.9% lower in HRK and 37.7% lower in USD than in the same period of 2015, while transport costs of natural gas were 31.8% higher;
- ❑ Total number of employees of Petrokemija, Plc. is 1,597, a reduction of 20 or 1.2% as compared to 31.12. 2015;
- ❑ Achieved level of investment was HRK 137.6 million, an increase of HRK 93.2 million as compared to the same period of 2015 - overhaul in July / August 2016 where all the necessary overhaul activities were performed, ensuring the operation of production facilities in the next two years and realization of investment High Pressure Natural Gas Pipeline (investment realized through loans from HBOR) and reducing of pollutants emissions in waste water of Urea Plant, in accordance with the obligation from the Integrated Environmental Protection Requirements.

# Profit and Loss in the period January – September 2012 – 2016

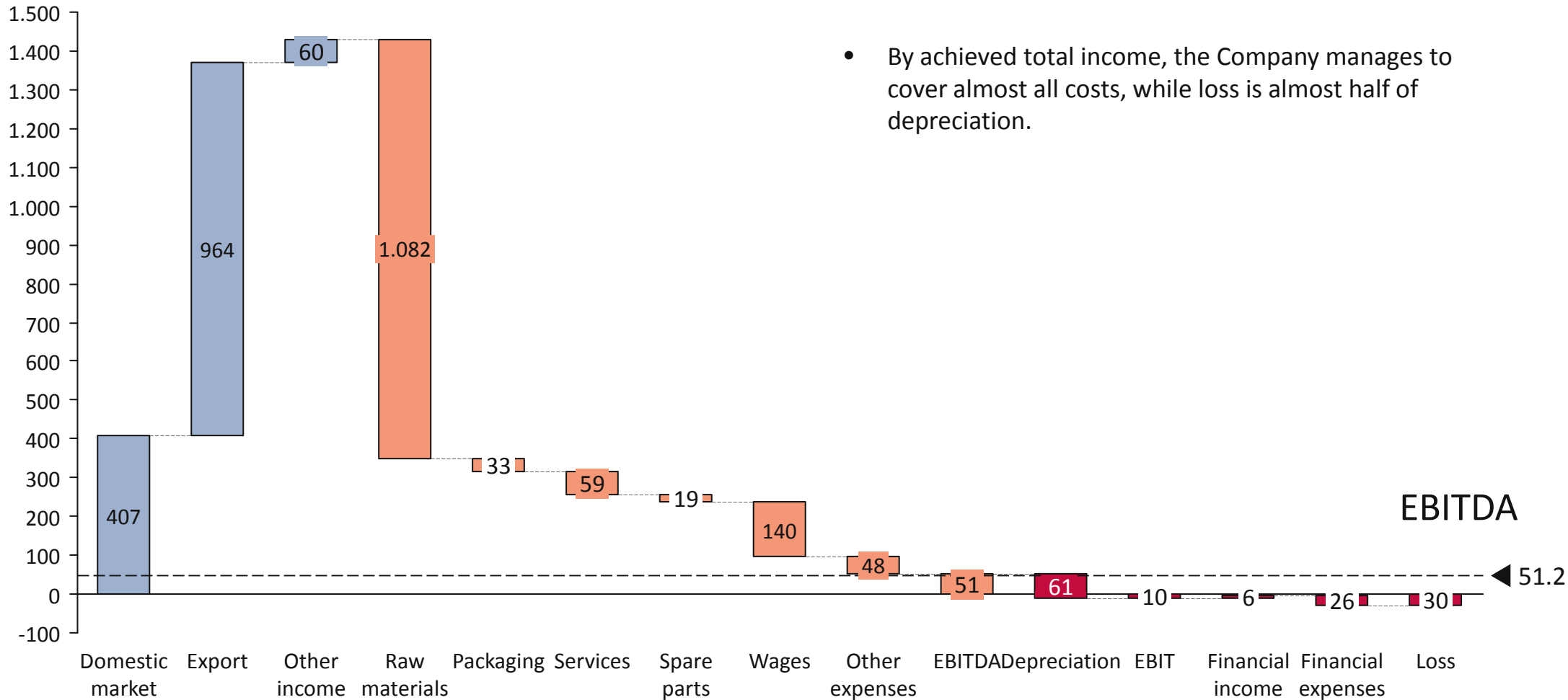
■ Total income	HRK 1,438.1 million,
■ Total expense	HRK 1,467.8 million,
■ Loss	HRK 29.7 million,
■ EBITDA	HRK 51.2 million.

HRK million



# Structure of Profit and Loss for January – September 2016

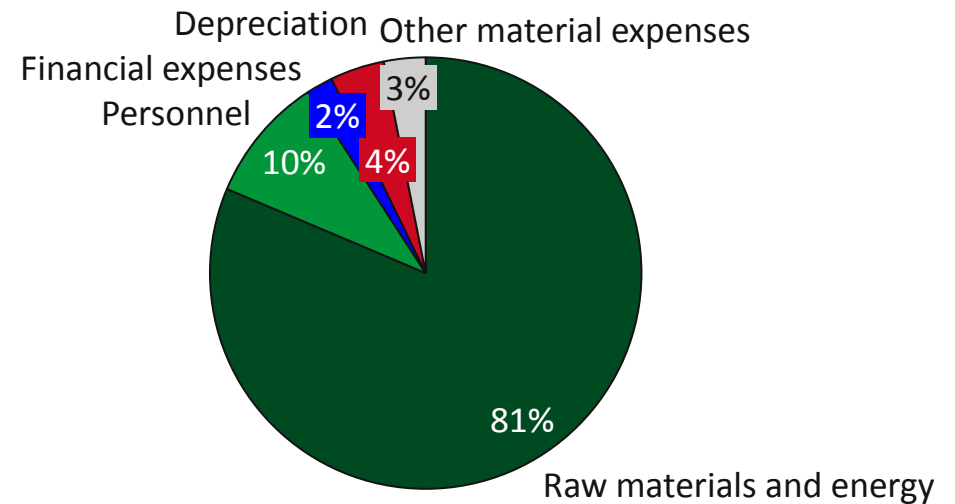
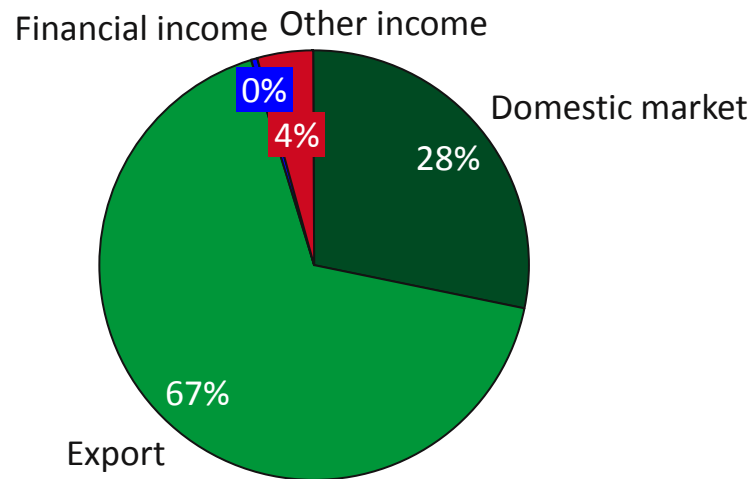
HRK million



- By achieved total income, the Company manages to cover almost all costs, while loss is almost half of depreciation.

## Structure of Profit and Loss for January – September 2016

- In January – September 2016 period, Petrokemija, Plc. earned 28% income from domestic market, 67% from export, and 5% from financial and other income.
- The total expense breakdown shows a dominant 81% for raw materials and energy, 10% for personnel costs, while all other costs make 9%.



# Key financial indicators for January – September 2016

(HRK 000)

	January – September 2016	January – September 2015	Difference	% change
Operating income	1.431.796	1.904.184	-472.388	-24,81%
Operating expense	1.441.478	1.917.641	-476.163	-24,83%
EBITDA *	51.246	56.519	-5.273	-9,33%
Amortization	60.928	69.976	-9.048	-12,93%
Net financial income /(expenses)	-20.022	-38.358	18.336	-47,80%
Net extraordinary income / (expenses)	0	0		
Profit / loss / before taxation	-29.704	-51.815	22.111	-42,67%
	<b>30 September 2016</b>	<b>31 December 2015</b>		
Fixed assets	713.196	652.127	61.069	9,36%
Current assets	446.031	596.094	-150.063	-25,17%
Capital and reserves	104.434	134.138	-29.704	-22,14%
Long-term liabilities + provisions	521.735	139.935	381.800	272,84%
Current liabilities + provisions	533.058	974.148	-441.090	-45,28%

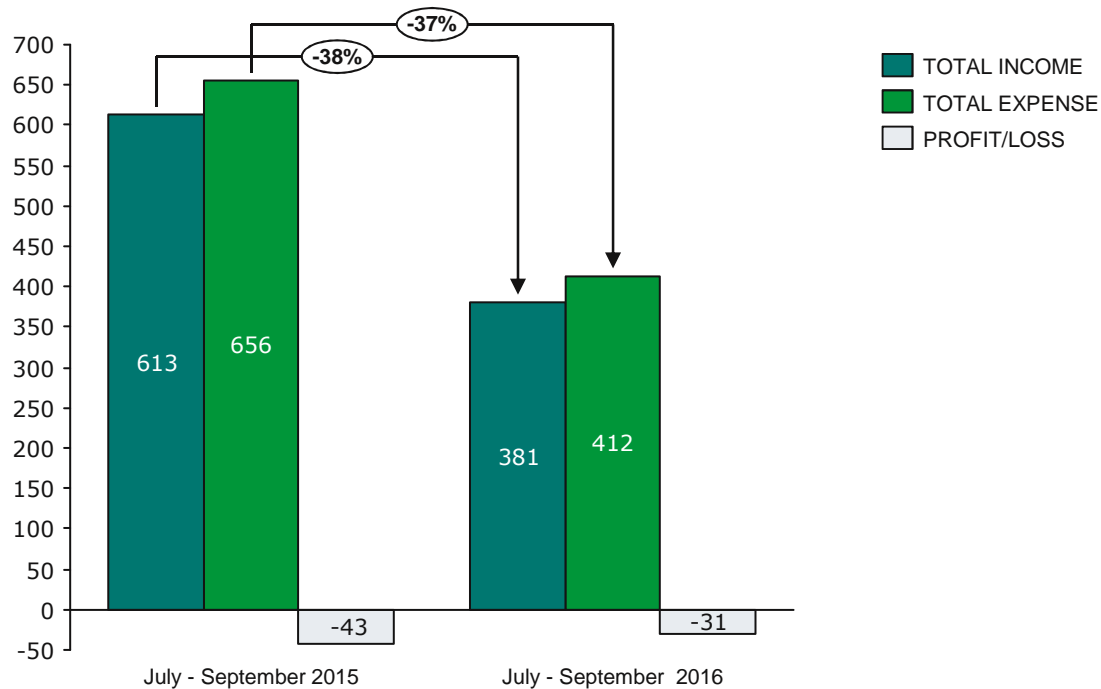
\* Earnings before interest, taxes, depreciation and amortization



## Operating results for July – September 2016

- ❑ In June to September 2016 period, Petrokemija, Plc. had actual total revenues of HRK 381.2 million, total expenses of HRK 412.1 million and reported operating loss of HRK 30.9 million.
- ❑ On a quarterly basis, total revenues decreased by 38% compared to the third quarter of 2015, while total expenses decreased by 37%.
- ❑ The loss in the third quarter of 2016 decreased by 11.5 million or 27% on the same period last year.

HRK million



## Key financial indicators for July – September 2016

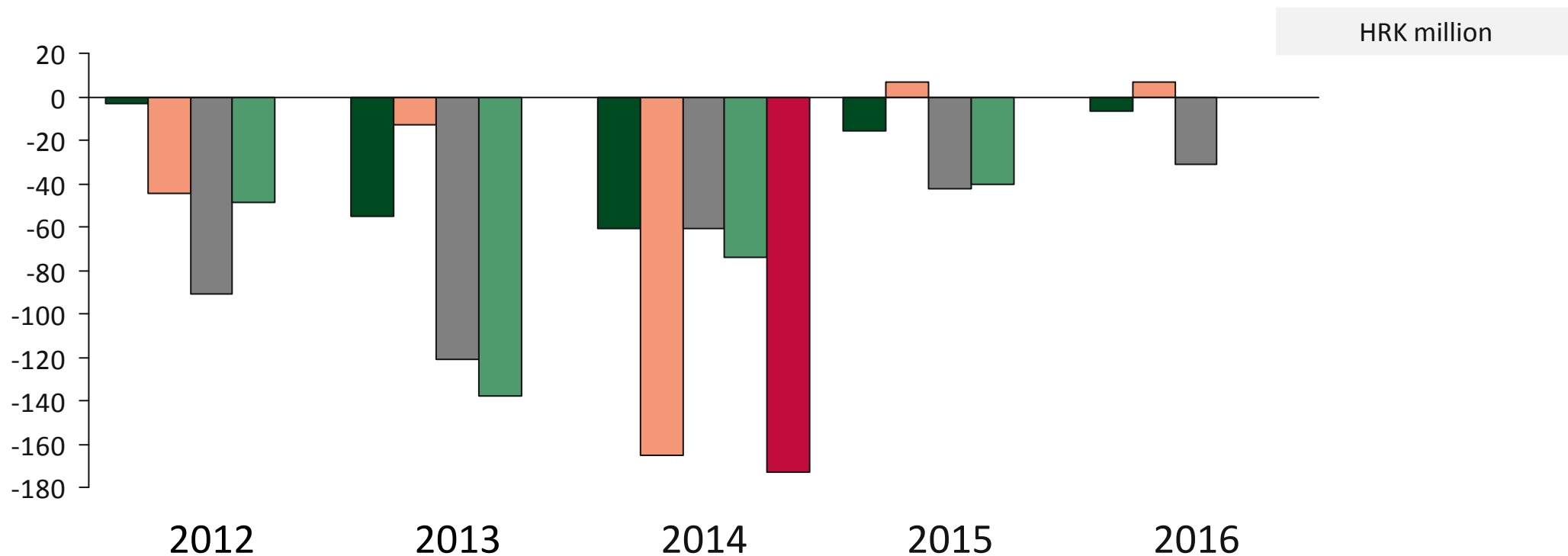
(HRK 000)

	January – June 2016	July – September 2016	January – September 2016
Operating income	1.051.039	380.757	1.431.796
Operating expense	1.034.340	407.138	1.441.478
EBITDA *	58.568	-7.322	51.246
Amortization	41.868	19.060	60.928
Net financial income / (expenses)	-15.459	-4.563	-20.022
Net extraordinary income / (expenses)	0	0	0
Profit / loss / before taxation	1.239	-30.943	-29.704

\*Earnings before interest, taxes, depreciation and amortization

- In the third quarter of 2016, a loss of HRK 30.9 million was realized because of the non season consumption of fertilizers and large overhaul conducted once in two years.
- The EBITDA amounted to HRK -7.3 million.

# Quarterly losses/profits for 2012 – 2016

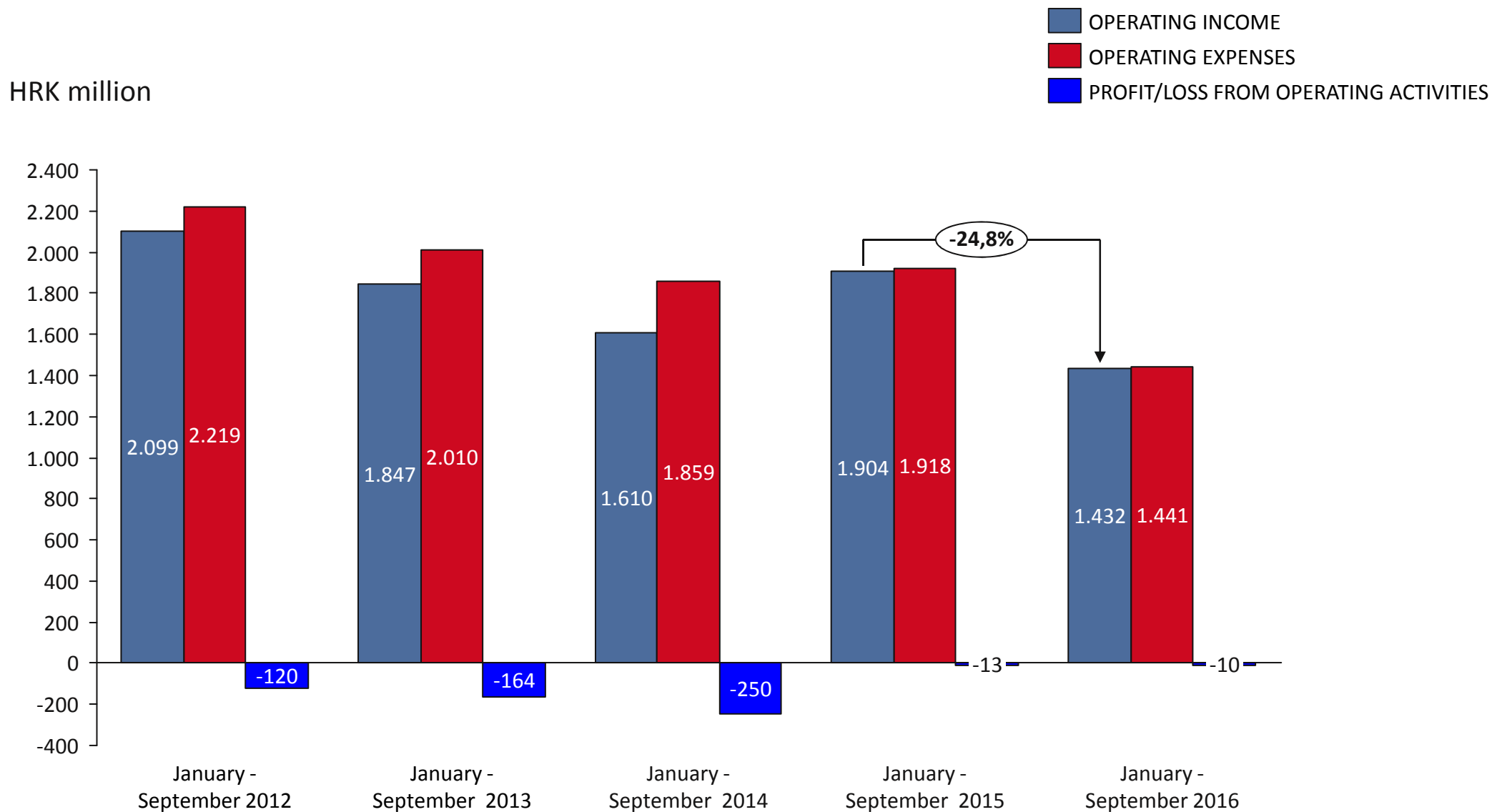


Note: ADJUSTED ACTUAL LOSS WITHOUT SEVERANCE COSTS TO EMPLOYEES:

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

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

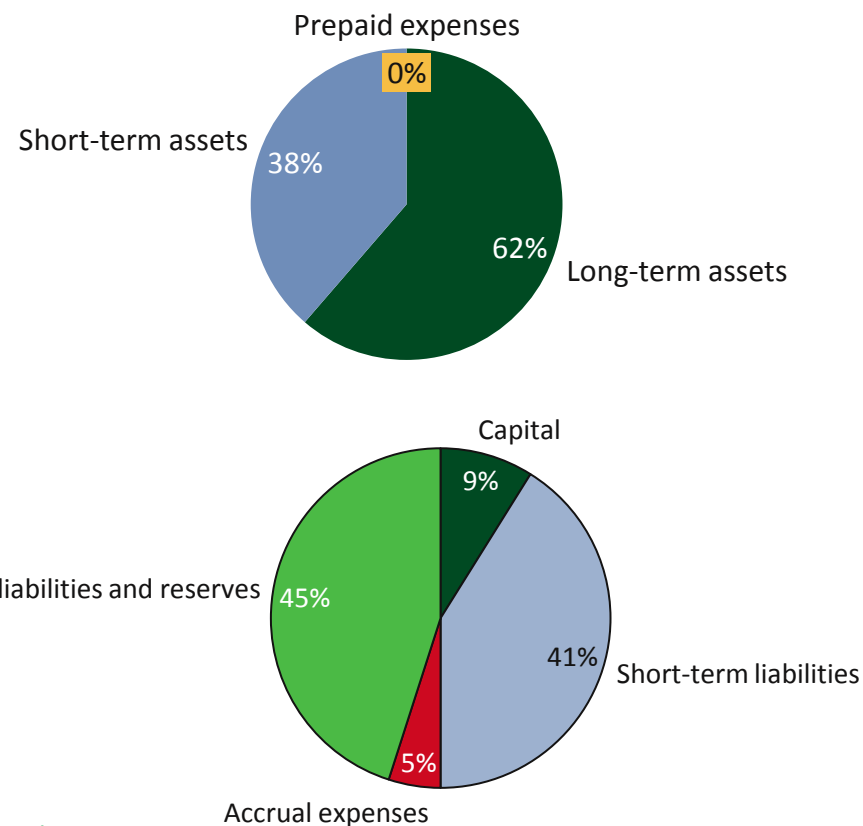
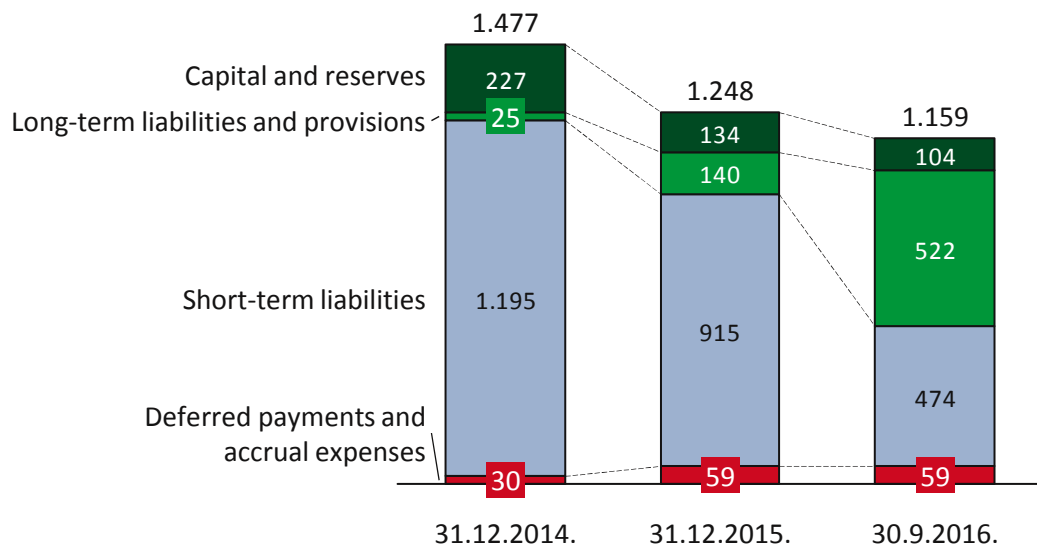
# Profit and Loss from operating activities for January to September 2012 – 2016



# Structure of assets and liabilities at 30 September 2016

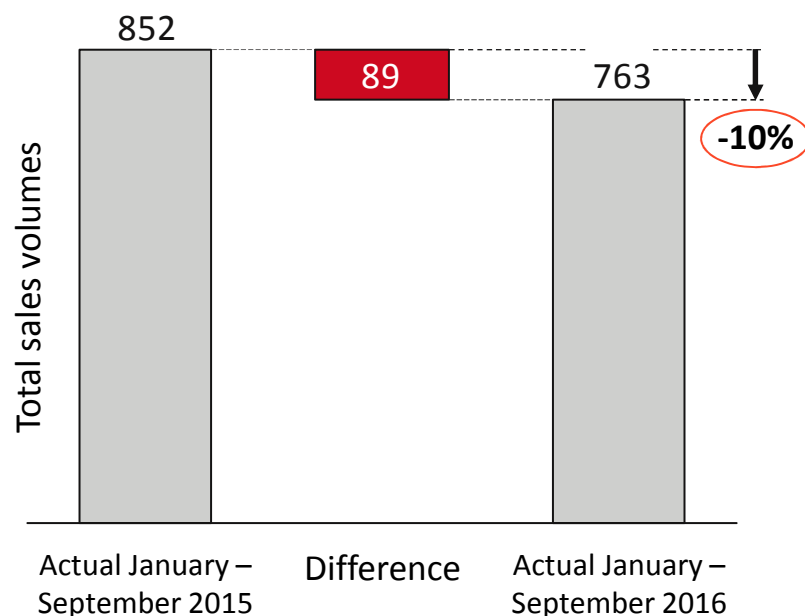
- At 30 September 2016, Petrokemija, Plc. had 38% in value of short-term and 62% in long-term assets.
- The level of capital reflects the capital reduction for losses reported in 2014 and 2015. As for the structure of debt, **in the third quarter** there was a change in the structure and approximate equalization of long-term and short-term sources, as a result of rescheduling debt for gas from the previous period and approval of long-term loan from HBOR of HRK 200 million.

HRK million

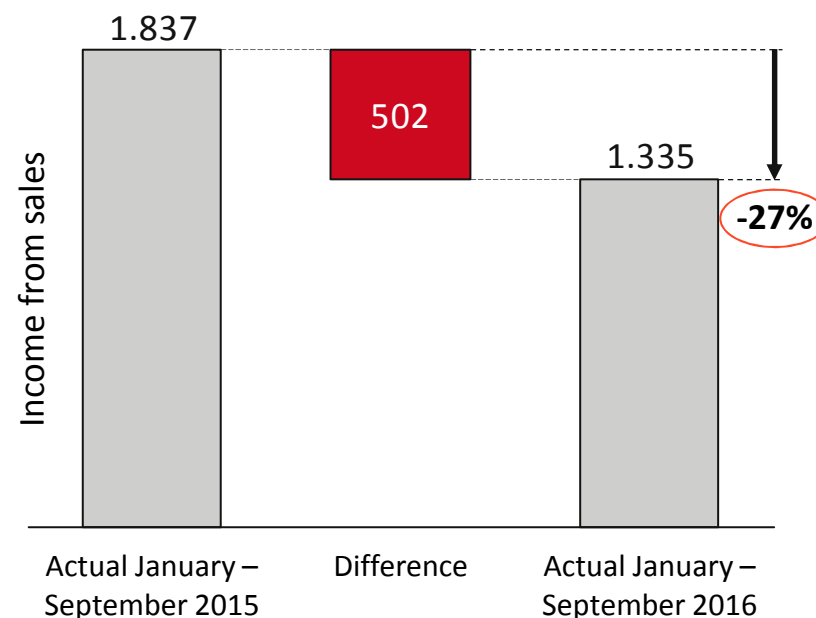


## Total fertilizer sales

### SALES VOLUMES (000 t) 2016 / 2015



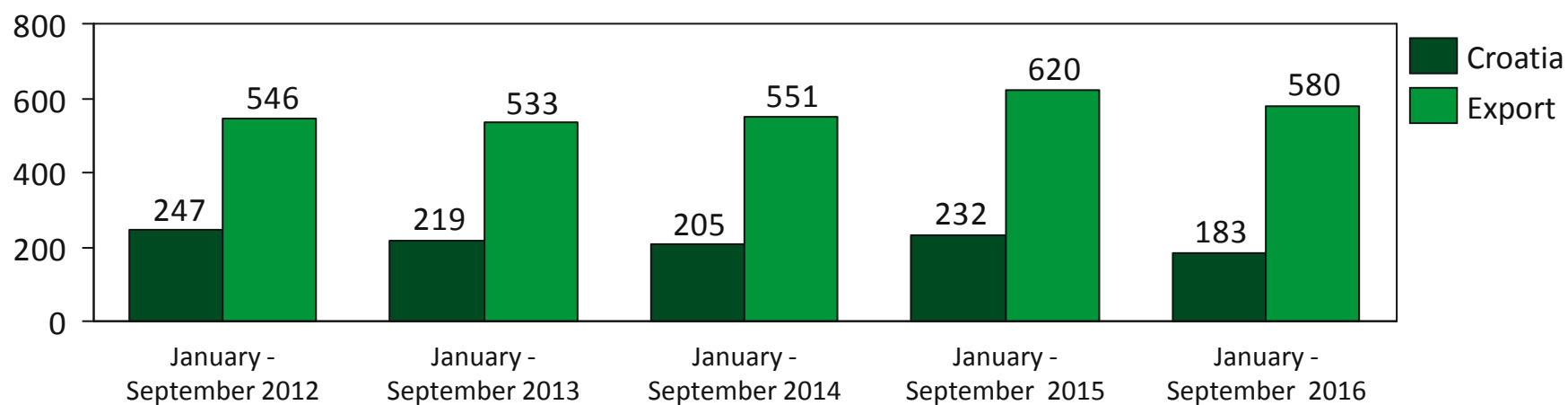
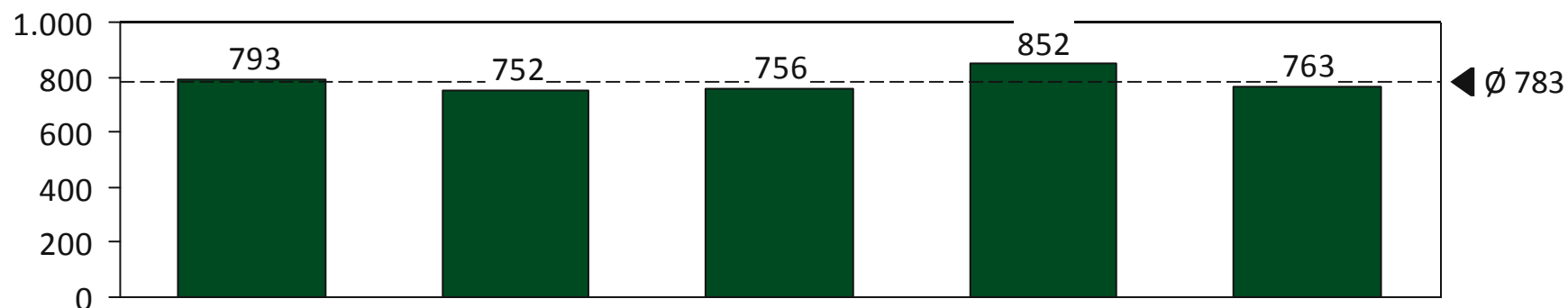
### INCOME FROM SALES (mln HRK) 2016 / 2015



- Actual down in fertilizer sales volumes of 10% and fall in income from fertilizer sales of 27%, which indicates a fall in average selling prices.
- Reduced sales volumes of fertilizers in the third quarter, caused for the most part by conducting overhaul jobs, during which all manufacturing facilities were shut down, so there were no usual volumes of fertilizers for sale.

# Actual fertilizer sales in January – September 2012 – 2016

total sales (000 tons)

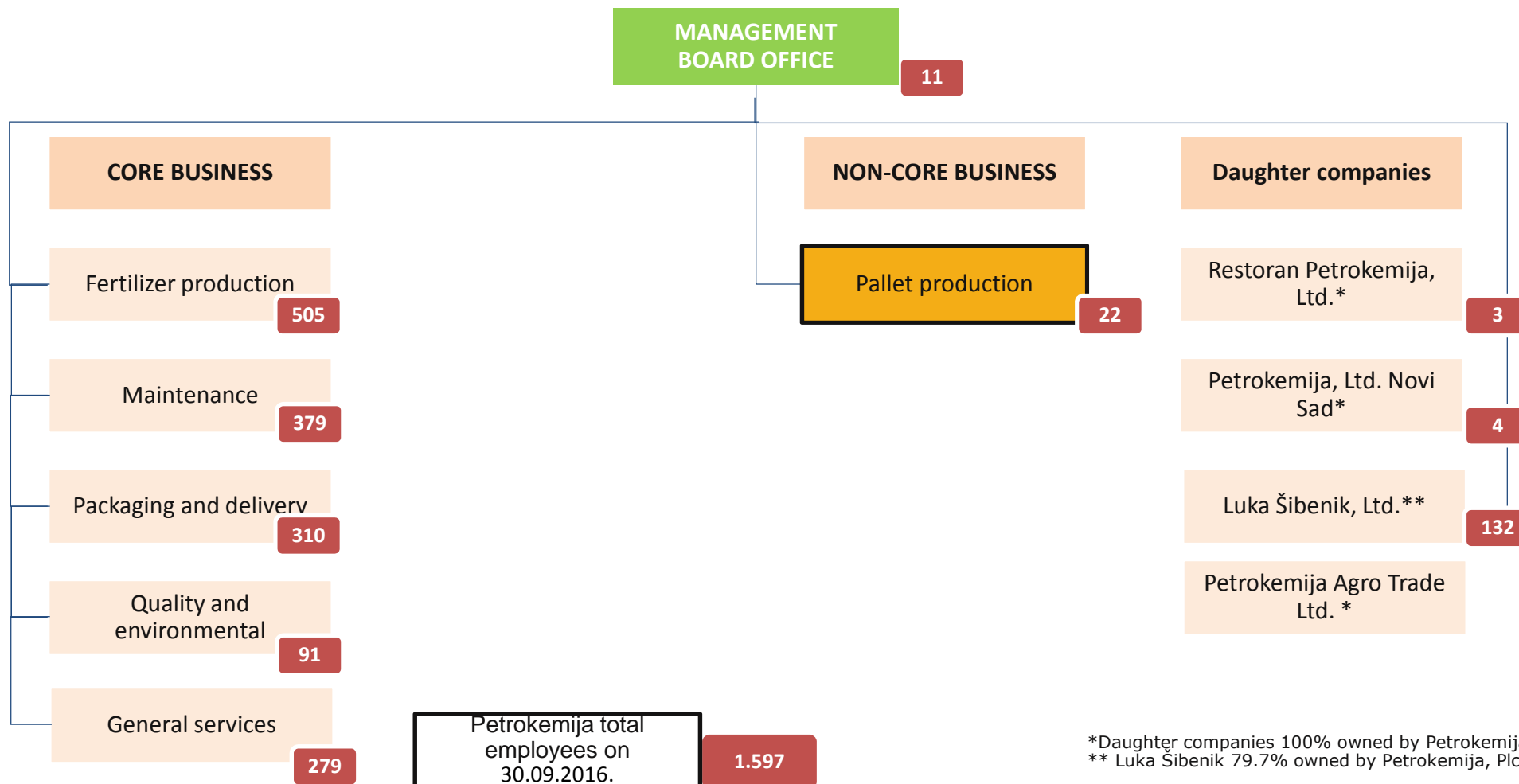


# Business Results of Petrokemija Group for January – September 2016

- ❑ 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 – September 2016 are as follows:
  - ❑ Total revenues HRK 1,443.9 million,
  - ❑ Total expenses HRK 1,474.7 million,
  - ❑ Loss before tax HRK 30.8 million,
  - ❑ Profit tax HRK 0.09 million,
  - ❑ Loss after tax HRK 30.9 million,
- ❑ EBITDA (earnings before interest, taxes and depreciation) was HRK 50.4 million in the positive.
- ❑ Petrokemija, Ltd. Novi Sad made profit of HRK 23 thousand, Restoran Petrokemija, Ltd. made profit of HRK 63 thousand, while Luka Šibenik, Ltd. made loss of HRK 1.2 million.
- ❑ Petrokemija Agro Trade, Ltd. did not have any transactions.
- ❑ The report on the Petrokemija Group's business includes detailed information on the operations of the subsidiaries.

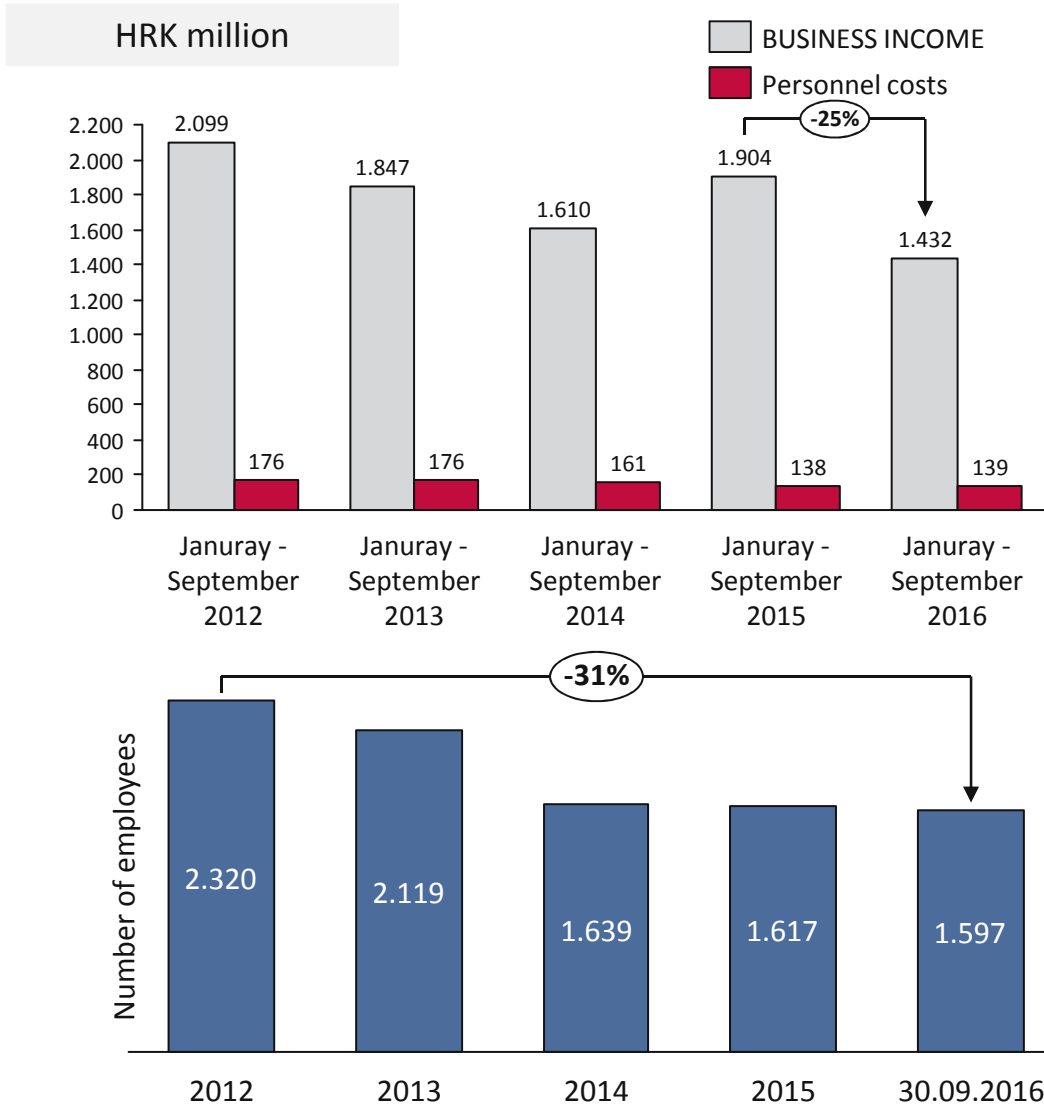


# Organization Chart of Petrokemija, Plc. and Petrokemija Group



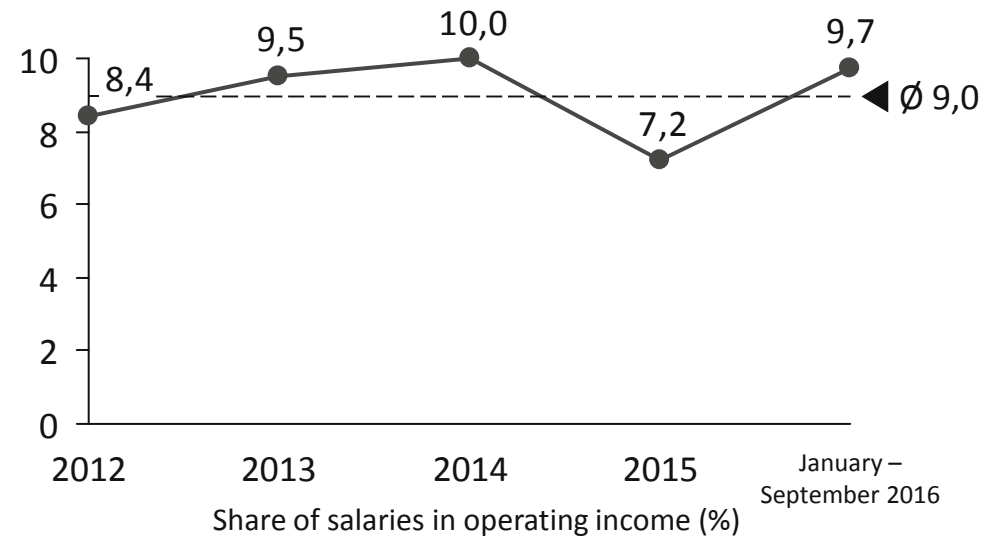
\*Daughter companies 100% owned by Petrokemija, Plc.  
 \*\* Luka Šibenik 79.7% owned by Petrokemija, Plc.

# Operational income, personnel costs and number of employees



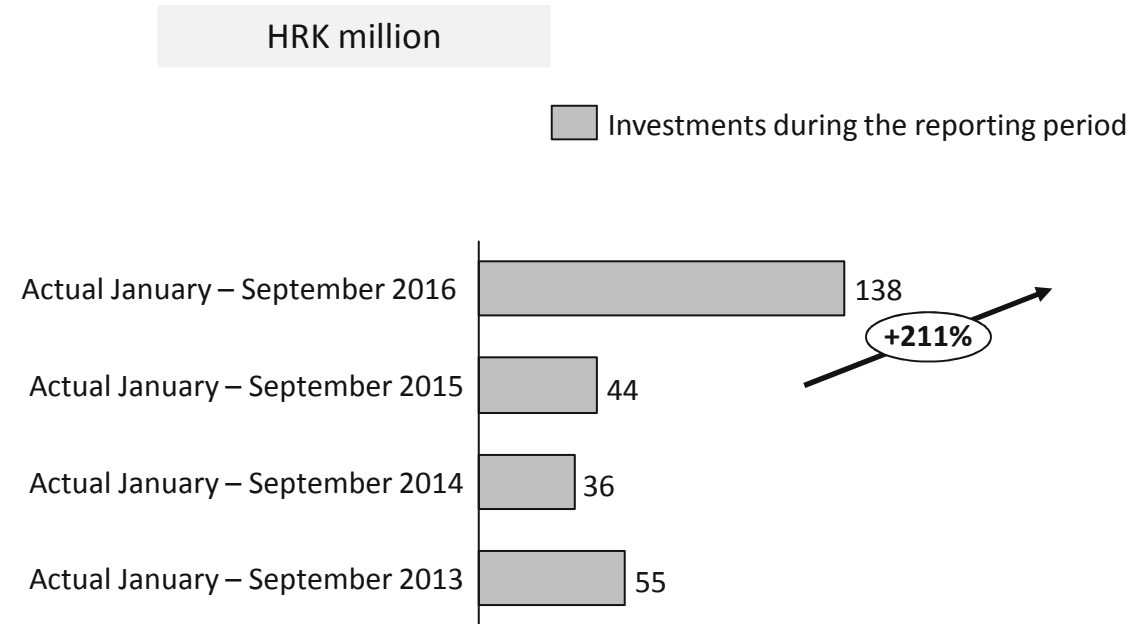
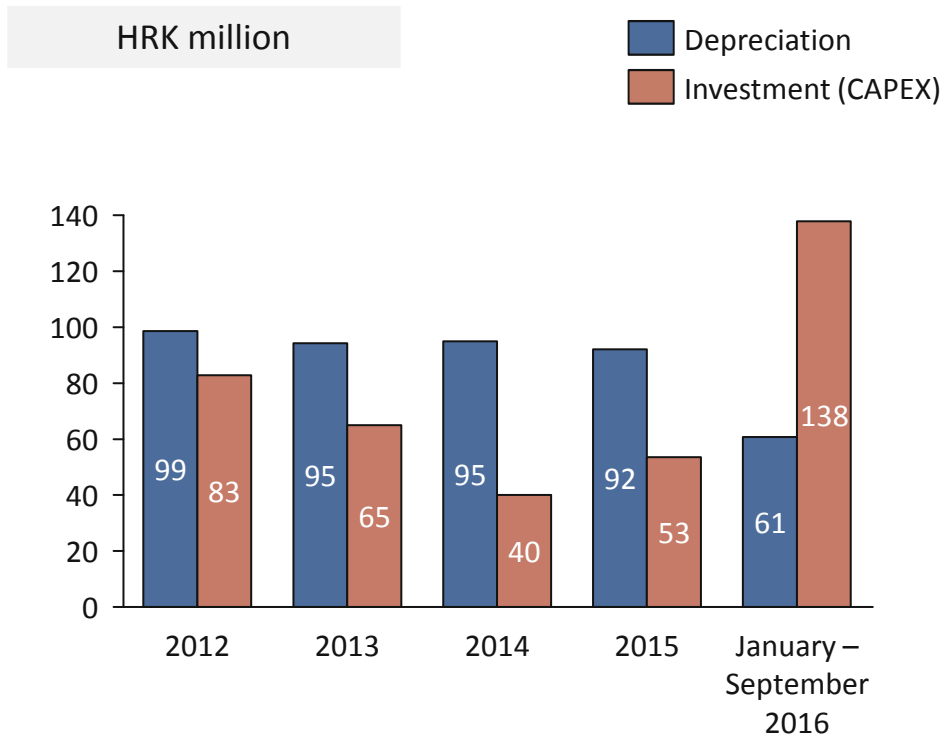
**As at 30.09.2016**, Petrokemija, Plc. had **1.597 employees**, and daughter companies - members of Petrokemija Group - had 139 employees, which is a total of 1,736 employees.

Personnel costs share in operating revenues was 9.7%.



# Realized investment

- Investment realized in reporting period amounted to HRK 137.6 million. Compared to the same period of 2015, it is an increase of HRK 93.2 million or index 309.85.
- The realization of planned level of investment of HRK 173 million on an annual basis may be jeopardized because of the limited availability of funding.



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



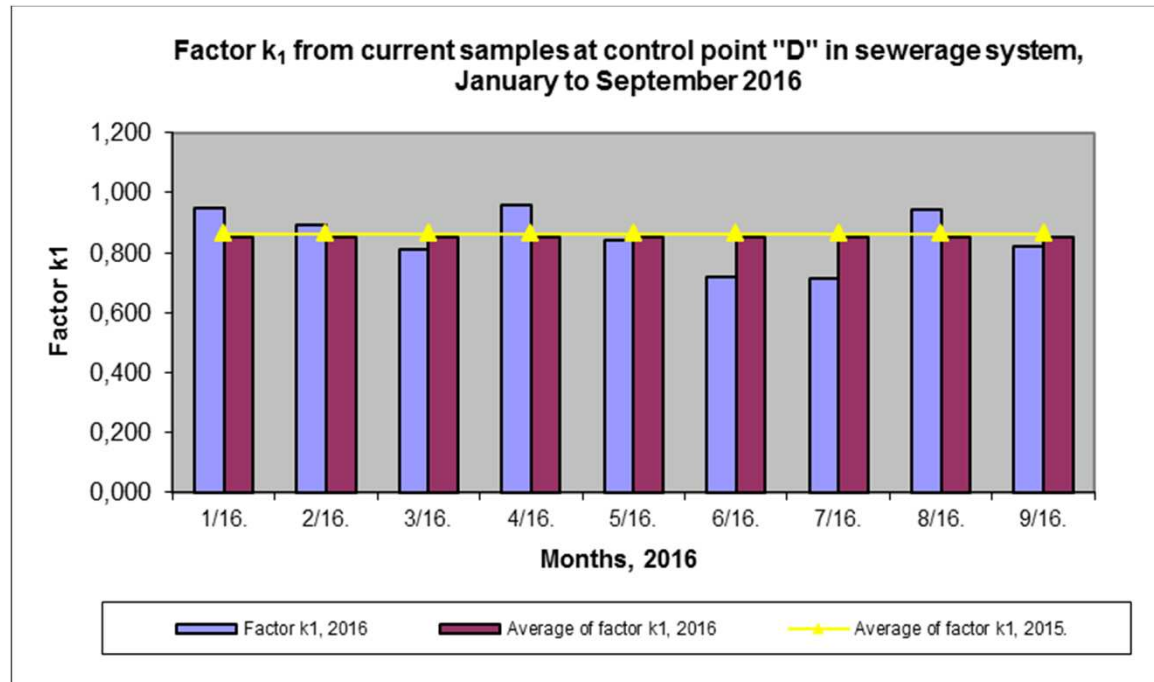
Clean or slightly polluted air	Polluted air	Pollutants
1 <sup>st</sup> category C<LV	2 <sup>nd</sup> category C>LV	
K2, K7, DMP		Sulphur dioxide (SO <sub>2</sub> )
K1, K2, K7		Sediment
K6, K7	K1, K2, DMP	Ammonia (NH <sub>3</sub> )
K1, K2, K6, K7, DMP		Nitrogen dioxide (NO <sub>2</sub> )
K2, K7, DMP	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

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

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

Monitoring station	The number of limit value (LV) exceedances in the <u>January to September 2016 period</u> / permitted exceedance number
K 1 - Dom zdravlja	<b>22</b> / 7
K 2 - Vatrogasni dom	<b>15</b> / 7
K 6 - Husain	5 / 7
K 7 - Krč	3 / 7
<b>TOTAL</b>	<b>45</b>

# Water management



In the period from January to September 2016, the average value of  $k_1$  factor is slightly lower than in the same period of 2015.

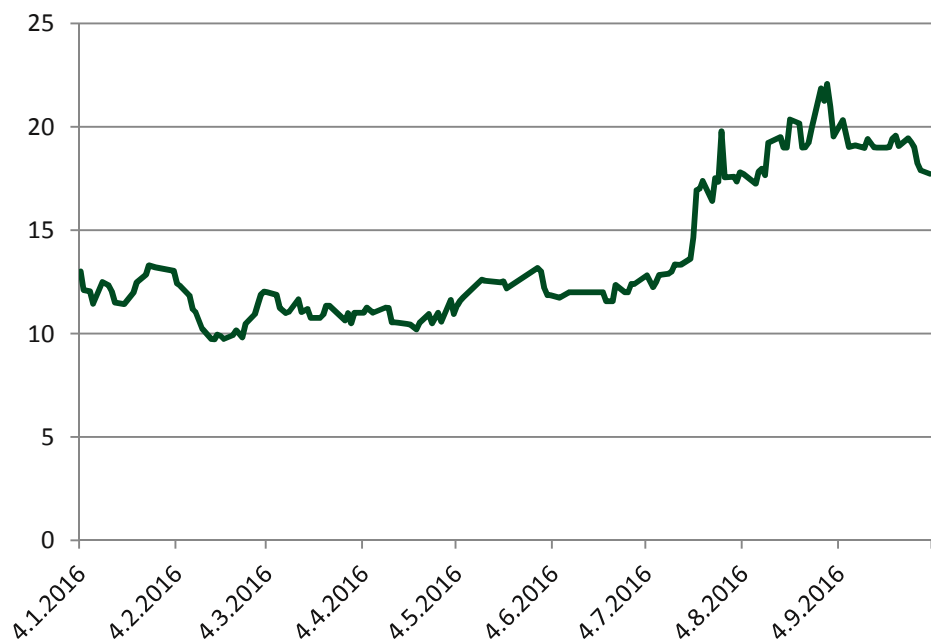
In the period from January to September 2016, the monthly average consumption of raw water is lower than in the same period of 2015.

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

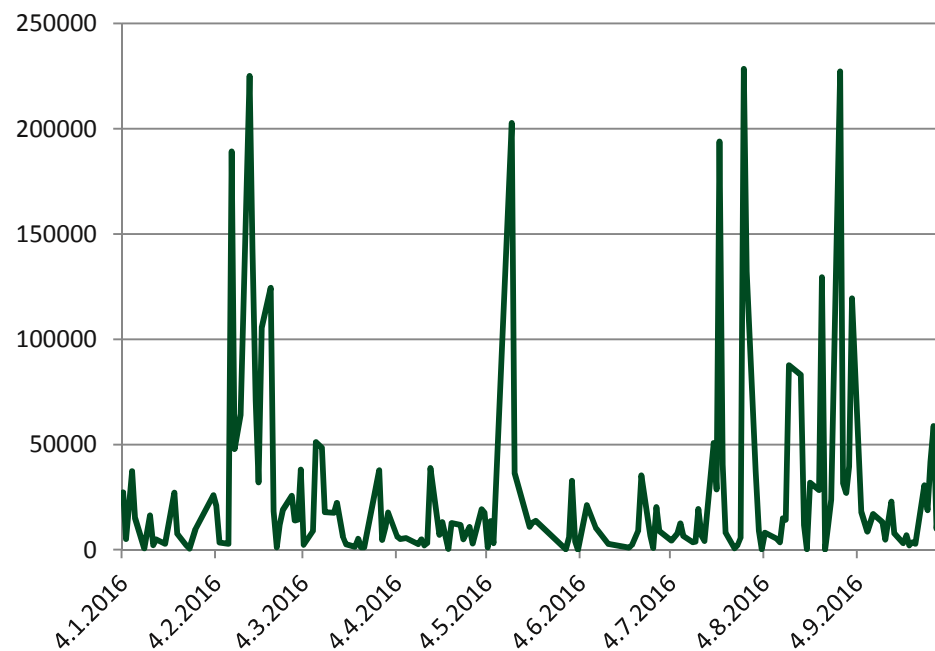
- ❑ After the increase in 2015 , the Company share capital amounts to HRK 386,135,400.00 and is divided into 12,871,180 ordinary shares marked PTKM-R-A, with a nominal amount of HRK 30.00.
- ❑ On 30 December 2015, the average share value was HRK 13.14, and on 30 September 2016 it was HRK 17.89 (increase of 36.15%).
- ❑ Tomislav Pokaz submitted his resignation as President and member of the Supervisory Board of Petrokemija effective as of 8 February 2016, for reasons of a new position that is incompatible with membership in the Supervisory Board.
- ❑ At the meeting held on 19 February 2016, Branimir Fleković was appointed 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 held on 12 May, 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.

# Petrokemija, Plc. share price and daily turnover movements

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



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





## Key events in 2016

- ❑ In October 2015, following the Decision of the Croatian Government of 24 September 2015 on granting authorization to the General Meeting to adopt the decision on conducting the capital increase in cash, assets and rights of Petrokemija, Plc. Fertilizer Company, Kutina, a public call to submit indication of interest to subscribe for new ordinary shares of Petrokemija was published. After the conducted due diligence, one binding offer of a potential investor was received, which is being considered by competent bodies of the Croatian Government.
  
- ❑ Due to the partial failure to achieve the assumptions of the Program of Restructuring and Financial Consolidation for the period 2014 - 2018 and 2015 -2019, in the first quarter of 2016, a revised Program, i.e. Business Plan for 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.

## Key events in 2016 (cont)

- ❑ 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 coming gas year 2016/2017.
- ❑ 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 110 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, 45 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.

## Key events in 2016 (cont)

- ❑ 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 a bank loan for Petrokemija, Plc. for the implementation of the Company restructuring and financial consolidation. Details on the website of the Croatian Government: <https://vlada.gov.hr/sjednice/38-sjednica-vlade-republike-hrvatske-19380/19380>
- ❑ 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 will be used for 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.

## Significant financial risks in 2016

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

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

- ❑ Petrokemija Plc. is highly dependent on the movements of fertilizers and their raw materials price in the global market, the exchange rate of the HRK against USD and EUR and their interrelationship. After the high growth rate of USD of on average 19.4% in 2015, further growth of the USD would cause additional negative effects on the business of Petrokemija, Plc. and Petrokemija Group,
- ❑ Natural gas as the most important raw material is still procured on the domestic market, according to contracts concluded with two suppliers – INA, d.d. Zagreb and Prvo plinarsko društvo d.o.o Vukovar. The price of natural gas is linked to the USD and EUR exchange rate and the movement of natural gas prices on the European spot market,
- ❑ The sales prices of fertilizers in the global market are still very low (short-term also influenced by cyclical and seasonal changes) and the price of nitrogen fertilizer Urea has been at a very low level for a long time now; so in case of a more pronounced growth, of natural gas price on the European spot market, profitability of production may come into question at certain time intervals,

## Significant financial risks in 2016 (cont)

- ❑ 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 are reduced, but will continue to be significant in the next period,
- ❑ During the summer months an extensive overhaul was conducted, whose implementation is partly financed from long-term sources. However, the risks in terms of providing the remaining long-term financing sources are still present, and it is very difficult to finance the continuation of the investment process from operative business,
- ❑ By regulating 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 movement 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.

## 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 September 30, 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:

Nenad Zečević, BE

Member of the Board:

Antonija Perošević Galović, BSEc

Member of the Board:

Tamara Pernar, BSEc

Member of the Board :

Vladimir Fresl, MS



## Attachments:

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

**Attachment 1.**

Reported period:

01.01.2016.

to

30.09.2016.

**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.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

Number of employees: 1.597  
(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: 044-682-797

E-mail: [marina.maric@petrokemija.hr](mailto:marina.maric@petrokemija.hr)

Name and surname: NENAD ZEČEVIĆ, ANTONIJA PEROŠEVIĆ-GALOVIĆ

(authorized representatives)

**Documentation to be published:**

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

(seal)

(signature of authorized representative)



**BALANCE SHEET**  
as at 30.09.2016.

Issuer: PETROKEMIJA, d.d.			
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>652.126.997</b>	<b>713.196.052</b>
I. INTANGIBLE ASSETS (004 do 009)	003	7.766.579	8.394.381
1. Expense for development	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	6.036.775	4.858.986
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	680.041.680
1. Land	011	49.482.152	48.506.702
2. Buildings	012	237.655.207	221.959.564
3. Plant and equipment	013	236.606.850	200.581.182
4. Tools, plant inventory and transportation assets	014	19.908.525	17.299.339
5. Biological assets	015		
6. Advances for tangible assets	016	13.770.947	699.329
7. Tangible assets in progress	017	62.249.818	190.528.579
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	539.466
1. Receivables from related companies	030		
2. Receivables for sales on loan	031		
3. Other receivables	032		539.466
V. DIFERRED TAX ASSETS	033		
<b>C) SHORT-TERM ASSETS (035+043+050+058)</b>	<b>034</b>	<b>596.093.720</b>	<b>446.031.111</b>
I. INVENTORIES (036 do 042)	035	483.777.443	328.205.077
1. Raw and other material	036	201.680.135	157.153.134
2. Work in progress	037	23.265.819	29.322.666
3. Finished products	038	257.109.820	135.013.516
4. Merchandise inventory	039	1.121.455	536.139
5. Advances for inventories	040	600.214	6.179.622
6. Long-term assets intended for sale	041		
7. Biological assets	042		
II. TRADE RECEIVABLES (044 do 049)	043	77.349.481	76.873.749
1. Receivables from related companies	044	1.501.814	36.377
2. Receivables from customers (buyers)	045	10.259.372	11.700.345
3. Receivables from participating interest	046		
4. Receivables from employees and members	047	18.795	19.020
5. Receivables from state and other institutions	048	63.071.957	38.732.217
6. Other receivables	049	2.497.543	26.385.790
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	27.560.525	24.353.545
1. Investments (shares) in related companies	051		
2. Loans given to related companies	052		
3. Participating interest (shares)	053	26.546.147	23.347.195
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	1.006.350
7. Other financial assets	057		
IV. CASH IN BANK AND ON HAND	058	7.406.271	16.598.740
<b>D) PREPAID EXPENSES AND ACCRUED INCOME</b>	<b>059</b>		
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>	<b>1.248.220.717</b>	<b>1.159.227.163</b>
<b>F) OFF BALANCE SHEET ITEMS</b>	<b>061</b>	<b>1.175.630.879</b>	<b>984.029.962</b>

<b>LIABILITIES</b>			
<b>A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)</b>	<b>062</b>	<b>134.138.298</b>	<b>104.434.399</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	-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	-29.703.900
1. Profit for the year	076		
2. Loss for the year	077	92.512.322	29.703.900
VII. MINORITY INTEREST	078		
<b>B) PROVISIONS (080 do 082)</b>	<b>079</b>	<b>10.675.465</b>	<b>9.927.965</b>
1. Provisions for pensions, severance pay and similar liabilities	080	9.870.883	9.123.383
2. Provisions for tax liabilities	081		
3. Other provisions	082	804.582	804.582
<b>C) LONG-TERM LIABILITIES (084 do 092)</b>	<b>083</b>	<b>129.259.259</b>	<b>511.806.572</b>
1. Liabilities to related companies	084		
2. Liabilities for loans, deposits and similar	085	95.833.333	266.343.793
3. Liabilities to banks and other financial institutions	086	33.425.926	245.462.779
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>914.975.693</b>	<b>473.854.355</b>
1. Liabilities to related companies	094	17.722.984	12.268.701
2. Liabilities for loans, deposits and similar	095	142.583.026	130.554.499
3. Liabilities to banks and other financial institutions	096	91.296.296	74.212.963
4. Liabilities for advances	097	126.005.590	52.981.487
5. Liabilities to suppliers	098	511.627.525	186.601.582
6. Liabilities for securities	099		
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	10.764.135	10.215.011
9. Liabilities for taxes, contributions and other payments	102	12.174.427	5.995.679
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	1.024.433
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>106</b>	<b>59.172.002</b>	<b>59.203.872</b>
<b>F) TOTAL LIABILITIES (062+079+083+093+106)</b>	<b>107</b>	<b>1.248.220.717</b>	<b>1.159.227.163</b>
<b>G) OFF BALANCE SHEET ITEMS</b>	<b>108</b>	<b>1.175.630.879</b>	<b>984.029.962</b>
<b>APPENDIX TO BALANCE SHEET (to be completed by companies that prepare consolidated financial statements)</b>			
<b>A) CAPITAL AND RESERVES</b>			
1. Credited to parent company capital owners	109		
2. Credited to minority interest	110		

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

**PROFIT AND LOSS ACCOUNT**  
for the period 01.01.2016. to 30.09.2016.

Issuer: PETROKEMIJA, d.d.					
Position	AOP code	Previous year		Current year	
		Cumulative	Quarterly	Cumulative	Quarterly
1	2	3	4	5	6
<b>I. OPERATING REVENUES (112+113)</b>	<b>111</b>	<b>1.904.184.350</b>	<b>610.006.113</b>	<b>1.431.796.272</b>	<b>380.757.747</b>
1. Sales revenues	112	1.874.115.158	602.364.018	1.371.072.743	350.691.638
2. Other operating revenues	113	30.069.192	7.642.095	60.723.529	30.066.109
<b>II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)</b>	<b>114</b>	<b>1.917.640.770</b>	<b>639.672.888</b>	<b>1.441.477.593</b>	<b>407.137.544</b>
1. Changes in value of work in progress and finished products	115	-14.972.959	-20.779.046	116.039.457	50.954.485
2. Material costs (117 do 119)	116	1.685.283.984	576.919.444	1.079.671.870	275.808.925
a) Cost of raw and production materials	117	1.621.606.664	549.430.080	1.018.129.775	259.632.647
b) Cost of goods sold	118	2.471.568	1.649.260	2.351.022	343.559
c) Other external costs	119	61.205.752	25.840.104	59.191.073	15.832.719
3. Employees costs (121 do 123)	120	137.936.206	46.383.379	139.491.840	48.198.724
a) Net salaries and wages	121	86.483.889	29.025.161	86.924.834	29.842.050
b) Costs for taxes and contributions from salaries	122	31.281.892	10.577.057	32.171.470	11.308.160
c) Contributions on salaries	123	20.170.425	6.781.161	20.395.536	7.048.514
4. Depreciation	124	69.976.415	23.285.933	60.927.833	19.058.629
5. Other costs	125	38.629.333	13.155.412	42.808.454	13.116.486
6. Value adjustments (127+128)	126	787.791	707.766	2.538.139	295
a) of long-term assets (except for financial assets)	127	33.098	1	2.530.348	0
b) of short-term assets (except for financial assets)	128	754.693	707.765	7.791	295
7. Provisions	129				
8. Other operating expenses	130				
<b>III. FINANCIAL REVENUES (132 do 136)</b>	<b>131</b>	<b>15.908.289</b>	<b>3.209.937</b>	<b>6.346.563</b>	<b>483.127</b>
1. Interest, exchange rate fluctuations, dividends and similar from associated companies	132	2.248.061	28.200	37.499	77
2. Interest, exchange rate fluctuations, dividends and similar from non-associated companies and others	133	13.660.228	3.181.737	6.309.064	483.050
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>54.266.606</b>	<b>16.019.803</b>	<b>26.369.142</b>	<b>5.046.631</b>
1. Interest, exchange rate fluctuations and other costs with associated companies	138	420.116	148.742	381.660	118.385
2. Interest, exchange rate fluctuations and other costs with non-associated companies	139	53.846.490	15.871.061	25.987.482	4.928.246
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>1.920.092.639</b>	<b>613.216.050</b>	<b>1.438.142.835</b>	<b>381.240.874</b>
<b>X. TOTAL EXPENSES (114+137+143 + 145)</b>	<b>147</b>	<b>1.971.907.376</b>	<b>655.692.691</b>	<b>1.467.846.735</b>	<b>412.184.175</b>
<b>XI. PROFIT OR LOSS BEFORE TAXATION (146-147)</b>	<b>148</b>	<b>-51.814.737</b>	<b>-42.476.641</b>	<b>-29.703.900</b>	<b>-30.943.301</b>
1. Profit before taxation (146-147)	149	0	0	0	0
2. Loss before taxation (147-146)	150	51.814.737	42.476.641	29.703.900	30.943.301
<b>XII. PROFIT TAX</b>	<b>151</b>				
<b>XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	<b>152</b>	<b>-51.814.737</b>	<b>-42.476.641</b>	<b>-29.703.900</b>	<b>-30.943.301</b>
1. Profit for the period (149-151)	153	0	0	0	0
2. Loss for the period (151-148)	154	51.814.737	42.476.641	29.703.900	30.943.301

APPENDIX TO PLA (to be completed by companies that prepare consolidated financial statements)					
<b>XIV. PROFIT OR LOSS FOR THE PERIOD</b>					
1. Credited to parent company capital owners	155				
2. Credited to minority interest	156				
<b>STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)</b>					
<b>I. PROFIT OR LOSS OF THE PERIOD (= 152)</b>	<b>157</b>	<b>-51.814.737</b>	<b>-42.476.641</b>	<b>-29.703.900</b>	<b>-30.943.301</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>-51.814.737</b>	<b>-42.476.641</b>	<b>-29.703.900</b>	<b>-30.943.301</b>
<b>APPENDIX TO STATEMENT OF COMPREHENSIVE INCOME (to be completed by companies that prepare consolidated financial statements)</b>					
<b>VI. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD</b>					
1. Credited to parent company capital owners	169				
2. Credited to minority interest	170				

## CASH FLOW STATEMENT - Direct method

for the period 01.01.2016. to 30.09.2016.

Issuer: PETROKEMIJA, d.d.			
Position	AOP code	Previous year	Current year
1	2	3	4
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
1. Cash increase from buyers	001	2.081.123.969	1.397.466.867
2. Cash increase from royalties, fees commissions and other	002		
3. Cash increase from insurance compensations	003	3.448.614	4.672.128
4. Cash increase from tax return	004	241.529.339	162.424.376
5. Other cash increase	005	4.591.296	138.866
<b>I. Total increase of cash flow from operating activities (001 do 005)</b>	<b>006</b>	<b>2.330.693.218</b>	<b>1.564.702.237</b>
1. Expenses to suppliers	007	1.676.148.244	1.308.006.564
2. Expenses for employees	008	146.746.043	149.301.238
3. Expenses for insurance compensations	009	9.779.243	9.356.470
4. Expenses for interest	010	22.604.770	31.733.985
5. Expenses for taxes	011	87.437.766	29.743.866
6. Other cash decrease	012	4.683.388	6.920.953
<b>II. Total decrease in cash flow from operating activities (007 do 012)</b>	<b>013</b>	<b>1.947.399.454</b>	<b>1.535.063.076</b>
<b>A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)</b>	<b>014</b>	<b>383.293.764</b>	<b>29.639.161</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	28.750	1.723.675
2. Cash proceeds from sale of equity and debt security instruments	017		
3. Cash proceeds from interest payment*	018		
4. Cash proceeds of dividend payment*	019	4.649.344	
5. Other cash proceeds from investing activities	020		
<b>III. Total cash inflow from investing activities (016 do 020)</b>	<b>021</b>	<b>4.678.094</b>	<b>1.723.675</b>
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	24.640.933	76.888.415
2. Cash outflow for acquisition of equity and debt financial instruments	023		
3. Other cash outflows from investing activities	024	20.000	
<b>IV. Total cash outflow from investing activities (022 do 024)</b>	<b>025</b>	<b>24.660.933</b>	<b>76.888.415</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>19.982.839</b>	<b>75.164.740</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	2.200.000	230.036.854
3. Other inflows from financial activities	030	105.999.532	
<b>V. Total cash inflow from financial activities (028 do 030)</b>	<b>031</b>	<b>108.199.532</b>	<b>230.036.854</b>
1. Cash outflows for repayment of loan principal and bonds	032	291.302.287	175.326.834
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	176.236.110	
<b>VI. Total cash outflow for financial activities (032 do 036)</b>	<b>037</b>	<b>467.538.397</b>	<b>175.326.834</b>
<b>C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)</b>	<b>038</b>	<b>0</b>	<b>54.710.020</b>
<b>C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)</b>	<b>039</b>	<b>359.338.865</b>	<b>0</b>
<b>Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)</b>	<b>040</b>	<b>3.972.060</b>	<b>9.184.441</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>	<b>8.147.332</b>	<b>8.420.649</b>
<b>Increase of cash and cash equivalents</b>	<b>043</b>	<b>3.972.060</b>	<b>9.184.441</b>
<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>	<b>12.119.392</b>	<b>17.605.090</b>

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

## STATEMENT OF CHANGES IN EQUITY

for the period from 1.1.2016 to 30.9.2016

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	-29.703.900
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		
<b>10. Total capital and reserves (AOP 001 do 009)</b>	<b>010</b>	<b>134.138.298</b>	<b>104.434.399</b>
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		
<b>17. Total increase or decrease of capital (AOP 011 do 016)</b>	<b>017</b>	<b>0</b>	<b>0</b>
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 – September 2016

In the January – September 2016 period, Petrokemija, Plc. had total revenues of HRK 1,438.1 million, total expense of HRK 1,467.8 million and reported a loss in operations of HRK 29.7 million, or 2.1% of total revenues. In the same period of previous year, the Company sustained losses of HRK 51.8 million (2.7 % of total revenues), which shows a positive development in the financial result of HRK 22.1 million.

The EBITDA (earnings before interest, taxes, depreciation and amortization) was positive amounting to HRK 51.2 million. The total revenues for the nine months of 2016 were down by 25.1% on the same period of 2015, while total expenditures were down by 25.6%. These figures indicate a lower scope of operations due to smaller sales volumes of fertilizers and lower sales and purchasing prices. 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.

The fall of fertilizer prices in world markets was carried over largely to the EU and the region, causing a major impact on the domestic market and increased imports of cheaper fertilizers by direct regional competitors. Lower domestic sales volumes were caused by the customers' liquidity problems (Petrokemija has no sources of funding deferred payments, and banks refused to support the spring sowing), delay in payment of Government incentives to domestic market and the increasing principle of buying last minute before application with direct manipulation in the field (thus avoiding costs of storing and reloading). Lower domestic sales volumes were 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 have resulted in the reduction of land sown with these crops, and consequently the use of mineral fertilizers per hectare, so even the largest buyers are reducing purchase of fertilizers.

#### 2. Structure of financial result

To be observed in the financial result structure for January – September 2016 is HRK 9.7 million operating loss, which was increased by HRK 20.0 million losses generated from financial operations, resulting in a total loss of HRK 29.7 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 47.8% lower than in the same period last year due to the absence of the negative impact of USD exchange rate on the business result.

#### 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 10.5% lower fertilizers sales volumes, the achieved operating income was 24.8% lower.

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

overhaul works, 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, as 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 narrower region in the second quarter of this year continue to be under pressure from the generally poor state of agriculture and increased competition from other fertilizer suppliers. Lower sales are also the result of the financial inability of Petrokemija, Plc. to enable domestic customers selling 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 will likely be the decline in volumes and pressure to reduce prices of mineral fertilizers in the remaining year due to the up to 20% lower prices of competitor fertilizer manufacturers from the region (Hungary, Bosnia and Herzegovina, Serbia and Italy).

The trend of price movements and that of supply and demand in the global market of fertilizers has not significantly changed compared to 2015, except for an even more pronounced decline in the price of Urea. The fall of Urea price has significant influence on the fall in price of another major nitrogen fertilizer, CAN, which in previous years was exceptionally stable and achieved satisfactory margins. The main export product of Petrokemija – nitrogen fertilizer Urea – achieved a 14% decline in the average price in the world market in 2015, followed by an additional fall of 28% in the nine months of 2016. This calls for caution in predicting the financial results for 2016. Furthermore, as a consequence of the fall of Urea price, in the nine months of 2016, the price of CAN also fell by 35% as compared to 2015.

#### 4. Expenses

The actual operating expenses were by 24.8% lower compared to the previous year, as a result of 10.5% lower sales and lower purchasing prices of raw materials. The prices of major raw materials for the production of fertilizers in the world market are lower. As for direct costs, the most significant progress was achieved in lowering the price of natural gas (expressed in USD and HRK). Overhead costs were mainly at the level of the same period last year.

#### 5. Natural gas supply

The reporting period is marked by an imbalance of supply prices of raw materials and sales prices for a part of the fertilizer product range. The price of gas in this general trend is an isolated phenomenon and is under the influence of specific factors on the Croatian gas market and the position of the Company as one of the two largest customers in the still relatively underdeveloped domestic gas market. The average actual purchase price of gas (without transportation costs) in the nine months of 2016 was by 37.7% lower, denominated in USD, and by 38.9% lower in HRK than in the same period of 2015.

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

In the reporting period, through continuous and long negotiations with the two gas suppliers, INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar, the Company managed to revise



INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar, the Company managed to revise the terms of gas supplies for gas year 2015/2016. Furthermore, the Company contracted certain volumes of natural gas under new terms for the coming gas year 2016/2017.

Upon another international tender, in June 2016, Petrokemija, Plc. concluded a new contract for natural gas supply for the gas year 2016/2017 for the remaining necessary volumes. The contract was signed with Prvo plinarsko društvo d.o.o. Vukovar as the most competitive supplier. With this contract, Petrokemija secured sufficient volumes of natural gas for a stable planned production in the gas year 2016/2017. The contracted terms of natural gas supply are one of the preconditions for further restructuring and financial consolidation of the Company. However, the growth rates of natural gas on the European spot market, again actualizes 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 has been reduced by the increase in natural gas transportation costs in Croatia in the gas year 2015/2016. The negative impact of this cost increase on the operating results of the Company in 2016 is estimated to be about HRK 25 million. The transportation cost per standard cubic meter of natural gas increased by 31.8% compared to the same period of 2015.

## 6. Production and capacity utilization

In the nine months of 2016, Petrokemija achieved 13.0% lower production as compared to the previous year. In the production breakdown, there were changes as follows: 17.4% lower output of Urea, 2.3% higher output of CAN and 36.3% lower output of NPK fertilizers for market reasons. The Company's utilization of production capacities in the first nine months of 2016 was 82.7%, mainly due to the planned shutdown of facilities in July and August 2016 and lower production of NPK fertilizers and 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 the fourth quarter of 2016, with open possibilities to increase sulfuric acid production for the new product **PETROKEMIJaS** (granular ammonium sulfate – AS) and to improve the properties of NPK fertilizer by adding sulfur. The acquired own technology in 2015 provided the basis for the production of ammonium sulfate (PETROKEMIJaS) and ammonium sulfonitrate (ASN), which has led to revitalization of NPK 2 Plant and further increase of granular fertilizer production. 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.

## 7. Environmental protection

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

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

Environmental projects are becoming increasingly important and the remaining deadlines for the execution are getting shorter (31 December 2017), so in this and next year, Petrokemija will be forced to urgent and significant investment. The balance of Petrokemija's funds and their sources has been disturbed to such an extent that it is unrealistic to finance 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 will depend on available resources – capital increase or long-term bank loans.

The value of the investments realized in the first nine months of 2016 was HRK 137.6 million – an increase of HRK 93.2 million on the same period of 2016. The investment includes the ecological capital investment in order to reduce 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 influenced 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 is alleviated by the HRK 200 million long-term loan from CBRD, with a 100% guarantee of the Croatian Government out of which a part of the outstanding debt to suppliers of natural gas and a part of other liabilities was settled, in accordance with the Decision of the Croatian Government. The method of financing by commercial papers has not been used in 2016.

In reporting the status of current assets (accounts receivable) and current liabilities (contingent recourse obligations to the factoring companies, in case the debtors fail to meet their obligation), on 31 December 2015, Petrokemija's balance of assets and liabilities in respect of recourse factoring was HRK 2.3 million, and as on 30 September 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 is still being considered by competent bodies of the Croatian Government.

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

In order to ease the imbalance in the balance of funding and maintain business continuity, in August of the current year, 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.

By 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) by the end of November 2016, so they would be able to carry out a possible procedure of pre-notification or notification before the EU Commission (DG Competition). To create 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 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 financial result will be influenced by numerous factors. In addition to the price of gas, which is predominantly set in the domestic market, the majority of future risks comes from the international surrounding, mainly through:

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

Due to the partial failure to achieve the assumptions of the Program of Restructuring and Financial Consolidation for 2015 – 2019, an updated Business Plan for 2016 – 2020 was made in 2016. The Plan includes the changes in business made in the meantime (price fall of raw materials and finished products, changes in foreign currency exchange rates, new products, etc.) and announces a potentially new direction of departure from the production of cost-unfavorable Urea for agricultural use. 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 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 -87 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. At the time of these financial statements, the actual market and financial results for 2015 and the first nine months of 2016, as well as the rating of market position, particularly in terms of declining domestic sales, threatened liquidity and solvency of the Company, suggest caution in predicting future trends in business in 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 third and 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 the fourth quarter of 2016 and 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.