

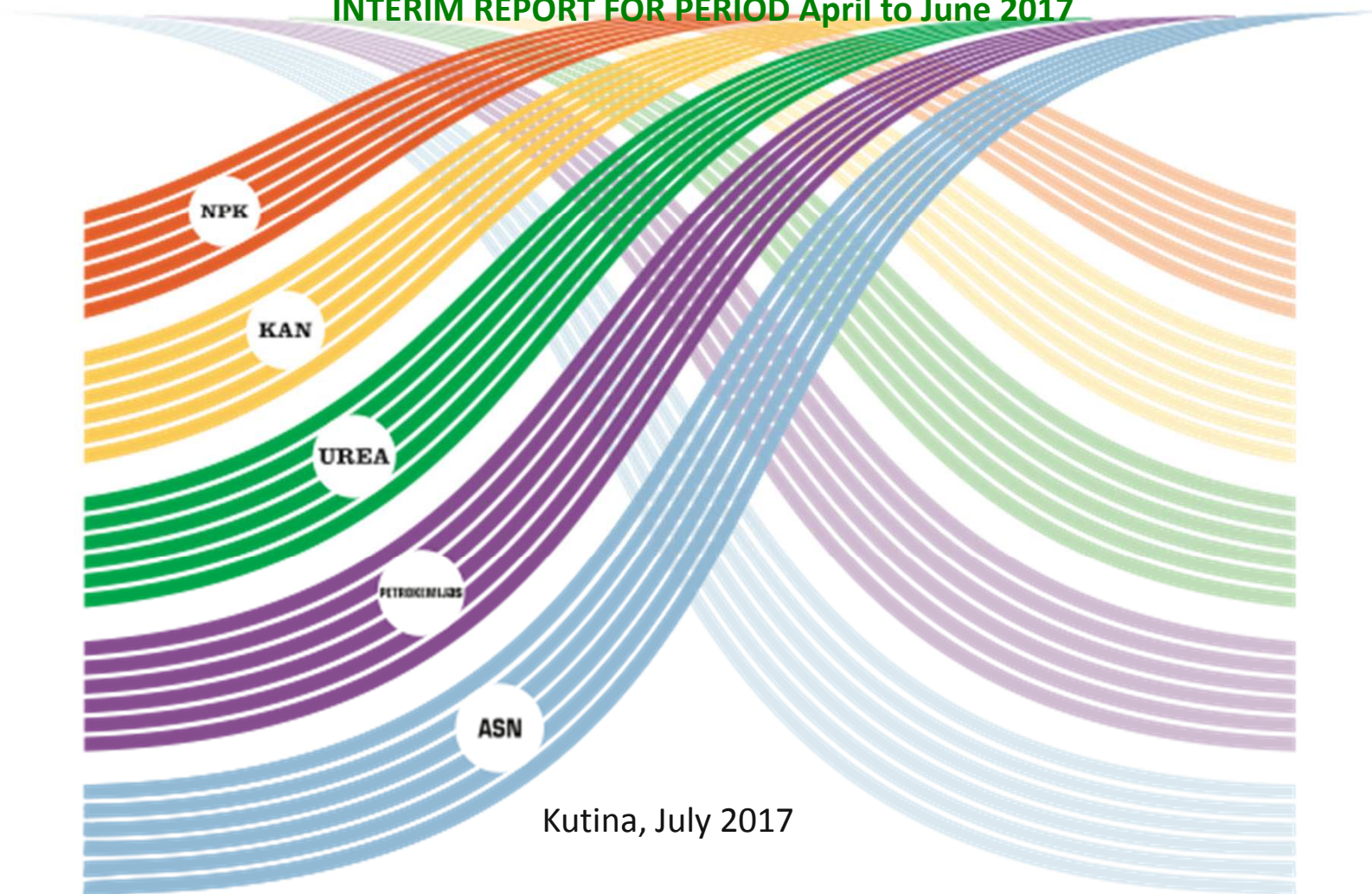


PETROKEMIJA
KUTINA

NON-AUDITED
CONSOLIDATED

SEMI-ANNUAL REPORT PETROKEMIJA GROUP KUTINA

REPORT FOR PERIOD January to June 2017
INTERIM REPORT FOR PERIOD April to June 2017



NPK

KAN

UREA

PETROKEMIJA

ASN

Kutina, July 2017

Introduction

Despite the adverse conditions in the narrower and wider economic environment, in the first half of this year, Petrokemija d.d. increased production by 4.3% and sales of mineral fertilizers by 1.5%, compared with the same period last year. The sales in the domestic market were up by 13.5%, the sales in the region were up by 29.8%, while sales to the distant markets decreased, due to high transport costs and strong competition from large producers.

In the first half of 2017, Petrokemija responded with partial success to the challenges of the low-price crisis of mineral fertilizers, which European fertilizer manufacturers have been facing for the third year now, and to disturbances in the agricultural and food chain at local and regional level that were started by the crisis in Agrokor Group.

After a long period of preparation and in limited conditions of funding investments in modernization and increasing energy efficiency, in the reporting period, the investment in the long-announced new product PetroBlue was realized, a product used as an additive to the fuel of modern diesel engines. This improved the Company market adaptability, because a part of the Urea mineral fertilizer production is directed to a market segment that is not related to agriculture.

It is well known that the Agrokor Group, as the organizer of agricultural production, is the most important single actor in the entire value chain, from the production of crops to the processing industry and the food distribution chain, so that its problems have impact on numerous food producers of different profiles and sizes, from family farms to large systems. Although it does not have such great significance in the region, Agrokor's business disturbance has also had an impact on mineral fertilizer buyers on the markets of neighboring countries, primarily Bosnia and Herzegovina and Serbia.

Introduction (cont)

Fertilizer manufacturers in Europe are under strong pressure from the competition of major global manufacturers that have a comparative advantage of cheap raw material sources, from natural gas to phosphate rock, potassium chloride and sulfur. In these conditions, even successful European mineral fertilizer producers, who benefited from the favorable trend for modernization of plants and restructuring in the previous decade, have experienced a fall in profit of up to 70%. Accordingly, it was inevitable for Petrokemija, which has been struggling to maintain business continuity for years and has been operating in conditions of lower technological and energy inefficiency than its European competitors, to report a loss of 4% of total revenues.

After years of attempts of changing the ownership structure and attracting into its ownership structure large investors in the value creation chain - from production and trading with natural gas, to logistics of sales of mineral fertilizers to end users – in the reporting period, the current owners have carried out extensive and complete preparation for the implementation of the privatization process and the opening of the new development cycle of the Company, where all its current potential would be exploited - from a favorable location, well-maintained production and logistics systems, to skilled labor. Shortage of financial potential that manifests itself in the impossibility of changing the business model, and of quick adaptation to constant market changes, should be resolved in the future by permanent capital sources and a new management model of future investors. Loans granted by HBOR and commercial banks in 2016 and 2017 helped to fill the cash gap transferred from previous years, and recapitalization should create the preconditions for a balanced financing model for plant modernization and investment in greater efficiency of all processes in the Company. At the time of the publication of these Report, a due diligence analysis of the Company by potentially interested investors is in progress, and in 2017, an intensification of the privatization process of the Company is expected, after which the State (or CERP) will remain in the position of one of the shareholders but without a dominant position in the ownership structure and management rights.

Key indicators for Petrokemija Group for January - June 2017

- ❑ Operating loss HRK 41.1 million (the same period of 2016 – 0.9 million profit),
- ❑ Loss in business operations – HRK 52.4 million, profit in financial operations – HRK 11.4 million,
- ❑ Earnings before interest, taxes, depreciation and amortization (EBITDA) – HRK 4.3 million (negative),
- ❑ Actual total revenues of Petrokemija Group – HRK 994.2 million, 6.2% down on the same period of 2016,
- ❑ Actual production of fertilizers – 574 thousand tons, 4.3% more than in the same period of 2016,
- ❑ Compared to the same period of 2016, production of NPK fertilizers decreased by 1.5%, production of Urea increased by 12.1%, while the production of CAN was 0.7% higher,
- ❑ Yield of currently installed plant capacities – up to 89.7 %,
- ❑ Actual sales of fertilizers – 547.6 thousand tons, higher volume sales 1.5% compared to the same period last year,
- ❑ Share of fertilizer sales in the domestic market – 27 %,
- ❑ Domestic sales – 148.3 thousand tons, exports – 399.3 thousand tons of fertilizers,
- ❑ Capital and reserves on 30.06.2017 for Petrokemija Group – HRK 6.3 million,
- ❑ Invested in Petrokemija, d.d. – HRK 37.6 million,
- ❑ Employed on 30.06.2017: Petrokemija, d.d. – 1,574; Petrokemija Group – 1,709.

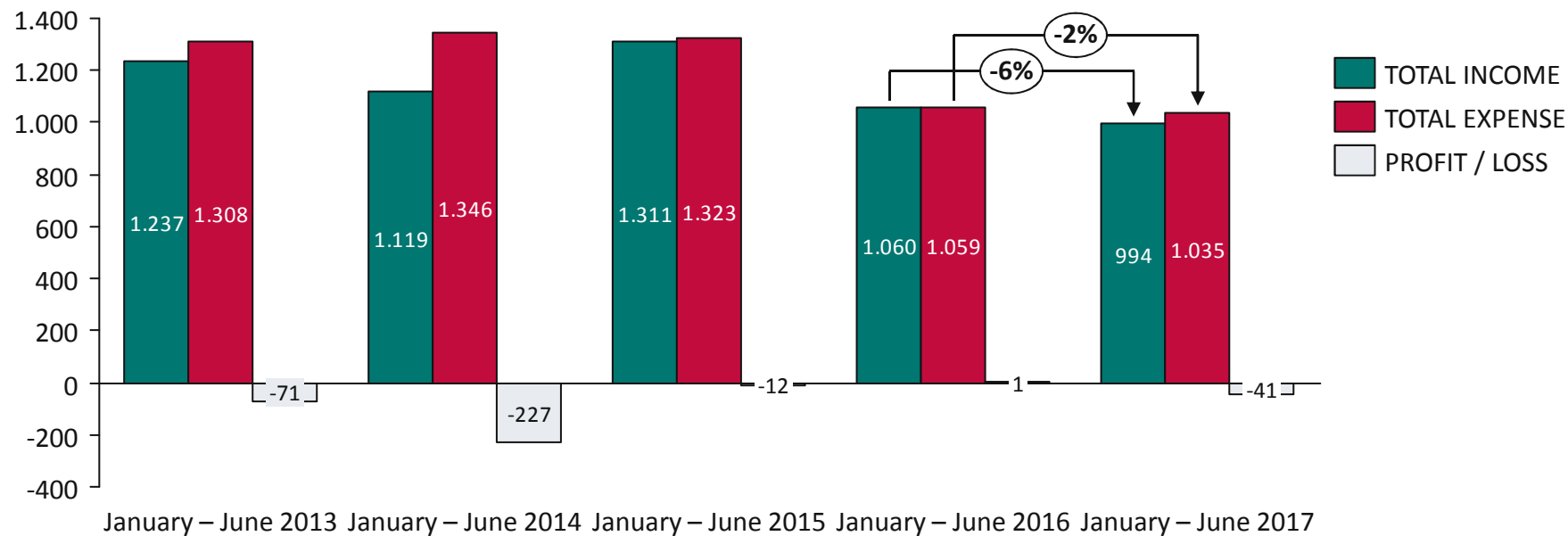
Company Management Board Report on the Petrokemija Group Status for January – June 2017

- ❑ In January – June 2017, Petrokemija Group had total income of HRK 994.2 million and total expense of HRK 1,035.3 million. The Company reported loss of HRK 41.1 million or 4.1% of the total revenues,
- ❑ Higher sales volumes by 1.5% and lower average sales prices by 10.6% compared to the same period 2016,
- ❑ In the structure of income, domestic sales were 28.9 % or HRK 285.0 million, 6.4% down on the same period 2016, while export accounted for 65.2 % or HRK 643.7 million, 10.1% down on the same period 2016
- ❑ In assortment, compared to the same period 2016, higher sales in 2017 of Urea by 8.4%, while lower realization compared to the same period 2016 was realized in NPK fertilizer sales by 2.1% and in CAN mineral fertilizers group (CAN+AN+UAN+AS/ASN) by 4.1%,
- ❑ Domestic sales – 13.5% higher in volume than in the same period 2016,
- ❑ Export sales volumes – 2.4% lower than in the same period 2016,
- ❑ Liquidity indicators are below recommended value, but improved compared to the previous business year (on 30.06.2017, negative working capital was HRK -181.5 million; on 31.12.2016 it was HRK -261 million),
- ❑ Short-term assets decreased by 7.2% compared to end 2016, and short-term liabilities decreased by 15.0%,
- ❑ 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 10.8% higher in HRK compared to the same period 2016 and 9.7% higher in USD; average transport costs of natural gas were 15% lower, which includes a reduction of transport costs (about 20% from 1.4.2017), according to the new tariff.

Profit and Loss of Petrokemija Group in the period January – June 2013 – 2017

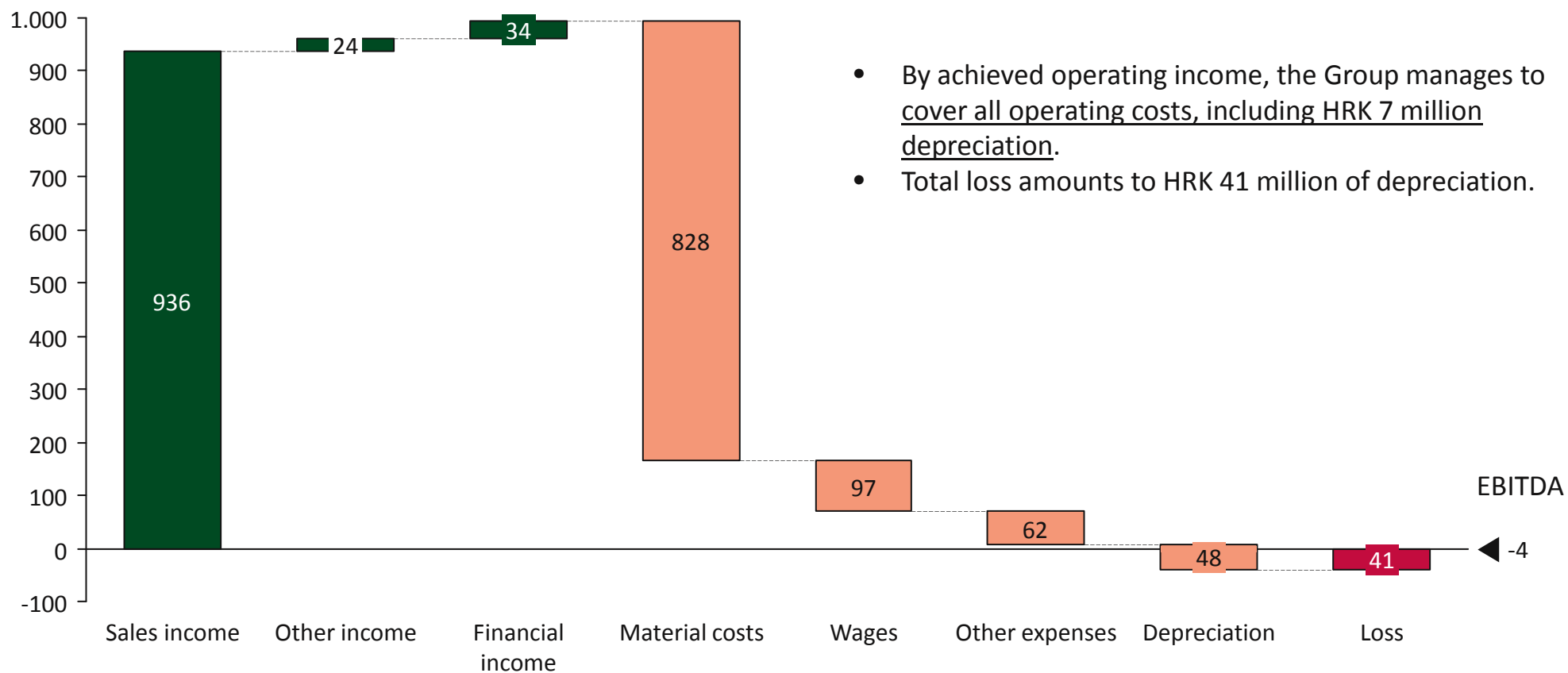
■ Total income	HRK 994.2 million,
■ Total expense	HRK 1,035.3 million,
■ Loss	HRK - 41,1 million,
■ EBITDA	HRK -4,3 million,
■ EBITDA margin (%)	-0,4 %.

HRK million



Structure of Profit for Petrokemija Group for the period January – June 2017

HRK million



- By achieved operating income, the Group manages to cover all operating costs, including HRK 7 million depreciation.
- Total loss amounts to HRK 41 million of depreciation.

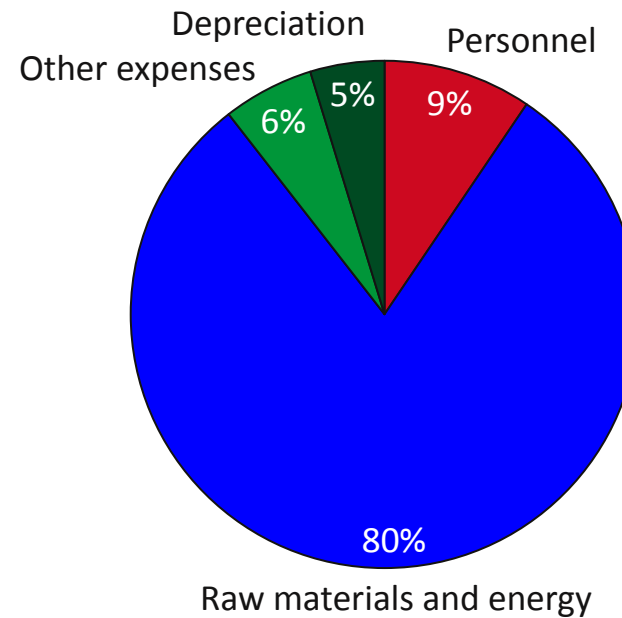
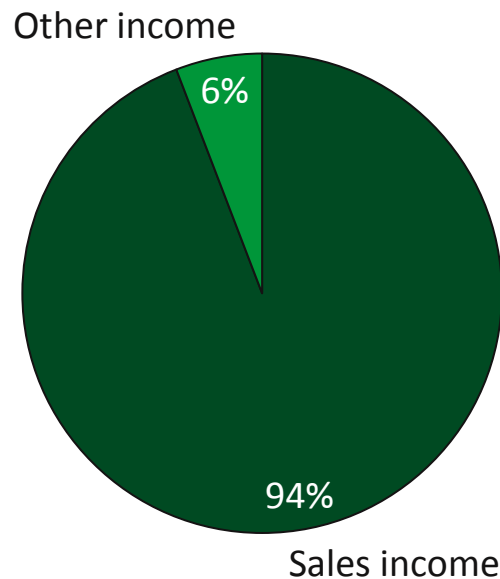
Actual financial results of subsidiaries for the period January - June 2017

- In the first semester of 2017. Petrokemija, Ltd. Novi Sad and Luka Šibenik, Ltd. made a loss, while Petrokemija Agro Trade, Ltd. did not have any transaction.

<i>Description</i>	(HRK 000)		
	<i>Petrokemija Novi Sad d.o.o.</i>	<i>Luka Šibenik d.o.o.</i>	<i>Petrokemija Agro Trade d.o.o.</i>
1	3	5	6
TOTAL INCOME	30.397	10.857	0
TOTAL EXPENSES	30.457	11.599	1
<i>Therein:</i>			
<i>Material costs</i>	29.951	3.129	
<i>Depreciation</i>	6	458	
<i>Wages</i>	278	5.743	
<i>Other costs</i>	222	2.269	1
PROFIT OR LOSS	-60	-742	-1

Structure of Profit and Loss for January – June 2017

- In January – June 2017 period, Petrokemija, d.d. earned 29% income from domestic market, 65% from export, and 5% from financial and other income. Out of total, 94% of Petrokemija Group income is from sales of products and services and 6% is from other income.
- In the structure of total expenses of Petrokemija Group, the dominant 80% account for raw materials and energy; personnel costs for 9%, while all other costs make 11%.



Key financial indicators for January - June 2017 for Petrokemija Group

(HRK 000)

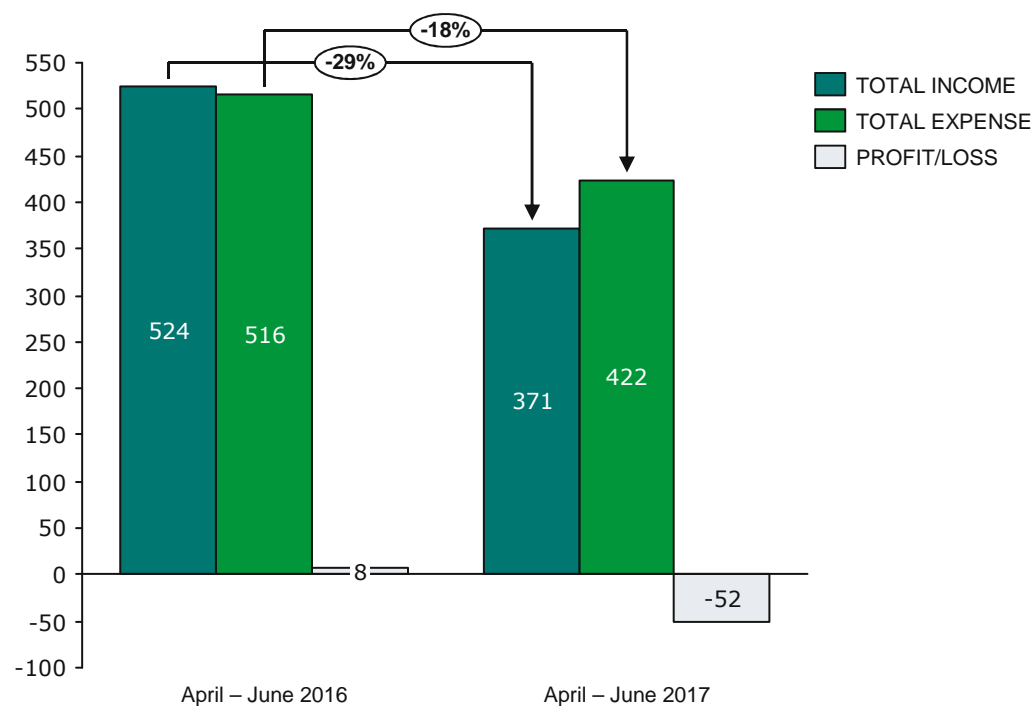
	January – June 2017	January – June 2016	Difference	% change
Operating income	960.337	1.054.260	-93.923	-8,91%
Operating expense	1.012.722	1.038.123	-25.401	-2,45%
EBITDA *	-4.337	58.409	-62.746	-107,43%
Amortization	48.047	42.272	5.775	13,66%
Net financial income/ (expenses)	11.315	-15.216	26.531	-174,36%
Net extraordinary income / (expenses)	0	0	0	
Profit / loss / before taxation	-41.069	921	-41.990	-4559,17%
	30 June 2017	31 December 2016		
Fixed assets	675.921	685.494	-9.573	-1,40%
Current assets	500.344	539.215	-38.871	-7,21%
Capital and reserves	6.304	45.530	-39.226	-86,15%
Long-term liabilities + provisions	489.449	378.696	110.753	29,25%
Current liabilities + provisions	680.512	800.483	-119.971	-14,99%

* Earnings before interest, taxes, depreciation and amortization

Operating results of Petrokemija Group for April - June 2017

- In April to June 2017 period, Petrokemija Group had actual total revenues of HRK 370.9 million, total expenses of HRK 422.4 million and reported operating loss of HRK 51.1 million.
- On a quarterly basis, total revenues decreased by 29% compared to the second quarter of 2016, while total expenses decreased by 18%

HRK million



Key financial indicators of Petrokemija Group for April - June 2017

(HRK 000)

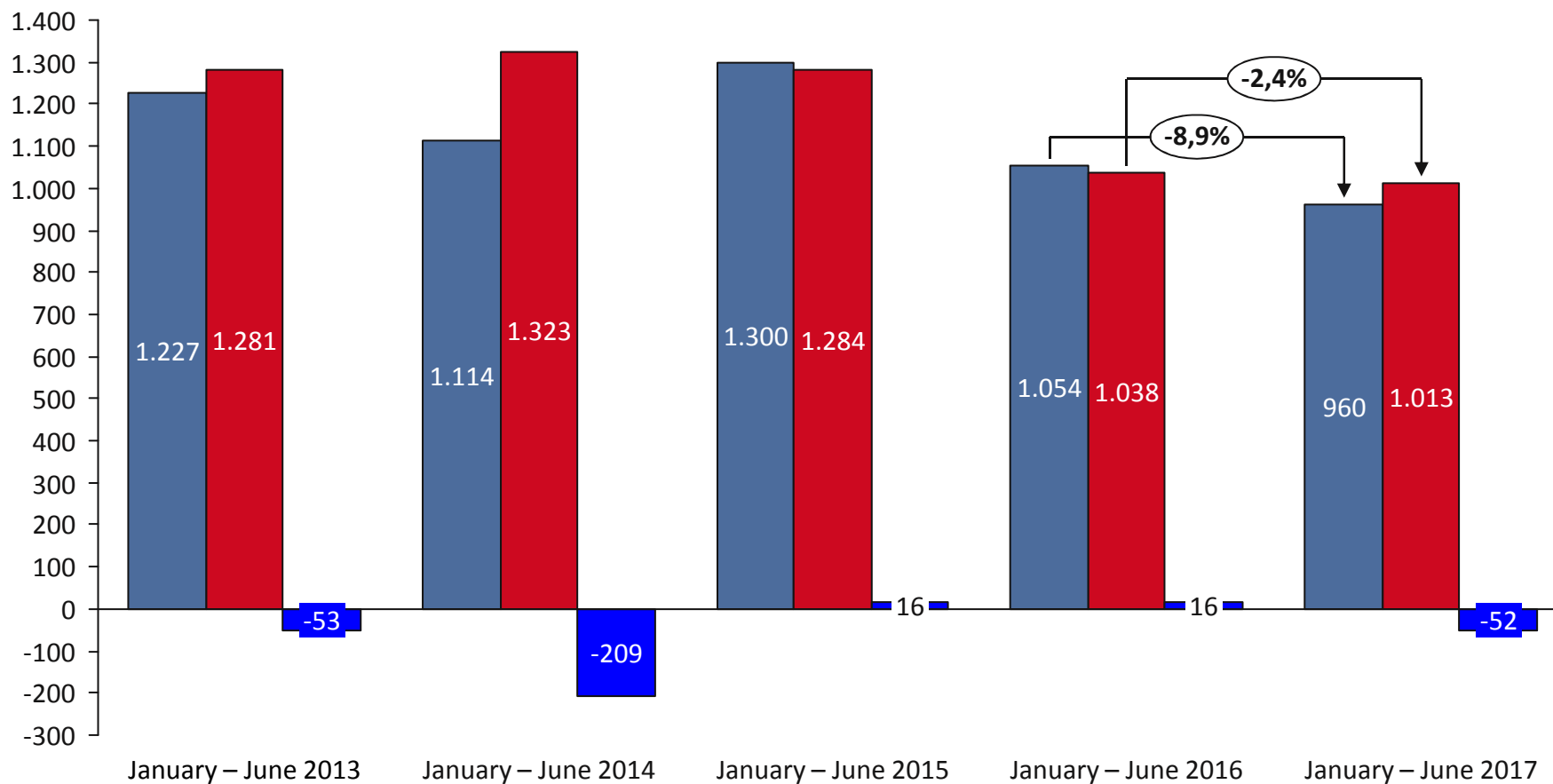
	January – March 2017	April – June 2017	January – June 2017
Operating income	594.266	366.071	960.337
Operating expense	602.029	410.693	1.012.722
EBITDA *	16.414	-20.751	-4.337
Amortization	24.177	23.870	48.047
Net financial income / (expenses)	18.212	-6.897	11.315
Net extraordinary income / (expenses)	0	0	0
Profit / loss / before taxation	10.449	-51.518	-41.069

In the second quarter of 2017, a loss of HRK 51.5 million was realized. The EBITDA amounted to HRK -20.8 million.

Profit and Loss from operating activities of Petrokemija Group for January to June 2013-2017

HRK million

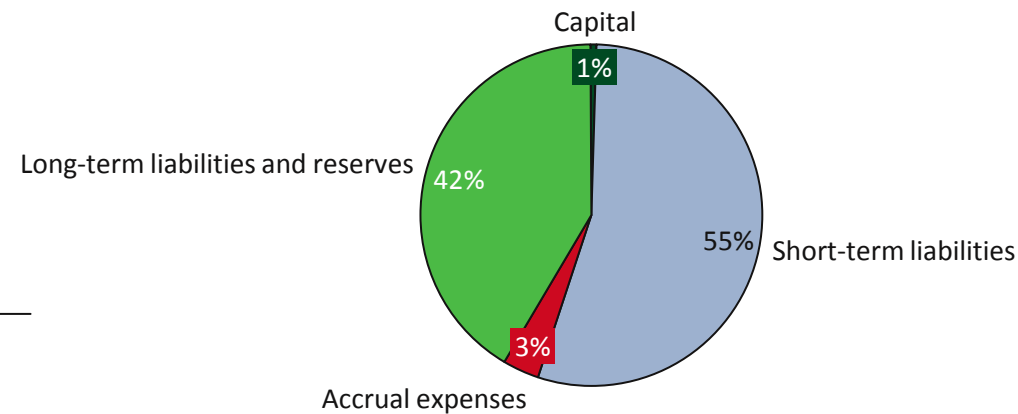
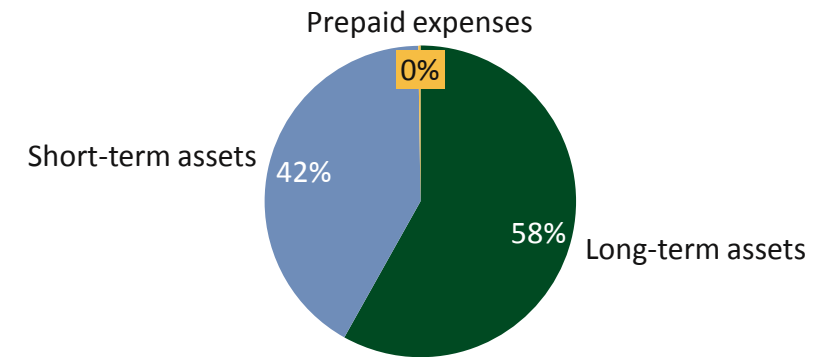
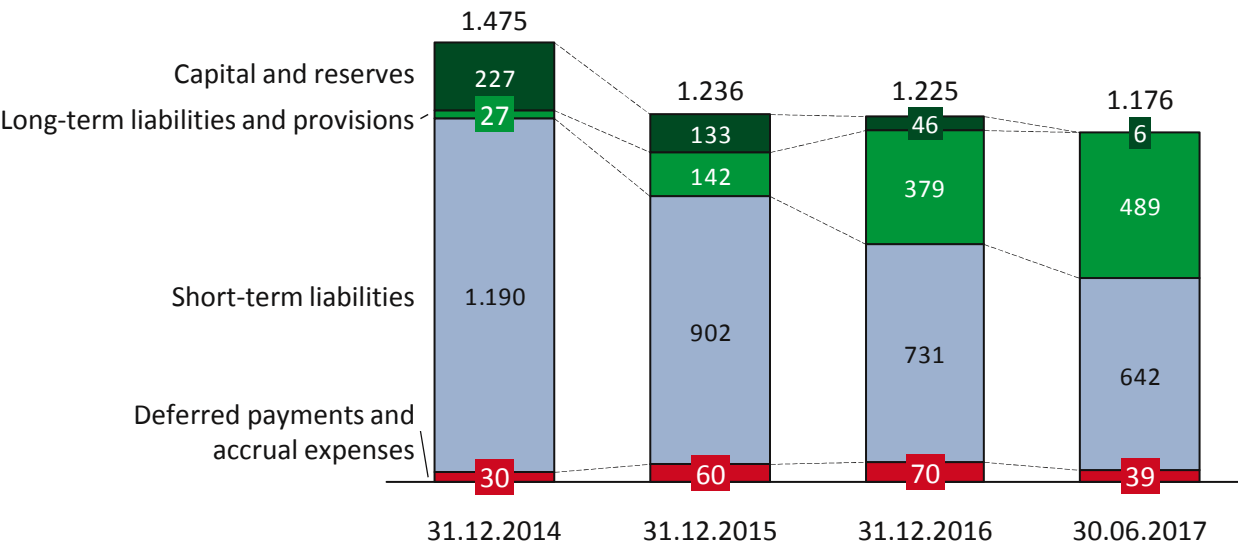
■ OPERATING INCOME
■ OPERATING EXPENSES
■ PROFIT/LOSS FROM OPERATING ACTIVITIES



Structure of assets and liabilities of Petrokemija Group at 30 June 2017

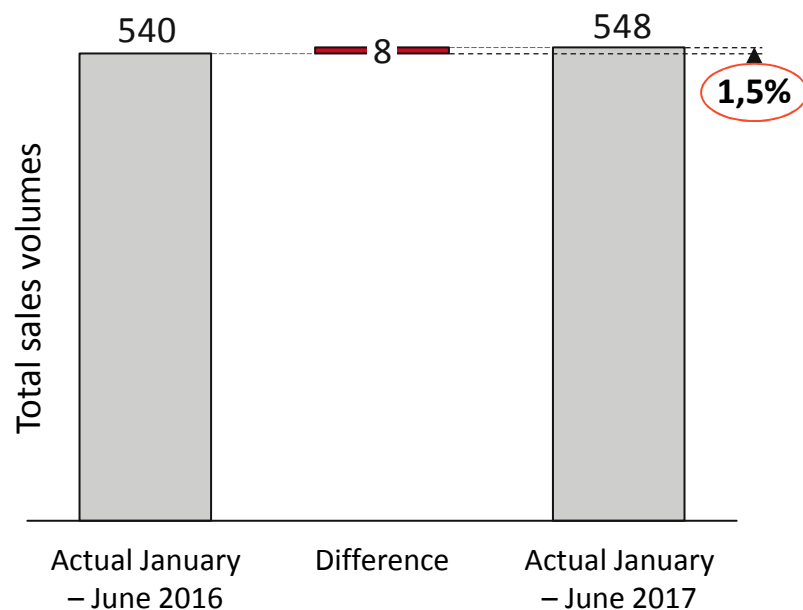
- At 30 June 2017, Petrokemija had 42% in value of short-term and 58% in long-term assets.
- The capital level of HRK 6.3 million reflects impairment losses for the period 2014 – 2017.
- During the first half of 2017, the Company's debts changed in structure and maturity. The debt to natural gas suppliers decreased and the increased indebtedness to banks through long-term loans from HBOR and HPB and the short-term loan from ERSTE Bank.

HRK million

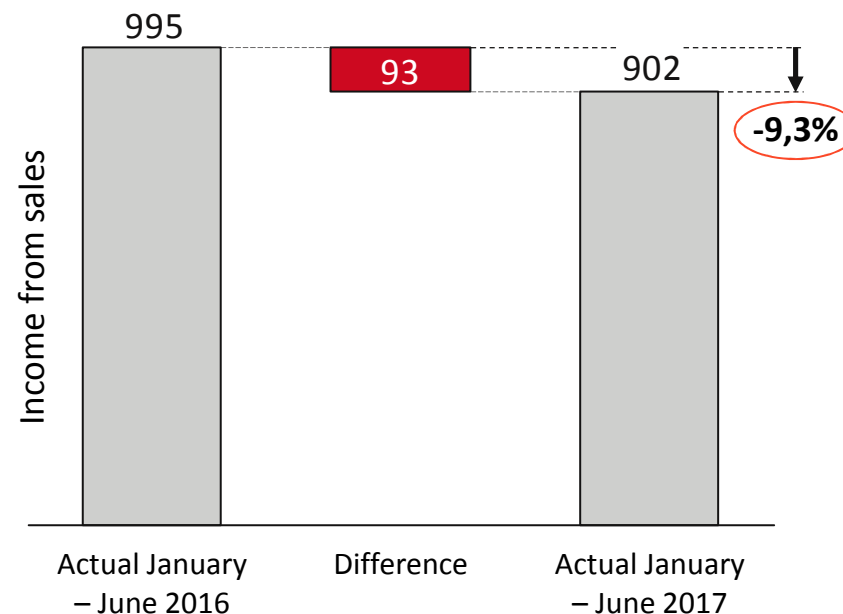


Total mineral fertilizer sales

SALES VOLUMES (000 t)
2017 / 2016



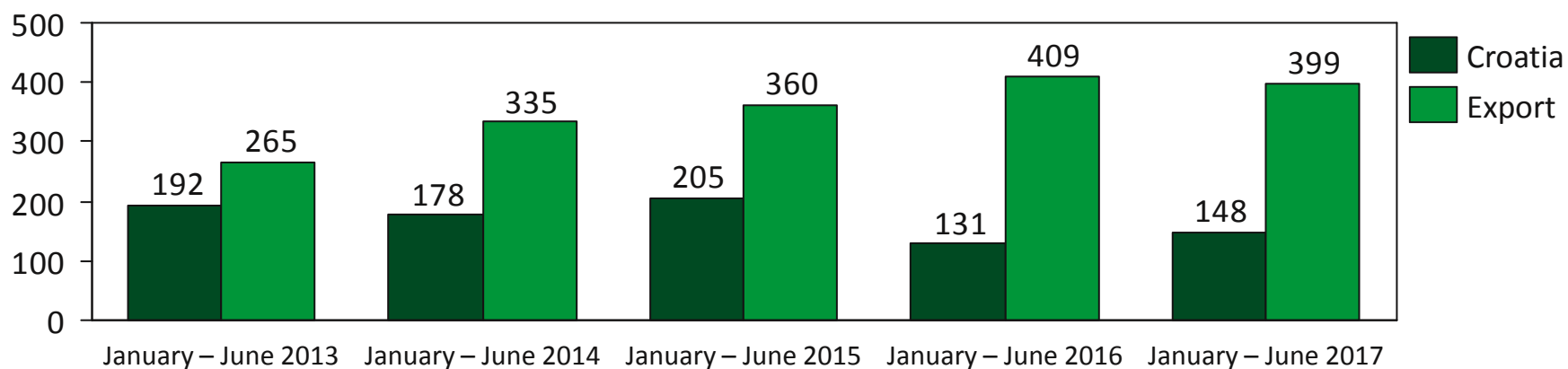
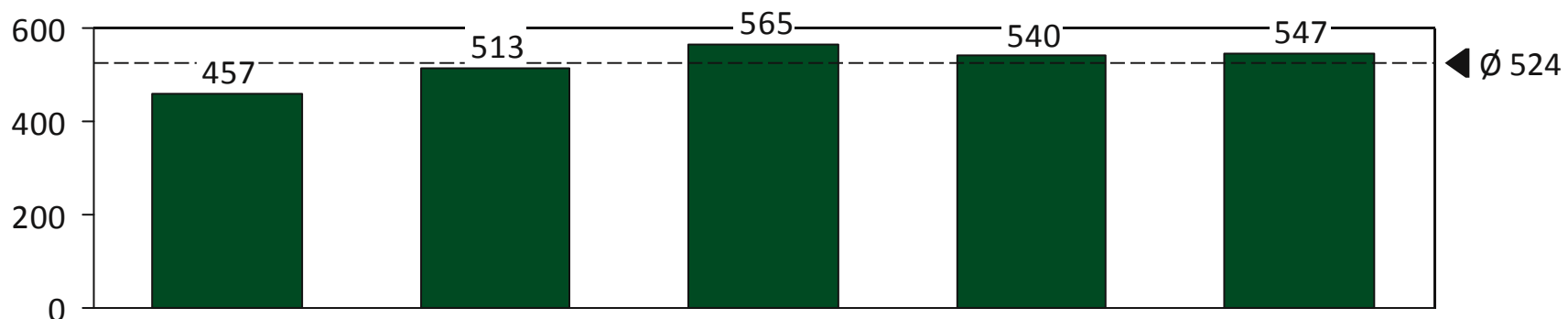
INCOME FROM SALES (mIn HRK)
2017 / 2016



Actual growth in mineral fertilizer sales volumes of 1.5% and decrease in income from fertilizer sales of 9.3%, which indicates a significant fall in average selling prices compared to the same period 2016.

Actual mineral fertilizer sales January – June 2013 – 2017

total sales (000 tons)



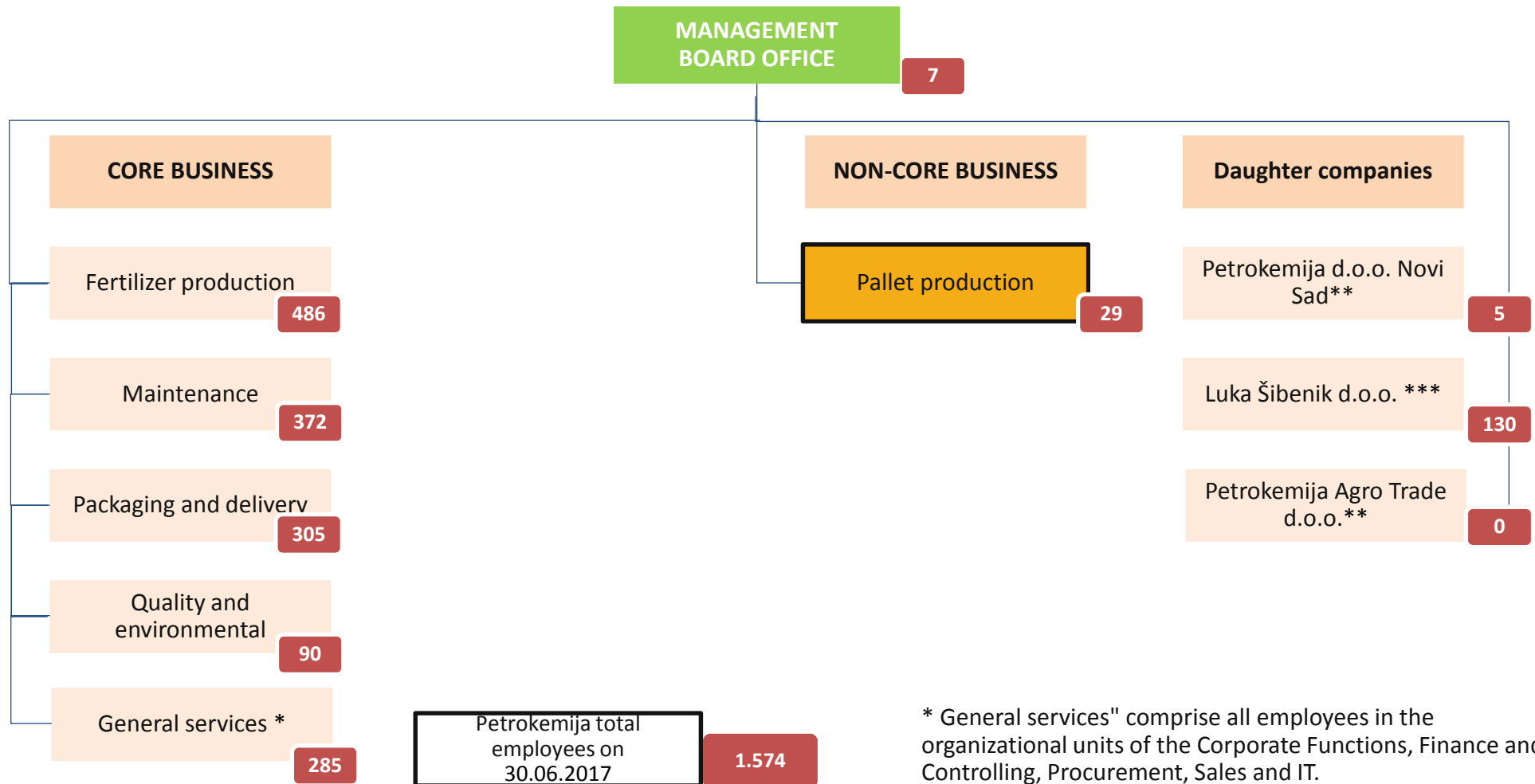
Business Results of Petrokemija Group for January – June 2017

- ❑ After the consolidation of financial results of Petrokemija, d.d. and its subsidiaries - Petrokemija, d.o.o. Novi Sad, Luka Šibenik, d.o.o. and Petrokemija Agro Trade, d.o.o. – the financial results of **Petrokemija Group** for the period January – June 2017 are as follows:

❑ Total revenues	HRK 994.2 million,
❑ Total expenses	HRK 1,035.3 million,
❑ Loss before tax	HRK 41.1 million,
❑ Profit tax	HRK 0,007 million,
❑ Loss after tax	HRK 41.1 million,

- ❑ EBITDA (earnings before interest, taxes and depreciation) was HRK 4.3 million in the negative.
- ❑ Petrokemija, d.o.o. Novi Sad made losses of HRK 60 thousand, while Luka Šibenik, d.o.o. reported loss of HRK 742 thousand
- ❑ Petrokemija Agro Trade, d.o.o. did not have any transactions.

Organization Chart of Petrokemija, d.d. and Petrokemija Group



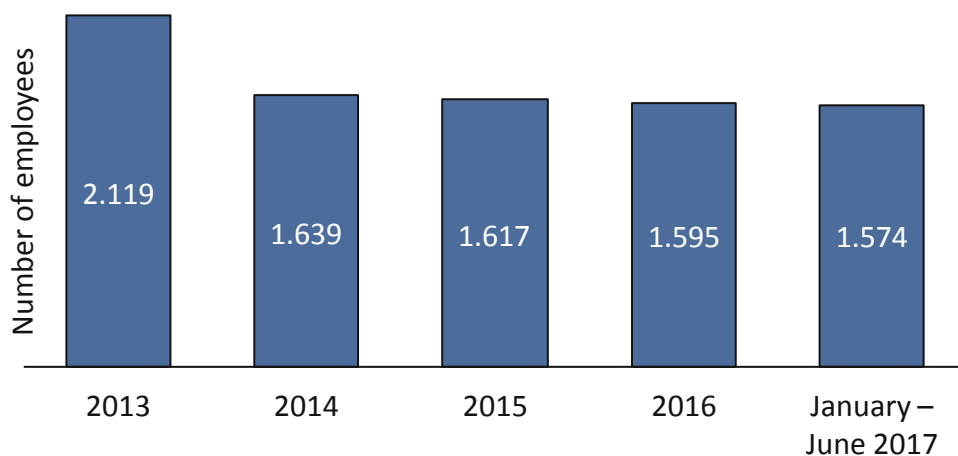
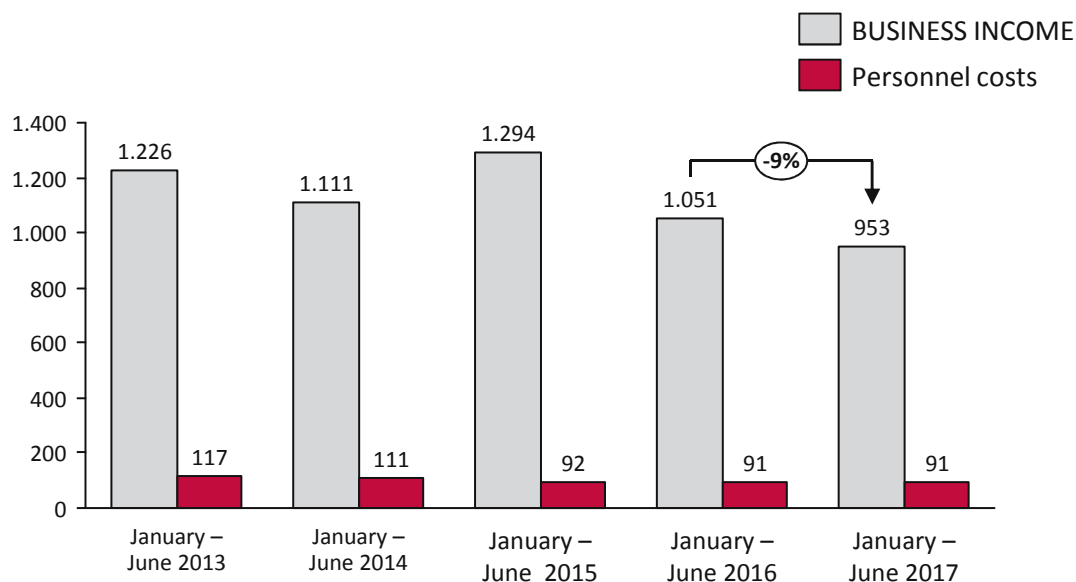
* General services" comprise all employees in the organizational units of the Corporate Functions, Finance and Controlling, Procurement, Sales and IT.

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

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

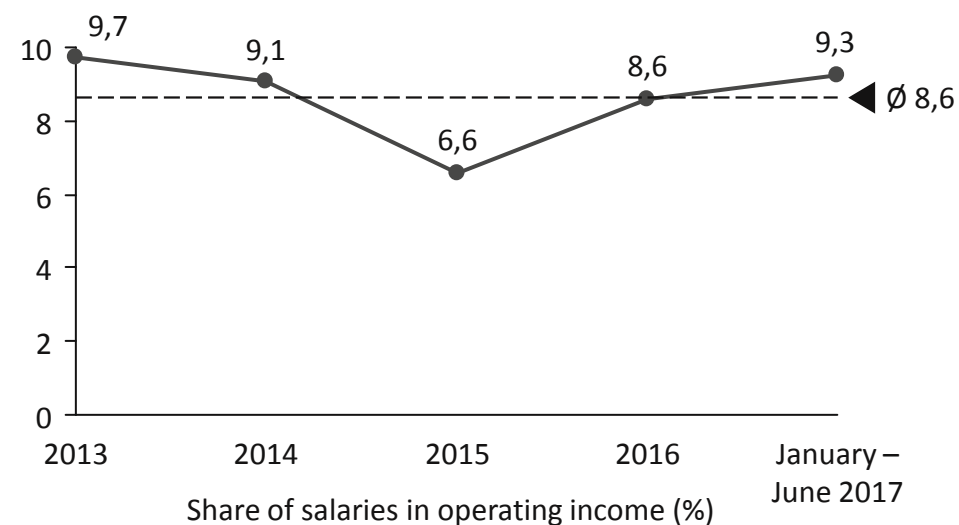
Operational income, personnel costs and number of employees

HRK million



As at **30.06.2017**, Petrokemija, d.d. had 1.574 employees, and daughter companies - members of Petrokemija Group - had 135 employees, which is a total of 1,709 employees.

Personnel costs share in operating revenues was 9.3%, more than the average in the last five years (8.6%) due to the decline in business income.

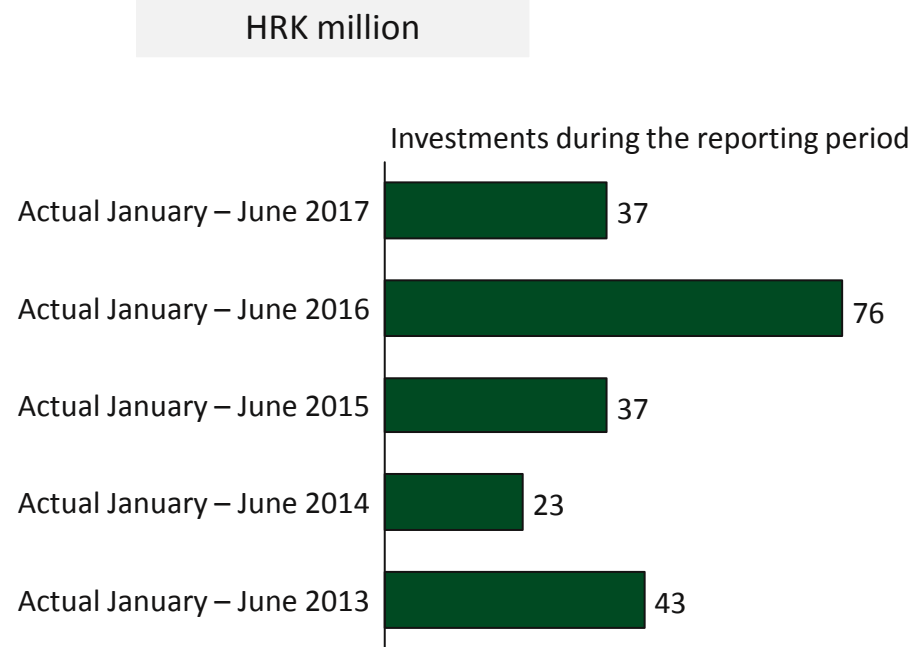
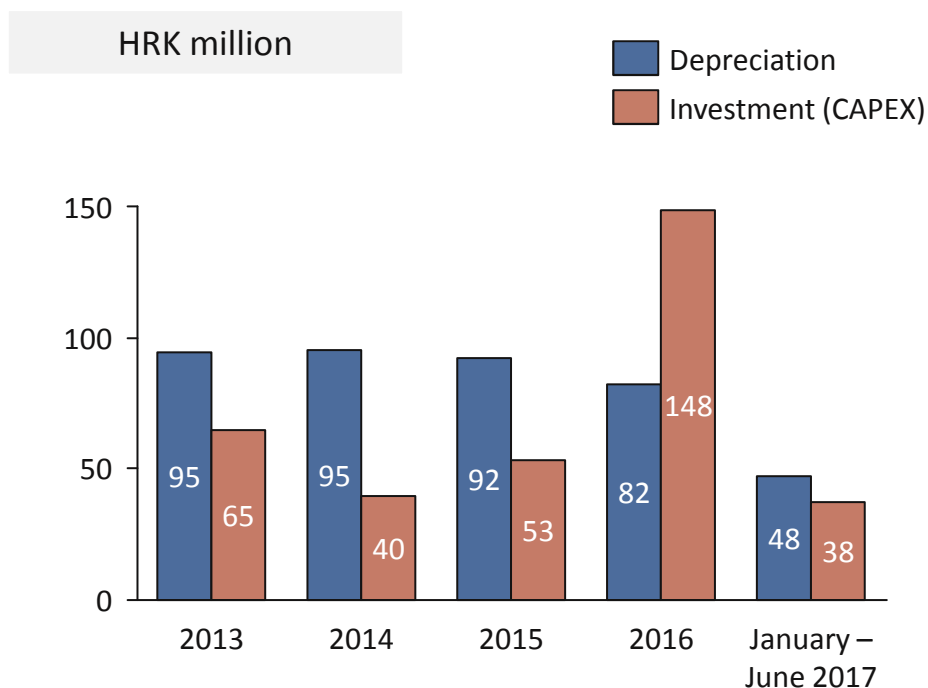


Note: Data for Petrokemija d.d.

Report for period
January – June 2017

Realized investment

- Investment realized in reporting period 2017 amounted to HRK 37.6 million. Out of this amount, HRK 11.5 million relates to the purchase of a crane in Luka Šibenik. Compared to the same period of 2016, investments decreased by HRK 38.8 million or 50.1%
- The planned level of investment of HRK 75 million may be questioned due to limited financing options, which is a very unfavorable situation from the point of view of meeting the requirements of the Environmental Permit and deadlines for execution of certain investment projects that are significantly delayed.



Air quality in the Kutina area for January to June 2017 period at local monitoring station (K1,K2,K6 i K7) and the state monitoring station (DMP)

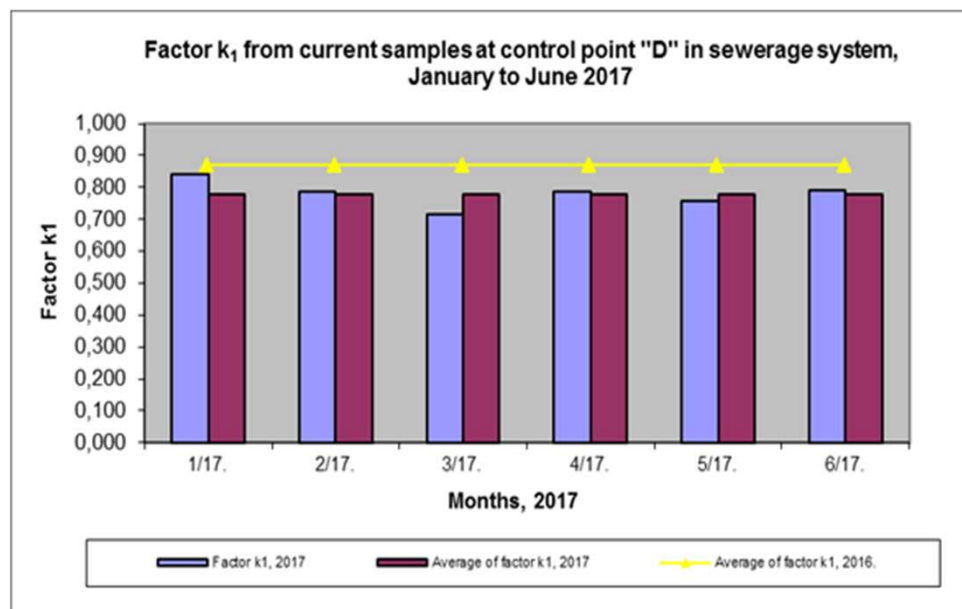


Clean or slightly polluted air	Polluted air	Pollutants
1 st category C<LV	2 nd category C>LV	
K2,DMP		Sulphur dioxide (SO ₂)
K1,K2,K6,K7		Sediment
K1,K6,K7,DMP	K2	Ammonia (NH ₃)
K2,DMP		Nitrogen dioxide (NO ₂)
DMP		Hydrogen sulphide (H ₂ S)
DMP		PM10

Note: The categorization of air quality at DMP may 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 June 2017 period (local network) and Water management

Monitoring station	<i>The number of limit value (LV) exceedances in period <u>January to June 2017</u> / permitted exceedance number</i>
K 1 - Dom zdravlja	7 / 7
K 2 - Vatrogasni dom	13 / 7
K 6 - Husain	6 / 7
K 7 - Krč	2 / 7
TOTAL	28



Water management - In the period from January to June 2017, the average value of k_1 factor is slightly lower than average value in the same period of 2016.

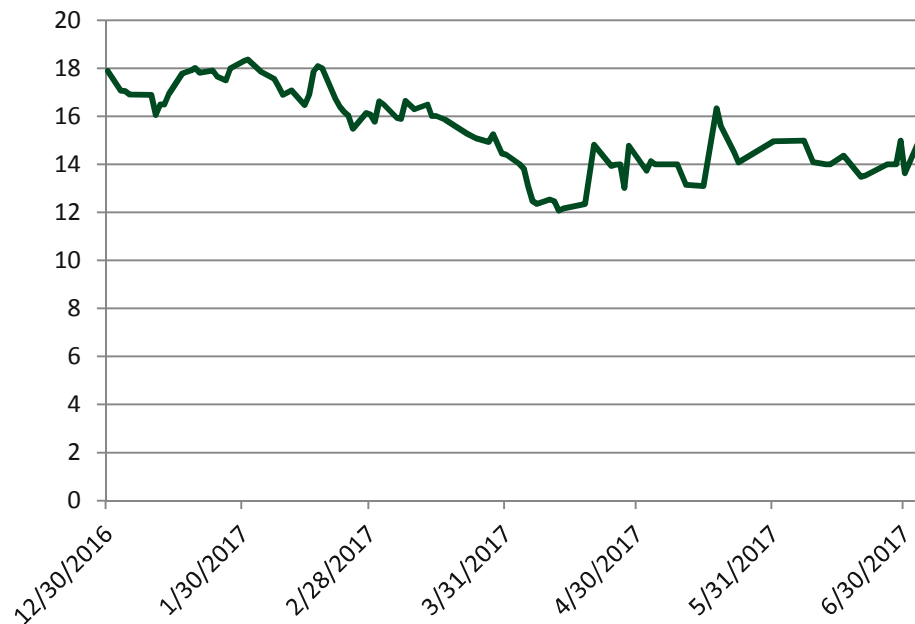
In the period from January to June 2017, monthly average consumption of raw water is higher than average value in the same period of 2016.

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

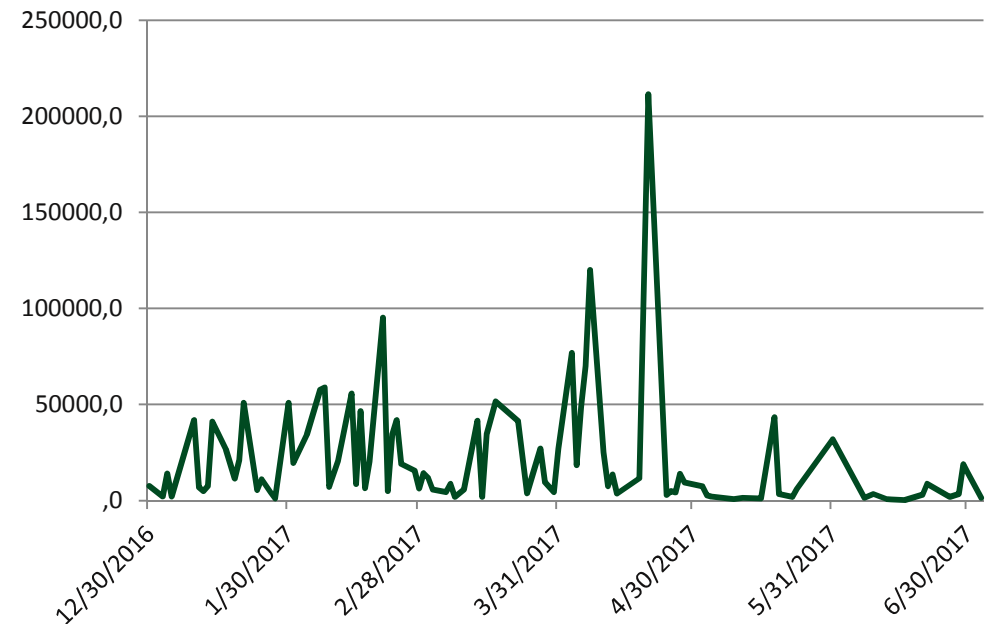
- ❑ The Company share capital amounts to HRK 386,135,400.00 and is divided into 12,871,180 ordinary shares marked PTKM-R-A, with a nominal amount of HRK 30.00.
- ❑ On December 30, 2016, the average value of the share was HRK 17.90, and on June 30, 2017 HRK 13.63 (down 23.85%).
- ❑ At the meeting of 06.02.2017, 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.
- ❑ At the Extraordinary General Meeting held on March 23, 2017, a decision was made to appoint Robert Blažinović member of the Supervisory Board for a mandate of 4 years.
- ❑ At the meeting on 25 May 2017, the Supervisory Board of Petrokemija d.d. made a decision on appointing Davor Žmegač MSc from Kutina a member of the Management Board. His mandate as a Management Board member starts to run on 29.5.2017 and lasts four years. Since 29 May 2017, the Board of Petrokemija d.d. acts as a three-tiered management consisting of: Đuro Popijač MSc - Managing Director, Nenad Zečević BSc - Member of the Board and Davor Žmegač MSc - Member of the Board.

Petrokemija, d.d. share price and daily turnover movements

PETROKEMIJA'S SHARE PRICE MOVEMENTS for
January – June 2017 (HRK/share)



PETROKEMIJA'S DAILY SHARE TURNOVER MOVEMENTS for
January – June 2017 (HRK)



Key events in 2017

- Upon an international tender, Petrokemija, d.d. concluded new contracts for natural gas supply in the gas year 2017/2018 for the required total volumes with suppliers INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar, as the most advantageous suppliers in the tender. With these contracts, Petrokemija secured sufficient quantities of natural gas for a stable planned production in the gas year 2017/2018.
- By the decision of the Croatian Energy Regulatory Agency (HERA) of 17 March 2017, the price of natural gas transport decreased by approximately 20%, with effect as from 1 April 2017, which should have about HRK 20 million positive effect on the financial result of Petrokemija on an annual basis.
- Pursuant to the Decision of Commercial Court in Zagreb, (No. Tt-16 / 45722-2 of 2 January 2017) on the merger of a daughter company, the entry was made of the merger of the company Restoran Petrokemija, d.o.o. for Catering, Kutina Aleja Vukovar 4, and Petrokemija, Plc. Fertilizer Company, based in Kutina, Aleja Vukovar 4, in the registration insert with company number 080004355, OIB 24503685008.
- With the help of financial and legal advisers, in the first half of 2017, a Restructuring Program of the Company and the Petrokemija Group was prepared – Specific concept proposal for restructuring by recapitalization with a private investor - and approved by the Supervisory Board and the competent state institutions.
- At its 33rd meeting on 27 April 2017, the Government of Croatia adopted the Decision on exclusion from the sale of shares of companies: Hrvatski telekom d.d. Zagreb, Podravka Food Industry d.d. Koprivnica, Croatia Airlines d.d. Zagreb and Đuro Đaković Group d.d. Slavonski Brod. Petrokemija, d.d. had requested a loan of HRK 350 million from the Croatian Bank for Reconstruction and Development and the Croatian Government approved the institution of a lien on the shares of the above companies owned by the State for securing the loan repayment. Commercial banks have also been involved in the realization of the loan. Croatian Government passed the Decision on Securing Loan Repayment to ensure the stability of Petrokemija's operations and maintenance of business processes, as well as the creation of preconditions for the preparation and realization of the Company privatization.

Key events in 2017 (cont)

- ❑ Following the decision of the Government of Croatia on securing loan repayment of 27 April 2017, Petrokemija d.d. has signed long-term loan agreements with the Croatian Bank for Reconstruction and Development and the Croatian Postal Bank d.d., as well as a short-term financing agreement with Erste & Steiermarkische Bank d.d. in the total amount of HRK 350 million. The loan was used to secure the stability of Petrokemija's operations and to maintain business processes.
- ❑ On 5 June 2017, upon approval of the Supervisory Board, the Board of Petrokemija d.d. adopted the Decision on the Publication of Call for Indication of Interest in Recapitalization of Petrokemija d.d. Fertilizer Company, Kutina as one of the measures in preparation for the Restructuring Program and the Company privatization. The Call is in accordance with the Decision of the Croatian Government on securing loan repayment of 27 April 2017, long-term loan agreements with the Croatian Bank for Reconstruction and Development and the Croatian Postal Bank d.d. and the agreement on short-term financing with Erste & Steiermarkische Bank d.d. in the total amount of HRK 350 million, which, among other, determined the obligation of the Restructuring and Sale Center (CERP) to initiate the restructuring and privatization process of Petrokemija.
- ❑ On 31 May 2017, CERP established the obligation of the Management and Supervisory Board of Petrokemija d.d. to publicly announce the Call for Recapitalization and invite interested investors to engage in the Company restructuring and privatization process. In accordance with the above decisions and the contractual obligations assumed, the Management and Supervisory Board of Petrokemija are continuing the restructuring and recapitalization process of the Company based on the following strategic assumptions:
 - Modernization of production facilities with the aim of raising the level of energy and technological efficiency, as well as meeting the environmental requirements in accordance with EU regulations;
 - Providing financing sources of permanent working capital;
 - More active appearance and strategic positioning on the market of Croatia and the region;
 - Raising the level of efficiency of maintenance, logistics and other service processes in the Company that will ensure a positive financial result, stability and development of the Company.

Key events in 2017 (cont)

- ❑ Originally, the deadline for submitting the Letter of Intent to Petrokemija d.d. was by 10.00 am on 19 June 2017, but upon prior consent of the Supervisory Board, the Board of Petrokemija adopted the Decision on extension of the deadline for the delivery of the Letter to 30 June 2017.
- ❑ In the period from 5 to 30 June 2017, where all interested investors were asked to express indicative interest in the recapitalization of Petrokemija d.d., the Company received a certain number of bids as well as requests for performing the due diligence analysis of Petrokemija's business.
- ❑ At its meeting of 5 July 2017, Petrokemija's Supervisory Board gave its consent to the Management Board for in-depth analysis and opening of the data room in accordance with the established data lists and previously-signed Non Disclosure Agreements.
- ❑ The due diligence process is conducted from 10 July to 15 August. Following the completion of the in-depth analysis of the Company business, all interested investors are invited to submit their binding bids, in accordance with the Restructuring Program of Petrokemija d.d. - Specific proposal of the restructuring concept by recapitalization with a private investor - which is an integral part of the documentation in the due diligence process, by 1 September 2017.
- ❑ In the reporting period, Petrokemija d.d. introduced a new AdBlue product to its production range, under the brand name PetroBlue. PetroBlue is a diesel engine additive, a 32.5 percent Urea solution in demineralized water, used to reduce NOx compounds in exhaust gas of diesel vehicles equipped with SCR catalysts.

Petrokemija is planning to become the leader in the production of this products, in accordance with the ISO 22241 standard. The annual production capacity is 50,000 tons and it will be sold in bulk and large packaging of 200 to 1000 liters. If there is interest, smaller packages of up to 20 liters may be available. With this new product, Petrokemija has become Croatia's only domestic licensed AdBlue® solution manufacturer and thus the country will no longer have to rely exclusively on the import.

Significant financial risks in 2017

The overall business position of Petrokemija, d.d. in 2017 depends on a number of factors, whose impact is very difficult to estimate. Agreements reached on new natural gas procurement terms and repayment of natural gas debt have reduced part of the risk transferred from the previous period. However, according to the current market situation, it is estimated that in 2017 there will be an ongoing pronounced influence of variable levels of fertilizer prices in the world market and a relatively high level of natural gas price in Europe and Croatia. Also, the Company's insufficient liquidity and high financing costs will have significant impact on the level of financial expense and operational management of the business. 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 d.d. is highly dependent on the movements of fertilizers and their raw materials prices in the global market, the exchange rate of the HRK against USD and EUR and their interrelationship;
- ❑ 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 to the movement of natural gas prices on the European spot market;
- ❑ Reduction in the cost of transport of natural gas by about 20% should continue to have a positive effect on the financial result in 2017;
- ❑ The sales prices of fertilizers in the global market are still very low, although at times changing (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 (approx. USD 190/ton fob Yuzhny in June 2017); 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, but the level of state incentives in agriculture and purchasing price of major crops will still have the key effect;
- ❑ Purchasing prices of most primary raw materials are lower than in the previous period. However, 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 2017, there are expressed risks in finding new long-term sources of financing investment, and it is very difficult to set aside resources from operations to continue the intensive investment process. The deadlines for realizing a part of the so-called ‘environmental investments’, according to the Decision on Integrated Environmental Protection Requirements (by 31.12.2017), will be difficult to meet, so some investments, due to funding difficulties will be transferred to 2018;
- ❑ The most important issue of the current operating business - the debt to natural gas suppliers – has at the time of preparation of this Report partially been resolved through long-term HBOR and HPB loans and short-term ERSTE Bank loan, ensuring a part of the long-term sources of financing working capital and continuing business restructuring activities, However, the challenges of maintaining financial and business stability are still present;
- ❑ Natural gas price fluctuations on the European spot market in the first half of 2017 call for caution due to the high exposure of Petrokemija's business results to the so-called ‘price scissors’ risk - simultaneous rise of prices of raw materials, primarily natural gas, and the fall in sales prices of mineral fertilizers based on this raw material (Urea, CAN / AN)
- ❑ The business loss realized in the first half of 2017 indicates caution in forecasting financial and operating results for the remainder of 2017. Therefore, the Company's restructuring and recapitalization process is essential for business continuity in the following years.

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, 123/16) the Managing Board of Petrokemija, d.d. Kutina, A. Vukovar 4, make a :

Statement on Management Liability

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

Financial reports for the **January 1 to June 30, 2017 period**, make an exact and true account of the Company Petrokemija d.d. and Petrokemija Group financial status and the business and cash flow results, in compliance with the applicable accounting standards. This report may contain certain statements relating to the future business of Petrokemija, d.d. 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, d.d. and Petrokemija Group are heavily dependent on a large number of factors which may influence their being quite different from the originally set ones.

President of Petrokemija
Management Board

Member of Petrokemija
Management Board

Member of Petrokemija
Management Board

Đuro Popijač, MS

Davor Žmegač, MS

Nenad Zečević, BSE



Attachments:

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

Attachment 1.

Reported period:

01.01.2017.

to

30.06.2017.

Quarterly financial statements TFI-POD

Registration number (MB): 03674223

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

Issuer company: PETROKEMIJA GROUP

Postal code and city: 44320

KUTINA

Street and number: ALEJA VUKOVAR 4

E-mail: fin@petrokemija.hrInternet address: www.petrokemija.hr

Code and city/municipality: 220 KUTINA

Code and county name: 3 SISAČKO-MOSLAVAČKA

Number of employees: 1.709
(at the end of the year)

Consolidated Report: YES

Code of NKD: 20.15

Entities in consolidation (according to IFRS):

Registered seat:

Registration number (MB):

PETROKEMIJA d.o.o.

NOVI SAD

08754608

LUKA ŠIBENIK d.o.o.

ŠIBENIK

03037525

PETROKEMIJA AGRO TRADE d.o.o.

KUTINA

4424085

Book-keeping office:

Contact person: MARINA MARIĆ

(name and surname of the contact person)

Telephone number: 044-647-829

Fax: 044-682-795

E-mail: marina.maric@petrokemija.hr

Name and surname: ĐURO POPIJAČ, NENAD ZEČEVIĆ, DAVOR ŽMEGAČ

(authorized representatives)

Documentation to be published:

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

(seal)

(signature of authorized representative)

BALANCE SHEET
as at 30.06.2017.

Issuer: PETROKEMIJA GROUP			
Position	AOP code	Previous year (31.12.)	Current year
1	2	3	4
A) RECIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL	001		
B) LONG-TERM ASSETS (003+010+020+029+033)	002	685.493.783	675.920.914
I. INTANGIBLE ASSETS (004 do 009)	003	8.023.084	7.983.542
1. Expense for development	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	4.487.689	3.752.427
3. Goodwill	006		
4. Advances for intangible assets	007		
5. Intangible assets in progress	008	3.535.395	4.231.115
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 do 019)	010	677.172.585	664.571.521
1. Land	011	48.506.703	48.506.703
2. Buildings	012	224.445.550	214.824.193
3. Plant and equipment	013	349.873.487	337.735.129
4. Tools, plant inventory and transportation assets	014	16.734.517	15.318.191
5. Biological assets	015		
6. Advances for tangible assets	016	99.731	355.497
7. Tangible assets in progress	017	36.330.588	46.706.772
8. Other tangible assets	018	1.182.009	1.125.036
9. Investments in real estates	019		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	020	7.537	7.536
1. Investments (shares) in related companies	021		
2. Loans given to related companies	022		
3. Participating interest (shares)	023	7.537	7.536
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	147.582	3.215.320
1. Receivables from related companies	030		
2. Receivables for sales on loan	031		
3. Other receivables	032	147.582	3.215.320
V. DEFERRED TAX ASSETS	033	142.995	142.995
C) SHORT-TERM ASSETS (035+043+050+058)	034	538.923.822	498.136.643
I. INVENTORIES (036 do 042)	035	401.673.944	393.347.242
1. Raw and other material	036	205.011.823	202.170.197
2. Work in progress	037	20.229.445	15.856.190
3. Finished products	038	164.942.675	164.647.211
4. Merchandise inventory	039	863.873	588.310
5. Advances for inventories	040	10.626.128	10.085.334
6. Long-term assets intended for sale	041		
7. Biological assets	042		
II. TRADE RECEIVABLES (044 do 049)	043	79.156.010	55.031.068
1. Receivables from related companies	044		
2. Receivables from customers (buyers)	045	18.046.686	9.205.964
3. Receivables from participating interest	046		
4. Receivables from employees and members	047	6.931	6.561
5. Receivables from state and other institutions	048	35.586.861	45.224.999
6. Other receivables	049	25.515.532	593.544
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	33.632.160	30.741.657
1. Investments (shares) in related companies	051		
2. Loans given to related companies	052		
3. Participating interest (shares)	053	32.620.660	29.623.190
4. Loans given to companies with participating interest	054		
5. Investment in securities	055		
6. Loans given, deposits and similar assets	056	1.011.500	1.118.467
7. Other financial assets	057		
IV. CASH IN BANK AND IN HAND	058	24.461.708	19.016.676
D) PREPAID EXPENSES AND ACCRUED INCOME	059	290.489	2.207.137
E) TOTAL ASSETS (001+002+034+059)	060	1.224.708.094	1.176.264.694
F) OFF BALANCE SHEET ITEMS	061	1.335.568.822	1.097.611.870

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	45.530.557	6.303.684
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 (deductible item)	068		
4. Statutory reserves	069		
5. Other reserve	070		
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	-256.156.639	-342.100.946
1. Retained earning	073		
2. Loss carried forward	074	256.156.639	342.100.946
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	075	-87.944.250	-41.076.378
1. Profit for the year	076		
2. Loss for the year	077	87.944.250	41.076.378
VII. MINORITY INTEREST	078	3.696.046	3.545.608
B) PROVISIONS (080 do 082)	079	12.979.471	12.955.971
1. Provisions for pensions, severance pay and similar liabilities	080	12.134.011	12.110.511
2. Provisions for tax liabilities	081		
3. Other provisions	082	845.460	845.460
C) LONG-TERM LIABILITIES (084 do 092)	083	365.716.220	476.492.943
1. Liabilities to related companies	084		
2. Liabilities for loans, deposits and similar	085	95.833.333	
3. Liabilities to banks and other financial institutions	086	269.882.887	476.492.943
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	730.643.023	641.912.914
1. Liabilities to related companies	094		
2. Liabilities for loans, deposits and similar	095	225.163.666	270.569.790
3. Liabilities to banks and other financial institutions	096	52.663.832	103.410.513
4. Liabilities for advances	097	136.968.706	64.817.204
5. Liabilities to suppliers	098	289.065.019	179.680.195
6. Liabilities for securities	099		
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	11.481.299	11.436.041
9. Liabilities for taxes, contributions and other payments	102	8.237.051	8.285.887
10. Liabilities as per share in result	103		
11. Liabilities as per long-term assets intended for sales	104		
12. Other short-term liabilities	105	7.063.450	3.713.284
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	69.838.823	38.599.182
F) TOTAL LIABILITIES (062+079+083+093+106)	107	1.224.708.094	1.176.264.694
G) OFF BALANCE SHEET ITEMS	108	1.335.568.822	1.097.611.870
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	41.834.511	2.758.076
2. Credited to minority interest	110	3.696.046	3.545.608

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 01.01.2017. to 30.06.2017.

Issuer: PETROKEMIJA GROUP					
Position	AOP code	Previous year		Current year	
		Cumulative	Quarterly	Cumulative	Quarterly
1	2	3	4	5	6
I. OPERATING REVENUES (112+113)	111	1.054.259.622	523.292.691	960.337.225	366.071.494
1. Sales revenues	112	1.023.450.185	503.452.405	936.013.911	354.618.602
2. Other operating revenues	113	30.809.437	19.840.286	24.323.314	11.452.892
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	1.038.123.148	506.162.597	1.012.721.696	410.692.261
1. Changes in value of work in progress and finished products	115	65.084.972	50.424.150	4.668.720	-43.273.575
2. Material costs (117 do 119)	116	798.485.150	366.709.723	822.610.330	363.416.161
a) Cost of raw and production materials	117	760.028.232	346.422.277	784.573.012	345.464.635
b) Cost of goods sold	118	2.414.913	710.887	6.599.266	1.223.691
c) Other external costs	119	36.042.005	19.576.559	31.438.052	16.727.835
3. Employees costs (121 do 123)	120	97.471.562	48.917.158	97.401.092	49.142.358
a) Net salaries and wages	121	61.117.504	30.644.141	61.894.375	31.194.697
b) Costs for taxes and contributions from salaries	122	22.142.272	11.140.384	21.300.528	10.779.947
c) Contributions on salaries	123	14.211.786	7.132.633	14.206.189	7.167.714
4. Depreciation	124	42.272.048	20.514.035	48.047.418	23.870.079
5. Other costs	125	32.271.572	17.059.764	39.891.470	17.434.992
6. Value adjustments (127+128)	126	2.537.844	2.537.767	102.666	102.246
a) of long-term assets (except for financial assets)	127	2.530.348	2.530.348	95.400	95.400
b) of short-term assets (except for financial assets)	128	7.496	7.419	7.266	6.846
7. Provisions	129				
8. Other operating expenses	130				
III. FINANCIAL REVENUES (132 do 136)	131	6.008.634	643.079	33.872.137	4.788.983
1. Interest, exchange rate fluctuations, dividends and similar from associated companies	132				
2. Interest, exchange rate fluctuations, dividends and similar from non-associated companies and others	133	6.008.634	643.079	18.002.476	7.357.530
3. Part of revenue from associated companies and participating interests	134				
4. Unrealised gains (revenues) from financial assets	135				
5. Other financial revenues	136			15.869.661	-2.568.547
IV. FINANCIAL EXPENSES (138 do 141)	137	21.224.573	9.566.033	22.557.148	11.686.507
1. Interest, exchange rate fluctuations and other costs with associated companies	138				
2. Interest, exchange rate fluctuations and other costs with non-associated companies	139	21.224.573	9.566.033	20.792.393	11.686.507
3. Unrealised losses (costs) from financial assets	140				
4. Other financial expenses	141			1.764.755	
V. PORTION IN PROFIT OF ASSOCIATED COMPANIES	142				
VI. PORTION IN LOSS OF ASSOCIATED COMPANIES	143				
VII. EXTRAORDINARY - OTHER REVENUES	144				
VIII. EXTRAORDINARY - OTHER EXPENSES	145				
IX. TOTAL REVENUES (111+131+142 + 144)	146	1.060.268.256	523.935.770	994.209.362	370.860.477
X. TOTAL EXPENSES (114+137+143 + 145)	147	1.059.347.721	515.728.630	1.035.278.844	422.378.768
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	920.535	8.207.140	-41.069.482	-51.518.291
1. Profit before taxation (146-147)	149	920.535	8.207.140	0	0
2. Loss before taxation (147-146)	150	0	0	41.069.482	51.518.291
XII. PROFIT TAX	151	73.430	38.091	6.896	-93.991
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	847.105	8.169.049	-41.076.378	-51.424.300
1. Profit for the period (149-151)	153	847.105	8.169.049	0	0
2. Loss for the period (151-148)	154	0	0	41.076.378	51.424.300

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	931.090	8.072.501	-40.925.940	-51.403.390
2. Credited to minority interest	156	-83.985	96.548	-150.438	-20.910
STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)					
I. PROFIT OR LOSS OF THE PERIOD (= 152)	157	847.105	8.169.049	-41.076.378	-51.424.300
II. OTHER COMPREHENSIVE GAINS/LOSS BEFORE TAXES (159 do 165)	158	0	0	32.290	32.290
1. Exchange rate differences from translation of foreign currency operations	159			32.290	32.290
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	32.290	32.290
V. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD (157+167)	168	847.105	8.169.049	-41.044.088	-51.392.010
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	931.090	8.072.501	-40.893.650	-51.371.100
2. Credited to minority interest	170	-83.985	96.548	-150.438	-21.000

CASH FLOW STATEMENT - Direct method

for the period 01.01.2017. to 30.06.2017.

Issuer: PETROKEMIJA GROUP			
Position	AOP code	Previous year	Current year
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Cash increase from buyers	001	1.005.901.384	900.023.587
2. Cash increase from royalties, fees commissions and other	002		
3. Cash increase from insurance compensations	003	3.119.797	26.236.270
4. Cash increase from tax return	004	120.294.578	141.415.694
5. Other cash increase	005	79.521	317.934
I. Total increase of cash flow from operating activities (001 do 005)	006	1.129.395.280	1.067.993.485
1. Expenses to suppliers	007	870.349.697	1.102.777.131
2. Expenses for employees	008	97.974.921	102.661.264
3. Expenses for insurance compensations	009	6.253.705	6.066.944
4. Expenses for interest	010	23.771.926	14.477.826
5. Expenses for taxes	011	17.730.498	20.981.378
6. Other cash decrease	012	4.315.528	5.379.403
II. Total decrease in cash flow from operating activities (007 do 012)	013	1.020.396.275	1.252.343.946
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)	014	108.999.005	0
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)	015	0	184.350.461
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proceeds from sale of non-current tangible and intangible assets	016	1.722.737	6.095.195
2. Cash proceeds from sale of equity and debt security instruments	017		
3. Cash proceeds from interest payment*	018		
4. Cash proceeds of dividend payment*	019		
5. Other cash proceeds from investing activities	020		
III. Total cash inflow from investing activities (016 do 020)	021	1.722.737	6.095.195
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	37.097.912	39.511.611
2. Cash outflow for acquisition of equity and debt financial instruments	023		
3. Other cash outflows from investing activities	024		
IV. Total cash outflow from investing activities (022 do 024)	025	37.097.912	39.511.611
B1) NET CASH FLOW FROM INVESTING ACTIVITIES (021-025)	026	0	0
B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)	027	35.375.175	33.416.416
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash infows from issuance of equity and debt financial instruments	028		
2. Cash inflows from loan principals, debentures, credits and other borrowings	029	31.282.034	314.021.515
3. Other inflows from financial activities	030	26.546.147	32.620.660
V. Total cash inflow from financial activities (028 do 030)	031	57.828.181	346.642.175
1. Cash outflows for repayment of loan principal and bonds	032	109.606.811	104.590.173
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	17.086.706	29.623.189
VI. Total cash outflow for financial activities (032 do 036)	037	126.693.517	134.213.362
C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)	038	0	212.428.813
C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)	039	68.865.336	0
Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)	040	4.758.494	0
Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)	041	0	5.338.064
Cash and cash equivalents at the begining of the period	042	13.043.958	25.473.208
Increase of cash and cash equivalents	043	4.758.494	
Decrease of cash and cash equivalents	044		5.338.064
Cash and cash equivalents at the end of the period	045	17.802.452	20.135.144

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

STATEMENT OF CHANGES IN EQUITY

for the period from 1.1.2017 to 30.6.2017

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	-256.156.639	-342.100.946
5. Profit or loss for the year	005	-87.944.250	-41.076.378
6. Revaluation of fixed tangible assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluation	009	3.696.046	3.545.608
10. Total capital and reserves (AOP 001 do 009)	010	45.530.557	6.303.684
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	41.834.511	2.758.076
17 b. Credited to minority interest	019	3.696.046	3.545.608

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

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

Note

PETROKEMIJA GROUP

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

INTRODUCTION

Despite the adverse conditions in the narrower and wider economic environment, in the first half of this year, Petrokemija Group increased production by 4.3% and sales of mineral fertilizers by 1.5%, compared with the same period last year. The sales in the domestic market was up by 13.5%, the sales in the region were up by 29.8%, while sales to the distant markets decreased, due to high transport costs and strong competition from large producers.

In the first half of 2017, Petrokemija d.d., responded with partial success to the challenges of the low-price crisis of mineral fertilizers, which European fertilizer manufacturers have been facing for the third year now, and to disturbances in the agricultural and food chain at local and regional level that were started by the crisis in Agrokor Group.

After a long period of preparation and in limited conditions of funding investments in modernization and increasing energy efficiency, in the reporting period, the investment in the long-announced new product "PetroBlue" was realized, a product used as an additive to the fuel of modern diesel engines. This improved the Company market adaptability, because a part of the Urea mineral fertilizer production is directed to a market segment that is not related to agriculture.

It is well known that the Agrokor Group, as the organizer of agricultural production is the most important single factor in the entire value chain, from the production of crops to the processing industry and the food distribution chain, so that its problems have impact on numerous food producers of different profiles and sizes, from family farms to large systems. Although it does not have such great significance in the region, Agrokor's business disturbance has also had an impact on mineral fertilizer buyers on the markets of neighbouring countries, primarily Bosnia and Herzegovina and Serbia.

Fertilizer manufacturers in Europe are under strong pressure from the competition of major global manufacturers that have a comparative advantage of cheap raw material sources, from natural gas to phosphate rock, potassium chloride and sulfur. In these conditions, even successful European mineral fertilizer producers, who benefited from a favorable trend for modernization of plants and restructuring in the previous decade, have experienced a fall in profit of up to 70%. Accordingly, it was inevitable for Petrokemija, which has been struggling to maintain business continuity for years and operating in conditions of lower technological and energy efficiency than its European competitors, to report a loss of 4% of total revenues.

After years of attempts of changing the ownership structure and attracting into its ownership structure large investors in the value creation chain - from production and trading with natural

structure large investors in the value creation chain – from production and trading with natural gas, to logistics of sales of mineral fertilizers to end users – in the reporting period, the current owners have carried out extensive and complete preparation for the implementation of the privatization process and the opening of the new development cycle of the Company, where all its current potential would be exploited - from a favorable location, well-maintained production and logistics systems, to skilled labor. Shortage of financial potential that manifests itself in the impossibility of changing the business model, and of quick adaptation to constant market changes, should be resolved in the future by permanent capital sources and a new management model of future investors. Loans granted by HBOR and commercial banks in 2016 and 2017 helped to fill the cash gap transferred from previous years, and recapitalization should create the preconditions for a balanced financing model for plant modernization and investment in greater efficiency of all processes in the Company. At the time of the publication of these Report, a due diligence analysis of the Company by potentially interested investors is in progress, and in 2017, an intensification of the privatization process of the Company is expected, after which the State (or CERP) will remain in the position of one of the shareholders but without a dominant position in the ownership structure and management rights.

1. Financial result for January – June 2017

In the January to June 2017 period, Petrokemija Group had total income of HRK 994.2 million and total expense of HRK 1035.3 million, and the Company reported loss in operations of HRK 40.3 million or 4.1% of the total revenues. In the same period last year, the Company had profit of HRK 0.9 million, which shows a negative development in the financial result of HRK 42.0 million. The main causes of the losses in the first half of 2017 are lower average sales prices of mineral fertilizers and higher actual purchase price of natural gas as the basic raw material.

The EBITDA (earnings before interest, taxes, depreciation and amortization) is negative amounting to HRK -4.3 million and the EBITDA margin was -0.4%. The total revenues for the first half of 2017 were down by 6.2% on the same period of 2016, while total expenditures were down by 2.3%. These figures indicate a more significant decrease in revenues than cost reduction, i.e. a lower financial volume of operations despite the sale of larger quantities of mineral fertilizers (+ 1.5%). The main reasons for the loss of the business were the growth of natural gas price (+ 8.2% on average over the same period last year) and the simultaneous negative impact of lower selling prices (- 10.6% on average over the same period last year).

It can be said that both these key business risks of Petrokemija's business in the first half of 2017, are the result of adverse global market situation, marked by low fertilizer prices in most of the reporting period, with simultaneous growth of average natural gas prices. Since Petrokemija d.d. is exposed to the impact of global trends and has no financial strength or instruments to adapt to the emerging situation in the wider environment quickly and effectively, the situation in the European and global markets has resulted in the losses in business.

In these unfavorable conditions, a greater growth of operating loss was prevented by the sales of larger quantities of mineral fertilizers on the domestic market and in the region. In this context, sales amounted to 547 thousand tons, up 1.5% on the same period last year. In the sales structure, domestic sales rose by 13.5% and sales in the region by 29.8%, with at the same time reduced sales in distant markets as they are price-wise less attractive due to the high transport costs and strong competition of large producers and retailers of mineral fertilizers.

After the high growth of imports of mineral fertilizers into the Republic of Croatia in 2016. at

After the high growth of imports of mineral fertilizers into the Republic of Croatia in 2016, at the turn of 2016/2017, there was a significant drop in fertilizer imports by direct regional competitors as Petrokemija offered better sales terms than foreign direct regional competitors. As a result, domestic sales volumes in the first half of 2017 increased by 13.5% compared to the same period of 2016, but are still at a low level given the potentials of Croatian agriculture. The main obstacle to higher domestic sales in the remaining business year is linked to the problem of customers' liquidity. Significant limitations are also the operational challenges that the Agrokor Group, as a major customer of mineral fertilizers, is faced with at the time of the preparation of this Report. In this context, the business challenges faced by their business partners in the agricultural sector can also be seen, which can significantly affect the level of sown areas and fertilization in the remainder of 2017. Despite a somewhat better situation in the structure of debt, Petrokemija, d.d. has still no long-term sources of financing deferred payments to buyers of mineral fertilizers, and banks are mostly not willing to adequately support agricultural production. Among other constraints affecting the level of sales on the domestic market are the dynamics and level of incentive payments on the domestic market and the ever more present principle of purchase at the last moment of application with direct field manipulation (without the cost of storing and re-loading).

Reducing the VAT rate in 2017 also boosted demand for mineral fertilizers and will help balance the price level in the region, but the key effect will still be the extent of Government incentives in agriculture and the purchase prices of major crops.

2. Structure of financial result

In the structure of the financial result for January to June 2017, HRK 51.6 million is the operating loss, while HRK 11.3 million profit was generated from financial activities, resulting in total loss in the reporting period of HRK 40.3 million. Financial profit is the result of external factors – positive exchange rate differences of HRK 18.1 million and corrections of the CO₂ emission units' value, which on the reporting date (30.06.2017) had a lower price compared to 31.12.2016. Accordingly, a correction was made on the amount of future liabilities for the purchase of emission units in favor of financial income of HRK 15.9 million. As on 31.12.2016, the price of the EU Emission Allowance was EUR 6.55 per emission unit and on 30.06.2017 it was EUR 5.03.

The level of financial expenditures is still affected by the adverse financing structure, i.e. high debt. During the reporting period, critical liabilities to natural gas suppliers have been solved, but there are still activities underway to find more favorable sources of long-term financing for the Company and to eliminate the consequences of high debt carried forward from the previous period.

3. Revenues

In the reporting period, the trend of falling mineral fertilizer prices was continued, which had a negative effect on business revenues, so that despite all the adjustments of the assortment and the increase of sales on the domestic and regional markets, there was no positive operating result. This can be seen from the data that at 1.5% higher volume sales of mineral fertilizers, 8.9% lower operating income was earned, compared to the previous year.

Domestic sales in percentage are higher than in the previous year (index 113.5), but expressed in thousands of tons, the increase amounts to approximately 18 thousand tons, which indicates very low sales in the same period last year. It is estimated that sales in Croatia are still unsatisfactory due to economic exhaustion and low liquidity of Croatian agriculture as well as to insufficient support from commercial banks.

The consequence of the obligation of Petrokemija d.d. to have volumes of mineral fertilizers continuously on stock under pledge due to high indebtedness to one of the natural gas suppliers, is that not even quantities of finished products for which there was market demand, were sold. Another constraint to larger domestic sales was the financial impossibility of Petrokemija to grant domestic buyers sales of mineral fertilizers with the expected margins,

rebates and deferred payment of 60 to 180 days. An additional challenge in the sales of mineral fertilizers on the domestic market is the pressure to lower the prices of mineral fertilizers due to the extremely high pressure of low prices by competitive mineral fertilizers manufacturers from the region (Hungary, Bosnia and Herzegovina, Serbia and Italy) and the increase in natural gas prices in the open market.

The level of export sales volumes is down by 2.4% as a result of efforts to, by balancing the product range and by additional sales efforts on certain markets in the region, reduce the negative effects of sales on remote overseas markets where the sales price mostly does not cover the costs of direct raw- and production materials. Balancing the production and sales of mineral fertilizer assortments that had better sales prices ensured business continuity and current liquidity. Additional challenges were the significant fluctuations of mineral fertilizer prices over the reporting period and constraints on logistic capacities in export markets.

The trend of movements of price and supply and demand on the global mineral fertilizer market did not change significantly compared to 2016, except that in the part of the reporting period there was a rise (first quarter of 2017) and then again a fall in Urea price. The main export product of Petrokemija, d.d. - nitrogen fertilizer Urea, achieved a decline in average price of 27% in the world market in 2016. In the first half of 2017, there was a short-term growth, followed by a fall in price to the level of approx. USD 190 / t fob Yuzhny in June 2017, thus bringing the price to a level that does not cover even the direct cost of natural gas. This can be interpreted as a cyclic disorder, but points to caution in predicting future business results if the price of natural gas does not follow the same trend.

4. Expenses

Operating expenses were down by 2.5% compared to the same period of the previous year, as a reflection of changes in product range and lower purchasing prices of part of the raw materials, thus compensating for a part of the increased costs due to rising natural gas prices in the open market. The prices of the main raw materials for the production of mineral fertilizers in the world market are lower (from 7 to 10%), with the smallest fall achieved in MAP and the largest in potassium chloride. The price of natural gas ranged independently of the price trend of other raw materials, with a 8.2% higher price in the first half of 2017, compared to the same period last year (the price includes transport costs, expressed in HRK). Overhead costs are mainly at the level of the same period last year, except for deviations that relate to the quantity of production and sales or the contracted packaging method, such as cost of packaging, export services and other costs that vary according to the level of business activity. Overall, it can be estimated that sustained production continuity had positive effect on operating business performance because in the event of suspended production, negative effects would be even greater due to the high fixed costs and additional costs of gas transport costs on a full-for-empty basis, as well as costs of energy products and intermediates during the shutdown and start-up of the facilities, which inevitably accompany the halt of production.

5. Natural gas supply

In the reporting period, Petrokemija, d.d. supplied natural gas from two permanent suppliers - INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar, pursuant to previously concluded contracts. The price is determined by means of an escalating formula based on the actual prices on the European natural gas market (CEGH and TTF hubs). The average realized purchase price of natural gas (with transportation costs, expressed in HRK) in the reporting period January to June 2017 was 8.2% higher than in the same period of 2016. This percentage is subject to constant changes in the remaining part of the year, in line with price movements on the European natural gas spot market.

In the course of the reporting period, upon an international tender, Petrokemija, d.d.

In the course of the reporting period, upon an international tender, Petrokemija, d.d. concluded new contracts for natural gas supply in the gas year 2017/2018 with the existing natural gas suppliers INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar, as the most advantageous suppliers in the tender. In contracting new natural gas deliveries, the negotiating position is complicated by the situation where Petrokemija, d.d. has a high level of debt to the suppliers of natural gas delivered in the previous period. The growth in natural gas prices on the European spot market, especially since the last quarter of 2016, re-actualizes the imbalance between the purchase price of natural gas and the price of nitrogen fertilizers on the global market.

By the decision of the Croatian Energy Regulatory Agency (HERA) of March 17, 2017, the price of natural gas transport decreased by approximately 20%, with effect from 1 April 2017, which should have about HRK 20 million positive effect on the financial result of Petrokemija on an annual basis.

6. Production and capacity utilization

In the January to June 2017 period, as compared to the previous year, Petrokemija, d.d. achieved 4.3% higher total production despite the three unplanned suspensions of operation of the liquid ammonia production plant (two shutdowns for technical reasons and one due to the disruption of natural gas supply by one of the natural gas suppliers).

In the production structure, the following changes occurred: 12.1% higher production of Urea, 0,7% of CAN and 1.5% lower NPK fertilizer production. In the reporting period, production capacity utilization was 89.7%, and production range was adjusted to market conditions and constraints.

Due to market reasons, the phosphoric acid and carbon black production plants have been stalled since mid-2009. This problem was carried over into the third quarter of 2017, with open possibilities to increase the production of sulfuric acid for the new PETROKEMIJaS product (granular ammonium sulphate - AS) and to improve NPK fertilizer properties by adding sulfur. Petrokemija's own technology has provided a basis for the production of Ammonium Sulfate (PETROKEMIJaS) and Ammonium Sulphonitrate (ASN). The result was a wider product range, partial revitalization of NPK-2 Plant and an additional increase of granular mineral fertilizer production.

The crisis caused by the imbalance of input and output prices on the carbon black market is still ongoing, so that different options and solutions are being considered for carbon black and phosphoric acid production plants, including calculations for the potential dismantling of equipment and site remediation.

7. Environmental protection

On 10 July 2015, following the request by the operator, Petrokemija, d.d. 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 plants at Petrokemija, d.d. 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 prerequisite for obtaining all necessary permits related to the technical and technological operating conditions for manufacturing facilities of Petrokemija, d.d. in the next five years.

In accordance with the Decision, in 2016, a part of the activities was carried out during the extensive biennial overhaul and the investment cycle was continued in the first half of 2017 (HRK 37.6 million realized investment). Environmental projects are becoming increasingly important in the legislative environment of EU, and the remaining deadlines for the execution are getting shorter (31 December 2017), so in the oncoming years, Petrokemija will be forced to urgent and significant investment. In accordance with the IPPC Directive and the Decision on Integrated Environmental Protection Requirements, in order to meet all the prescribed

on integrated Environmental Protection Requirements, in order to meet all the prescribed technical and technological requirements of environmental protection, Petrokemija, d.d. must invest approx. HRK 380 million. So far, around a quarter of the total planned funds has been realized.

8. Liquidity

Due to the losses in previous periods, Petrokemija d.d. has inadequate sources for funding working capital. Operations are largely financed from short-term bank loans and reprogrammed repayment schedules for liabilities to natural gas suppliers. Extremely adverse situation of threatened liquidity and solvency of the Company was alleviated by the HRK 200 million long-term loan from the Croatian Bank for Reconstruction and Development in the last quarter of 2016. It was used to settle a portion of the outstanding debt to the natural gas suppliers and a part of other liabilities, in accordance with the Decision of the Croatian Government.

In the reporting period, the issue of debt to suppliers was raised again, due to increasing difficulty in maintaining liquidity, i.e. the high due debt to the natural gas suppliers that resulted in a short disruption of delivery in April 2017. In May, a solution was arrived at to settle the outstanding liabilities to Prvo plinarsko društvo d.o.o. and other creditors by the loan from HBOR, HPB and ERSTE banks in the total amount of HRK 350 million. However, the remaining part of the liabilities transferred from the previous period remain open.

9. Recapitalization and change in ownership structure

In order to mitigate the financing imbalance and maintain business continuity, in August 2016, the Company received a long-term loan of HRK 200 million from the Croatian Bank for Reconstruction and Development, with a 100% guarantee of the Government of the Republic of Croatia, thereby securing a portion of long-term sources of financing of working capital and continuity of activities in restructuring the business.

Pursuant to the decision of the Government of the Republic of Croatia, the Company Management Board initiated the preparation of the Restructuring Program that must be submitted to authorized bodies (Ministry of Economy, Ministry of Finance and CERP), so they would be able to carry out a possible pre-notification or notification procedure to the European Commission (DG Competition).

At its 33rd session on 27 April 2017, the Government of the Republic of Croatia adopted the Decision on exclusion from the sale of shares of companies: Hrvatski telekom d.d. Zagreb, Podravka Food Industry d.d. Koprivnica, Croatia Airlines d.d. Zagreb and Đuro Đaković Group d.d. Slavonski Brod. Petrokemija, d.d. had requested a loan of HRK 350 million from the Croatian Bank for Reconstruction and Development and the Croatian Government approved the institution of a lien on the shares of the above companies owned by the State for securing the loan repayment. Commercial banks have also been involved in the realization of the loan. Croatian Government passed the Decision on Securing Loan Repayment to ensure the stability of Petrokemija's operations and maintenance of business processes, as well as the creation of preconditions for the preparation and realization of the Company privatization.

With the help of financial and legal advisers, in the first half of 2017, a restructuring program of the Company and the Petrokemija Group was prepared, which was approved by the Supervisory Board and CERP.

On 5 June 2017, upon approval of the Supervisory Board, the Board of Petrokemija d.d. adopted Decision on the Publication of Call for Indication of Interest in Recapitalization as one of the measures in preparation for the Restructuring Program and the Company privatization. By 30 June 2017, the Company received the bids of the interested investors. Potential investors' offers were presented to the Company Supervisory Board as well as to the State Property Ministry and Restructuring and Sales Center as representatives of the majority owner. At the time of the preparation of this Report a due diligence analysis is being conducted by the potentially interested investors.

10. Financial risks in the subsequent period

In addition to the above, the future trends of Petrokemija Group's financial result will be influenced by numerous factors. Next to the overall economic trends of the Republic of Croatia, natural gas prices and terms of natural gas supply, which are predominantly defined on the domestic market, most of the future risks come from the international environment, mainly through:

1. Natural gas price trends in the European spot market;
2. Changes in price of basic raw materials in the world market (MAP, DAP, phosphate, potassium chloride and sulfur);
3. Changes in demand and sales prices of mineral fertilizers;
4. Price trends of basic agricultural cultures;
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.

The exposure of Petrokemija, d.d. to developments in the global market, opens up significant potential risks in terms of price and financial fluctuations in 2017. Effective risk management of natural gas price growth (contracted price is in 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 -192 million, whereas on 31.12.2016 it was HRK -278 million) and by the lack of support of financial institutions in financing working capital and investments.

The most important issue of current operating business - the debt to natural gas suppliers – at the time of the preparation of this Report has partly been resolved through long-term loans from HBOR and PBZ and a short-term one from ERSTE Bank, whereby a part of the long-term sources of financing working capital and the continuation of activities in restructuring the business was secured. However, the challenges of maintaining financial and operational stability are still present.

Due to the Company's insufficient liquidity, advance payments are used in the sales of mineral fertilizers, which, due to the economic exhaustion of Croatian agriculture results in lower demand and therefore a poorer market position of Petrokemija, d.d. in the Republic of Croatia. The market and financial results for the first half of 2017 as well as the assessment of market position at the time of the preparation of these financial statements (in particular in terms of uncertain domestic sales and the extremely low prices of mineral fertilizers on the open market in large quantities, threatened liquidity and solvency of the Company), call for caution in predicting future trends in business in 2017, with the possibility of occasional shutdowns of part of the facilities and changes in the organization of the Company and Petrokemija Group. The growth in natural gas prices on the European spot market actualizes the issue of the imbalance between the purchase price of natural gas and the price of nitrogen mineral fertilizers on the global market. If continued, this trend may adversely affect the business result in 2017.

Majority owner's decisions about the future model of support and their attitude towards the Company will significantly influence the reduction of the risk of maintaining business continuity in the future period, either by finding a strategic partner, recapitalization or another model of financing the Company that would provide for the realization of planned restructuring and financial consolidation activities in the period 2017 to 2027.