



Petrokemija, Plc. Fertilizer Company
Aleja Vukovar 4, 44320 Kutina, Croatia
Ordinary share, PTKM-R-A ISIN HRPTKMRA0005
listed on the Official Market of the Zagreb Stock Exchange
Notice pursuant to the Capital Market Act

Pursuant to the provisions of Article 277 of the Companies Act and Article 13 of the Articles of Association of Petrokemija, Plc., on 27 April 2017, the Company Management Board adopted the decision to convene and invites you to participate in the work of

GENERAL MEETING OF PETROKEMIJA, Plc.

**to be held on Friday, 9 June 2017, at 12.00 hours
at the Petrokemija headquarters in Kutina, Aleja Vukovar 4.**

The proposed A G E N D A of the General Meeting is as follows:

1. Opening of the Meeting and checking the attendance list;
2. Annual financial statements for 2016, after having been approved by the Management and Supervisory Board, and the Management Board Report;
3. Report of the Supervisory Board;
4. Decision on the Company loss coverage;
5. Decision on granting clearance to the Management Board and the Supervisory Board:
 - A - Decision on granting clearance to Management Board members
 - B - Decision on granting clearance to Supervisory Board members
6. Decision on the appointment of auditors for 2017

DECISION PROPOSALS

Under Item 4, the Management and Supervisory Board propose to the General Meeting to adopt the following decision:

On the basis of Article 275 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13 and 110/15), the General Meeting of Petrokemija, Plc. adopts the following

DECISION
on the company loss coverage

Article 1

The loss in the Company's business for 2016 in the total amount of HRK 87,310,399.21 is carried over to the year 2017 as uncovered loss.

Article 2

This Decision shall enter into force on the date of its adoption.

Under Item 5, the Management and Supervisory Boards propose to the General Meeting to adopt the following decisions:

A – Pursuant to Article 276 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13 and 110/15), the General Meeting of Petrokemija, Plc. passes the following

DECISION
on granting clearance to Management Board Members

Article 1

It has been established that in 2016, the members of the Petrokemija, Plc. Management Board were running the Company business in accordance with the law and the Articles of Association, so they are granted clearance.

Article 2

This Decision shall enter into force upon its adoption.

B - On the basis of Article 276 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13 and 110/15), the General Meeting of Petrokemija, Plc. passes the following

DECISION
on granting clearance to the Supervisory Board Members

Article 1

It has been established that in 2016, the members of Petrokemija, Plc. Supervisory Board performed their functions in accordance with the law and the Articles of Association, so they are granted clearance.

Article 2

This Decision shall enter into force upon its adoption.

Under Item 6, the Supervisory Board proposes to the General Meeting to adopt the following decision:

According to Article 275, paragraph 1, point 4 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13 and 110/15), the General Meeting of Petrokemija, Plc. passes the following

DECISION

on the appointment of auditor for Petrokemija, Plc. for 2017

Article 1

Deloitte d.o.o. from Zagreb is appointed auditor for Petrokemija, Plc. for the year 2017.

Article 2

This Decision shall enter into force upon its adoption.

All Company shareholders are entitled to take part and vote at the General Meeting provided they send in their applications for participation in writing to the Company Management Board by 3 June 2017.

Applications for participation are submitted to the Board Office of Petrokemija, Plc, Aleja Vukovar 4, Kutina. A shareholder of the Company shall be any legal entity registered in the Book of Shares as on 3 June 2017, according to the list compiled by the Central Depository and Clearing Company at the end of business hours on that day.

Shareholders – natural persons may be represented at the General Meeting by their proxies with full powers of attorney certified by a notary public or by an authorized person in the Department of Legal Affairs, Headquarters Building of Petrokemija, Plc., Aleja Vukovar 4, Kutina, weekdays 8:00 to 12:00 a.m.

Shareholders – legal entities shall have the power of attorney signed by an authorized person and certified by a stamp made out on the official stationery of the said entity, containing the data from Article 21 of the Companies Act.

An insight into the materials for the General Meeting can be made at the Company Board Office, Aleja Vukovar 4, Kutina, from 8:00 to 14:00 hours every business day (Monday to Friday), starting from the date of publication of the call. The materials are also available on the Company website, www.petrokemija.hr, where the data will be published in accordance with Article 280a of the Companies Act.

In accordance with Article 277, paragraph 4 of the Companies Act, the shareholders are informed as follows:

- Shareholders who together have shares amounting to the twentieth part of the Company share capital have the right to require an item to be placed on the General Meeting Agenda and their request to be announced. Such a request must have an explanation and a decision proposal and must be received by the Company at least 30 days before the General Meeting, excluding the day of the receipt of the request by the Company;
- Each shareholder has the right to submit a counter proposal to the decision proposal which was given to the General Meeting by the Company Management Board and / or Supervisory Board. This includes the proposal of shareholders for appointment of a Supervisory Board member or the appointment of Company auditors. The Company must receive such a request

at least 14 days before the General Meeting (where not using this right does not result in the loss of the right to put up the counter proposal at the General Meeting of the Company). The request made within this period, shall be sent by the Company Management Board to all persons referred to in Art. 281 of the Companies Act, except in cases of Art. 282, paragraph 2 and Art. 283 of the Companies Act;

– Each shareholder has the right to request information about the affairs of the Company from the Company Management Board at the General Meeting if it is necessary for their assessment of issues on the General Meeting agenda, except in cases provided for in Art. 287, paragraph 2 of the Companies Act.

The registration of participants of the General Meeting will take place on 9 June 2017 in the lobby of the Headquarters Building of Petrokemija, Plc., Aleja Vukovar 4, Kutina, from 10.00 to 11.30 inclusive, after which registration will not be possible. The investors (shareholders) are asked to register on time.

If the requirements of the quorum at the regular annual General Meeting, required by the provisions of the Company Articles of Association are not met, the new session of the General Meeting with the same agenda and the same decision proposals will take place on Monday, 26 June, 2017, starting at 12.00 hours.

This call for the regular General Meeting will be posted on the website of the Zagreb Commercial Court register, on the website of the Zagreb Stock Exchange (www.zse.hr), via HINA, on the website of the Croatian Agency for Supervision of Financial Services (www.hanfa.hr) and on the Company website (www.petrokemija.hr).

Every shareholder or their representative or proxy, shall bear the cost of their participation in the General Meeting.

Source:

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MANAGEMENT BOARD

Kutina, 21.4.2017.g.

Company Management Report as of 31 December 2016

Introduction

In 2016, Petrokemija, Plc. managed to maintain business continuity, and its financial performance remained close to that of the previous year, 2015, as a result of the adverse impact of the Company's disturbed financial structure in the previous period and the unfavorable impact of the business environment, which was marked by a sharp decline in prices of mineral fertilizers and an increase in competition in the domestic market and in the region. Numerous difficulties that the Company has been going through in a multi-year process of restructuring and adjustment to the EU market environment, have partly started to be resolved, but still – it must be said – at a level which is not satisfactory. The previous year was extremely dynamic and challenging, but the circumstances in the closer and wider surrounding of the Company were so unfavorable that the process of improving financial result was slowed down.

In spite of the lack of funds, in July and August, a very extensive overhaul of production facilities was carried out with an enviable level of investment of HRK 148.2 million. A part of the investment was carried out with own resources, which indicates a high technical and technological level of Petrokemija's Maintenance Division.

The business of Petrokemija, Plc. in 2016 can be concisely presented as follows:

- Partial solutions in the restructuring and recapitalization of the Company in the previous period have led to the present critical situation, in which any delay in the complete resolution of this problem calls into question the survival of the Company;
- In 2016, the loss of HRK 87.3 million (4.5% of total revenues) was down by 5.6% on 2015 and 81% less than in 2014;
- Low capital level of HRK 46.8 million raises the issue of necessary recapitalization or ownership restructuring,
- In 2016, HRK 148.2 million was invested in production and ancillary facilities, while the investment in 2015 was HRK 53.3 million and in 2014 HRK 39.9 million;
- For meeting the requirements from the Environmental Permit of the Ministry of Environmental Protection, it is necessary to continue the process of investing in modernization and energy efficiency;
- In the human resources, a more efficient business system was established with approximately 30% less employees, compared to the organization and model of work until 2015;
- Despite the numerous limitations of the previous contracts on natural gas supply and high indebtedness to natural gas suppliers, a new model for purchasing this most important raw material has been established;

- The disturbed balance of the Company's financing due to losses from previous years has been short-term restored with the support of the natural gas supplier and HBOR's loans, of which HRK 200 million was with the guarantee of the Croatian Government as the Company majority owner. In this way, the continuity of production, sales and total business in 2016 was maintained.
- The utilization of annual installed capacity in mineral fertilizer production was 86.4% (taking into account the month and half of overhaul in July and August).

Changes in the Management and Supervisory Board in 2016 and 1st quarter of 2017

- Until 6 February 2017, the Management Board was composed of: President Nenad Zečević, and members: Antonija Perošević Galović, Tamara Pernar and Vladimir Fresl.
- On 7 February 2017, a two-member Board was appointed: Đuro Popijač, President and Nenad Zečević, member of the Board.
- On 8 February 2016, Tomislav Pokaz resigned as President and member of the Supervisory Board of Petrokemija for taking up a new position incompatible with membership in the SB.
- At the meeting of 19 February 2016, Branimir Fleković was appointed President and Sonja Ivoš Vice President of the Supervisory Board.
- On 11 May 2016, the General Meeting of Petrokemija, Plc. recalled supervisory Board members: Branimir Fleković, Sonja Ivoš and Krešimir Huljev and appointed Marijan Kuprešak, Ladislav Turčinović, Mladen Novak and Mijo Šepak.
- At the Supervisory Board meeting of 12 May 2016, Marijan Kuprešak was elected President and Željko Klaus Vice President of the SB.
- Supervisory Board member, Mladen Novak, resigned from membership in the SB of Petrokemija, effective as of 31 July 2016.
- On 6 February 2017, Mijo Šepak was elected President of the SB.
- On 23 March 2017, Robert Blažinović was appointed as a SB member.
- As on 31 December 2016, the Supervisory Board was composed of: Marijan Kuprešak President, Željko Klaus, Vice President and Mijo Šepak and Ladislav Turčinović as SB members.

The Program of Restructuring, Financial Consolidation and Recapitalization

The process of restructuring of the Company and the Petrokemija Group has been carried out through various ongoing activities since 2013. Due to the partial non-achievement of the previously set goals and activities, in October 2015 a public call for indication of interest for the subscription of new ordinary shares of Petrokemija, Plc. It was based on the Decision of the Government of the Republic of Croatia of 24 September 2015, on the authorization to adopt the decision of the General Meeting on the implementation of recapitalization in cash, assets and rights of Petrokemija, Plc. Kutina. In the fourth quarter of 2015, statements of indication of interest were collected for new recapitalization of the Company and subsequently due diligence was conducted by the two interested investors, after which a binding offer from one potential investor was received.

In 2016, no decision was made on the investor's choice or the concept of further restructuring. In order to preserve the continuity of operations, due to extremely impaired liquidity, the Government of the Republic of Croatia adopted a Decision on a loan to Petrokemija from HBOR's funds with the collateral of the Government for implementing the restructuring and financial consolidation of the Company. Pursuant to the above Decision, with the help of the

consultant, KPMG Croatia d.o.o., in the first quarter of 2017 activities were continued to prepare a comprehensive Restructuring Program of the Company and Petrokemija Group.

At the moment of adoption of this Report, a new proposal for the Restructuring Program has been prepared, but there is no reliable information on the future majority owner's decisions regarding the relationship with potential financial and / or strategic partners, banks and natural gas suppliers.

Results achieved in 2016

In the January-December 2016 period, Petrokemija, Plc. had total revenues of HRK 1,932.1 million, total expense of HRK 2,019.4 million and the reported loss of 87.3 million or 4.5% of total revenues. In the previous year, the loss was HRK 92.5 million, which is a positive development in the financial result of HRK 5.2 million.

The EBITDA indicator (profit before interest, tax and depreciation) was positive amounting to HRK 33.7 million. For 2016, the total revenues are down 24.8% compared to 2015, while total expenditures are down by 24.1%. These figures indicate a reduced scope of operations due to the lower sales of mineral fertilizers (-5.8%) and lower sales and purchasing prices (from 5% to 30%). However, there is an evident improvement in financial performance despite the unfavorable global market situation, marked by a pronounced fall in mineral fertilizer prices in most of the year, as can be observed with all other mineral fertilizer manufacturers.

The fall of fertilizer prices in world markets was carried over largely to the EU and the region, causing a major impact on the domestic market and increased imports of cheaper fertilizers by direct regional competitors. Domestic sales volumes were nearly the same as in 2015 and even 6% higher than in 2014, but still at a low level. This was the result of the customers' liquidity problems (Petrokemija has no sources for funding deferred payments, and banks refused to support the spring sowing), delay in payment of Government incentives on the domestic market and the increasingly present principle of buying last minute before application with direct manipulation in the field (thus avoiding costs of storing and reloading). Lower domestic sales volumes were partly also caused by poor agro-climatic conditions in the first quarter of 2016 (high precipitation and low temperatures) in Croatia and the region, which resulted in a significant delay of the spring sowing season and consequently in fertilizer application. Furthermore, low price of cereals and other products resulted in the reduction of land sown with these crops, and consequently lower use of mineral fertilizers per hectare, so even the largest buyers are reducing purchase of fertilizers.

In the structure of the financial results for Jan - Dec 2016, it is worth noting that HRK 48.6 million was loss from operating activities, which was increased by HRK 38.7 million in loss from financial activities, resulting in a total loss of HRK 87.3 million. The losses from financial activities are a reflection of unfavorable financing structure, i.e. high indebtedness to natural gas suppliers, but at the same time they are than 34.8% lower than for the previous year, due to a lower negative impact of exchange rate differences, but also a successful reprogramming of part of short-term debt to natural gas suppliers and financial institutions at a more favorable interest. Following the Decision of the Croatian Government on the approval of a HRK 200 million loan to Petrokemija, the Company and the Croatian Bank for Reconstruction and Development signed a loan agreement. The loan was used to settle outstanding liabilities for natural gas, implementation of restructuring and financial consolidation of the company, in accordance with the decisions of the Government of the Republic of Croatia.

After the test volumes of the new product – granular ammonium sulphate (AS) and granular ammonium sulfonitrite (ASN) – had been produced in 2015, production processes and the market position of the new products were established in 2016. This will gradually enable the shift from the price-unstable Urea, which has for a long time had an exceptionally variable price on the spot market, and an increase in the share of granular mineral fertilizers in the overall sales structure.

In 2016, as compared to the previous year, Petrokemija, Plc. had 11.7% lower overall production level, partly due to overhaul in July and August (45 calendar days). The following changes have been made in the production structure: 12.1% lower production of urea, 1.4% higher production of CAN, while for market reasons, the production of NPK fertilizers decreased by 30.9%.

In the period January-December 2016, Petrokemija Group had total revenues of HRK 1,940.7 million, total expenditures of HRK 2,028.3 million and reported a loss of HRK 87.6 million or 4.5% of total revenues. In the previous year, the pre-tax loss was HRK 92.9 million, which indicates a positive development in the financial result of 5.6% or HRK 5.3 million.

In the course of 2016, the share of Petrokemija, Plc. was traded with on the Official Market of the Zagreb Stock Exchange. On 30 December 2015, the average value of the share was HRK 13.14 and on 30 December 2016 the value was HRK 17.90 (growth of 36.15%). At the time of the preparation of this Report, the price of the share was HRK 12.16 (13 April 2017) and it is estimated that the decrease is the consequence of the uncertainty of future business (the challenge of unlimited business).

In line with the commitment to establish high standards of business transparency, since 2007 Petrokemija has been applying the Code of Corporate Governance of the Zagreb Stock Exchange, which continued in 2016. In 2011, the Business Code of Petrokemija was adopted and it has been applied ever since.

Share capital as on 31 December 2016

The Company registered share capital in the court register of the Commercial Court in Zagreb amounts to HRK 386,135,400.00. On 31 December 2016, the capital and reserves amounted to HRK 46,827,899 which is the result of the reduction of registered capital for capital reserves, accumulated losses carried forward from previous years and the loss in 2016. The level of the capital with the reserves on 31 December 2016, is a warning of the necessity of implementing a recapitalization of the Company or of urgently finding other solutions to increase the financial stability of the Company.

The key issue in 2016 was the financing of current operations due to the uncovered loss of the previous years and the reduction of short- and long-term loans of commercial banks.

Environmental Protection

By securing the Integrated Environmental Protection Decision in 2015, the necessary prerequisite was met for obtaining all necessary permits related to the technical and technological operating conditions of the Petrokemija production plants over a period of five years. In accordance with this Decision, in 2016, a part of the activities was carried out during an extensive overhaul. In the legislative environment of the EU, environmental protection projects are becoming increasingly important, and the remaining deadlines for implementation are increasingly shorter (31.12.2017). Therefore, Petrokemija will be forced to urgent and

significant investments in this segment in the coming years. The balance of Petrokemija's funds and their resources is disturbed to the extent that it is unrealistic to finance more significant financial investments from current short-term sources, so that the dynamics of future investments will depend on the available sources - recapitalization or long-term bank loans. In accordance with the IPPC Directive and the Decision on the Integrated Environmental Protection Requirements in order to meet all the prescribed technical and technological requirements for environmental protection, Petrokemija must invest approx. HRK 380 million. So far, Petrokemija has invested from own resources in the environmental protection program HRK 82.6 million or 21.7% of the total planned funds.

Estimation of operational risks

At the turn of 2016/2017 we are aware of the following business risks:

- Petrokemija's result is highly dependent on the movement of fertilizer and their raw material prices in the world market, the exchange rate of the kuna against USD and EUR and their interrelationship. After the high growth rate of USD of average 19.4% in 2015, the exchange rate of USD in 2016 did not cause any significant negative effects in 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 dd 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 in the European spot market;
- The sales prices of mineral fertilizers on the world market have marginally grown in late 2016 and early 2017, compared to the two last quarters of 2016. However, prices are still at a low level, short-term also under the influence of cyclical and seasonal changes, and the price of nitrogenous fertilizer Urea has been at a low level for a long time. In this situation of more pronounced growth of natural gas prices on the European spot market, the viability of production in certain time intervals can come in question;
- Reducing the VAT level in 2017 should have a favorable impact on the sales of mineral fertilizers on the domestic market and a better control of sales activities in the regional market;
- Costs of most of the basic raw materials are lower than in the previous period, but the fluctuations in raw material prices on the world market, which have so far been present, will continue to have impact on the level of material costs and 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;
- In 2016, an extensive overhaul was carried out, whose implementation and financing were partly financed from long-term sources, but the risks of finding new long-term financing of investments are still present in 2017. It is very difficult to set aside resources to continue the intensive investment process from operations. The deadlines for realizing a part of the so-called 'environmental investments', according to the Decision on Integrated Environmental Protection Requirements (until 31.12.2017), will be difficult to meet and some investments, due to funding difficulties will be transferred to 2018;
- By regulating the debt for natural gas delivered in previous periods and granting HBOR's HRK 200 million loan in the third quarter of 2016, the danger of blocking and stoppage in the delivery of natural gas or production has been eliminated, but the

movements of natural gas prices on the euro spot market in the first quarter of 2017 call for caution;

- As stated above, investment financing is still not covered by long-term sources of funding and will depend on the key decisions of the majority owner regarding the continuation of the restructuring process, recapitalization and / or finding a strategic partner, and it is necessary in terms of investing in environmental projects in accordance with the Decision on Integrated Environmental Protection Requirements;
- Higher level of realized loss in the fourth quarter of 2016, as compared to the earlier quarters, refers to caution in predicting financial and operating results in 2017. A part of this negative impact was transferred to the result of the first quarter of 2017 due to the obligation to deliver mineral fertilizers for the received advance payments from the fourth quarter of 2016.

Assessment of business in 2017 and in the coming years it is very difficult to predict at this point due to the above mentioned influences on the financial result. In assessment of the risks of operations of subsidiaries in 2017, we estimate that these companies have no significant influence on the business result of the Petrokemija Group because of their small share in the total business result.

Conclusion

The state of high debt to suppliers of natural gas and limited opportunities of sales of finished products at reasonable prices, open up further risks of maintaining continuity of production and sales in 2017, with all the uncertainties in business that have been present so far.

Finally, I would like to thank the Supervisory Board, the unions and the workers' council for their good cooperation, and all shareholders and partners for the confidence they have placed in us in the past year. In 2016, we are expecting a significant change in business due to a possible change in the ownership structure and the necessary changes in business brought about by stronger competition in the domestic and regional market. The main keys to maintaining a positive EBITDA in 2017 are lower natural gas price, cost efficiency with the change in product range and focusing on sales in the region.

The key constraint in 2016 remains the problem of liquidity, i.e. the inadequate structure of sources of financing, which is planned to be addressed by long-term loans for investments in modernization and permanent working capital or by new recapitalization and selecting a strategic partner who can secure the development and continuity the Company's operations. At the time of the preparation of this Report, activities are ongoing on the realization of one of the measures in the comprehensive Restructuring Program as a long-term loan of HBOR for working capital, which would primarily be used to meet the obligations towards natural gas and other raw materials suppliers from the previous period.

From you, our shareholders, we expect confidence and support in taking measures of consolidation of the Company, i.e. rationalization of operations and the opening of the more intensive investment cycle from 2017 to 2020.

President of the Board of Petrokemija, Plc.:

Đuro Popijač, MS



SUPERVISORY BOARD

Kutina, 27.4.2017.

Pursuant to Article 263, Paragraph 3 and Article 300c of the Companies Act, the Supervisory Board of Petrokemija, Plc. Kutina, at its 13/2017 session held on 27 April 2017 adopted:

Supervisory Board Report to the General Meeting of Petrokemija, Plc. for 2016

I In the course of 2016, the Supervisory Board of Petrokemija, Plc. (hereinafter: Supervisory Board, SB) held 28 sessions, in which issues related to business were discussed, as provided by the law and the Articles of Association.

II Composition of the Supervisory Board

In 2016, changes in the composition of the Supervisory Board were as follows:

- On 8 February 2016, Tomislav Pokaz resigned as President and member of the SB;
- On 19 February 2016, Branimir Fleković was appointed President and Sonja Ivoš Vice President of the SB;
- On 11 May 2016, the General Meeting recalled SB members Branimir Fleković, Sonja Ivoš and Krešimir Huljev and appointed new members: Marijan Kuprešak, Ladislav Turčinović, Mladen Novak and Mijo Šepak;
- On 12 May 2016, Marijan Kuprešak was elected President and Željko Klaus Vice President of SB.
- On 31 July 2016, SB member, Mladen Novak, resigned from membership in the SB.

As on 31 December 2016, Supervisory Board was composed of, as follows:

- Marijan Kuprešak, SB President
- Željko Klaus, SB Vice President
- Ladislav Turčinović, SB member
- Mijo Šepak, SB member

In 2017, at the time of this Report, there were changes in the composition of the Supervisory Board as follows:

- On 6 February 2017, Mijo Šepak was elected President of the SB;
- On 23 March 2017, the General Meeting appointed Robert Blažinović as SB member.

III In the reporting period, the Supervisory Board performed its tasks and made decisions according to the law and their competence defined by the Articles of Association.

Through written and oral reports, the Supervisory Board was regularly informed on business policies, business plans and business results of Petrokemija, Plc. as well as on other important issues **such as:**

- Gas supply,
- Prices of fertilizers,
- Business Report for 2015,
- Reports of the Audit Committee
- Auditor's Report,
- Annual Questionnaire of the Zagreb Stock Exchange Corporate Governance Code,
- Preparations for the Company General Meeting,
- Business Report Jan - March 2016,
- Business Report Jan - June 2016,
- Business Report Jan - Sept 2016,
- Various approvals for business deals worth over 10% of the share capital, for a lien on real estate and mineral fertilizers stock, for additional borrowing, for business cooperation contracts, merger with daughter company Restoran Petrokemija d.o.o, etc.
- Liabilities and credit indebtedness of the Company, relationships with commercial banks, HBOR loan with the state collateral,
- Appointment of members of the Audit Committee and the Nominations and Remunerations Committee,
- Company recapitalization process, and the process of selecting a strategic partner,
- Overhaul of production facilities,
- Business Plan for 2016-2020,
- Business Plan for 2017,
- Preparation of Restructuring Program,
- Calendar of important events in 2017.

The Supervisory Board has established that the Management Board was reporting to the Supervisory Board in accordance with the law and the Articles of Association.

IV Working Bodies of the Supervisory Board

In 2016, working bodies of the Supervisory Board were active as follows:

- Audit Committee - held 5 sessions,
- Nominations and Remunerations Committee – held no meetings

The Supervisory Board has found that the Audit Committee participated well in the preparation of key topics within its competence.

V Supervisory Board has reviewed the Auditor's, KPMG Croatia doo Zagreb, reports that examined the annual financial statements of Petrokemija, Plc. for the year ended 31 December 2016, and approved the Auditor's Report.

The audited annual financial statements have been prepared in accordance with the accounting records of the Company and give a true and fair view of the assets and business position of the Company.

VI Supervisory Board has examined the annual financial statements for 2016, compiled by the Management Board, as follows:

- Annual Financial Statement for 2016 for Petrokemija, Plc.,
- Consolidated Financial Statement for 2016 for Petrokemija Group.

The Supervisory Board assessed that the financial statements were made in accordance with the accounting records and give a true and fair view of the assets and business position of the Company.

The Supervisory Board has approved the financial statements and in accordance with the provisions of Art. 300d of the Companies Act, these reports are considered verified.

An integral part of the financial statements for the year ended December 31, 2016 referred to in the foregoing approval of the Supervisory Board are:

For Petrokemija, Plc.:

1. Balance Sheet,
2. Profit and Loss Account,
3. Statement of Cash Flow,
4. Statement of Changes in Equity,
5. Auditor's Report with the notes to the financial statements
6. Annual Report,
7. Report of the Company Management Board,
8. Code of Corporate Governance - Annual Questionnaire.

For Petrokemija Group:

1. Balance Sheet,
2. Profit and Loss Account,
3. Statement of Cash Flow,
4. Statement of Changes in Equity,
5. Auditor's Report with the notes to the financial statements,
6. Annual Report.

VII Restructuring process in 2016

The restructuring process in 2016 is a continuation of the activities that the majority owner started in 2013 and since then restructuring and financial consolidation activities have been carried out with greater or lesser intensity. The partial realization of recapitalization in 2014 and 2015 (HRK 253 subscribed, out of the planned HRK 500 million), led to the continuation of seeking new solutions in the process of recapitalization or reprogramming of short-term debt in 2016 to provide the necessary sources of investment funds and permanent working assets.

The framework of these activities was determined by the Decision of the Government of the Republic of Croatia of September 24, 2015, on the authorization to accept at the General Meeting the decision on the implementation of recapitalization in cash, assets and rights of Petrokemija Fertilizer Company, Plc. Kutina. Pursuant to the above Decision, in October 2015, a public call for indication of interest for subscription of new ordinary shares of Petrokemija, Plc. was published. In the fourth quarter of 2015, statements for new recapitalization of the Company were received and a due diligence was carried out by two interested investors. Thereafter, a binding offer of a potential investor was received. In 2016,

no decision was made on the investor's choice or the concept of further restructuring. In order to preserve the continuity of operations, due to extremely impaired liquidity, the Government of the Republic of Croatia adopted a Decision on a loan to Petrokemija from HBOR's funds with the collateral of the Government for implementing the restructuring and financial consolidation of the Company. Pursuant to the above Decision, with the help of the consultant, KPMG Croatia d.o.o., in the first quarter of 2017 activities were continued to prepare a comprehensive Restructuring Program of the Company and Petrokemija Group.

At the moment of adoption of this Report, a new proposal for the Restructuring Program has been prepared, but there is no reliable information on the future majority owner's decisions regarding the relationship with potential financial and / or strategic partners, banks and natural gas suppliers.

VIII Loss Coverage for 2016

Actual loss in business of Petrokemija, Plc. for 2016 amounts to **HRK 87,310,399.21 and is transferred into the year 2017 as uncovered loss**. The thus determined proposal of loss coverage is submitted to the General Meeting jointly by the Management and the Supervisory Board.

IX Assessment of the Company overall business performance

The Supervisory Board finds that there was a slight positive development in the financial results of the Company business in 2016. However, the key goal - positive performance - was not achieved yet. In the January-December 2016 period, Petrokemija, Plc. had total revenues of HRK 1,932.1 million, total expense of HRK 2,019.4 million and the reported loss of 87.3 million or 4.5% of total revenues. In the previous year, the loss was HRK 92.5 million, which is a positive development in the financial result of HRK 5.2 million.

The EBITDA indicator (profit before interest, tax and depreciation) was positive amounting to HRK 33.7 million. For 2016, the total revenues are down 24.8% compared to 2015, while total expenditures are down by 24.1%. These figures indicate a reduced volume of operations due to the lower sales of mineral fertilizers (-5.8%) and lower sales and purchasing prices (from 5% to 30%). However, there is an evident improvement in financial performance despite the unfavorable global market situation, marked by a pronounced fall in mineral fertilizer prices in most of the year, as can be observed with all other mineral fertilizer manufacturers.

The decline in sales prices of fertilizers in the global market, low sales in the domestic market, as a reflection of the long-term crisis in Croatian agriculture, the necessity of selling in distant markets at lower prices in order to preserve the liquidity and continuity of production, and the high price of natural gas compared to the average market price, are still the main causes of the losses.

X Evaluation of the Management Board Performance

From 19 November 2014 to the end of the reporting period, the Management Board was composed of: President Nenad Zečević and members Antonija Perošević-Galović, Tamara Pernar and Vladimir Fresl. In the course of preparation of the annual financial statements for the year 2016, at the meeting of 6 February 2017, the Supervisory Board adopted a decision on the mandate termination of the President of the Management Board Nenad Zečević and the

members of the Management Board Antonija Perošević Galović, Tamara Pernar and Vladimir Fresl as of that day. The Supervisory Board appointed Đuro Popijač as President, and Nenad Zečević as member of the Management Board.

In the course of 2016, the Management Board carried out a number of activities and invested maximum efforts to maintain business continuity, market position, cash flow stability, technical and technological security, environmental responsibility, significant investment despite limited long-term resources, and to maintain the level of social dialogue and general social responsibility. The positive developments in business were unfortunately insufficient to achieve positive financial results and regain the Company balance disturbed in the previous years.

The Management Board operated within the framework of the Program of Restructuring and Financial Consolidation 2016-2020, adjusting at the same time to numerous changes in conditions and negative impacts from the surroundings, primarily to the general trend of falling prices of raw materials and finished products and increasing competition from imports. In the difficult operating conditions of the Company, there was a good cooperation of the Board with the unions and the workers' council, which resulted in the preservation of stability of social dialogue and taking into account realistic constraints in the material rights of employees.

XI Cooperation between the Supervisory and the Management Board

The Supervisory Board evaluates the cooperation with the Management of the company in 2016 as fair, with partial realization of the set goals, useful and in the interest of the Company, with mutual respect and respect for the law. The minutes of the Supervisory Board recorded all adopted decisions with the voting results.

XII Final evaluation of the Supervisory Board for 2016

The Supervisory Board evaluates their work in the past period as extremely demanding and dynamic, as evident from the number of meetings held and the structure of the topics discussed. The achieved development in business performance was limited by a number of circumstances in the near and wider environment of the Company as well as by transferred difficulties from the previous period. Despite the changes in the composition of the Supervisory Board, the continuity was preserved and progress was achieved in the approach to key development issues of the Company, with the contribution of each member to the joint work of the Board and respect for legality in the Company business. In 2016, the Company operated in accordance with the law, Company regulations and decisions of the General Meeting.

XIII The Supervisory Board shall submit this Report on the Supervision of Operations for 2016 to the General Meeting of Petrokemija, Plc. with the proposal to adopt it.

*President of
Supervisory Board:*

Mijo Šepak