



**PETROKEMIJA**  
KUTINA

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 29 March 2016 the Management of Petrokemija, Plc. passed a decision on the convocation and invites you to participate in the work of

**GENERAL MEETING of Petrokemija, Plc.  
on Wednesday, 11 May 2016 at 12.00 hours at Petrokemija, Plc. Headquarters  
in Kutina, Aleja Vukovar 4**

The proposed Agenda of the Meeting is as follows:

1. Opening of the Meeting and checking the attendance list;
2. Annual financial statements for 2015, after having been approved by the Management and Supervisory Board, and the Management Board Report on the Company;
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 amendments to the Articles of Association
7. Decision on the recall of Supervisory Board members
8. Decision on appointment of Supervisory Board members
9. Decision on the appointment of auditors for 2016

**DECISION PROPOSALS**

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

**Ad - 4**

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, 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**

Actual operating loss for 2015 of HRK **92,512,321.68** is carried over to 2016 as uncovered.

**Article 2**

This decision shall enter into force upon its adoption.

**In 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, 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 2015, 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, 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 2015, the members of Petrokemija, Plc. Supervisory Board were performing 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.

**Ad-6 In Item 6**, the Management and Supervisory Board propose to the General Meeting to adopt the following decision:

According to Article 275, paragraph 1, point 5 and Article 301 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12, 68/13 and 110/15), the General Meeting of Petrokemija, Plc. passes the following

DECISION  
ON AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Article 1

1. In the Articles of Association of Petrokemija, Plc. – complete/revised text of 12 June 2015, Article 35, is amended to read as follows:

“Article 35

All data and communications that in accordance with the law and these Articles of association must be publicly disclosed, will be published on the website of the Court Register and the Company website. The Company Board may determine that certain information and press releases are also published in the media.”

Article 2

This Decision shall enter into force upon its adoption and is valid from its entry in the Court Register.

**Ad-7 In Item 7**, the Supervisory Board proposes to the General Meeting to adopt the following decision:

Pursuant to Article 275, paragraph 1, point 1, with reference to Article 259 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12, 68/13 and 110/15), the General Meeting of Petrokemija, Plc. passes the following

DECISION  
ON RECALL OF SUPERVISORY BOARD MEMBERS

Article 1

Supervisory Board members have been recalled from membership as follows:

Sonja Ivoš from Prelog, Jug III 2/C, OIB 46424944494, graduated sociologist,  
Branimir Fleković from Zagreb, Radićevo šetalište 22, OIB 99787847191, BEcon,  
Krešimir Huljev from Zagreb, Palinovečka 36, OIB 18957195126, BEcon.

Article 2

This Decision shall enter into force upon its adoption.

**Ad-8 In Item 8**, the Supervisory Board proposes to the General Meeting to adopt the following decision:

Pursuant to Article 275, paragraph 1, point 1, with reference to Articles 256, paragraph 1 and 280, paragraph 3 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12, 68/13 and 110/15), the General Meeting of Petrokemija, Plc. passes the following

DECISION  
ON APPOINTMENT OF SUPERVISORY BOARD MEMBERS

Article 1

Appointed members of the Supervisory Board of Petrokemija, Plc. are as follows:  
Karlo Čulo from Zagreb, Prisoj 52, BEcon, OIB 48462329752,  
Marijan Kuprešak from Osijek, Vijenac Murse 2, BEcon, OIB: 53756130078,  
Mladen Novak from Zagreb, Cvjetno naselje 9, MEcon, OIB 08276261350,  
Mijo Šepak, from Kutina, Husain, F.K.Frankopana 48, MEcon, OIB 38512309032.

Article 2

This Decision shall enter into force upon its adoption.

**Ad-9 In Item 9**, the Supervisory Board proposes to the General Meeting to adopt the following decision:

Pursuant to Article 275, paragraph 1, item 4 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 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 2016

Article 1

KPMG Croatia from Zagreb is appointed auditor for Petrokemija, Plc. for 2016.

Article 2

This Decision shall enter into force upon its adoption.

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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 4 May 2016. 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 at 4 May 2016, 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 in Finance and Controlling Department of the Company, Ulica Kralja Petra Krešimira IV, 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](http://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). If the request is made within this period, the Management Board of the Company shall submit such request 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 agenda of the General Meeting, 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 11 May 2016 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 Wednesday, 18 May, 2016, starting at 12.00 hours.

This call for the regular General Meeting will be published in the Official Gazette, and posted on the website of the Zagreb Stock Exchange ([www.zse.hr](http://www.zse.hr)), via HINA, on the website of the Croatian Agency for Supervision of Financial Services ([www.hanfa.hr](http://www.hanfa.hr)) and on the Company website ([www.petrokemija.hr](http://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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**Petrokemija, Plc.**  
**SUPERVISORY BOARD**

No. 1/2016.  
Kutina, 29.03.2016

Pursuant to Article 21 of the Articles of Association of Petrokemija, Plc. and Article 300c and 300d of the Companies Act, at its 11/2016 session held on 29 March 2016, the Supervisory Board of Petrokemija, Plc. adopted

**DECISION**  
**ON APPROVAL TO THE FINANCIAL STATEMENTS FOR 2015**

**I**

After reviewing them, the Supervisory Board of Petrokemija, Plc. approved the annual financial statements of Petrokemija, Plc. for 2015, which were drawn up by the Management Board.

By giving the above approval, the Management and the Supervisory Board are considered to have verified the financial statements.

The Management and Supervisory Board will send the information on the determined financial statements to the General Meeting.

**II**

The annual financial statements covered by the approval from point I include:

- Balance Sheet
- Profit and Loss Account
- Cash Flow Statement
- Statement of Changes in Equity
- Annual Report and Non-Consolidated Financial Statements for the year 2015 – Independent Auditor's Report to the shareholders of Petrokemija, Plc. with notes

**III**

Balance sheet assets and liabilities amount to **HRK 1,248,220,716.88.**

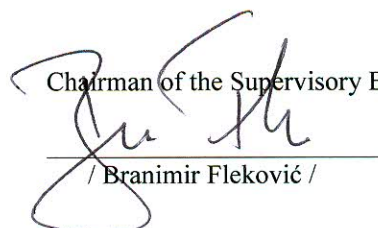
The actual business loss for 2015 amounts to **HRK 92,512,321.68.**

Reports from point II are attached to this Decision and are an integral part thereof.

**IV**

This Decision shall enter into force upon its adoption.

Chairman of the Supervisory Board:



/ Branimir Fleković /

**Petrokemija, Plc.**  
**SUPERVISORY BOARD**

Number 2/2016.  
Kutina, 29.03.2016

Pursuant to Article 21 of the Articles of Association of Petrokemija, Plc. and Articles 300c and 300d of the Companies Act, at its 11/2016 session held on 29 March 2016, the Supervisory Board of Petrokemija, Plc. adopted

**DECISION**  
**ON APPROVAL TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2015**

**I**

After reviewing them, the Supervisory Board of Petrokemija, Plc. grants approval to the consolidated financial statements of Petrokemija, Plc. Group for 2015.

By giving the above approval, the Management and the Supervisory Board are considered to have determined the consolidated financial statements.

The Management and Supervisory Board will send the information on the determined consolidated financial statements to the General Meeting.

**II**

The consolidated annual financial statements covered by the approval from point I include:

- Consolidated Balance Sheet
- Consolidated Profit and Loss Statement
- Consolidated Cash Flow Statement
- Consolidated Statement of Changes in Equity
- Notes to the Consolidated Financial Statements
- Annual Report of the Group and Consolidated Financial Statements for 2015 – Independent Auditor's Report to the shareholders of Petrokemija, Plc. with notes

**III**

Consolidated Balance Sheet records assets and liabilities amount to **HRK 1,236,259,852.51**.

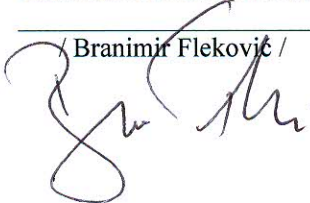
The consolidated operating loss of Petrokemija, Plc. Group for 2015 amounts to **HRK 93,198,464.93**.

Reports from point **II** are attached to this Decision and are an integral part thereof.

**IV**

This Decision shall enter into force upon its adoption.

Chairman of the Supervisory Board:

\_\_\_\_\_  
Branimir Fleković /  


**Petrokemija, Plc.**  
**SUPERVISORY BOARD**

No. 3/2016.  
Kutina, 29.03.2016

Pursuant to Article 21 of the Articles of Association of Petrokemija, Plc. and Article 220 through 223, and in accordance with Article 300b, paragraph 2 of the Companies Act, at its 11/2016 session held on 29 March.2016, the Supervisory Board of Petrokemija, Plc. adopted

**DECISION**  
**ON LOSS COVERAGE FOR 2015**

**I**

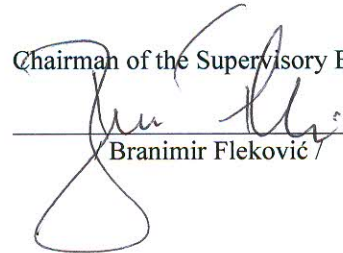
The proposal of the Board for the cumulative operating losses for 2015 in the total amount of **HRK 92,512,321.68** to be transferred into 2016 as uncovered loss is adopted.

The Management and the Supervisory Board will jointly submit the thus determined proposal on the loss coverage to the Company General Meeting.

**II**

This Decision shall enter into force upon its adoption.

Chairman of the Supervisory Board:

  
Branimir Fleković



**PETROKEMIJA**  
KUTINA

**MANAGEMENT BOARD**

Kutina, 10.03.2016.g.

### *Report on the Company as of 31 December 2015*

#### **Introduction**

In 2015, Petrokemija, Plc. achieved the first significant financial effects as a result of the restructuring process. Many difficulties that the Company has been going through in a multi-year process of restructuring and adjustment to the EU market environment, partly began to resolve, but still it must be concluded - at a level which is not satisfactory. Thus, the previous year was extremely dynamic and challenging, but the circumstances in the closer and wider surrounding of the Company were so unfavorable that process of improving financial results and the necessary investment in modernization has been slowed down.

The business of Petrokemija, Plc. in 2015 can be summarized in five points:

- A system of efficient operation with approximately 30% fewer employees, compared to the well established organization and operating model in previous years has been established.
- Two facilities have been reactivated by conducting the necessary modifications by own resources and two new products have been developed that may have significant potential in the market.
- Despite the many limitations of previous contracts for the supply of natural gas, a new model of procuring gas has been established.
- A new model of sales, determining the sales price and customer relationships has been established, (advance payment of claims, reduction of quantity rebates to large customers) in the domestic market and in the region.
- The impaired balance of financing the company because of losses and write-off of receivables from prior years to Gorup d.o.o., has been short-term improved with the support of natural gas suppliers. In this way, the continuity of production, sales and overall business in 2015 has been preserved, but the model of financing the business in 2016 is still uncertain.

At the end of 2014, due to a partial realization of the Program of Restructuring and Financial Consolidation, which results in the problem of nonliquidity, the earlier Management was changed. The newly appointed Management prepared the Revised Program of Restructuring and Financial Consolidation for the period 2015 - 2019, in which the key assumptions for future operations have been partially changed. On the basis of this program, the said improvements in business in 2015 have been achieved. The key problem at the turn of 2015/2016 has become financing of current operations due to uncovered losses of previous years and reduced short- and long-term loans from commercial banks.

In 2015, Petrokemija, Plc. achieved an average yield of total production capacity of 90%, was faced with an explicit problem of decline in sales price of fertilizers in the global market, the crisis of sales in the domestic market, growth of stocks and the threat of insolvency. The first two rounds of the recapitalization were conducted successfully in July and August 2014, while in the third round in late January and early February 2015, there were no interested investors.

In January 2015, after two years of continuous operation, a comprehensive overhaul of the facilities was carried out, which which was marked by maximum engagement of own professional potential and austerity measures. After the overhaul, all the plants were started up, and in the first quarter one of the assumptions of the Restructuring program was achieved - trial quantities of a new product - granulated ammonium sulphate (AS) were produced, that had shown the first positive effects on the market. Moreover, at the year end, first volumes of a new product - granulated ammonium sulphonitrate (ASN) were produced. If in 2016 and the following years, the sales of significant volumes of the new products



PETROKEMIJA and ASN is achieved, this will enable a shift away from the cost-unfavourable Urea, which for some time now has had a very low price on the spot market. Furthermore, activities of adapting the composition of NPK fertilizer to market requirements for the addition of sulfur have been successfully conducted.

### **Changes in the Management and Supervisory Board in 2015**

Since 19 November 2014, the Management Board has been composed of: President Nenad Zečević and members Antonija Perošević-Galović, Tamara Pernar and Vladimir Fresl.

In the course of 2015, the mandate of two members of the Supervisory Board of Petrokemija, Plc. expired: Goran Kralj (9 March 2015) and Željko Klaus (28 March 2015). By the Decision of the Company General Meeting of 12 June 2015, the number of Supervisory Board members was reduced from seven to five. On 30 July 2015, Davor Rakić resigned from his membership in the Supervisory Board as appointed representative of workers and was replaced on 31 July 2015 by Željko Klaus, for a term of four years. As on December 31, 2015, the Supervisory Board was composed of: President Tomislav Pokaz, Vice President Branimir Fleković, and members: Sonja Ivoš, Krešimir Huljev and Željko Klaus.

On 8 February 2016, Tomislav Pokaz resigned as president and member of the Supervisory Board of Petrokemija, Plc. for reasons of taking up a new position that was incompatible with his membership in the Supervisory Board. At the Supervisory Board meeting on 19 February 2016, Branimir Fleković was appointed president and Sonja Ivoš vice president of the Supervisory Board.

### **The process of choosing a strategic partner**

In June 2015, the potentially interested investors Prvo plinarsko društvo d.o.o Vukovar and MET Holding AG, Switzerland, conducted due diligence of Petrokemija, Plc. in accordance with the requirements of the Croatian State Office for State Property Management.

Following the decision of the Croatian Government of 24 September 2015 on authorizing the General Meeting to adopt the decision on the implementation of the capital increase in cash, goods and rights of the Company, in October 2015, a public call was announced for indication of interest to subscribe for new ordinary shares of Petrokemija, Plc. During 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 binding offers from the potential investors are expected.

At the time of publication of these financial reports, the Management has no information on future decisions of the majority owner or potential investors.

### **The program of restructuring, financial consolidation and recapitalization**

Due to the partial failure to achieve the assumptions of the program of restructuring and financial consolidation for the 2014-2018 period, at the end of 2014 a revision of the said Program for the planning period 2015-2019 was made. The revision included key changes in the assumptions with regard to the product range and reactivation of the plants that had been stalled (NPK 2 and Sulfuric Acid). Furthermore, the planned amount for investments was reduced, and therefore the need for additional financing of the Program. The first of the planned activities began to be realized in the reporting period - the purchase price of natural gas was reduced and changes in the assortment of production and sales were made.

The first two rounds of the recapitalization were conducted successfully in July and August 2014 (HRK 253 million subscribed), while in the third round late January / early February 2015, there were no interested investors. The partial success of the recapitalization (planned HRK 500 mln) initiated the search for new solutions in the implementation of the possibly new process of recapitalization or rescheduling of short-term debt in 2015, which would provide the necessary resources for investment and permanent working capital.

Based on the Decision on capital increase, the Management Board, with the consent of the Supervisory Board, determined the exact number of new shares, so that the share capital was increased by issuing 8,434,733 new dematerialized ordinary registered shares with a nominal value of 30.00 HRK, at a price corresponding to the nominal amount of the Company shares and determined the exact amount of the increase in Company share capital, so that the share capital increased from HRK 133,093,410.00 by HRK

253,041,990.00 to the amount of HRK 386,135, 400.00. After the incorporation of the share capital increase into the Commercial Court Register in Zagreb, the share capital of the Company amounts to HRK 386,135,400.00 and is divided into 12,871,180 dematerialized ordinary registered shares, with a nominal value of HRK 30.00.

### **The results achieved in 2015:**

In the period Jan-Dec 2015, Petrokemija, Plc. had total revenues of HRK 2,569.5 million, total expense of HRK 2,662.0 million and reported a loss in operations of HRK 92.5 million, or 3.6% of total revenues. In the previous year, the loss was HRK 460.2 million, which indicates a positive development in the financial result of HRK 367.7 million. With excluding one-time costs to employees as severance pay (HRK102.0 million) and impairment of claims against Gorup d.o.o. (HRK 99.4 million) from the total actual expenditures in 2014, the positive development in the financial result in 2015 amounted to HRK 166.3 million.

The EBITDA (earnings before interest, taxes, depreciation and amortization) was HRK 51.9 million positive, while for the previous year it was HRK 312.6 million negative. For 2015, total revenues increased by 14.6%, while total expenditures were down by 1.5% when compared to 2014. These data point to a significant improvement in the market position and a better balance of in- and output prices.

In the loss breakdown for 2015, HRK 52.2 million was from financial operations and HRK 40.3 million from operating activities, resulting in a total loss of HRK 92.5 million. In 2014, the loss from financial operations was HRK 52,4 million (up by 0.2 million) and loss from operating activities was HRK 407.8 million, or HRK 206.4 million when excluding employee severance in the restructuring process and impairment of claims against Gorup d.o.o. A positive development in the result in the segment of business activities for 2015 was HRK 166.1 million. This can be attributed to increased sales of fertilizers in the domestic and regional markets, as well as to the reduction of a part costs.

When compared to the year 2014, the savings on salaries and allowances to employees in 2015 were HRK 26.1 million, 14.1 million on overhead costs and 0.2 million in financial expenses. The positive effect of increased output and sales, and savings on direct production costs was HRK 126.1 million.

Due to losses in previous periods, Petrokemija, Plc. has been using current assets financed by short-term bank loans and rescheduling deadlines for payment of liabilities to suppliers of gas. Financing through commercial papers in 2015 was brought to a minimum. Furthermore, due to delays in the process of recapitalization, the Company has rescheduled maturity of a portion of its own short-term liabilities to financial institutions; large debts to suppliers of raw materials (gas) have also grown. A part of short-term liabilities to financial institutions was repaid in 2014 (about 230 million), which in 2015 influenced the change in the structure of current liabilities (increase in debt to suppliers of gas).

The adverse liquidity situation, as well as the impossibility to collect receivables from one of the three largest buyers in the domestic market - Gorup d.o.o. threatened the well-running mechanism of sales of receivables through factoring and created an additional burden on financial flows of Petrokemija and relationships with banks. The entire debt of HRK 65.9 million, due under recourse factoring for Gorup d.o.o. was charged to and collected from Petrokemija as recourse debtor in 2014 and the first half of 2015.

In reporting the status of current assets (accounts receivable) and current liabilities (contingent recourse obligations to the factoring companies, in case the debtors fail to meet their obligation), Petrokemija included these liabilities and receivables in the Balance Sheet as of 31 December 2015. In the course of the year, this mechanism of collection of receivables was continually reduced, so that the balance of assets and liabilities under recourse factoring at 31 December 2015 was reduced to HRK 2.3 million.

The Petrokemija group had total consolidated revenues of HRK 2,582.5 million, total expenditure of HRK 2,675.4 million and reported an operating loss of HRK 92.9 million a, or 3.6% of total revenues. The loss after tax was HRK 93.2 million. The parent company Petrokemija, Plc. has a dominant influence on the business result of the, while the impact of subsidiaries is relatively small and is basically based on the business activities of the parent.

In 2015, the share of Petrokemija, Plc. was traded on the Zagreb Stock Exchange, as well as the commercial papers, which were issued in cooperation with Privredna banka d.d. Zagreb as agent and broker. On 31 December 2014, the average share value was HRK 27.50, on 30 December 2015 it was

HRK 13.14 (down 52.2%) and on 31 December 2015 there was no trading with the share of Petrokemija, Plc. At the time of compiling this report, the share price stood at HRK 10.35 kuna (10 March 2016) and it is estimated that the actual decline is the consequence of loss, i.e. uncertainty of future operations (challenge to going concern).

In accordance with the commitment on the establishment of high standards of business transparency, Petrokemija, Plc. has been using Code of Corporate Governance of the Zagreb Stock Exchange since 2007, which was continued in 2015. In September 2011, the Code of Business Conduct Petrokemija, Plc. was adopted and has been applied ever since.

### **The share capital as on 31 December 2015**

The registered share capital in the court register of the Commercial Court in Zagreb amounts to HRK 386,135,400.00. The level of capital with reserves and the deposit prior to entry in the register is the result of the reduction of capital in 2014 and deduction for the loss reported in 2014, followed by a capital increase of HRK 253 million collected in the process of recapitalization. On 31 December 2015, the capital and reserves amounted to HRK 134,138,298.54 as a result of reduction of the registered capital for capital reserves, accumulated losses carried forward from previous years and the loss in 2015. The level of the capital with the reserves on 31 December 2015, 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.

### **Environmental Protection**

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

The Decision was issued for a period of five years and published in full on the website of the Croatian Ministry of Environment and Nature Protection.

The Decision on Integrated Environmental Protection Requirements was a necessary precondition for obtaining all necessary permits related to the technical and technological operating conditions for manufacturing facilities of Petrokemija, Plc. in the next five years.

The environmental projects are becoming more and more important and the remaining deadlines for execution are getting shorter (31 December 2017), so in the coming years Petrokemija will be forced to urgent and significant investment. Petrokemija's balance of the funds and their sources has been disturbed to such an extent that it is unrealistic to finance major financial operations from the current short-term sources, so that the pace of future investments will depend on available resources - capital increase or long-term bank loans.

### **Introduction of Energy Management System ISO 50001**

In December 2015, Petrokemija Plc. as the second Croatian company successfully introduced Energy Management System ISO 50001. It is one of the preconditions prescribed by the Integrated Environmental Protection Requirements.

The ISO50001:2011 Standard assists organizations in establishing the systems and procedures necessary to improve energy efficiency, which should lead to a reduction in energy costs and reduction of greenhouse gas emissions. The Standard specifies requirements for Energy Management System, which enables organizations to develop and implement policies and objectives that take into account legal requirements and information about significant energy aspects. Obtaining this certification is a major step forward in management of energy costs, which is one of the key objectives of the Company business policy.

### **Estimation of operational risks**

#### **At the turn of 2015/2016 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, further growth of the US dollar would cause additional 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 is linked to the USD and EUR exchange rate and to the movement of natural gas prices in the European spot market,
- The sales price of fertilizers in the world market continue to be influenced by cyclical and seasonal changes, and the price of nitrogen fertilizer Urea is at a very low level.
- The fluctuations of raw material prices in the world market, which have so far been present, will have impact on material costs in the next period.
- High costs of working capital - because of insufficient own working capital, financing costs will continue to be significant in the next period.
- High indebtedness could result in occasional setbacks in the delivery of natural gas, and production, which would generate additional costs and jeopardize the long-term viability of the Company,
- Financing investment will depend on the key decisions of the majority owner in view of the continuing process of restructuring, recapitalization and / or finding a strategic partner.

Assessment of business in the coming years at this point it is very difficult to predict due to the above mentioned influences on the financial result. Assessing the risks of operations of subsidiaries in 2016, 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.

At the time of publication of the financial statements, the preparation of an updated program for the period 2016-2020 is underway, which will include changes in operations that have occurred in the meantime (the fall in prices of raw materials and finished products, the growth of the US dollar, new products, etc.) and announce a potential new direction of deviation from the production of cost-unfavourable Urea for agricultural use.

### **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 the first half of 2016, with all the uncertainties in business that have been present so far. At the time of preparation of this report, there are still no defined resources for funding of the overhaul.

Finally, I would like to thank the Supervisory Board, the unions and the workers' council for the 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 2016 are lower natural gas price, cost efficiency with the change in product range and focusing on sales in the region. At the turn of 2015/2016, there is a risk of exchange rate of USD and EUR to the local currency, which could undermine the positive effects of the measures taken in the program of restructuring and financial consolidation. 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 rescheduling of overdue short-term liabilities, 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.

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 intensive investment cycle from 2016 to 2020.

President of the Board of Petrokemija, Plc.:

Nenad Zečević



Pursuant to Article 263, Paragraph 3 and Article 300c of the Companies Act, the Supervisory Board of Petrokemija, Plc. Kutina, at its 11/2016 session held on 29 March 2016 adopted:

***Supervisory Board Report  
to the General Meeting of Petrokemija, Plc. for 2015***

**I** During 2015, the Supervisory Board of Petrokemija, Plc. (hereinafter: Supervisory Board) held 34 sessions, in which issues related to business were discussed, provided by the law and the Articles of Association.

**II** Composition of the Supervisory Board

In 2015, there were the following changes in the composition of the Supervisory Board:

- On 9 March 2015, the term of the SB member Goran Kralj expired
- On 28 March 2015, the term of the SB member Željko Klaus expired
- On 30 July 2015, the term of the appointed SB member Davor Rakić expired
- On 31 July 2015, Željko Klaus was appointed SB member
- On 29 July 2015, SB member Tomislav Radoš, also the SB president, resigned from membership in SB

**As on 31 December 2015, Supervisory Board was composed of as follows:**

1. Tomislav Pokaz, SB president,
2. Branimir Fleković, SB vice president,
3. Sonja Ivoš, SB member,
4. Krešimir Huljev, SB member,
5. Željko Klaus, SB member.

In February 2016, at the time of this Report, there were changes in the composition of the Supervisory Board as follows:

- On 8 February 2016, Tomislav Pokaz resigned as president and member of the Supervisory Board of Petrokemija, Plc. because of taking up a new position that was incompatible with his membership in the Supervisory Board
- On 19 February 2016, Branimir Fleković was appointed president and Sonja Ivoš vice president of the Supervisory Board.

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

- Gas supply,
- Prices of fertilizers,
- Business Report for 2014,
- 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 January - March 2015,
- Business Report January - June 2015,
- Business Report January - September 2015,
- Various approvals for business deals worth over 10% of the share capital, for a lien on real estate, mineral fertilizers stock, for additional borrowing and for business cooperation contracts,
- Liabilities and credit indebtedness of the Company, relationships with commercial banks,

- Appointment of members of the Audit Committee and the Nominations and Remunerations Committee,
- Decisions related to the Company recapitalization process,
- The process of selecting a strategic partner,
- Preparations for 2016 overhaul,
- Information on the Decision on Integrated Environmental Protection Requirements,
- Business Information System
- Information on customer Gorup d.o.o. Klanjec,
- Business Plan for 2016,
- Calendar of important events in 2016.

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 2015, 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, which examined the annual financial statements of Petrokemija, Plc. for the year ended 31 December 2015, 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 2015, which were compiled by the Management Board, as follows:

- Annual Financial Statement for 2015 for Petrokemija, Plc.,
- Consolidated Financial Statement for 2015 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, 2015 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 Capital increase and change in the ownership structure in 2015

The first two rounds of the recapitalization were conducted successfully in July and August 2014 (HRK 253 million subscribed), while in the third round late January / early February 2015, there were no interested investors. The partial success of the recapitalization (planned HRK 500 mln) initiated the search for new solutions in the implementation of the possibly new process of recapitalization or rescheduling of short-term debt in 2015, which would provide the necessary resources for investment and permanent working capital.

In June, the potentially interested investors Prvo plinarsko društvo d.o.o Vukovar and MET Holding AG, Switzerland, conducted due diligence of Petrokemija, Plc. in accordance with the requirements of the Croatian State Office for State Property Management.

Following the decision of the Croatian Government of 24 September 2015 on authorizing the General Meeting to adopt the decision on the implementation of the capital increase in cash, goods and rights of the Company, in October 2015, a public call was announced for indication of interest to subscribe for new ordinary shares of Petrokemija, Plc. During 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 binding offers from the potential investors are expected.

At the time of the adoption of this Report, there is no reliable information on future decisions of the majority owner related to the further progress of relations with potential financial and / or strategic partners, banks or gas suppliers.

## VIII Loss Coverage for 2015

Actual loss in business of Petrokemija, Plc. for 2015 amounts to **HRK 92,512,321.68 and is transferred into the year 2016 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 positive development in the financial results of the Company business in 2015. However, the key goal - positive performance - was not achieved yet. In the January-December 2015 period, Petrokemija, Plc. had total revenues of HRK 2,569.5 million, total expense of HRK 2,662.0 million and the reported loss of 92.5 million or 3.6% of total revenues. In the previous year, the loss was HRK 460.2 million, which indicates a positive development in the financial result of HRK 367.7 million. If one-time severance costs to workers (HRK 102.0 million) and impairment claims against Gorup d.o.o. (HRK 99.4 million) were excluded from the total actual expenditures in 2014, the positive development in the financial result for 2015 would amount to HRK 166.3 million.

When compared to 2014, considerable savings were achieved in 2015: HRK 26.1 million on salaries and allowances to workers, HRK 14.1 million on overhead costs, HRK 0.2 million in financial expenses, while HRK 126.1 million is a positive effect of increased output and sales as well as savings on direct costs of production.

Low prices of fertilizers in the global market, which were carried over from 2014, continued to fall during the reporting period. In 2015, the most important export product Urea experienced an additional decrease in average price of 14%, and as low as 24% in December, which brought the price to a level that does not even cover the direct cost of natural gas. This price drop in the wider environment has had a continuous negative impact on the result and calls into question the continuity of production (under the threat of imports), with simultaneous pressure of lowering prices in the domestic market of all products, especially of CAN. Prices in the domestic market and in the region changed in accordance with the assessment of price movements of the competition.

Although the price of natural gas in the reporting period decreased in USD by 15.4% compared to the previous year, the procured price of natural gas that Petrokemija has been achieving is still about 20% higher than the price on the spot market, achieved by its competitors in their business environment. One of the reasons is that the purchase of natural gas for 2015 was determined by previously signed contracts with two suppliers, that adversely affected the financial result. Another significant negative impact on

the price in HRK was the growth of the US dollar. An additional adverse impact on costs is the growth of transport rates in the new gas year (decision by CERA), which will annually cause additional HRK 25 million of unplanned costs.

The fall in fertilizer price in the global market, low sales in the domestic market as a result of years of crisis in Croatian agriculture, the need for sales to distant markets with unfavorable prices in order to preserve liquidity and continuity of production and the high price of natural gas compared to the average market price, remain the main causes of loss.

#### **X Performance evaluation of the Management Board**

Since 19 November 2014, the Management Board has been composed of: president Nenad Zečević and members Antonija Perošević-Galović, Tamara Pernar and Vladimir Fresl. In 2015, the Management made every effort to preserve the market position, the stability of cash flows, technical and technological safety, environmental responsibility, investment despite the limited long-term sources of funds, and the preservation of the level of social dialogue and the general social responsibility. Some significant improvements have been achieved in business performance, but unfortunately insufficient for achieving positive financial results and in the previous years disturbed balance of the Company.

The Revised Program of Restructuring and Financial Consolidation 2015–2019 was the framework in which the Management undertook their activities, adapting to the number of changing conditions and negative effects from the environment, especially the growth of the US dollar and the decline in the prices of Urea, but also of other fertilizers. Two plants - NPK 2 and Sulfuric Acid were reactivated, there was a change in product range (a significant increase in the volume of NPK fertilizers) and better capacity utilization.

In the difficult operating conditions of the Company, there was a good cooperation of the Board with the unions and the workers' council, which has 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 2015 as fair, with partial realization of the set goals, useful 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 2015**

The Supervisory Board evaluates their work in the past period as extremely demanding and dynamic, as is evident from the number of meetings held and the structure of the topics discussed. The achieved progress in business performance was significant, but is still limited by a number of circumstances in the wider environment of the Company as well as by transferred difficulties from the previous period. Despite numerous 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 business of the Company. In 2015, 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 2015 to the General Meeting of Petrokemija, Plc. with the proposal to adopt it.

Supervisory Board President:

Branimir Fleković  
