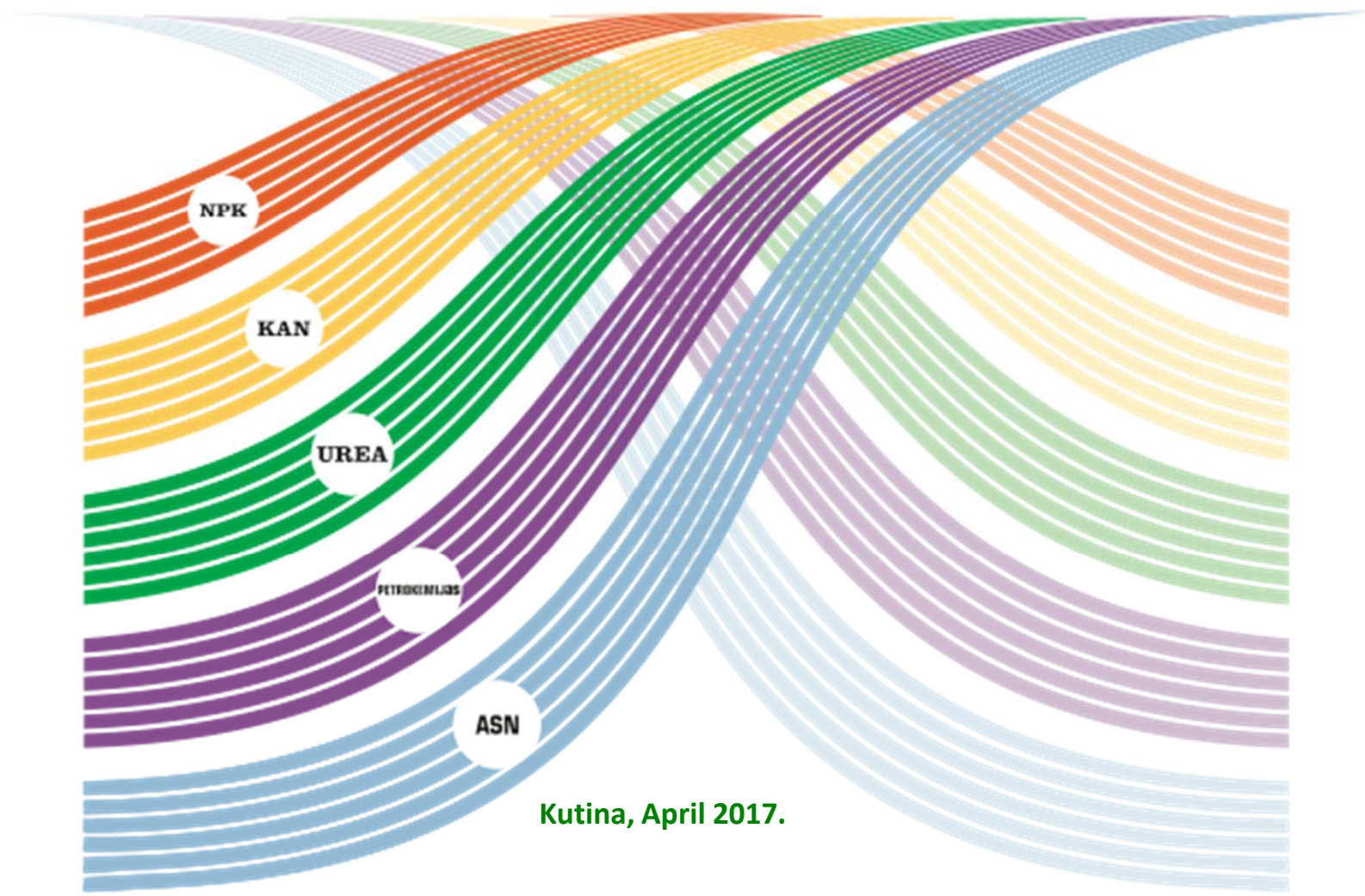


NON-AUDITED
NON-CONSOLIDATED



QUARTERLY REPORT PETROKEMIJA Plc. KUTINA

REPORT FOR PERIOD January to March 2017



Kutina, April 2017.

Key indicators for Petrokemija, Plc. for January - March 2017

- ❑ Operating profit – HRK 11.1 million (the same period of 2016 - HRK 6.6 million loss),
- ❑ Operating loss – HRK 7.2 million, profit from financial operations – HRK 18.3 million,
- ❑ Earnings before interest, taxes, depreciation and amortization (EBITDA) – HRK 16.8 million,
- ❑ Actual total revenues of Petrokemija, Plc. – HRK 618.0 million, 15.6% more than in the same period 2016,
- ❑ Actual production of fertilizers – 307 thousand tons, 14% more than in the same period 2016,
- ❑ Compared to the same period 2016, production of NPK fertilizers increased by 31%, production of Urea increased by 8.3%, whereas the production of CAN was 11% higher,
- ❑ Utilization of currently installed production capacity of the facilities – 95.9%,
- ❑ Actual sales of fertilizers – 327 thousand tons, higher sales volume 29.1% than in the same period last year, highest sales in the first quarter in the last five years,
- ❑ Share of fertilizer sale volumes in the domestic market – 31 %,
- ❑ Domestic sales – 102 thousand tons, while 225 thousand tons of fertilizers sold in export,
- ❑ Capital and reserves on 31.03.2017 for Petrokemija, Plc. – HRK 57.9 million,
- ❑ Invested in Petrokemija, Plc. – HRK 24.3 million,
- ❑ Employed on 31.03.2017: Petrokemija, Plc. – 1,571; Petrokemija Group – 1,706.

Company Management Board Report for January – March 2017

- ❑ In January – March 2017, Petrokemija Plc. had total income of HRK 618.0 million and total expense of HRK 606.9 million. The Company reported profit of HRK 11.1 million or 1.8% of the total revenues,
- ❑ For the first time since 2011 profit was reported in the first quarter,
- ❑ Higher sales volumes by 29.1% and lower average sales prices by 13.5% compared to the same period 2016,
- ❑ In the structure of income, domestic sales amounted to 30.9% or HRK 190.7 million, 24.7% higher when compared to the same period 2016, while export accounted for 62.4% or HRK 385.6 million, 5.5% higher than in the same period 2016,
- ❑ In assortment, compared to the same period 2016, higher sales in 2017 of Urea by 57.6% and NPK fertilizer sales by 58.2%, while lower realization compared to the same period 2016 was realized in CAN mineral fertilizers by 6.3%,
- ❑ Domestic sales – 62.1% higher in volume than in the same period 2016,
- ❑ Export sales volumes – 18.1% higher than in the same period 2016,
- ❑ Sales volumes of clay-based products and liquid fertilizers – 5% lower than in the same period 2016,
- ❑ The USD exchange rate is **by 1.6%** higher than the same period 2016. As regards natural gas purchases, the share of the volumes at USD prices was about 2%, and 98% was linked to the euro, so that natural gas stopped being dependent on the USD exchange rate, which was the most significant financial risk in Petrokemija's business in the previous period.

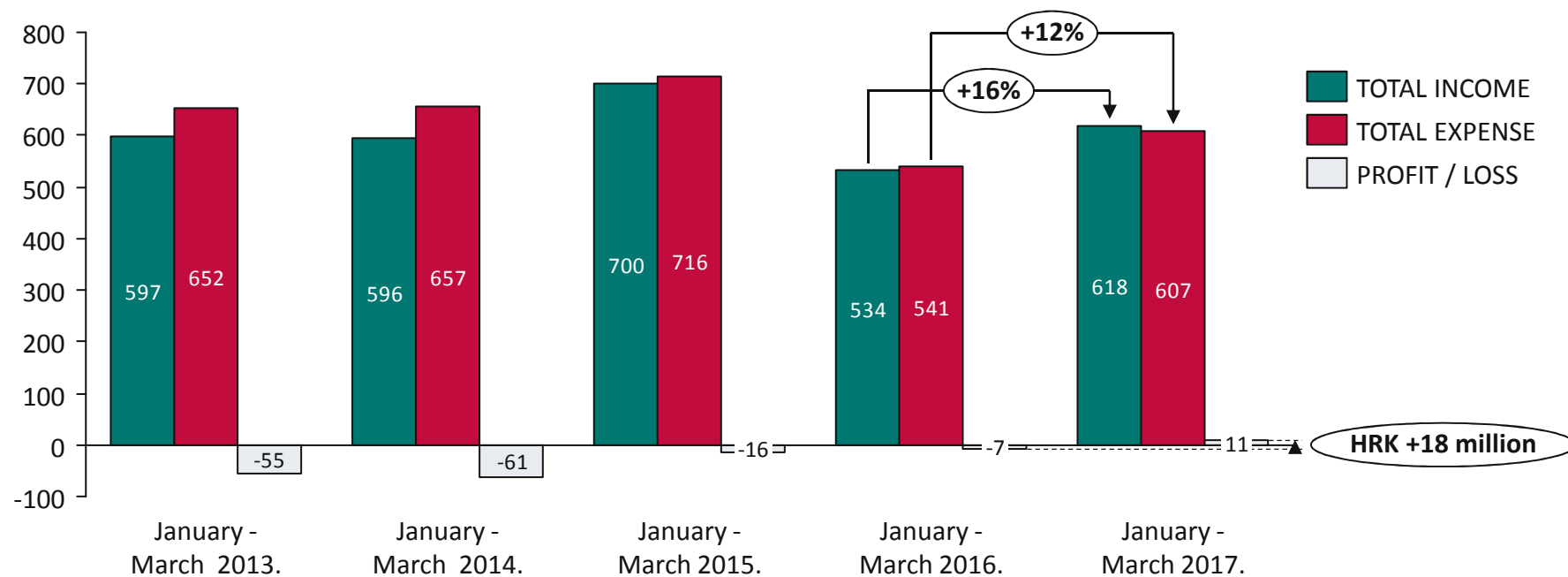
Company Management Board Report for January – March 2017

- ❑ Liquidity indicators are below recommended value, approximately at the level of the previous year (on 31.03.2017, negative working capital was HRK **-260** million; on 31.12.2016 it was HRK **-278** million),
- ❑ Short-term assets decreased by 16.3% compared to end 2016, and short-term liabilities decreased by 10.4%,
- ❑ Indicator of financial stability as well as indicators of indebtedness and own funding are below recommended values, approximately at the level of the previous year,
- ❑ Average realized natural gas price (without transport costs) was 4.9% higher in HRK compared to the same period 2016 and 3.4% higher in USD; transport costs of natural gas – from 01.04.2017, lower transport costs are expected according to the new tariff,
- ❑ Total number of employees of Petrokemija, Plc. on 31.03.2017 is 1,571, a reduction of 24 as compared to 31.12.2016. In January 2017, 46 employees left the Company through the incentive severance program,
- ❑ Achieved level of investment was HRK 24.3 million, a decrease of HRK 7.7 million as compared to the same period 2016.

Profit and Loss in the period January – March 2013 to 2017

■ Total income	HRK 618.0 million,
■ Total expense	HRK 606.9 million,
■ Profit	HRK 11.1 million,
■ EBITDA	HRK +16,8 million,
■ EBITDA margin (%)	2,9%.

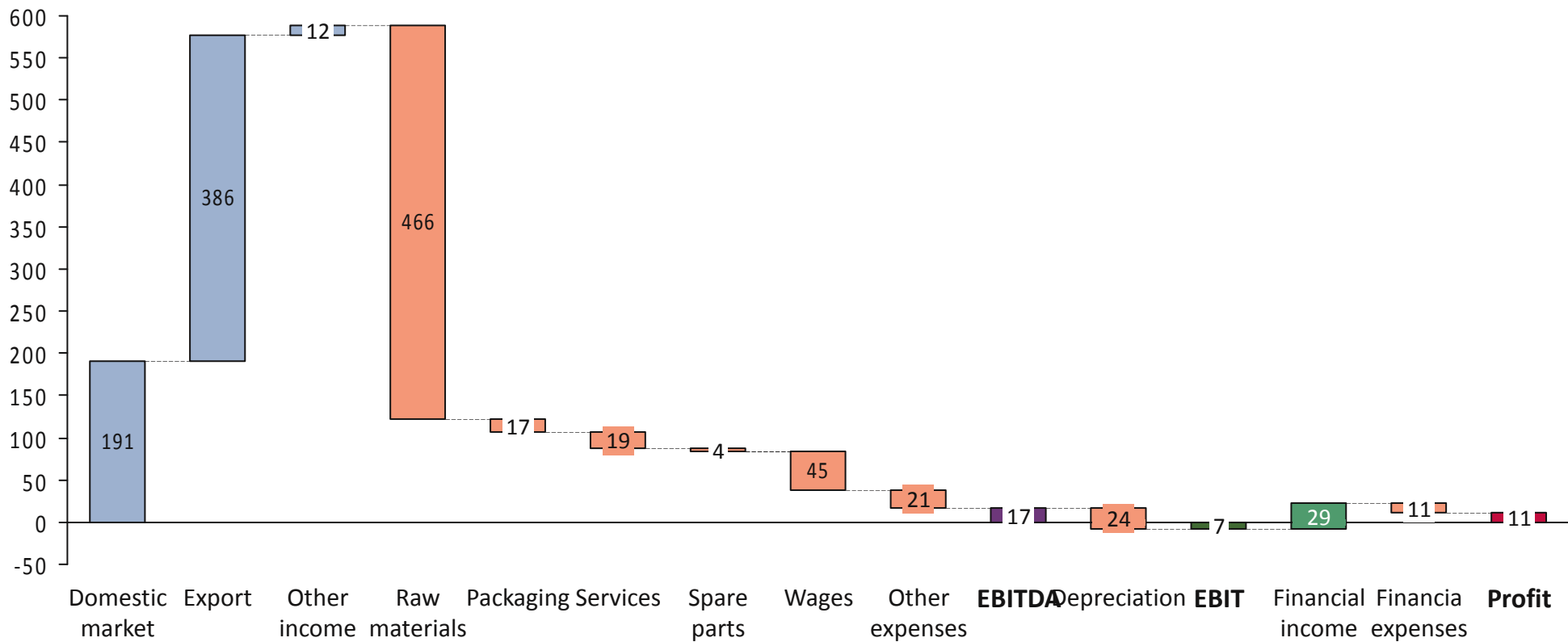
HRK million



Structure of Profit and Loss for January – March 2017

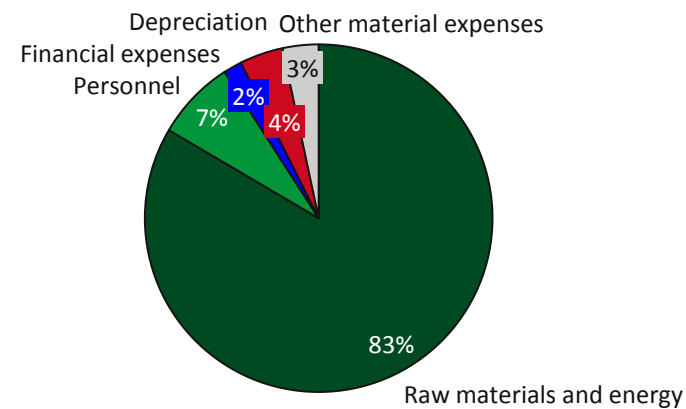
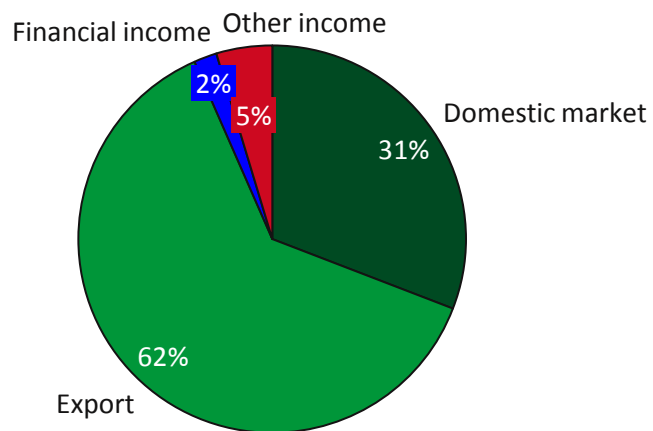
HRK million

- By achieved total income, the Company manages to cover all operating costs.
- Operating profit HRK 11.1 million.



Structure of Profit and Loss for January – March 2017

- In January – March 2017 period, Petrokemija, Plc. earned 31% of income from domestic market, 62% income from export, and financial and other income account for 7% of the total income.
- In the structure of total expenditures the dominant 83% account for the costs of raw materials, materials and energy; personnel costs account for 7%, while all other costs make 10%.



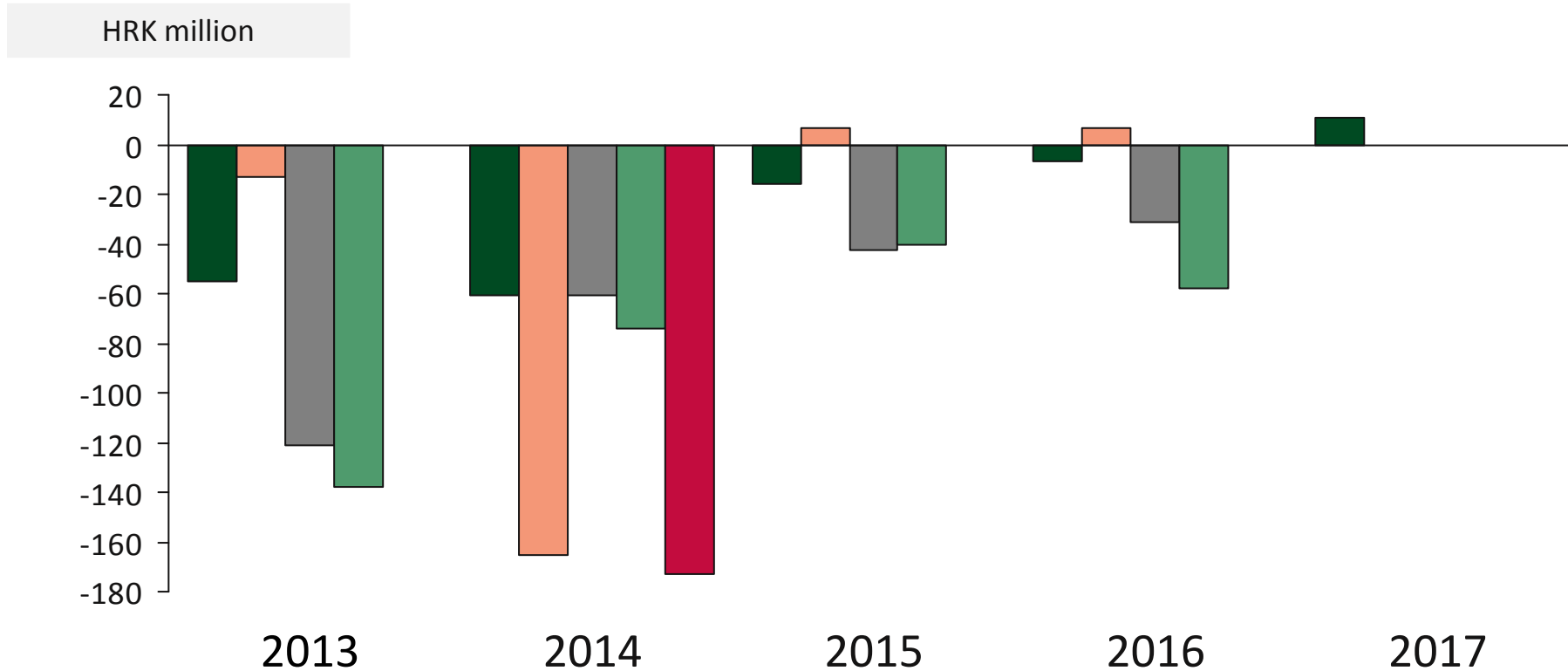
Key financial indicators for January – March 2017

(HRK 000)

	January – March 2017	January – March 2016	Difference	% change
Operating income	588.793	529.170	59.623	11,27%
Operating expense	595.946	529.326	66.620	12,59%
EBITDA *	16.796	21.418	-4.622	-21,58%
Amortization	23.949	21.574	2.375	11,01%
Net financial income /(expenses)	18.258	-6.421	24.679	-384,35%
Net extraordinary income / (expenses)	0	0	0	
Profit / loss / before taxation	11.105	-6.577	17.682	-268,85%
	31 March 2017	31 December 2016		
Fixed assets	696.913	701.782	-4.869	-0,69%
Current assets	445.788	532.272	-86.484	-16,25%
Capital and reserves	57.932	46.828	11.104	23,71%
Long-term liabilities + provisions	379.064	377.044	2.020	0,54%
Current liabilities + provisions	705.705	810.182	-104.477	-12,90%

* Earnings before interest, taxes, depreciation and amortization

Quarterly profit / losses for 2013 - 2017



Note: ADJUSTED ACTUAL LOSS WITHOUT SEVERANCE COSTS TO EMPLOYEES:

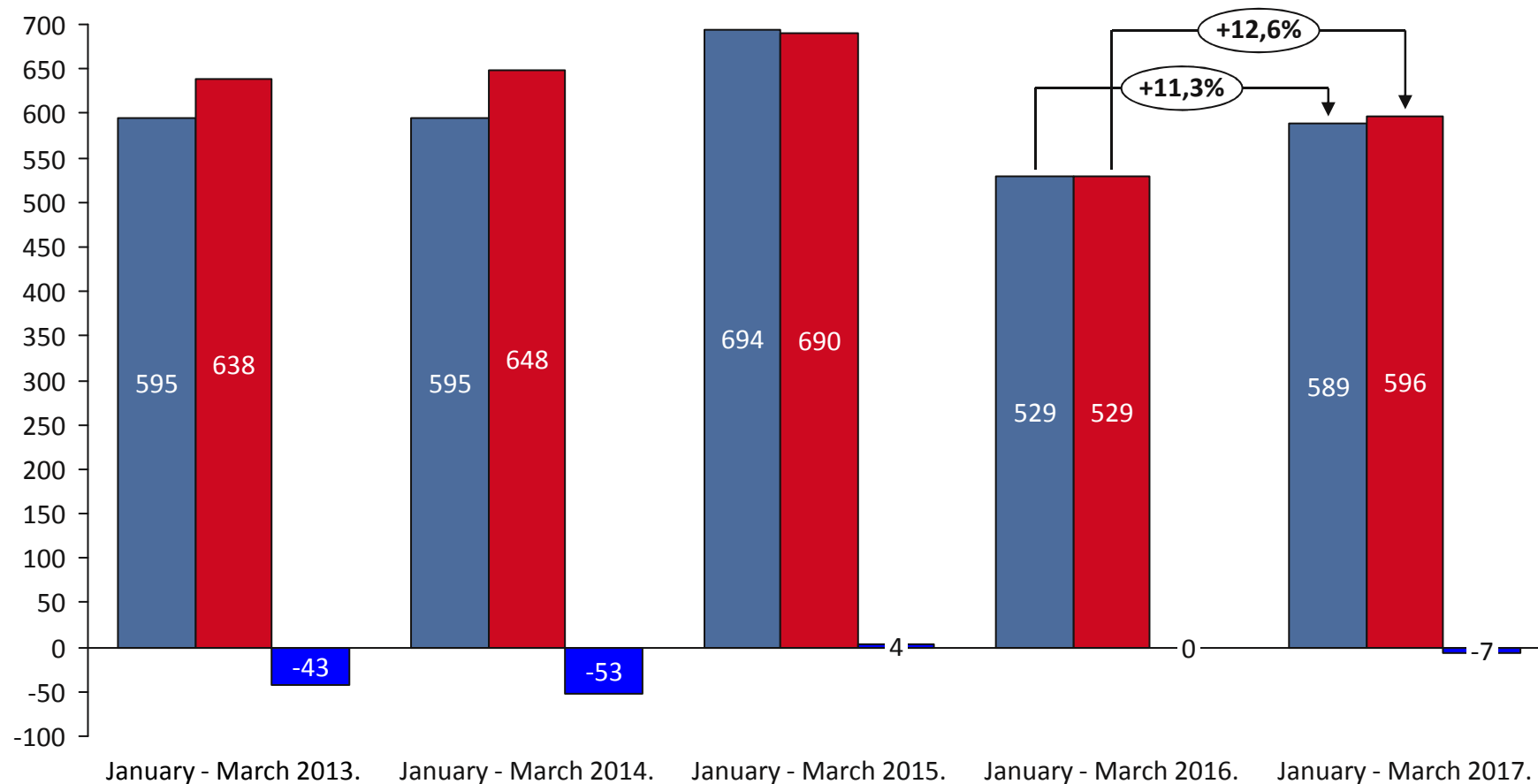
- Q4/2013 – HRK 95 mln,
- Q2/2014 – HRK 65 mln,
- Q4/2016 – 52 mln.

- 1. quarter
- 2. quarter
- 3. quarter
- 4. quarter
- 4. quarter 2014 after correction of Gorup

Profit and Loss from operating activities for January – March 2013 to 2017

HRK million

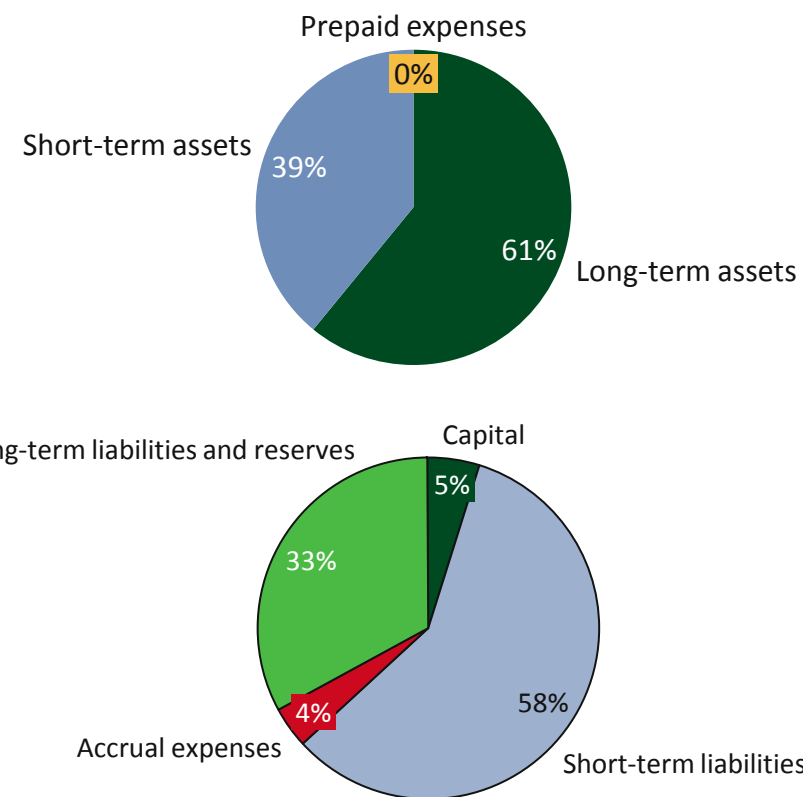
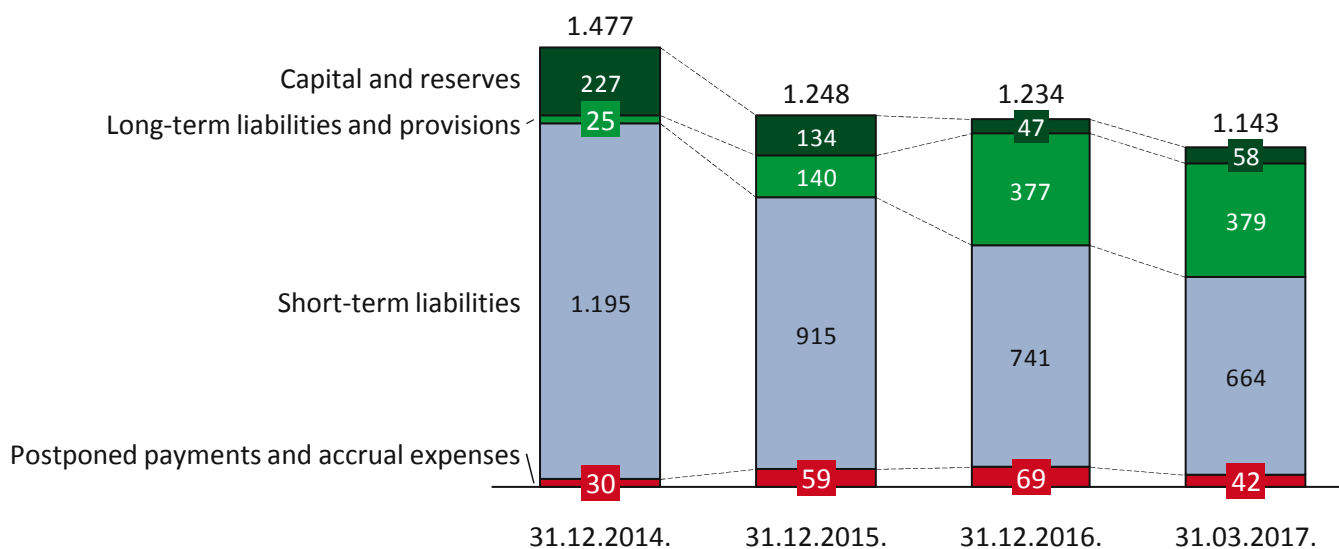
■ OPERATING INCOME
■ OPERATING EXPENSES
■ PROFIT/LOSS FROM OPERATING ACTIVITIES



Structure of assets and liabilities at 31 March 2017

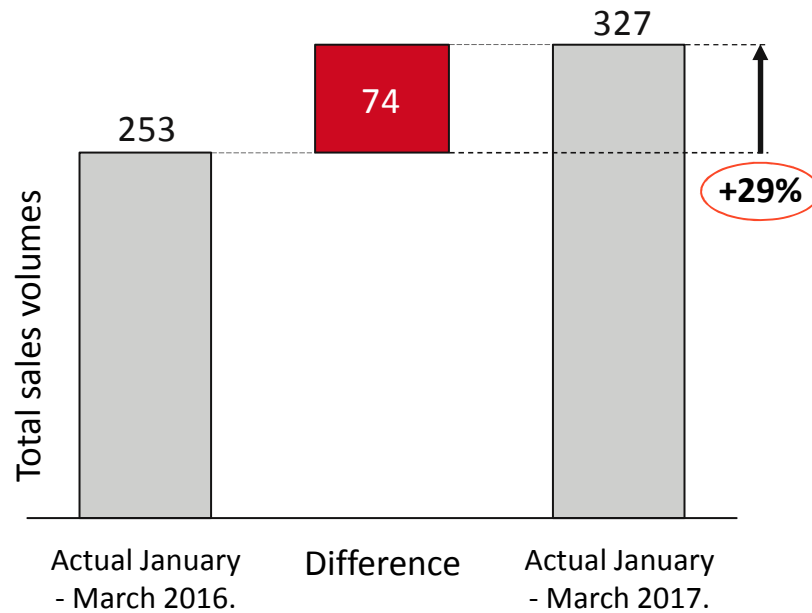
- At 31 March 2017, Petrokemija, Plc. had 39% in value of short-term and 61% in long-term assets.
- The level of capital of HRK 58 million reflects the impairment for losses reported for 2014 – 2016 period.
- In the debt structure over the first quarter of 2017, the debt was dominated by natural gas suppliers, and due to the inability to settle the contracted obligations, one of the suppliers stopped deliveries for a short time in April. Solving the problem of finding long-term working capital is under way at the time of the preparation of this Report.

HRK million

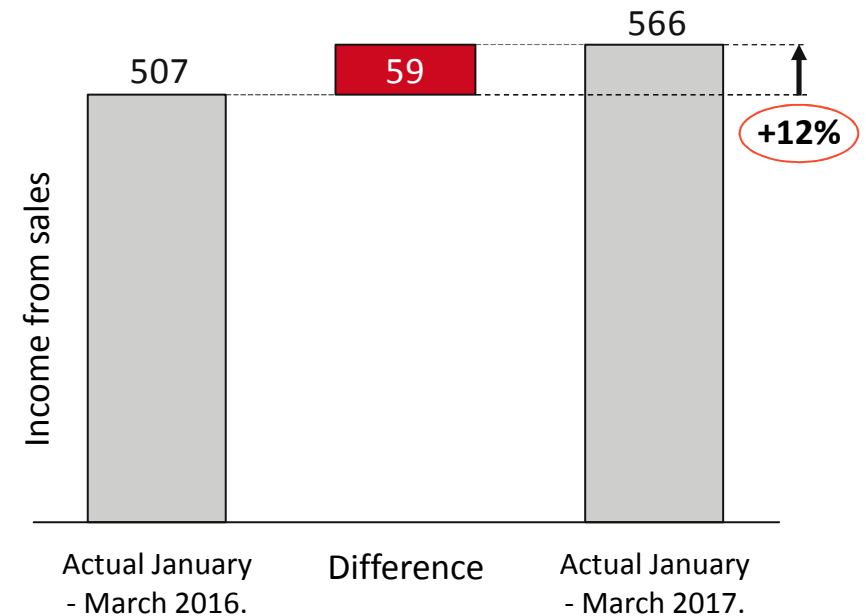


Total fertilizer sales

SALES VOLUMES (000 t)
2017 / 2016



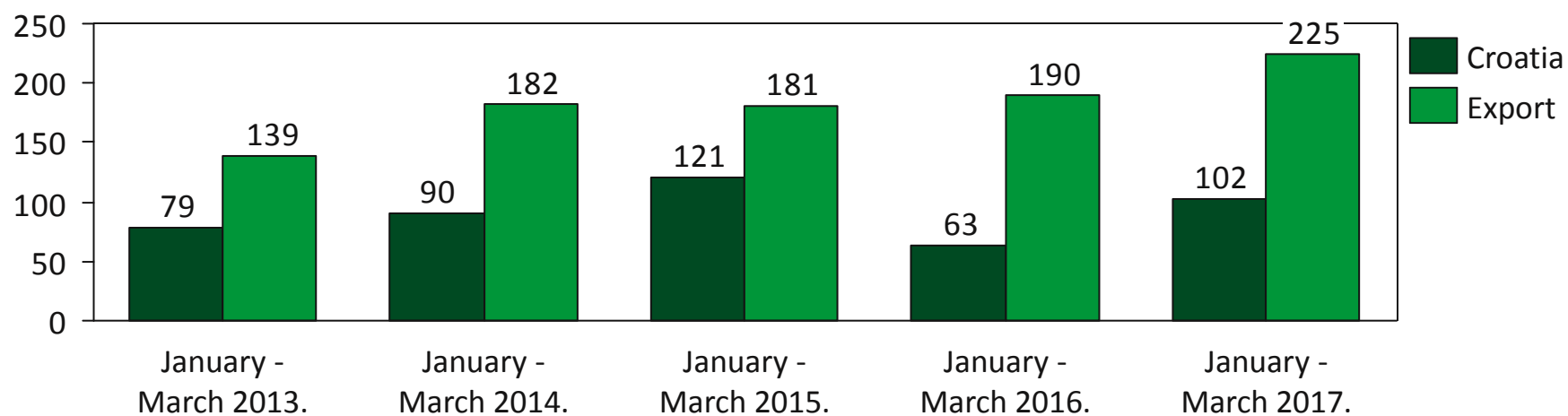
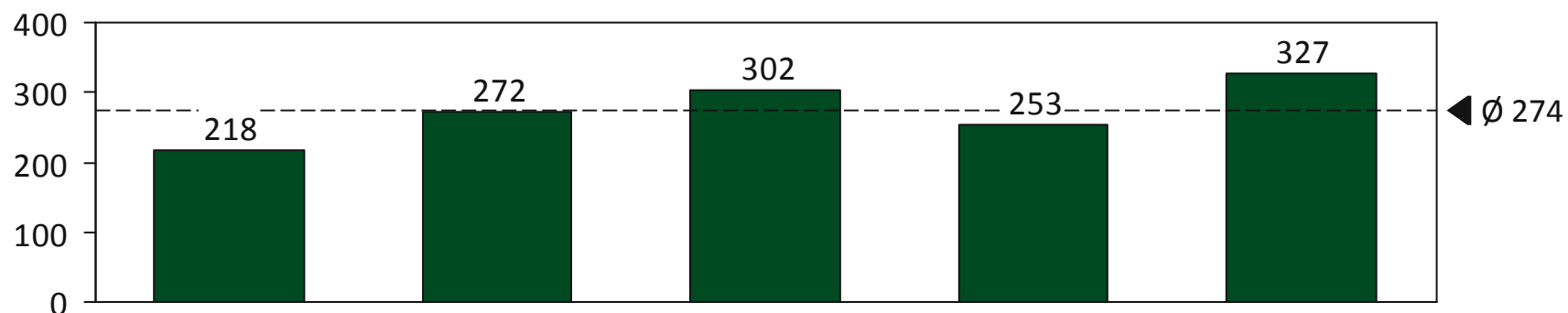
INCOME FROM SALES (million HRK)
2017 / 2016



Actual growth in fertilizer sales volumes of 29% and increase in income from fertilizer sales of 12%, which indicates a significant fall in average selling prices compared to the same period 2016.

Actual fertilizer sales in January – March 2013 – 2017

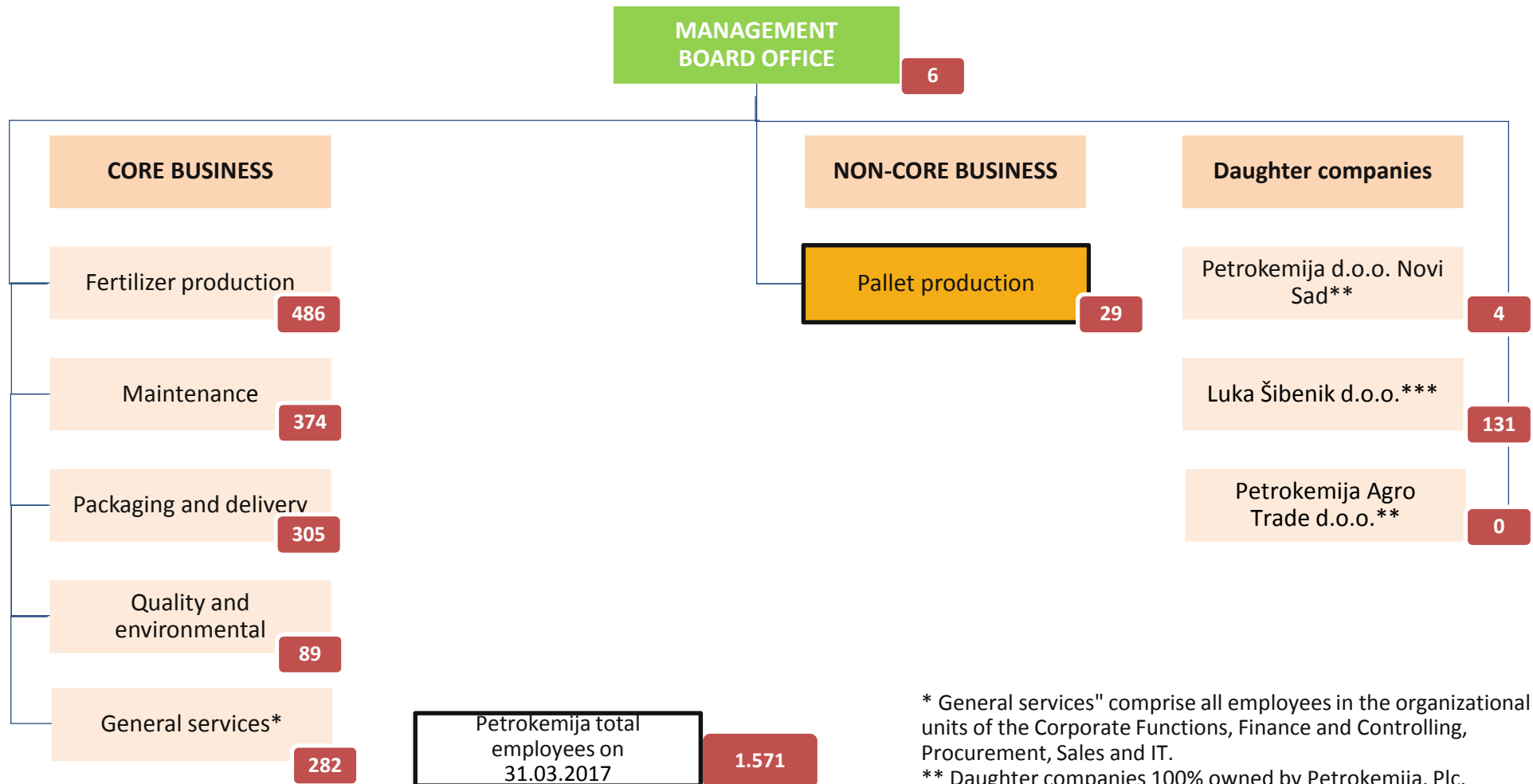
total sales (000 tons)



Business Results of Petrokemija Group for January – March 2017

- ❑ After the consolidation of financial results of Petrokemija, Plc. and its subsidiaries – Petrokemija, Ltd. Novi Sad, Luka Šibenik, Ltd. and Petrokemija Agro Trade, Ltd. – the financial results of **Petrokemija Group** for the period January – March 2017 are as follows:
 - ❑ Total revenues HRK 623.3 million,
 - ❑ Total expenses HRK 612.9 million,
 - ❑ Profit before tax HRK 10.4 million,
 - ❑ Profit tax HRK 0.1 million,
 - ❑ Profit after tax HRK 10.3 million,
- ❑ EBITDA (earnings before interest, taxes and depreciation) was HRK 16.4 million in the positive.
- ❑ Petrokemija, Ltd. Novi Sad made losses of HRK 16.3 thousand, while Luka Šibenik, Ltd. reported loss of HRK 638.7 thousand.
- ❑ Petrokemija Agro Trade, Ltd. did not have any transactions.
- ❑ The report on the Petrokemija Group's business includes detailed information on the operations of the subsidiaries.

Organization Chart of Petrokemija, Plc. and Petrokemija Group



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

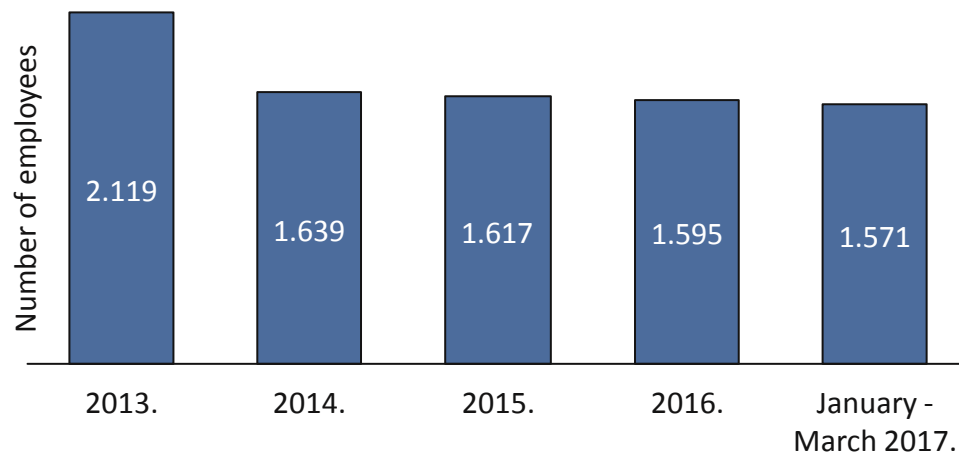
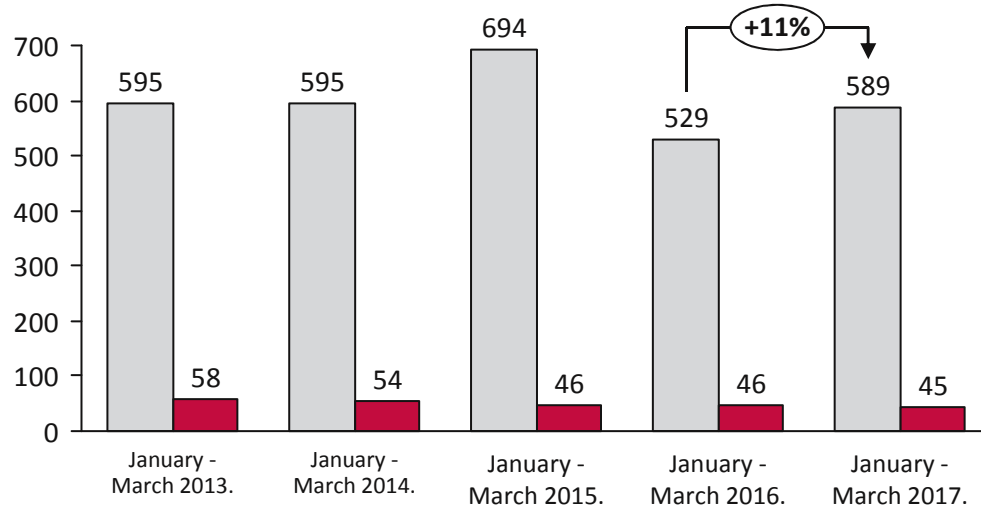
** Daughter companies 100% owned by Petrokemija, Plc.

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

Operational income, personnel costs and number of employees

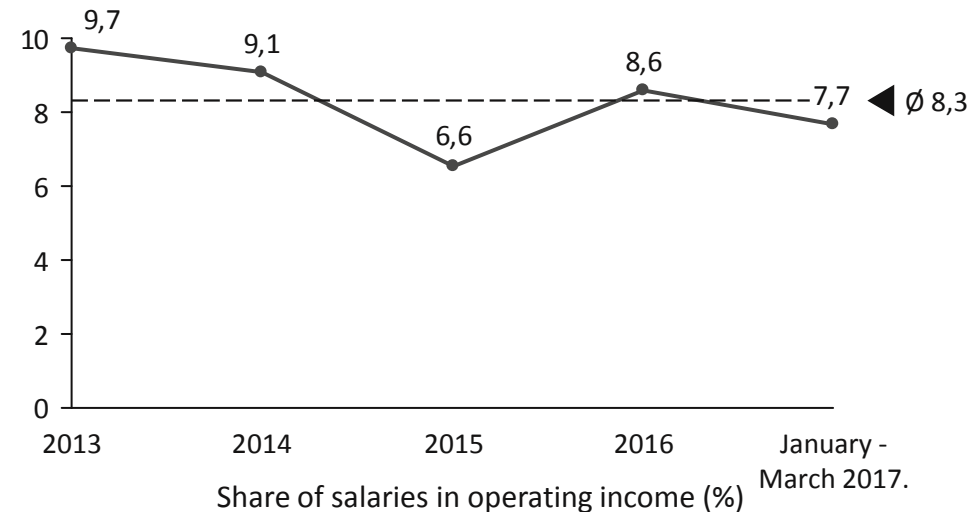
HRK million

BUSINESS INCOME
 Personnel costs



As at **31.03.2017**, Petrokemija, Plc. had **1.571** employees, and daughter companies – members of Petrokemija Group – had 135 employees, which is a total of 1,706 employees.

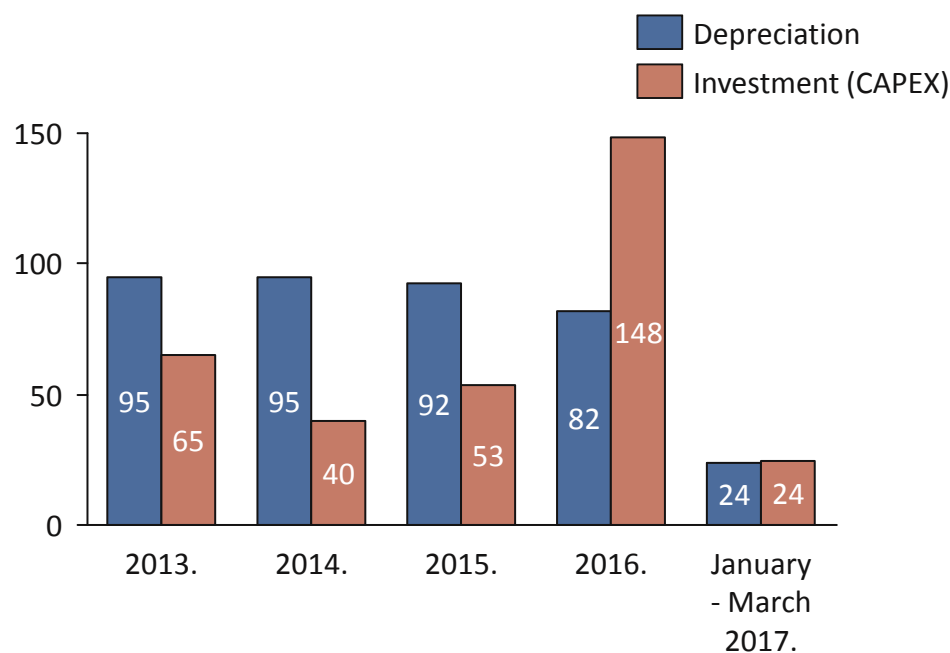
Personnel costs share in operating revenues was 7.7%, lower than the average in the last five years (8.3%) due to the growth in business income.



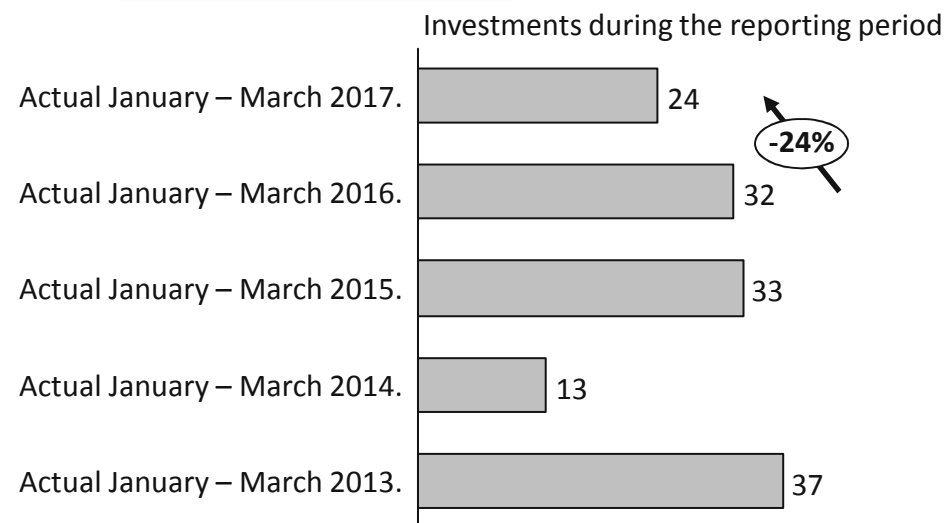
Realized investment

- Investment realized in reporting period 2017 amounted to HRK 24.3 million. Out of this amount, HRK 11.5 million relates to the purchase of a crane in Luka Šibenik. Compared to the same period of 2016, investments decreased by HRK 7.7 million or 24.1%.
- The planned investment level of HRK 75 million may be in question due to limited financing options, or lack of support from commercial banks.

HRK million



HRK million



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



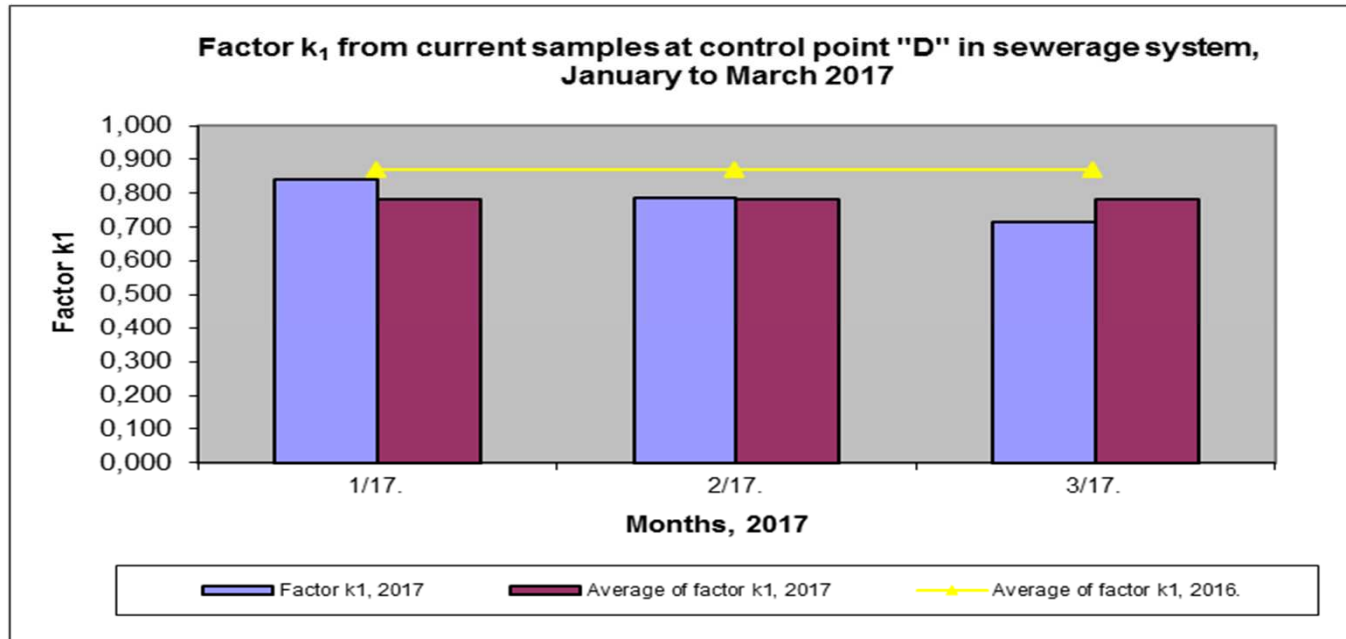
Clean or slightly polluted air	Polluted air	Pollutants
1 st category C<LV	2 nd category C>LV	
K2,DMP		Sulphur dioxide (SO ₂)
K1,K2,K6,K7		Sediment
K1,K6,K7,DMP	K2	Ammonia (NH ₃)
K2,DMP		Nitrogen dioxide (NO ₂)
DMP		Hydrogen sulphide (H ₂ S)
DMP		PM10

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

Ambient air limit value (LV) exceedance of AMMONIA in the *January to March 2017* period (local network)

Monitoring station	<i>The number of limit value (LV) exceedances in the <u>January to March 2016</u> period/ permitted exceedance number</i>
K 1 - Dom zdravlja	6 / 7
K 2 - Vatrogasni dom	10 / 7
K 6 - Husain	3 / 7
K 7 - Krč	1 / 7
TOTAL	22

Water management



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

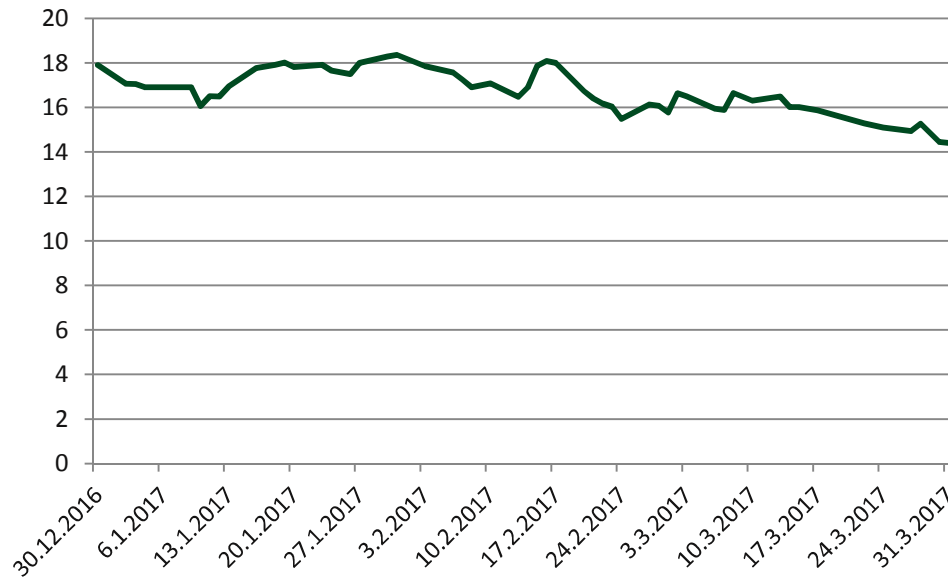
In the period from January to March 2017, monthly average consumption of raw water is higher than average value in the same period of 2016.

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

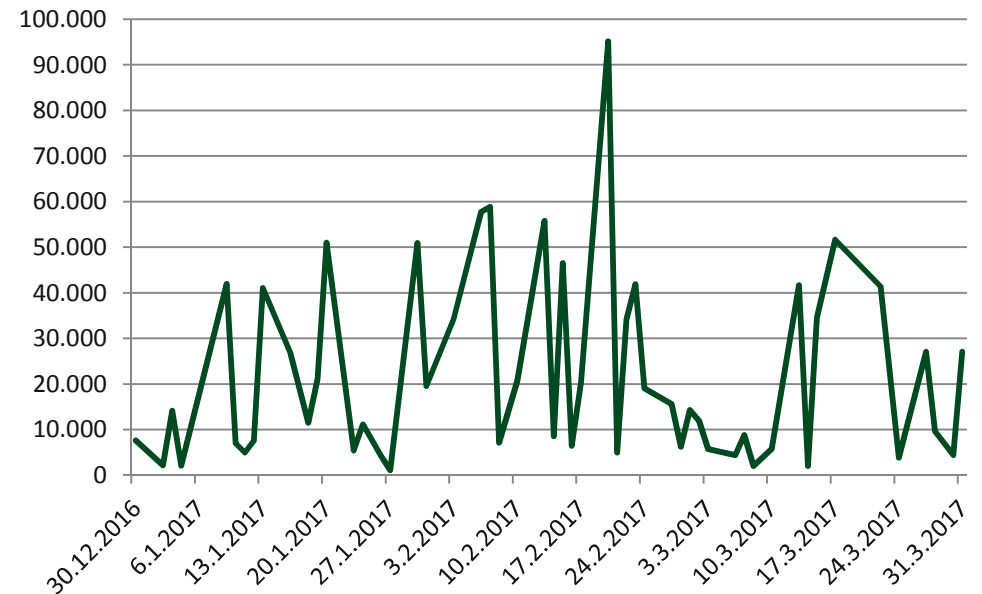
- ❑ The Company share capital amounts to HRK 386,135,400.00 and is divided into 12,871,180 ordinary shares marked PTKM-R-A, with a nominal amount of HRK 30.00.
- ❑ On December 30, 2016, the average value of the share was HRK 17.90, and on March 31, 2017 HRK 14.40 (down 19.55%).
- ❑ At the meeting of 06.02.2017, Mijo Šepak was elected President of the Supervisory Board.
- ❑ At its meeting of 6 February 2017, the Supervisory Board passed a decision establishing the mandate termination as on that day of the President of the Management Board Nenad Zečević and members of the Board Antonija Perošević Galović, Tamara Pernar and Vladimir Fresl. The Supervisory Board appointed Đuro Popijač from Zagreb as President and Nenad Zečević member of the Management Board. The mandate of the appointed members of the Board began on 7 February 2017 and runs until 6 February 2021.
- ❑ At the Extraordinary General Meeting held on March 23, 2017, a decision was made to appoint Robert Blažinović member of the Supervisory Board for a mandate of 4 years.

Petrokemija, Plc. share price and daily turnover movements

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



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





PETROKEMIJA
KUTINA

Key events in 2017

- On the basis of an international tender, Petrokemija concluded a new contract for natural gas supply in the gas year 2017/2018 for the total needed volumes. The contract was concluded with suppliers INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar as the best bidder in the tender. By concluding this contract, Petrokemija has provided enough natural gas for stable planned production in the gas year 2017/2018.
- By the decision of the Croatian Energy Regulatory Agency (HERA) of 17 March 2017, the price of natural gas transport has decreased by approximately 19%, with effect as of 1 April 2017, which should have a positive effect about HRK 20 million on the financial result of Petrokemija, Plc. on an annual basis,
- By the decision of the Commercial Court in Zagreb (No. Tt-16 / 45722-2 of 2 January 2017) on the merger of the daughter company, the entry was announced of the merger of Restoran Petrokemija, Ltd. for catering, Kutina Aleja Vukovar 4, and Petrokemija, Plc. Fertilizer Company, based in Kutina, Aleja Vukovar 4, in the registration insert with company number 080004355, OIB 24503685008.
- With the help of the KPMG Croatia Ltd. as a consultant, in the first quarter of 2017 the activities on the preparation of the complete Restructuring program of the Company and the Petrokemija Group have been ongoing. A proposal for the Concept of Restructuring was prepared, approved by the Supervisory Board and sent to competent state institutions for consideration.
- At the time of the drafting of this Report, at its 33rd session on 27 April 2017, the Government of the Republic of Croatia adopted the Decision on exclusion from the sale of shares of companies: Hrvatski telekom d.d. Zagreb, Podravka Food Industry d.d. Koprivnica, Croatia Airlines d.d. Zagreb and Đuro Đaković Group d.d. Slavonski Brod. Petrokemija, d.d. had requested a loan amounting to HRK 350 million from the Croatian Bank for Reconstruction and Development and the Croatian Government approved the institution of a lien on the shares of the mentioned companies owned by the Republic of Croatia for securing the loan repayment. Commercial banks will also be involved in the realization of the loan. Croatian Government passed the Decision on Securing Loan Repayment to ensure the stability of Petrokemija's operations and maintenance of business processes, as well as the creation of preconditions for the preparation and realization of the Company Privatization, as stated in the explanation of the Decision at the Government's session.

Significant financial risks in 2017

The overall business position of Petrokemija, Plc. in 2017 depends on a number of factors, whose impact is very difficult to estimate. Agreements reached on new natural gas procurement conditions and repayment of natural gas debt have reduced part of the risk transferred from the previous period. However, according to the current market situation, it is estimated that in 2017 there will be an ongoing pronounced influence of variable levels of fertilizer prices in the world market and the relatively high level of natural gas price in Europe and Croatia. Also, the Company's insufficient liquidity and high financing costs will have significant impact on the level of financial expense and operational management of the business. The final financial result for the business year 2017 is likely to depend on the pace and scope of potential measures for restructuring of the Company and Petrokemija Group. In addition to the above, caution is still suggested due to the following risks:

- ❑ Petrokemija Plc. is highly dependent on the movements of fertilizers and their raw materials price in the global market, the exchange rate of the HRK against USD and EUR and their interrelationship,
- ❑ Natural gas as the most important raw material is still procured on the domestic market, according to contracts concluded with two suppliers – INA, d.d. Zagreb and Prvo plinarsko društvo d.o.o Vukovar. The price of natural gas in 2017 is linked to the EUR exchange rate and to the movement of natural gas prices on the European spot market,
- ❑ Reduction in the price of transport of natural gas by about 19% should continue to have a positive effect on the financial result in 2017,
- ❑ The sales prices of fertilizers in the global market have grown in late 2016 and early 2017, but are still very low (short-term also influenced by cyclical and seasonal changes) and the price of nitrogen fertilizer Urea has been at a very low level for a long time now; so in case of a more pronounced growth of natural gas price on the European spot market, profitability of production may come in question at certain time intervals,

Significant financial risks in 2017 (cont)

- ❑ Lower VAT in 2017 should have positive effects on mineral fertilizer sales in the domestic market,
- ❑ Purchasing prices of most primary raw materials are lower than in the previous period, but fluctuations in raw material prices on the world market, which have so far been present, will continue to have impact on material costs in the next period,
- ❑ High costs of working capital – because of insufficient own working capital, financing costs were reduced, but will continue to be significant in the next period,
- ❑ In 2017, there are expressed risks in finding new long-term sources of investment financing, and from operating operations it is very difficult to set aside resources to continue the intensive investment process. The deadlines for realizing a part of the so-called ‘environmental investments’, according to the Decision on Integrated Environmental Protection Requirements (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,
- ❑ Although operating profit in the total business was made in the first quarter of 2017, the loss from business relationships indicates caution in predicting financial and operating results in the next period in 2017.

Statement of management liability

In line with Articles 407 through 410 of Capital Market Act (OG 88/08, 146/08, 74/09, 54/13, 159/13, 18/15, 110/15, 123/16) the Managing Board of Petrokemija, Plc. Kutina, A. Vukovar 4, make a :

Statement on Management Liability

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

Financial reports for the **January 1 to March 31 2017 period**, make an exact and true account of the Company financial status and the business and cash flow results, in compliance with the applicable accounting standards.

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

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

President of the Board :

Đuro Popijač, MS

Member of the Board: :

Nenad Zečević, BE



PETROKEMIJA
KUTINA

Attachments:

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

Attachment 1.

Reported period:

01.01.2017.

to

31.03.2017.

Quarterly financial statements TFI-POD

Registration number (MB): 03674223

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

Issuer company: PETROKEMIJA, Plc. Fertilizer company

Postal code and city: 44320

KUTINA

Street and number: ALEJA VUKOVAR 4

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

Code and city/municipality: 220 KUTINA

Code and county name: 3 SISAČKO-MOSLAVAČKA

Number of employees: 1.571
(at the end of the year)

Consolidated Report: NO

Code of NKD: 20.15

Entities in consolidation (according to IFRS):

Registered seat:

Registration number (MB):

Book-keeping office:

Contact person: MARINA MARIĆ

(name and surname of the contact person)

Telephone number: 044-647-829

Fax: 044-682-795

E-mail: marina.maric@petrokemija.hr

Name and surname: ĐURO POPIJAČ, NENAD ZEČEVIĆ

(authorized representatives)

Documentation to be published:

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

(seal)

(signature of authorized representative)

BALANCE SHEET

as at 31.03.2017.

Issuer: PETROKEMIJA, d.d.			
Position	AOP code	Previous year (31.12.)	Current year
1	2	3	4
A) RECIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL	001		
B) LONG-TERM ASSETS (003+010+020+029+033)	002	701.782.032	696.912.440
I. INTANGIBLE ASSETS (004 do 009)	003	8.023.084	8.162.999
1. Expense for development	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	4.487.689	4.114.874
3. Goodwill	006		
4. Advances for intangible assets	007		
5. Intangible assets in progress	008	3.535.395	4.048.125
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 do 019)	010	669.390.841	669.218.876
1. Land	011	48.506.702	48.506.703
2. Buildings	012	224.148.613	219.340.496
3. Plant and equipment	013	345.925.594	349.232.173
4. Tools, plant inventory and transportation assets	014	16.704.376	15.866.777
5. Biological assets	015		
6. Advances for tangible assets	016	99.731	265.968
7. Tangible assets in progress	017	33.538.840	35.540.185
8. Other tangible assets	018	466.985	466.574
9. Investments in real estates	019		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	020	24.220.525	18.882.724
1. Investments (shares) in related companies	021	24.212.988	18.875.187
2. Loans given to related companies	022		
3. Participating interest (shares)	023	7.537	7.537
4. Loans given to companies with participating interest	024		
5. Investment in securities	025		
6. Loans given, deposits and similar assets	026		
7. Other long-term financial assets	027		
8. Investments accounted for using the equity method	028		
IV. TRADE RECEIVABLES (030 do 032)	029	147.582	647.841
1. Receivables from related companies	030		
2. Receivables for sales on loan	031		
3. Other receivables	032	147.582	647.841
V. DEFERRED TAX ASSETS	033		
C) SHORT-TERM ASSETS (035+043+050+058)	034	532.230.428	445.629.095
I. INVENTORIES (036 do 042)	035	397.600.114	346.191.277
1. Raw and other material	036	201.325.786	197.106.765
2. Work in progress	037	20.229.445	21.002.648
3. Finished products	038	164.942.675	116.227.177
4. Merchandise inventory	039	518.884	578.611
5. Advances for inventories	040	10.583.324	11.276.076
6. Long-term assets intended for sale	041		
7. Biological assets	042		
II. TRADE RECEIVABLES (044 do 049)	043	78.665.036	64.294.059
1. Receivables from related companies	044	1.190.352	120.515
2. Receivables from customers (buyers)	045	16.556.415	8.686.985
3. Receivables from participating interest	046		
4. Receivables from employees and members	047	6.931	5.211
5. Receivables from state and other institutions	048	35.436.528	55.390.407
6. Other receivables	049	25.474.810	90.941
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	33.632.160	15.241.354
1. Investments (shares) in related companies	051		
2. Loans given to related companies	052		
3. Participating interest (shares)	053	32.620.660	14.122.887
4. Loans given to companies with participating interest	054		
5. Investment in securities	055		
6. Loans given, deposits and similar assets	056	1.011.500	1.118.467
7. Other financial assets	057		
IV. CASH IN BANK AND IN HAND	058	22.333.118	19.902.405
D) PREPAID EXPENSES AND ACCRUED INCOME	059	41.229	159.465
E) TOTAL ASSETS (001+002+034+059)	060	1.234.053.689	1.142.701.000
F) OFF BALANCE SHEET ITEMS	061	1.335.568.822	1.076.366.540

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	46.827.899	57.932.463
I. SUBSCRIBED CAPITAL	063	386.135.400	386.135.400
II. CAPITAL RESERVES	064	-200.000	-200.000
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	0	0
1. Legal reserves	066		
2. Reserve for treasury shares	067		
3. Treasury shares and investment (deductable item)	068		
4. Statutory reserves	069		
5. Other reserve	070		
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	-251.797.102	-339.107.501
1. Retained earning	073		
2. Loss carried forward	074	251.797.102	339.107.501
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	075	-87.310.399	11.104.564
1. Profit for the year	076		11.104.564
2. Loss for the year	077	87.310.399	
VII. MINORITY INTEREST	078		
B) PROVISIONS (080 do 082)	079	12.000.758	12.024.320
1. Provisions for pensions, severance pay and similar liabilities	080	11.316.033	11.339.595
2. Provisions for tax liabilities	081		
3. Other provisions	082	684.725	684.725
C) LONG-TERM LIABILITIES (084 do 092)	083	365.042.686	367.038.895
1. Liabilities to related companies	084		
2. Liabilities for loans, deposits and similar	085	95.833.334	95.833.334
3. Liabilities to banks and other financial institutions	086	269.209.352	271.205.561
4. Liabilities for advances	087		
5. Liabilities to suppliers	088		
6. Liabilities for securities	089		
7. Liabilities to companies with participating interest	090		
8. Other long-term liabilities	091		
9. Deferred tax liability	092		
D) SHORT-TERM LIABILITIES (094 do 105)	093	740.933.779	664.011.290
1. Liabilities to related companies	094	13.783.657	9.401.582
2. Liabilities for loans, deposits and similar	095	225.163.666	200.067.289
3. Liabilities to banks and other financial institutions	096	51.925.926	45.675.926
4. Liabilities for advances	097	136.962.093	64.390.447
5. Liabilities to suppliers	098	287.685.453	323.616.341
6. Liabilities for securities	099		
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	10.757.706	10.512.239
9. Liabilities for taxes, contributions and other payments	102	7.658.852	7.472.747
10. Liabilities as per share in result	103		
11. Liabilities as per long-term assets intended for sales	104		
12. Other short-term liabilities	105	6.996.426	2.874.719
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	69.248.567	41.694.032
F) TOTAL LIABILITIES (062+079+083+093+106)	107	1.234.053.689	1.142.701.000
G) OFF BALANCE SHEET ITEMS	108	1.335.568.822	1.076.366.540
APPENDIX TO BALANCE SHEET (to be completed by companies that prepare consolidated financial statements)			
A) CAPITAL AND RESERVES			
1. Credited to parent company capital owners	109		
2. Credited to minority interest	110		

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

PROFIT AND LOSS ACCOUNT
for the period 01.01.2017. to 31.03.2017.

Issuer: PETROKEMIJA, d.d.					
Position	AOP code	Previous year		Current year	
		Cumulative	Quarterly	Cumulative	Quarterly
1	2	3	4	5	6
I. OPERATING REVENUES (112+113)	111	529.169.699	529.169.699	588.792.588	588.792.588
1. Sales revenues	112	518.258.580	518.258.580	576.288.124	576.288.124
2. Other operating revenues	113	10.911.119	10.911.119	12.504.464	12.504.464
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	529.325.363	529.325.363	595.946.172	595.946.172
1. Changes in value of work in progress and finished products	115	14.660.822	14.660.822	47.942.295	47.942.295
2. Material costs (117 do 119)	116	433.259.499	433.259.499	457.915.005	457.915.005
a) Cost of raw and production materials	117	412.918.260	412.918.260	438.407.141	438.407.141
b) Cost of goods sold	118	1.451.584	1.451.584	477.975	477.975
c) Other external costs	119	18.889.655	18.889.655	19.029.889	19.029.889
3. Employees costs (121 do 123)	120	45.511.949	45.511.949	45.182.907	45.182.907
a) Net salaries and wages	121	28.486.758	28.486.758	28.663.623	28.663.623
b) Costs for taxes and contributions from salaries	122	10.371.611	10.371.611	9.912.235	9.912.235
c) Contributions on salaries	123	6.653.580	6.653.580	6.607.049	6.607.049
4. Depreciation	124	21.573.898	21.573.898	23.948.886	23.948.886
5. Other costs	125	14.319.118	14.319.118	20.956.659	20.956.659
6. Value adjustments (127+128)	126	77	77	420	420
a) of long-term assets (except for financial assets)	127				
b) of short-term assets (except for financial assets)	128	77	77	420	420
7. Provisions	129				
8. Other operating expenses	130				
III. FINANCIAL REVENUES (132 do 136)	131	5.252.049	5.252.049	29.180.092	29.180.092
1. Interest, exchange rate fluctuations, dividends and similar from associated companies	132	44.528	44.528	97.864	97.864
2. Interest, exchange rate fluctuations, dividends and similar from non-associated companies and others	133	5.207.521	5.207.521	10.644.020	10.644.020
3. Part of revenue from associated companies and participating interests	134				
4. Unrealised gains (revenues) from financial assets	135				
5. Other financial revenues	136			18.438.208	18.438.208
IV. FINANCIAL EXPENSES (138 do 141)	137	11.673.448	11.673.448	10.921.944	10.921.944
1. Interest, exchange rate fluctuations and other costs with associated companies	138	156.185	156.185	1.857.901	1.857.901
2. Interest, exchange rate fluctuations and other costs with non-associated companies	139	11.517.263	11.517.263	9.064.043	9.064.043
3. Unrealised losses (costs) from financial assets	140				
4. Other financial expenses	141				
V. PORTION IN PROFIT OF ASSOCIATED COMPANIES	142				
VI. PORTION IN LOSS OF ASSOCIATED COMPANIES	143				
VII. EXTRAORDINARY - OTHER REVENUES	144				
VIII. EXTRAORDINARY - OTHER EXPENSES	145				
IX. TOTAL REVENUES (111+131+142 + 144)	146	534.421.748	534.421.748	617.972.680	617.972.680
X. TOTAL EXPENSES (114+137+143 + 145)	147	540.998.811	540.998.811	606.868.116	606.868.116
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	-6.577.063	-6.577.063	11.104.564	11.104.564
1. Profit before taxation (146-147)	149	0	0	11.104.564	11.104.564
2. Loss before taxation (147-146)	150	6.577.063	6.577.063	0	0
XII. PROFIT TAX	151				
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	-6.577.063	-6.577.063	11.104.564	11.104.564
1. Profit for the period (149-151)	153	0	0	11.104.564	11.104.564
2. Loss for the period (151-148)	154	6.577.063	6.577.063	0	0

APPENDIX TO PLA (to be completed by companies that prepare consolidated financial statements)					
XIV. PROFIT OR LOSS FOR THE PERIOD					
1. Credited to parent company capital owners	155				
2. Credited to minority interest	156				
STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)					
I. PROFIT OR LOSS OF THE PERIOD (= 152)	157	-6.577.063	-6.577.063	11.104.564	11.104.564
II. OTHER COMPREHENSIVE GAINS/LOSS BEFORE TAXES (159 do 165)	158	0	0	0	0
1. Exchange rate differences from translation of foreign currency operations	159				
2. Change in revaluation reserves of fixed tangible and intangible assets	160				
3. Gain or loss from revaluation of financial assets held for sale	161				
4. Gain or loss from effective cash flow hedge	162				
5. Gain or loss from effective hedge in net investments in abroad	163				
6. Portion in other comprehensive gain/loss of associated companies	164				
7. Actuarial gains / losses on defined benefit plans	165				
III. TAX ON OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD	166				
IV. NET OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD (158-166)	167	0	0	0	0
V. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD (157+167)	168	-6.577.063	-6.577.063	11.104.564	11.104.564
APPENDIX TO STATEMENT OF COMPREHENSIVE INCOME (to be completed by companies that prepare consolidated financial statements)					
VI. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD					
1. Credited to parent company capital owners	169				
2. Credited to minority interest	170				

CASH FLOW STATEMENT - Direct method

for the period 01.01.2017. to 31.03.2017.

Issuer: PETROKEMIJA, d.d.			
Position	AOP code	Previous year	Current year
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Cash increase from buyers	001	475.988.507	533.355.603
2. Cash increase from royalties, fees commissions and other	002		
3. Cash increase from insurance compensations	003	2.156.900	25.779.265
4. Cash increase from tax return	004	80.963.235	62.433.637
5. Other cash increase	005	47.418	236.547
I. Total increase of cash flow from operating activities (001 do 005)	006	559.156.060	621.805.052
1. Expenses to suppliers	007	416.931.018	510.557.848
2. Expenses for employees	008	48.632.544	53.781.429
3. Expenses for insurance compensations	009	2.758.514	2.057.685
4. Expenses for interest	010	9.899.029	7.113.950
5. Expenses for taxes	011	11.571.379	12.521.358
6. Other cash decrease	012	1.423.347	3.217.241
II. Total decrease in cash flow from operating activities (007 do 012)	013	491.215.831	589.249.511
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)	014	67.940.229	32.555.541
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)	015	0	0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proceeds from sale of non-current tangible and intangible assets	016	6.313	6.046.445
2. Cash proceeds from sale of equity and debt security instruments	017		
3. Cash proceeds from interest payment*	018		
4. Cash proceeds of dividend payment*	019		
5. Other cash proceeds from investing activities	020		
III. Total cash inflow from investing activities (016 do 020)	021	6.313	6.046.445
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	11.910.218	30.451.430
2. Cash outflow for acquisition of equity and debt financial instruments	023		
3. Other cash outflows from investing activities	024		
IV. Total cash outflow from investing activities (022 do 024)	025	11.910.218	30.451.430
B1) NET CASH FLOW FROM INVESTING ACTIVITIES (021-025)	026	0	0
B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)	027	11.903.905	24.404.985
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash inflows from issuance of equity and debt financial instruments	028		
2. Cash inflows from loan principals, debentures, credits and other borrowings	029		28.824.303
3. Other inflows from financial activities	030	26.546.147	32.620.660
V. Total cash inflow from financial activities (028 do 030)	031	26.546.147	61.444.963
1. Cash outflows for repayment of loan principal and bonds	032	50.103.673	57.796.377
2. Cash outflows for dividend payment	033		
3. Cash outflow for financial lease	034		
4. Cash outflows for buyback of own shares	035		
5. Other cash outflows for financial activities	036	11.064.028	14.122.888
VI. Total cash outflow for financial activities (032 do 036)	037	61.167.701	71.919.265
C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)	038	0	0
C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)	039	34.621.554	10.474.302
Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)	040	21.414.770	0
Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)	041	0	2.323.746
Cash and cash equivalents at the beginning of the period	042	8.420.649	23.344.618
Increase of cash and cash equivalents	043	21.414.770	
Decrease of cash and cash equivalents	044		2.323.746
Cash and cash equivalents at the end of the period	045	29.835.419	21.020.872

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

STATEMENT OF CHANGES IN EQUITY

for the period from 1.1.2017 to 31.3.2017

Position 1	AOP code 2	Previous year 3	Current year 4
1. Suscribed capital	001	386.135.400	386.135.400
2. Capital reserves	002	-200.000	-200.000
3. Reserves from profit	003		
4. Retained profit or loss carried forward	004	-251.797.102	-339.107.501
5. Profit or loss for the year	005	-87.310.399	11.104.564
6. Revaluation of fixed tangible assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluation	009		
10. Total capital and reserves (AOP 001 do 009)	010	46.827.899	57.932.463
11. Exchange differences on translation of financial statements of foreign operations	011		
12. Current and deferred taxes (part)	012		
13. Protection of cash flow	013		
14. Changes in accounting policies	014		
15. Adjustment of significant errors from previous period	015		
16. Other changes in capital	016		
17. Total increase or decrease of capital (AOP 011 do 016)	017	0	0
17 a. Credited to parent company capital owners	018		
17 b. Credited to minority interest	019		

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

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

Note

PETROKEMIJA, Plc.

1. Financial result for January – March 2017

In the January – March 2017 period, Petrokemija Plc. had total income of HRK 618.0 million and total expense of HRK 606.9 million. The Company reported profit of HRK 11.1 million or 1.8% of the total revenues. In same period last year, the Company sustained losses of HRK 6.6 million, which shows a positive development in the financial result of 17.7 million. This is the first positive Petrokemija Group quarterly result since 2011, stated for the first quarter of the business year.

The EBITDA (earnings before interest, taxes, depreciation and amortization) was positive amounting to HRK 16.8 million and the EBITDA margin was 2.9%. The total revenues for the first quarter of 2017 were up by 15.6% on 2016, while total expenditures were up by 12.2%. These figures indicate a higher scope of operations due to larger sales volumes of fertilizers (+29.1%), but also a negative impact of lower selling prices (-13.5%). Despite the lower average sales price levels, there is an obvious improvement of the result in the financial segment of business. In operating segment of the business there was a short-term marginal increase of a part of sales prices compared to the fourth quarter of 2016, but not enough to generate profit in the operating segment of the business. A portion of the negative impact of the low prices of fertilizers from December 2016 was transferred to the result of the first quarter of 2017, due to the obligation to deliver fertilizers for received advance payments from customers from the fourth quarter of 2016. In the first quarter of 2017, there was an ongoing adverse situation on the global market, marked by low prices of fertilizers for the most part of the reporting period, but at the same time by higher average purchasing price of natural gas, which is the result of increase of natural gas price in the global market due to extremely low atmospheric temperatures.

In unfavorable conditions of low prices of mineral fertilizers and the increased market price of natural gas, the growth of business losses was prevented by selling larger quantities of fertilizers. The realized sales of 327,000 tons have been the highest in the last five years – for the sake of comparison – 19.3% up on the average sales in the first quarters of the last five years. Thus by means of the so-called mechanism 'economy of scale' the effect of reducing fixed costs per unit of product was gained and the negative impact of lower sales prices of fertilizers was reduced.

After the high growth of imports of fertilizers into the Republic of Croatia in 2016, at the turn of 2016/2017, there was a significant drop in imports of mineral fertilizers by direct regional competitors. As a result, domestic sales volumes in the first quarter of 2017 increased by 62.1% compared to the same period of 2016, but are still at a low level given the potentials of Croatian agriculture. The main obstacle to increasing domestic sales in the remaining business year is related to the problem of liquidity of customers (Petrokemija, Plc. has no source of financing of deferred payments, and banks are mostly not willing to adequately support agricultural production), the dynamics of incentive payments on the domestic market and the increasingly present principle of buying at the very last moment of application with direct manipulation in the field (without the cost of storing and re-loading).

Among other adverse effects on the level of sales on the domestic market are low prices of cereals and other products, which affect the reduction of areas sown with cereals. Furthermore, the problems encountered by Agrokor as one of the largest customers of mineral fertilizers at the time of this Report, could also have an indirect negative impact. In this context, the business challenges that their business partners are facing in the agricultural sector can also be observed, which can significantly affect the level of sown areas and fertilization in the rest of 2017. Reducing the VAT rate in 2017 should boost demand for mineral fertilizers and help balance the price level in the region,

but the key effect will still be the level of Government incentives in agriculture and the buying-in prices of major crops.

2. Structure of financial result

In the structure of the financial result for Jan-March 2017, HRK 7.2 million is the operating loss, while HRK 18.3 million in profit was generated from financial activities, resulting in total profit in the reporting period of HRK 11.1 million. Financial profit reflects the effect of external factors – positive exchange rate differences of HRK 10.7 million, and corrections of the value of CO₂ emission units, which on the reporting date (31.3.2017) had a lower price compared to 31.12. 2016. Based on this, a correction was made on the amount of future liabilities for the purchase of emission units in favor of financial income of HRK 18.4 million. On 31.12.2016, the price of the EU Emission Allowance was EUR 6.55 per emission unit and on 31.03.2017 it was EUR 4.67.

The level of financial expenditures is still affected by the unfavorable financing structure, i.e. high debt to natural gas suppliers. At the time of drafting this Report, activities are under way to find more favorable sources of long-term financing of the Company in coordination with the Company majority owner.

3. Revenues

In the reporting period, the decline in the prices of mineral fertilizers has been stopped, which has had a limited positive impact on business revenues but still insufficient to achieve positive operating results, as evidenced by the fact that at 29.1% higher volume sales of mineral fertilizers, only 11.3% higher operating income was earned.

Domestic sales in percentage are significantly higher than in the previous year (index 162.1), but expressed in thousands of tons the increase amounts to approximately 40 thousand tons, which indicates very low sales in the same period last year. It is estimated that sales in the Republic of Croatia are still unsatisfactory due to economic exhaustion and low liquidity of Croatian agriculture as well as to insufficient support from commercial banks.

The consequence of the obligation of Petrokemija to have volumes of mineral fertilizers continuously on stock under pledge due to high indebtedness to one of the natural gas suppliers was that not even quantities of finished products for which there was market interest were sold. Another obstacle to larger domestic sales was the financial impossibility of Petrokemija to grant domestic buyers sales of mineral fertilizers the expected margins, rebates and deferred payment of 60 to 180 days. An additional challenge in the sales of mineral fertilizers on the domestic market is the pressure to lower the prices of fertilizers due to the extremely high pressure of low prices by competitive mineral fertilizers producers from the region (Hungary, Bosnia and Herzegovina, Serbia and Italy) and the increase in natural gas prices in the open market.

The level of sales volumes in exports is by 18.1% higher, as a reflection of efforts to ensure business continuity and current liquidity, while mineral fertilizer prices have had significant fluctuations over the reporting period, and there were also constraints on logistical capacities towards export markets. The trend of price movements and supply and demand on the global mineral fertilizer market did not change significantly compared to 2016, except that in the part of the reporting period there was a rise and then again a fall in Urea price. The main export product of Petrokemija, Plc. - nitrogen fertilizer Urea, achieved a decline in average price of 27% in the world market in 2016. In the first quarter of 2017, there was a short-term increase of about 20% (average fob Yuzhny 241 USD / t), followed by an indication of price decrease. At the time of this Report, this growth was annulled with a new price drop to below 200 USD / ton, thus bringing the price to a level that does not cover even the direct cost of natural gas. This can be interpreted as a cyclic disorder, but points to caution in predicting future business results if the price of natural gas does not move with the same trend.

4. Expenses

Operating expenses increased by 43.6% compared to the same period of the previous year, reflecting

Operating expenses increased by 12.6% compared to the same period of the previous year, reflecting 29.1% higher sales, lower purchasing prices of some raw materials and increase of natural gas prices in the open market. The prices of the main raw materials for the production of mineral fertilizers in the world market are lower (from 10 to 14%), with the smallest decrease achieved in raw phosphates and the highest in potassium chloride. The price of natural gas ranged independently of the price trend of other raw materials, with a 3.5% higher price in the first quarter of 2017 compared to the same period last year (with transport costs, expressed in HRK). Overhead costs are mainly at the level of the same period of the previous year, except for deviations that relate to the quantity of production and sales or the contracted packaging method, such as cost of packaging, export services and other costs that vary according to the level of business activity. Overall, it can be estimated that the positive effect on business performance was the result of an increase in the volume of mineral fertilizers produced and sold, as fixed cost per unit was reduced.

5. Natural gas supply

In the reporting period Petrokemija, Plc. supplied natural gas from two permanent suppliers - INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar, in accordance with previously concluded contracts. The price is determined on the basis of an escalating formula based on the actual prices on the European natural gas market (CEGH and TTF hubs). The average realized purchase price of natural gas (with transport costs, expressed in HRK) in the reporting period Jan-March 2017 was 3.5% higher than the same period of 2016. This percentage is subject to constant changes, in line with price movements on the European natural gas spot market.

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

By the decision of the Croatian Energy Regulatory Agency (HERA) of March 17, 2017, the price of natural gas transport decreased by approximately 19%, with effect from 1 April 2017, which should have about HRK 20 million positive effect on the financial result of Petrokemija on an annual basis.

6. Production and capacity utilization

In the January-March 2017 period, as compared to the previous year, Petrokemija, Plc. achieved 14.0% higher total production.

In the production structure, the following changes occurred: 8.3% higher production of Urea, 11.0% of CAN and 31.0% higher NPK fertilizer production. During the reporting period, production capacity utilization was 95.9%, and production range was adjusted to market conditions and restrictions.

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

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

7. Environmental protection

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

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

In accordance with this Resolution, in 2016, a part of the activities was carried out during the extensive overhaul and the investment cycle (HRK 24.3 million investment) was continued in the first quarter of 2017. In the legislative environment of EU, environmental projects are becoming increasingly important, and the remaining deadlines for the execution are getting shorter (31 December 2017), so in the coming years, Petrokemija will be forced to urgent and significant investment. 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 of environmental protection, Petrokemija, Plc. must invest approx. HRK 380 million. So far, around a quarter of the total planned funds has been realized.

8. Liquidity

Due to losses in previous periods, Petrokemija, Plc. has been using current assets financed by short-term bank loans and rescheduled deadlines for payment of liabilities to suppliers of natural gas. Extremely adverse situation of threatened liquidity and solvency of the Company was alleviated by the HRK 200 million long-term loan from the Croatian Bank for Reconstruction and Development, with a 100% guarantee of the Croatian Government. It was used to settle a portion of the outstanding debt to suppliers of natural gas and a part of other liabilities in accordance with the Decision of the Croatian Government.

At the end of the reporting period, the debt to suppliers is growing and again, due to increasing difficulty in maintaining liquidity, the due debt to the natural gas supplier is generated, resulting in a short break in delivery in April 2017. At the time of drafting this report, a solution is being sought to settle the obligations to Prvo plinarsko društvo and other creditors.

9. Recapitalization and change in ownership structure

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

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

With the help of the consultant, KPMG Croatia d.o.o., in the first quarter of 2017, activities were continued on the preparation of the comprehensive Restructuring Program of the Company and the Petrokemija Group. A proposal for the Concept of Restructuring was prepared, accepted by the Supervisory Board and sent to the relevant state institutions for consideration.

At the time of the drafting of this Report, at its 33rd session on 27 April 2017, the Government of the Republic of Croatia adopted the Decision on exclusion from the sale of shares of companies: Hrvatski

Republic of Croatia adopted the Decision on exclusion from the sale of shares of companies: Hrvatski telekom d.d. Zagreb, Podravka Food Industry d.d. Koprivnica, Croatia Airlines d.d. Zagreb and Đuro Đaković Group d.d. Slavonski Brod. Petrokemija, d.d. had requested a loan amounting to HRK 350 million from the Croatian Bank for Reconstruction and Development and the Croatian Government approved the institution of a lien on the shares of the mentioned companies owned by the Republic of Croatia for securing the loan repayment. Commercial banks will also be involved in the realization of the loan. Croatian Government passed the Decision on Securing Loan Repayment to ensure the stability of Petrokemija's operations and maintenance of business processes, as well as the creation of preconditions for the preparation and realization of the Company Privatization, as stated in the explanation of the Decision at the Government's session.

10. Financial risks in the subsequent period

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

1. Natural gas price trends in the European spot market;
2. Changes in price of basic raw materials in the world market (MAP, DAP, phosphate, potassium chloride, sulfur);
3. Changes in demand and sales prices of fertilizers;
4. Price trends of basic agricultural cultures;
5. Exchange rate of USD and EUR to the local currency;
6. Costs of financing and cross-currency relations;
7. Agricultural policy of EU and Croatia.

The exposure of Petrokemija, Plc. to developments in the global market opens up significant potential risks in terms of price and financial fluctuations in 2017. Effective risk management of gas price growth (contracted price is in EUR, although purchasing is done on the domestic market) and risk of USD and EUR exchange rate changes in the procurement of other imported raw materials is limited by the lack of own working capital (negative working capital of HRK -260 million, whereas on 31.12.2016 it was HRK -278 million) and by the lack of support of financial institutions in financing working capital.

The most important issue of current operating business - the debt to natural gas suppliers – at the time of the preparation of this Report is in the process of being resolved through a long-term loan, which would ensure a part of the long-term sources of financing working capital and the continuation of activities in restructuring the business.

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

Majority owners' decisions about the future model of support and attitude towards the Company will significantly reduce the risk of maintaining business continuity in the future period, either by

will significantly reduce the risk of maintaining business continuity in the future period, either by finding a strategic partner, recapitalization or another model of financing the Company, including long-term investment bank loans for investment in modernization and / or permanent working capital, which would enable the realization of planned restructuring and financial consolidation activities in the period 2017-2027.