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ANNUAL REPORT PETROKEMIJA GROUP KUTINA

REPORT FOR PERIOD January to December 2017
INTERIM REPORT FOR PERIOD October to December 2017

NPK

KAN

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ASN

Kutina, February 2018



Introduction

In the reporting period January – December 2017, the business environment of Petrokemija Group was marked by two key occurrences - the fall in sales prices of mineral fertilizers with the simultaneous growth of the natural gas purchase price as the main raw material. Despite the adverse conditions in the narrower and wider economic environment, in 2017, Petrokemija, d.d. increased production by 11.5% and sales of mineral fertilizers by 7.5%, compared to the previous year. The sales in the domestic market were up by 10.1%, the sales in the region, with extra efforts made, were up by 16.4%, whereas the sales to distant markets, due to high transportation costs and strong competition of large manufacturers, as well as to lower sales prices, fell by 5.7%. The increase in sales in the markets of the region, and in particular the domestic market, is the result of the sales strategy adopted in 2017. One of its positive results is the strengthening of the competitive position of Petrokemija d.d. on the domestic market and the reduction of imports of mineral fertilizers into the Republic of Croatia by 33% as compared to the year before.

In 2017, Petrokemija d.d. responded with only partial success to the challenges of the low-price crisis of mineral fertilizers, which European fertilizer manufacturers have been facing for the third year now, and to disturbances in the agricultural and food chain at local and regional level that were started by the crisis in the Agrokor Group. The continuity of production and supply of the market was maintained in order not to jeopardize the Company's restructuring process but the financial effects are disadvantageous due to the imbalance in input and output prices and, in order to maintain liquidity, relatively high sales in the most price-wise unattractive overseas markets.

After a long period of preparation and in limited conditions of funding investments in modernization and increasing energy efficiency, in the reporting period, the investment in the long-announced new „PetroBlue – Ad Blue®” product was realized, a product used as an additive to the fuel of modern diesel engines in order to prevent NOx emissions according to the requirements of Euro 5 and 6 standards. This improved the Company market adaptability, because a part of the Urea mineral fertilizer production is directed to a market segment that is not related to agriculture. In addition, important investments in the AS / ASN production plant were carried out in the third quarter to improve technical and technological conditions and safety of production.



Introduction (cont)

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

Fertilizer manufacturers in Europe are under strong pressure from the competition of major global manufacturers who have a comparative advantage of cheap raw material sources, from natural gas to phosphate rock, potassium chloride and sulfur. In these conditions, even successful European mineral fertilizer producers, who benefited from a favorable trend for modernization of plants and restructuring in the previous decade, have experienced a fall in profit.

Accordingly, it was inevitable for Petrokemija d.d., which has been struggling to maintain business continuity for years and operating in conditions of lower technological and energy efficiency than its European competitors, to report a loss of 7.4% of total revenues. The most significant negative factor in the generation of the loss is the high purchase price of natural gas, which is for Petrokemija d.d. about 20% higher than for its competitors, partly because of the terms for defining the purchase price (suppliers are also the largest creditors of the Company) and partly because of the extremely high costs of gas transport, which are among the highest in the EU.

After years of attempts of changing the ownership structure and attracting into its ownership structure large investors in the value creation chain - from production and trading with natural gas, to logistics of sales of mineral fertilizers to end users – in the reporting period, the current owners have carried out extensive and complete preparation for the implementation of the privatization process and opening of a new development cycle of the Company, where all its current potentials would be exploited - from favorable location, well-maintained production and logistics systems, to skilled labor.



Introduction (cont)

Shortage of financial potential that manifests itself in the impossibility of changing the business model and of quick adaptation to constant market changes should be resolved in 2018 by permanent capital sources and a new management model of future investors. Loans granted by HBOR and commercial banks in 2016 and 2017 helped to fill the cash gap transferred from previous years, and recapitalization should create the preconditions for a balanced financing model for plant modernization and investment in greater efficiency of all processes in the Company.

In the reporting period, extensive business analyses were carried out by several interested investors, bids from potential investors were collected and, at the time of the publication of these Reports, the negotiations of the majority owner and potential investors are underway in terms of final determination of the mutual obligations and the content of the co-ownership agreement that would define the future business model of Petrokemija d.d.

After the completion of the Company privatization process, it is expected that the State (i.e. CERP) will remain as one of the shareholders, but without a dominant position in the structure of ownership and management rights.



Key indicators for Petrokemija Group for January – December 2017

- ❑ Operating loss HRK 146.9 million (the same period 2016 – 87.6 million loss),
- ❑ Loss in business operations – HRK 106.4 million, loss in financial operations – HRK 40.5 million,
- ❑ Earnings before interest, taxes, depreciation and amortization (EBITDA) – HRK 11.6 million (negative),
- ❑ Actual total revenues of Petrokemija Group - HRK 2,009.5 million, 3.5% up on 2016,
- ❑ Actual production of fertilizers – 1,192 thousand tons, 11.5 % more than in 2016,
- ❑ Compared to 2016, production increased: NPK fertilizers by 16.2 %, Urea by 18.1 %, and CAN by 2.9 %,
- ❑ Yield of currently installed plant capacities – 93.0 %,
- ❑ Actual sales of fertilizers – 1,167.1 thousand tons, 7.5 % higher sales volume compared to 2016,
- ❑ Share of fertilizer sales in the domestic market – 27.2 %,
- ❑ Domestic sales – 316.9 thousand tons, exports – 850.2 thousand tons of fertilizers,
- ❑ Capital and reserves on 31.12.2017 for Petrokemija Group – HRK – 99.5 million (negative),
- ❑ Invested in Petrokemija, d.d. – HRK 103.3 million,
- ❑ Employed on 31.12.2017: Petrokemija, d.d. – 1,572; Petrokemija Group – 1,707.



Management Board Report Petrokemija Group for January – December 2017

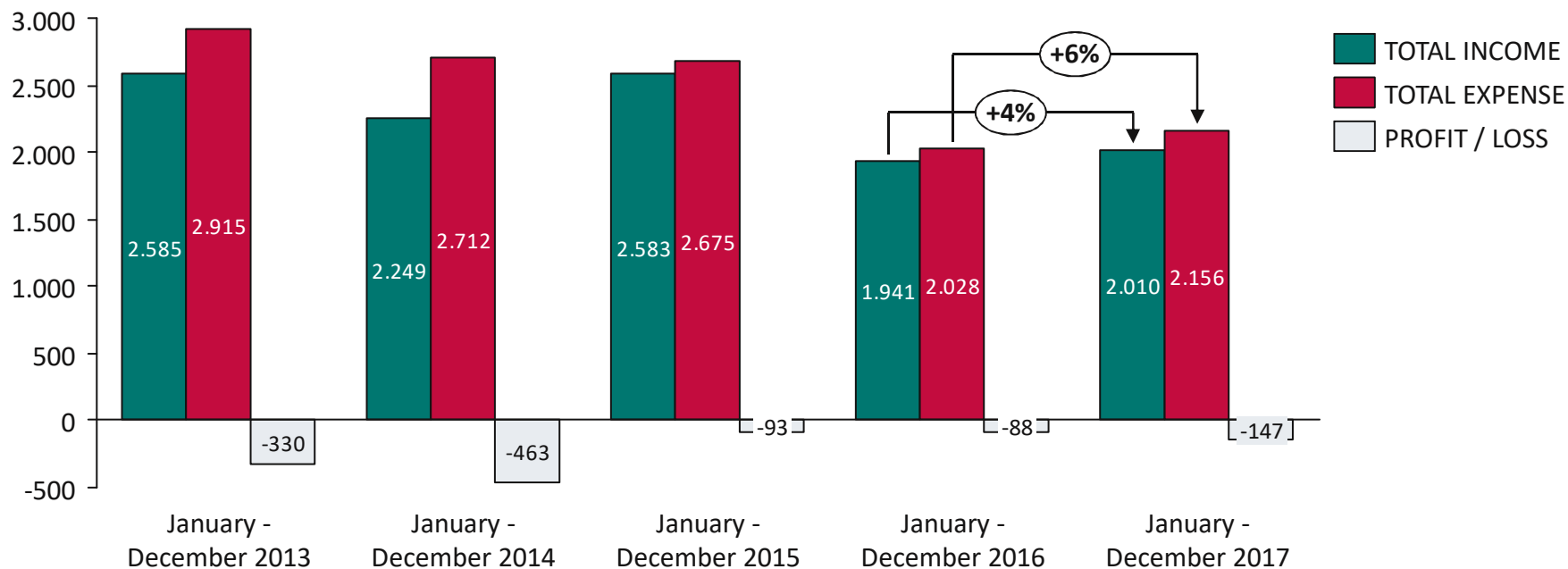
- ❑ In January – December 2017, Petrokemija Group had total income of HRK 2,009.5 million and total expense of HRK 2,156.4 million. The Group reported loss of HRK 146.9 million or 7.3 % of the total revenues,
- ❑ Higher sales volumes by 7.5 % and lower average sales prices by 3.0 % compared to 2016,
- ❑ In the structure of income of Petrokemija d.d., domestic sales were 30.6 % or HRK 610.6 million, 5.1 % up on 2016, while export accounted for 66.3 % or HRK 1,322.8 million, 4.6 % up on 2016,
- ❑ In assortment, compared to 2016, higher sales in 2017 of Urea by 14.4 %, lower sales of CAN mineral fertilizers group (CAN+AN+UAN+AS/ASN) by 3.9 % and higher sales of NPK fertilizers by 18.1 %,
- ❑ Domestic sales – 10.1% higher in volume than in 2016,
- ❑ Export sales volumes – 6.6% higher than in 2016,
- ❑ Sales volumes of clay-based products and liquid fertilizers – 37.9% higher than in 2016,
- ❑ Average realized natural gas price (without transport costs) was 10.1 % higher in HRK compared to 2016 and 13.9 % higher in USD; average transport costs of natural gas were 22.4 % lower, according to the new tariff of transport costs (from 1.4.2017),
- ❑ Liquidity indicators of Petrokemija Group are below recommended value, approximately at the level of the previous year (on 31.12.2017. negative working capital was HRK **-281** million; on 31.12.2016 it was HRK **-262** million),
- ❑ Short-term assets decreased by 13.9 % compared to end 2016, and short-term liabilities decreased by 7.7 %,
- ❑ Indicator of financial stability as well as indicators of indebtedness are below recommended values, indicator of own funding negative, capital negative at the level of HRK -99.5 million.



Profit and Loss of Petrokemija Group for 2013. - 2017.

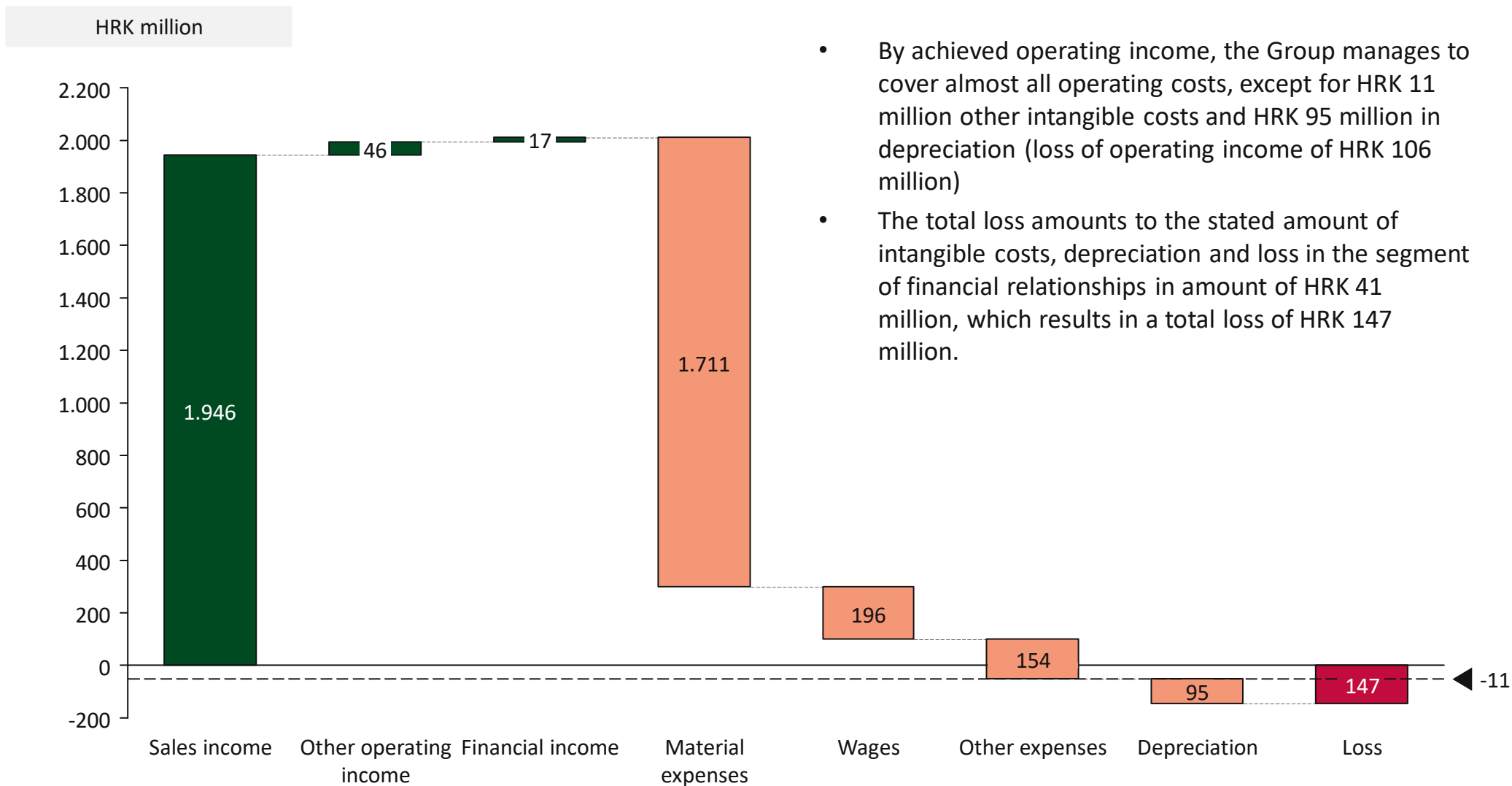
■ Total income	HRK 2,009.5 million,
■ Total expense	HRK 2,156,4 million,
■ Loss	HRK 146,9 million,
■ EBITDA	HRK -11,6 million,
■ EBITDA margin (%)	-0,6 %.

HRK million





Structure of Profit and Loss Petrokemija Group for January – December 2017





Actual financial results of subsidiaries in period January – December 2017

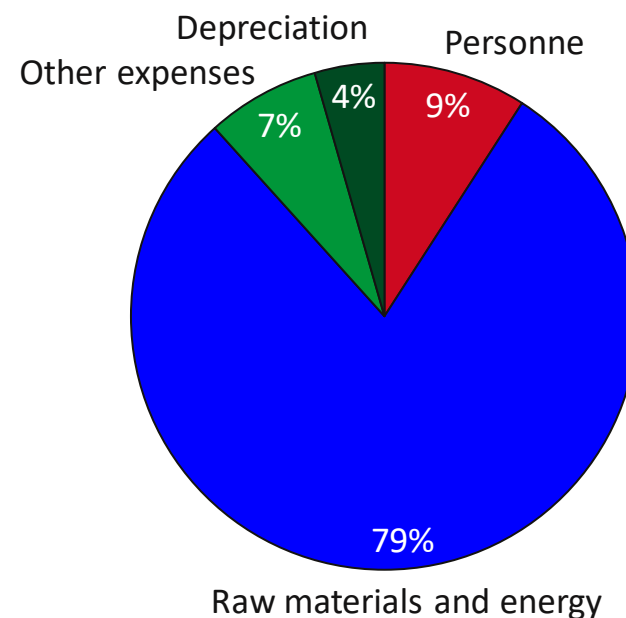
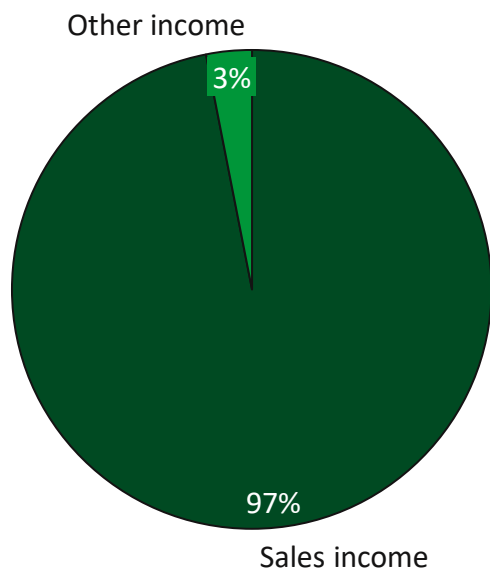
- In the period January to December 2017 Petrokemija, Ltd. Novi Sad made profit, while Luka Šibenik, Ltd. and Petrokemija Agro Trade, Ltd. made loss.

Description	(HRK 000)			
	<i>Petrokemija Novi Sad Ltd</i>	<i>Luka Šibenik Ltd</i>	<i>Petrokemija Agro Trade Ltd</i>	
	<i>1</i>	<i>3</i>	<i>5</i>	<i>6</i>
TOTAL INCOME		44.295	24.128	1.200
TOTAL EXPENSES		44.008	24.522	1.221
		<i>Therein:</i>		
<i>Material costs</i>		42.771	6.330	1.201
<i>Depreciation</i>		12	971	17
<i>Wages</i>		600	11.951	0
<i>Other costs</i>		625	5.270	3
PROFIT OR LOSS BEFORE TAXATION		287	-394	-21



Structure of Profit and Loss for January – December 2017

- ❑ In January – December 2017 period, Petrokemija, d.d. earned 31% income from domestic market, 66% from export, and 3% from financial and other income. Out of total, 97% of Petrokemija Group income is from sales of products and services and 3% is from other income.
- ❑ The total expense breakdown of Petrokemija Group shows a dominant 79% for raw materials and energy, 9% for personnel costs, while all other costs make 12%.





Key financial indicators Petrokemija Group for January – December 2017

(HRK 000)

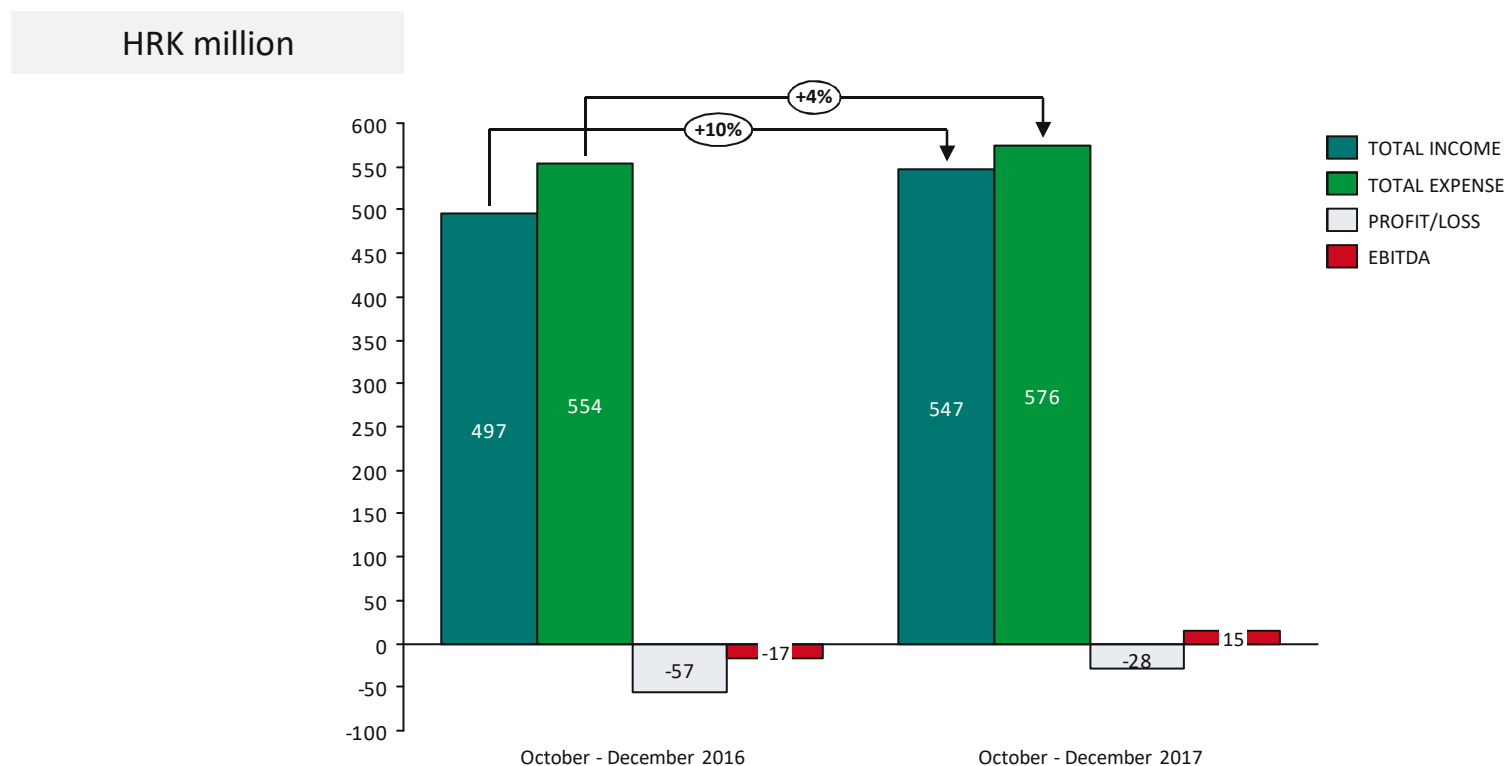
	January – December 2017	January – December 2016	Difference	% change
Operating income	1.992.064	1.933.700	58.364	3,02%
Operating expense	2.098.510	1.982.856	115.654	5,83%
EBITDA *	-11.628	33.928	-45.556	-134,27%
Amortization	94.817	83.084	11.733	14,12%
Net financial income/ (expenses)	-40.507	-38.454	-2.053	5,34%
Net extraordinary income / (expense)	0	0		
Profit / loss / before taxation	-146.952	-87.610	-59.342	67,73%
	31 December 2017	31 December 2016		
Fixed assets	700.661	685.494	15.167	2,21%
Current assets	464.111	539.215	-75.104	-13,93%
Capital and reserves	-99.549	45.530	-145.079	-318,64%
Long-term liabilities + provisions	519.807	378.696	141.111	37,26%
Current liabilities + provisions	744.514	800.483	-55.969	-6,99%

* Earnings before interest, taxes, depreciation and amortization



Operating results Petrokemija Group for October – December 2017

- ❑ In October to December 2017 period, Petrokemija Group had actual total revenues of HRK 547.2 million, total expenses of HRK 575.6 million and reported operating loss of HRK 28.4 million.
- ❑ On a quarterly basis, total revenues increased by 10% compared to the fourth quarter of 2016, while total expenses increased by 4%. In the same period 2016, the realized loss was HRK 56.8 million, and the EBITDA indicator was HRK -16.5 million.





Key financial indicators Petrokemija Group for October to December 2017

(HRK 000)

	Januray - September 2017	October - December 2017	January – December 2017
Operating income	1.442.593	549.471	1.992.064
Operating expense	1.540.316	558.194	2.098.510
EBITDA *	-26.384	14.756	-11.628
Amortization	71.348	23.469	94.817
Net financial income/ (expenses)	-20.870	-19.637	-40.507
Net extraordinary income / (expense)	0	0	0
Profit / loss / before taxation	-118.602	-28.361	-146.952

In the fourth quarter of 2017, a loss of HRK 28.4 million was realized.
The EBITDA amounted to HRK 14.8 million.

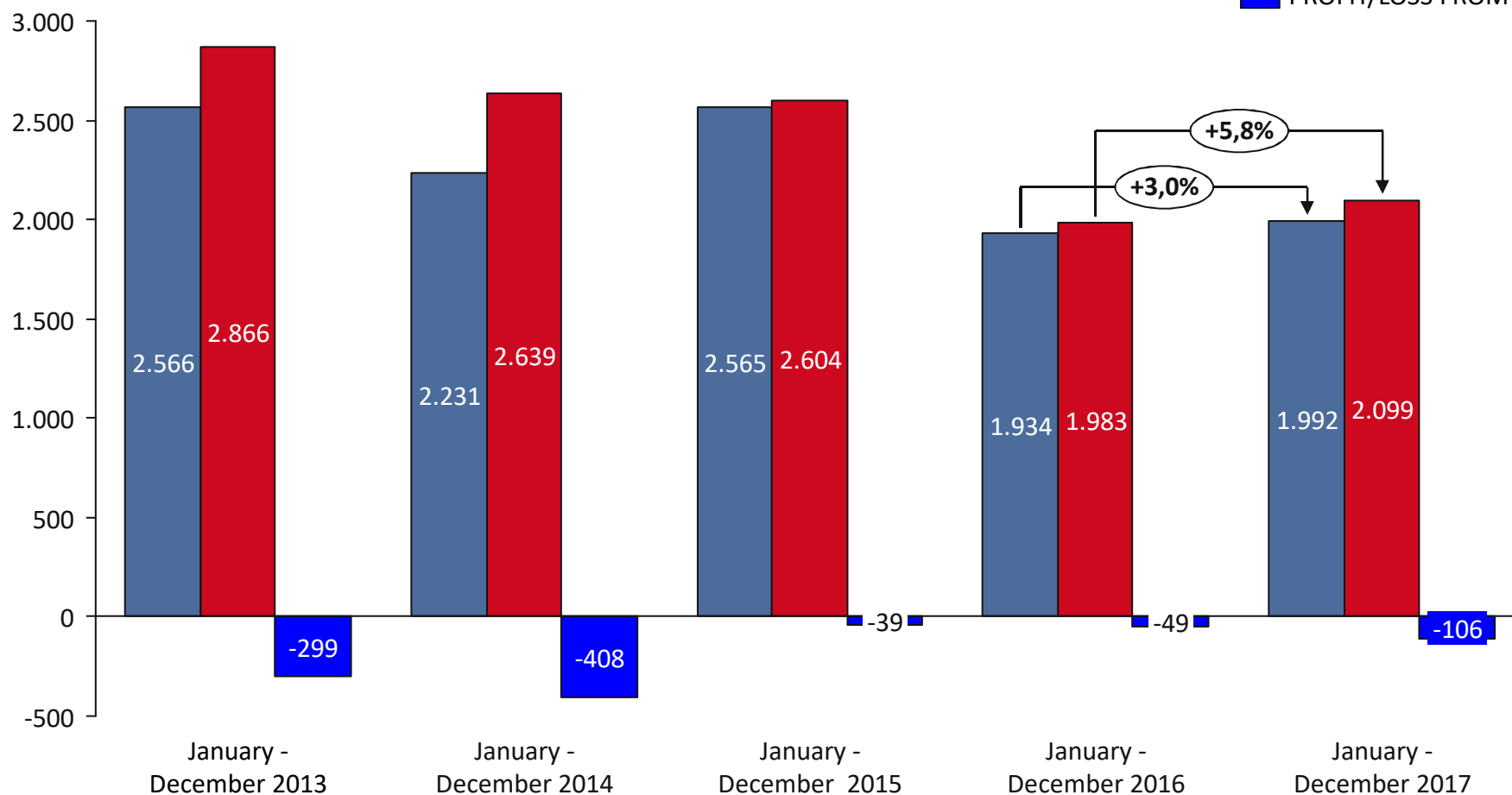
* Earnings before interest, taxes, depreciation and amortization



Profit and Loss from Petrokemija Group operating activities for 2013 – 2017

HRK million

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

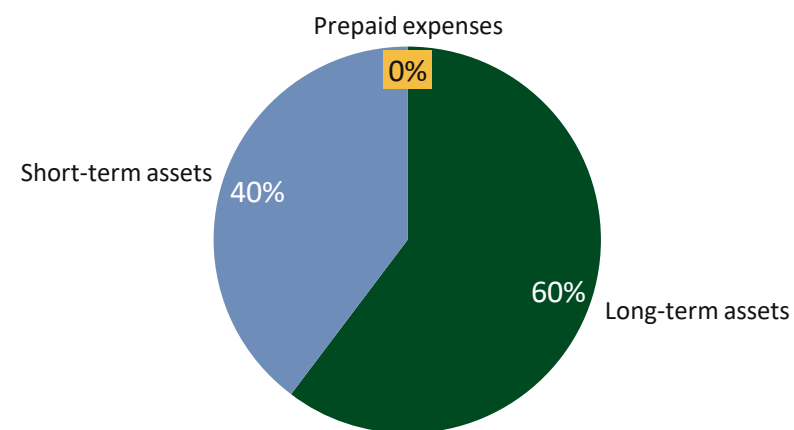
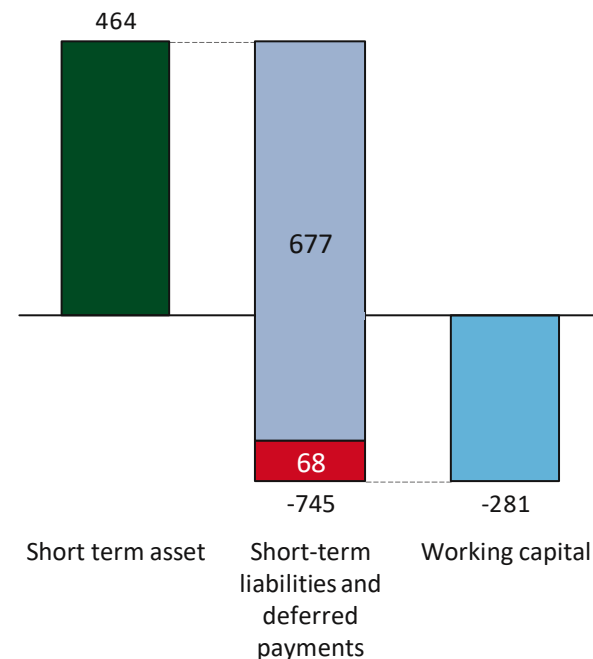
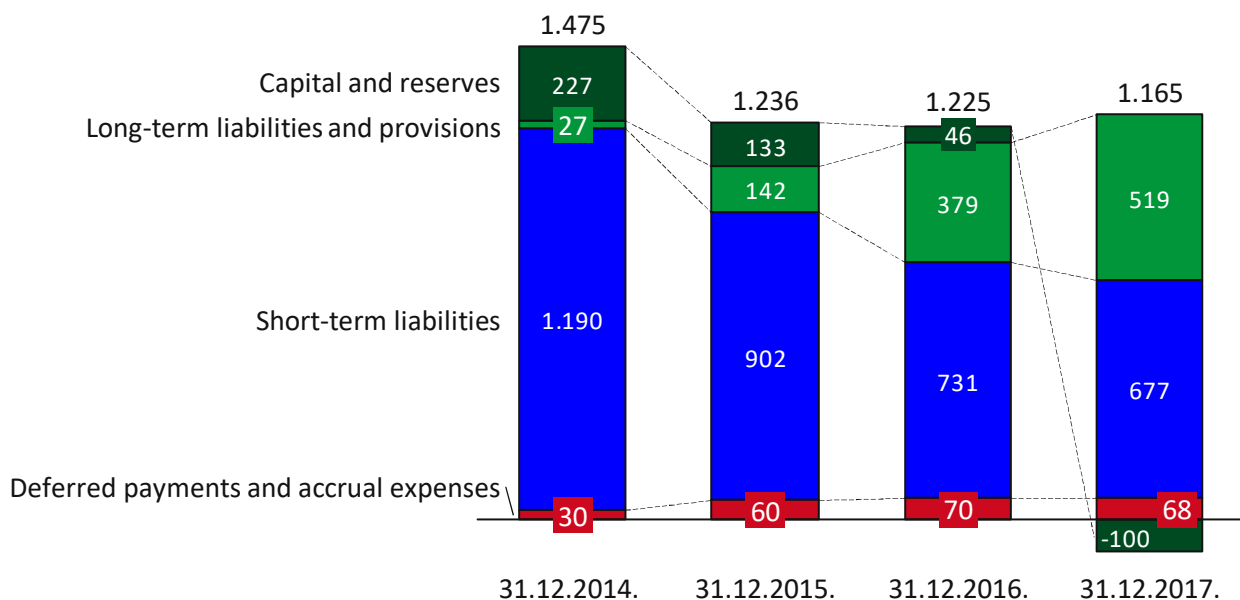




Structure of assets and liabilities Petrokemija Group at 31 December 2017

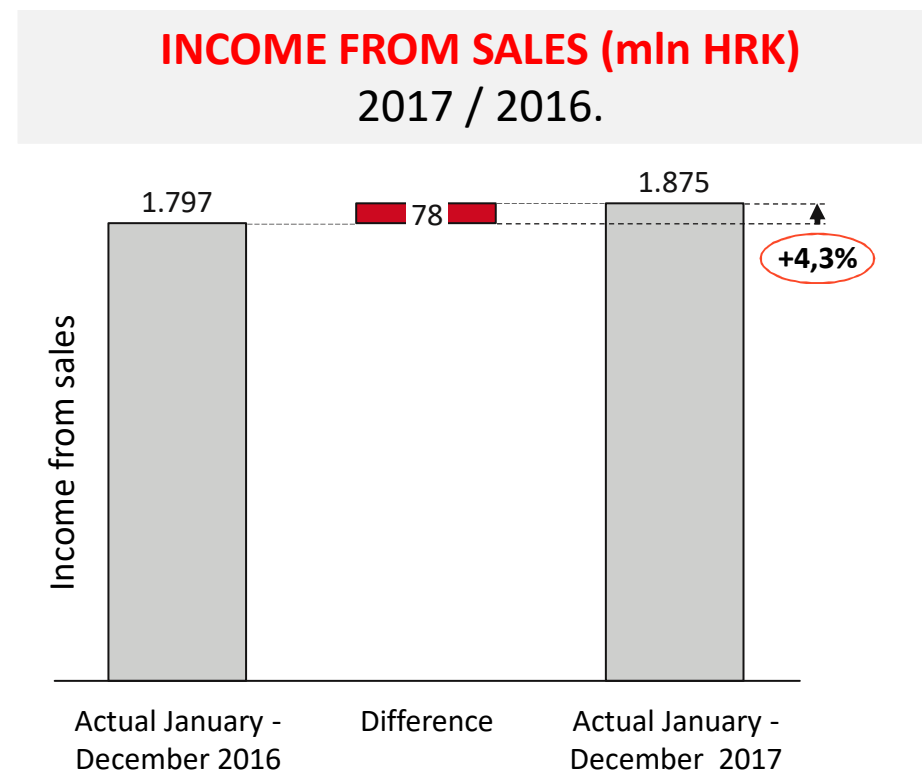
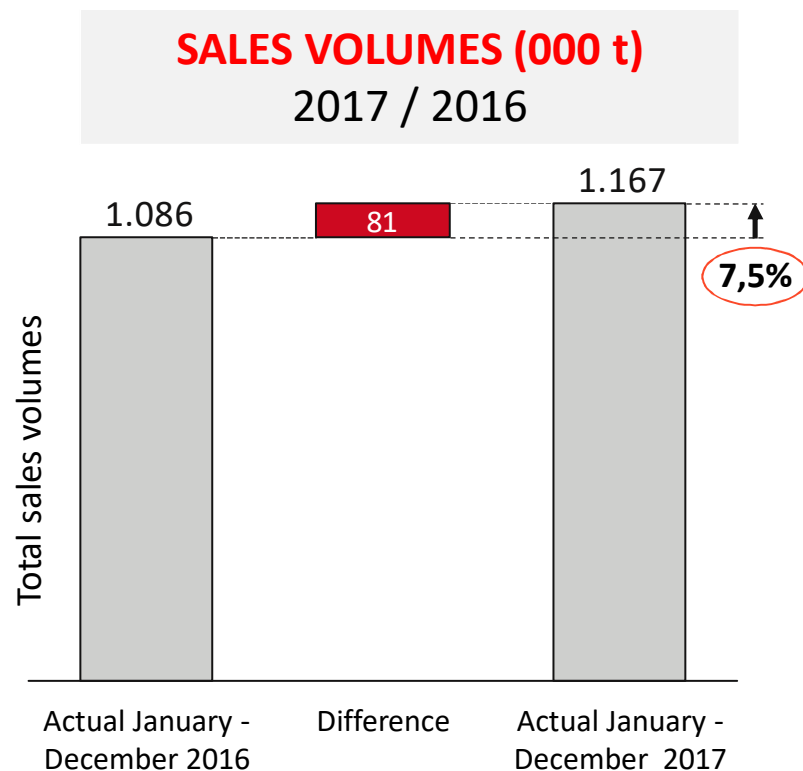
- At 31 December 2017, Petrokemija Group had 40% in value of short-term and 60% in long-term assets.
- The realized loss and delay in the implementation of recapitalization resulted in higher liabilities than the value of the assets, i.e. the capital level was HRK -99.5 million.
- During the 2017, the Group indebtedness changed its structure and maturity. Debt to natural gas suppliers decreased, and indebtedness to banks increased through long-term loans from HBOR and HPB and short-term credit from ERSTE Bank.

HRK million





Total mineral fertilizer sales



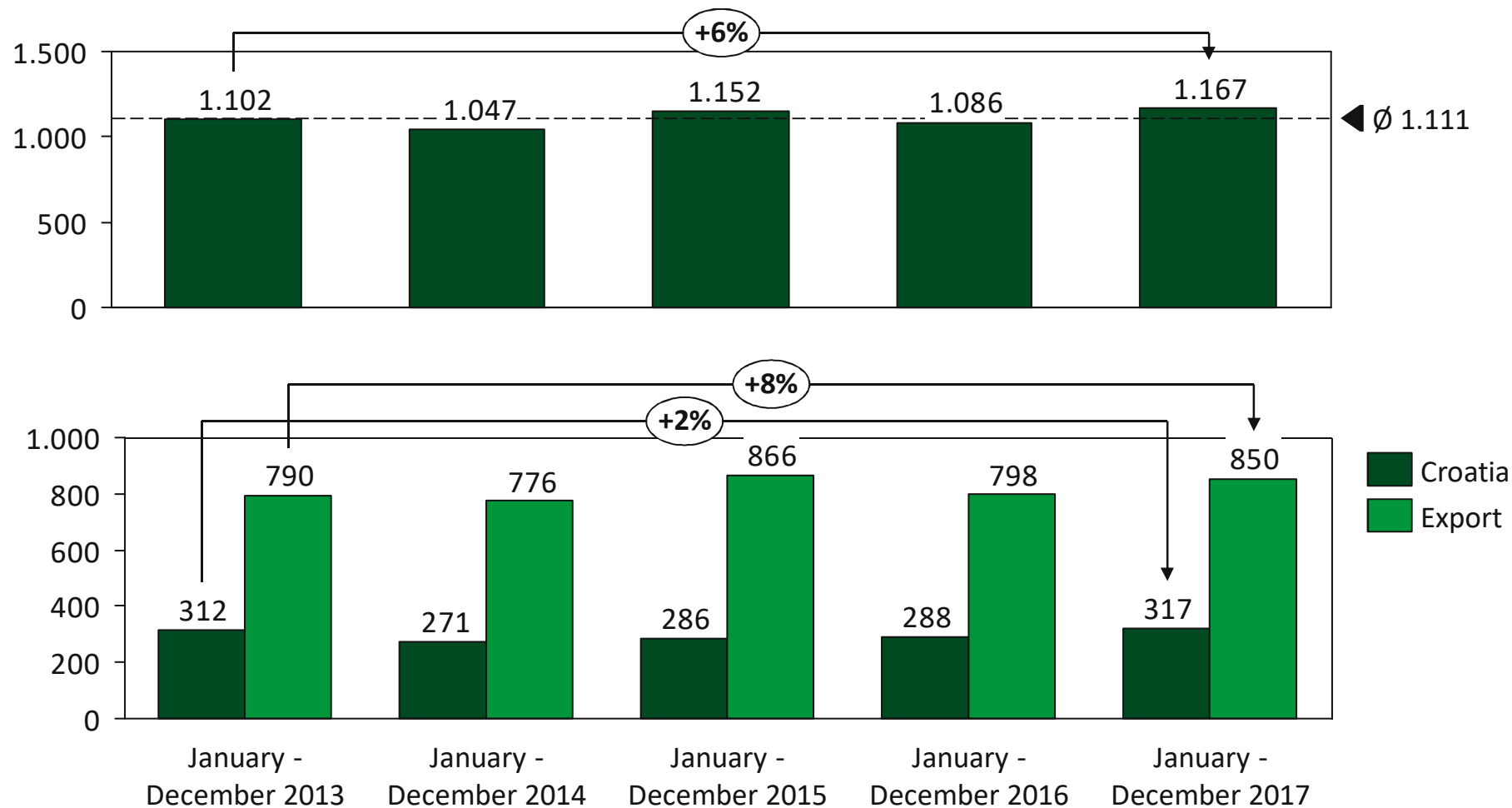
Actual growth in mineral fertilizer sales volumes of 7.5% and increase in income from fertilizer sales of 4.3%, which indicates a fall in average selling prices of 3% compared to the same period 2016.

Note: Data for Petrokemija d.d.



Actual mineral fertilizer sales 2013 – 2017

total sales (000 tons)



Note: Data for Petrokemija d.d.



Business Results of Petrokemija Group for January – December 2017

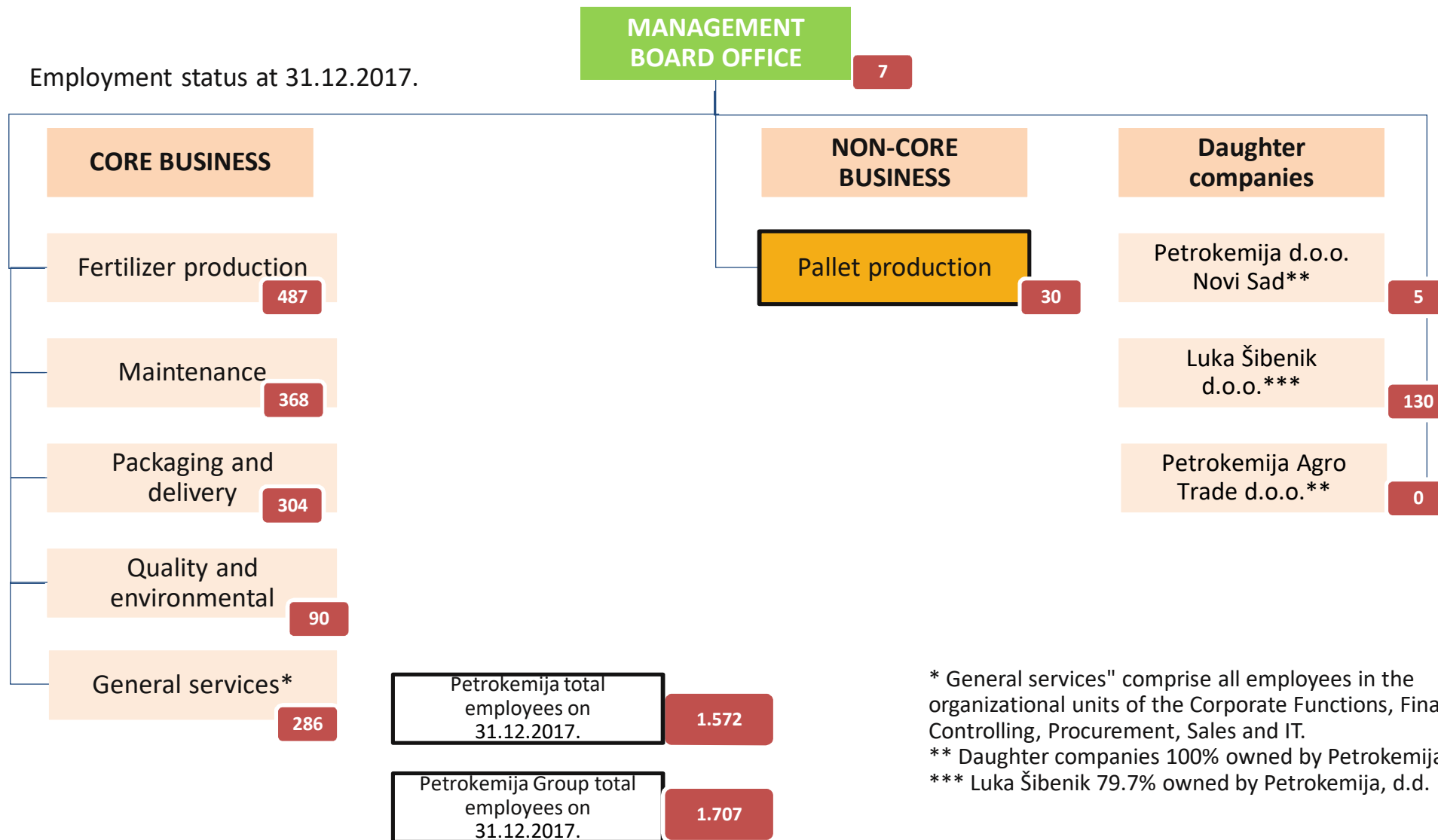
- ❑ After the consolidation of financial results of Petrokemija, d.d. and its subsidiaries - Petrokemija, d.o.o. Novi Sad, Luka Šibenik, d.o.o. and Petrokemija Agro Trade, d.o.o. – the financial results of **Petrokemija Group** for the period January – December 2017 are as follows:
 - ❑ Total revenues HRK 2,009.5 million,
 - ❑ Total expenses HRK 2,156.4 million,
 - ❑ Loss before tax HRK 146.9 million,
 - ❑ Profit tax HRK 0.007 million,
 - ❑ Loss after tax HRK 146.9 million.

- ❑ EBITDA (earnings before interest, taxes and depreciation) was HRK 11.6 million in the negative.
- ❑ Petrokemija, d.o.o. Novi Sad made profit of HRK 287 thousand, while Luka Šibenik, d.o.o. reported loss of HRK 394 thousand. Petrokemija Agro Trade d.o.o. made loss of HRK 21 thousand.
- ❑ In September 2017 Petrokemija, d.d. conducted recapitalization of its daughter company, Petrokemija Agro Trade d.o.o., by increasing the share capital by investing assets according to the Real Estate Value Assessment – in kind – the land of the phosphogypsum landfill and process waters neutralization pond with the corresponding facilities.



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

Employment status at 31.12.2017.



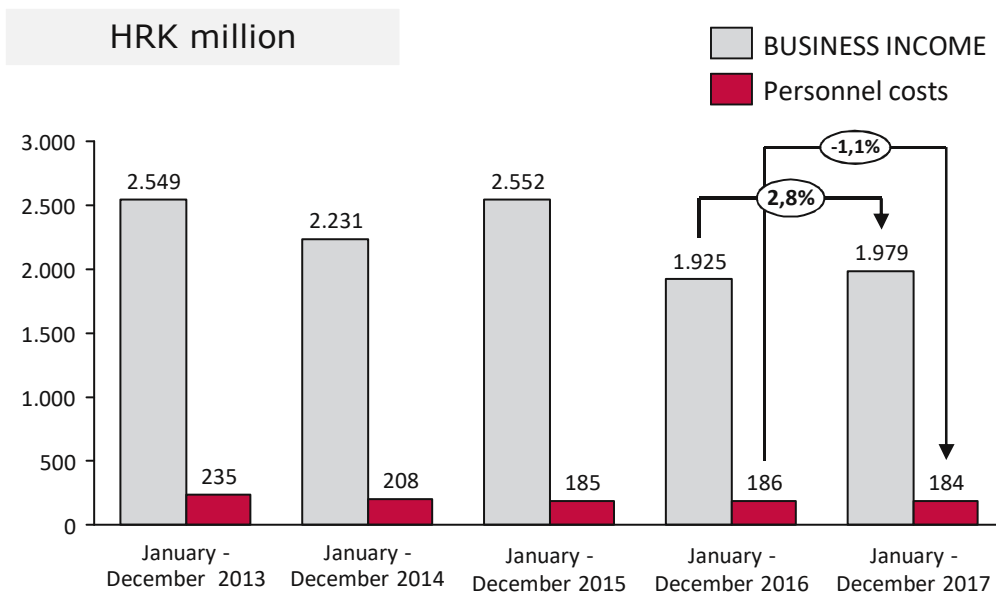
* General services" comprise all employees in the organizational units of the Corporate Functions, Finance and Controlling, Procurement, Sales and IT.

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

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

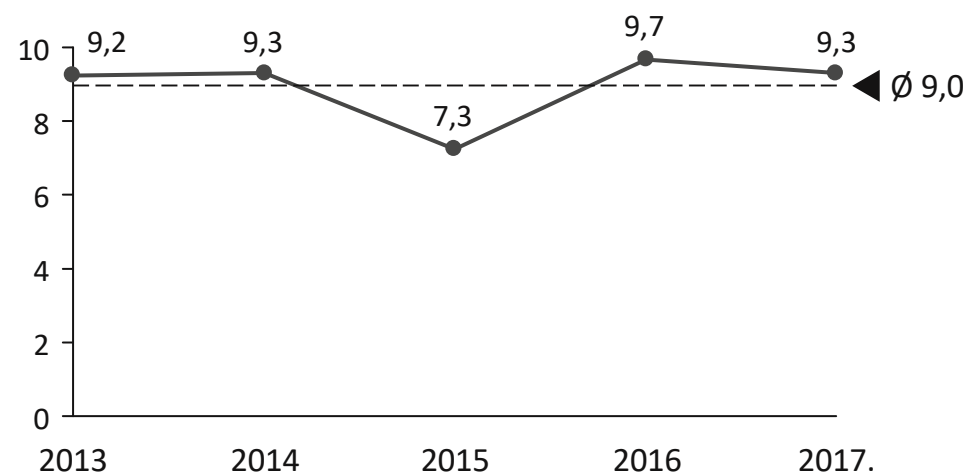
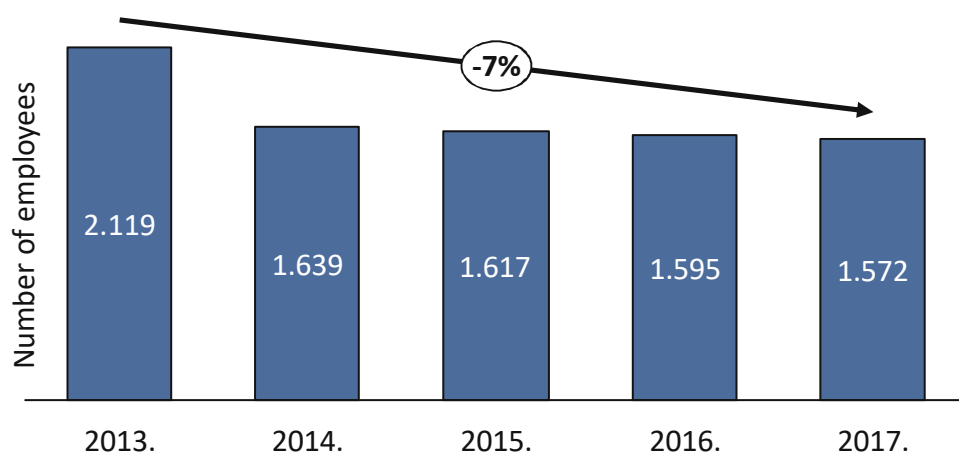


Operational income, personnel costs and number of employees



As at **31.12.2017**, Petrokemija, d.d. had **1.572 employees**, and daughter companies - members of Petrokemija Group - had 135 employees, which is a total of 1,707 employees.

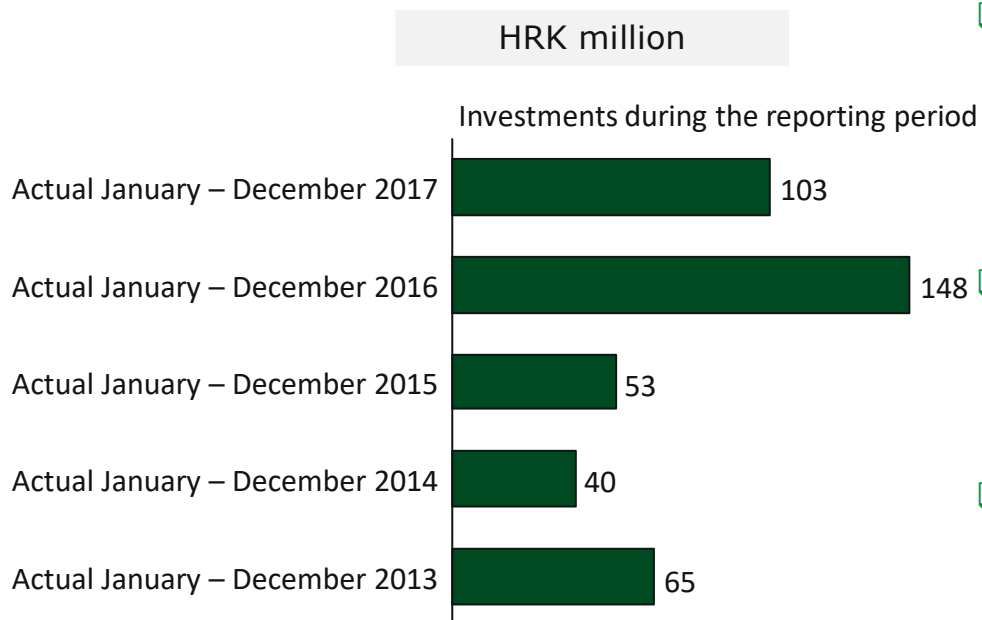
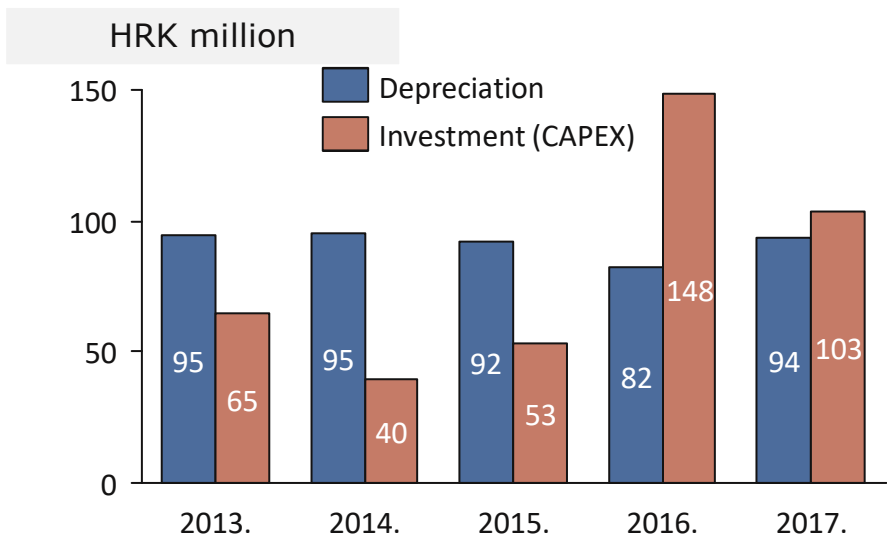
Personnel costs share in operating revenues was 9.3%, 0.4% lower compared to the previous year.



Note: Data for Petrokemija d.d.



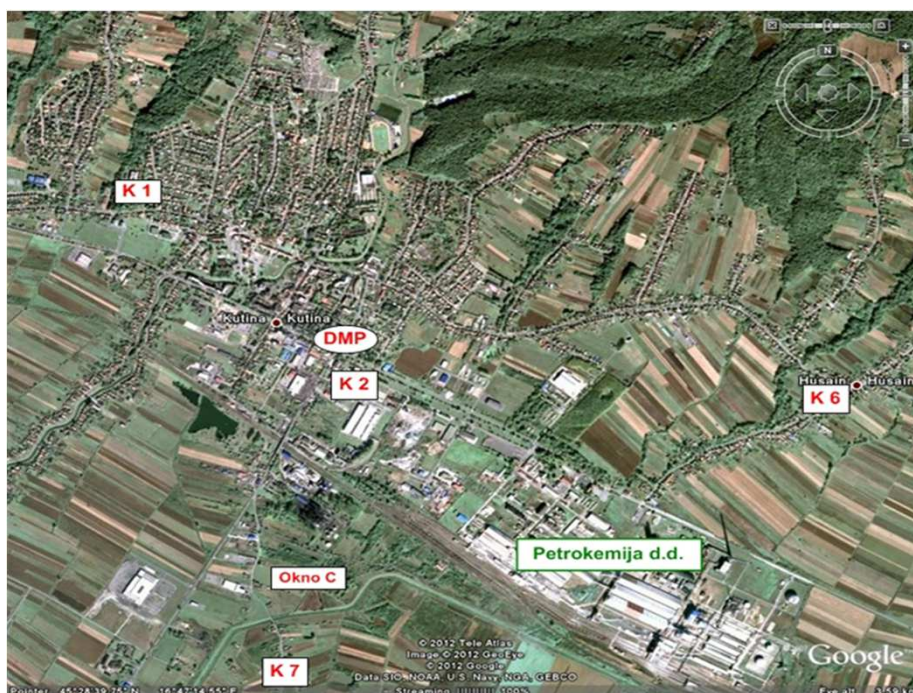
Realized investment



Note: Data for Petrokemija d.d.

- ❑ Investment realized in reporting period 2017 amounted to HRK 103.3 million.
- ❑ Compared to 2016, investment was lower because there was no complete annual overhaul, which is planned in 2018.
- ❑ The planned investment level of HRK 75 million was exceeded by HRK 28.3 million or 37.8%, despite the limited funding options (delay in recapitalization), which was necessary from the point of view of meeting the requirements of the Environmental Permit and deadlines for execution of individual investment projects that were significantly delayed and were not completed within the prescribed deadline, 31.12.2017.
- ❑ The most significant technology investment of HRK 45.2 million relates to investing in NPK-2 Plant for safe and continuous production of two new granulated AS / ASN products, and approximately HRK 8.4 million was invested in the production of the new PetroBlue / AdBlue® product.
- ❑ The first significant impact of the investment at the Ammonia Plant was achieved by reducing the consumption of natural gas by 2.3% in 2017 compared to 2016, which corresponds to an annual saving of about HRK 19.4 million.
- ❑ Out of the amount of realized investment, HRK 11.5 million relates to the purchase of a crane in Luka Šibenik which is leased to this affiliated company.

Air quality in the Kutina area for January to December 2017 period at local monitoring station (K1, K2, K6 and 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
K7,DMP	K1, K2, K6	Ammonia (NH ₃)
K2,DMP		Nitrogen dioxide (NO ₂)
DMP		Hydrogen sulphide (H ₂ S)
DMP		PM10

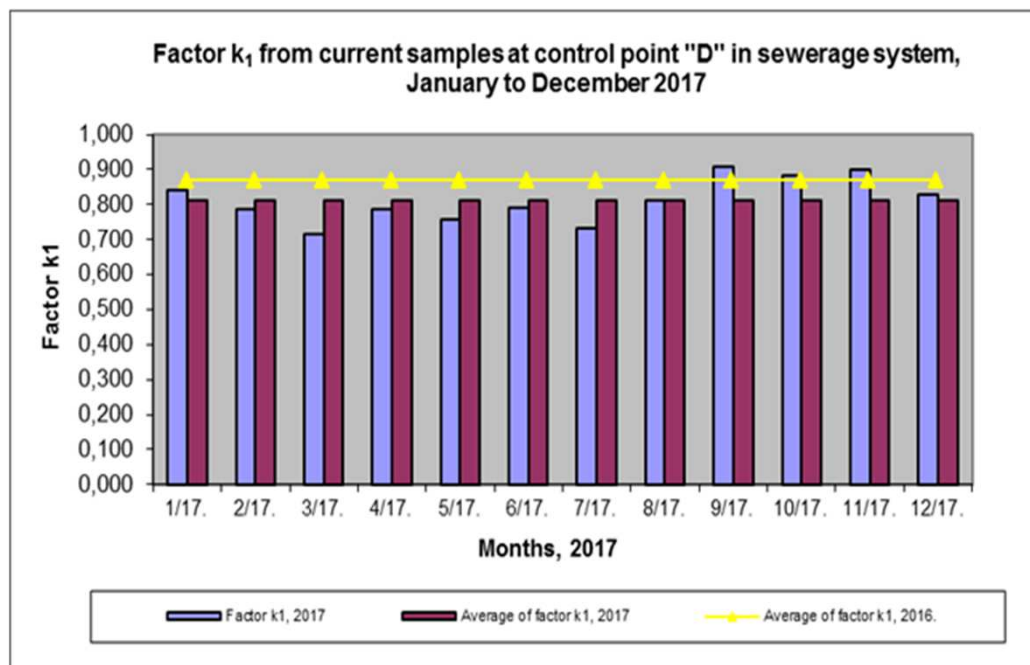
Note:

The categorization of air quality at DMP can be changed after validation of data that has not been made by a competent institution.

Note: Data for Petrokemija d.d.

Ambient air limit value (LV) exceedance of AMMONIA in the January to December 2017 period (local network) and Water management

Monitoring station	The number of limit value (LV) exceedances in the <u>January to December 2017 period</u> / permitted exceedance number
K 1 - Dom zdravlja	14 / 7
K 2 - Vatrogasni dom	21 / 7
K 6 - Husain	9 / 7
K 7 - Krč	4 / 7
TOTAL	48



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

Note: Data for Petrokemija d.d.



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

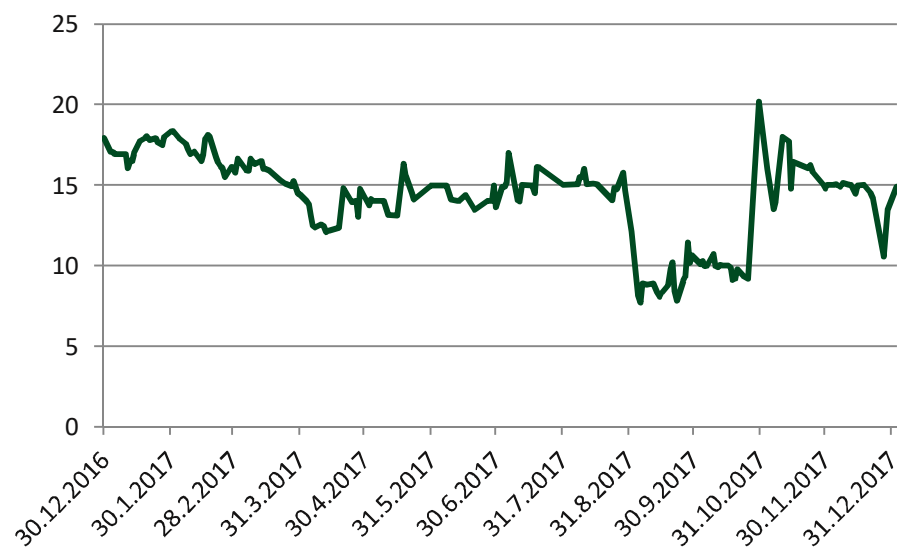
- ❑ At the meeting of 06.02.2017, Mijo Šepak was elected President of the Supervisory Board.
- ❑ At its meeting of 6 February 2017, the Supervisory Board passed a decision on the mandate termination as on that day of the President of the Management Board Nenad Zečević and members of the Board Antonija Perošević Galović, Tamara Pernar and Vladimir Fresl. The Supervisory Board appointed Đuro Popijač from Zagreb 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 adopted to appoint Robert Blažinović member of the Supervisory Board for a term of 4 years.
- ❑ At the meeting on 25 May 2017, the Supervisory Board of Petrokemija d.d. passed a decision on appointing Davor Žmegač MS from Kutina member of the Management Board. His mandate as a Management Board Member starts on 29.5.2017 and lasts four years. Since 29 May 2017, the Board of Petrokemija d.d. acts as a three-member board consisting of: Đuro Popijač MS - Managing Director, Nenad Zečević BS - Member of the Board and Davor Žmegač MS - Member of the Board.
- ❑ At the General Meeting of 11 October 2017, the Company adopted the decision to reduce the share capital from HRK 386,135,400.00 by HRK 343,231,470.00 to the amount of HRK 42,903,930.00, by reducing the individual nominal value of PTKM-R-A ordinary share from HRK 30.00 to HRK 3.333, with at the same time merging ordinary shares at the 3:1 merger ratio, in such a way that 3 (three) ordinary shares of a single nominal amount of 3.333 HRK will be merged into 1 (one) ordinary share, ticker PTKM-RA, of HRK 10.00 nominal value. The last trading day of the existing 12,871,180 ordinary shares of the PTKM-RA was on October 25, 2017, the first trading day with a new quantity, i.e. with the 4,290,393 regular shares of PTKM-R-A for which the settlement was made in the CDCC, on October 26, 2017.
- ❑ On December 30, 2016, the average value of the share was HRK 17.90, and on December 29, 2017 HRK 13.47 (down 24.7 %)
- ❑ After the reporting period, the Supervisory Board issued a decision on terminating the mandate of Nenad Zečević, member of the Management Board as of 2 January 2018. As of 3 January 2018, the Board of Petrokemija d.d. acts as a two-member board consisting of Đuro Popijač, MS, Managing Director and Davor Žmegač, MS, Member of the Board.

Note: Data for Petrokemija d.d.

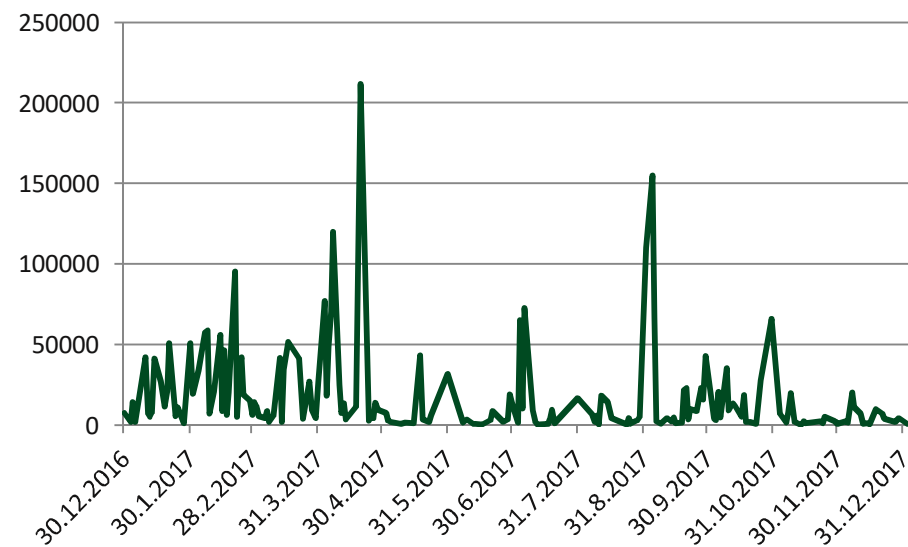


Petrokemija, d.d. share price and daily turnover movements

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



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



Note: Data for Petrokemija d.d.



Significant events in 2017

- ❑ Upon an international tender, Petrokemija, d.d. concluded new contracts for natural gas supply in the gas year 2017/2018 for the required total volumes with suppliers INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar, as the most advantageous suppliers in the tender. With these contracts, Petrokemija secured sufficient quantities of natural gas for a stable planned production in the gas year 2017/2018 .
- ❑ By the decision of the Croatian Energy Regulatory Agency (HERA) of 17 March 2017, the price of natural gas transport decreased by approximately 20%, with effect as from 1 April 2017, which should have about HRK 25 million positive effect on the financial result of Petrokemija on an annual basis.
- ❑ Pursuant to the Decision of Commercial Court in Zagreb, (No. Tt-16 / 45722-2 of 2 January 2017) on the merger of a daughter company, the entry was made of the merger of the company Restoran Petrokemija, d.o.o. for Catering, Kutina Aleja Vukovar 4, and Petrokemija, Plc. Fertilizer Company, based in Kutina, Aleja Vukovar 4, in the registration insert with company number 080004355, OIB 24503685008.
- ❑ In the reporting period, Petrokemija d.d. introduced a new product to its production range, under the brand name PetroBlue. PetroBlue is a diesel engine additive, a 32.5 percent Urea solution in demineralized water, used to reduce NOx compounds in exhaust gas of diesel vehicles equipped with SCR catalysts. Petrokemija is planning to become the leader in the production of this product, in accordance with the ISO 22241 standard. The annual production capacity is 50,000 tons and it will be sold in bulk and large packaging of 200 to 1000 liters. If there is interest, smaller packages of up to 20 liters may be available. With this new product, Petrokemija has become Croatia's only domestic licensed AdBlue® solution manufacturer and thus the country will no longer have to rely exclusively on the import.
- ❑ In the reporting period, through the cooperation of Petrokemija d.d. and HEP ESCO d.o.o., projects of energy efficiency were implemented Modernization of the Electric Power Plant Systems at Water Treatment – 2 Plant, Power Station and Pakra Pump Station and Modernization of Part of the Outdoor Lighting System. With this investment, savings in electricity consumption of about 3.4 GWh per year are achieved, with a two-year investment return period.

Note: Data for Petrokemija d.d.



Implementation of the Restructuring Program in 2017

- ❑ With the help of financial and legal advisers in the first half of 2017, the Restructuring Program of Petrokemija d.d. - Concretization of the Proposal of Restructuring Concept by Recapitalization with Private Investors was drafted and adopted by Supervisory Board and the competent state institutions.
- ❑ At its 33rd session on 27 April 2017, the Government of Croatia adopted the Decision on exclusion from the sales of shares of companies: Hrvatski telekom d.d. Zagreb, Podravka Food Industry d.d. Koprivnica, Croatia Airlines d.d. Zagreb and Đuro Đaković Group d.d. Slavonski Brod. Petrokemija, d.d. had requested a loan of HRK 350 million from the Croatian Bank for Reconstruction and Development and the Croatian Government approved the institution of a lien on the shares of the above companies owned by the State for securing the loan repayment. Croatian Government passed the Decision on Securing Loan Repayment to ensure the stability of Petrokemija's operations and maintenance of business processes, but also to create preconditions for the preparation and realization of the Company privatization.
- ❑ Following the decision of the Government of Croatia on securing loan repayment of 27 April 2017, Petrokemija d.d. signed long-term loan agreements with the Croatian Bank for Reconstruction and Development and the Croatian Postal Bank d.d., as well as a short-term financing agreement with Erste & Steiermarkische Bank d.d. in the total amount of HRK 350 million. The loan was used to secure the stability of Petrokemija's operations and to maintain business processes.
- ❑ On 31 May 2017, CERP established the obligation of the Management and Supervisory Board of Petrokemija d.d. to publicly announce the Call for Recapitalization and invite interested investors to engage in the Company restructuring and privatization process. In accordance with the above decisions and the contractual obligations assumed, the Management and Supervisory Board of Petrokemija are continuing the restructuring and recapitalization process of the Company based on the following strategic assumptions:
 - Modernization of production facilities with the aim of raising the level of energy and technological efficiency, as well as meeting the environmental requirements in accordance with EU regulations,
 - Providing financing sources of permanent working capital,

Note: Data for Petrokemija d.d.



Implementation of the Restructuring Program in 2017 (cont)

- More active appearance and strategic positioning on the market of Croatia and the region,
 - Raising the level of efficiency of maintenance, logistics and other service processes in the Company that will ensure a positive financial result, stability and development of the Company.
- ❑ On 5 June 2017, upon approval of the Supervisory Board, the Management Board of Petrokemija, d.d. adopted the Decision on the Publication of Call for Indication of Interest in Recapitalization as one of the measures in preparation for the Restructuring Program and the Company privatization. The Call is in accordance with the Decision of the Government of the Republic of Croatia on the securing of loan repayment of 27 April 2017, long-term loan agreements with the Croatian Bank for Reconstruction and Development and the Croatian Postal Bank d.d. and the contract on short-term financing with Erste & Steiermarkische Bank d.d. in the total amount of HRK 350 million, which, among other things, determined the obligation of the Restructuring and Sale Center (CERP) to initiate the restructuring and privatization process of Petrokemija d.d.
 - ❑ Deadline for delivery of Letter of Intent to Petrokemija d.d. was 19 June 2017, but the Management Board of Petrokemija d.d. with the approval of Supervisory Board, issued a Decision on the amendment of the deadline, so the deadline for delivery of the Letter of Intent was extended by 30 June 2017. After the period from 5 to 30 June 2017, in which all interested investors could express their indicative interest in the recapitalization of Petrokemija d.d., the Company received a certain number of bids as well as requests for conducting due diligence analyses.
 - ❑ At its session held on July 5, 2017, Supervisory Board of Petrokemija d.d., gave its consent to the Management Board for implementing due diligence process of the Company and for opening the data room in accordance with established data lists and pre-signed confidentiality contracts. The due diligence process was conducted in the period from 10 July to 15 August 2017. After completion of the due diligence process, interested investors were invited to submit binding bids by September 1, 2017, in accordance with the Restructuring Program of Petrokemija d.d. – Concretization of the Proposal of the Restructuring Concept by Recapitalization with a Private Investor, which is an integral part of the documentation in the process of due diligence.

Note: Data for Petrokemija d.d.



Implementation of the Restructuring Program in 2017 (cont)

- ❑ As some of the potential investors requested the extension of the deadlines for the due diligence analysis process, the Management Board, with the approval of Supervisory Board, issued a Decision on prolongation of Petrokemija's due diligence procedure until 31 August 2017 and of receiving binding bids in the recapitalization process by 22 September 2017.
- ❑ Following the stated indicative interest in the recapitalization of Petrokemija d.d., after the completion of the due diligence, interested investors were invited to submit binding offers in accordance with the Restructuring Program of Petrokemija d.d. – Concretization of the Proposal of Restructuring Concept by Recapitalization with Private Investor by September 22, 2017. After the publicly announced Call for Submitting Binding Offers in Recapitalization of Petrokemija d.d., the Company received binding bids from several interested bidders by the deadline stated in the Call and the notice of extension of the bidding deadline. Potential investors' offers were submitted to the Restructuring and Sale Center and the State Property Ministry for further proceedings.
- ❑ With the approval of the Supervisory Board and the Restructuring and Sale Center, the Company allowed potential strategic and investment investors who submitted bids for participation in recapitalization within the Petrokemija restructuring process to conduct additional due diligence analyses in the period from 4 to 23 October 2017.
- ❑ Based on the above, it can be concluded that in the reporting period extensive due diligence analyses of Petrokemija d.d. and Petrokemija Group were conducted by several interested investors, and at the time of the publication of these Reports, negotiations are ongoing with the majority owner and potential investors regarding the final determination of mutual obligations and the content of the co-ownership contract to define the future model of Petrokemija's business. The planned deadline for completion of the procedure was until the end of 2017, but as the majority owner has not yet made the necessary decisions, the process was carried over to the first quarter of 2018.

Note: Data for Petrokemija d.d.



Significant financial risks in 2018

The overall business position of Petrokemija, d.d. at the turn of 2017/2018 depends on a number of factors, whose impact is very difficult to estimate. Agreements reached on new natural gas procurement terms and repayment of natural gas debt have reduced part of the risk transferred from the previous period. However, according to the current market situation, it is estimated that in 2018 there will be an ongoing pronounced influence of variable levels of fertilizer prices in the world market and a relatively high level of natural gas price in Europe and Croatia. Also, the Company's insufficient liquidity and high financing costs will have significant impact on the level of financial expense and operational management of the business. The financial result for the business year 2018 is likely to depend on the pace and scope of potential measures for restructuring of the Company and Petrokemija Group. In addition to the above, caution is still suggested due to the following risks:

- ❑ Petrokemija d.d. is highly dependent on the movements of fertilizers and their raw materials prices in the global market, the exchange rate of the HRK against USD and EUR and their interrelationship;
- ❑ Natural gas as the most important raw material is still procured on the domestic market, according to contracts concluded with two suppliers – INA, d.d. Zagreb and Prvo plinarsko društvo d.o.o Vukovar. The price of natural gas in 2017 and in first three quarters of 2018 is linked to the EUR exchange rate and to the movement of natural gas prices on the European spot market. Reduction of the natural gas transport cost of about 20% should continue to have a positive effect on the financial result in 2018 although insufficient, given the level of the same type of costs for competitors in the EU,
- ❑ The sales prices of fertilizers in the global market are still very low, although at times changing (short-term also influenced by cyclical and seasonal changes). The price of nitrogen fertilizer Urea has been at a low level for a long time, fluctuating sharply during the year and in the situation of a more pronounced growth of natural gas prices on the European spot market, manufacturing profitability may again be questioned.
- ❑ Lower VAT in 2017 had positive effects on mineral fertilizer sales in the domestic market, but the level of state incentives in agriculture and purchasing price of major crops will still have the key effect.

Note: Data for Petrokemija d.d.



Significant financial risks in 2018 (cont)

- ❑ Purchasing prices of most primary raw materials are lower than in the previous period (except for raw phosphate). However, fluctuations in raw material prices in the world market, which have so far been present, will continue to have impact on material costs in the next period;
- ❑ Petrokemija d.d. in its production process inevitably emits a certain amount of greenhouse gases whose emissions are set annually by about HRK 20 to 25 million. Given the limited sources of financing, the Company cannot purchase ETS units at the most favorable time, which significantly increases the risk of higher cost of greenhouse gas emission fees depending on the movement of the ETS market price in the open market. This has also happened in 2017;
- ❑ High costs of working capital – because of insufficient own working capital, financing costs will continue to be significant in the next period;
- ❑ In 2018, there are pronounced risks in finding new long-term sources of financing investment, and it is very difficult to set aside resources from operations to continue the intensive investment process. The deadlines for realisation of a part of the so called ‘environmental investments’, according to the Decision on Integrated Environmental Protection Requirements have expired (31.12.2017), so most investments, due to funding difficulties, were transferred to 2018;
- ❑ The most important issue of the current operating business - the debt to natural gas suppliers – has at the time of preparation of this Report partially been resolved through long-term HBOR and HPB loans and short-term ERSTE Bank loan, ensuring a part of the long-term sources of financing working capital and continuing business restructuring activities. However, the challenges of maintaining financial and business stability are still very much present;
- ❑ Natural gas price fluctuations on the European spot market in 2017 call for caution due to the high exposure of Petrokemija's business results to the so-called ‘price scissors’ risk - simultaneous rise of prices of raw materials, primarily natural gas, and the fall in sales prices of mineral fertilizers based on this raw material (Urea, CAN / AN);
- ❑ The business loss realized in 2017 indicates caution in forecasting financial and operating results for the business year 2018. Therefore, the Company's restructuring and recapitalization process as soon as possible is essential for business continuity in 2018 and the oncoming years.

Note: Data for Petrokemija d.d.



Statement of management liability

In line with Articles 401 through 410 of Capital Market Act (OG 88/08, 146/08, 74/09, 54/13, 159/13, 18/15, 110/15, 123/16, 131/17) the Managing Board of Petrokemija, d.d. Kutina, A. Vukovar 4, make a :

Statement on Management Liability

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

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

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

Currently, the results, effects and achievements of Petrokemija, d.d. 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:

Davor Žmegač, MS



Attachments:

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

Attachment 1.

Reported period:

01.01.2017.

to

31.12.2017.

Quarterly financial statements TFI-POD

Registration number (MB): 03674223

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

Issuer company: PETROKEMIJA GROUP

Postal code and city: 44320

KUTINA

Street and number: ALEJA VUKOVAR 4

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

Code and city/municipality: 220 KUTINA

Code and county name: 3 SISAČKO-MOSLAVAČKA

Number of employees: 1.707
(at the end of the year)

Consolidated Report: YES

Code of NKD: 20.15

Entities in consolidation (according to IFRS):

Registered seat:

Registration number (MB):

PETROKEMIJA d.o.o.

NOVI SAD

08754608

LUKA ŠIBENIK d.o.o.

ŠIBENIK

03037525

PETROKEMIJA AGRO TRADE d.o.o.

KUTINA

4424085

Book-keeping office:

Contact person: MARINA MARIĆ

(name and surname of the contact person)

Telephone number: 044-647-829

Fax: 044-682-795

E-mail: marina.maric@petrokemija.hr

Name and surname: ĐURO POPIJAČ, DAVOR ŽMEGAČ

(authorized representatives)

Documentation to be published:

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

(seal)

(signature of authorized representative)

BALANCE SHEET
as at 31.12.2017.

Issuer: PETROKEMIJA GROUP			
Position	AOP code	Previous year (31.12.)	Current year
1	2	3	4
A) RECIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL	001		
B) LONG-TERM ASSETS (003+010+020+029+033)	002	685.493.783	700.660.953
I. INTANGIBLE ASSETS (004 do 009)	003	8.023.084	8.491.092
1. Expense for development	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	4.487.689	3.088.056
3. Goodwill	006		
4. Advances for intangible assets	007		
5. Intangible assets in progress	008	3.535.395	5.403.036
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 do 019)	010	677.172.585	691.814.313
1. Land	011	48.506.703	48.712.614
2. Buildings	012	224.445.550	207.105.451
3. Plant and equipment	013	349.873.487	315.289.159
4. Tools, plant inventory and transportation assets	014	16.734.517	18.299.523
5. Biological assets	015		
6. Advances for tangible assets	016	99.731	4.841.543
7. Tangible assets in progress	017	36.330.588	94.194.419
8. Other tangible assets	018	1.182.009	3.371.604
9. Investments in real estates	019		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	020	7.537	7.536
1. Investments (shares) in related companies	021		
2. Loans given to related companies	022		
3. Participating interest (shares)	023	7.537	7.536
4. Loans given to companies with participating interest	024		
5. Investment in securities	025		
6. Loans given, deposits and similar assets	026		
7. Other long-term financial assets	027		
8. Investments accounted for using the equity method	028		
IV. TRADE RECEIVABLES (030 do 032)	029	147.582	197.675
1. Receivables from related companies	030		
2. Receivables for sales on loan	031		
3. Other receivables	032	147.582	197.675
V. DEFERRED TAX ASSETS	033	142.995	150.337
C) SHORT-TERM ASSETS (035+043+050+058)	034	538.923.822	464.042.828
I. INVENTORIES (036 do 042)	035	401.673.944	358.139.379
1. Raw and other material	036	205.011.823	184.965.774
2. Work in progress	037	20.229.445	9.087.290
3. Finished products	038	164.942.675	162.787.925
4. Merchandise inventory	039	863.873	626.412
5. Advances for inventories	040	10.626.128	671.978
6. Long-term assets intended for sale	041		
7. Biological assets	042		
II. TRADE RECEIVABLES (044 do 049)	043	79.156.010	70.842.783
1. Receivables from related companies	044		
2. Receivables from customers (buyers)	045	18.046.686	22.480.210
3. Receivables from participating interest	046		
4. Receivables from employees and members	047	6.931	8.350
5. Receivables from state and other institutions	048	35.586.861	47.134.233
6. Other receivables	049	25.515.532	1.219.990
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	33.632.160	5.749.727
1. Investments (shares) in related companies	051		
2. Loans given to related companies	052		
3. Participating interest (shares)	053		
4. Loans given to companies with participating interest	054		
5. Investment in securities	055		
6. Loans given, deposits and similar assets	056	33.632.160	5.749.727
7. Other financial assets	057		
IV. CASH IN BANK AND IN HAND	058	24.461.708	29.310.939
D) PREPAID EXPENSES AND ACCRUED INCOME	059	290.489	68.383
E) TOTAL ASSETS (001+002+034+059)	060	1.224.708.094	1.164.772.164
F) OFF BALANCE SHEET ITEMS	061	1.335.568.822	740.969.603

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	45.530.557	-99.549.455
I. SUBSCRIBED CAPITAL	063	386.135.400	42.903.930
II. CAPITAL RESERVES	064	-200.000	3.923.969
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	0	-11.600
1. Legal reserves	066		
2. Reserve for treasury shares	067		
3. Treasury shares and investment (deductible item)	068		11.600
4. Statutory reserves	069		
5. Other reserve	070		
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	-256.156.639	-3.024.183
1. Retained earning	073		
2. Loss carried forward	074	256.156.639	3.024.183
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	075	-87.944.250	-146.959.178
1. Profit for the year	076		
2. Loss for the year	077	87.944.250	146.959.178
VII. MINORITY INTEREST	078	3.696.046	3.617.607
B) PROVISIONS (080 do 082)	079	12.979.471	13.366.586
1. Provisions for pensions, severance pay and similar liabilities	080	12.134.011	12.558.732
2. Provisions for tax liabilities	081		
3. Other provisions	082	845.460	807.854
C) LONG-TERM LIABILITIES (084 do 092)	083	365.716.220	506.441.080
1. Liabilities to related companies	084		
2. Liabilities for loans, deposits and similar	085	95.833.333	1.455.436
3. Liabilities to banks and other financial institutions	086	269.882.887	504.985.644
4. Liabilities for advances	087		
5. Liabilities to suppliers	088		
6. Liabilities for securities	089		
7. Liabilities to companies with participating interest	090		
8. Other long-term liabilities	091		
9. Deferred tax liability	092		
D) SHORT-TERM LIABILITIES (094 do 105)	093	730.635.798	676.563.111
1. Liabilities to related companies	094		
2. Liabilities for loans, deposits and similar	095	225.163.666	182.030.213
3. Liabilities to banks and other financial institutions	096	52.663.832	126.656.256
4. Liabilities for advances	097	136.968.706	78.255.285
5. Liabilities to suppliers	098	289.065.019	264.758.956
6. Liabilities for securities	099		
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	11.481.299	11.204.086
9. Liabilities for taxes, contributions and other payments	102	8.229.826	7.968.864
10. Liabilities as per share in result	103		
11. Liabilities as per long-term assets intended for sales	104		
12. Other short-term liabilities	105	7.063.450	5.689.451
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	69.846.048	67.950.842
F) TOTAL LIABILITIES (062+079+083+093+106)	107	1.224.708.094	1.164.772.164
G) OFF BALANCE SHEET ITEMS	108	1.335.568.822	740.969.603
APPENDIX TO BALANCE SHEET (to be completed by companies that prepare consolidated financial statements)			
A) CAPITAL AND RESERVES			
1. Credited to parent company capital owners	109	41.834.511	-103.167.062
2. Credited to minority interest	110	3.696.046	3.617.607

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 31.12.2017.

Issuer: PETROKEMIJA GROUP					
Position	AOP code	Previous year		Current year	
		Cumulative	Quarterly	Cumulative	Quarterly
1	2	3	4	5	6
I. OPERATING REVENUES (112+113)	111	1.933.699.714	496.343.250	1.992.064.419	549.471.062
1. Sales revenues	112	1.853.436.176	477.064.676	1.946.363.143	538.196.338
2. Other operating revenues	113	80.263.538	19.278.574	45.701.276	11.274.724
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	1.982.855.551	534.339.354	2.098.509.858	558.194.196
1. Changes in value of work in progress and finished products	115	94.926.654	-21.112.803	14.112.997	-15.270.283
2. Material costs (117 do 119)	116	1.510.804.940	437.821.839	1.696.601.048	467.029.821
a) Cost of raw and production materials	117	1.442.558.679	421.983.984	1.617.076.511	449.362.757
b) Cost of goods sold	118	3.792.235	807.383	8.837.549	1.224.030
c) Other external costs	119	64.454.026	15.030.472	70.686.988	16.443.034
3. Employees costs (121 do 123)	120	198.552.007	49.788.633	196.430.082	49.895.258
a) Net salaries and wages	121	124.399.075	31.411.711	124.859.446	31.810.174
b) Costs for taxes and contributions from salaries	122	45.204.393	11.119.743	42.924.710	10.809.731
c) Contributions on salaries	123	28.948.539	7.257.179	28.645.926	7.275.353
4. Depreciation	124	83.083.590	21.487.609	94.816.776	23.468.428
5. Other costs	125	71.398.765	24.802.620	87.191.218	23.825.812
6. Value adjustments (127+128)	126	10.044.338	7.506.199	1.125.775	1.013.198
a) of long-term assets (except for financial assets)	127	7.509.701	4.979.353	109.952	4.642
b) of short-term assets (except for financial assets)	128	2.534.637	2.526.846	1.015.823	1.008.556
7. Provisions	129	14.045.257	14.045.257	8.231.962	8.231.962
8. Other operating expenses	130				
III. FINANCIAL REVENUES (132 do 136)	131	7.035.939	533.842	17.424.346	-2.253.064
1. Interest, exchange rate fluctuations, dividends and similar from associated companies	132				
2. Interest, exchange rate fluctuations, dividends and similar from non-associated companies and others	133	7.035.939	533.842	17.424.346	-2.253.064
3. Part of revenue from associated companies and participating interests	134				
4. Unrealised gains (revenues) from financial assets	135				
5. Other financial revenues	136				
IV. FINANCIAL EXPENSES (138 do 141)	137	45.490.185	19.311.469	57.931.158	17.384.306
1. Interest, exchange rate fluctuations and other costs with associated companies	138				
2. Interest, exchange rate fluctuations and other costs with non-associated companies	139	45.490.185	19.311.469	54.111.500	15.329.403
3. Unrealised losses (costs) from financial assets	140				
4. Other financial expenses	141			3.819.658	2.054.903
V. PORTION IN PROFIT OF ASSOCIATED COMPANIES	142				
VI. PORTION IN LOSS OF ASSOCIATED COMPANIES	143				
VII. EXTRAORDINARY - OTHER REVENUES	144				
VIII. EXTRAORDINARY - OTHER EXPENSES	145				
IX. TOTAL REVENUES (111+131+142 + 144)	146	1.940.735.653	496.877.092	2.009.488.765	547.217.998
X. TOTAL EXPENSES (114+137+143 + 145)	147	2.028.345.736	553.650.823	2.156.441.016	575.578.502
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	-87.610.083	-56.773.731	-146.952.251	-28.360.504
1. Profit before taxation (146-147)	149	0	0	0	0
2. Loss before taxation (147-146)	150	87.610.083	56.773.731	146.952.251	28.360.504
XII. PROFIT TAX	151	334.167	243.533	6.927	-3.666
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	-87.944.250	-57.017.264	-146.959.178	-28.356.838
1. Profit for the period (149-151)	153	0	0	0	0
2. Loss for the period (151-148)	154	87.944.250	57.017.264	146.959.178	28.356.838
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	-87.808.396	-57.176.478	-146.880.740	-28.137.111
2. Credited to minority interest	156	-135.854	159.214	-78.438	-219.727

STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)					
I. PROFIT OR LOSS OF THE PERIOD (= 152)	157	-87.944.250	-57.017.264	-146.959.178	-28.356.838
II. OTHER COMPREHENSIVE GAINS/LOSS BEFORE TAXES (159 do 165)	158	257.000	0	0	0
1. Exchange rate differences from translation of foreign currency operations	159	257.000			
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	257.000	0	0	0
V. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD (157+167)	168	-87.687.250	-57.017.264	-146.959.178	-28.356.838
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	-87.551.396	-57.176.478	-146.880.740	-28.137.111
2. Credited to minority interest	170	-135.854	159.214	-78.438	-219.727

CASH FLOW STATEMENT - Direct method

for the period 01.01.2017. to 31.12.2017.

Issuer: PETROKEMIJA GROUP			
Position	AOP code	Previous year	Current year
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Cash increase from buyers	001	1.992.655.657	1.946.951.251
2. Cash increase from royalties, fees commissions and other	002		
3. Cash increase from insurance compensations	003	6.914.953	27.446.652
4. Cash increase from tax return	004	220.528.428	289.835.029
5. Other cash increase	005	770.643	1.260.859
I. Total increase of cash flow from operating activities (001 do 005)	006	2.220.869.681	2.265.493.791
1. Expenses to suppliers	007	2.069.461.529	2.053.325.285
2. Expenses for employees	008	202.096.547	206.512.274
3. Expenses for insurance compensations	009	12.211.710	12.749.291
4. Expenses for interest	010	46.054.098	41.838.198
5. Expenses for taxes	011	45.857.144	43.834.953
6. Other cash decrease	012	7.138.931	12.261.696
II. Total decrease in cash flow from operating activities (007 do 012)	013	2.382.819.959	2.370.521.697
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)	014	0	0
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)	015	161.950.278	105.027.906
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proceeds from sale of non-current tangible and intangible assets	016	1.728.206	6.095.570
2. Cash proceeds from sale of equity and debt security instruments	017		
3. Cash proceeds from interest payment*	018		
4. Cash proceeds of dividend payment*	019		
5. Other cash proceeds from investing activities	020		
III. Total cash inflow from investing activities (016 do 020)	021	1.728.206	6.095.570
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	106.342.374	93.268.403
2. Cash outflow for acquisition of equity and debt financial instruments	023		11.600
3. Other cash outflows from investing activities	024		
IV. Total cash outflow from investing activities (022 do 024)	025	106.342.374	93.280.003
B1) NET CASH FLOW FROM INVESTING ACTIVITIES (021-025)	026	0	0
B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)	027	104.614.168	87.184.433
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	536.934.785	383.093.302
3. Other inflows from financial activities	030		32.620.660
V. Total cash inflow from financial activities (028 do 030)	031	536.934.785	415.713.962
1. Cash outflows for repayment of loan principal and bonds	032	257.941.089	213.914.164
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		4.744.578
VI. Total cash outflow for financial activities (032 do 036)	037	257.941.089	218.658.742
C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)	038	278.993.696	197.055.220
C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)	039	0	0
Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)	040	12.429.250	4.842.881
Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)	041	0	0
Cash and cash equivalents at the beginning of the period	042	13.043.958	25.473.208
Increase of cash and cash equivalents	043	12.429.250	4.842.881
Decrease of cash and cash equivalents	044		
Cash and cash equivalents at the end of the period	045	25.473.208	30.316.089

*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 31.12.2017

Position 1	AOP code 2	Previous year 3	Current year 4
1. Suscribed capital	001	386.135.400	42.903.930
2. Capital reserves	002	-200.000	3.923.969
3. Reserves from profit	003		-11.600
4. Retained profit or loss carried forward	004	-256.156.639	-3.024.183
5. Profit or loss for the year	005	-87.944.250	-146.959.178
6. Revaluation of fixed tangible assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluation	009	3.696.045	3.617.607
10. Total capital and reserves (AOP 001 do 009)	010	45.530.556	-99.549.455
11. Exchange differences on translation of financial statements of foreign operations	011		
12. Current and deferred taxes (part))	012		
13. Protection of cash flow	013		
14. Changes in accounting policies	014		
15. Adjustment of significant errors from previous period	015		
16. Other changes in capital	016		
17. Total increase or decrease of capital (AOP 011 do 016)	017	0	0
17 a. Credited to parent company capital owners	018	41.834.511	-103.167.062
17 b. Credited to minority interest	019	3.696.045	3.617.607

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.

PETROKEMIJA GROUP

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

INTRODUCTION

In the reporting period January – December 2017, the business environment of Petrokemija, Group was marked by two key occurrences - the fall in sales prices of mineral fertilizers with the simultaneous growth of the natural gas purchase price as the main raw material. Despite the adverse conditions in the narrower and wider economic environment, in 2017, Petrokemija, d.d. increased production by 11.5% and sales of mineral fertilizers by 7.5%, compared to the previous year. The sales in the domestic market were up by 10.1%, the sales in the region, with extra efforts made, were up by 16.4%, whereas the sales to distant markets, due to high transportation costs and strong competition of large manufacturers, as well as to lower sales prices, fell by 5.7%. The increase in sales in the markets of the region, and in particular the domestic market, is the result of the sales strategy adopted in 2017. One of its positive results is the strengthening of the competitive position of Petrokemija d.d. on the domestic market and the reduction of imports of mineral fertilizers into the Republic of Croatia by 33% as compared to the year before.

In 2017, Petrokemija d.d. responded with only partial success to the challenges of the low-price crisis of mineral fertilizers, which European fertilizer manufacturers have been facing for the third year now, and to disturbances in the agricultural and food chain at local and regional level that were started by the crisis in the Agrokor Group. The continuity of production and supply of the market was maintained in order not to jeopardize the Company's restructuring process but the financial effects are disadvantageous due to the imbalance in input and output prices and, in order to maintain liquidity, relatively high sales in the most price-unfavorable overseas markets.

After a long period of preparation and in limited conditions of funding investments in modernization and increasing energy efficiency, in the reporting period, the investment in the long-announced new „PetroBlue – Ad Blue[®]“, product was realized, a product used as an additive to the fuel of modern diesel engines. This improved the Company market adaptability, because a part of the Urea mineral fertilizer production is directed to a market segment that is not related to agriculture. In addition, important investments in the AS / ASN production plant were carried out to improve technical and technological conditions and safety of production.

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

Fertilizer manufacturers in Europe are under strong pressure from the competition of major global manufacturers who have a comparative advantage of cheap raw material sources,

from natural gas to phosphate rock, potassium chloride and sulfur. In these conditions, even successful European mineral fertilizer producers, who benefited from a favorable trend for modernization of plants and restructuring in the previous decade, have experienced a fall in profit. Accordingly, it was inevitable for Petrokemija, which has been struggling to maintain business continuity for years and operating in conditions of lower technological and energy efficiency than its European competitors, to report a loss of 7.4% of total revenues. The most significant negative factor in the generation of the loss is the high purchase price of natural gas, which is for Petrokemija about 20% higher than for its competitors, partly because of the terms for defining the purchase price (suppliers are also the largest creditors of the Company) and partly because of the extremely high costs of gas transport, which are among the highest in the EU.

After years of attempts of changing the ownership structure and attracting into its ownership structure large investors in the value creation chain - from production and trading with natural gas, to logistics of sales of mineral fertilizers to end users – in the reporting period, the current owners have carried out extensive and complete preparation for the implementation of the privatization process and opening of a new development cycle of the Company, where all its current potentials would be exploited - from favorable location, well-maintained production and logistics systems, to skilled labor. Shortage of financial potential that manifests itself in the impossibility of changing the business model and of quick adaptation to constant market changes should be resolved in 2018 by permanent capital sources and a new management model of future investors. Loans granted by HBOR and commercial banks in 2016 and 2017 helped to fill the cash gap transferred from previous years, and recapitalization should create the preconditions for a balanced financing model for plant modernization and investment in greater efficiency of all processes in the Company.

In the reporting period, extensive business analyses were carried out by several interested investors, bids from potential investors were collected and, at the time of the publication of these Reports, the negotiations of the majority owner and potential investors are underway in terms of final determination of the mutual obligations and the content of the co-ownership agreement that would define the future business model of Petrokemija d.d.

After the completion of the Company privatization process, it is expected that the State (i.e. CERP) will remain as one of the shareholders, but without a dominant position in the structure of ownership and management rights.

1. Financial result for January – December 2017

In the January to December 2017 period, Petrokemija Group had total income of HRK 2,009.5 million and total expense of HRK 2,156.4 million. The Company reported loss in operations of HRK 146.9 million or 7.3% of the total revenues. In the same period last year, the Company had losses of HRK 87.6 million, which shows a negative development in the financial result of HRK 59.3 million. The main causes of the losses in 2017 are lower average sales prices of mineral fertilizers and higher actual purchase price of natural gas as the basic raw material.

The EBITDA (earnings before interest, taxes, depreciation and amortization) is negative amounting to HRK -11.6 million and the EBITDA margin was -0.6%. The total revenues for 2017 were up by 3.5% on 2016, while total expenditures were up by 6.3%. These figures point to a stagnation of revenues despite an increase in sales volumes of 7.5%, with a simultaneous 15.8% energy cost increase, where natural gas is the most significant item. The main reasons for the loss of the business were the growth of natural gas price (+ 6.7% on average over the same period of the previous year) and the simultaneous negative impact of lower sales prices (-3.0% on average compared to the same period of 2016).

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

In these adverse conditions, a greater growth of operating loss was prevented by the sales of larger volumes of mineral fertilizers on the domestic market and in the region. In this context, sales amounted to 1,167 thousand tons, up by 7.5% on the previous year. In the sales structure, domestic sales rose by 10.1% and the sales in the region by 16.4%. The sales to distant markets fell by 5.7%. The distant markets are price-wise less attractive due to the high transportation costs and strong competition of large manufacturers and retailers of mineral fertilizers. However, in the summer months, these sales were necessary to maintain liquidity and meet contractual obligations towards natural gas suppliers and buyers (obligations on previously paid advances). This is also the most important cause of high loss in the third quarter of 2017, when the demand on domestic and regional market was at its minimum and the process of continuous production could not be stopped without even greater losses.

After high growth of imports of mineral fertilizers into the Republic of Croatia in 2016, at the turn of 2016/2017, there was a significant drop in fertilizer imports as Petrokemija offered better sales terms than foreign direct regional competitors. As a result, domestic sales volumes in 2017 increased by 10.1% compared to 2016, but are still at a low level given the potentials of Croatian agriculture. The main obstacle to higher domestic sales in the remaining business year continues to be linked to the problem of customers' liquidity. Additional significant limitations come from the operational challenges that the Agrokor Group, as a major customer of mineral fertilizers, is faced with in the reporting period. In this context, business challenges that their business partners in the agricultural sector are faced with, can also be seen, which can significantly affect the level of sown areas and fertilization in 2018. Despite a somewhat better situation in the structure of debt, Petrokemija, d.d. has still no long-term sources of financing deferred payments to buyers of mineral fertilizers, and banks are mostly not willing to adequately support agricultural production. Among other constraints affecting the level of sales on the domestic market, are the dynamics and level of incentive payments on the domestic market and the increasingly present principle of purchase at the last moment before application with direct field manipulation (without the cost of storing and re-loading).

Reducing the VAT rate in 2017 also boosted demand for mineral fertilizers and will help balance the price level in the region, but the key effect will still be the extent of Government incentives in agriculture and the purchase prices of major agricultural crops, as well as the developments in the Agrokor Group crisis. In 2017, Petrokemija, d.d. started sales of mineral fertilizer by consignment in order to improve the sales channels on the domestic market. However, the sales volumes are still low.

2. Structure of financial result

In the structure of financial result for January to December 2017, notable is the HRK 106.4 million operating loss, while HRK 40.5 million loss was generated from financial activities, resulting in the total loss in the reporting period of HRK 146.9 million. Financial loss is the result of external factors – interest costs due to high credit debt and corrections of the CO₂ EU Emission Allowances. The price of EU Emission Allowances pronouncedly varied in the reporting period and had a significant impact on the quarterly financial results. In the fourth

quarter, the loss was increased by HRK 5.5 million on this basis. The total cost for CO₂ fees in the fourth quarter amounted to HRK 12.5 million. The positive balance of foreign exchange gains had a positive impact on the financial result of Petrokemija d.d. of about HRK 8 million at the annual level.

The level of financial expenditures is still affected by the adverse financing structure, i.e. high debt and exposure to the influence of the EUR exchange rate fluctuations, as most bank loans have a currency clause. In the reporting period, critical liabilities to natural gas suppliers have partly been solved, but there are still activities underway to find more favorable sources of long-term financing for the Company and to eliminate the consequences of high debt carried forward from the previous period. Maintaining current liquidity in the first quarter of 2018 is very difficult.

As on 31 December 2017, capital and reserves amounted to HRK -99.5 million, or HRK 146.9 million less than on 31 December 2016, corresponding to the level of loss in business. The level of the losses of the reporting period is higher than the subscribed capital, which indicates the necessity of urgent recapitalization as the continuation of the business is at stake.

3. Revenues

In the reporting period, the falling trend of mineral fertilizer prices was continued, which had a negative effect on business revenues, so that despite all the adjustments of the assortment and the increase of sales on the domestic and regional markets, there was no positive operating result. This is corroborated by the fact that at 7.5% higher volume sales of mineral fertilizers, the earned operating income was 2.8% higher than in the previous year.

Domestic sales in percentage are higher than in the previous year (index 110.1), but expressed in thousands of tons, the increase amounts to approximately 29 thousand tons, which indicates very low sales in the same period the previous year. A part of the increased sales volumes of mineral fertilizers of Petrokemija d.d. is also a reflection of reduced imports – the import of mineral fertilizers to Croatia was reduced by 33% in 2017. It is estimated that sales in Croatia are still unsatisfactory due to economic exhaustion and low liquidity of Croatian agriculture, as well as to insufficient support from commercial banks.

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

The level of export sales volumes is up by 6.6% as a result of efforts to, by balancing the product range and by additional sales efforts on certain markets in the region, reduce the negative effects of sales on distant overseas markets where the sales price in some transactions does not cover the costs of direct raw- and production materials and indirect sales costs. Balancing the production and sales of mineral fertilizer assortments that had better sales prices, ensured business continuity and current liquidity. An additional challenge were the significant fluctuations of mineral fertilizer prices over the reporting period and constraints on logistic capacities in export markets.

The low prices of mineral fertilizers on the global market, which have been transferred from the previous years, showed a slight growth in the first quarter, only to fall again in the second and third quarters and slightly grow in the fourth quarter. Throughout the reporting period, the most important export product, Urea, had a very unstable sales price. In 2016 - the average price drop was 27%, and in 2017 the average price rose 11% with very large oscillations in the monthly average of 180 USD / t fob Yuzhny (May) to 267 USD / t (October), which corresponds to a change of -18% to + 21% or a total change range of 39%. For comparison, the range of urea price changes in 2016 was 31%. In some periods of the year the price of Urea was brought to a level that did not cover even the direct cost of natural gas. This can be interpreted as a cyclical disturbance, but points to caution in predicting future business results because the price of natural gas is formed independently of that trend.

In the same context, CAN mineral fertilizer lost its price margin compared to Urea and had significant impact on the price reduction in the regional market. Also, an extremely low price of NPK mineral fertilizers was achieved, which was the result of the low price of ammonia, phosphate and potassium chloride, and the start of additional capacities that increased the supply and demand imbalance (e.g. Maaden from Saudi Arabia). Generally speaking, 2017 was marked by strengthening competition in the interest markets of Petrokemija d.d. by the North African Urea manufacturers - Egypt and Algeria, and Morocco in the NPK assortment of mineral fertilizers. On the eastern European markets, there has been continuous pressure from the offer of Russian producers Phosagro, Eurochem and Rosos, especially in the markets of Serbia, Romania and Bulgaria.

4. Expenses

Operating expenses were up by 5.6% compared to the same period of the previous year, as a result of higher production and sales and the growth in purchasing prices of a part of raw materials, in particular the increase in natural gas prices in the open market. The prices of the main raw materials for the production of mineral fertilizers in the world market were lower (from 2 to 9%), with the smallest fall achieved in MAP and potassium chloride, and the largest in row phosphate. The price of natural gas ranged independently of the price trend of other raw materials, with a 6.7% higher price in 2017, compared to the previous year (the price includes transport costs, expressed in HRK). Overhead costs are mainly at the level of the previous year, except for deviations relating to the volume of production and sales, or the contracted packaging, such as cost of packaging, export services and other costs that vary according to the level of business activity. Overall, it can be estimated that sustained production continuity had positive effect on operating business performance because in the event of suspended production, negative effects would be even greater due to the high fixed costs and additional costs of gas transport on a full-for-empty basis, as well as costs of energy products and intermediates at the shutdown and start-up of the facilities, which inevitably accompany the halt of production.

5. Natural gas supply

In the reporting period, Petrokemija, d.d. supplied natural gas from two permanent suppliers - INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar, pursuant to previously concluded contracts. The price was determined by an escalating formula based on the actual prices on the European natural gas market (CEGH and TTF hubs). The average realized purchase price of natural gas (with transportation costs, expressed in HRK) in the reporting period January to December 2017, was 6.7% higher than in the same period of 2016. This

percentage will be subject to constant changes in 2018, in line with price movements on the European natural gas spot market. Thus, the key risks in purchasing natural gas are price fluctuations in the spot market and changes in the EUR exchange rate since the basic prices are formed in that currency.

In the course of the reporting period, upon an international tender, Petrokemija, d.d. concluded new contracts for natural gas supply in the gas year 2017/2018 with the existing natural gas suppliers INA d.d. Zagreb and Prvo plinarsko društvo d.o.o. Vukovar, as the most advantageous suppliers in the tender. In contracting new natural gas deliveries, the negotiating position is burdened by Petrokemija's high level of debt to the suppliers of natural gas delivered in the previous period. The growth in natural gas prices in 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.

As a result of the decision of the Croatian Energy Regulatory Agency (HERA) of 17 March 2017, the price of natural gas transport was reduced by approximately 20%, with effect as from 1 April 2017, which had about HRK 25 million positive effect on the financial result of Petrokemija d.d. on an annual basis. However, the cost of transporting natural gas is still a significant item in the cost structure of Petrokemija d.d., since the price of natural gas transport in the Republic of Croatia is among the most expensive in the EU. The cost of natural gas transport in Croatia is around HRK 86 million a year, whereas for direct competitors in Hungary or Austria natural gas transport cost is twice or even six times lower. In order for Petrokemija d.d. to approach at least partially to direct competitors, the realistic cost of natural gas transport should be about HRK 40 million annually. It is necessary to reduce this cost in the future by actively communicating with all relevant authorities (the Croatian Government, the Ministry of Environmental Protection and Energy, HERA, PLINACRO), which decide on the natural gas transportation fee, because the cost at the existing level is unsustainable.

6. Production and capacity utilization

In the January to December 2017 period, as compared to the previous year, Petrokemija, d.d. achieved 11.5% higher total production despite the four unplanned suspensions of operation of the liquid ammonia production plant (lack of natural gas due to disruption of deliveries by one of the gas suppliers – April 2017, two shutdowns for technical reasons – February and June and one due to the power outage in October 2017).

Higher production was achieved because in 2017 there was no complete overhaul of the facilities, as had been the case in the summer months of 2016.

In the production structure, the following changes occurred: 18.1% higher production of Urea, 2.9% of CAN and 16.2% higher NPK fertilizer production. In the reporting period, production capacity utilization was 93%, and the production range was adjusted to market conditions and constraints.

Furthermore, in the reporting period, a new production of 32.5% urea solution, AdBlue[®], under the commercial name PetroBlue, was successfully adopted using the Company's own know-how, whereby, after the certification procedure, Petrokemija, d.d. was placed on the list of manufacturers of world-licensed AdBlue[®] products used for NO_x emission reduction in accordance with the Euro V and VI standards. In 2017, production and sales of over seven thousand tons of the new product was realized, with a growth trend in 2018. The savings on natural gas consumption in the production of ammonia (HRK 19 million) have shown the justification of the investments made so far in this key facility.

Due to market reasons, the phosphoric acid and carbon black production plants have been stalled since mid-2009. This issue was carried over into the first quarter of 2018, with open possibilities to increase the production of sulfuric acid for the new PETROKEMIJA's 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 (PETROKEMIJA's) and Ammonium Sulfonitrate (ASN). The result was a wider product range, partial revitalization of NPK-2 Plant and an additional increase of granular mineral fertilizer production.

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

7. Environmental protection

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

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

In accordance with the Decision, in 2016, some of the activities were carried out during the extensive biennial overhaul and the investment cycle was continued in 2017 (HRK 103.3 million realized investment). Environmental projects are becoming increasingly important in the legislative environment of EU, and the deadlines for completion were largely missed (31.12.2017), so in the following years Petrokemija d.d. will be forced into urgent and significant investments in this segment. In accordance with the IPPC Directive and the Decision on Integrated Environmental Protection Requirements, in order to meet all the prescribed technical and technological requirements of environmental protection, Petrokemija, d.d. must invest approx. HRK 380 million. So far, a little over a third of the total planned funds has been realized. The investment project completed at the end of 2017 at the Nitric Acid Plant 2 fully met all the requirements prescribed by the Decision on Integrated Environmental Protection Requirements.

8. Liquidity

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

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

9. Recapitalization and change in ownership structure

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

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

At its 33rd session on 27 April 2017, the Government of the Republic of Croatia adopted the Decision on exclusion from the sales of shares of companies: Hrvatski telekom d.d. Zagreb, Podravka Food Industry d.d. Koprivnica, Croatia Airlines d.d. Zagreb and Đuro Đaković Group d.d. Slavonski Brod. Petrokemija, d.d. had requested a loan of HRK 350 million from the Croatian Bank for Reconstruction and Development and the Croatian Government approved the institution of a lien on the shares of the above companies owned by the State for securing the loan repayment. Commercial banks were also 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, but also to create preconditions for the preparation and realization of the Company privatization.

With the help of financial and legal advisers, in the reporting period, Restructuring Program of the Company and the Petrokemija Group was prepared and is being implemented, which was approved by the Supervisory Board and CERP.

On 5 June 2017, upon approval of the Supervisory Board, the Management Board of Petrokemija, d.d. adopted the Decision on the Publication of Call for Indication of Interest in Recapitalization as one of the measures in preparation for the Restructuring Program and the Company privatization. By 30 June 2017, the Company received the bids of some interested investors. Potential investors' offers were presented to the Company Supervisory Board as well as to the State Property Ministry and Restructuring and Sales Center as representatives of the majority owner. In the reporting period, a comprehensive due diligence analyses of Petrokemija, d.d. and Petrokemija Group were conducted by several interested investors, bids of potential investors were collected and, at the time of the publication of these Reports, the negotiations between the majority owner and potential investors regarding the final determination of the mutual obligations and the content of the co-ownership agreement to define the future model of Petrokemija d.d. are in progress. The planned deadline for completion of the procedure was until the end of 2017 but as the majority owner has not yet made the necessary decisions, the process was carried over to the first quarter of 2018.

In the reporting period, Petrokemija, d.d. conducted recapitalization of its daughter company, Petrokemija Agro Trade d.o.o., by increasing the share capital by investing assets according to the Real Estate Value Assessment – in kind – the land of the phosphogypsum landfill and process waters neutralization pond with the corresponding facilities. This is one of the activities directly related to the procedure of recapitalization and selection of a strategic partner, and is also mentioned in the CERP document that has approved the Restructuring Program.

At the General Meeting of 11 October 2017, the Company adopted the decision on reduction of the share capital from HRK 386,135,400.00 by HRK 343,231,470.00 to the amount of HRK 42,903,930.00, by reducing the individual nominal value of PTKM-RA ordinary share from HRK 30.00 to HRK 3.333, with at the same time merging ordinary shares at the 3:1 merger ratio, in such a way that 3 (three) ordinary shares of a single nominal amount of 3.333 HRK will be merged into 1 (one) ordinary share, ticker PTKM-RA, of HRK 10.00 nominal value.

Extraordinary General Meeting of 11 December 2017 adopted a Decision on the increase of the Company registered capital. The subscription of the New Shares will be conducted through the procedure of public offering by subscription and payment in one round. All interested investors will have the right to subscribe for a maximum of 45,000,000 New Shares, or up to HRK 450,000,000 of share capital.

10. Financial risks in the subsequent period

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

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

The exposure of Petrokemija, d.d. to developments in the global market opens up significant potential risks in terms of price and financial fluctuations in 2018. Effective risk management of natural gas price growth (contracted price is in EUR, although purchasing is done on the domestic market) and risk of USD and EUR exchange rate changes in the procurement of other imported raw materials is limited by the lack of own working capital (negative working capital of HRK -293 million, whereas on 31 December 2016 it was HRK -278 million) and by the lack of support of financial institutions in financing working capital and investments.

In its production process, Petrokemija inevitably emits a certain amount of greenhouse gases for whose emission it allocates significant funds, which, depending on the price of ETS units in the open market, amount to about HRK 20 to 25 million annually. Due to limited funding sources, the Company is cannot purchase ETS units at the best time, which significantly increases the risk of higher cost of greenhouse gas emission fees depending on the price

movement of ETS units in the open market. This was the case in 2017 and it also contributed to an increase in losses.

The most important issue of current operating business – the debt to natural gas suppliers – at the time of the preparation of this report has partly been resolved through long-term loans from HBOR and HPB and a short-term one from ERSTE Bank, whereby a part of the long-term sources of financing working capital and the continuation of activities in restructuring the business was secured. However, the challenges of maintaining financial and operational stability are still present. Out of the HRK 350 million loan, Erste Bank's HRK 100 million is a bridge short-term loan that should have been fully repaid by the end of 2017 from recapitalization funds. At the end of December, the Annex to the Agreement was signed with a new maturity date, the end of the first quarter of 2018, by when the recapitalization process is expected to be completed.

Due to the Company's insufficient liquidity, advance payments are used in the sales of mineral fertilizers, which, due to the economic exhaustion of Croatian agriculture results in lower demand and therefore a poorer market position of Petrokemija, d.d. in the Republic of Croatia. The market and financial results for 2017 as well as the assessment of market position at the time of the preparation of these financial statements (in particular in terms of uncertain domestic sales and the comparatively low prices of mineral fertilizers on the open market, threatened liquidity and solvency of the Company), call for caution in predicting future trends in business in 2018, with the possibility of occasional shutdowns of part of the facilities and changes in the organization of the Company and Petrokemija Group. The unsteady natural gas prices on the European spot market actualize the issue of the imbalance between the purchase price of natural gas and the price of nitrogen mineral fertilizers on the global market (Urea and CAN). In September and October there was a rise in Urea and CAN prices in the world market, and in December and January 2018, again a sharp fall, causing constant uncertainty in the estimates of financial results, as the duration of a positive or negative trend is hard to predict.

The decisions of the majority owner about the future model of support and their attitude towards the Company will significantly influence the reduction of the risk of maintaining business continuity in the future period, either by finding a strategic partner, recapitalization, or another model of financing the Company that would provide for the realization of the planned restructuring and financial consolidation activities in the period 2018 to 2027.