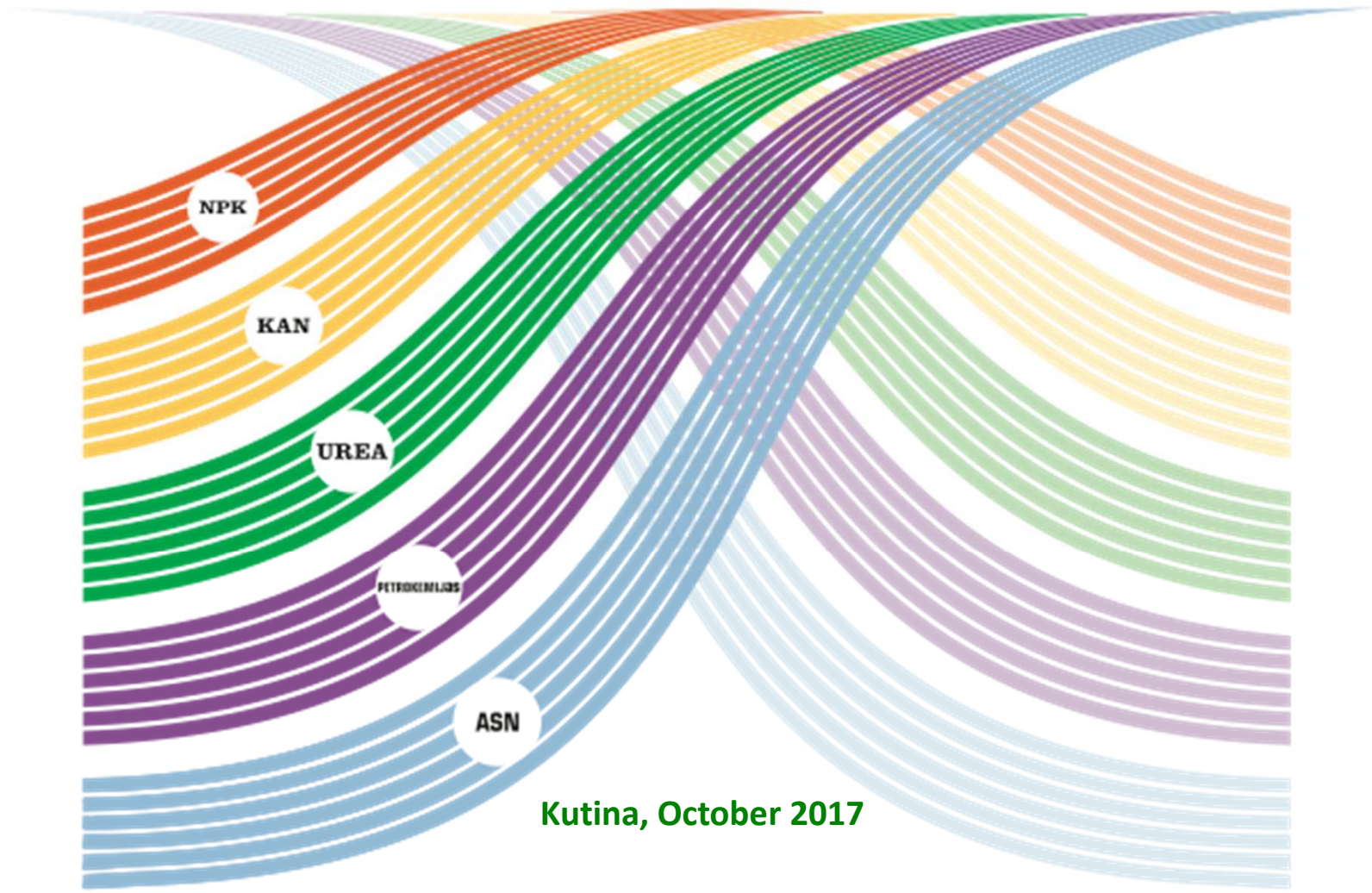


UNAUDITED
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QUARTERLY REPORT PETROKEMIJA GROUP KUTINA

REPORT FOR PERIOD January to September 2017
INTERIM REPORT FOR PERIOD July to September 2017



Kutina, October 2017

Introduction

In the reporting period January – September 2017, the business environment of Petrokemija, d.d. was marked by two key occurrences - the fall in sales prices of mineral fertilizers and 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 the first three quarters of this year, Petrokemija, d.d. increased production by 15.8% and sales of mineral fertilizers by 12.1%, compared with the same period last year. The sales in the domestic market were up by 4.7%, the sales in the region, with extra efforts, were up by 24.0%, whereas the sales to the distant markets, despite strong competition of large manufacturers, were up by 6.8%.

In the three quarters of 2017, Petrokemija 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, particularly in the third quarter, high sales at 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 to prevent NO_x emissions in line with Euro 5 and 6 standard requirements. 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 neighboring 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 up to 30 to 40% 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 8.2% of total revenues.

The most significant negative factor in the loss is the high purchase price of natural gas, which is for Petrokemija d.d. about 20% higher than the competition, partly because of the conditions 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

Introduction (cont)

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 a favorable location, well-maintained production and logistics systems, to skilled workforce.

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

In the reporting period, a due diligence analyses of the Company were carried out by potentially interested investors and at the time of the publication of this report, bids from potential investors are expected, followed by the start of final negotiations with the majority owner. After the completion of the privatization process of the Company, it is expected that the State (i.e. CERP) will remain in the position of one of the shareholders, but without a dominant position in the structure of ownership and management rights.

Key indicators for Petrokemija Group for January – September 2017

- ❑ Actual total revenues of Petrokemija Group HRK 1,462.3 million, 1.3% up on the same period of 2016,
- ❑ Loss in business operations – HRK 97.7 million, loss in financial operations – HRK 20.9 million, total loss – HRK 118.6 million,
- ❑ Earnings before interest, taxes, depreciation and amortization (EBITDA) – HRK -26.4 million (negative),
- ❑ Actual production of fertilizers – 862 thousand tons, 15.8% more than in the same period of 2016,
- ❑ Compared to the same period of 2016, production of NPK fertilizers increased by 16.4 %, production of Urea increased by 29.4 %, while the production of CAN was 3.9 % higher,
- ❑ Yield of currently installed plant capacities – 89.8 %, despite three unplanned plant stoppages,
- ❑ Actual sales of fertilizers – 855 thousand tons, 12.1 % higher volume sales compared to the same period last year,
- ❑ Share of fertilizer sales in the domestic market – 22.4 %,
- ❑ Domestic sales – 191.2 thousand tons, exports – 663.8 thousand tons of fertilizers,
- ❑ Capital and reserves on 30.09.2017 for Petrokemija Group – HRK 71.2 million (negative),
- ❑ Invested in Petrokemija, d.d. – HRK 70.8 million,
- ❑ Employed on 30.09.2017: Petrokemija, d.d. – 1,573; Petrokemija Group – 1,711.

Management Board Report on the Petrokemija Group for January – September 2017

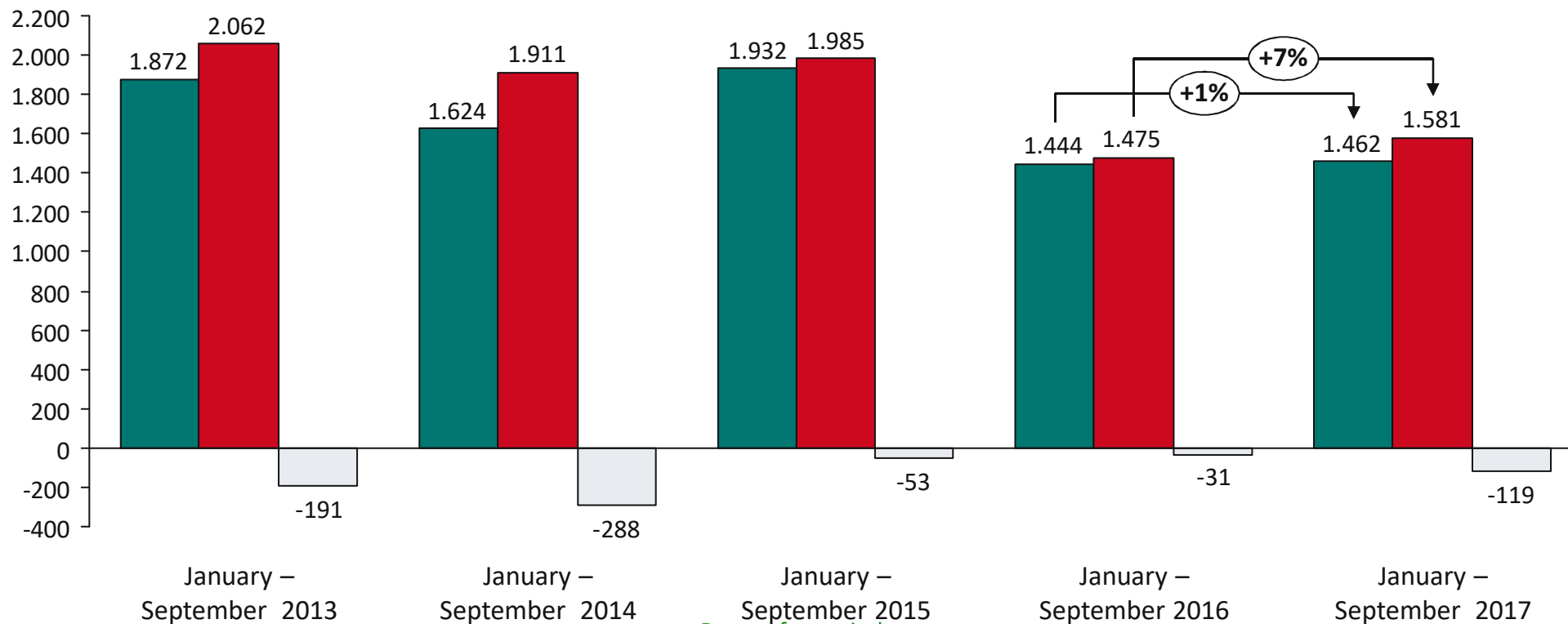
- ❑ In January – September 2017, Petrokemija Group had total income of HRK 1,462.3 million and total expense of HRK 1,580.9 million. The Company reported loss of HRK 118.6 million or 8.1% of the total revenues,
- ❑ Higher sales volumes by 12.1 % and lower average sales prices by 9.4 % compared to the same period 2016,
- ❑ In the structure of income of Petrokemija d.d., domestic sales were 25.8 % or HRK 374.6 million, 8.0 % down on the same period 2016, while export accounted for 70.5 % or HRK 1,022.5 million, 6.1 % up on the same period 2016
- ❑ In assortment, compared to the same period 2016, higher sales in 2017 of Urea by 24.5 %, in CAN mineral fertilizers group (CAN+AN+UAN+AS/ASN) by 1.8% and in NPK fertilizer sales by 9.0%,
- ❑ Domestic sales – 4.7% higher in volume than in the same period 2016,
- ❑ Export sales volumes – 14.5% higher than in the same period 2016.
- ❑ Average realized natural gas price (without transport costs) was 10.7 % higher in HRK compared to the same period 2016 and 12.4 % higher in USD; average transport costs of natural gas were 25% lower, which includes a reduction of transport costs (about 20% from 1.4.2017), according to the new tariff,
- ❑ Liquidity indicators are below recommended value, but improved compared to the previous business year (on 30.09.2017, negative working capital was HRK **-252** million; on 31.12.2016 it was HRK **-278** million),
- ❑ Short-term assets decreased by 6.7 % compared to end 2016, and short-term liabilities decreased by 7.4 %,
- ❑ Indicator of financial stability as well as indicators of indebtedness and own funding are below recommended values,
- ❑ On 30.9.2017. capital and reserves of Petrokemija Group amounted to HRK -71.2 million, the level of the current period losses and those transferred from the previous period was higher than the subscribed capital, which indicates the necessity of urgent recapitalization because the continuation of the business is at stake.

Profit and Loss of Petrokemija Group for January – September 2013 – 2017

■	Total income	HRK 1,462.3 million,
■	Total expense	HRK 1,580.9 million,
■	Loss before taxation	HRK -118,6 million,
■	EBITDA	HRK -26,4 million.

■ TOTAL INCOME
■ TOTAL EXPENSE
■ PROFIT / LOSS

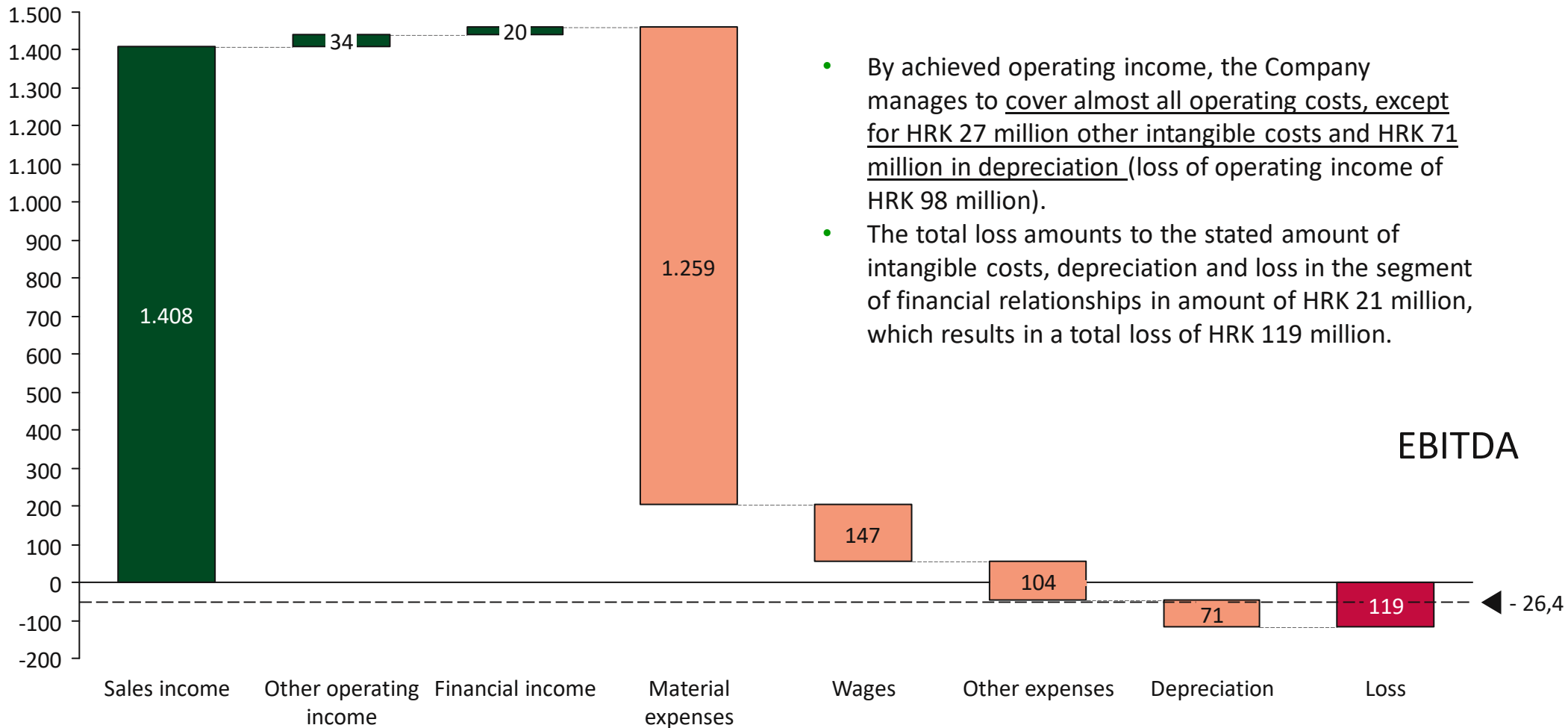
HRK million



Report for period
January – September 2017

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

HRK million



- By achieved operating income, the Company manages to cover almost all operating costs, except for HRK 27 million other intangible costs and HRK 71 million in depreciation (loss of operating income of HRK 98 million).
- The total loss amounts to the stated amount of intangible costs, depreciation and loss in the segment of financial relationships in amount of HRK 21 million, which results in a total loss of HRK 119 million.

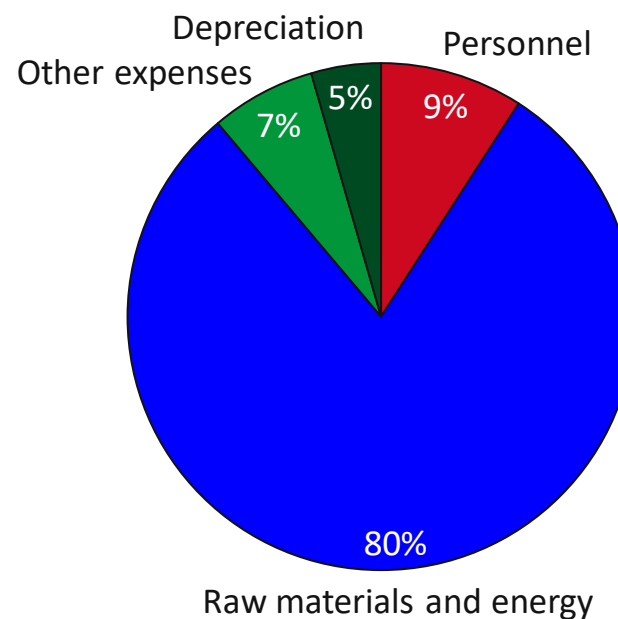
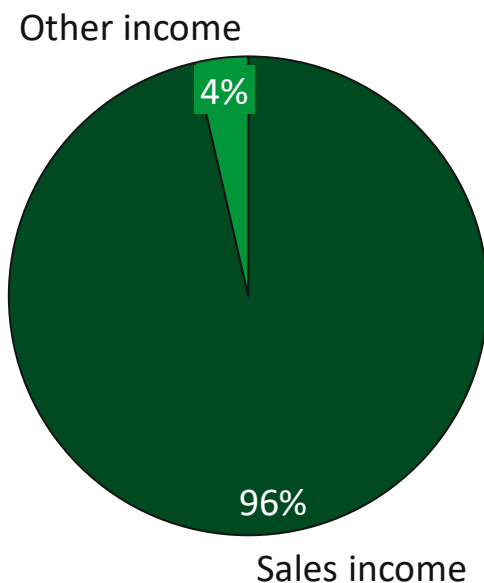
Actual financial results of subsidiaries in period January – September 2017

- In the period January to September 2017 Petrokemija, Ltd. Novi Sad and Luka Šibenik, Ltd. make profit while Petrokemija Agro Trade, Ltd. did not have any transaction.

	(HRK 000)		
<i>Description</i>	<i>Petrokemija Novi Sad Ltd.</i>	<i>Luka Šibenik Ltd</i>	<i>Petrokemija Agro Trade Ltd</i>
1	2	3	4
TOTAL INCOME	37.627	18.001	0
TOTAL EXPENSES	37.435	17.304	2
<i>Therein:</i>			
<i>Material costs</i>	36.591	4.496	0
<i>Depreciation</i>	9	697	0
<i>Wages</i>	436	8.919	0
<i>Other costs</i>	399	3.192	2
PROFIT OR LOSS BEFORE TAXATION	192	697	-2

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

- In January – September 2017 period, Petrokemija d.d. earned 26% income from domestic market, 70% from export, and 4% from financial and other income. Out of total, 96% of Petrokemija Group income is from sales of products and services and 4% is from other income.
- The total expense breakdown of Petrokemija Group shows a dominant 80% for raw materials and energy, 9% for personnel costs, while all other costs make 11%.



Key financial indicators Petrokemija Group for January – September 2017

(HRK 000)

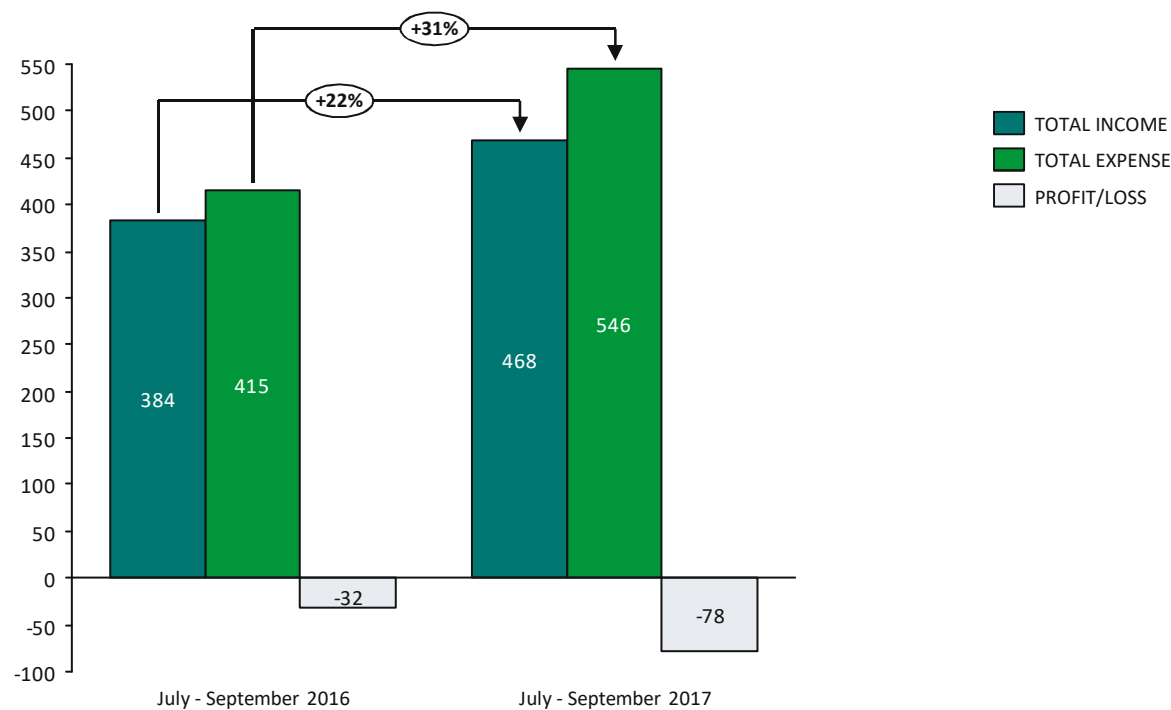
	January – September 2017.	January – September 2016.	Difference	% change
Operating income	1.442.593	1.437.357	5.236	0,36%
Operating expense	1.540.316	1.448.517	91.799	6,34%
EBITDA *	-26.384	50.436	-76.820	-152,31%
Amortization	71.348	61.596	9.752	15,83%
Net financial income/ (expenses)	-20.870	-19.677	-1.193	6,06%
Net financial income/ (expenses)	0	0		
Profit / loss / before taxation	-118.592	-30.837	-87.755	284,58%
	30 September 2017	31 December 2016		
Fixed assets	690.935	685.494	5.441	0,79%
Current assets	503.163	539.215	-36.052	-6,69%
Capital and reserves	-71.193	45.530	-116.723	-256,37%
Long-term liabilities + provisions	524.299	378.696	145.603	38,45%
Current liabilities + provisions	740.992	800.483	-59.491	-7,43%

* Earnings before interest, taxes, depreciation and amortization

Operating results Petrokemija Group July - September 2017

- In June to September 2017 period, Petrokemija Group had actual total revenues of HRK 468 million, total expenses of HRK 546 million and reported operating loss of HRK 78 million.
- On a quarterly basis, total revenues increased by 22% compared to the third quarter of 2016, while total expenses increased by 31%.

HRK million



Key financial indicators Petrokemija Group for July – September 2017

(HRK 000)

	January – June 2017	July – September 2017	January - September 2017
Operating income	960.337	482.256	1.442.593
Operating expense	1.012.722	527.594	1.540.316
EBITDA *	-4.337	-22.037	-26.374
Amortization	48.047	23.301	71.348
Net financial income/ (expenses)	11.315	-32.185	-20.870
Net financial income/ (expenses)	0	0	0
Profit / loss / before taxation	-41.069	-77.523	-118.592

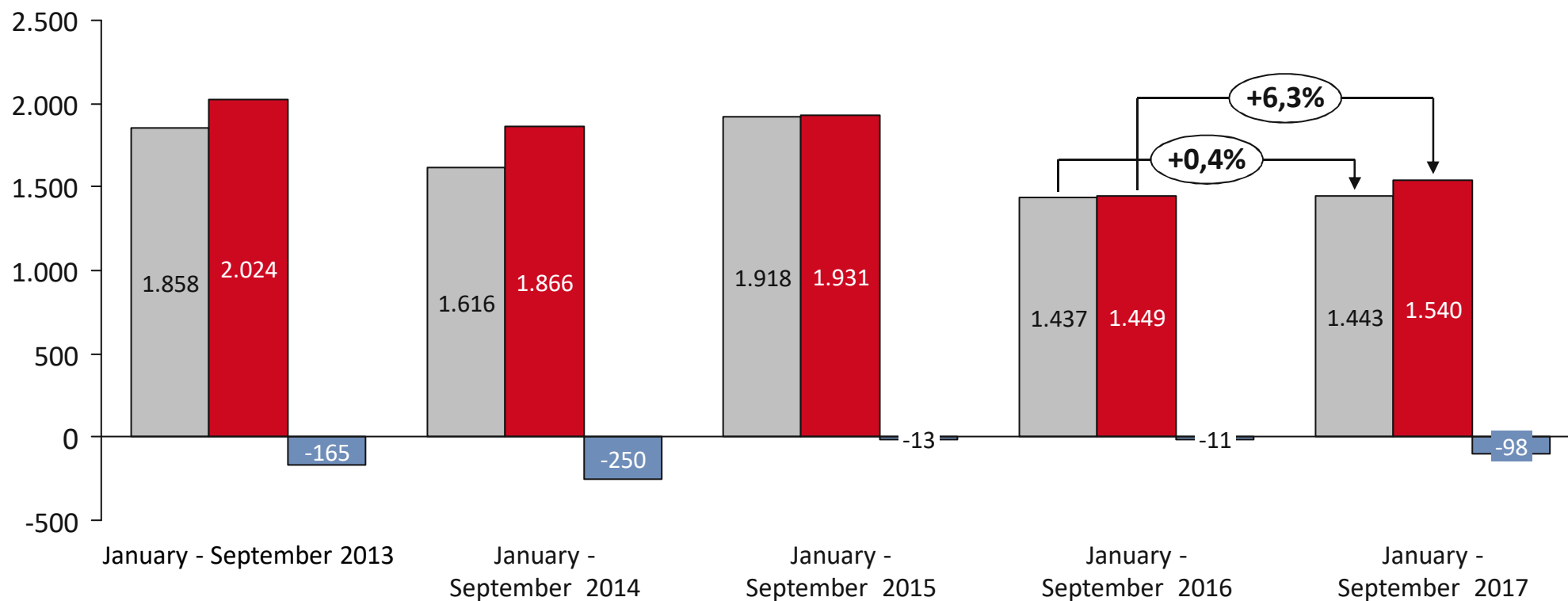
- In the third quarter of 2017, a loss of HRK 77.5 million was realized.
- The EBITDA amounted to HRK -22 million.

* Earnings before interest, taxes, depreciation and amortization

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

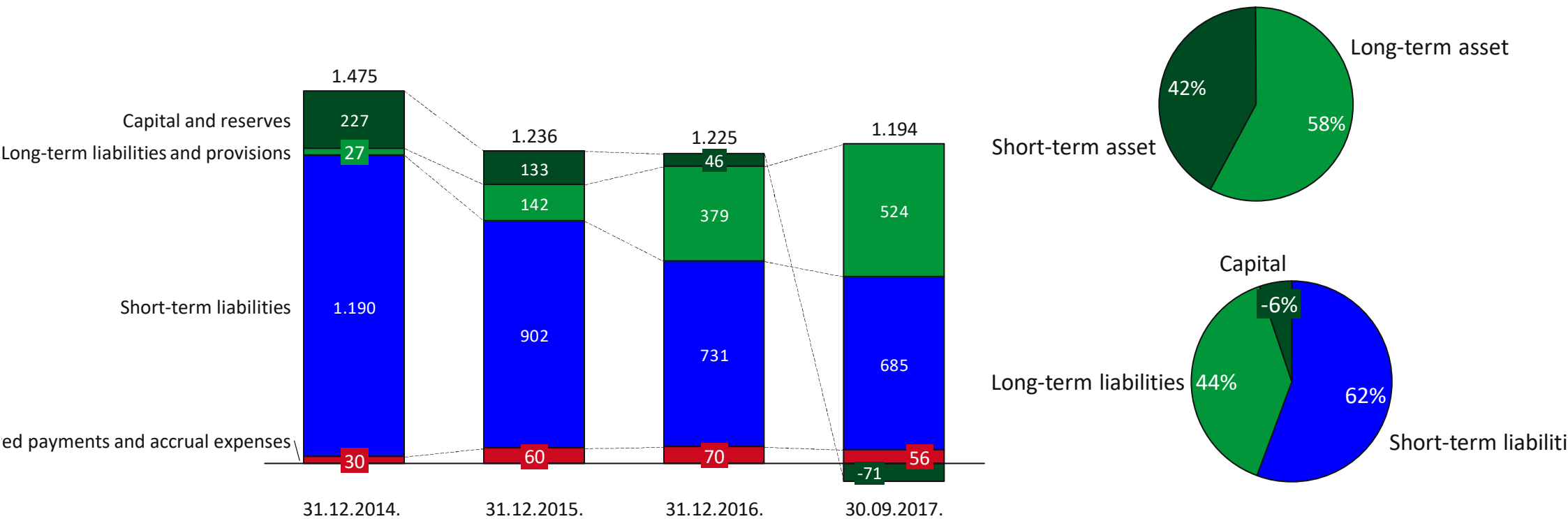
HRK million

OPERATING INCOME
 OPERATING EXPENSES
 PROFIT/LOSS FROM OPERATING ACTIVITIES



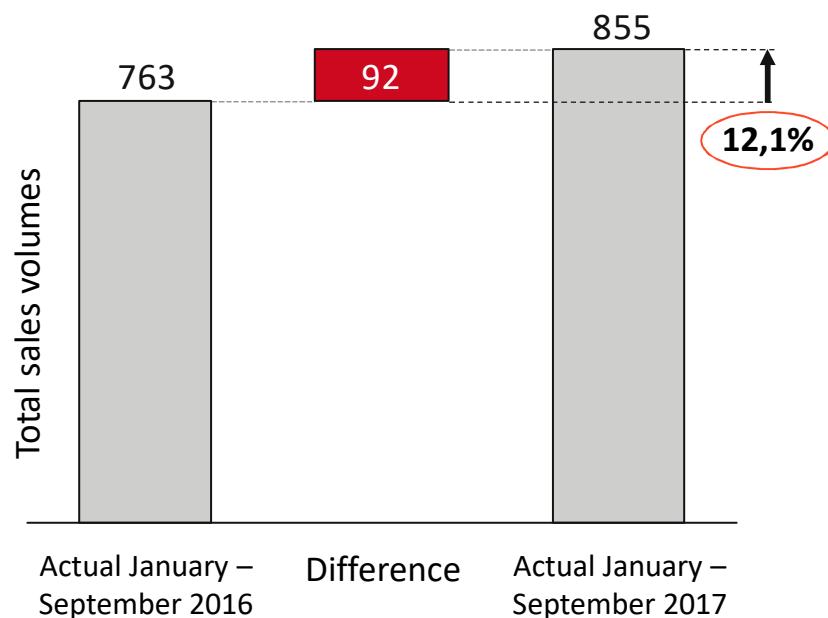
Structure of assets and liabilities of Petrokemija Group at 30 September 2017

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

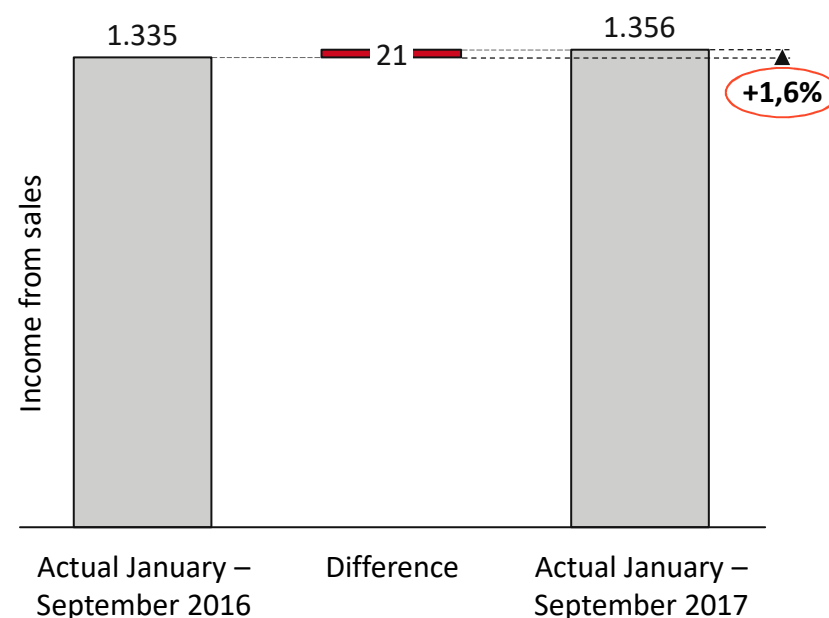


Total mineral fertilizer sales

SALES VOLUMES (000 t)
2017 / 2016



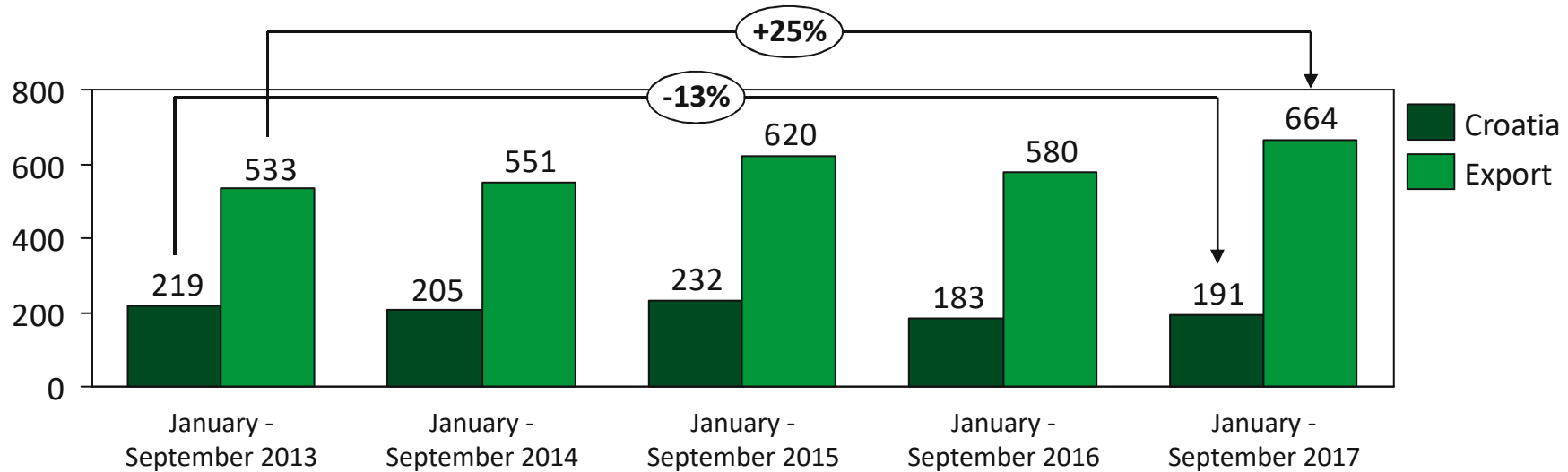
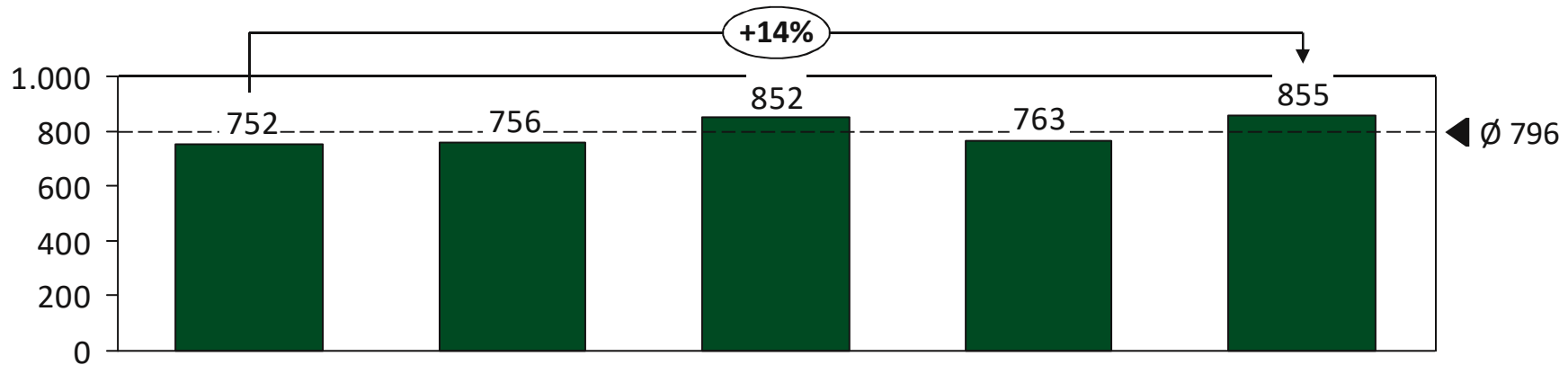
INCOME FROM SALES (mln HRK)
2017 / 2016



Actual growth in mineral fertilizer sales volumes of 12.1% and increase in income from fertilizer sales of 1.6%, which indicates a significant fall in average selling prices of 9.4% compared to the same period 2016.

Actual mineral fertilizer sales January – September 2013 – 2017

total sales (000 tons)



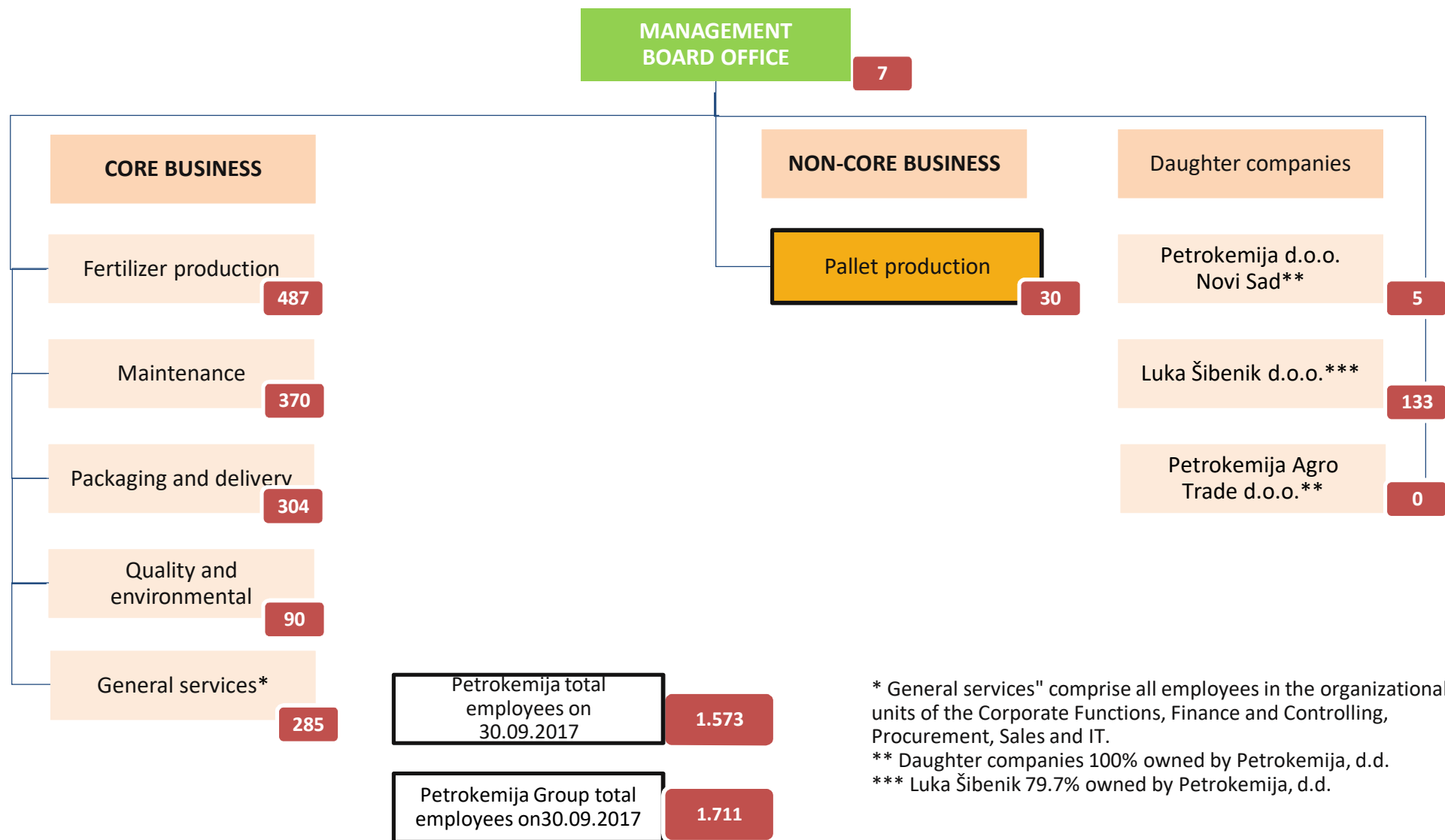
Business Results of Petrokemija Group for January – September 2017

- ❑ 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 – September 2017 are as follows:

❑ Total revenues	HRK 1,462.3 million,
❑ Total expenses	HRK 1,580.9 million,
❑ Loss before tax	HRK 118.6 million,
❑ Profit tax	HRK 0.01 million,
❑ Loss after tax	HRK 118.6 million,

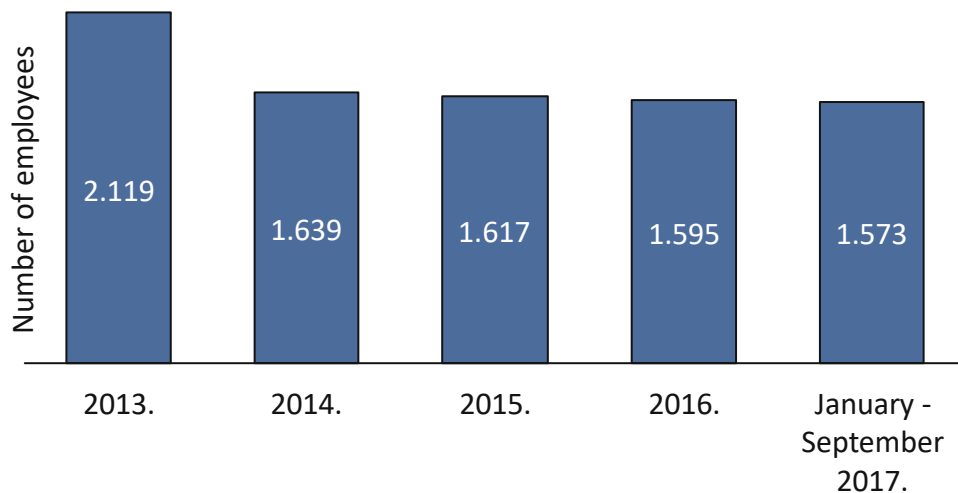
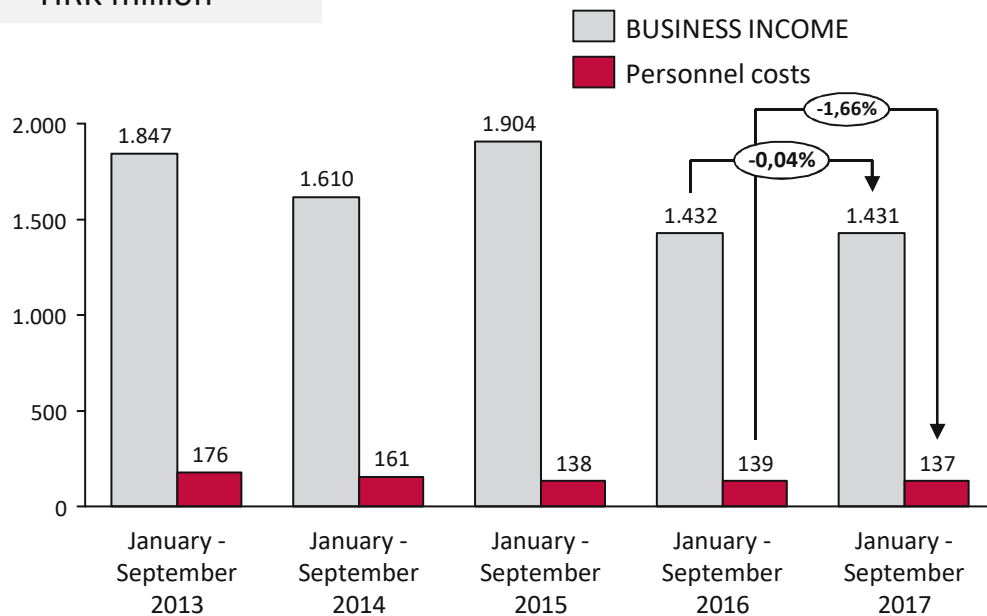
- ❑ EBITDA (earnings before interest, taxes and depreciation) was HRK 26.4 million in the negative.
- ❑ Petrokemija, d.o.o. Novi Sad made profit of HRK 181 thousand, while Luka Šibenik, d.o.o. reported profit of HRK 697 thousand
- ❑ Petrokemija Agro Trade, d.o.o. did not have any transactions. In September 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



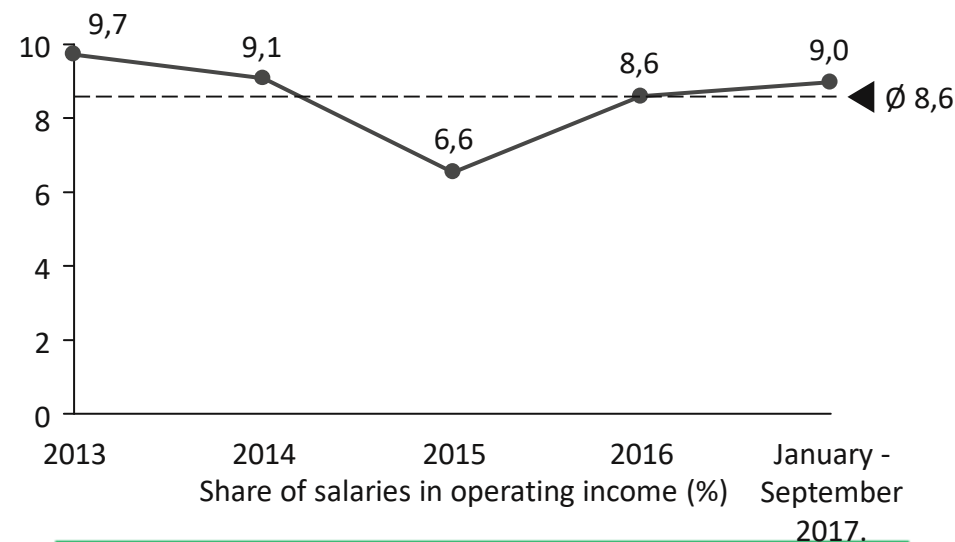
Operational income, personnel costs and number of employees

HRK million



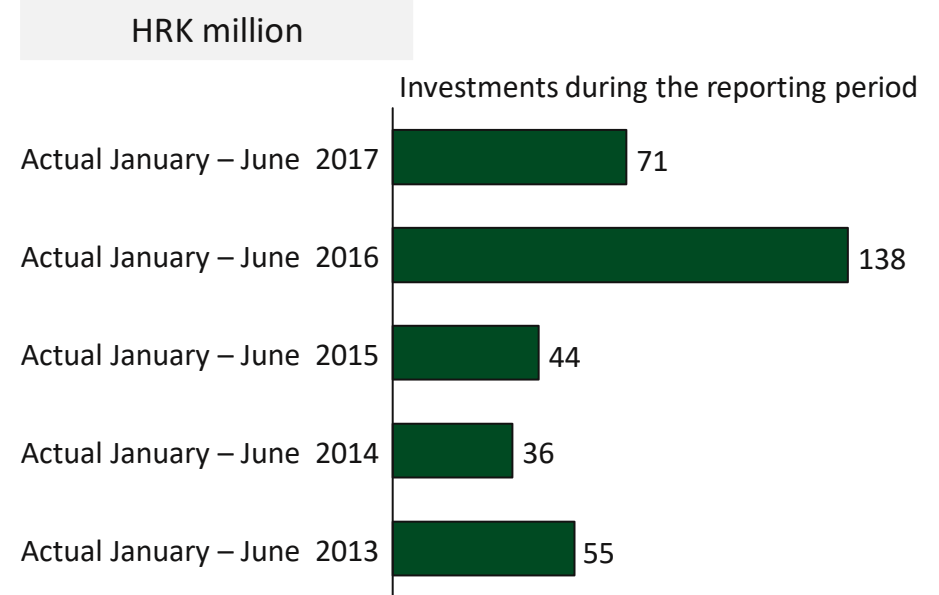
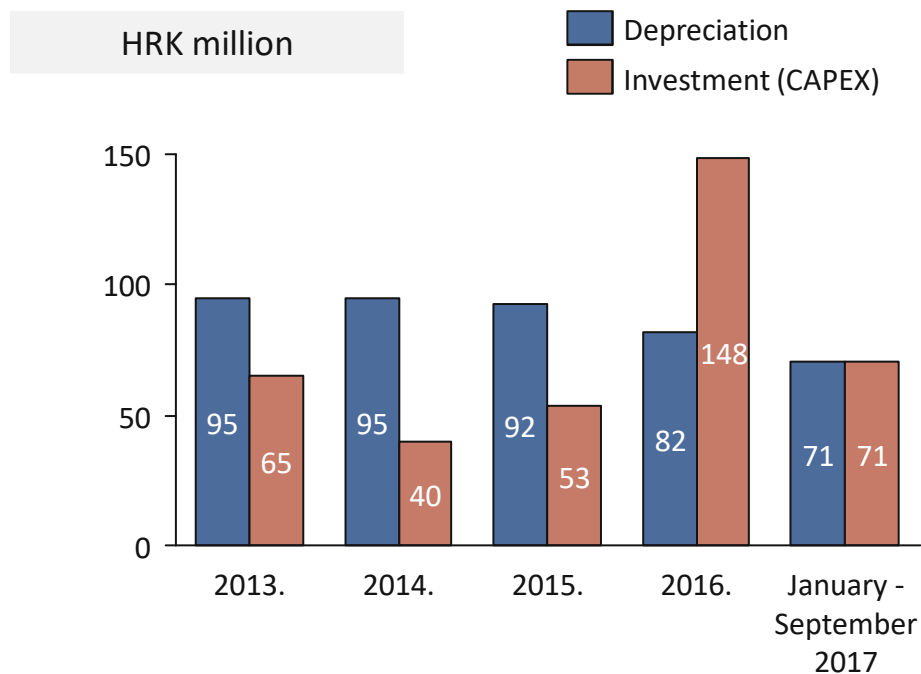
As at 30.09.2017, Petrokemija, d.d. had 1.573 employees, and daughter companies - members of Petrokemija Group - had 138 employees, which is a total of 1,711 employees.

Personnel costs share in operating revenues was 9.0%, more than the average in the last five years (8.6%) due to the decline in business income.

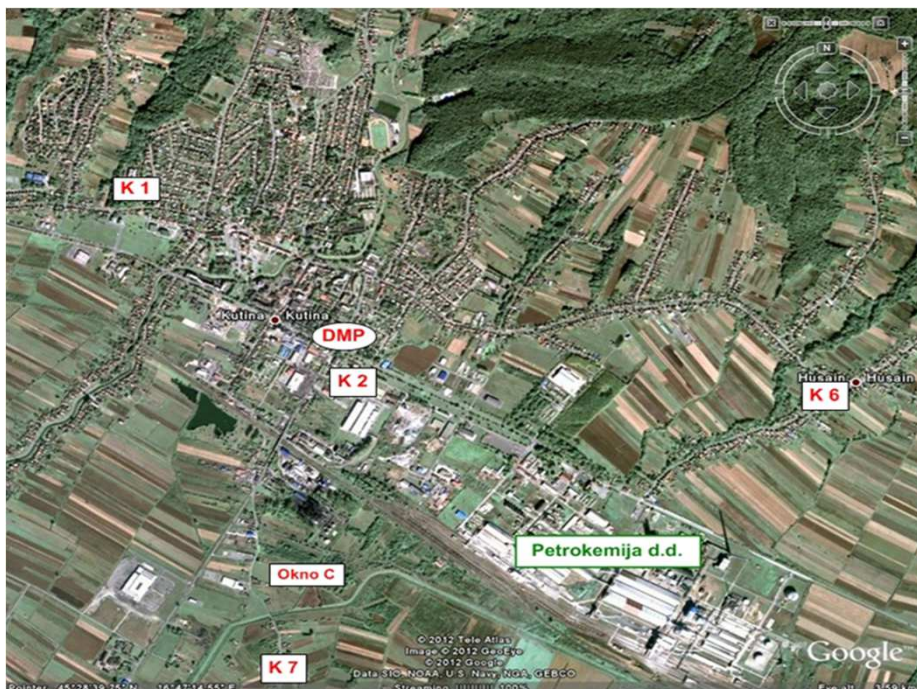


Realized investment

- Investment realized in reporting period 2017 amounted to HRK 70.8 million. The most significant technology investment of HRK 25 million relates to investing in NPK - 2 plant for safe and continuous production of two new granulated AS / ASN products, and HRK 7.5 million was invested in the investment for the production of the new PetroBlue / AdBlue product.
- Out of this amount, HRK 11.5 million relates to the purchase of a crane in Luka Šibenik.
- The planned level of investment of HRK 75 million will probably be realized, despite limited funding options, which is necessary from the point of view of meeting the conditions of the Environmental Permit and deadlines for execution of certain investment projects that are significantly delayed and will not be able to end within 31 December 2017. years.



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

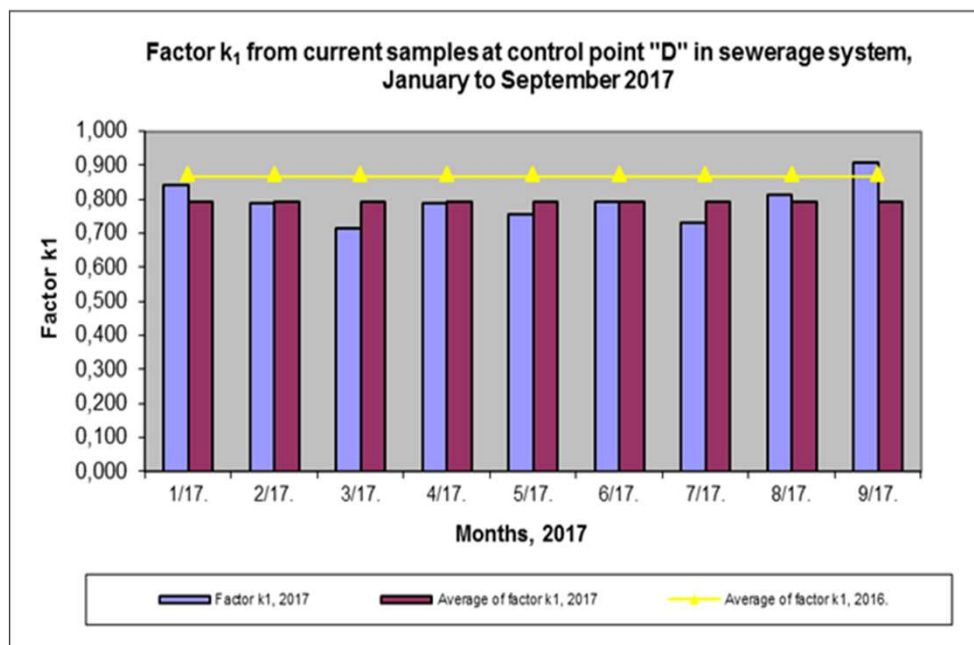


Clean or slightly polluted air	Polluted air	Pollutants
1 st category C<LV	2 nd category C>LV	
K2,DMP		Sulphur dioxide (SO ₂)
K1,K2,K6,K7		sediment
K1,K6,K7,DMP	K1, K2	Ammonia (NH ₃)
K2,DMP		Nitrogen dioxide (NO ₂)
DMP		Hydrogen sulphide (H ₂ S)
DMP		PM10

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

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

Monitoring station	<i>The number of limit value (LV) exceedances in the <u>January to September 2017 period</u> / permitted exceedance number</i>
K 1 - Dom zdravlja	8 / 7
K 2 - Vatrogasni dom	14 / 7
K 6 - Husain	6 / 7
K 7 - Krč	3 / 7
TOTAL	31



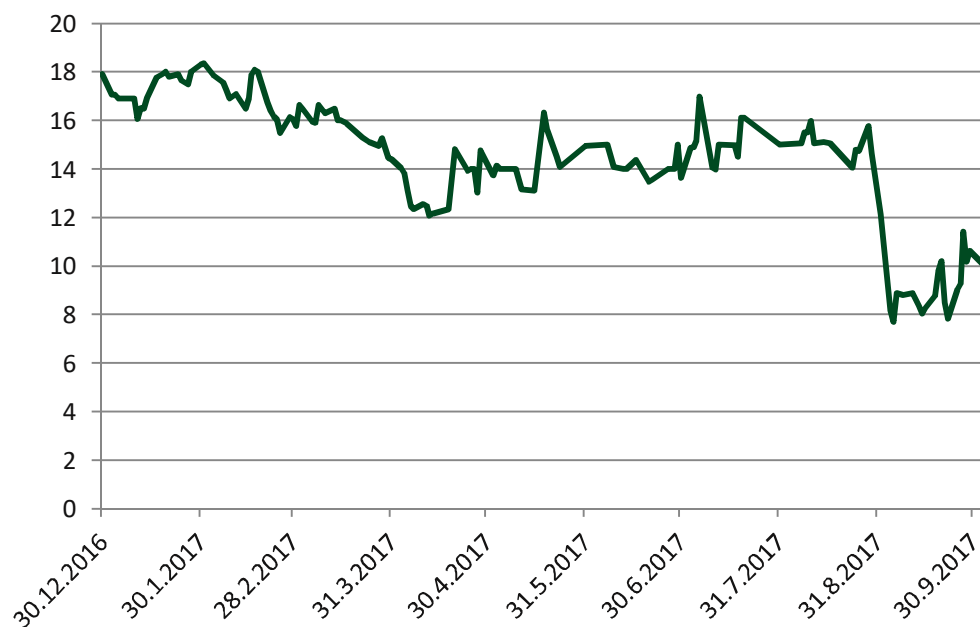
Water management - In the period from January to September 2017, the average value of k_1 factor is slightly lower than average value in the same period of 2016. In the period from January to September 2017, monthly average consumption of raw water is higher than average value in the same period of 2016.

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

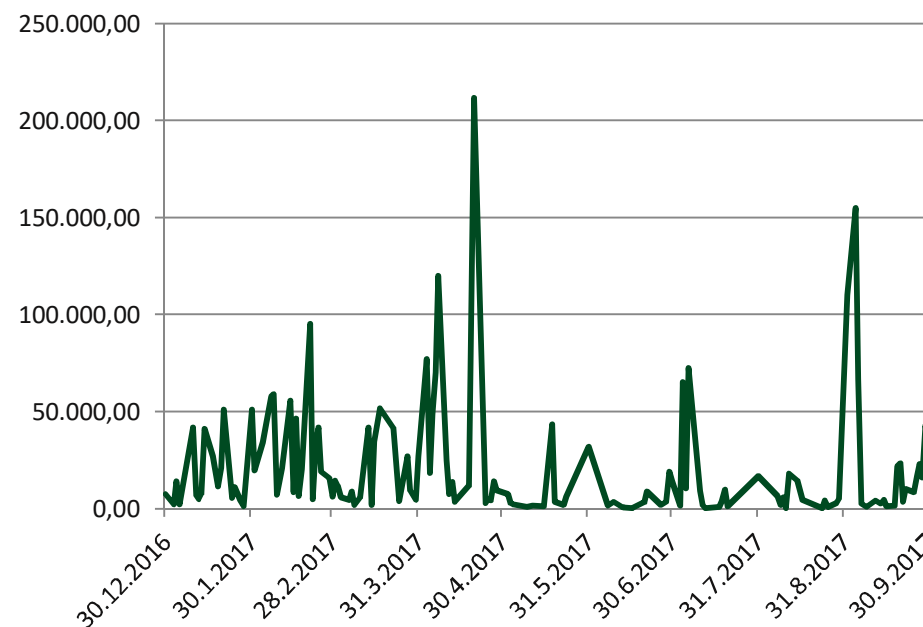
- ❑ At the meeting of 06.02.2017, Mijo Šepak was elected President of the Supervisory Board.
- ❑ At its meeting of 6 February 2017, the Supervisory Board passed a decision establishing the mandate termination as on that day of the President of the Management Board Nenad Zečević and members of the Board Antonija Perošević Galović, Tamara Pernar and Vladimir Fresl. The Supervisory Board appointed Đuro Popijač from Zagreb as President and Nenad Zečević member of the Management Board. The mandate of the appointed members of the Board began on 7 February 2017 and runs until 6 February 2021.
- ❑ At the Extraordinary General Meeting held on March 23, 2017, a decision was made to appoint Robert Blažinović member of the Supervisory Board for a term of 4 years.
- ❑ At the meeting on 25 May 2017, the Supervisory Board of Petrokemija d.d. made a decision on appointing Davor Žmegač MSc from Kutina a member of the Management Board. His mandate as a Management Board member starts to run on 29.5.2017 and lasts four years. Since 29 May 2017, the Board of Petrokemija d.d. acts as a three-tiered management consisting of: Đuro Popijač MSc - Managing Director, Nenad Zečević BSc - Member of the Board and Davor Žmegač MSc - Member of the Board.
- ❑ On December 30, 2016, the average value of the share was HRK 17.90, and on September 29, 2017 HRK 10.62 (down 40.66%).
- ❑ After the reporting period, 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-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. 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, ie with the 4,290,393 regular shares of PTKM-RA for which the settlement was made in the CDCC, on October 26, 2017.

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

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



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



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 20 million positive effect on the financial result of Petrokemija on an annual basis..
- ❑ Pursuant to the Decision of Commercial Court in Zagreb, (No. Tt-16 / 45722-2 of 2 January 2017) on the merger of a daughter company, the entry was made of the merger of the company Restoran Petrokemija, d.o.o. for Catering, Kutina Aleja Vukovar 4, and Petrokemija, Plc. Fertilizer Company, based in Kutina, Aleja Vukovar 4, in the registration insert with company number 080004355, OIB 24503685008.
- ❑ 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.
- ❑ During 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 Waters - 2, Energy and Pump Station Packages 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.



PETROKEMIJA
KUTINA

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. 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.
- ❑ Following the decision of the Government of Croatia on securing loan repayment of 27 April 2017, Petrokemija d.d. has signed long-term loan agreements with the Croatian Bank for Reconstruction and Development and the Croatian Postal Bank d.d., as well as a short-term financing agreement with Erste & Steiermarkische Bank d.d. in the total amount of HRK 350 million. The loan was used to secure the stability of Petrokemija's operations and to maintain business processes.
- ❑ On 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;

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 Center for Restructuring and Sales (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. on the basis of prior consent of Supervisory Board, issued a Decision on the publication of a modification of the deadline for delivery of the Letter of Intent, so the deadline for delivery of the Letter of Intent by 30 June 2017 was extended accordingly. After the period from 5 to 30 June 2017, in which all interested investors could express an 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 procedures.
- ❑ At its session held on July 5, 2017, Supervisory Board of Petrokemija d.d., gave its consent to the Management Board of Petrokemija d.d. for due diligence process of the Company and to open 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.

Implementation of the Restructuring Program in 2017 (cont)

- ❑ As part of the potential investors requested the extension of the deadlines for the due diligence analysis process, the Management Board, with the prior approval of Supervisory Board, issued a Decision on disclosure of a prolongation of Petrokemija's due diligence procedure until 31 August 2017 and on 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 Petrokemija Restructuring Program d.d. – Concretization of the proposal of the restructuring concept by recapitalization with the private investor by September 22, 2017. Following 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 notice of extension of the bidding deadline. Potential investors' offers were submitted to the Center for Restructuring and Sale 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 an additional due diligence analysis in the period from 4 to 23 October 2017.
- ❑ Based on the above, it can be concluded that in the reporting period an extensive due diligence analysis of Petrokemija d.d. and Petrokemija Group was conducted by several interested investors, and at the time of the publication of these Reports, bids of potential investors are expected upon which final negotiations with the majority owner will get started.

Significant financial risks in 2017

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

- ❑ Petrokemija d.d. is highly dependent on the movements of fertilizers and their raw materials prices in the global market, the exchange rate of the HRK against USD and EUR and their interrelationship;
- ❑ Natural gas as the most important raw material is still procured on the domestic market, according to contracts concluded with two suppliers – INA, d.d. Zagreb and Prvo plinarsko društvo d.o.o Vukovar. The price of natural gas in 2017 is linked to the EUR exchange rate and to the movement of natural gas prices on the European spot market. Reduction in the cost of transport of natural gas by about 20% should continue to have a positive effect on the financial result in 2017;
- ❑ The sales prices of fertilizers in the global market are still very low, although at times changing (short-term also influenced by cyclical and seasonal changes), and the price of nitrogen fertilizer Urea has been at a very low level for a long time now (approx. USD 190/ton fob Yuzhny in June 2017); and at the time of preparation of these Reports it increased by about 30%. However, the timing of this trend is uncertain so in the situation of a more pronounced increase in natural gas prices on the European spot market, the profitability of production can be questioned again;
- ❑ 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.



PETROKEMIJA
KUTINA

Significant financial risks in 2017 (cont)

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

Statement of management liability

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

Statement on Management Liability

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

Financial reports for the **January 1 to September 30, 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

Member of the Board:
Nenad Zečević, BE



Attachments:

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

Attachment 1.

Reported period:

01.01.2017.

to

30.09.2017.

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: 1.711
(at the end of the year)

Consolidated Report: YES

Code of NKD: 20.15

Entities in consolidation (according to IFRS):

Registered seat:

Registration number (MB):

PETROKEMIJA d.o.o.

NOVI SAD

08754608

LUKA ŠIBENIK d.o.o.

ŠIBENIK

03037525

PETROKEMIJA AGRO TRADE d.o.o.

KUTINA

4424085

Book-keeping office:

Contact person: MARINA MARIĆ

(name and surname of the contact person)

Telephone number: 044-647-829

Fax: 044-682-795

E-mail: marina.maric@petrokemija.hr

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

(authorized representatives)

Documentation to be published:

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

(seal)

(signature of authorized representative)

BALANCE SHEET
as at 30.09.2017.

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	690.935.284
I. INTANGIBLE ASSETS (004 do 009)	003	8.023.084	7.806.003
1. Expense for development	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	4.487.689	3.445.932
3. Goodwill	006		
4. Advances for intangible assets	007		
5. Intangible assets in progress	008	3.535.395	4.360.071
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 do 019)	010	677.172.585	680.104.815
1. Land	011	48.506.703	48.711.236
2. Buildings	012	224.445.550	210.209.777
3. Plant and equipment	013	349.873.487	326.144.725
4. Tools, plant inventory and transportation assets	014	16.734.517	14.825.100
5. Biological assets	015		
6. Advances for tangible assets	016	99.731	4.290.595
7. Tangible assets in progress	017	36.330.588	74.825.972
8. Other tangible assets	018	1.182.009	1.097.410
9. Investments in real estates	019		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	020	7.537	7.537
1. Investments (shares) in related companies	021		
2. Loans given to related companies	022		
3. Participating interest (shares)	023	7.537	7.537
4. Loans given to companies with participating interest	024		
5. Investment in securities	025		
6. Loans given, deposits and similar assets	026		
7. Other long-term financial assets	027		
8. Investments accounted for using the equity method	028		
IV. TRADE RECEIVABLES (030 do 032)	029	147.582	2.873.934
1. Receivables from related companies	030		
2. Receivables for sales on loan	031		
3. Other receivables	032	147.582	2.873.934
V. DEFERRED TAX ASSETS	033	142.995	142.995
C) SHORT-TERM ASSETS (035+043+050+058)	034	538.923.822	502.041.665
I. INVENTORIES (036 do 042)	035	401.673.944	356.666.383
1. Raw and other material	036	205.011.823	197.822.176
2. Work in progress	037	20.229.445	21.997.559
3. Finished products	038	164.942.675	133.791.281
4. Merchandise inventory	039	863.873	613.735
5. Advances for inventories	040	10.626.128	2.441.632
6. Long-term assets intended for sale	041		
7. Biological assets	042		
II. TRADE RECEIVABLES (044 do 049)	043	79.156.010	65.217.879
1. Receivables from related companies	044		
2. Receivables from customers (buyers)	045	18.046.686	9.719.673
3. Receivables from participating interest	046		
4. Receivables from employees and members	047	6.931	4.045
5. Receivables from state and other institutions	048	35.586.861	54.649.510
6. Other receivables	049	25.515.532	844.651
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	33.632.160	55.248.593
1. Investments (shares) in related companies	051		
2. Loans given to related companies	052		
3. Participating interest (shares)	053	32.620.660	54.130.126
4. Loans given to companies with participating interest	054		
5. Investment in securities	055		
6. Loans given, deposits and similar assets	056	1.011.500	1.118.467
7. Other financial assets	057		
IV. CASH IN BANK AND IN HAND	058	24.461.708	24.908.810
D) PREPAID EXPENSES AND ACCRUED INCOME	059	290.489	1.121.262
E) TOTAL ASSETS (001+002+034+059)	060	1.224.708.094	1.194.098.211
F) OFF BALANCE SHEET ITEMS	061	1.335.568.822	1.099.715.129

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	45.530.557	-71.192.878
I. SUBSCRIBED CAPITAL	063	386.135.400	386.135.400
II. CAPITAL RESERVES	064	-200.000	-200.000
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	0	0
1. Legal reserves	066		
2. Reserve for treasury shares	067		
3. Treasury shares and investment (deductible item)	068		
4. Statutory reserves	069		
5. Other reserve	070		
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	-256.156.639	-342.363.272
1. Retained earning	073		
2. Loss carried forward	074	256.156.639	342.363.272
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	075	-87.944.250	-118.602.340
1. Profit for the year	076		
2. Loss for the year	077	87.944.250	118.602.340
VII. MINORITY INTEREST	078	3.696.046	3.837.334
B) PROVISIONS (080 do 082)	079	12.979.471	11.716.971
1. Provisions for pensions, severance pay and similar liabilities	080	12.134.011	11.021.511
2. Provisions for tax liabilities	081		
3. Other provisions	082	845.460	695.460
C) LONG-TERM LIABILITIES (084 do 092)	083	365.716.220	512.581.962
1. Liabilities to related companies	084		
2. Liabilities for loans, deposits and similar	085	95.833.333	
3. Liabilities to banks and other financial institutions	086	269.882.887	512.581.962
4. Liabilities for advances	087		
5. Liabilities to suppliers	088		
6. Liabilities for securities	089		
7. Liabilities to companies with participating interest	090		
8. Other long-term liabilities	091		
9. Deferred tax liability	092		
D) SHORT-TERM LIABILITIES (094 do 105)	093	730.643.023	684.674.848
1. Liabilities to related companies	094		
2. Liabilities for loans, deposits and similar	095	225.163.666	228.377.938
3. Liabilities to banks and other financial institutions	096	52.663.832	107.107.172
4. Liabilities for advances	097	136.968.706	70.184.895
5. Liabilities to suppliers	098	289.065.019	253.075.430
6. Liabilities for securities	099		
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	11.481.299	10.977.157
9. Liabilities for taxes, contributions and other payments	102	8.237.051	7.419.624
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	7.532.632
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	69.838.823	56.317.308
F) TOTAL LIABILITIES (062+079+083+093+106)	107	1.224.708.094	1.194.098.211
G) OFF BALANCE SHEET ITEMS	108	1.335.568.822	1.099.715.129
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	-75.030.212
2. Credited to minority interest	110	3.696.046	3.837.334

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

PROFIT AND LOSS ACCOUNT

for the period 01.01.2017. to 30.09.2017.

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	1.437.356.464	383.096.842	1.442.593.357	482.256.132
1. Sales revenues	112	1.376.371.500	352.921.315	1.408.166.805	472.152.894
2. Other operating revenues	113	60.984.964	30.175.527	34.426.552	10.103.238
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	1.448.516.556	410.393.408	1.540.315.662	527.593.966
1. Changes in value of work in progress and finished products	115	116.039.457	50.954.485	29.383.280	24.714.560
2. Material costs (117 do 119)	116	1.072.983.101	274.497.951	1.229.571.227	406.960.897
a) Cost of raw and production materials	117	1.020.574.695	260.546.463	1.167.713.754	383.140.742
b) Cost of goods sold	118	2.984.852	569.939	7.613.519	1.014.253
c) Other external costs	119	49.423.554	13.381.549	54.243.954	22.805.902
3. Employees costs (121 do 123)	120	148.763.374	51.291.812	146.534.824	49.133.732
a) Net salaries and wages	121	92.987.364	31.869.860	93.049.272	31.154.897
b) Costs for taxes and contributions from salaries	122	34.084.650	11.942.378	32.114.979	10.814.451
c) Contributions on salaries	123	21.691.360	7.479.574	21.370.573	7.164.384
4. Depreciation	124	61.595.981	19.323.933	71.348.348	23.300.930
5. Other costs	125	46.596.504	14.324.932	63.365.406	23.473.936
6. Value adjustments (127+128)	126	2.538.139	295	112.577	9.911
a) of long-term assets (except for financial assets)	127	2.530.348	0	105.310	9.910
b) of short-term assets (except for financial assets)	128	7.791	295	7.267	1
7. Provisions	129				
8. Other operating expenses	130				
III. FINANCIAL REVENUES (132 do 136)	131	6.502.097	493.463	19.677.410	-14.194.727
1. Interest, exchange rate fluctuations, dividends and similar from associated companies	132				
2. Interest, exchange rate fluctuations, dividends and similar from non-associated companies and others	133	6.502.097	493.463	16.274.617	-1.727.859
3. Part of revenue from associated companies and participating interests	134				
4. Unrealised gains (revenues) from financial assets	135				
5. Other financial revenues	136			3.402.793	-12.466.868
IV. FINANCIAL EXPENSES (138 do 141)	137	26.178.714	4.954.141	40.546.852	17.989.704
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	26.178.714	4.954.141	38.782.097	17.989.704
3. Unrealised losses (costs) from financial assets	140				
4. Other financial expenses	141			1.764.755	0
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	1.443.858.561	383.590.305	1.462.270.767	468.061.405
X. TOTAL EXPENSES (114+137+143 + 145)	147	1.474.695.270	415.347.549	1.580.862.514	545.583.670
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	-30.836.709	-31.757.244	-118.591.747	-77.522.265
1. Profit before taxation (146-147)	149	0	0	0	0
2. Loss before taxation (147-146)	150	30.836.709	31.757.244	118.591.747	77.522.265
XII. PROFIT TAX	151	90.634	17.204	10.593	3.697
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	-30.927.343	-31.774.448	-118.602.340	-77.525.962
1. Profit for the period (149-151)	153	0	0	0	0
2. Loss for the period (151-148)	154	30.927.343	31.774.448	118.602.340	77.525.962

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	-30.680.371	-31.611.461	-118.743.629	-77.817.689
2. Credited to minority interest	156	-246.972	-162.987	141.289	291.727
STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)					
I. PROFIT OR LOSS OF THE PERIOD (= 152)	157	-30.927.343	-31.774.448	-118.602.340	-77.525.962
II. OTHER COMPREHENSIVE GAINS/LOSS BEFORE TAXES (159 do 165)	158	0	0	0	0
1. Exchange rate differences from translation of foreign currency operations	159				
2. Change in revaluation reserves of fixed tangible and intangible assets	160				
3. Gain or loss from revaluation of financial assets held for sale	161				
4. Gain or loss from effective cash flow hedge	162				
5. Gain or loss from effective hedge in net investments in abroad	163				
6. Portion in other comprehensive gain/loss of associated companies	164				
7. Actuarial gains / losses on defined benefit plans	165				
III. TAX ON OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD	166				
IV. NET OTHER COMPREHENSIVE GAINS OR LOSSES FOR THE PERIOD (158-166)	167	0	0	0	0
V. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD (157+167)	168	-30.927.343	-31.774.448	-118.602.340	-77.525.962
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	-30.680.371	-31.611.461	-118.743.629	-77.817.689
2. Credited to minority interest	170	-246.972	-162.987	141.289	291.727

CASH FLOW STATEMENT - Direct method

for the period 01.01.2017. to 30.09.2017.

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	1.395.092.785	1.384.904.766
2. Cash increase from royalties, fees commissions and other	002		
3. Cash increase from insurance compensations	003	4.672.128	26.265.869
4. Cash increase from tax return	004	162.424.376	210.471.203
5. Other cash increase	005	138.866	382.708
I. Total increase of cash flow from operating activities (001 do 005)	006	1.562.328.155	1.622.024.546
1. Expenses to suppliers	007	1.308.006.564	1.516.189.603
2. Expenses for employees	008	149.301.238	155.476.166
3. Expenses for insurance compensations	009	9.356.470	9.362.222
4. Expenses for interest	010	31.733.985	27.902.224
5. Expenses for taxes	011	29.743.866	31.242.278
6. Other cash decrease	012	6.920.953	8.204.014
II. Total decrease in cash flow from operating activities (007 do 012)	013	1.535.063.076	1.748.376.507
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)	014	27.265.079	0
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)	015	0	126.351.961
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proceeds from sale of non-current tangible and intangible assets	016	1.723.675	6.095.195
2. Cash proceeds from sale of equity and debt security instruments	017		
3. Cash proceeds from interest payment*	018		
4. Cash proceeds of dividend payment*	019		
5. Other cash proceeds from investing activities	020		
III. Total cash inflow from investing activities (016 do 020)	021	1.723.675	6.095.195
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	76.888.415	61.465.002
2. Cash outflow for acquisition of equity and debt financial instruments	023		
3. Other cash outflows from investing activities	024		
IV. Total cash outflow from investing activities (022 do 024)	025	76.888.415	61.465.002
B1) NET CASH FLOW FROM INVESTING ACTIVITIES (021-025)	026	0	0
B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)	027	75.164.740	55.369.807
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	230.036.854	356.898.809
3. Other inflows from financial activities	030		32.620.660
V. Total cash inflow from financial activities (028 do 030)	031	230.036.854	389.519.469
1. Cash outflows for repayment of loan principal and bonds	032	175.326.834	153.113.506
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		54.130.126
VI. Total cash outflow for financial activities (032 do 036)	037	175.326.834	207.243.632
C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)	038	54.710.020	182.275.837
C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)	039	0	0
Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)	040	6.810.359	554.069
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	6.810.359	554.069
Decrease of cash and cash equivalents	044		
Cash and cash equivalents at the end of the period	045	19.854.317	26.027.277

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

STATEMENT OF CHANGES IN EQUITY

for the period from 1.1.2017 to 30.9.2017

Position 1	AOP code 2	Previous year 3	Current year 4
1. Suscribed capital	001	386.135.400	386.135.400
2. Capital reserves	002	-200.000	-200.000
3. Reserves from profit	003		
4. Retained profit or loss carried forward	004	-256.156.639	-342.363.272
5. Profit or loss for the year	005	-87.944.250	-118.602.340
6. Revaluation of fixed tangible assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluation	009	3.696.046	3.837.334
10. Total capital and reserves (AOP 001 do 009)	010	45.530.557	-71.192.878
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	-75.030.212
17 b. Credited to minority interest	019	3.696.046	3.837.334

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 – September 2017, the business environment of Petrokemija Group was marked by two key occurrences - the fall in sales prices of mineral fertilizers and 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 the first three quarters of this year, Petrokemija, d.d. increased production by 15.8% and sales of mineral fertilizers by 12.1%, compared with the same period last year. The sales in the domestic market were up by 4.7%, the sales in the region, with extra efforts, were up by 24.0%, whereas the sales to the distant markets, despite strong competition of large manufacturers, were up by 6.8%.

In the three quarters of 2017, Petrokemija Group 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, particularly in the third quarter, high sales at 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 – AdBlue[®] product was realized, a product used as an additive to the fuel of modern diesel engines to prevent NOx emissions in line with Euro 5 and 6 standard requirements. 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.

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 up to 30

to 40% 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 8.2% of total revenues. The most significant negative factor in the loss is the high purchase price of natural gas, which for Petrokemija d.d. is about 20% higher than for its competitors, partly because of the terms in 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 a favorable location, well-maintained production and logistics systems, to skilled labor. Shortage of financial potential that manifests itself in the impossibility of changing the business model and of quick adaptation to constant market changes should be resolved in the future by permanent capital sources and a new management model of future investors. Loans granted by HBOR and commercial banks in 2016 and 2017 helped to fill the cash gap transferred from previous years, and recapitalization should create the preconditions for a balanced financing model for plant modernization and investment in greater efficiency of all processes in the Company.

In the reporting period, an extensive due diligence analyses of the Company were carried out by potentially interested investors and at the time of the publication of this report, bids from potential investors are expected followed by the start of final negotiations with the majority owner. After the completion of the privatization process of the Company, it is expected that the State (i.e. CERP) will remain in the position of one of the shareholders, but without a dominant position in the structure of ownership and management rights.

1. Financial result for January – September 2017

In the January to September 2017 period, Petrokemija, d.d. had total income of HRK 1,462.3 million and total expense of HRK 1,580.9 million. The Company reported loss in operations of HRK 118.6 million or 8.2% of the total revenues. In the same period last year, the Company had losses of HRK 30.8 million, which shows a negative development in the financial result of HRK 87.8 million. The main causes of the losses in the first three quarters of 2017 are lower average sales prices of mineral fertilizers and higher actual purchase price of natural gas as the basic raw material.

The EBITDA (earnings before interest, taxes, depreciation and amortization) is negative amounting to HRK -26.4 million and the EBITDA margin was -1.8%. The total revenues for the first three quarters of 2017 were up by 1.3% on the same period of 2016, while total expenditures were up by 7.2%. These figures point to a stagnation of revenues despite an increase in sales volume of 12.1%, with a simultaneous 20.5% 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 last year) and the simultaneous negative impact of lower selling prices (-9.4% on average over the same period last year).

Basically, both these key business risks of Petrokemija's business in the first three quarters of 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 has resulted in the losses in business.

In these unfavorable 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 855 thousand tons, up by 12.1% on the same period last year. In the sales structure, domestic sales rose by 4.7%, the sales in the region by 24.0%, and the sales to distant markets 6.8%. The distant markets are price-wise less attractive due to the high transport costs and strong competition of large producers 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 the high growth of imports of mineral fertilizers into the Republic of Croatia in 2016, at the turn of 2016/2017, there was a significant drop in fertilizer imports as Petrokemija offered better sales terms than foreign direct regional competitors. As a result, domestic sales volumes in the first half of 2017 increased by 4.7% compared to the same period of 2016, but are still at a low level given the potentials of Croatian agriculture. The main obstacle to higher domestic sales in the remaining business year is linked to the problem of customers' liquidity. Additional significant limitations come from the operational challenges that the Agrokor Group, as a major customer of mineral fertilizers, is faced with at the time of the preparation of this report. In this context, 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 the remainder of 2017. Despite a somewhat better situation in the structure of debt, Petrokemija, d.d. has still no long-term sources of financing deferred payments to buyers of mineral fertilizers, and banks are mostly not willing to adequately support agricultural production. Among other constraints affecting the level of sales on the domestic market, are the dynamics and level of incentive payments on the domestic market and the ever more present principle of purchase at the last moment 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 (PIK Vinkovci), in order to improve the sales channels on the domestic market.

2. Structure of financial result

In the structure of financial result for January to September 2017, HRK 97.7 million is the operating loss, while HRK 20.9 million loss was generated from financial activities, resulting in the total loss in the reporting period of HRK 118.6 million. Financial loss is the result of external factors – exchange rate differences, corrections of the CO₂ (EU Emission Allowances) and interest costs due to high credit debt. The price of EU Emission Allowances pronouncedly varied in the reporting period and had a significant impact on the three-quarterly financial results. In the third quarter, the loss was increased by HRK 15.8 million on this basis.

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 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.

As on 30 September 2017, capital and reserves amounted to HRK -71.2 million. The level of the losses of the current period and the losses brought forward from the previous 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 12.1% higher volume sales of mineral fertilizers, the earned operating income was at the level of the previous year (index 100.0).

Domestic sales in percentage are higher than in the previous year (index 104.7), but expressed in thousands of tons, the increase amounts to approximately 8.5 thousand tons, which indicates very low sales in the same period last year. It is estimated that sales in Croatia are still unsatisfactory due to economic exhaustion and low liquidity of Croatian agriculture as well as to insufficient support from commercial banks.

The consequence of the obligation of Petrokemija, d.d. to have volumes of mineral fertilizers continuously on stock under pledge due to high indebtedness to one of the natural gas suppliers, is that not even 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 14.5% as a result of efforts to, by balancing the product range and by additional sales efforts on certain markets in the region, reduce the negative effects of sales on remote overseas markets where the sales price mostly does not cover the costs of direct raw- and production materials. Balancing the production and sales of mineral fertilizer assortments that had better sales prices, ensured business continuity and current liquidity. Additional challenges were the significant fluctuations of mineral fertilizer prices over the reporting period and constraints on logistic capacities in export markets.

The trend of movements of price, and supply and demand, on the global mineral fertilizer market did not change significantly compared to 2016, except that in the part of the reporting period there was a rise (first quarter of 2017) and then again a fall in Urea price. In 2016, the main export product of Petrokemija, d.d. - nitrogen fertilizer Urea, had a decline in average price of 27% in the world market. In the first quarter of 2017, there was a short-term growth, followed by a fall in price to the level of approx. USD 190 / t fob Yuzhny in June 2017, and this price more or less remained at that level in the third quarter (in July it was USD/t 187, in August USD/t 200 and in September it was USD/t 234). Thus the price was brought to a level that does not cover even the direct cost of natural gas. This can be interpreted as a cyclic disorder because, at the time of the compilation of these financial statements, the price of urea rose by up to 30%, but it points to caution in predicting future business results because the price of natural gas is formed independently of this trend.

In the same context, CAN mineral fertilizer lost its price margin in relation to Urea and had significant impact on the price reduction in the regional market. Also, an extremely low price

of NPK mineral fertilizers was realized, 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. Maadena from Saudi Arabia).

4. Expenses

Operating expenses were up by 6.3% 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 are lower (from 4 to 8%), 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 the first three quarters of 2017, compared to the same period last year (the price includes transport costs, expressed in HRK). Overhead costs are mainly at the level of the same period last year, except for deviations that relate to the 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 September 2017, was 6.7% higher than in the same period of 2016. This percentage is subject to constant changes in the remaining part of the year, in line with price movements on the European natural gas spot market. Therefore, 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 should have about HRK 20 million positive effect on the financial result of Petrokemija on an annual basis. However, the transport costs of natural gas is still a significant item in the cost structure of Petrokemija d.d., since the cost of natural gas transport in Croatia is among the highest in the EU. The natural gas transport cost is around HRK 80 million a year, whereas for direct competitors in Hungary or Austria the cost is by less than twice or even six times lower. The real cost of transport of natural gas should be about HRK 40 million per year, for Petrokemija d.d. to come at least partially closer to the

direct competitors. This cost needs to be reduced in the future by active communication with all relevant authorities (the Government of Croatia, Ministry of Environmental Protection and Energy, HERA, PLINACRO), which decide on the amount of natural gas transportation fee, because the cost retention at the existing level is unsustainable.

6. Production and capacity utilization

In the January to September 2017 period, as compared to the previous year, Petrokemija, d.d. achieved 15.8% higher total production despite the three unplanned suspensions of operation of the liquid ammonia production plant (two shutdowns for technical reasons and one due to the disruption of natural gas supply by one of the natural gas suppliers). 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: 29.4% higher production of Urea, 3.9% of CAN and 16.4% higher NPK fertilizer production. In the reporting period, production capacity utilization was 89.8%, 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 NOx emission reduction in accordance with the Euro 5 and 6 standards.

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 fourth quarter of 2017, with open possibilities to increase the production of sulfuric acid for the new PETROKEMIJas product (granular ammonium sulphate - AS) and to improve NPK fertilizer properties by adding sulfur. Petrokemija's own technology has provided a basis for the production of Ammonium Sulfate (PETROKEMIJas) and Ammonium 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 the first three quarters of 2017 (HRK 70.8 million realized investment). Environmental projects are becoming

increasingly important in the legislative environment of EU, and the remaining deadlines for the execution are getting shorter (31 December 2017), so in the oncoming years, Petrokemija will be forced to urgent and significant investment. In accordance with the IPPC Directive and the Decision on Integrated Environmental Protection Requirements, in order to meet all the prescribed technical and technological requirements of environmental protection, Petrokemija, d.d. must invest approx. HRK 380 million. So far, around a third of the total planned funds has been realized.

8. Liquidity

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

In the reporting period, the issue of debt to suppliers was raised again, due to increasing difficulty in maintaining liquidity, i.e. the high due debt to the natural gas suppliers that resulted in a short disruption of delivery in April 2017. In May, a solution was arrived at to settle the outstanding liabilities to Prvo plinarsko društvo d.o.o. and other creditors by the loan from HBOR, HPB and ERSTE banks in the total amount of HRK 350 million. However, the remaining part of the liabilities transferred from the previous period remains 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. At the time of the publication of this report, bids of potential investors are expected, who will start final negotiations with the majority owner.

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.

After the reporting period, 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-R-A, of HRK 10.00 nominal value.

10. Financial risks in the subsequent period

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

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

The exposure of Petrokemija, d.d. and Petrokemija Group to developments in the global market opens up significant potential risks in terms of price and financial fluctuations in the remaining part of 2017. Effective risk management of natural gas price growth (contracted price is in EUR, although purchasing is done on the domestic market) and risk of USD and EUR exchange rate changes in the procurement of other imported raw materials is limited by the lack of own working capital (negative working capital of HRK -252 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 necessarily emits a certain quantity of greenhouse gases for which it allocates significant funds that, depending on the price of the ETS units in the open market, amounts to about HRK 20 to 25 million annually. 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 emissions related to the movement of the ETS market price in the open market. The consequence of this was felt in the first nine months of 2017 and has led 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 PBZ and a short-term one from ERSTE Bank, whereby a part of the long-term sources of financing working capital and the continuation of activities in restructuring the business was secured. However, the challenges of maintaining financial and operational stability are still present. Out of the HRK 350 million loan, Erste Bank's HRK 100 million is a floating short-term loan, which has to be fully repaid by the end of 2017. If recapitalization is not carried out until 31 December 2017, Petrokemija, d.d. will be in a very complicated situation in finding a solution for repayment of the loan, which could potentially jeopardize the continuity of the business.

Due to the Company's insufficient liquidity, advance payments are used in the sales of mineral fertilizers, which, due to the economic exhaustion of Croatian agriculture results in lower demand and therefore a poorer market position of Petrokemija, d.d. in the Republic of Croatia. The market and financial results for the first three quarters of 2017 as well as the assessment of market position at the time of the preparation of these financial statements (in particular in terms of uncertain domestic sales and the 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 2017 and 2018, with the possibility of occasional shutdowns of part of the facilities and changes in the organization of the Company and Petrokemija Group. The growth in natural gas prices on the European spot market actualizes the issue of the imbalance between the purchase price of natural gas and the price of nitrogen mineral fertilizers on the global market (Urea and CAN). In September and October there was a rise in Urea and CAN prices on the world market, which is favorable for the result of the fourth quarter of 2017. However, the duration of this positive trend is uncertain.

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 2017 to 2027.