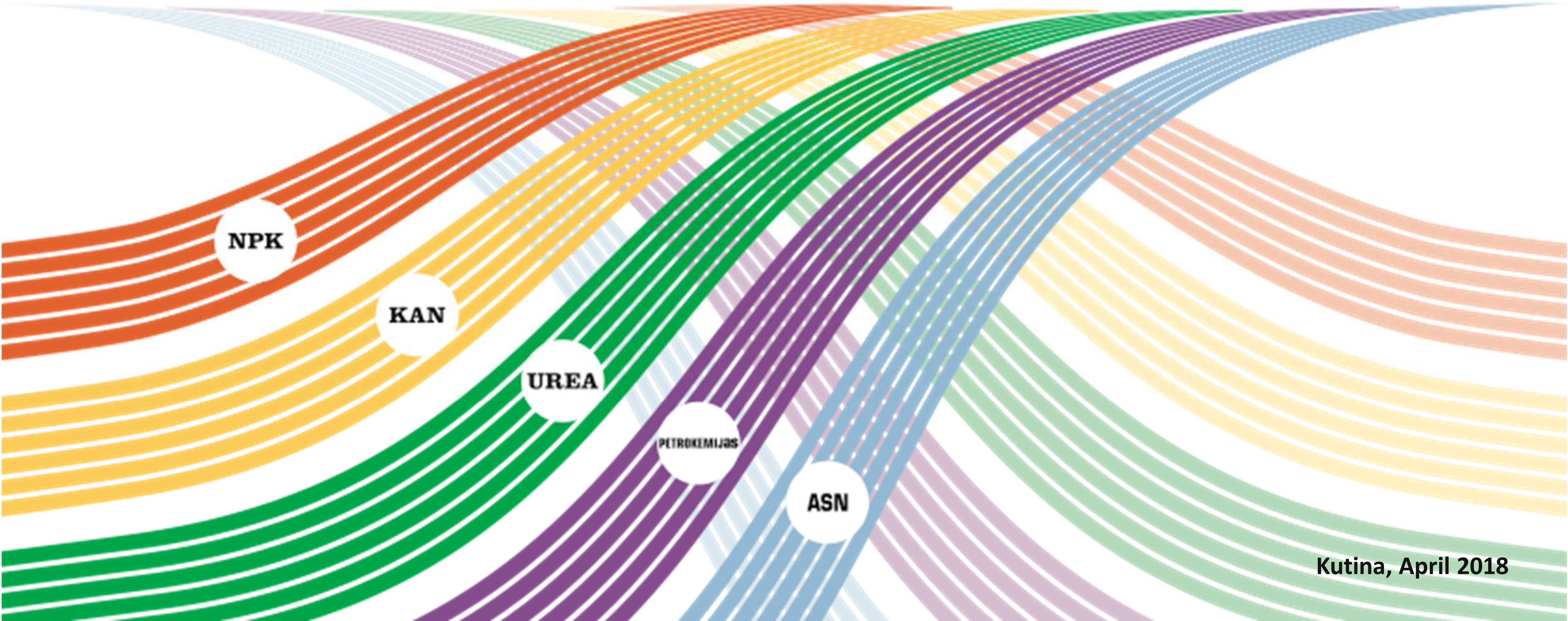
NON-AUDITED
NON-CONSOLIDATED

QUARTERLY REPORT

PETROKEMIJA Plc. KUTINA

REPORT FOR PERIOD January to March 2018



Kutina, April 2018

Introduction

In the reporting period January - March 2018, Petrokemija d.d. continued to operate in a very complex situation of unfinished recapitalization and restructuring, difficulties in liquidity and adverse conditions in the market environment. With the support of the majority owner, the natural gas supplier and financial institutions, the Company managed to maintain the continuity of production and its operations, fulfil its obligations to the customers, and to prepare for the facilities overhaul and the investments necessary to continue the business in order to prevent major damages for the stakeholders of this process.

Following an unfavorable situation in the fourth quarter of 2017, the business environment of Petrokemija in the first quarter of 2018 was marked by many challenges. In the reporting period, the negative effects of full openness to the global market i.e. Petrokemija's exposure to the risks of the neighboring and wider business environment were quite apparent, which could result in very high costs for the Company without the possibility of its influence on them. Namely, Petrokemija carried forward all the bad debts of the unfinished restructuring process of 2017 into the first quarter of 2018. Furthermore, the negative financial effects are even more intensified by:

- high rise in the price of CO_2 allowances (value adjustment of liabilities from previous years),
- further growth in natural gas purchase price,
- the fall in sales prices of mineral fertilizers on the global market,
- increase in purchasing prices of other raw materials (MAP, DAP, potassium chloride)
- decrease in total sales volumes due to lower sales of mineral fertilizers in overseas exports because current prices were significantly lower than the variable production costs realized by Petrokemija.

The biggest single impact on the financial result was the price increase (+63.8%), i.e. the correction of the value of the obligation to purchase the missing CO2 emission units by 31 December 2017 amounting to **HRK 38.2 million**.

Introduction (cont)

When HRK 8.3 million of the fee for the first quarter of 2018 is added, it means that out of the HRK 78.8 million in the first quarter of 2018, HRK 46.5 million or 59% accounts only for the above mentioned CO_2 allowances, which the Company could not have influence on, due to lack of funds for purchases in e.g. the first half of the previous year, when the prices of emission units were significantly lower.

The realized price of natural gas is 9.0% higher than the average achieved throughout 2017, while the average purchase price of the main raw materials for the production of NPK fertilizers is higher – MAP by 13.8% and potassium chloride by 7.2%.

In addition to the existing natural gas suppliers, INA d.d. and Prvo plinarsko društvo d.o.o, as of February 2018, a new gas supplier – Hrvatska elektroprivreda d.d. (Croatian Electric Power Company) will be involved in the supply of natural gas for some of the required volumes of gas in the next period.

Mineral fertilizer sales amounted to 252 thousand tons, 22.9% down on the same period of the previous year, as due to the sharp fall of sales prices in the global market it was not possible to sell under covering the direct variable production costs (simultaneous rise in raw material prices and fall of the price of finished products). Production of mineral fertilizers was realized at 287 thousand tons, 6.5% down on the same period of the previous year, partly due to technical and technological problems, and partly due to the unfavorable conditions on the sales market.

After a long period of preparations, in the conditions of limited funding for investments, an extensive biennial overhaul of Petrokemija's facilities is scheduled for the summer 2018 in order to provide good technical and technological condition of the facilities for the following period and partly to invest in modernization and increase of energy efficiency.

Due to the lack of liquidity, investments in the first quarter of the current year amounted to HRK 6.7 million, but another HRK 110 million should be invested in the overhaul and other activities for which long-term sources have not been secured. All these costs are covered from the current business operations or the expected recapitalization.

Introduction (cont)

The completion of the restructuring and recapitalization process should have a beneficial effect on balancing the Company liquidity and normalizing the investment and modernization system that is currently under significant pressure from the due obligations towards suppliers for the delivered natural gas.

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.

The goals of the sales strategy in 2018 are increasing sales in the regional, and in particular in the domestic market, but are not being realized in the first part of the year due to unfavorable conditions in the environment. Establishing direct partnerships with as many direct customers – mineral fertilizers consumers – is one of the positive results, with the aim of strengthening long-term competitive position of Petrokemija d.d. in the domestic market and a decrease in imports of mineral fertilizers into Croatia compared to previous years.

Fertilizer manufacturers in Europe are under strong pressure from the competition of major global manufacturers who have a comparative advantage of cheap raw material sources, from natural gas to phosphate rock, potassium chloride and sulfur. In these conditions, even successful European mineral fertilizer producers, who benefited from a favorable trend for modernization of plants and restructuring in the previous decade, have experienced a fall in profit. Accordingly, it was inevitable for Petrokemija, which has been struggling to maintain business continuity for years and operating in conditions of lower technological and energy efficiency than its European competitors, to report losses in business. The most significant negative factor for the loss in the first quarter of 2018 is the high rise in the price of CO_2 allowances, which accounts for about two thirds of the reported loss.

Introduction (cont)

It is followed by the high purchase price of natural gas, which is for Petrokemija about 10% higher than for its competitors, partly because of the terms for defining the purchase price (suppliers are also the largest creditors of the Company) and partly because of the extremely high costs of gas transport, which are among the highest in the EU.

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

At the time of the publication of these Reports, the negotiations of the majority owner and potential investors are underway in terms of final determination of the mutual obligations and the content of the co-ownership agreement that would define the future business model of Petrokemija d.d.

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

Key indicators for Petrokemija, d.d. for January – March 2018

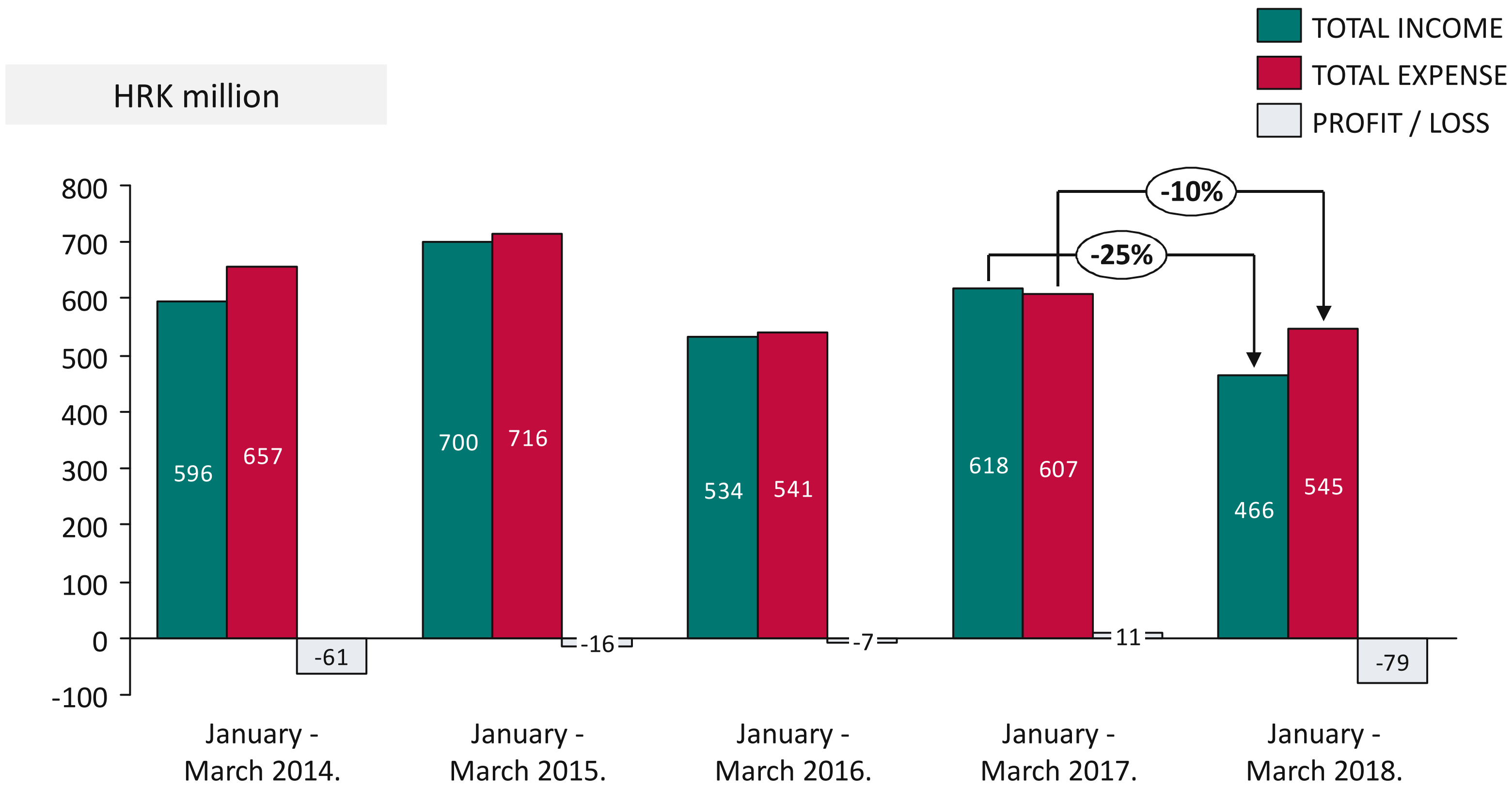
- Operating loss HRK 78.8 million (the same period 2017 – 11.1 million profit),
- Loss in business operations – HRK 35.9 million, loss in financial operations – HRK 42.9 million,
- Earnings before interest, taxes, depreciation and amortization (EBITDA) – HRK 13.5 million (negative),
- Actual total revenues of Petrokemija, d.d. – HRK 466.3 million, 24.5% down on the same period 2017,
- Actual production of fertilizers – 287 thousand tons, 6.5 % down than in the same period 2017,
- Compared to the same period 2017, production decreased: UREA by 11.4%, CAN by 5.1% and NPK fertilizers by 1.5%,
- Yield of currently installed plant capacities – 82.2 %,
- Actual sales of fertilizers – 252 thousand tons, 22.9 % lower sales volume compared to same period 2017,
- Share of fertilizer sales in the domestic market – 30.1%,
- Domestic sales – 76 thousand tons, exports – 176 thousand tons of fertilizers,
- Capital and reserves on 31.03.2018 for Petrokemija, d.d. – HRK – **274.6** million (negative),
- Invested in Petrokemija, d.d. – HRK 6.7 million,
- Employed on 31.03.2018: Petrokemija, d.d. – 1,573; Petrokemija Group – 1,708.

Management Board Report for January – March 2018

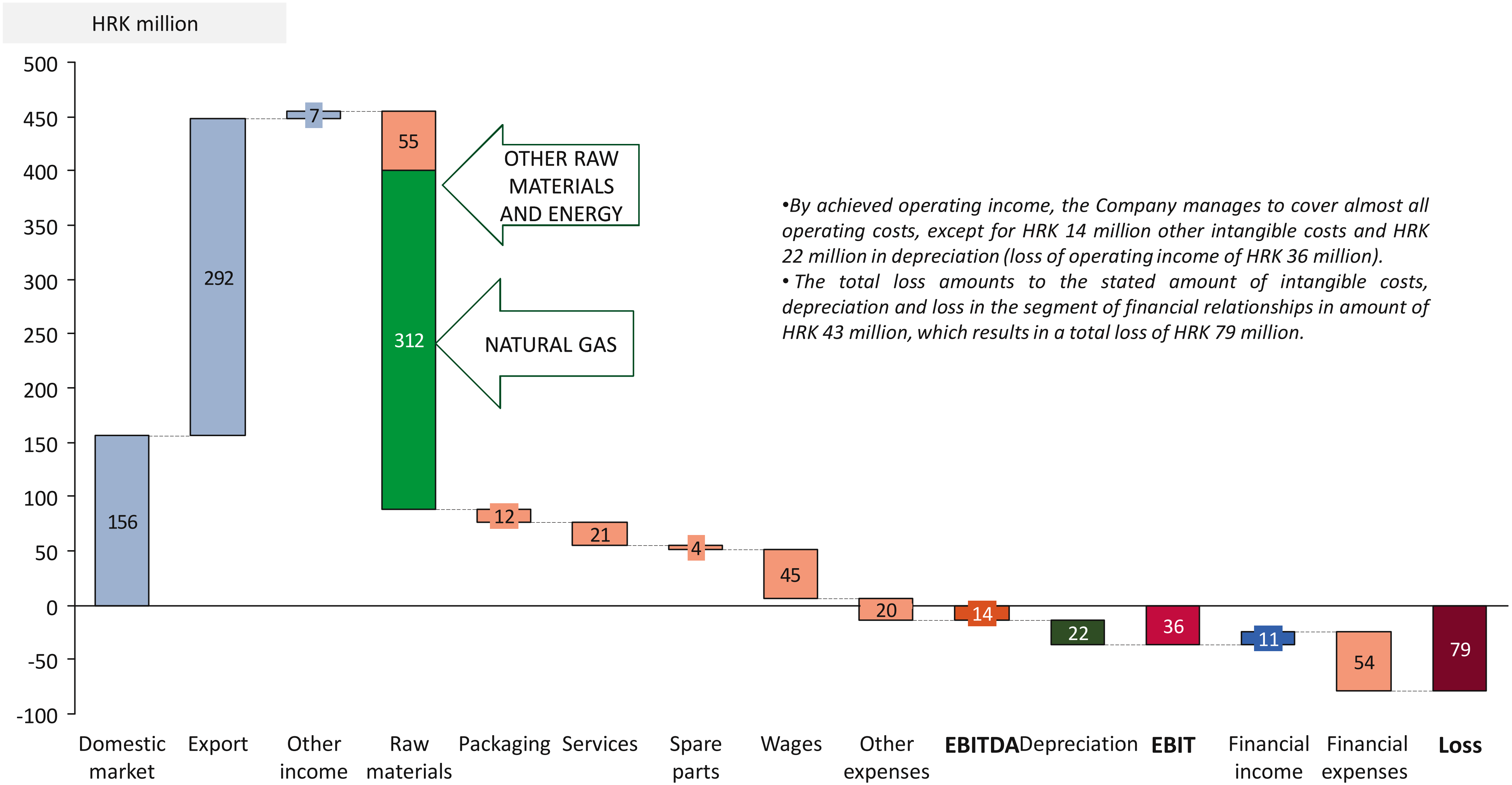
- In January – March 2018, Petrokemija d.d. had total income of HRK 466.3 million and total expense of HRK 545.1 million. The Company reported loss of HRK 78.8 million or 16.9. % of the total revenues,
- Lower sales volumes by 22.9 % and lower average sales prices by 0.3 % compared to the same period 2017,
- In the income structure, domestic sales were 33.5 % or HRK 156.4 million, 18.0 % down on the same period 2017, while export accounted for 62.5 % or HRK 291.5 million, 24.4 % down on the same period 2017,
- In assortment, compared to the same period 2017, lower sales in 2018 of Urea by 9.0%, lower sales of CAN mineral fertilizers group (CAN+AN+UAN+AS/ASN) by 32.2 % and lower sales of NPK fertilizers by 32.6 %.
- Domestic sales – 25.8% lower in volume than in the same period 2017,
- Export sales volumes – 21.6% lower in volume than in the same period 2017,
- Sales volumes of clay-based products and liquid fertilizers – 42.9% higher than in the same period 2017,
- Average realized natural gas price (without transport costs) was 2.0% higher in HRK compared to the same period 2017 and 19.1 % higher in USD,
- Liquidity indicators are below recommended value, further aggravated compared to the previous year (on 31.03.2018. negative working capital was HRK **-437 million**; on 31.12.2017 it was HRK **-363 million**),
- Short-term assets increased by 7.2 % compared to end 2017, and short-term liabilities increased by 13.6 %,
- Indicator of financial stability as well as indicators of indebtedness are below recommended values, indicator of own funding negative, capital negative at the level of HRK -274.6 million.

Profit and Loss of Petrokemija d.d. for 2014 – 2018

Total income	HRK 466.3 million,
Total expense	HRK 545.1 million,
Loss	HRK 78.8 million,
EBITDA	HRK -13.5 million,
EBITDA margin (%)	2.9%.



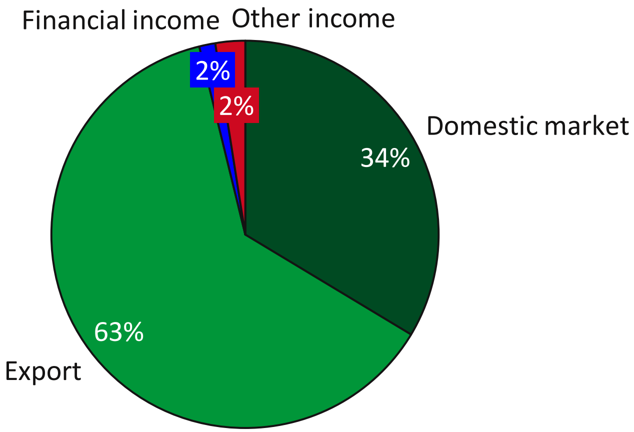
Structure of Profit and Loss for January – March 2018

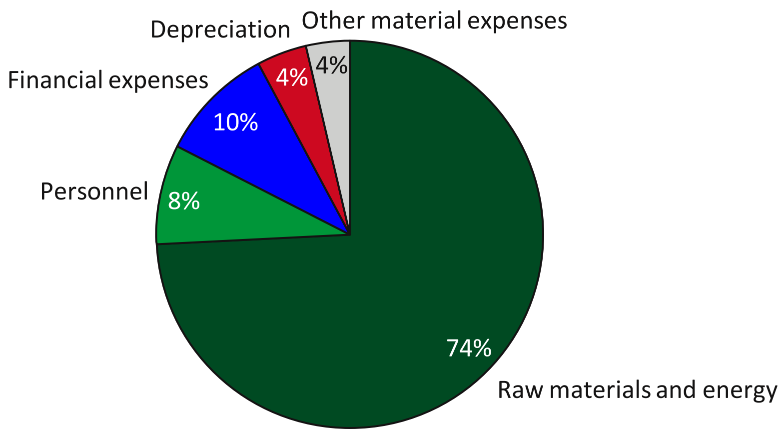


•By achieved operating income, the Company manages to cover almost all operating costs, except for HRK 14 million other intangible costs and HRK 22 million in depreciation (loss of operating income of HRK 36 million).
• The total loss amounts to the stated amount of intangible costs, depreciation and loss in the segment of financial relationships in amount of HRK 43 million, which results in a total loss of HRK 79 million.

Structure of Profit and Loss for January – March 2018

- In January – March 2018 period, Petrokemija, Plc. earned 34% of income from domestic market, 63% income from export, and financial and other income account for 4% of the total revenues,
- In the structure of total expenditures the dominant 74% account for the costs of raw materials, materials and energy; personnel costs account for 8%, while all other costs make 18%. Due to the specific value-adjusted CO2 emission reduction (EUA) situation, which rose 63.8% in the quarter and created additional HRK 38.2 million in costs, the share of financial expenditures has risen to an unusually high 10%.





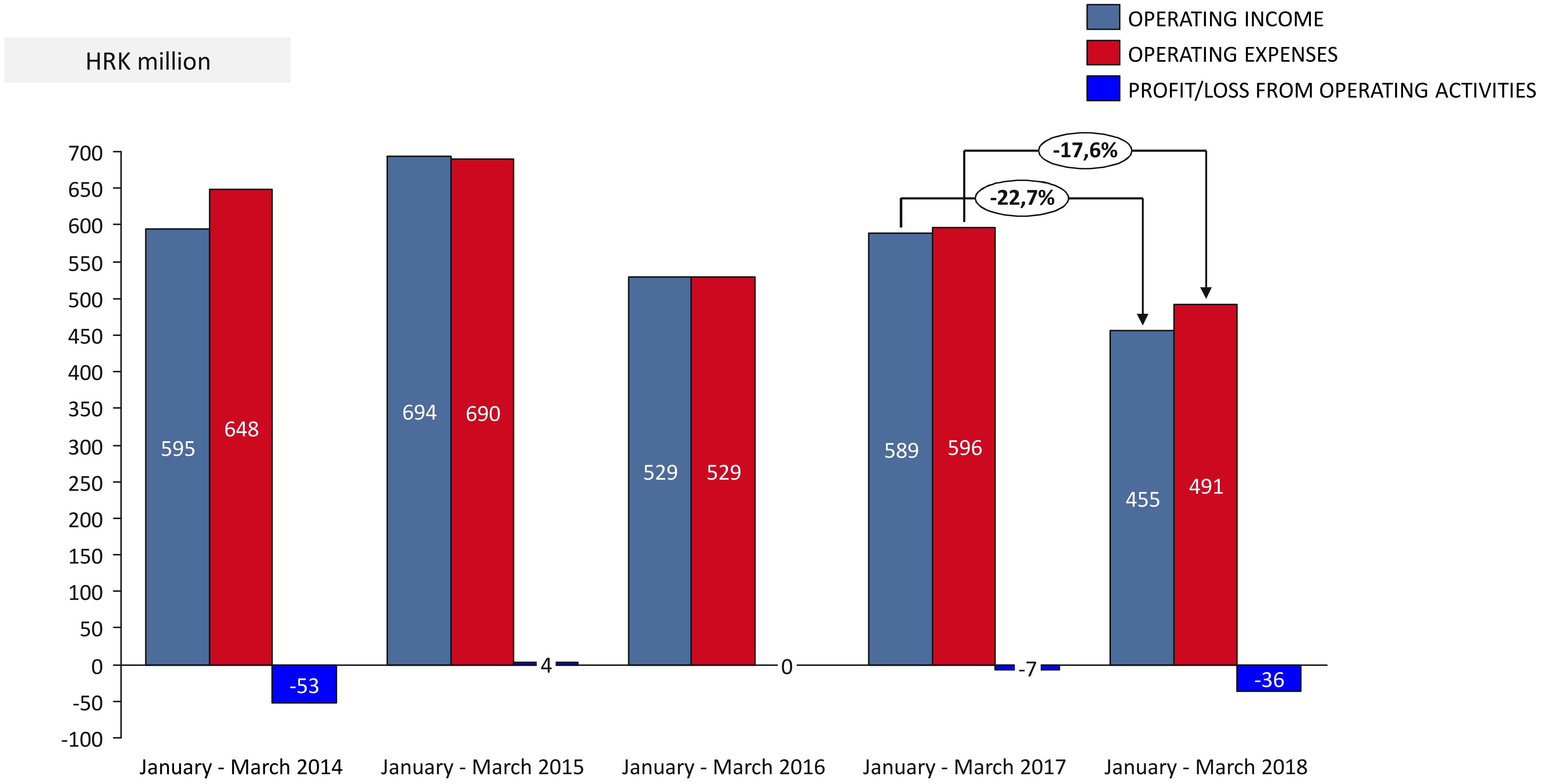
Key financial indicators for January – March 2018

(HRK 000)

	January – March 2018	January – March 2017	Difference	% change
Operating income	455.282	588.793	-133.511	-22,68%
Operating expense	491.143	595.946	-104.803	-17,59%
EBITDA *	-13.519	16.796	-30.315	-180,49%
Amortization	22.342	23.949	-1.607	-6,71%
Net financial income /(expenses)	-42.938	18.258	-61.196	-335,17%
Net extraordinary income / (expenses)	0	0	0	
Profit / loss / before taxation	-78.799	11.105	-89.904	-809,58%
	31 March 2018	**31 December 2017**		
Fixed assets	682.506	692.911	-10.405	-1,50%
Current assets	416.680	388.546	28.134	7,24%
Capital and reserves	-274.599	-195.801	-78.798	40,24%
Long-term liabilities + provisions	520.651	526.008	-5.357	-1,02%
Current liabilities + provisions	853.134	751.250	101.884	13,56%

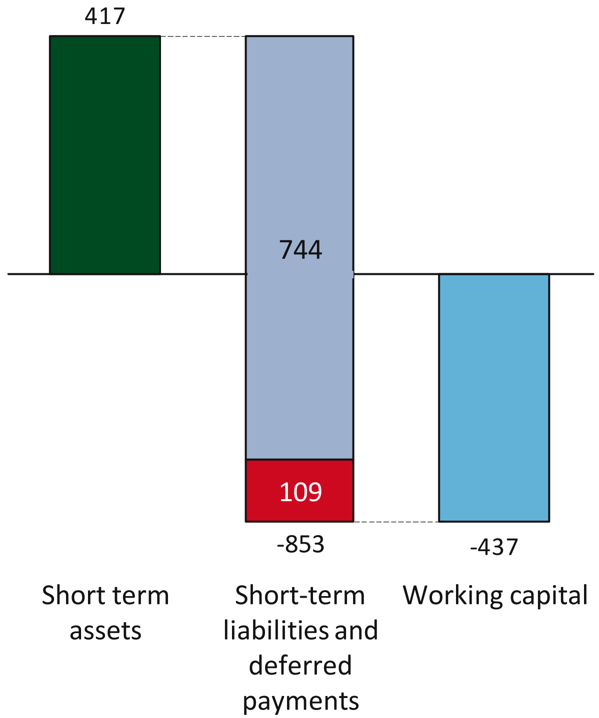
* Earnings before interest, taxes, depreciation and amortization

Profit and Loss from operating activities for January – March 2014 to 2018

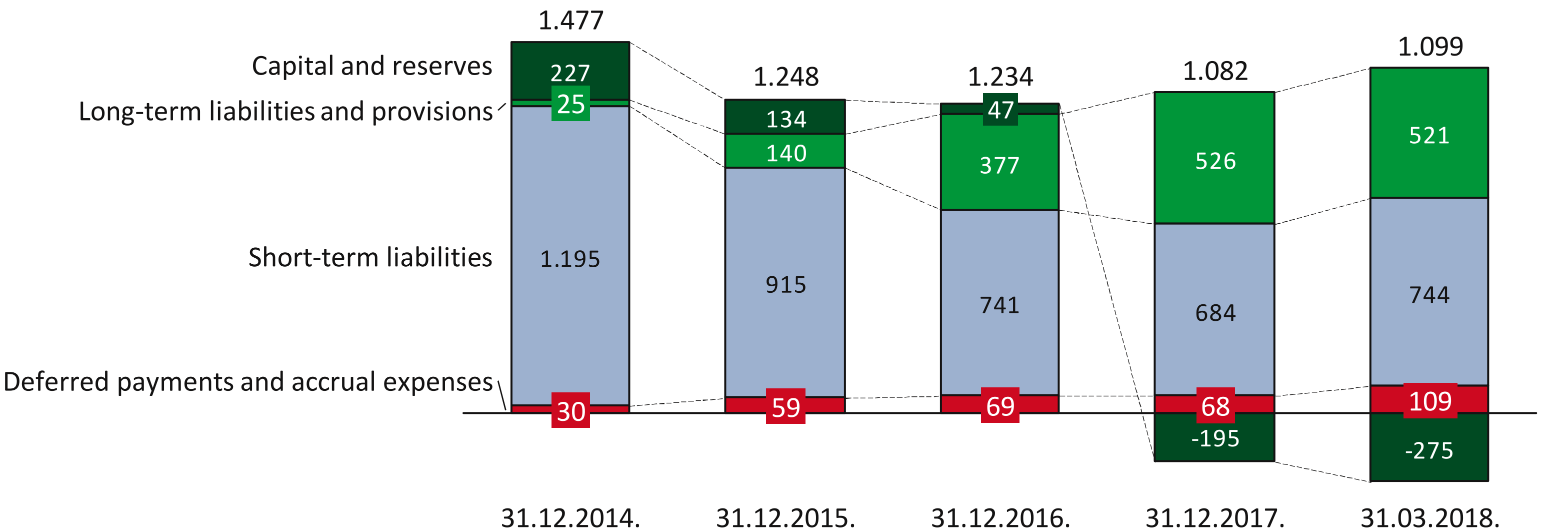


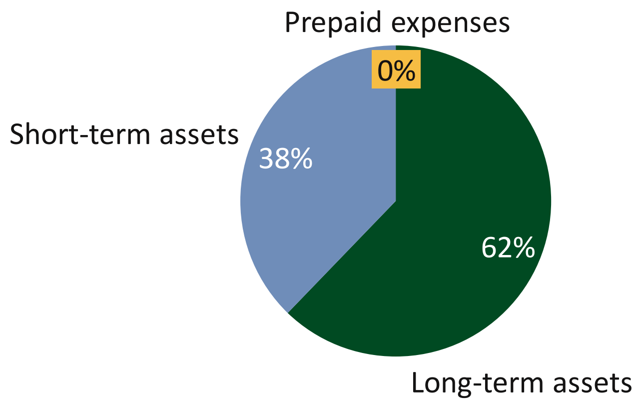
Structure of assets and liabilities at 31 March 2018

- At 31 March 2018, Petrokemija, d.d. had 38% in value of short-term and 62% in long-term assets.
- The realized loss and delay in the implementation of recapitalization resulted in higher liabilities than the value of the assets, i.e. the capital level was HRK -274.6 million (registered capital HRK 42.9 million increased by HRK 3.9 million in capital reserves reduced by for the cumulative loss until March 31, 2018).
- During the first quarter of 2018, the Company's indebtedness changed its structure and maturity. Long-term liabilities were reduced by HRK 5 million, and short-term liabilities and deferred payment of expenses increased by HRK 102 million (debt to suppliers and commitments to buy CO2 units)

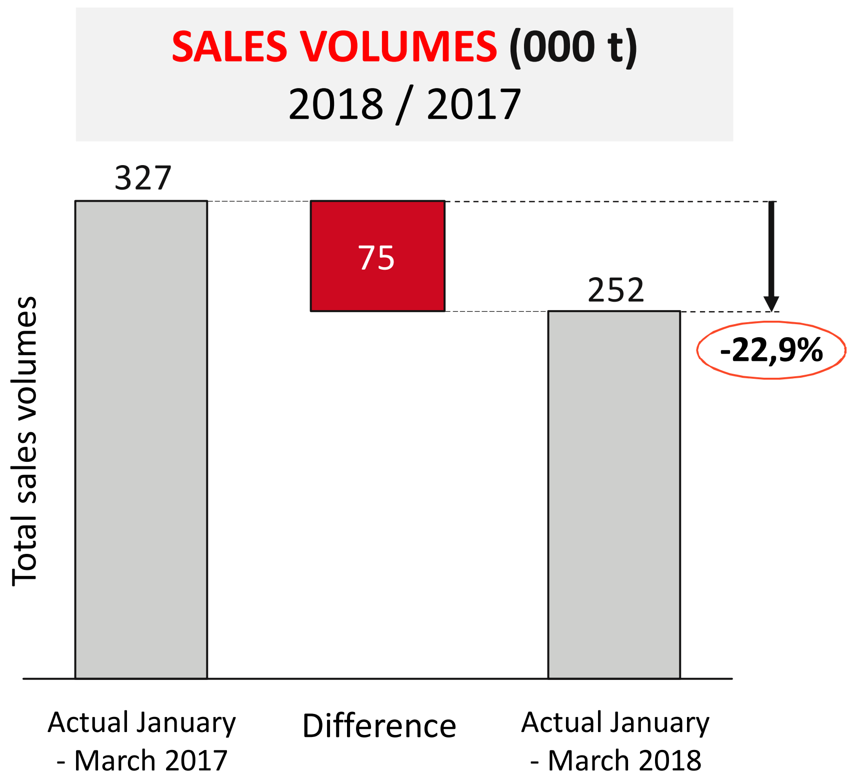


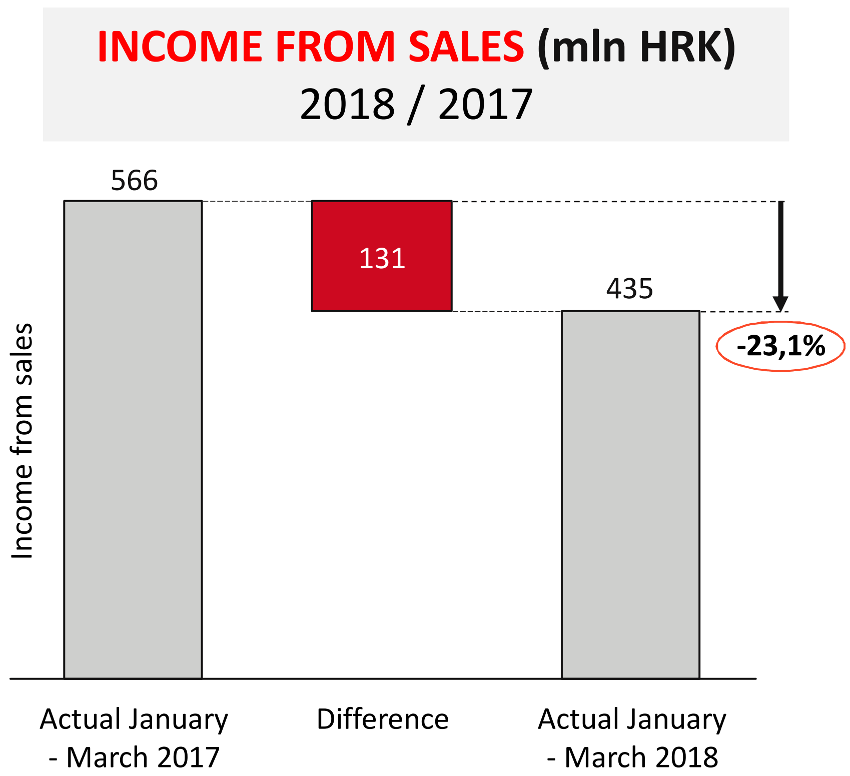
HRK million





Total fertilizer sales

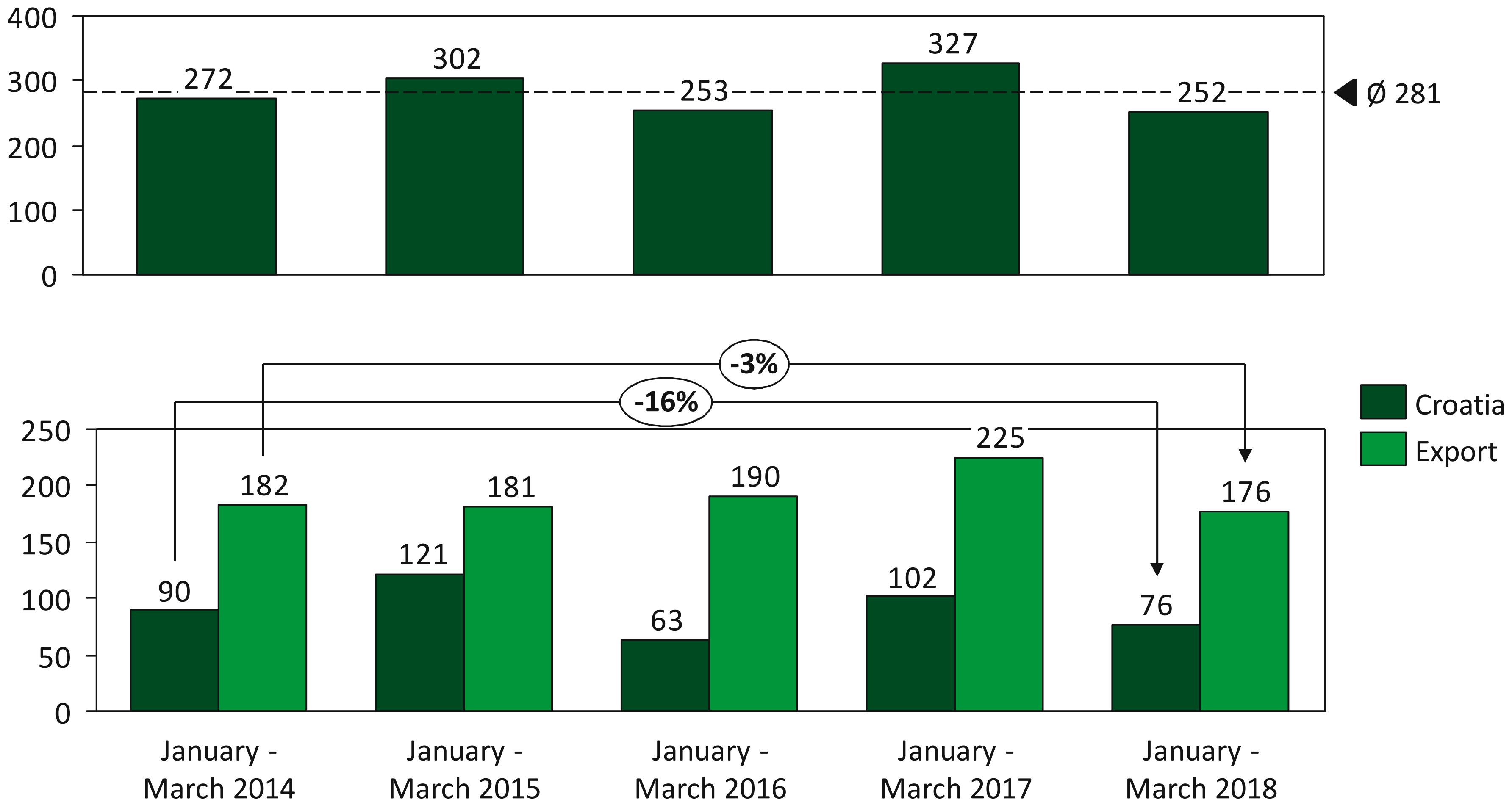




Actual fall in mineral fertilizer sales volumes of 22.9% and decrease in income from fertilizer sales of 23.1%, which indicates a fall in average selling prices of 0.3% compared to the same period 2017.

Actual fertilizer sales in January – March 2014 – 2018

total sales (000 tons)



Business Results of Petrokemija Group for January – March 2018

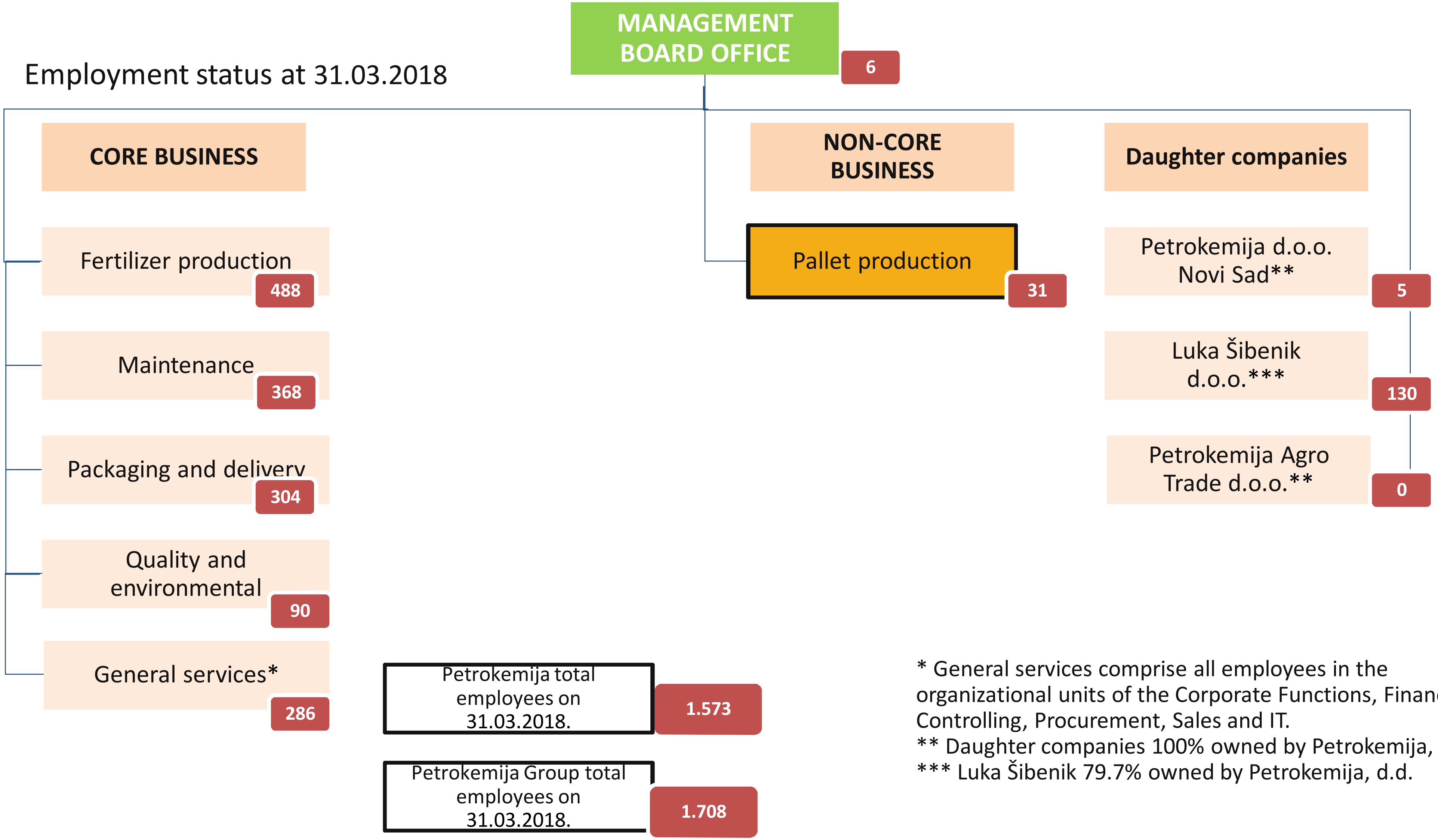
- After the consolidation of financial results of Petrokemija, d.d. and its subsidiaries - Petrokemija, d.o.o. Novi Sad, Luka Šibenik, d.o.o. and Petrokemija Agro Trade, d.o.o. – the financial results of **Petrokemija Group** for the period January – March 2018 are as follows:

  - Total revenues HRK 473.6 million,
  - Total expenses HRK 552.9 million,
  - Loss before tax HRK 79.3 million,
  - Profit tax HRK 0,0017 million,
  - Loss after tax HRK 79.3 million,

- EBITDA (earnings before interest, taxes and depreciation) was HRK 13.7 million in the negative.
- Petrokemija, d.o.o. Novi Sad made profit of HRK 7 thousand, while Luka Šibenik, d.o.o. reported loss of HRK 471 thousand. Petrokemija Agro Trade d.o.o. sustained a loss of HRK 19 thousand.
- The report on the Petrokemija Group's business includes detailed information on the operations of the subsidiaries.

Organization Chart of Petrokemija, Plc. and Petrokemija Group

Employment status at 31.03.2018

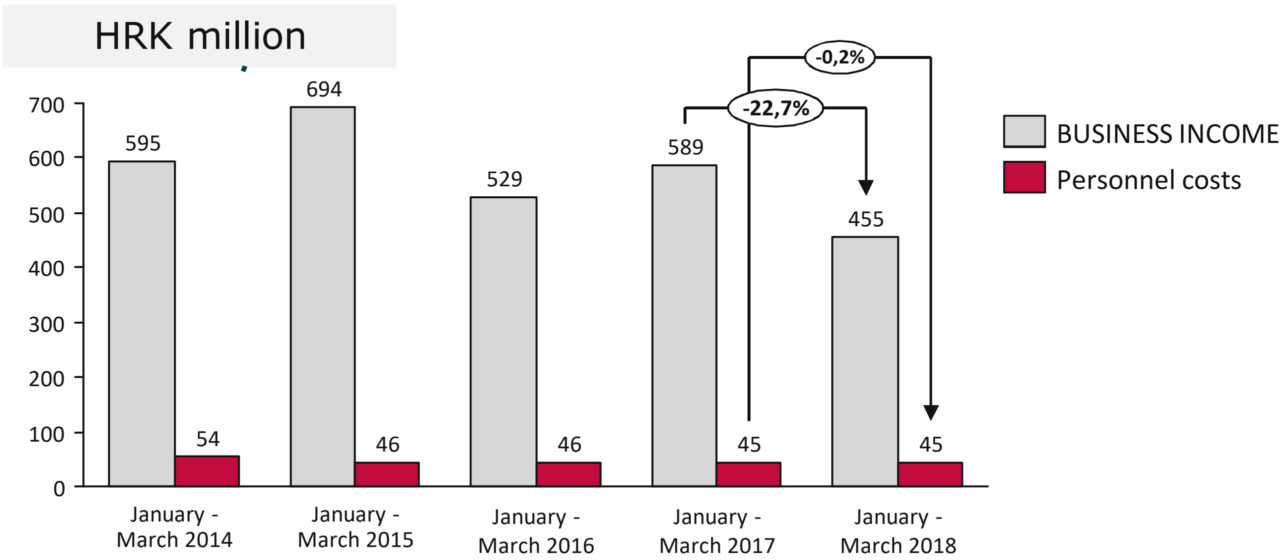


* General services comprise all employees in the organizational units of the Corporate Functions, Finance and Controlling, Procurement, Sales and IT.

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

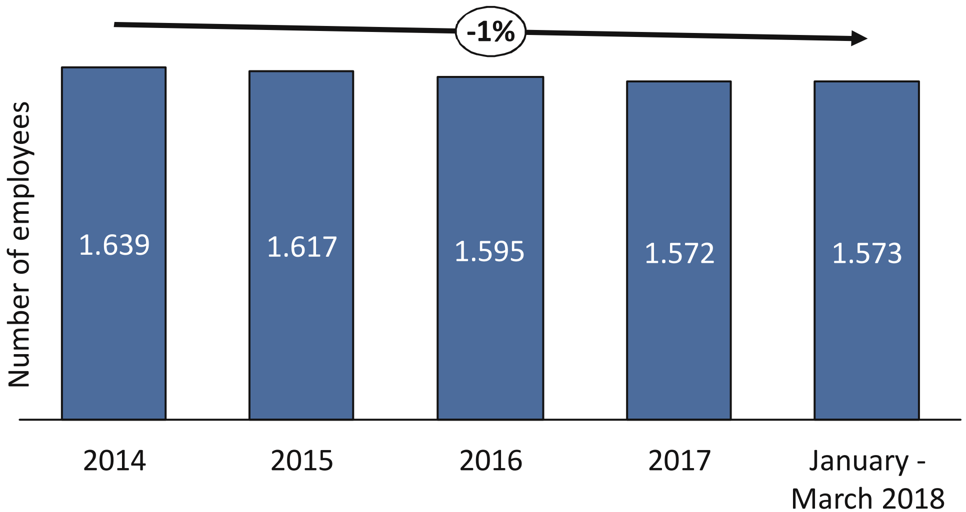
*** Luka Šibenik 79.7% owned by Petrokemija, d.d.

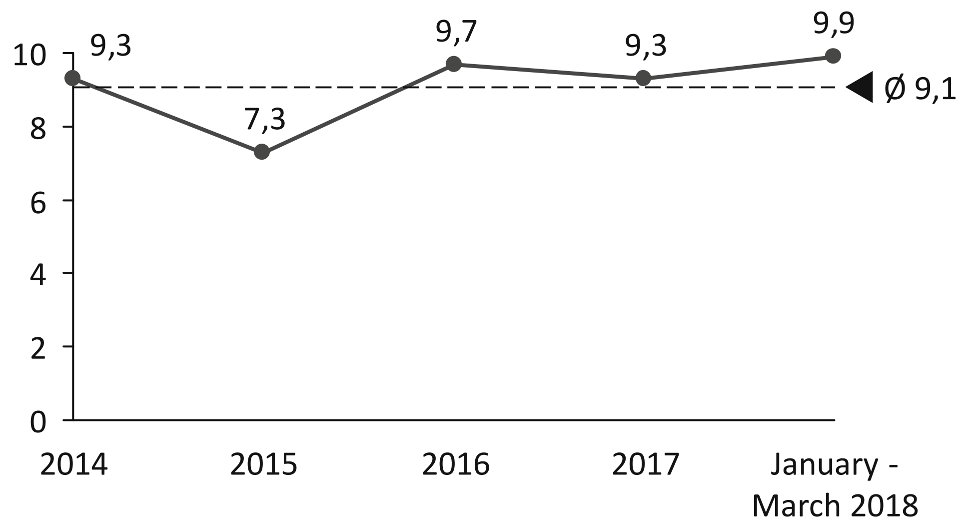
Operational income, personnel costs and number of employees



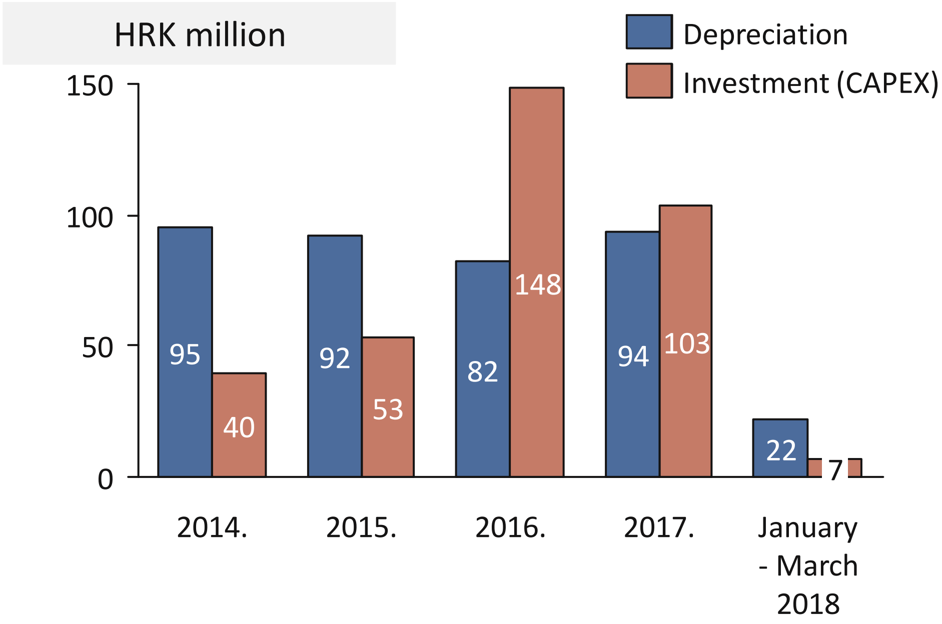
As at **31.03.2018.** Petrokemija, d.d. had **1.573 employees**, and daughter companies - members of Petrokemija Group - had 135 employees, which is a total of 1,708 employees.

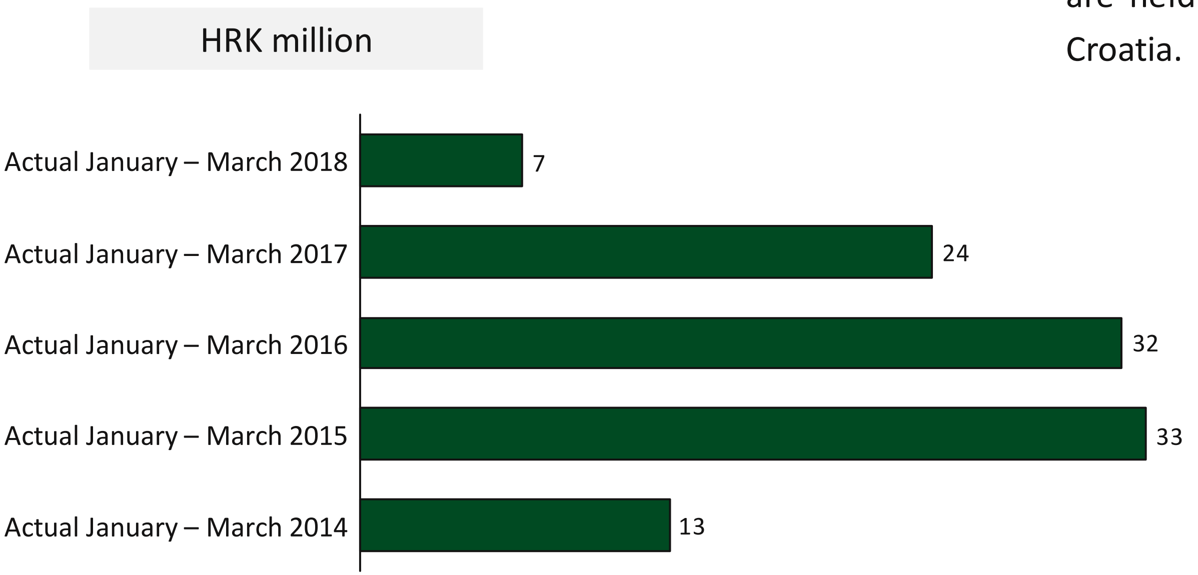
Personnel costs share in operating revenues was 9.9%, 0.4% higher, compared to the previous year due to the decline in business income and the mass of gross wages remained at the same level.





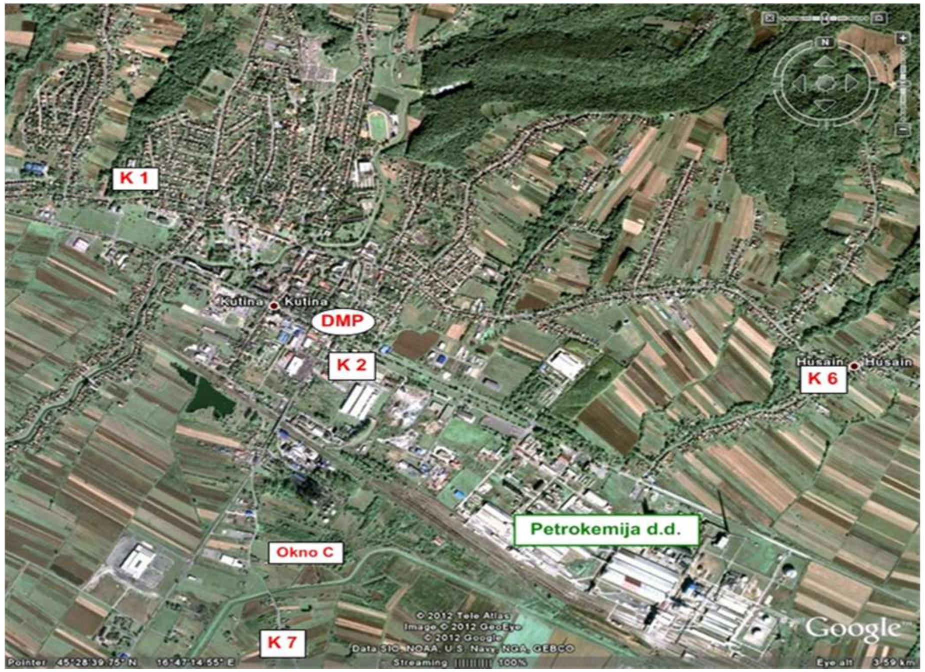
Realized investment





- Investment realized in reporting period 2018 amounted to HRK 6.7 million.
- Compared to the same period of the previous years, investments are lower due to financing constraints, but in the course of 2018 significant investments of up to HRK 115 million are planned, which will be realized in substantial part also through the complete annual overhaul of the plant.
- On investments related to the meeting the requirements of the Environmental Permit and deadlines for execution of certain investment projects, which were significantly delayed and not completed within the prescribed deadline by 31.12.2017, talks are held with the competent authorities of the Government of Croatia.

Air quality in the Kutina area for January to March 2018. period at local monitoring station (K1,K2,K6 i K7) and the state monitoring station (DMP)



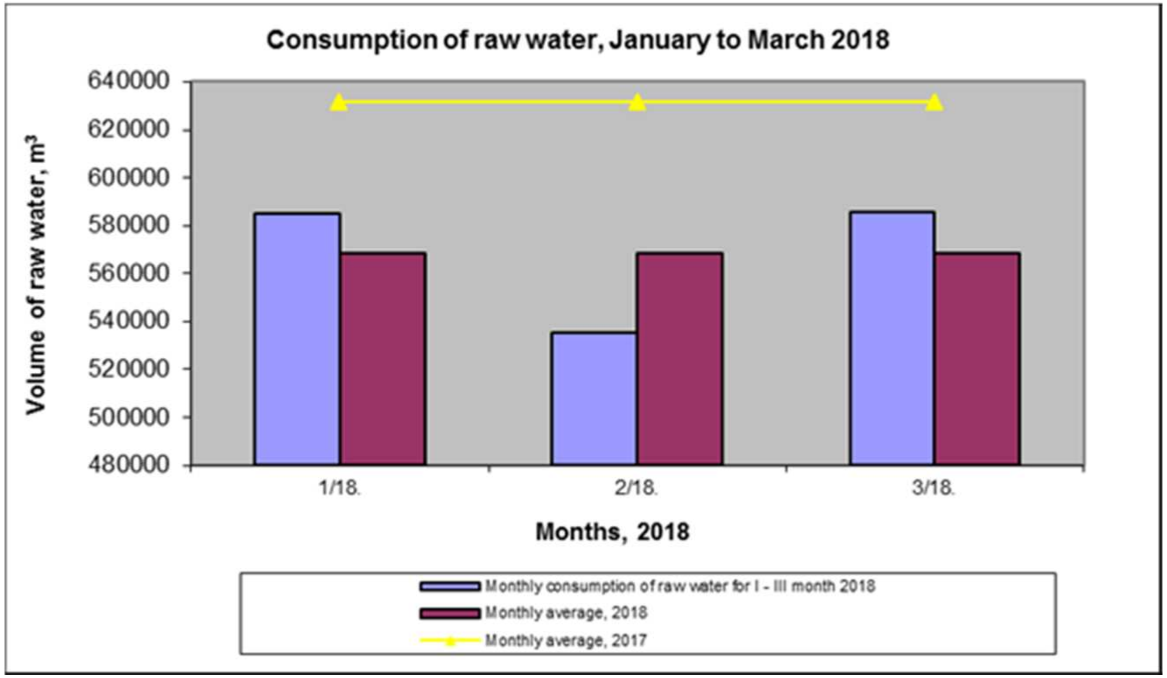
Clean or slightly polluted air	Polluted air	Pollutants
1st category C<LV	2nd category C>LV	
K2,DMP		**Sulphur dioxide (SO_2)**
K1,K2,K6,K7		**Sediment**
K1, K2, K6, K7,DMP		**Ammonia (NH_3)**
K2,DMP		**Nitrogen dioxide (NO_2)**
DMP		**Hydrogen sulfide (H_2S)**
DMP		**PM10**

Note:

The categorization of air quality at DMP may 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 March 2018 period (local network) and Water Management

Monitoring station	The number of limit value (LV) exceedances in the January to March 2018 period/ permitted exceedance number
K 1 - Dom zdravlja	3/ 7
K 2 - Vatrogasni dom	4 / 7
K 6 - Husain	4 / 7
K 7 - Krč	1 / 7
TOTAL	**12**



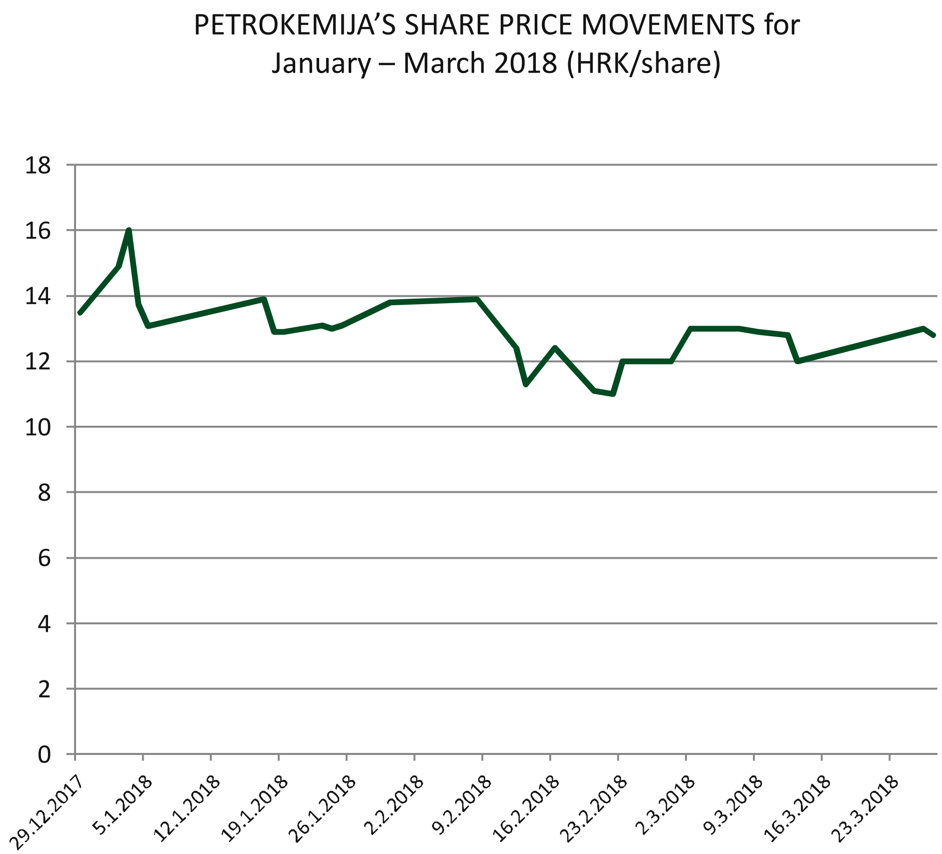
Water management – Petrokemija, d.d. regulary monitors quantity and quality of waste water on discharge points according to Enviromental Permit. Also, an external authorized house performs the water quality analysis and the results are sent to the state authority.

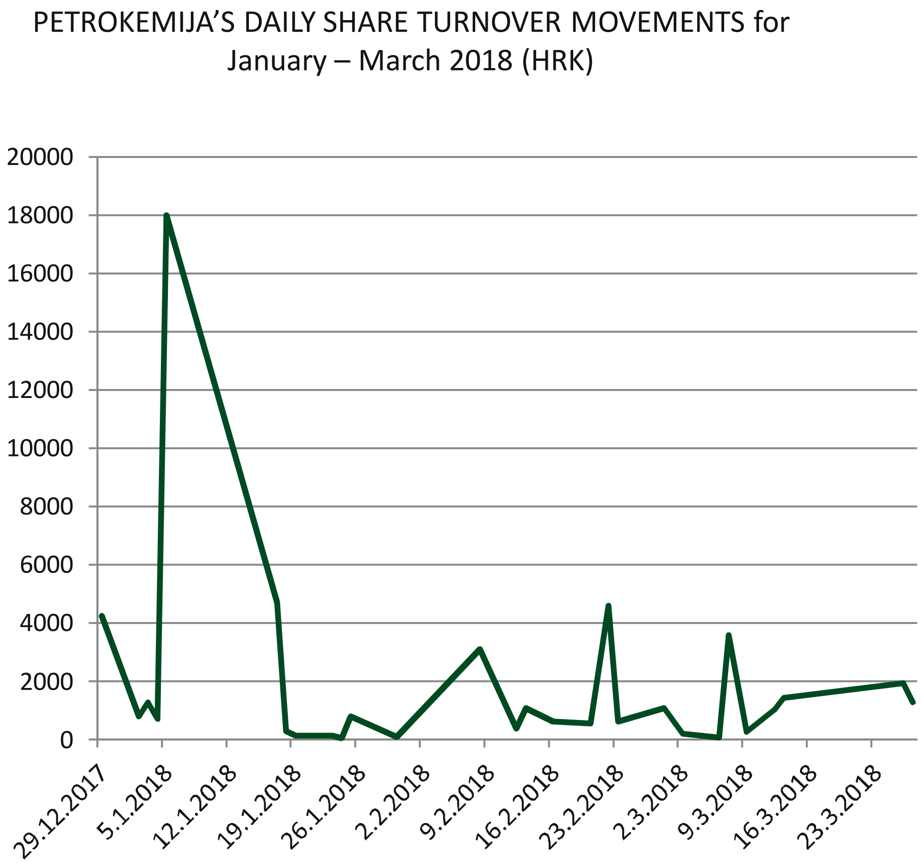
In the period from January to March 2018, monthly average consumption of raw water is lower than the average value in the same period of 2017.

Company share capital, share market value, changes in Supervisory Board, significant events in the Company

- At the General Meeting of 11 October 2017, the Company adopted the decision to reduce the share capital from HRK 386,135,400.00 by HRK 343,231,470.00 to the amount of HRK 42,903,930.00, by reducing the individual nominal value of PTKM-R-A ordinary share from HRK 30.00 to HRK 3.333, with at the same time merging ordinary shares at the 3:1 merger ratio, in such a way that 3 (three) ordinary shares of a single nominal amount of 3.333 HRK will be merged into 1 (one) ordinary share, ticker PTKM-RA, of HRK 10.00 nominal value. The last trading day of the existing 12,871,180 ordinary shares of the PTKM-RA was October 25, 2017, the first trading day with a new quantity, i.e. with the 4,290,393 regular shares of PTKM-R-A for which the settlement was made in the CDCC, on October 26, 2017.
- On December 29, 2017, the average value of the share was HRK 13.47, and on March 27, 2018 HRK 12.80 (down 4.97 %).
- After the reporting period, the Supervisory Board issued a decision on terminating the mandate of Nenad Zečević, member of the Management Board as of 2 January 2018. As of 3 January 2018, the Board of Petrokemija d.d. acts as a two-member board consisting of Đuro Popijač, MS, Managing Director and Davor Žmegač, MS, Member of the Board.
- In addition to the existing natural gas suppliers, INA d.d. and Prvo plinarsko društvo d.o.o, as of February 2018, a new gas supplier – Hrvatska elektroprivreda d.d. (Croatian Electric Power Company) will be involved in the supply of natural gas for some of the required volumes of gas in the next period.
- For the short-term loan of HRK 100 million from Erste Bank, which was to be fully repaid by the end of 2017 from the recapitalization funds, in late December 2017, an Annex to the Agreement was signed with a new maturity date March 28, 2018. and in March 2018, Annex 2, with a maturity date of 28 September 2018, when it is expected that the recapitalization process should end.

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





Implementation of the Restructuring Program in 2017 and 2018

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

Implementation of the Restructuring Program in 2017 and 2018 (cont)

– more active appearance and strategic positioning on the market of Croatia and the region,
– raising the level of efficiency of maintenance, logistics and other service processes in the Company that will ensure a positive financial result, stability and development of the Company.

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

Implementation of the Restructuring Program in 2017 and 2018 (cont)

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

Significant financial risks in 2018

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

- Petrokemija d.d. is highly dependent on the movements of fertilizers and their raw materials prices in the global market, the exchange rate of the HRK against USD and EUR and their interdependence,
- Natural gas as the most important raw material is still procured on the domestic market, according to contracts concluded with three suppliers – INA, d.d. Zagreb, Prvo plinarsko društvo d.o.o Vukovar and as of February 2018, in the supply of natural gas, a new gas supplier was included - Croatian Electric Power Company d.d. The price of natural gas is linked to the EUR exchange rate and to the movement of natural gas prices on the European spot market. Reducing the price of natural gas transport on the basis of the 2017 tariff would have a positive effect on the financial result in 2018, although it is inadequate given the level of the same type of costs with EU competitors,
- The sales prices of fertilizers in the global market are still very low, short-term also influenced by cyclical and seasonal changes. The price of nitrogen fertilizer Urea has been at a low level for a long time, fluctuating sharply during the year and in the situation of a more pronounced growth of natural gas prices on the European spot market, manufacturing profitability may again be questioned.
- Lower VAT in 2017 had positive effects on mineral fertilizer sales in the domestic market, but the level of state incentives in agriculture and purchasing price of major crops will still have the key effect.

Significant financial risks in 2018 (cont)

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

Statement of management liability

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

Statement on Management Liability

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

Financial reports for the **January 1 to March 31, 2018 period**, make an exact and true account of the Company financial status and the business and cash flow results, in compliance with the applicable accounting standards.

This report may contain certain statements relating to the future business of Petrokemija, d.d. and Petrokemija Group, their strategy, plans and intentions which express a certain degree of uncertainty. They reflect the current position of the Company with regard to risks, uncertainties and assumptions about the future. Currently, the results, effects and achievements of Petrokemija, d.d. or Petrokemija Group are heavily dependent on a large number of factors which may influence their being quite different from the originally set ones.

President of the Board:
Đuro Popijač, MS

Member of the Board:
Davor Žmegač, MS

Attachments:

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

Attachment 1.

Reported period: **01.01.2018.** **to** **31.03.2018.**

Quarterly financial statements TFI-POD

Registation number (MB):	**03674223**
Registation number of subject (MBS):	**080004355**
Personal identification number (OIB):	**24503685008**
Issuer company:	**PETROKEMIJA, Plc. Fertilizer company**
Postal code and city:	**44320** **KUTINA**
Street and number:	**ALEJA VUKOVAR 4**
E-mail:	fin@petrokemija.hr
Internet address:	www.petrokemija.hr
Code and city/municipality:	**220** **KUTINA**
Code and county name:	**3** **SISAČKO-MOSLAVAČKA**
Nmber of employees: (at the end of the year)	**1.573**
Consolidted Report:	**NO**
Code of NKD:	**20.15**

Entities in consolidation (according to IFRS):	Registered seat:	Registration umber (MB):

Book-keeping office:	
Contact person;	**MARINA MARIĆ** (name and surname of the contact person)
Telephone number:	**044-647-829**
Fax:	**044-682-795**
E-mail:	marina.maric@petrokemija.hr
Name and surname:	**ĐURO POPIJAČ, DAVOR ŽMEGAČ** (authorized representatives)

Documentation to be published:

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

(seal) (signature of authorized representative)

BALANCE SHEET
as at 31.03.2018.

Issuer: PETROKEMIJA, d.d.			
Position	**AOP code**	**Previous year (31.12.)**	**Current year**
1	2	3	4
A) RECIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL	001		
B) LONG-TERM ASSETS (003+010+020+029+033)	002	**692.910.766**	**682.505.489**
I. INTANGIBLE ASSETS (004 do 009)	003	**8.491.092**	**8.302.896**
1. Expense for development	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	3.088.056	2.735.737
3. Goodwill	006		
4. Advances for intangible assets	007		
5. Intangible assets in progress	008	5.403.036	5.567.159
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 do 019)	010	**668.559.628**	**658.437.594**
1. Land	011	44.792.549	44.635.769
2. Buildings	012	201.240.990	196.796.329
3. Plant and equipment	013	310.509.892	301.539.446
4. Tools, plant inventory and transportation assets	014	18.162.307	17.565.874
5. Biological assets	015		
6. Advances for tangible assets	016	4.763.643	10.109.249
7. Tangible assets in progress	017	88.625.507	87.326.187
8. Other tangible assets	018	464.740	464.740
9. Investments in real estates	019		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	020	**15.662.370**	**15.662.370**
1. Investments (shares) in related companies	021	15.654.834	15.654.834
2. Loans given to related companies	022		
3. Participating interest (shares)	023	7.536	7.536
4. Loans given to companies with participating interest	024		
5. Investment in securities	025		
6. Loans given, deposits and similar assets	026		
7. Other long-term financial assets	027		
8. Investments accounted for using the equity method	028		
IV. TRADE RECEIVABLES (030 do 032)	029	**197.676**	**102.629**
1. Receivables from related companies	030		
2. Receivables for sales on loan	031		
3. Other receivables	032	197.676	102.629
V. DEFERRED TAX ASSETS	033		
C) SHORT-TERM ASSETS (035+043+050+058)	034	**388.524.703**	**416.506.064**
I. INVENTORIES (036 do 042)	035	**285.373.219**	**341.791.894**
1. Raw and other material	036	112.252.085	121.263.403
2. Work in progress	037	9.087.290	26.152.843
3. Finished products	038	162.787.925	192.290.175
4. Merchandise inventory	039	590.316	658.429
5. Advances for inventories	040	655.603	1.427.044
6. Long-term assets intended for sale	041		
7. Biological assets	042		
II. TRADE RECEIVABLES (044 do 049)	043	**71.014.206**	**61.129.729**
1. Receivables from related companies	044	835.005	1.421.757
2. Receivables from customers (buyers)	045	21.921.069	11.238.198
3. Receivables from participating interest	046		
4. Receivables from employees and members	047	6.315	69.585
5. Receivables from state and other institutions	048	47.081.670	46.776.562
6. Other receivables	049	1.170.147	1.623.627
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	**5.749.727**	**9.613.386**
1. Investments (shares) in related companies	051		
2. Loans given to related companies	052		
3. Participating interest (shares)	053		
4. Loans given to companies with participating interest	054		
5. Investment in securities	055		
6. Loans given, deposits and similar assets	056	5.749.727	9.613.386
7. Other financial assets	057		
IV. CASH IN BANK AND IN HAND	058	26.387.551	3.971.055
D) PREPAID EXPENSES AND ACCRUED INCOME	059	**21.966**	**174.165**
E) TOTAL ASSETS (001+002+034+059)	060	**1.081.457.435**	**1.099.185.718**
F) OFF BALANCE SHEET ITEMS	061	740.969.603	830.864.933

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	**062**	**-195.800.616**	**-274.599.242**
I. SUBSCRIBED CAPITAL	**063**	42.903.930	42.903.930
II. CAPITAL RESERVES	**064**	3.923.969	3.923.969
III. RESERVES FROM PROFIT (066+067-068+069+070)	**065**	**-11.600**	**-11.060**
1. Legal reserves	**066**		
2. Reserve for treasury shares	**067**		
3. Treasury shares and invesment (deductable item)	**068**	11.600	11.060
4. Statutory reserves	**069**		
5. Other reserve	**070**		
IV. REVALUATION RESERVES	**071**		
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	**072**	**0**	**-242.616.915**
1. Retained earning	**073**		
2. Loss carried forward	**074**		242.616.915
VI. PROFIT OR LOSS FOR THE BUSINESS YEAR (076-077)	**075**	**-242.616.915**	**-78.799.166**
1. Profit for the year	**076**		
2. Loss for the year	**077**	242.616.915	78.799.166
VII. MINORITY INTEREST	**078**		
B) PROVISIONS (080 do 082)	**079**	**19.758.253**	**19.608.253**
1. Provisions for pensions, severance pay and similar labilites	**080**	11.723.528	11.723.528
2. Provisions for tax liabilities	**081**		
3. Other provisions	**082**	8.034.725	7.884.725
C) LONG-TERM LIABILITIES (084 do 092)	**083**	**506.249.229**	**501.042.581**
1. Liabilities to related companies	**084**		
2. Liabilities for loans, deposits and similar	**085**	1.455.436	1.455.436
3. Liabilities to banks and other financial institutions	**086**	504.793.793	499.587.145
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**	**683.665.344**	**744.305.481**
1. Liabilities to related companies	**094**	10.046.595	10.319.693
2. Liabilities for loans, deposits and similar	**095**	182.030.213	149.130.827
3. Liabilities to banks and other financial institutions	**096**	126.181.973	116.343.680
4. Liabilities for advances	**097**	78.254.196	58.243.102
5. Liabilities to suppliers	**098**	263.389.849	388.097.682
6. Liabilities for securities	**099**		
7. Liabilities to companies with participating interest	**100**		
8. Liabilities to employees	**101**	10.546.374	10.454.861
9. Liabilities for taxes, contributions and other payments	**102**	7.542.590	6.160.020
10. Liabilities as per share in result	**103**		
11. Liabilities as per long-tem assets intended for sales	**104**		
12. Other short-term liabilities	**105**	5.673.554	5.555.616
E) ACCRUED EXPENSES AND DEFERRED INCOME	**106**	**67.585.225**	**108.828.645**
F) TOTAL LIABILITIES (062+079+083+093+106)	**107**	**1.081.457.435**	**1.099.185.718**
G) OFF BALANCE SHEET ITEMS	**108**	740.969.603	830.864.933
APPENDIX TO BALANCE SHEET (to be completed by companies that prepare consolidated financial statements)			
A) CAPITAL AND RESERVES			
1. Credited to parent company capital owners	**109**		
2. Credited to minority interest	**110**		

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

PROFIT AND LOSS ACCOUNT

for the period 01.01.2018. to 31.03.2018.

Issuer: PETROKEMIJA, d.d.					
Position	AOP code	Previous year		Current year	
		Cumulative	Quarterly	Cumulative	Quarterly
1	2	3	4	5	6
I. OPERATING REVENUES (112+113)	111	588.792.588	588.792.588	455.282.666	455.282.666
1. Sales revenues	112	576.288.124	576.288.124	447.868.388	447.868.388
2. Other operating revenues	113	12.504.464	12.504.464	7.414.278	7.414.278
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	595.946.172	595.946.172	491.143.071	491.143.071
1. Changes in value of work in progress and finished products	115	47.942.295	47.942.295	-46.567.803	-46.567.803
2. Material costs (117 do 119)	116	457.915.005	457.915.005	450.864.434	450.864.434
a) Cost of raw and production materials	117	438.407.141	438.407.141	429.733.090	429.733.090
b) Cost of goods sold	118	477.975	477.975	503.496	503.496
c) Other external costs	119	19.029.889	19.029.889	20.627.848	20.627.848
3. Employees costs (121 do 123)	120	45.182.907	45.182.907	45.074.968	45.074.968
a) Net salaries and wages	121	28.663.623	28.663.623	28.519.359	28.519.359
b) Costs for taxes and contributions from salaries	122	9.912.235	9.912.235	9.970.984	9.970.984
c) Contributions on salaries	123	6.607.049	6.607.049	6.584.625	6.584.625
4. Depreciation	124	23.948.886	23.948.886	22.341.665	22.341.665
5. Other costs	125	20.956.659	20.956.659	19.273.026	19.273.026
6. Value adjustments (127+128)	126	420	420	156.781	156.781
a) of long-term assets (except for financial assets)	127			156.780	156.780
b) of short-term assets (except for financial assets)	128	420	420	1	1
7. Provisions	129				
8. Other operating expenses	130				
III. FINANCIAL REVENUES (132 do 136)	131	29.180.092	29.180.092	11.011.679	11.011.679
1. Interest, exchange rate fluctuations, dividends and similar from associated companies	132	97.864	97.864	237	237
2. Interest, exchange rate fluctuations, dividends and similar from non-associated companies ond others	133	10.644.020	10.644.020	11.011.058	11.011.058
3. Part of revenue from associated companies and participating interests	134				
4.Unrealised gains (revenues) from financial assets	135				
5. Other financial revenues	136	18.438.208	18.438.208	384	384
IV. FINANCIAL EXPENSES (138 do 141)	137	10.921.944	10.921.944	53.950.440	53.950.440
1. Interest, exchange rate fluctuations and other costs with associated companies	138	1.857.901	1.857.901	75.182	75.182
2. Interest, excehange rate fluctuations and other costs eith non-associated companies	139	9.064.043	9.064.043	15.652.969	15.652.969
3. Unrealised losses (costs) from financial assets	140				
4. Other financial expenses	141			38.222.289	38.222.289
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	617.972.680	617.972.680	466.294.345	466.294.345
X. TOTAL EXPENSES (114+137+143 + 145)	147	606.868.116	606.868.116	545.093.511	545.093.511
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	11.104.564	11.104.564	-78.799.166	-78.799.166
1. Profit before taxation (146-147)	149	11.104.564	11.104.564	0	0
2. Loss before taxation (147-146)	150	0	0	78.799.166	78.799.166
XII. PROFIT TAX	151				
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	11.104.564	11.104.564	-78.799.166	-78.799.166
1. Profit for the period (149-151)	153	11.104.564	11.104.564	0	0
2. Loss for the period (151-148)	154	0	0	78.799.166	78.799.166

APPENDIX TO PLA (to be completed by companies that prepare consolidated financial statements)					
XIV. PROFIT OR LOSS FOR THE PERIOD					
1. Credited to parent company capital owners	**155**				
2. Credited to minority interest	**156**				
STATEMENT OF COMPREHENSIVE INCOME (to be completed by company obligated to apply IFRS)					
I. PROFIT OR LOSS OF THE PERIOD (= 152)	**157**	**11.104.564**	**11.104.564**	**-78.799.166**	**-78.799.166**
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 assocated 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**	**11.104.564**	**11.104.564**	**-78.799.166**	**-78.799.166**
APPENDIX TO STATEMENT OF COMPREHENSIVE INCOME (to be completed by companies that prepare consolidated financial statements)					
VI. COMPREHENSIVE GAIN OR LOSS FOR THE PERIOD					
1. Credited to parent company capital owners	**169**				
2. Credited to minority interest	**170**				

CASH FLOW STATEMENT - Direct method

for the perod 01.01.2018. to 31.03.2018.

Issuer: PETROKEMIJA, d.d.			
Position	**AOP code**	**Previous year**	**Current year**
1	2	3	4
CASH FLOW FROM OPERATIONG ACTIVITIES			
1. Cash increase from buyers	001	533.355.603	460.358.257
2. Cash increase from royalites, fees commissions and other	002		
3. Cash increase from insurance compensations	003	25.779.265	525.126
4. Cash increase from tax return	004	62.433.637	75.443.770
5. Other cash increase	005	236.547	1.328.846
I. Total increase of cash flow from operating activities (001 do 005)	006	**621.805.052**	**537.655.999**
1. Expenses to suppliers	007	510.557.848	416.088.728
2. Expenses for employees	008	53.781.429	48.218.936
3. Expenses for insurance compensations	009	2.057.685	1.325.756
4. Expenses for interest	010	7.113.950	14.536.577
5. Expenses for taxes	011	12.521.358	8.355.271
6. Other cash decrease	012	3.324.208	3.058.273
II. Total decrease in cash flow from operating activities (007 do 012)	013	**589.356.478**	**491.583.541**
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (006-013)	014	**32.448.574**	**46.072.458**
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES (013-006)	015	**0**	**0**
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proceeds from sale of non-current tangible and intangible assets	016	6.046.445	126.000
2. Cash proceeds from sale of equity and debt security instruments	017		
3. Cash proceeds from interest payment*	018		
4. Cash proceeds of dividend payment*	019		
5. Other cash proceeds from investing activities	020		
III. Total cash inflow from investing activities (016 do 020)	021	**6.046.445**	**126.000**
1. Cash outflow for acquisition of non-current tangible and intangible assets	022	30.451.430	23.101.910
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	**30.451.430**	**23.101.910**
B1) NET CASH FLOW FROM INVESTING ACTIVITIES (021-025)	026	**0**	**0**
B2) NET CASH FLOW OUTFLOW FROM INVESTING ACTIVITIES (025-021)	027	**24.404.985**	**22.975.910**
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash infows from issuance of equity and debt financial instruments	028		
2. Cash inflows from loan principals, debentures, credits and other borrowings	029	28.824.303	
3. Other inflows from financial activities	030	32.620.660	5.636.410
V. Total cash inflow from financial activities (028 do 030)	031	**61.444.963**	**5.636.410**
1. Cash outflows for repayment of loan principal and bonds	032	57.796.377	41.649.386
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	14.122.888	9.500.068
VI. Total cash outflow for financial activities (032 do 036)	037	**71.919.265**	**51.149.454**
C1) NET CASH FLOW INCREASE FROM FINANCIAL ACTIVITIES (031-037)	038	**0**	**0**
C2) NET CASHFLOW DECREASE FROM FINANCIAL ACTIVITIES (037-031)	039	**10.474.302**	**45.513.044**
Total increase of cash flow (014 – 015 + 026 – 027 + 038 – 039)	040	**0**	**0**
Total decrease of cash flow (015 – 014 + 027 – 026 + 039 – 038)	041	**2.430.713**	**22.416.496**
Cash and cash equivalents at the begining of the period	042	22.333.118	26.387.551
Increase of cash and cash equivalents	043		
Decrease of cash adn cash equivalents	044	2.430.713	22.416.496
Cash and cash equivalents at the end of the period	045	19.902.405	3.971.055

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

STATEMENT OF CHANGES IN EQUITY

for the perod from 1.1.2018 to 31.3.2018

Position	AOP code	Previous year	Current year
1	2	3	4
1. Suscribed capital	001	42.903.930	42.903.930
2. Capital reserves	002	3.923.969	3.923.969
3. Reserves from profit	003	-11.600	-11.060
4. Retained profit or loss carried forward	004		-242.616.915
5. Profit or loss for the year	005	-242.616.915	-78.799.166
6. Revaluation of fixed tangible assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008		
9. Other revaluation	009		
10. Total capital and reserves (AOP 001 do 009)	**010**	**-195.800.616**	**-274.599.242**
11. Exchange differences on translation of financial statements of foreign operations	011		
12. Curent 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 captal	016		
17. Total increase or decrease of capital (AOP 011 do 016)	**017**	**0**	**0**
17 a. Credited to parent company capital owners	018		
17 b. Credited to minority interest	019		

Items that decrease the capital are entered with a minus sign.
Items under AOP marke 001 to 009 are entered as status on balance sheet date.

PETROKEMIJA d.d.

INTRODUCTION

In the reporting period January - March 2018, Petrokemija d.d. continued to operate in a very complex situation of unfinished recapitalization and restructuring, difficulties in liquidity and adverse conditions in the market environment. With the support of the majority owner, the natural gas supplier and financial institutions, the Company managed to maintain the continuity of production and its operations, fulfil its obligations to the customers, and to prepare for the facilities overhaul and the investments necessary to continue the business in order to prevent major damages for the stakeholders of this process.

Following an unfavorable situation in the fourth quarter of 2017, the business environment of Petrokemija in the first quarter of 2018 was marked by many challenges. In the reporting period, the negative effects of full openness to the global market i.e. Petrokemija's exposure to the risks of the neighboring and wider business environment were quite apparent, which could result in very high costs for the Company without the possibility of its infuence on them. Namely, Petrokemija carried forward all the bad debts of the unfinished restructuring process of 2017 into the first quarter of 2018. Furthermore, the negative financial effects are even more intensified by:

- high rise in the price of CO_2 allowances (value adjustment of liabilities from previous years),
- further growth in natural gas purchase price,
- the fall in sales prices of mineral fertilizers on the global market,
- increase in purchasing prices of other raw materials (MAP, DAP, potassium chloride)
- decrease in total sales volumes due to lower sales of mineral fertilizers in overseas exports because current prices were significantly lower than the variable production costs realized by Petrokemija.

The biggest single impact on the financial result was due to the price increase, i.e. the correction of the value of the obligation to purchase the missing CO_2 emission units created by 31 December 2017 amounting to **HRK 38.2 million**. When HRK 8.3 million of the fee for the first quarter of 2018 is added, it means that out of the HRK 78.8 million in the first quarter of 2018, HRK 46.5 million or 59% accounts only for the above mentioned CO_2 allowances, which the Company could not have influence on, due to lack of funds for purchases in e.g. the first half of the previous year, when the prices of emission units were significantly lower.

The realized price of natural gas is 9.0% higher than the average achieved throughout 2017, while the average purchase price of the main raw materials for the production of NPK fertilizers is higher – MAP by 13.8% and potassium chloride by 7.2%.

In addition to the existing natural gas suppliers, INA d.d. and Prvo plinarsko društvo d.o.o, as of February 2018, a new gas supplier – Hrvatska elektroprivreda d.d. (Croatian Electric Power Company) will be involved in the supply of natural gas for some of the required volumes of gas in the next period.

Mineral fertilizer sales amounted to 252 thousand tons, 22.9% down on the same period of the previous year, as due to the sharp fall of sales prices in the global market it was not possible to sell under covering the direct variable production costs (simultaneous rise in raw material prices and fall of the price of finished products). Production of mineral fertilizers was realized at 287 thousand tons, 6.5% down on the same period of the previous year, partly due to technical and technological problems, and partly due to the unfavorable conditions on the sales market.

After a long period of preparations, in the conditions of limited funding for investments, an extensive biennial overhaul of Petrokemija's facilities is scheduled for the summer 2018 in order to provide good technical and technological condition of the facilities for the following period and partly to invest in modernization and increase of energy efficiency.

Due to the lack of liquidity, investments in the first quarter of the current year amounted to HRK 6.7 million, but another HRK 110 million should be invested in the overhaul and other activities for which long-term sources have not been secured. All these costs are covered from the current business operations or the expected recapitalization. The completion of the restructuring and recapitalization process should have a beneficial effect on balancing the Company liquidity and normalizing the investment and modernization system that is currently under significant pressure from the due obligations towards suppliers for the delivered natural gas.

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.

The goals of the sales strategy in 2018 are increasing sales in the regional, and in particular in the domestic market, but are not being realized in the first part of the year due to unfavorable conditions in the environment. Establishing direct partnerships with as many direct customers – mineral fertilizers consumers – is one of the positive results, with the aim of strengthening long-term competitive position of Petrokemija d.d. in the domestic market and a decrease in imports of mineral fertilizers into Croatia compared to previous years.

Fertilizer manufacturers in Europe are under strong pressure from the competition of major global manufacturers who have a comparative advantage of cheap raw material sources, from natural gas to phosphate rock, potassium chloride and sulfur. In these conditions, even successful European mineral fertilizer producers, who benefited from a favorable trend for modernization of plants and restructuring in the previous decade, have experienced a fall in profit. Accordingly, it was inevitable for Petrokemija, which has been struggling to maintain business continuity for years and operating in conditions of lower technological and energy efficiency than its European competitors, to report losses in business. The most significant negative factor for the loss in the first quarter of 2018 is the high rise in the price of CO_2 allowances, which accounts for about two thirds of the reported loss. It is followed by the high purchase price of natural gas, which is for Petrokemija about 10% higher than for its competitors, partly because of the terms for defining the purchase price (suppliers are also the largest creditors of the Company) and partly because of the extremely high costs of gas transport, which are among the highest in the EU.

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

At the time of the publication of these Reports, the negotiations of the majority owner and potential investors are underway in terms of final determination of the mutual obligations and the content of the co-ownership agreement that would define the future business model of Petrokemija d.d.
After the completion of the Company privatization process, it is expected that the State (i.e. CERP) will remain as one of the shareholders, but without a dominant position in the structure of ownership and management rights.

1. Financial result for January – March 2018

In the January to March 2018 period, Petrokemija, d.d. had total income of HRK 466.3 million and total expense of HRK 545.1 million. The Company reported loss in operations of HRK 78.8 million or 16.9% of the total revenues. In the same period last year, the Company had profit of HRK 11.1 million, which indicates a negative development in the financial result of HRK 89.9 million. The main causes of the losses in the first quarter of 2018 are high rise of price of CO_2 allowances, further growth of natural gas purchase price and fall of sales prices of mineral fertilizers in the global market.

The EBITDA (earnings before interest, taxes, depreciation and amortization) is negative amounting to HRK -13.5 million and the EBITDA margin was -2.9%. The total revenues for the first quarter of 2018 are down by 24.5% on the same period of 2017, while total expenditures were down by 10.2%. These figures point to a fall of revenues due to a decrease in sales volumes of 22.9%, with simultaneous, significantly slower fall of costs for already mentioned reasons.

Basically, all the key business risks of Petrokemija's business in the first quarter 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 resulted in the losses in business.

The main constraint to higher domestic sales in the remaining business year continues to be linked to the problem of customers' liquidity. Additional significant limitations come from the operational challenges that the Agrokor Group, as a major customer of mineral fertilizers, is faced with in the reporting period. In this context, business challenges that their business partners in the agricultural sector are faced with can also be seen, which can significantly affect the level of sown areas and fertilization in 2018. Due to its own structure of indebtedness, Petrokemija has still no long-term sources of financing deferred payments to buyers of mineral fertilizers. Other constraints affecting the level of sales on the domestic market are the dynamics and level of incentive payments on the domestic market and the increasingly present principle of purchase at the last moment before application with direct field manipulation (without the cost of storaging and re-loading).

Reducing the VAT rate in 2017 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.

2. Structure of financial result

In the structure of financial result for January to March 2018, notable is the HRK 35.9 million operating loss, while HRK 42.9 million loss was generated from financial activities, resulting in the total loss of HRK 78.8 million in the reporting period. Financial loss is the result of external factors – corrections of the CO_2 EU emission allowances (HRK 38.2 million) and interest costs due to high credit debt. The price of EU emission allowances pronouncedly varied in 2017 and 2018, and had a significant impact on the quarterly financial results. In the fourth quarter of 2017, it accounted for an increase of loss by HRK 5.5 million. The total cost for CO_2 fees in the fourth quarter amounted to HRK 12.5 million.

The positive balance of foreign exchange gains had a positive impact on the financial result of Petrokemija d.d. of about HRK 9.9 million in the first quarter of 2018.
The level of financial expenditures is still affected by the adverse financing structure, i.e. high debt and exposure to the influence of the EUR exchange rate fluctuations, as most bank loans have a currency clause. In the reporting period, critical liabilities to natural gas suppliers have partly been resolved, but there are still ongoing activities to find more favorable sources of long-term financing for the Company and to eliminate the consequences of high debt carried forward from the previous period. Maintaining current liquidity in the first quarter of 2018 was very difficult.

As on 31 March 2018, the capital and reserves amounted to HRK -274.6 million, or HRK 78.8 million less than on 31 December 2017, corresponding to the level of the loss in business. The level of the losses of the previous and the reporting period is higher than the share 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 22.9% lower mineral fertilizer sales volume, the earned operating income was 22.7% lower as compared to the previous year.

Domestic sales in percentage are lower than in the previous year (index 74.2), and expressed in thousands of tons, the increase amounts to approximately 26 thousand tons, which indicates very low sales in the same period the previous year. A part of the reduced sales volumes of mineral fertilizers is also a reflection of high sales in the fourth quarter of 2017, so a part of these volumes was transferred to the spring season. Also, it is partly the result of fertilizer import for which there are no official statistical figures yet, but is estimated to be at about 80% of the volumes in the same period last year. It is estimated that the 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 down by 21.6% as a result of unfavorable prices at some regional markets and efforts to minimize the negative effects of sales on distant overseas markets where the sales price in some transactions does not cover the costs of direct raw- and production materials and indirect sales costs. Balancing the production and sales of mineral fertilizer products that had better sales prices, ensured business continuity and current liquidity. An additional challenge were the significant fluctuations of mineral fertilizer prices over the reporting period.

4. Expenses

Operating expenses were down by 17.6% compared to the same period of the previous year, as a result of lower production and sales and the growth in purchasing prices of a part of raw materials, in particular the increase in natural gas prices in the open market. The prices of the main raw materials for the production of mineral fertilizers in the world market were by up to 14% higher, with the highest rise achieved in MAP and potassium chloride (key raw materials for NPK fertilizers). The price of natural gas ranged independently of the price trend of other raw materials, with a 9.0% higher price in the first quarter of 2018, compared to the previous year (the price includes transport costs, expressed in HRK). Overhead costs are mainly at the level of the previous year, except for deviations relating to the volume of production and sales, or the contracted packaging, such as cost of packaging, export services and other costs that vary according to the level of business activity. Overall, it can be estimated that sustained production continuity had positive effect on operating business performance. In the event of suspended production, negative effects would have been even greater due to the high fixed costs and additional costs of gas transport fees 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 earlier concluded contracts. Since February 2018, a new gas supplier – Hrvatska elektroprivreda d.d. (Croatian Electric Power Company d.d. has been included in the supply with a part of the required gas volumes in the next period.

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 March 2018, was 9.0% higher than in the January to December 2017 period. This percentage will be subject to constant changes in 2018, in line with the price movements on the European natural gas spot market. Thus, the key risks in purchasing natural gas are price fluctuations in the spot market and changes in the EUR exchange rate since the basic prices are formed in that currency.

In the course of 2017, 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 February 2018, a contract was signed with a new natural gas supplier – Hrvatska elektroprivreda d.d. (Croatian Electric Power Company), which will supply a part of the required gas volumes in the next period.

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 2017, again puts into focus 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 was supposed to have about HRK 25 million positive effect on the financial result of Petrokemija d.d. on an annual basis. However, the cost of natural gas transport has not declined that much and is still a significant item in the cost structure of Petrokemija, since the price of natural gas transport in Croatia is among the most expensive in the EU. In the first three months of 2018, Petrokemija had HRK 22.6 million in transport costs, and in the same period previous year the cost was HRK 25.3 million, i.e. a decrease of 10.7%. The cost of natural gas transport is around HRK 85 to 90 million a year. For Petrokemija's direct competitors in Hungary and Austria natural gas transport cost is twice or even six times lower, respectively. In order for Petrokemija d.d. to approach at least partially to direct competitors, the realistic cost of natural gas transport should be about HRK 40 million annually. It is necessary to reduce this cost in the future by active communication with all relevant authorities (the Croatian Government, the Ministry of Environmental Protection and Energy, HERA, PLINACRO) that define the natural gas transportation fee, because the cost at the existing level is unsustainable.

6. Production and capacity utilization

In the January to March 2018 period, Petrokemija, d.d. achieved 6.5% lower total production as compared to the previous year. Lower production is the result of alignment with the needs and dynamics of deliveries of finished products to the market and occasional facilities downtime due to technical and technological reasons.

In the production structure, the following changes occurred: 11.4% lower production of Urea, 5.1% of CAN and 1.5% lower production of NPK fertilizers. In the reporting period, production capacity utilization was 82%, and the production range was adjusted to market conditions and constraints.

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 second quarter of 2018. 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 stalled plants, including calculations for the potential dismantling of equipment and site remediation. In accordance with the above considerations, when preparing the audited annual financial statements of Petrokemija d.d. for 2017, upon auditors' suggestions, significant value adjustments were made of unused assets and non-salable supplies of the spare parts charged to the loss of 2017.

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, some of the activities were carried out during the extensive biennial overhaul in 2016 and the investment cycle was continued in 2017 (HRK 103.3 million realized investment). In the first quarter of 2018, only HRK 6.7 million was invested due to the lack of liquidity, but in the course of the year, a further HRK 110 million should be invested in the the large biennial overhaul and other activities. No long-term sources have been secured for this – everything is covered from current operations, or the expected recapitalization.

Environmental projects are becoming increasingly important in the legislative environment of EU, and the deadlines for completion were largely missed (31 December 2017), so in the following years Petrokemija d.d. will be forced into urgent and significant investments in this segment. In accordance with the IPPC Directive and the Decision on Integrated Environmental Protection Requirements, in order to meet all the prescribed technical and technological requirements of environmental protection, Petrokemija must invest approx. HRK 380 million. So far, a little over 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. 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 threatened a disruption in delivery. In 2017, a temporary solution was found to settle the outstanding liabilities to Prvo plinarsko društvo d.o.o. and other creditors by the loan from HBOR, HPB and ERSTE banks in the total amount of HRK 350 million. However, the remaining part of the liabilities transferred from the previous period, as well as new liabilities to suppliers, remain open.

9. Recapitalization and change in ownership structure

In order to mitigate the financing imbalance and maintain business continuity, in August 2016, the Company received a long-term loan of HRK 200 million from the Croatian Bank for Reconstruction and Development, with a 100% guarantee of the Croatian Government, 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 had to 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 prerequisites for the preparation and realization of the Company privatization.

With the assistance of financial and legal advisers, Restructuring Program of the Company and the Petrokemija Group was prepared and was approved by the Supervisory Board and CERP. In the previous period, a comprehensive due dilligence analyses of the business of Petrokemija d.d. and Petrokemija Group had been conducted by several interested investors, and potential investors' offers were received.

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

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

Taking into account the difficult situation of the Company's illiquidity, which is directly related to the daily generation of business losses (interest, terms of gas supply, terms of sale of finished products, delay in investment), in cooperation with the advisers, the original dynamics of implementation of measures had been established that assumed completion of all activities of the Company recapitalization until 27 December 2017. Because of the complexity of the process and numerous demands of potential strategic investors towards the majority owner (issues of settling debt, state aid, environmental permits, investment program, value of assets and other open issues) the process was extended to the first half of 2018. At the time of the preparation of these Reports, the negotiations are in progress between the majority owner and potential investors regarding the final determination of mutual obligations and the content of the co-ownership agreement that would define the future business model of Petrokemija d.d. Any delay of the recapitalization leads to increasing imbalances in the financial position of the Company and its operations.

10. Financial risks in the subsequent period

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

1. Natural gas price trends in the European spot market;
2. Changes in price of basic raw materials in the world market (MAP, DAP, phosphate, potassium chloride and sulfur);
3. Changes in demand and sales prices of mineral fertilizers;
4. Price trends of CO_2 emission units;
5. Price trends of basic agricultural crops;
6. Exchange rate of EUR and USD to the local currency and their interdependence;
7. Costs of financing and cross-currency relations;
8. Agricultural policy of EU and Croatia.

The exposure of Petrokemija, d.d. to developments in the global market opens up significant potential risks in terms of price and financial fluctuations in 2018. Effective risk management of natural gas price growth (contracted price is in EUR, although purchasing is done on the domestic market) and risk of USD and EUR exchange rate changes in the procurement of other imported raw materials is limited by the lack of own working capital (negative working capital of HRK -497 million, whereas on 31 December 2017 it was HRK -363 million) and by the lack of support of financial institutions in financing working capital and investments.

In its production process, Petrokemija inevitably emits greenhouse gases for whose emission it allocates significant funds, which, depending on the price of ETS units in the open market, amount to about HRK 20 to 25 million a year. Due to limited funding sources, the Company cannot purchase ETS units at the best time, which significantly increases the risk of higher cost of greenhouse gas emission fees depending on the price movement of ETS units in the open market. This was the case in 2017 and in the first quarter of 2018 and it significantly contributed to an increase in losses (by HRK 38.2 million).

The long-term loans from HBOR and HPB and a short-term one from ERSTE Bank secured a part of the long-term sources of financing working capital and the continuation of activities in restructuring the business in 2017. However, the challenges of maintaining financial and operational stability are still present. Out of the HRK 350 million loan, Erste Bank's HRK 100 million is a bridge short-term loan that should have been fully repaid by the end of 2017 from recapitalization funds. In the reporting period, an Annex to the Agreement was signed with a new maturity date, end of the third quarter of 2018, by when the recapitalization process is expected to be completed.

Due to the Company's insufficient liquidity, advance payments are used in the sales of mineral fertilizers, which, due to the economic exhaustion of Croatian agriculture results in lower demand and therefore a poorer market position of Petrokemija, d.d. in Croatia. The market and financial results for 2017 and the first quarter of 2018, as well as the assessment of market position at the time of the preparation of these financial statements (in particular in terms of uncertain domestic sales and the comparatively low prices of mineral fertilizers on the open market, threatened liquidity and solvency of the Company), call for caution in predicting future trends in business in 2018, with the possibility of occasional shutdowns of a part of the facilities and changes in the organization of the Company and Petrokemija Group. The unsteady natural gas prices on the European spot market raise again 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), causing constant uncertainty in the estimates of financial results, as the duration of a positive or negative trend is hard to predict.

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