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# QUARTERLY REPORT PETROKEMIJA, Plc. KUTINA

REPORT FOR PERIOD January to September 2018  
INTERIM REPORT FOR PERIOD July to September 2018

NPK

KAN

UREA

PETROKEMIJAS

ASN

Kutina, October 2018



## Introduction

**At the time of the determination and disclosure of the financial statements of Petrokemija, Plc. and Petrokemija Group for the period from January to September of 2018, on 29 October, Petrokemija, Plc. published a Public Invitation for the Subscription of New Ordinary Shares of the Company. In connection with this, on the day of the public disclosure of these Financial Statements (31 October, 2018), the General Assembly of the Company is scheduled, with decisions that, in certain significant elements, amend or supplement the ratings and statements contained in these notes and in the commentaries of the Reports. This particularly applies to changes in the ownership structure, equity, assets and liabilities of the Company and the potential changes in the business and management model that may arise in the next period.**

In the reporting period January - September 2018, Petrokemija, Plc. operated in the conditions of the continuing increase of input prices of main raw materials, especially those of natural gas. At the same time, it was unable to transfer the rise of the input expenses to the selling market of mineral fertilizers due to very strong competition which limited the increase of market prices. In the third quarter the Company stated a high loss because it continued operating in a very complex out-of-season situation on the home market and that in the region, unfinished process of recapitalization, difficulties with liquidity and unfavourable conditions in the market environment while it was at the same time undergoing an extensive two-year overhaul of production and logistic facilities. With the support of the majority owner, the natural gas suppliers and financial institutions, the Company maintained the continuity of production and its operations, fulfilled its obligations to the customers, carried out the facilities overhaul and the investments necessary to continue the business (HRK 104,4 million worth) in order to prevent major damages to the stakeholders in the process of recapitalization.

Following an unfavourable situation in the fourth quarter of 2017, the business environment of Petrokemija, Plc. in the first nine months of 2018 was marked by numerous challenges. The negative effects of being fully opened to the global market, i.e. Petrokemija's exposure to the risks of the neighbouring and wider business environment can clearly be seen in the reporting period. This resulted in very high costs for the Company, with no possibility for it to make an influence on them. Namely, into the third quarter of 2018, Petrokemija, Plc. carried forward all the uncertainties about the unfinished process of recapitalization and the negative financial effects that have been even more intensified by:



## Introduction (cont.)

- further rise in natural gas purchase price,
- high rise in the price of CO2 allowances (new costs and value adjustment of liabilities from previous years),
- 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 export because current prices were significantly lower than the variable production costs realized by Petrokemija, Plc.

The biggest unforeseen single impact on the financial result was due to the increase in natural gas prices. The realized price of natural gas is 19.3% higher than the average in the same period of 2017. This growth resulted in an additional cost of HRK 128.5 million, as compared to the same period of the previous year, representing 38% of the realized loss in the first nine months of 2018. In addition to the existing natural gas suppliers, INA, Plc and Prvo plinarsko društvo, Ltd, as of February 2018, in the supply of natural gas, a new gas supplier – Hrvatska elektroprivreda, Plc, which supplied a significant part of the required quantities of gas in the reporting period, was included.

The next most important factor that made an impact on the financial business loss was the price increase of the CO2 emission units (+161,4% compared to late 2017). The risk of correcting the value of the obligation to purchase the missing CO2 emission units created by 31-12-2017 could not be prevented due to the restriction of the company's liquidity, thus charging the financial result with the amount of HRK 91.8 million in the reporting period. When HRK 9.5 million of the fee for the current period of 2018 is added, it means that out of the HRK 340.9 million loss in the first nine months of 2018, HRK 101.3 million or 30% accounts only for the CO2 allowances.

The two items mentioned - natural gas and CO2 allowance account for 68% of the realized loss in the reporting period. These are the risks that the Company could not have had influence on in the current business model because it could not contract a more favourable gas procurement model as the gas suppliers are also the creditors of the Company and bear the risk of collecting relatively high receivables. Due to carried-forward liabilities from the previous period, the Company was not able to regularly settle the liabilities to



## Introduction (cont.)

natural gas suppliers. Furthermore, due to the lack of financial resources for regular purchases of CO<sub>2</sub> emission units (e.g. in the first half of the previous year, when the prices of emission units were significantly lower), the Company had the already mentioned additional loss of HRK 91.8 million in the first half of this year.

The remaining 32% of the loss (apart from the price of natural gas and the allowances for CO<sub>2</sub> emission units), is made up of all other business elements - lower revenues due to low sales prices and smaller sales volumes, interest on loans, price increase of other raw material, costs of facilities standstills for technical and technological reasons and other costs that could not be covered by realized revenues.

In the reporting period, there was also an increase in the prices of other major raw material. The average purchasing price of the main raw material for NPK fertilizer production - MAP was 11.9% higher (expressed in USD) and that of potassium chloride 11.8% higher (expressed in EUR) than in the same period last year. The changes in the exchange rates of the USD and EUR against the Croatian Kuna have resulted in the growth of potassium chloride share in Petrokemija's costs by about the same amount, as the EUR exchange rate was approximately at the same level (index 99.7%), while the rise of MAP price, due to the fall of the USD exchange rate, was partly neutralized in HRK amounts. The price of raw phosphate is below the level of the same period last year.

Mineral fertilizer sales amounted to 701 thousand tons, 18,0% lower than when compared to 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 at low prices that would not cover the direct variable production costs. Simultaneously, there is a rise in raw material prices (natural gas) and a fall or stagnation of the price of finished products (Urea and CAN). Production of mineral fertilizers was realized at 718 thousand tons, 16.7% less than in the same period of the previous year, partly due to a one-month delay during the carrying out of an overhaul, and other technical and technological problems, and partly due to the unfavourable conditions on the sales market.

After a long period of preparation, under the limited investment financing conditions, in the summer of 2018, a comprehensive two-year renovation of the Petrokemija, Plc. plants was carried out in order to provide the technologic condition of plants for the following period and partly to invest in modernization and increase of energy efficiency.



## Introduction (cont.)

Despite the lack of liquidity, investments amounted to HRK 104.4 million for the first nine months of the year, for which long-term sources were not secured, but all costs are covered by current business, i.e. the expected recapitalization. The completion of the recapitalization process should have a beneficial effect on the equilibrium of the Company's liquidity and the normalization of the investment and modernization system, which is currently under significant pressure of the due obligations towards suppliers for the delivered natural gas.

As regards market position, the adverse effects of the Agrokor Group have been reduced 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 disturbances in Agrokor Group's business has also had an impact on mineral fertilizer buyers on the markets of neighbouring countries, primarily Slovenia, Bosnia and Herzegovina and Serbia. Successful completion of the creditors' settlement process in Agrokor will probably have a positive impact on the trend of intensifying sales growth on the domestic and regional mineral fertilizer markets in the period to come.

The goals of the sales strategy in 2018 and 2019 are increasing sales in the regional and, particularly, in the domestic market. However, they have not been realized in the three quarters of the year due to unfavourable 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, Plc. in the domestic market and the decrease in imports of mineral fertilizers into Croatia when 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 sulphur. In these conditions, successful European mineral fertilizer producers, who had benefited from a favourable trend for modernization of plants and restructuring in the previous decade, experienced a fall in profit and some even losses. Accordingly, it was inevitable for Petrokemija, Plc., which has been struggling to maintain business continuity for years and operating in conditions of lower technological and energy



## Introduction (cont.)

efficiency than its European competitors, to report losses in business. The most significant negative factors for the loss in the first nine months of 2018 are the high price rise of natural gas and the high rise in the price of CO2 allowances, which accounts for about 68% of the reported loss. In the remaining part of the year the greatest uncertainty is the potentially high purchase price of natural gas, which is for Petrokemija, Plc. about 15% 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 is 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 favourable location, well-maintained production and logistics systems, to skilled labour. 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 preparation of these Reports, final activities are underway in line with the decisions of the General Assembly of 9 July 2018, which define the future model of Petrokemija, Plc. The General Assembly called for October 15 was not held due to the lack of quorum so it is expected that on the next meeting on 31 October it will make appropriate decisions in this regard. Upon 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, Plc. for January – September 2018

- ❑ Operating loss – HRK 340.9 million (the same period 2017 – 119.5 million loss),
- ❑ Loss in business operations – HRK 214.0 million, loss in financial operations – HRK 126.9 million,
- ❑ Earnings without interest, taxes, depreciation and amortization (EBITDA) – HRK 148.3 million (negative),
- ❑ Actual total revenues of Petrokemija, Plc. – HRK 1,267.2 million, 12.7% less than in the same period of 2017,
- ❑ Actual production of fertilizers – 717.8 thousand tons, 16.7 % less than in the same period of 2017,
- ❑ Compared to the same period of 2017, production decreased: UREA by 30.8%, CAN by 12.9% and NPK fertilizers production increased by 1.8%,
- ❑ Utilization of currently installed plant capacities – 75 %,
- ❑ Actual sales of fertilizers – 701 thousand tons, 18 % lower sales volume compared to same period of 2017,
- ❑ Share of fertilizer sales on the domestic market – 27.2%,
- ❑ Domestic sales – 191 thousand tons, exports – 510 thousand tons of fertilizers,
- ❑ Capital and reserves on 30 September 2018 for Petrokemija, Plc. – HRK -537 million (negative),
- ❑ Investments in Petrokemija, Plc. – HRK 104.4 million,
- ❑ Employed on 30 September 2018: Petrokemija, Plc. – 1,595, Petrokemija Group – 1,727.



## Management Board Report for January – September 2018

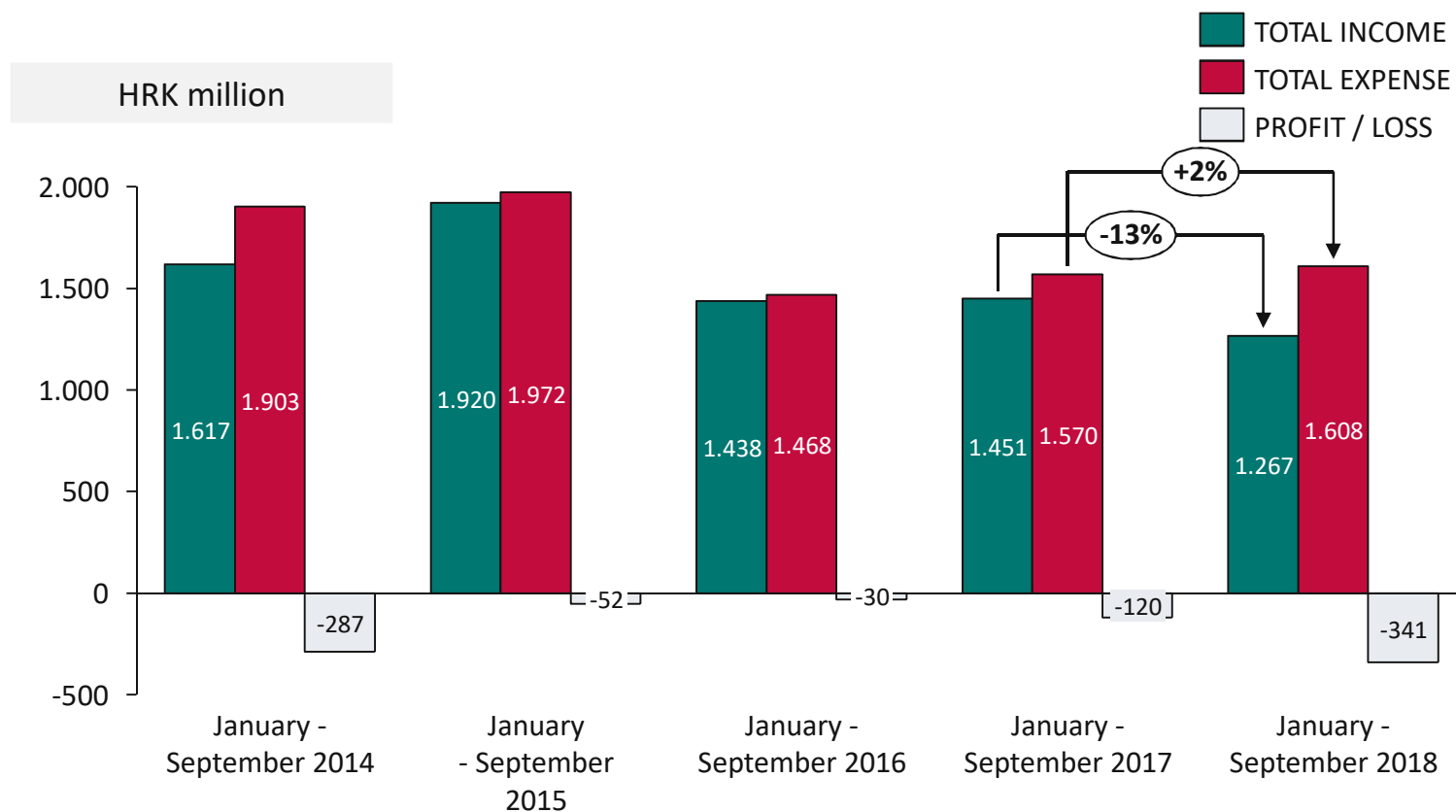
- ❑ From January to September 2018, Petrokemija Plc. had total revenue of HRK 1,267.2 million and total expense of HRK 1,608.1 million. The Company reported loss of HRK 340.9 million or 26.9% of the total revenues,
- ❑ Lower sales volumes by 18% and higher average sales prices by 5 % compared to the same period of 2017,
- ❑ In the revenue structure, domestic sales accounted for 31.0 % or HRK 393.3 million, 5.0% more when compared to the same period 2017, while export accounted for 64.1 % or HRK 812.7 million, 20.5 % less than in the same period of 2017,
- ❑ In assortment, compared to the same period 2017, lower sales in 2018 of Urea by 25.4%, lower sales of CAN mineral fertilizers group (CAN+AN+UAN+AS/ASN) by 18.9% and higher sales of NPK fertilizers by 3.4 %
- ❑ Domestic sales at the level of realization in the same period of 2017,
- ❑ Mineral fertilizer sales in exports by 23.2% lower than in the same period of 2017,
- ❑ Sales volumes of clay-based products and liquid fertilizers – 0.1% higher than in the same period of 2017,
- ❑ Average realized natural gas price (without transport costs) – 19.3 % higher in HRK compared to the same period of 2017 and 28.6% higher in USD,
- ❑ Liquidity indicators are below recommended value, further aggravated compared to the previous year (on 30 September 2018, negative working capital was HRK -750 million; on 31 December 2017 it was HRK -363 million),
- ❑ 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 -537 million,
- ❑ Short-term assets increased by 13.3% when compared to the end of 2017, and short-term liabilities increased by 53.5%,
- ❑ Deferred payment of costs increased by 110.7% when compared to the end of 2017,
- ❑ Long-term assets increased by 5.5% when compared to the end of 2017, while long-term liabilities decreased by 1.7%.





## Profit and Loss of Petrokemija, Plc. for 2014 – 2018

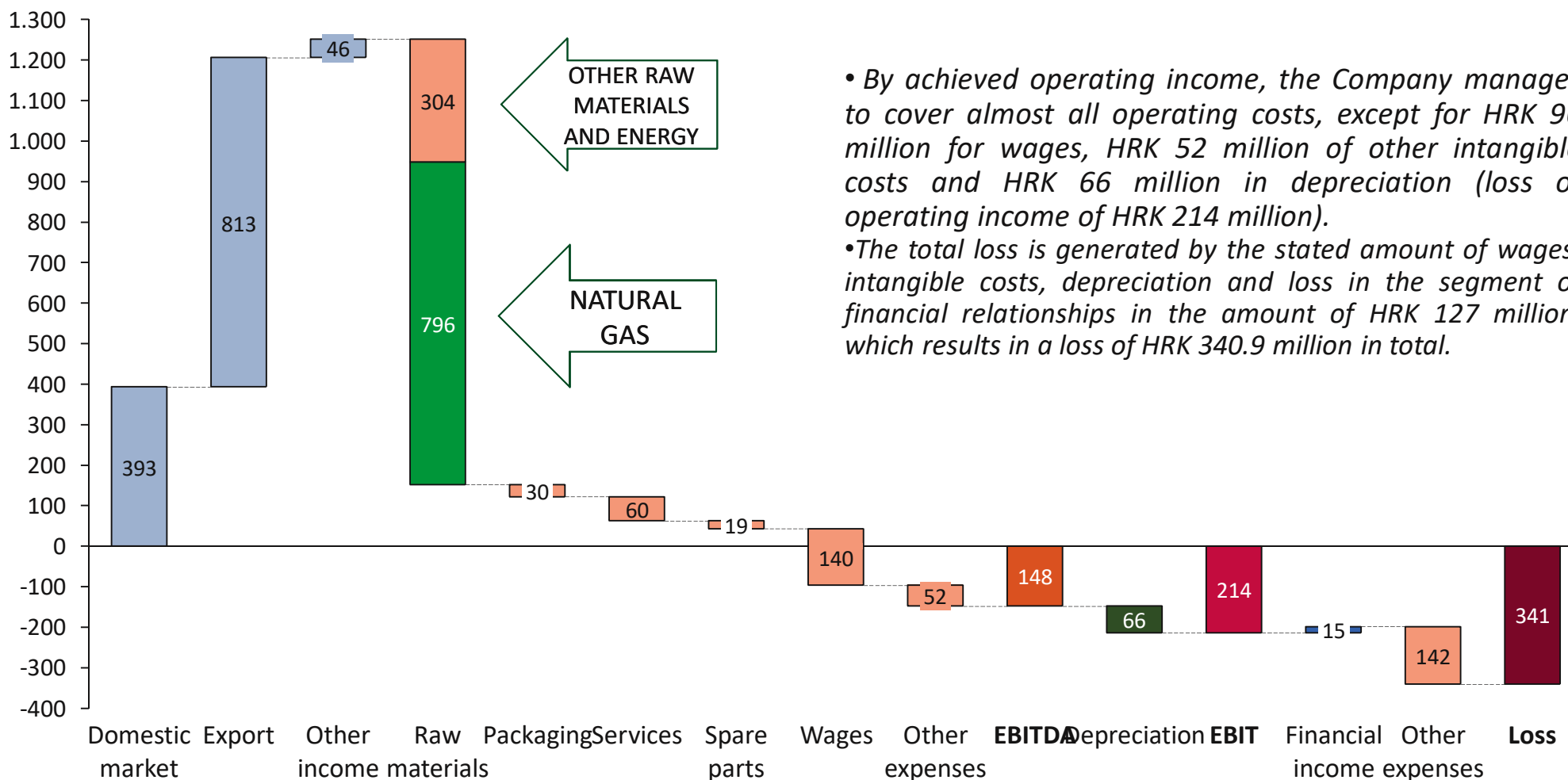
■ Total income	HRK 1,267.2 million,
■ Total expense	HRK 1,608.1 million,
■ Loss	HRK 340.9 million,
■ EBITDA	HRK -148,3 million,
■ EBITDA margin (%)	-11,78%.





# Structure of Profit and Loss

HRK million

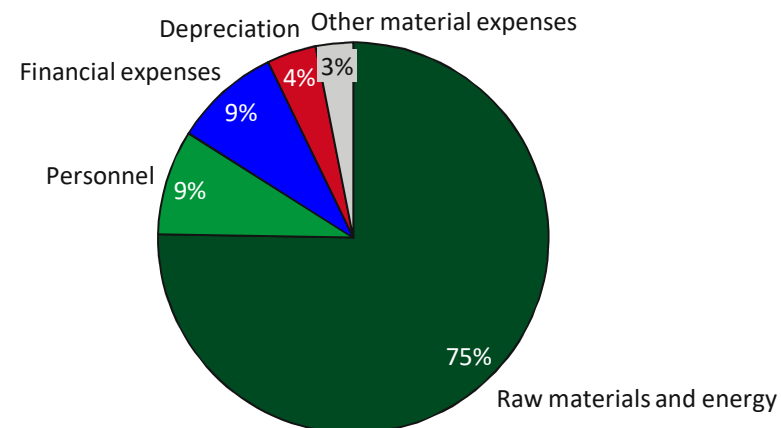
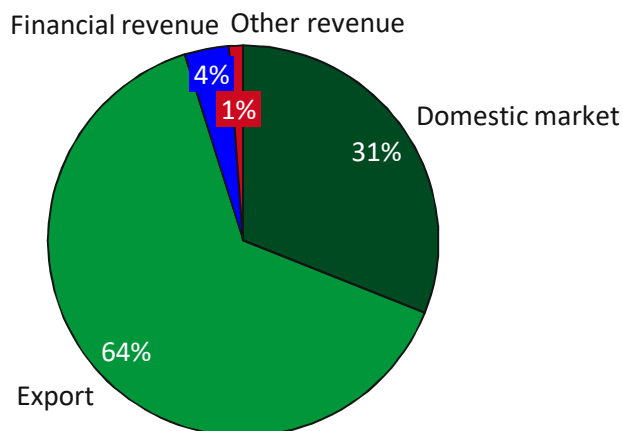


- By achieved operating income, the Company manages to cover almost all operating costs, except for HRK 96 million for wages, HRK 52 million of other intangible costs and HRK 66 million in depreciation (loss of operating income of HRK 214 million).
- The total loss is generated by the stated amount of wages, intangible costs, depreciation and loss in the segment of financial relationships in the amount of HRK 127 million, which results in a loss of HRK 340.9 million in total.



## Structure of Profit and Loss for January – September 2018

- ❑ In January – September 2018 period, Petrokemija, Plc. made 31% of revenue from domestic market, 64% revenue from export, and financial and other revenue accounted for 5% of the total revenues.
- ❑ In the structure of total expenses the dominant 75% account for the costs of raw materials, materials and energy; personnel costs account for 9%, while all other costs make 16%. Due to the specific situation of CO<sub>2</sub> emission units value adjustment (EUA), which rose by 161.4% in the first nine months and created additional HRK 91.8 million in costs, the share of financial expenses has risen to an unusually high 9%.





## Key financial indicators for January – September 2018

(HRK 000)

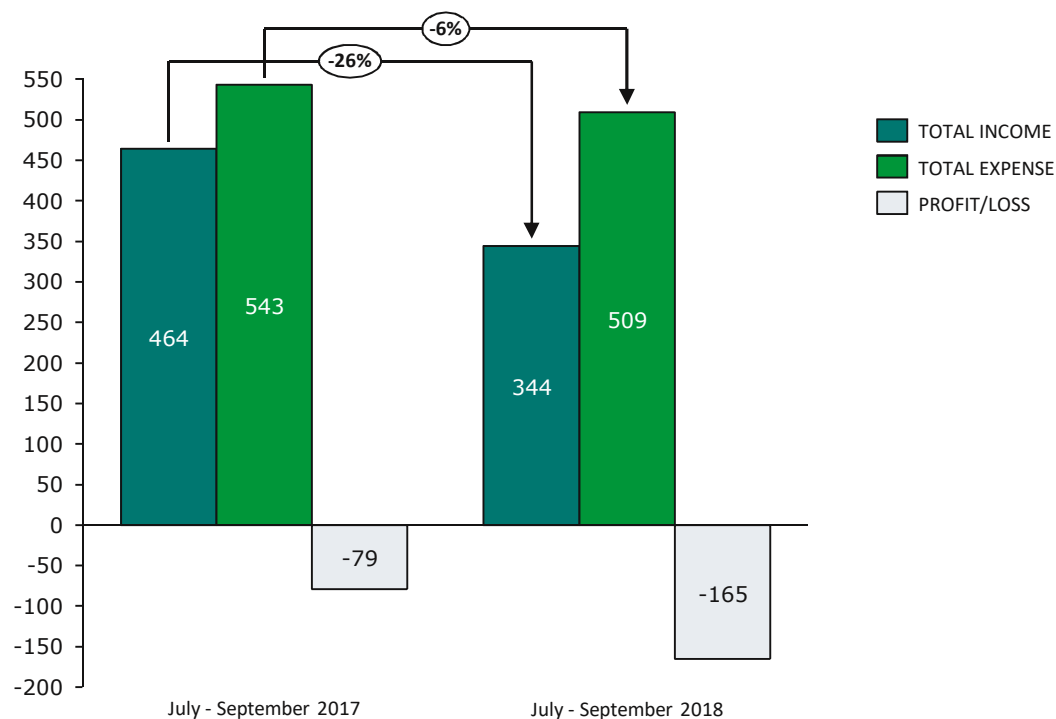
	January – September 2018	January – September 2017	Difference	% change
Operating income	1.252.142	1.431.182	-179.040	-12,51%
Operating expense	1.466.117	1.529.711	-63.594	-4,16%
EBITDA *	-148.308	-27.886	-120.422	431,84%
Amortization	65.667	70.643	-4.976	-7,04%
Net financial income /(expenses)	-126.895	-20.949	-105.946	505,73%
Net extraordinary income / (expenses)	0	0	0	
Profit / loss / before taxation	-340.870	-119.478	-221.392	185,30%
	<b>30 September 2018</b>	<b>31 December 2017</b>		
Fixed assets	730.943	692.911	38.032	5,49%
Current assets	441.335	388.546	52.789	13,59%
Capital and reserves	-536.670	-195.801	-340.869	174,09%
Long-term liabilities + provisions	517.259	526.008	-8.749	-1,66%
Current liabilities + provisions	1.191.689	751.250	440.439	58,63%

\* Earnings before interest, taxes, depreciation and amortization



## Profit and Loss from operating activities for July – September 2014 to 2018

- ❑ In July to September 2018 period, Petrokemija, Plc. had actual total revenues of HRK 344 million, total expenses of HRK 509 million and reported operating loss of HRK 165 million.
- ❑ On a quarterly basis, total revenues decreased by 26% compared to the third quarter of 2017, while total expenses decreased by 6%.





## Key financial indicators for July – September 2018

	January – June 2018	July – September 2018	January – September 2018
Operating income	907.660	344.482	1.252.142
Operating expense	1.016.382	449.735	1.466.117
EBITDA *	-64.733	-83.575	-148.308
Amortization	43.988	21.679	65.667
Net financial income / (expenses)	-67.271	-59.624	-126.895
Net extraordinary income / (expenses)	0	0	0
Profit / loss / before taxation	-175.992	-164.878	-340.870

\* Earnings before interest, taxes, depreciation and amortization

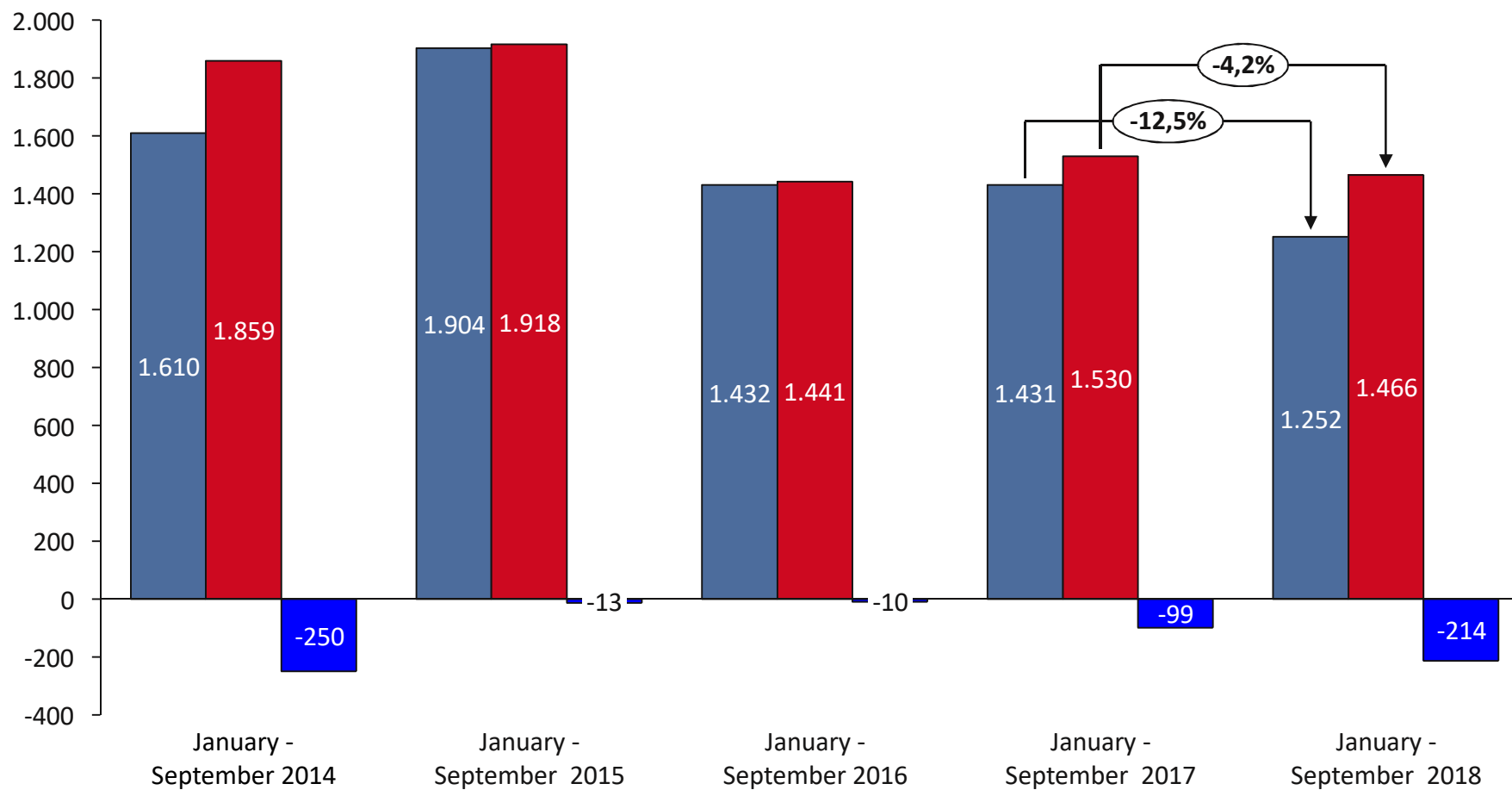
In the third quarter of 2018, a loss of HRK 164.9 million was realized. The EBITDA amounted to HRK -83.6 million.



## Profit and Loss from operating activities 2014 - 2018

HRK million

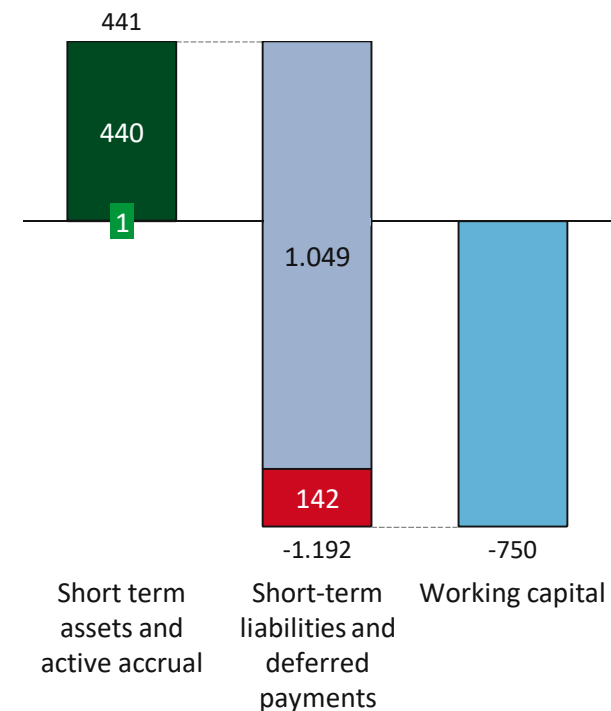
OPERATING INCOME  
OPERATING EXPENSES  
PROFIT/LOSS FROM OPERATING ACTIVITIES



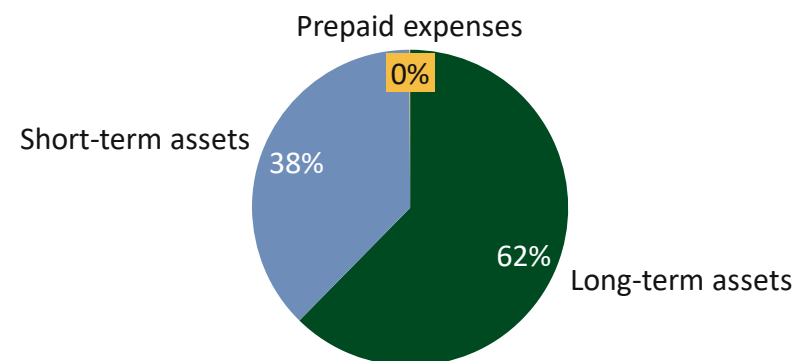
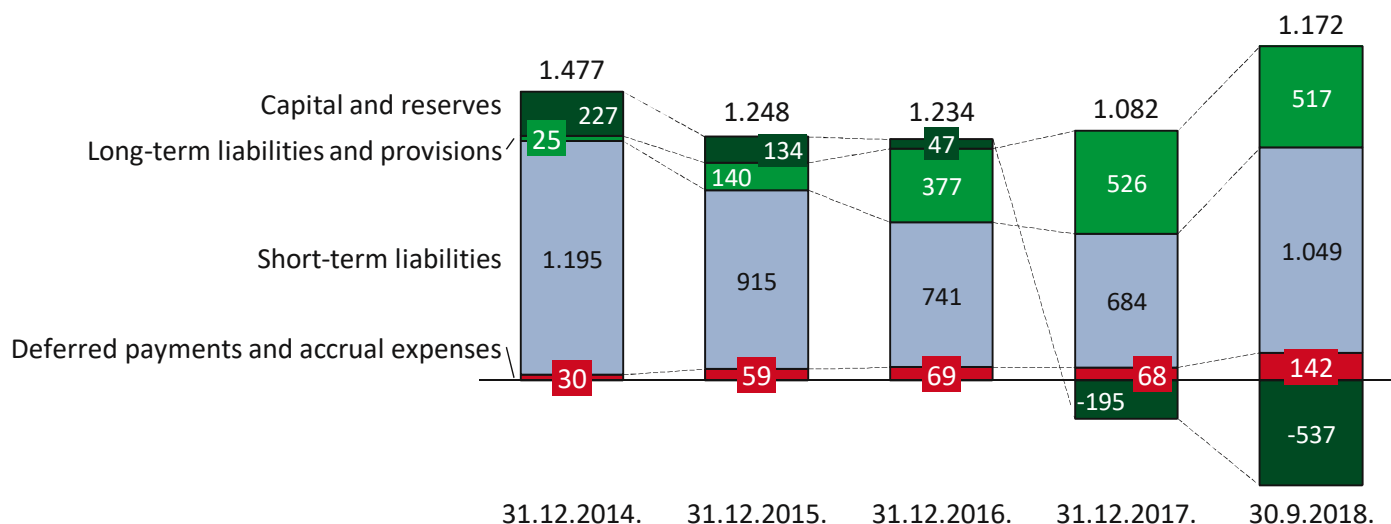


## Structure of assets and liabilities on 30 September 2018

- On 30 September 2018, Petrokemija, Plc. had 38% in value of short-term and 62% in long-term assets.
- The realized loss and the delay in the implementation of recapitalization resulted in higher liabilities than the value of the assets, i.e. the capital level was HRK -537 million (registered capital HRK 42.9 million increased by HRK 3.9 million in capital reserves reduced by the loss of HRK until 30 September 2018)
- During the first nine months of 2018, the Company's indebtedness changed its structure and maturity. Long-term liabilities decreased by HRK 9 million, and short-term liabilities and deferred payment of expenses were increased by HRK 441 million (debt to suppliers and commitments to buy CO<sub>2</sub> units).



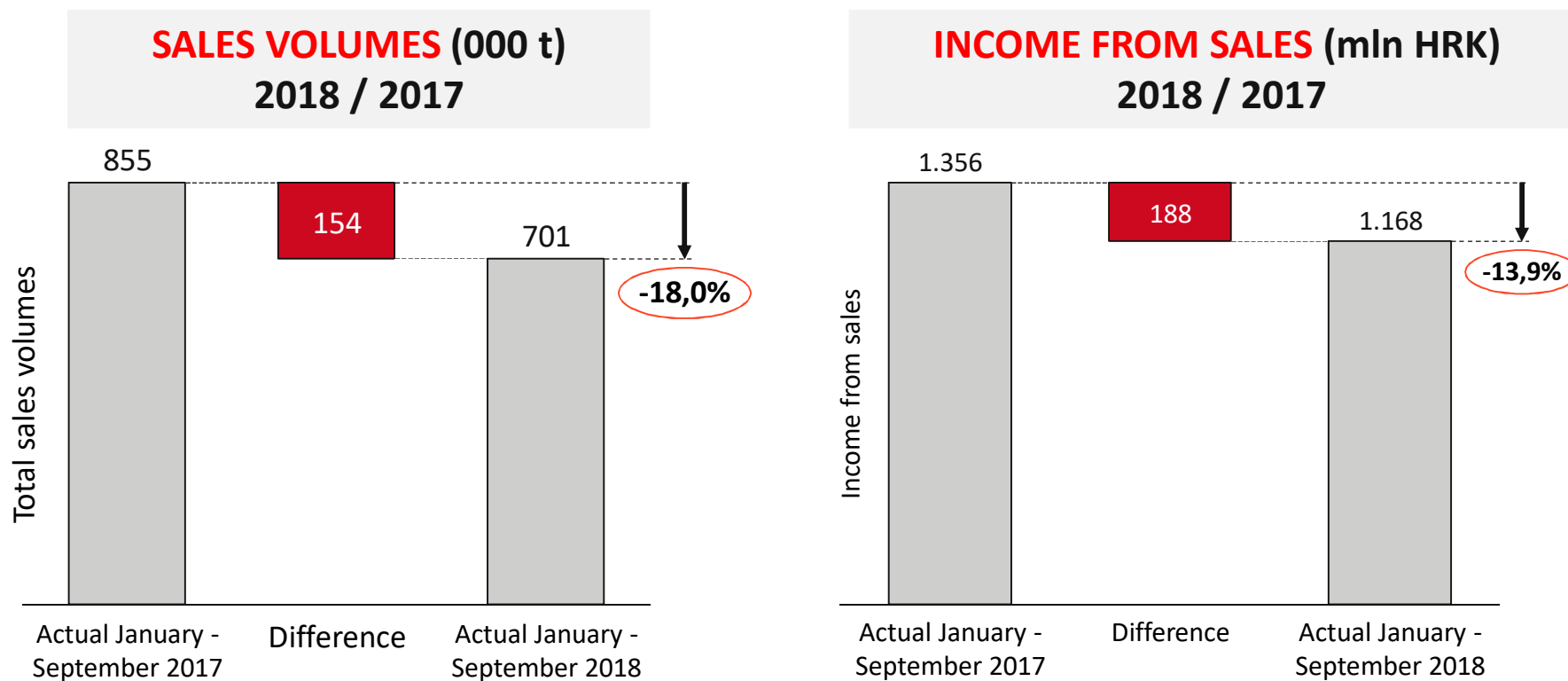
HRK million







## Total fertilizer sales

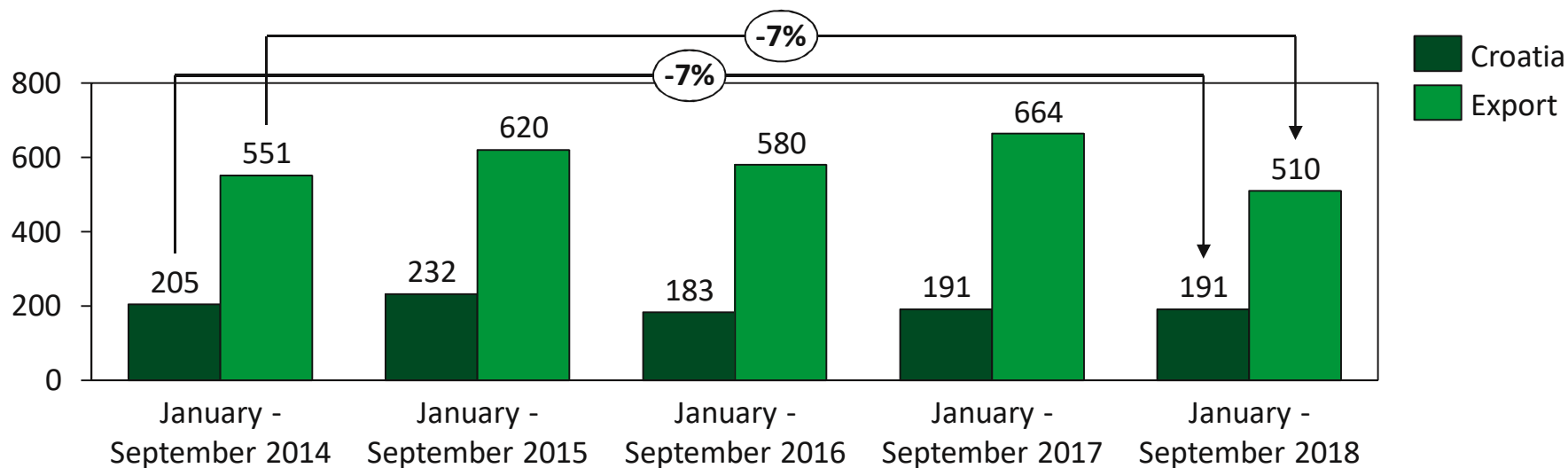
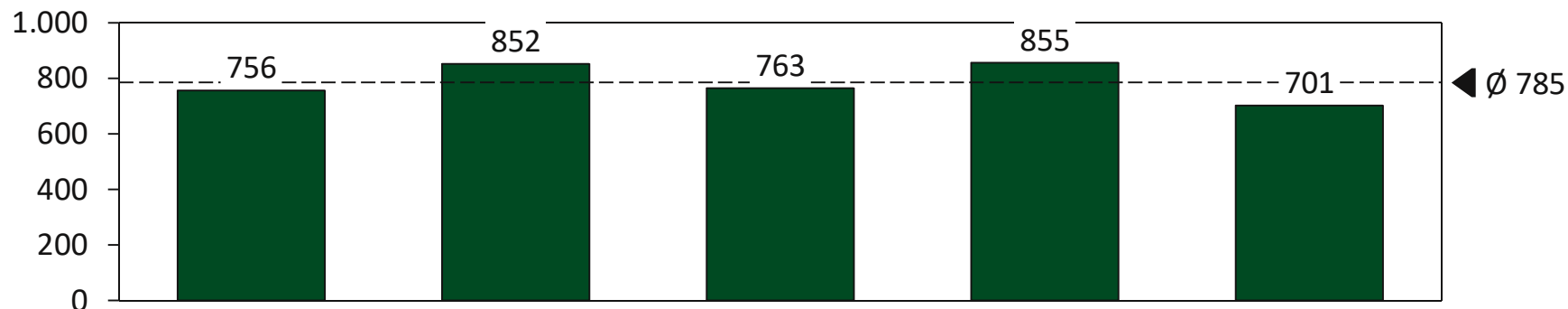


Actual fall in mineral fertilizer sales volumes by 18% and the decrease in income from fertilizer sales by 13.9% indicates a rise in average selling prices by 5% compared to the same period 2017. (change in assortment and share of individual markets).



# Actual fertilizer sales in January – June 2014 – 2018

total sales (000 tons)





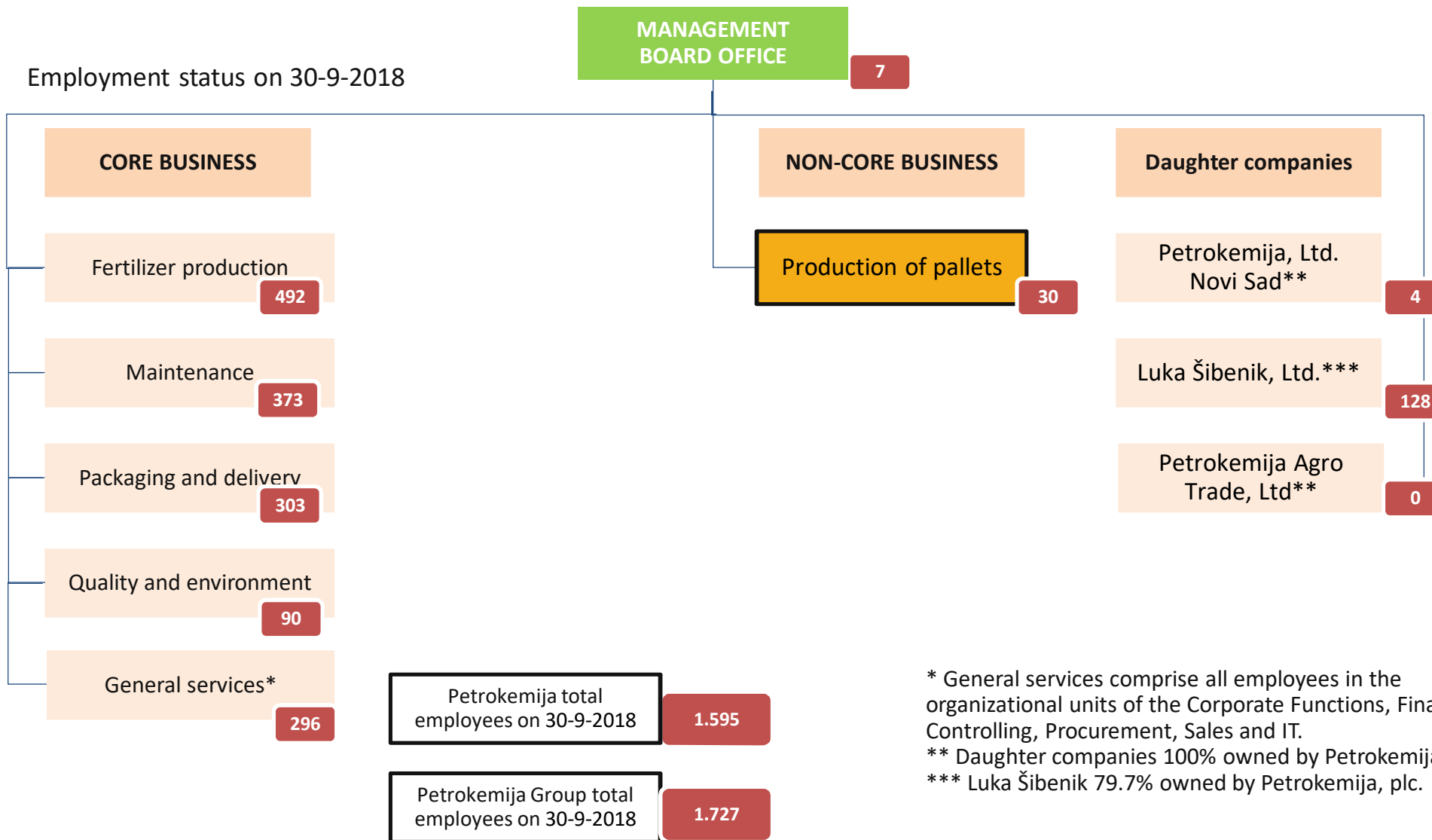
## Business Results of Petrokemija Group for January – September 2018

- ❑ After the consolidation of the financial results of Petrokemija, Plc. and its subsidiaries - Petrokemija, Ltd. Novi Sad, Luka Šibenik, Ltd. and Petrokemija Agro Trade, Ltd. – the financial results of Petrokemija Group for the period January – September 2018 are as follows:
  - ❑ Total revenues HRK 1,280.7 million,
  - ❑ Total expenses HRK 1,624.0 million,
  - ❑ Loss before tax HRK 343.3 million,
  - ❑ Profit tax HRK 0.0 million,
  - ❑ Loss after tax HRK 343.3 million,
- ❑ EBITDA (earnings before interest, taxes and depreciation) was HRK 149.4 million in the negative.
- ❑ Petrokemija, Ltd. Novi Sad made loss of HRK 42 thousand, while Luka Šibenik, Ltd. reported loss of HRK 1.9 million. Petrokemija Agro Trade Ltd. sustained a loss of HRK 14 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

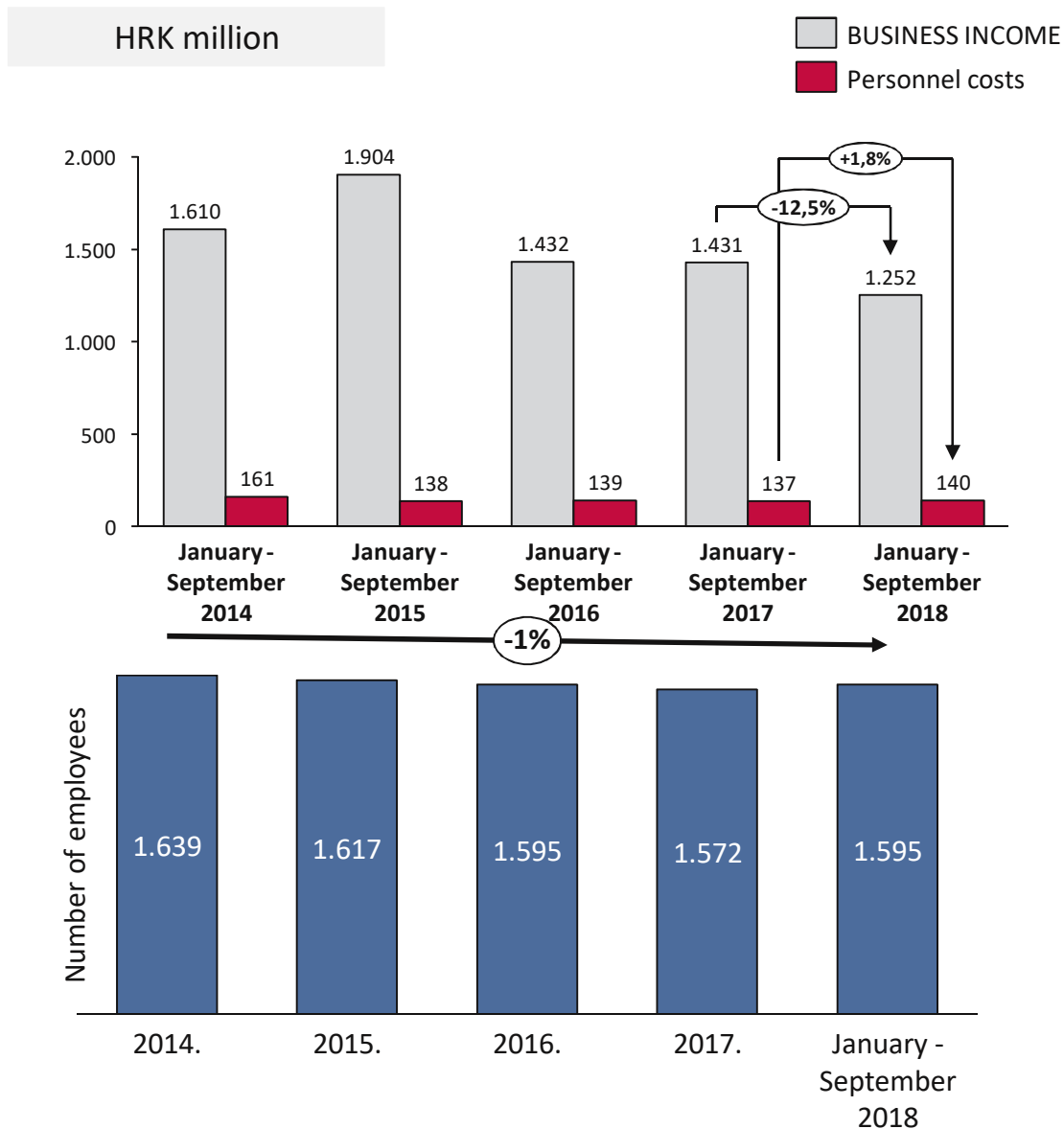
Employment status on 30-9-2018



\* 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, plc.  
 \*\*\* Luka Šibenik 79.7% owned by Petrokemija, plc.

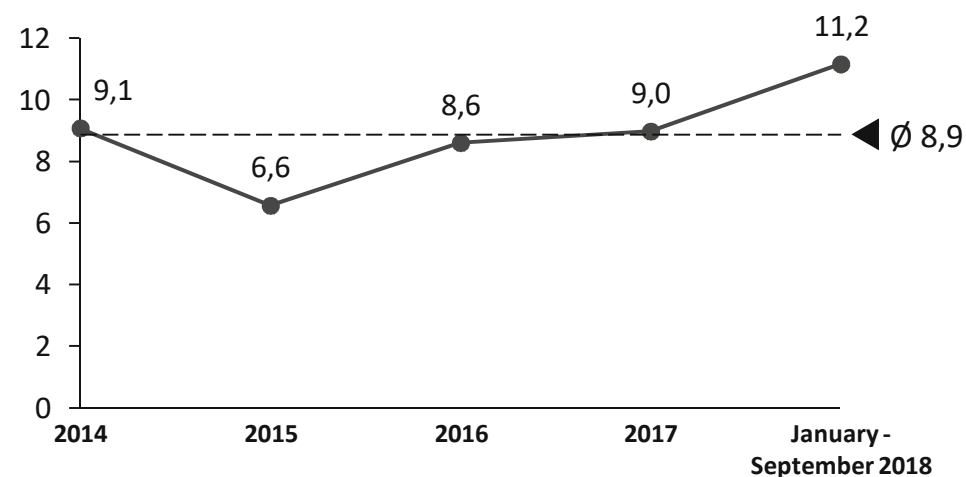


# Operational income, personnel costs and number of employees



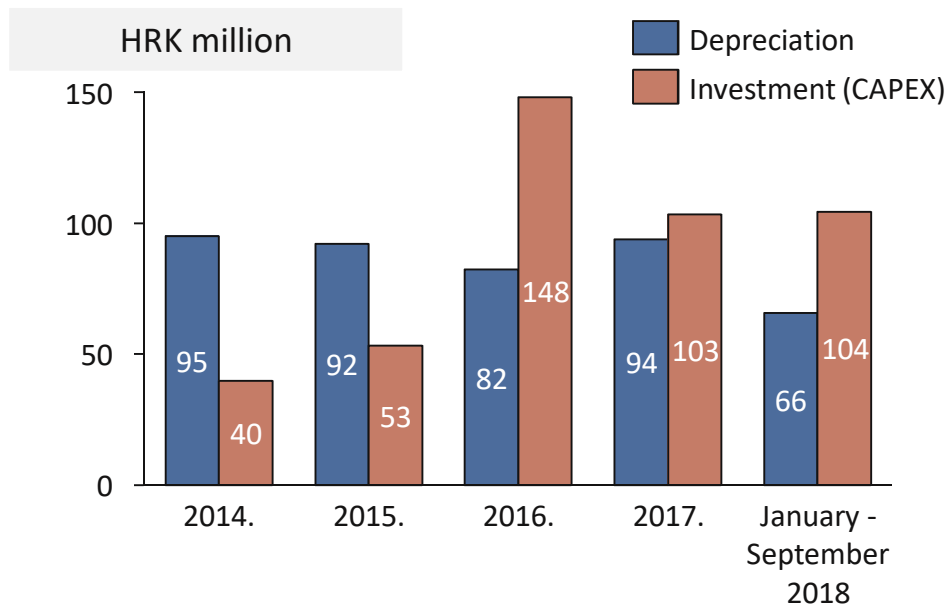
On **30-09-2018** Petrokemija, Plc. had **1.595 employees**, and daughter companies - members of Petrokemija Group - had 132 employees, which is a total of 1,727 employees.

Personnel costs share in operating revenues was 11.2% higher, compared to the previous year due to the decline in business income by 12.5% and the mass of gross wages is 1.8 % lower.

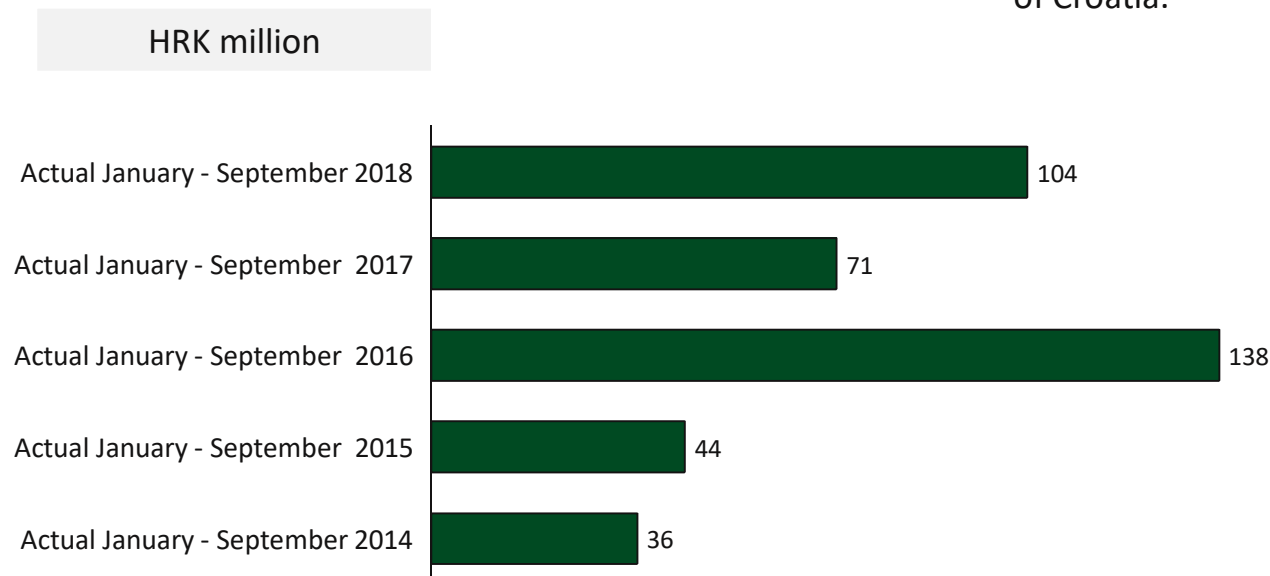




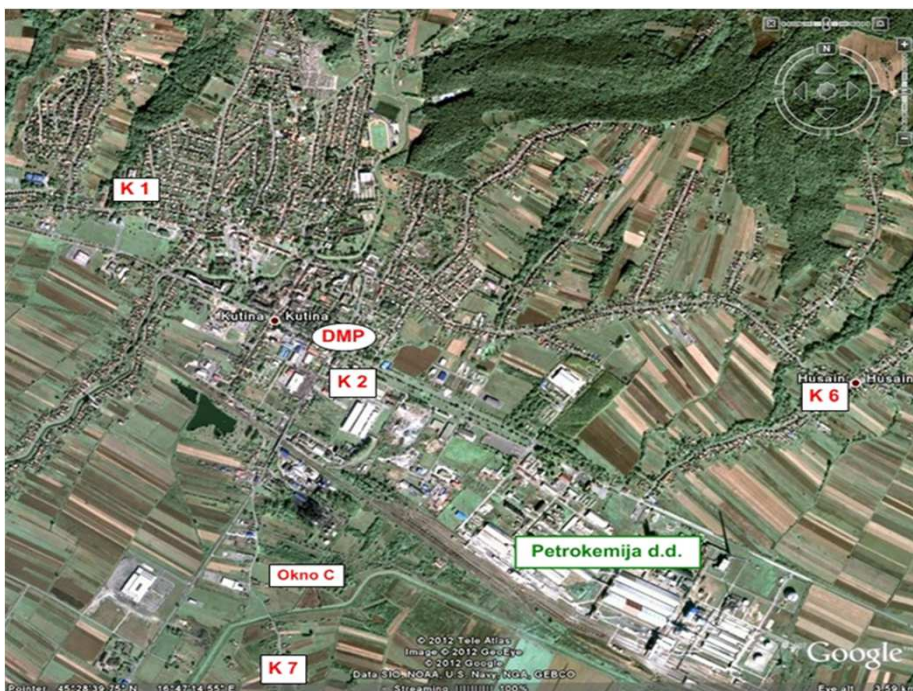
## Realized investment



- Investment realized in reporting period 2018 amounted to HRK 104.4 million.
- Compared to the same period of the previous years, despite the lack of liquidity, investments were at a significantly higher level (index 147.4), mainly due to a complete annual overhaul of the plant.
- On investments related to the meeting of the requirements for the Environmental Permit and deadlines for the execution of certain investment projects, which were significantly delayed and not completed within the prescribed deadline, 31 January 2017, talks are held with the competent authorities of the Government of Croatia.



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



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

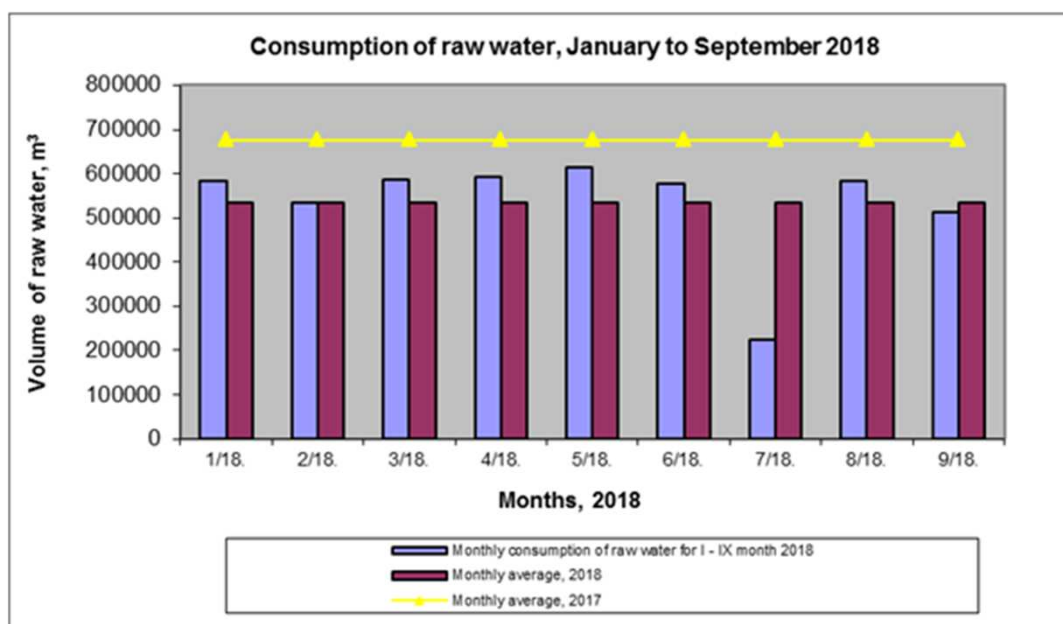
**Note:**

The categorization of air quality at DMP can be changed after the validation of data by a competent institution.

## Ambient air limit value (LV) exceedance of AMMONIA in January to September 2018 period (local network) and Water Management

Monitoring station	<i>The number of limit value (LV) exceedances in <u>January to September 2018 period</u>/ permitted exceedance number</i>
K 1 - Dom zdravlja	4/ 7
K 2 - Vatrogasni dom	7/ 7
K 6 - Husain	7/ 7
K 7 - Krč	2/ 7
<b>TOTAL</b>	<b>20</b>

Water management – Petrokemija, Plc. regularly monitors the quantity and quality of waste water on discharge points respecting the prescribed frequency and according to the Decision on Unified Conditions for Environment Protection. Also, an external authorized laboratory performs the water quality analysis on individual discharge points and the results of the obtained analysis are sent to a competent state authority (Hrvatske vode).



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





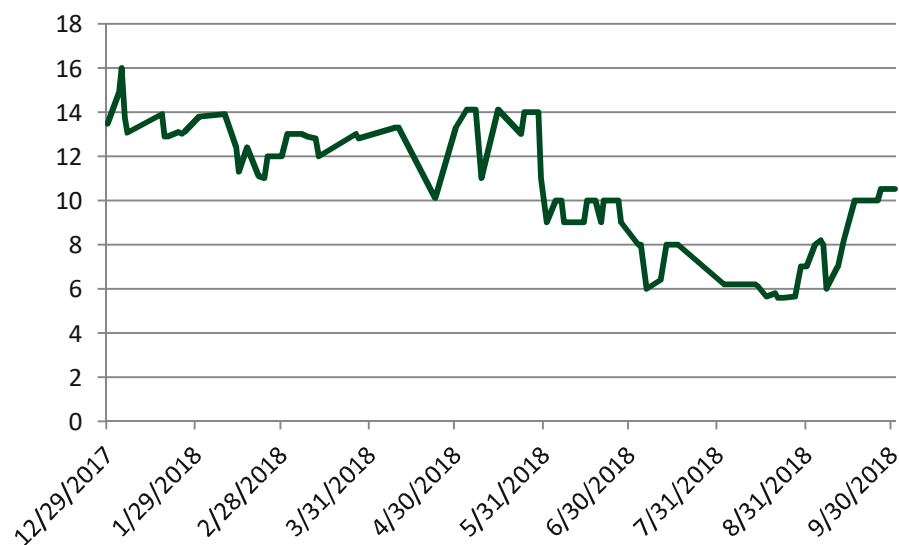
## Company share capital, share market value, changes in Supervisory Board, significant events in the Company

- ❑ On the General Assembly on 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, and 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 ordinary shares of PTKM-R-A for which the settlement was made in the CDCC, on 26 October, 2017.
- ❑ On 29 December, 2017, the average value of a share was HRK 13.47, and on 26 September, 2018 it was HRK 10.50 (22.05 % fall).
- ❑ After the reporting period, the Supervisory Board issued a decision on terminating the mandate of Nenad Zečević, member of the Management Board on 2 January 2018. From 3 January 2018, the Board of Petrokemija, Plc. acts as a two-member board consisting of Đuro Popijač, M.Sc., Managing Director and Davor Žmegač, M.Sc., Member of the Board.
- ❑ Member of the Supervisory Board, Mr. Marijan Kuprešak resigned from the Supervisory Board of Petrokemija, Plc. from 1 August 2018.
- ❑ In addition to the existing natural gas suppliers, INA Plc. and Prvo plinarsko društvo Ltd., in the supply of natural gas, a new gas supplier – Hrvatska elektroprivreda Ltd., which supplied a greater quantity of the required gas in the reporting period, was introduced from February 2018.
- ❑ At the end of May 2018, Petrokemija, Plc. received a statement of interest for the participation in the recapitalization by INA Industrija nafte and Prvo plinarsko društvo.
- ❑ Following the Government Decision of 24 May 2018 on granting the power to conclude a contract on the transfer and sale of claims against Petrokemija, Plc. Fertilizer Company, the Management Board of Petrokemija, Plc. signed additional loan agreements with Erste & Steiermarkische Bank, Hrvatska poštanska banka and Bank for Reconstruction and Development (HBOR) with a new creditor – the Republic of Croatia, totaling HRK 450 million. This Decision was made within the framework of the recapitalization process, as detailed in other sections of this Report.

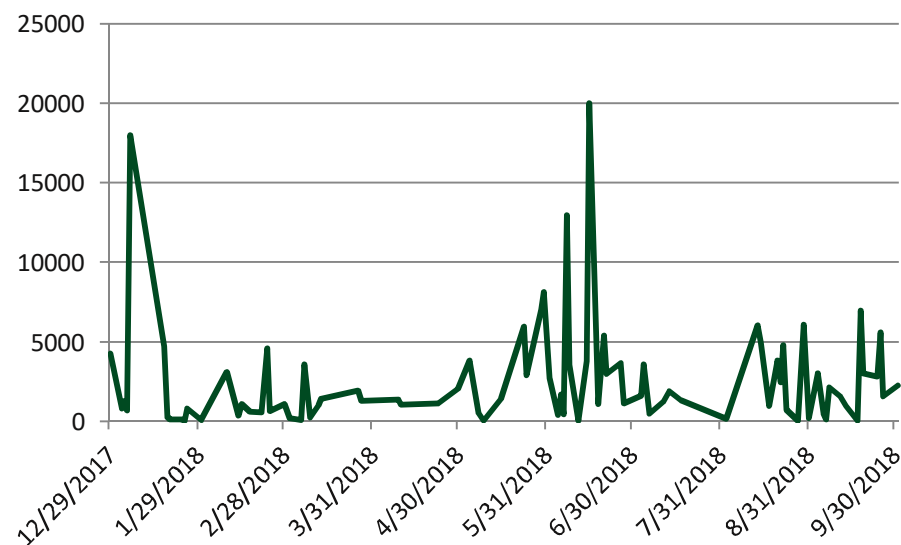


# Petrokemija, Plc. share price and daily turnover movements

PETROKEMIJA'S SHARE PRICE MOVEMENTS for January – September 2018 period (HRK/share)



PETROKEMIJA'S DAILY SHARE TURNOVER MOVEMENTS for January – September 2018 period (HRK)





## Implementation of the Recapitalization program in 2017 and 2018

- ❑ With the help of financial and legal advisers in the first half of 2017, the Restructuring Program of Petrokemija, Plc. - Concretization of the Proposal of the concept of restructuring 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 the exclusion from the sales of shares of the companies: Hrvatski telekom, Plc. Zagreb, Podravka Food Industry, Plc., Koprivnica, Croatia Airlines, Plc. Zagreb and Đuro Đaković Group, Plc. Slavonski Brod. Petrokemija, Plc. 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 privatization of the Company.
- ❑ Following the decision of the Government of Croatia on securing loan repayment of 27 April 2017, Petrokemija, Plc. signed long-term loan agreements with the Croatian Bank for Reconstruction and Development and Hrvatska poštanska banka, as well as a short-term financing agreement with Erste & Steiermarkische Bank 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, Plc. 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 continue 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 Recapitalization 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 the approval of the Supervisory Board, the Management Board of Petrokemija, Plc. adopted the Decision on the Publication of the 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 and the contract on short-term financing with Erste & Steiermarkische Bank 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, Plc.
  - ❑ Deadline for the delivery of the Letter of Intent to Petrokemija, Plc. was 19 June 2017, but the Management Board of Petrokemija, Plc. with the approval of Supervisory Board, issued a Decision on the amendment of the deadline, and 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 have expressed their indicative interest in the recapitalization of Petrokemija, Plc., the Company received a certain number of bids as well as requests for conducting in-depth analysis.
  - ❑ At its session held on July 5, 2017, Supervisory Board of Petrokemija, Plc., gave its consent to the Management Board to implement in-depth analysis process of the Company and to open a data room in accordance with established data lists and pre-signed confidentiality contracts. The in-depth analysis was conducted in the period from 10 July to 15 August 2017. After the completion of the process, interested investors were invited to submit binding bids by September 1, 2017, in accordance with the Restructuring Program of Petrokemija, Plc. – 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 in-depth analysis.



## Implementation of the Recapitalization program in 2017 and 2018 (cont.)

- ❑ As some of the potential investors requested the extension of the deadlines for the in-depth 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, Plc., after the completion of the due diligence, interested investors were invited to submit binding offers in accordance with the Restructuring Program of Petrokemija, Plc. – Concretization of the Proposal of the Concept of Restructuring by Recapitalization with Private Investor by September 22, 2017. After the publicly announced Call for Submitting Binding Offers in Recapitalization of Petrokemija, Plc., the Company received binding bids from several interested bidders by the deadline stated in the Call and the notice on 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 nonstrategic investors who submitted bids for the participation in recapitalization within the Petrokemija restructuring process to conduct additional due diligence analyses in the period from 4 to 23 October 2017.
- ❑ The Extraordinary General Meeting on December 11, 2017 issued a Decision on the increase of the Company's registered capital. The entry of new shares should have been conducted through the procedure of public offering by entering and paying in one round. All the interested investors had the right to subscribe for New Shares up to a maximum of 45,000,000 New Shares, or up to HRK 450,000,000 of share capital.
- ❑ The General Assembly held on 9 July 2018 put the decisions of 11 December 2017 General Assembly on the company share capital increase out of force and passed new decisions related to the final completion of the recapitalization process that are in accordance with the Decision of the Croatian Government on granting of the power to conclude a contract for the transfer and sale of claims toward the Petrokemija, Plc. Fertilizer Company, passed on 24 May 2018.
- ❑ Due to the complexity of the process and the demands of potential strategic investors towards the majority owner (solving of debt issue, state aid, environmental permits, investment program, assets value and other open issues) the process has been extended to the second half of 2018. At the time of the preparation of these Reports, ongoing activities defining the future model of Petrokemija, Plc., in line with the decisions of the General Assembly of July 9, 2018 are under way. On the day of the publication of these Reports (31 October), the Company's General Assembly should make a decision on recapitalization.



## Significant financial risks in 2018

The overall business position of Petrokemija, Plc. in the first nine months of 2018 depended on a number of factors, the impact of which 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 the remaining part of 2018 there will be an ongoing influence of variable fertilizer prices in the world market and a relatively high level of natural gas price in Europe and Croatia. Also, Company's insufficient liquidity and the high costs of CO<sub>2</sub> charges, financing costs and the exchange rate of the USD and EUR exchange rates will have a 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 the restructuring of the Company and Petrokemija Group. In addition to the above, caution is still suggested due to the following risks:

- ❑ Petrokemija, Plc. is highly dependent on the movements of the prices of fertilizers and their raw materials in the global market, the exchange rate of 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, Plc. Zagreb, Prvo plinarsko društvo, Ltd. Vukovar and from February 2018, a new gas supplier – HEP, Plc. 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 should have a positive effect on the financial result in 2018, although insufficient when compared to the level of the same type of costs of 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 marked growth of natural gas prices on the European spot market, manufacturing profitability may again be questioned.
- ❑ Lowering of VAT in 2017 had positive effects on mineral fertilizer sales on the domestic market, but the level of state incentives in agriculture and the purchasing price of major crops will still play the major role.



## 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 an impact on material costs in the next period.
- ❑ Petrokemija, Plc. in its production process inevitably emits a certain amount of greenhouse gases the emissions of which cost about HRK 25 to 30 million a year. Given the limited sources of financing, the Company cannot purchase ETS units at the most favorable time, which significantly increases the risk of a 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 half of 2018.
- ❑ High costs of working capital – because of the 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 for continuing the intensive investment process. The deadlines for the realization of a part of the so called ‘environmental investments’, according to the Decision on Integrated Environmental Protection Requirements expired (on 31-12-2017), so most investments, due to funding difficulties, have been transferred to 2018.
- ❑ The most important issue of the current operating business - the debt to natural gas suppliers – is again sharpened in the reporting period, so that the challenges of maintaining financial and business stability until the completion of the restructuring process are still present.
- ❑ Natural gas price fluctuations on the European spot market in the first nine months of 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 nine months of 2018 indicates caution in forecasting financial and operating results for the business year 2018. Therefore, the Company’s most urgent completion of the restructuring and recapitalization process is essential for business continuity in 2018 and the oncoming years.
- ❑ On the day of the publication of these Reports (31 October), the Company’s General Assembly will make decisions on recapitalization and the restructuring of Petrokemija, Plc.



## Statement of management liability

In line with Articles 462 through 468 of Capital Market Act (NN 65/2018) the Managing Board of Petrokemija, Plc. Kutina, A. Vukovar 4, makes a:

### Statement on Management Liability

Financial reports were made in accordance with International Financial Reporting Standards (IFRS). Financial reports are also compliant with Croatian Accounting Act, effective at the time of issuing of the reports. Financial reports for **1 January to 30 September, 2018** period, make an exact and true account of the Company's financial status and the business and cash flow results, in compliance with the applicable accounting standards.

This report may contain certain statements relating to the future business of Petrokemija, Plc. and Petrokemija Group, their strategy, plans and intentions which express a certain degree of uncertainty.

They reflect the current position of the Company with regard to risks, uncertainties and assumptions about the future. Many factors can influence the actual results, effects or achievements of Petrokemija, Plc. or Petrokemija Group, so that they are different from the results, impacts or achievements expressed or implied in such statements about the future.

President of the Board:

Đuro Popijač, M.Sc.

Member of the Board:

Davor Žmegač, M.Sc.





## Attachment:

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

**ENCLOSURE 1**

Reporting period:

01.01.2018.

to

30.09.2018.

**Quarterly Financial Report TFI-POD**

Tax number (MB): 03674223

Registration number (MBS): 080004355

Personal identification number (OIB): 24503685008

Issuer: PETROKEMIJA, Plc. Fertilizer company

Postal code and location: 44320

KUTINA

Street and number: ALEJA VUKOVAR 4

E-mail: [fin@petrokemija.hr](mailto:fin@petrokemija.hr)Internet address: [www.petrokemija.hr](http://www.petrokemija.hr)

Code and city / municipality: 220 KUTINA

Code and county: 3 SISAČKO-MOSLAVAČKA

Number of employees: 1.595

(at the end of year)

Consolidated Report: NO

Business activity code: 20.15

Entities in consolidation (according to IFRS):

Registered seat:

Tax number (MB):

Book-keeping office:

Contact person: MARINA MARIĆ  
(name and surname of contact person)

Telephone: 044-647-829

Telefaks: 044-682-795

E-mail: [marina.maric@petrokemija.hr](mailto:marina.maric@petrokemija.hr)Name and surname: ĐURO POPIJAČ, DAVOR ŽMEGAČ  
(authorized representatives)**Documents 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 of 30 September 2018

<b>Issuer: PETROKEMIJA, d.d.</b>			
Item	AOP	Previous period	Current period
1	2	3	4
<b>A) RECEIVABLES FOR SUBSCRIBED AND NON-PAID CAPITAL</b>	<b>001</b>		
<b>B) LONG-TERM ASSETS (003+010+020+029+033)</b>	<b>002</b>	<b>692.910.766</b>	<b>730.943.080</b>
I. INTANGIBLE ASSETS (004 do 009)	003	8.491.092	8.476.368
1. Assets development	004		
2. Concessions, patents, licence fees, merchandise and service brands, software and other rights	005	3.088.056	2.067.509
3. Goodwill	006		
4. Advances for purchase of intangible assets	007		
5. Intangible assets in preparation	008	5.403.036	6.408.859
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 do 019)	010	668.559.628	700.582.011
1. Land	011	44.792.549	44.376.020
2. Buildings	012	201.240.990	187.889.530
3. Plant and equipment	013	310.509.892	320.347.865
4. Instruments, plant inventories and transportation assets	014	18.162.307	16.485.163
5. Biological asset	015		
6. Advances for tangible assets	016	4.763.643	4.693.991
7. Tangible assets in preparation	017	88.625.507	126.324.763
8. Other material assets	018	464.740	464.679
9. Investment in property	019		
III. LONG-TERM FINANCIAL ASSETS (021 do 028)	020	15.662.370	15.662.370
1. Investments in subsidiaries	021	15.654.834	15.654.834
2. Loans given to related parties	022		
3. Participating interests (shares)	023	7.536	7.536
4. Loans to entrepreneurs in which the entity holds participating interests	024		
5. Investments in securities	025		
6. Loans, deposits and similar assets	026		
7. Other long-term financial assets	027		
8. Investment accounted by equity method	028		
IV. RECEIVABLES (030 do 032)	029	197.676	6.222.331
1. Receivables from subsidiaries	030		
2. Receivables based on trade loans	031		
3. Other receivables	032	197.676	6.222.331
V. DEFERRED TAX ASSETS	033		
<b>C) SHORT-TERM ASSETS (035+043+050+058)</b>	<b>034</b>	<b>388.524.703</b>	<b>440.336.797</b>
I. INVENTORIES (036 do 042)	035	285.373.219	325.252.996
1. Raw materials & consumables	036	112.252.085	149.194.411
2. Work in progress	037	9.087.290	12.340.737
3. Finished goods	038	162.787.925	162.025.020
4. Merchandise	039	590.316	660.041
5. Advances for inventories	040	655.603	1.032.787
6. Long-term assets held for sale	041		
7. Biological asset	042		
II. RECEIVABLES (044 do 049)	043	71.014.206	65.589.275
1. Receivables from subsidiaries	044	835.005	1.040.796
2. Trade receivables	045	21.921.069	10.363.685
3. Receivables from participating entities	046		
4. Receivables from employees and shareholders	047	6.315	43.160
5. Receivables from government and other institutions	048	47.081.670	52.806.102
6. Other receivables	049	1.170.147	1.335.532
III. SHORT-TERM FINANCIAL ASSETS (051 do 057)	050	5.749.727	30.121.423
1. Investments in subsidiaries	051		
2. Loans given to related parties	052		
3. Participating interests (shares)	053		
4. Loans to entrepreneurs in which the entity holds participating interests	054		
5. Investments in securities	055		
6. Loans, deposits and similar assets	056	1.118.467	613.318
7. Other financial assets	057	4.631.260	29.508.105
IV. CASH AT BANK AND IN CASH REGISTER	058	26.387.551	19.373.103
<b>D) PREPAID EXPENSES AND ACCRUED INCOME</b>	<b>059</b>	<b>21.966</b>	<b>998.071</b>
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>	<b>1.081.457.435</b>	<b>1.172.277.948</b>
<b>F) OFF-BALANCE SHEET ITEMS</b>	<b>061</b>	<b>740.969.603</b>	<b>1.498.538.116</b>

<b>EQUITY AND LIABILITIES</b>			
<b>A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)</b>	<b>062</b>	<b>-195.800.616</b>	<b>-536.670.174</b>
I. SHARE 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. Reserves for treasury shares	067		
3. Treasury shares and stakes (deduction)	068	11.600	11.060
4. Statutory reserves	069		
5. Other reserves	070		
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR ACCUMULATED LOSS (073-074)	072	0	-242.616.915
1. Retained earnings	073		
2. Accumulated loss	074		242.616.915
VI. PROFIT/LOSS FOR THE FINANCIAL YEAR (076-077)	075	-242.616.915	-340.870.098
1. Profit for the financial year	076		
2. Loss for the financial year	077	242.616.915	340.870.098
VII. NON-CONTROLLING INTERESTS	078		
<b>B) PROVISIONS (080 do 082)</b>	<b>079</b>	<b>19.758.253</b>	<b>18.384.253</b>
1. Provisions for redundancy costs, severance pays and similar liabilities	080	11.723.528	10.499.528
2. Provisions for tax obligations	081		
3. Other provisions	082	8.034.725	7.884.725
<b>C) NON-CURRENT LIABILITIES (084 do 092)</b>	<b>083</b>	<b>506.249.229</b>	<b>498.875.186</b>
1. Liabilities to subsidiaries	084		
2. Liabilities for loans, deposits and other	085	1.455.436	352.922.103
3. Liabilities to banks and other financial institutions	086	504.793.793	145.953.083
4. Liabilities for received advances	087		
5. Trade payables	088		
6. Liabilities arising from debt securities	089		
7. Liabilities to entrepreneurs in which the entity holds participating interests	090		
8. Other non-current liabilities	091		
9. Deferred tax liability	092		
<b>D) CURRENT LIABILITIES (094 do 105)</b>	<b>093</b>	<b>683.665.344</b>	<b>1.049.255.468</b>
1. Liabilities to subsidiaries	094	10.046.595	8.561.249
2. Liabilities for loans, deposits and other	095	182.030.213	241.984.394
3. Liabilities to banks and other financial institutions	096	126.181.973	5.750.000
4. Liabilities for received advances	097	78.254.196	189.297.032
5. Trade payables	098	263.389.849	578.978.915
6. Liabilities arising from debt securities	099		
7. Liabilities to entrepreneurs in which the entity holds participating interests	100		
8. Liabilities to employees	101	10.546.374	10.183.810
9. Liabilities for taxes, contributions and similar fees	102	7.542.590	7.512.004
10. Dividend payables	103		
11. Liabilities for long-term assets held for sale	104		
12. Other current liabilities	105	5.673.554	6.988.064
<b>E) ACCRUAL AND DEFERRED INCOME</b>	<b>106</b>	<b>67.585.225</b>	<b>142.433.215</b>
<b>F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)</b>	<b>107</b>	<b>1.081.457.435</b>	<b>1.172.277.948</b>
<b>G) OFF-BALANCE SHEET ITEMS</b>	<b>108</b>	<b>740.969.603</b>	<b>1.498.538.116</b>
<b>ANNEX TO THE BALANCE SHEET (to be filled in by entrepreneur submitting consolidated financial report)</b>			
<b>A) CAPITAL AND RESERVES</b>			
1. Attributable to equity holders of the parent company's capital	109		
2. Attributable to non controlling interest	110		

Note 1.: APPENDIX TO THE BALANCE SHEET (to be filled in by entities who submitting consolidated financial statements).

**PROFIT AND LOSS**

for the period 01.01.2018. to 30.09.2018.

Issuer: PETROKEMJA, d.d.					
Item	AOP	Previous period		Current period	
		Cumulative	Quarter	Cumulative	Quarter
1	2	3	4	5	6
<b>I. OPERATING INCOME (112+113)</b>	<b>111</b>	<b>1.431.181.882</b>	<b>478.542.683</b>	<b>1.252.141.617</b>	<b>344.481.227</b>
1. Sales revenue	112	1.397.124.715	468.441.758	1.206.024.006	318.736.147
2. Other operating income	113	34.057.167	10.100.925	46.117.611	25.745.080
<b>II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)</b>	<b>114</b>	<b>1.529.711.741</b>	<b>525.511.456</b>	<b>1.466.116.491</b>	<b>449.734.820</b>
1. Changes in inventories of finished products and work in progress	115	29.383.280	24.714.560	-2.490.542	27.390.468
2. Material costs (117 do 119)	116	1.231.709.612	409.121.327	1.213.205.343	343.817.015
a) Cost of raw materials & consumables	117	1.166.009.093	382.608.669	1.151.913.775	325.937.167
b) Cost of goods sold	118	1.210.230	353.951	1.488.338	369.310
c) Other costs	119	64.490.289	26.158.707	59.803.230	17.510.538
3. Staff costs (121 do 123)	120	137.178.934	45.798.301	139.710.694	48.683.258
a) Net salaries and wages	121	86.881.044	28.972.838	87.943.072	30.429.853
b) Costs for taxes and contributions from salaries	122	30.236.600	10.127.259	31.407.957	11.169.219
c) Contributions on gross salaries	123	20.061.290	6.698.204	20.359.665	7.084.186
4. Depreciation and amortisation	124	70.642.541	23.058.471	65.666.903	21.678.550
5. Other costs	125	60.684.797	22.808.886	49.153.102	8.162.544
6. Impairment charges (127+128)	126	112.577	9.911	870.991	2.985
a) impairment of long-term assets (excluding financial assets)	127	105.310	9.910	583.139	2.510
b) impairment of short-term assets (excluding financial assets)	128	7.267	1	287.852	475
7. Provisions	129				
8. Other operating expenses	130				
<b>III. FINANCIAL INCOME (132 do 136)</b>	<b>131</b>	<b>19.747.316</b>	<b>-14.203.469</b>	<b>15.059.182</b>	<b>-257.252</b>
1. Interest income, foreign exchange gains, dividends and other financial income from subsidiaries	132	102.582	1.495	527.296	9.818
2. Interest income, foreign exchange gains, dividends and other financial income from third parties	133	16.241.941	-1.738.096	14.514.462	-280.321
3. Part of income from associates and participating interests	134				
4. Unrealized gains (income) from the financial assets	135				
5. Other financial income	136	3.402.793	-12.466.868	17.424	13.251
<b>IV. FINANCIAL COSTS (138 do 141)</b>	<b>137</b>	<b>40.695.825</b>	<b>18.039.421</b>	<b>141.954.406</b>	<b>59.367.178</b>
1. Interest, foreign exchange losses and other expenses from subsidiaries	138	251.223	82.485	231.134	80.006
2. Interest, foreign exchange losses and other expenses from third parties	139	38.679.847	17.956.936	49.883.521	16.624.443
3. Unrealized loss (expenses) on financial assets	140				
4. Other financial expenses	141	1.764.755	0	91.839.751	42.662.729
<b>V. INCOME FROM INVESTMENT - SHARE IN PROFIT OF ASSOCIATED ENTITIES</b>	<b>142</b>				
<b>VI. LOSS FROM INVESTMENT - SHARE IN LOSS OF ASSOCIATES ENTITIES</b>	<b>143</b>				
<b>VII. EXTRAORDINARY - OTHER INCOME</b>	<b>144</b>				
<b>VIII. EXTRAORDINARY - OTHER EXPENSES</b>	<b>145</b>				
<b>IX. TOTAL INCOME (111+131+142 + 144)</b>	<b>146</b>	<b>1.450.929.198</b>	<b>464.339.214</b>	<b>1.267.200.799</b>	<b>344.223.975</b>
<b>X. TOTAL EXPENSES (114+137+143 + 145)</b>	<b>147</b>	<b>1.570.407.566</b>	<b>543.550.877</b>	<b>1.608.070.897</b>	<b>509.101.998</b>
<b>XI. PROFIT OR LOSS BEFORE TAX (146-147)</b>	<b>148</b>	<b>-119.478.368</b>	<b>-79.211.663</b>	<b>-340.870.098</b>	<b>-164.878.023</b>
1. Profit before tax (146-147)	149	0	0	0	0
2. Loss before tax (147-146)	150	119.478.368	79.211.663	340.870.098	164.878.023
<b>XII. CORPORATE INCOME TAX EXPENSE</b>	<b>151</b>				
<b>XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	<b>152</b>	<b>-119.478.368</b>	<b>-79.211.663</b>	<b>-340.870.098</b>	<b>-164.878.023</b>
1. Profit for the period (149-151)	153	0	0	0	0
2. Loss for the period (151-148)	154	119.478.368	79.211.663	340.870.098	164.878.023
<b>ANNEX TO THE PROFIT AND LOSS ACCOUNT (to be filled in by entities submitting consolidated financial statements)</b>					
<b>XIV. PROFIT OR LOSS FOR THE PERIOD</b>					
1. Attributable to equity holders of the parent company	155				
2. Attributable to non-controlling interests	156				
<b>STATEMENTS OF COMPREHENSIVE INCOME (to be filled by entities who work in compliance with IFRS)</b>					
<b>I. PROFIT OR LOSS FOR THE PERIOD (= 152)</b>	<b>157</b>	<b>-119.478.368</b>	<b>-79.211.663</b>	<b>-340.870.098</b>	<b>-164.878.023</b>
<b>II. OTHER COMPREHENSIVE INCOME /LOSS BEFORE TAX (159 do 165)</b>	<b>158</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
1. Exchange differences on translation of foreign operations	159				
2. Movements in revaluation reserves of long-term tangible and intangible assets	160				
3. Gains or loss from reevaluation of financial assets available for sale	161				
4. Gains or losses on efficient cash flow hedging	162				
5. Gains or losses on efficient hedge of a net investments in foreign countries	163				
6. Share in other comprehensive income/loss of associates companies	164				
7. Actuarial gain / losses on defined benefit plans	165				
<b>III. TAX ON OTHER COMPREHENSIVE INCOME OF THE PERIOD</b>	<b>166</b>				
<b>IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE YEAR (158-166)</b>	<b>167</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (157+167)</b>	<b>168</b>	<b>-119.478.368</b>	<b>-79.211.663</b>	<b>-340.870.098</b>	<b>-164.878.023</b>
<b>APPENDIX Statement of Comprehensive Income (to be filled in by entities submitting consolidated financial statements)</b>					
<b>VI. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD</b>					
1. Attributable to equity holders of the parent company	169				
2. Attributable to non-controlling interests	170				

## CASH FLOW STATEMENT - Direct method

in the period 01.01.2018. to 30.09.2018.

Issuer: PETROKEMIJA, d.d.			
Item	AOP	Previous period	Current period
1	2	3	4
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
1. Cash receipts from customers	001	1.385.355.516	1.383.136.078
2. Cash receipts from royalties, fees, commissions, etc.	002		
3. Cash receipts from insurance for damages compensation	003	26.265.869	2.221.502
4. Cash receipts arising from tax refunds	004	210.471.203	197.001.523
5. Other cash receipts	005	382.708	4.042.165
<b>I. TOTAL CASH RECEIPTS FROM OPERATING ACTIVITIES (001 TILL 005)</b>	<b>006</b>	<b>1.622.475.296</b>	<b>1.586.401.268</b>
1. Cash paid to suppliers	007	1.516.189.603	1.197.852.373
2. Cash paid to employees	008	155.476.166	151.708.305
3. Cash outflows for insurance damages compensation	009	9.362.222	7.702.304
4. Interest paid	010	27.902.224	40.766.340
5. Tax paid	011	31.242.278	24.261.385
6. Other cash outflows	012	8.204.014	3.293.760
<b>II. TOTAL CASH OUTFLOWS FROM OPERATING ACTIVITIES (007 TILL 012)</b>	<b>013</b>	<b>1.748.376.507</b>	<b>1.425.584.467</b>
<b>A1) NET INCREASE CASH FLOW FROM OPERATING ACTIVITIES (006-013)</b>	<b>014</b>	<b>0</b>	<b>160.816.801</b>
<b>A2) NET DECREASE CASH FLOW FROM OPERATING ACTIVITIES (013-006)</b>	<b>015</b>	<b>125.901.211</b>	<b>0</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
1. Cash inflows from sale of long-term tangible and intangible assets	016	6.095.195	244.470
2. Cash inflows from sale of equity and debt instruments	017		
3. Interest receipts	018		
4. Dividend receipts	019		516.309
5. Other cash inflows from investing activities	020		
<b>III. TOTAL CASH INFLOWS FROM INVESTING ACTIVITIES (016 do 020)</b>	<b>021</b>	<b>6.095.195</b>	<b>760.779</b>
1. Cash outflows for purchase of long-term tangible and intangible assets	022	61.465.002	85.494.185
2. Cash outflows for purchase of equity and debt financial instruments	023		
3. Other cash outflows from investing activities	024		
<b>IV. TOTAL CASH OUTFLOWS FROM INVESTING ACTIVITIES (022 do 024)</b>	<b>025</b>	<b>61.465.002</b>	<b>85.494.185</b>
<b>B1) NET INCREASE CASH FLOW FROM INVESTING ACTIVITIES (021-025)</b>	<b>026</b>	<b>0</b>	<b>0</b>
<b>B2) NET DECREASE CASH FLOW FROM INVESTING ACTIVITIES (025-021)</b>	<b>027</b>	<b>55.369.807</b>	<b>84.733.406</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
1. Cash receipts from issuance of equity and debt financial instruments	028		
2. Cash inflows from loans, debentures, credits and other borrowings	029	356.898.809	103.005
3. Other cash inflows from financing activities	030	32.620.660	5.636.409
<b>V. TOTAL CASH INFLOWS FROM FINANCING ACTIVITIES (028 do 030)</b>	<b>031</b>	<b>389.519.469</b>	<b>5.739.414</b>
1. Cash outflows for repayment of loans and bonds	032	153.113.506	58.829.152
2. Dividends paid	033		
3. Cash outflows for finance lease	034		
4. Cash outflows for purchase of own stocks	035		
5. Other cash outflows from financing activities	036	54.130.126	30.008.105
<b>VI. TOTAL CASH OUTFLOWS FROM FINANCING ACTIVITIES (032 do 036)</b>	<b>037</b>	<b>207.243.632</b>	<b>88.837.257</b>
<b>C1) NET INCREASE CASH FLOW FROM FINANCING ACTIVITIES (031-037)</b>	<b>038</b>	<b>182.275.837</b>	<b>0</b>
<b>C2) NET DECREASE CASH FLOW FROM FINANCING ACTIVITIES (037-031)</b>	<b>039</b>	<b>0</b>	<b>83.097.843</b>
<b>TOTAL INCREASE OF NET CASH FLOW (014 – 015 + 026 – 027 + 038 – 039)</b>	<b>040</b>	<b>1.004.819</b>	<b>0</b>
<b>TOTAL DECREASE OF NET CASH FLOW (015 – 014 + 027 – 026 + 039 – 038)</b>	<b>041</b>	<b>0</b>	<b>7.014.448</b>
Cash and cash equivalents at the beginning of the period	042	23.344.618	26.387.551
Increase of cash and cash equivalents	043	1.004.819	0
Decrease of cash and cash equivalents	044		7.014.448
Cash and cash equivalents at the end of the period	045	24.349.437	19.373.103

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

## STATEMENT OF CHANGES IN EQUITY

for the period **1.1.2018** to **30.9.2018**

Item	AOP	Previous period	Current period
1	2	3	4
1. Share capital	<b>001</b>	42.903.930	42.903.930
2. Capital reserves	<b>002</b>	3.923.969	3.923.969
3. Reserves from profit	<b>003</b>	-11.600	-11.060
4. Retained earnings or accumulated loss	<b>004</b>		-242.616.915
5. Profit / loss for the current year	<b>005</b>	-242.616.915	-340.870.098
6. Revaluation of long-term tangible assets	<b>006</b>		
7. Revaluation of intangible assets	<b>007</b>		
8. Revaluation of financial assets available for sale	<b>008</b>		
9. Other revaluation	<b>009</b>		
<b>10. Total capital and reserves (AOP 001 do 009)</b>	<b>010</b>	<b>-195.800.616</b>	<b>-536.670.174</b>
11. Currency gains and losses arising from net investments in foreign operations	<b>011</b>		
12. Current and deferred taxes (part)	<b>012</b>		
13. Cash flow hedging	<b>013</b>		
14. Changes in accounting policies	<b>014</b>		
15. Correction of significant mistakes in prior period	<b>015</b>		
16. Other changes in capital	<b>016</b>		
<b>17. Total increase or decrease in capital (AOP 011 do 016)</b>	<b>017</b>	<b>0</b>	<b>0</b>
17 a. Attributable to equity holders of the parent company's capital	<b>018</b>		
17 b. Attributable to non-controlling interests	<b>019</b>		

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, Plc.

### INTRODUCTION

At the time of the determination and disclosure of the financial statements of Petrokemija, Plc. and Petrokemija Group for the period from January to September of 2018, on 29 October, Petrokemija, Plc. published a Public Invitation for the Subscription of New Ordinary Shares of the Company. In connection with this, on the day of the public disclosure of these Financial Statements (31 October, 2018), the General Assembly of the Company is scheduled, with decisions that, in certain significant elements, amend or supplement the ratings and statements contained in these notes and in the commentaries of the Reports. This particularly applies to changes in the ownership structure, equity, assets and liabilities of the Company and the potential changes in the business and management model that may arise in the next period.

In the reporting period January - September 2018, Petrokemija, Plc. operated in the conditions of the continuing increase of input prices of main raw materials, especially those of natural gas. At the same time, it was unable to transfer the rise of the input expenses to the selling market of mineral fertilizers due to very strong competition which limited the increase of market prices. In the third quarter the Company stated a high loss because it continued operating in a very complex out-of-season situation on the home market and that in the region, unfinished process of recapitalization, difficulties with liquidity and unfavourable conditions in the market environment while it was at the same time undergoing an extensive two-year overhaul of production and logistic facilities. With the support of the majority owner, the natural gas suppliers and financial institutions, the Company maintained the continuity of production and its operations, fulfilled its obligations to the customers, carried out the facilities overhaul and the investments necessary to continue the business (HRK 104,4 million worth) in order to prevent major damages to the stakeholders in the process of recapitalization.

Following an unfavourable situation in the fourth quarter of 2017, the business environment of Petrokemija, Plc. in the first nine months of 2018 was marked by numerous challenges. The negative effects of being fully opened to the global market, i.e. Petrokemija's exposure to the risks of the neighbouring and wider business environment can clearly be seen in the reporting period. This resulted in very high costs for the Company, with no possibility for it to make an influence on them. Namely, into the third quarter of 2018, Petrokemija, Plc. carried forward all the uncertainties about the unfinished process of recapitalization and the negative financial effects that have been even more intensified by:

- further rise in natural gas purchase price,
- high rise in the price of CO<sub>2</sub> allowances (new costs and value adjustment of liabilities from previous years),
- 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 export because current prices were significantly lower than the variable production costs realized by Petrokemija, Plc.



The biggest unforeseen single impact on the financial result was due to the increase in natural gas prices. The realized price of natural gas is **19.3% higher than the average in the same period of 2017. This growth resulted in an additional cost of HRK 128.5 million, as compared to the same period of the previous year, representing 38% of the realized loss in the first nine months of 2018.** In addition to the existing natural gas suppliers, INA, Plc and Prvo plinarsko društvo, Ltd, as of February 2018, in the supply of natural gas, a new gas supplier – Hrvatska elektroprivreda, Plc, which supplied a significant part of the required quantities of gas in the reporting period, was included.

The next most important factor that made an impact on the financial business loss was the price increase of the CO<sub>2</sub> emission units (**+161,4% compared to late 2017**). The risk of correcting the value of the obligation to purchase the missing CO<sub>2</sub> emission units created by 31-12-2017 could not be prevented due to the restriction of the company's liquidity, thus charging the financial result with the amount of **HRK 91.8 million** in the reporting period. When HRK 9.5 million of the fee for the current period of 2018 is added, it means that out of the HRK 340.9 million loss in the first nine months of 2018, **HRK 101.3 million or 30% accounts only for the CO<sub>2</sub> allowances.**

**The two items mentioned - natural gas and CO<sub>2</sub> allowance account for 68% of the realized loss in the reporting period.** These are the risks that the Company could not have had influence on in the current business model because it could not contract a more favourable gas procurement model as the gas suppliers are also the creditors of the Company and bear the risk of collecting relatively high receivables. Due to carried-forward liabilities from the previous period, the Company was not able to regularly settle the liabilities to natural gas suppliers. Furthermore, due to the lack of financial resources for regular purchases of CO<sub>2</sub> emission units (e.g. in the first half of the previous year, when the prices of emission units were significantly lower), the Company had the already mentioned additional loss of HRK 91.8 million in the first half of this year.

**The remaining 32% of the loss (apart from the price of natural gas and the allowances for CO<sub>2</sub> emission units), is made up of all other business elements** - lower revenues due to low sales prices and smaller sales volumes, interest on loans, price increase of other raw material, costs of facilities standstills for technical and technological reasons and other costs that could not be covered by realized revenues.

In the reporting period, there was also an increase in the prices of other major raw material. The average purchasing price of the main raw material for NPK fertilizer production - MAP was 11.9% higher (expressed in USD) and that of potassium chloride 11.8% higher (expressed in EUR) than in the same period last year. The changes in the exchange rates of the USD and EUR against the Croatian Kuna have resulted in the growth of potassium chloride share in Petrokemija's costs by about the same amount, as the EUR exchange rate was approximately at the same level (index 99.7%), while the rise of MAP price, due to the fall of the USD exchange rate, was partly neutralized in HRK amounts. The price of raw phosphate is below the level of the same period last year.

Mineral fertilizer sales amounted to 701 thousand tons, 18,0% lower than when compared to 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 at low prices that would not cover the direct variable production costs. Simultaneously, there is a rise in raw material prices (natural gas) and a fall

or stagnation of the price of finished products (Urea and KAN). Production of mineral fertilizers was realized at 718 thousand tons, 16.7% less than in the same period of the previous year, partly due to a one-month delay during the carrying out of an overhaul, and other technical and technological problems, and partly due to the unfavourable conditions on the sales market.

After a long period of preparation, under the limited investment financing conditions, in the summer of 2018, a comprehensive two-year renovation of the Petrokemija, Plc. plants was carried out in order to provide the technologic condition of plants for the following period and partly to invest in modernization and increase of energy efficiency.

Despite the lack of liquidity, investments amounted to HRK 104.4 million for the first nine months of the year, for which long-term sources were not secured, but all costs are covered by current business, i.e. the expected recapitalization. The completion of the recapitalization process should have a beneficial effect on the equilibrium of the Company's liquidity and the normalization of the investment and modernization system, which is currently under significant pressure of the due obligations towards suppliers for the delivered natural gas.

As regards market position, the adverse effects of the Agrokor Group have been reduced 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 disturbances in Agrokor Group's business has also had an impact on mineral fertilizer buyers on the markets of neighbouring countries, primarily Slovenia, Bosnia and Herzegovina and Serbia. Successful completion of the creditors' settlement process in Agrokor will probably have a positive impact on the trend of intensifying sales growth on the domestic and regional mineral fertilizer markets in the period to come.

The goals of the sales strategy in 2018 and 2019 are increasing sales in the regional and, particularly, in the domestic market. However, they have not been realized in the three quarters of the year due to unfavourable 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, Plc. in the domestic market and the decrease in imports of mineral fertilizers into Croatia when 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 sulphur. In these conditions, successful European mineral fertilizer producers, who had benefited from a favourable trend for modernization of plants and restructuring in the previous decade, experienced a fall in profit and some even losses. Accordingly, it was inevitable for Petrokemija, Plc., 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 factors for the loss in the first nine months of 2018 are the high price rise of natural gas and the high rise in the price of CO<sub>2</sub> allowances, which accounts for about 68% of the reported loss. In the remaining part of the year the greatest

uncertainty is the potentially high purchase price of natural gas, which is for Petrokemija, Plc. about 15% 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 is 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 favourable location, well-maintained production and logistics systems, to skilled labour. 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 preparation of these Reports, final activities are underway in line with the decisions of the General Assembly of 9 July 2018, which define the future model of Petrokemija, Plc. The General Assembly called for October 15 was not held due to the lack of quorum so it is expected that on the next meeting on 31 October it will make appropriate decisions in this regard. Upon 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 2018

In the January to September 2018 period, Petrokemija, Plc. had total income of HRK 1.267,2 million and total expenses of HRK 1.608,1 million. The Company reported loss in operations of HRK 340.9 million or 26.9% of the total revenues. In the same period previous year, the Company had a loss of HRK 119.5 million, which indicates a negative development in the financial result of HRK 221.4 million. The main causes of the losses in the first nine months of 2018 are the high purchase price increase of natural gas and the high rise of price of CO<sub>2</sub> allowances, low sales prices of mineral fertilizers on the global market, which caused a decrease in export sales volume, together with the cost of a two-year renovation of the plant.

The EBITDA (earnings before interest, taxes, depreciation and amortization) is negative amounting to HRK -148.3 million and the EBITDA margin was -11.7%. The total revenues for the first nine months of 2018 have fallen by 12.7% when compared with the same period of 2017, while total expenditures were up by 2.4%. These figures point to a fall of revenues due to a decrease in sales volumes of 18%, with simultaneous growth of costs for the already mentioned reasons.

Basically, all the key business risks of Petrokemija, Plc.'s business in the first nine months of 2018 are the result of unfavourable global market situation, marked by low fertilizer prices in greater part of the reporting period, with simultaneous increase of average natural gas prices. Since Petrokemija, Plc. 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 had impact on the high losses in business.

The main constraint to higher domestic sales in the remaining business year is linked to the issue of demand and of customers' liquidity and in addition some limitations were coming from the operational challenges that the Agrokor Group, as a major customer of mineral fertilizers, was 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 the autumn season of 2018 and spring season of 2019. The successful process of the Agrokor creditors' settlement spurs optimism in this respect. Due to own structure of indebtedness, Petrokemija, Plc. still has 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 storage and re-loading).

Reducing the VAT rate in 2017 boosted demand for mineral fertilizers and helped balance the price level in the region, but 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, will still have a key effect.

## 2. Structure of financial result

In the structure of financial result for January to September 2018, notable is the HRK 214,0 million operating loss, while HRK 126.9 million loss was generated from financial activities, resulting in the total loss of HRK 340.9 million in the reporting period. Financial loss is the result of external factors – **value correction of the CO<sub>2</sub> EU Emission Allowances (HRK 91.8 million)** and interest costs due to high loan 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 same period last year, the impact of the increase in the prices of the emission units was HRK 3.4 million negative, and in the reporting period of 2018 it was HRK 101,8 million, which means that on this basis a negative movement was generated in the financial result of HRK 98.4 million or 44.4% of the total difference in the loss level of the first nine months of 2018/2017.

The positive balance of foreign exchange gains had an impact on the financial result of Petrokemija, Plc. of about HRK 6.4 million in the first nine months of 2018.

In addition to the above, the level of financial expenditures was also affected by the adverse financing structure, i.e. high debt. In the reporting period, critical liabilities to natural gas suppliers were partially resolved, most of the debt to banks was resolved by the Government decision from 24 May 2018 in a way that a part of the loan liabilities to banks (HBOR, HPB and Erste Bank), HRK 450 million in total, was taken over by the Republic of Croatia as the new creditor. As part of the recapitalization process, activities are under way to find more favourable sources of long-term financing of the Company and to eliminate the consequences of high indebtedness transferred from the previous period. Maintaining current liquidity in the first nine months of 2018 was very difficult.

As on 30 September 2018, the capital and reserves amounted to HRK -536,7 million, or HRK 340,9 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 trend of low prices of mineral fertilizers continued, which could not be followed by the growth rate of raw material prices, and which had a negative impact on business results. Smaller quantities of overseas export sales, where prices are generally the lowest, have partly contributed to an increase in the average price of total sales. This is corroborated by the fact that at 18% lower mineral fertilizer sales volume, the earned operating income was 12.5% lower as compared to the previous year.

Domestic sales are at the level of the previous year (index 99.9) in volume. The level of mineral fertilizer sales in early 2018 was also influenced by Petrokemija's 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 into Croatia for which there are no official statistical figures yet, but is estimated to be above the level 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.

Due to the obligation of Petrokemija, Plc. to have volumes of mineral fertilizers continuously on stock under pledge due to high indebtedness to one of the natural gas suppliers, not even volumes of some finished products, for which there was market demand, were not sold. Another constraint to larger domestic sales was the financial impossibility of Petrokemija Plc. to grant domestic buyers sales of mineral fertilizers with expected margins, rebates and deferred payment from 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 23.2% 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 costs of the sales. By balancing the production and the sales of mineral fertilizer products that had better sales prices, the continuity of business and the current liquidity was ensured. An additional challenge were the significant fluctuations of mineral fertilizer prices over the reporting period.

### 4. Expenses

Operating expenses fell by 4.2% compared to the same period of the previous year, although the drop in the production amounts was far greater (-16.7%) and there was a sales drop (-18%). It is the result of the increase in purchasing prices of a part of raw materials, particularly the increase of natural gas price in the open market. The prices of main raw materials used in the production of mineral fertilizers in the world market were by about 12% higher, with the highest rise achieved with 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 19.3% higher price in the first nine months 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, with exceptions relating to the expense of spare parts, which is higher due to the overhaul, to deviations that have to do with the amount of production and sales or to the contracted packaging, such as the cost of packaging, export

services and other costs that vary according to the level of business activity. The impact of CO<sub>2</sub> Emission Allowances is explained in the previous notes.

Overall, it can be estimated that sustained production continuity had positive effect on operating business performance. In the event of longer suspended production, negative effects would have been even greater due to high fixed costs and additional costs of gas transport fees on a full-for-empty basis, as well as costs of energy 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, Plc. supplied natural gas from two permanent suppliers - INA Plc. Zagreb and Prvo plinarsko društvo, Ltd., Vukovar, pursuant to earlier concluded contracts. Since February 2018, a new gas supplier – Hrvatska elektroprivreda, Plc. has been included in the supply with a significant part of the required gas volumes in the reporting period.

The price was determined by an escalating formula based on the actual prices on the European natural gas market (CEGH hub). The average realized purchase price of natural gas (with transportation costs, expressed in HRK) in the reporting period Jan to September 2018, was 19.3% higher than in the same period of 2017 period. This percentage is 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.

During 2017, upon an international tender, Petrokemija, Plc. concluded new contracts for natural gas supply in the gas year 2017/2018 with the existing natural gas suppliers INA Plc. Zagreb and Prvo plinarsko društvo, Ltd., Vukovar, as the most favourable suppliers in the tender. In February 2018, a contract was signed with a new natural gas supplier – Hrvatska elektroprivreda, Plc. (Croatian Electric Power Company), Zagreb.

Based on an international invitation to tender, Petrokemija, Plc. concluded a new contract for natural gas supply **in the gas year 2018/2019** for the total volumes required. The contract was concluded with suppliers INA Plc. Zagreb and Prvo plinarsko društvo, Ltd. Vukovar as the two most favourable tenderers.

With this contract, Petrokemija Plc. has secured sufficient volumes of natural gas for the planned stable production during the gas year 2018/2019.

The negotiating position in contracting new natural gas deliveries 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, has again put into focus the imbalance between the purchase price of natural gas and the price of nitrogen fertilizers on the global market.

The cost of natural gas transport remains to be a significant item in the cost structure of Petrokemija Plc., since the price of natural gas transport in Croatia is among the most expensive in the EU. In the first nine months of 2018, Petrokemija Plc. had HRK 61.5 million in transport costs, and in the same period previous year the cost was HRK 64.8 million, i.e. a decrease of 5.0%. 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, Plc. to approach the direct competitors, at least partially, 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 September 2018 period, Petrokemija, Plc. achieved 16.7% lower total production as compared to the previous year. Lower production is the result of a one-month overhaul in July and aligning the range and quantity of production with the needs and dynamics of deliveries of finished products to the market and occasional failures due to technical and technological reasons.

In the production structure, the following changes occurred: 30.8% lower production of Urea, 22.9% lower production of KAN and 1.8% higher production of NPK fertilizers. In the reporting period, production capacity utilization was 75%, 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 fourth 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, Plc for 2017, upon auditors' suggestions, significant value adjustments were made of unused assets and unusable 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, Plc. Fertilizer Company, the Croatian Ministry of Environment and Nature Protection passed a Decision on Integrated Environmental Protection Requirements for the operation of the existing 14 mineral fertilizer production plants at Petrokemija, Plc, Aleja Vukovar 4 in Kutina.

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

In accordance with 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 nine months of 2018, HRK 104.4 million was invested despite to the lack of liquidity. No long-term sources have been secured for this investment and 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 for the most part missed (31 December 2017), so

in the following years Petrokemija, Plc. 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, Plc. must invest approximately HRK 350 million. So far, around a third of the total planned funds has been realized.

## 8. Liquidity

Due to the losses in previous periods, Petrokemija, Plc. has inadequate sources for funding working capital. In the reporting period, the issue of debt to suppliers was raised again, due to the increasing difficulty in maintaining liquidity, i.e. the high due debt to the natural gas suppliers. Despite its growing liquidity deficits during the first nine months of 2018, Petrokemija Plc. repaid HRK 58.8 million in loans and paid HRK 34 million interest on loans as well as HRK 7.4 million in interest to other suppliers.

## 9. Recapitalization

In order to mitigate the financing imbalance and maintain business continuity, in August 2016, the Company obtained 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 the continuity of activities in restructuring the business.

Pursuant to the decision of the Government of the Republic of Croatia, company's Management Board initiated the preparation of the Restructuring Program that has to be submitted to competent bodies (Ministry of Economy, Ministry of Finance and CERP), in order for them to 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, Plc. Zagreb, Podravka Food Industry, Plc. Koprivnica, Croatia Airlines, Plc. Zagreb and Đuro Đaković Group, Plc. Slavonski Brod. Petrokemija, Plc. 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 Plc.'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 deep analysis of Petrokemija and Petrokemija Group's business was carried out by several interested investors, and potential investors' offers were received.

At the General Assembly on 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, and 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 Assembly on 11 December 2017 adopted a Decision on the increase of the Company share capital. The subscription of the New Shares would be conducted through the procedure of public offering by subscription and payment in one round. All interested investors would have the right to subscribe for a maximum of 45,000,000 New Shares, or up to HRK 450,000,000.00 of share capital.

The General Assembly held on 9 July 2018 put the decisions of the General Meeting of 11 December 2017 on the company share capital increase out of force and passed new decisions related to the final completion of the recapitalization process that are in accordance with the Decision of the Croatian Government on the granting of the power to conclude a contract for the transfer and sale of claims toward Petrokemija, Plc. Fertilizer Company, passed on 24 May 2018. In this respect, decisions were passed as follows: Decision on the increase of the Company share capital by stake in rights and issuance of shares with the exclusion of the pre-emptive rights of the Company shareholders, Decision on amendments to the Company's Statute, Decision on granting approval for acquiring shares without the obligation of publishing a takeover bid, Decision on simplified reduction of the Company share capital by merging the shares to cover the losses and transfer of funds to the capital reserves, Decision on the increase of the Company share capital by contributions in cash and issuance of new shares with the exclusion of the shareholder's priority rights and changes to the Company's Articles of Association, and the Decision on granting the acquisition of shares without obligation to publish takeover bids, all in accordance with the decision proposals published in the Invitation to the said General Assembly published on 29 May 2018 on the web pages of the Zagreb Stock Exchange, HINA and Petrokemija, Plc., in the Register of Regulated Information (Hanfa) and in the Court Register.

At the end of May 2018, Petrokemija, Plc. received statements of interest to participate in the recapitalization from INA Industrija nafte and Prvo plinarsko društvo.

Following the Government Decision of 24 May 2018 on granting the power to conclude a contract on the transfer and sale of claims against Petrokemija, Plc. Fertilizer Company, the Board of Petrokemija Plc. signed annexes to loan agreements with Erste & Steiermarkische Bank, Croatian Postal Bank and Croatian Bank for Reconstruction and Development with a new creditor, Republic of Croatia, totalling HRK 450 million.

Due to the complexity of the process and the demands of potential strategic investors towards the majority owner (solving of debt issue, state aid, environmental permits, investment program, assets value and other open issues) the process has been extended to the second half of 2018. At the time of the preparation of these Reports, final activities are underway, in line with the decisions of the General Meeting of 9 July 2018, which will define the future business model of Petrokemija, Plc. This delay has put an additional burden to the relations with the natural gas suppliers in terms of debt repayment dynamics from the previous period and of current payments.

On 29 October, 2018, on the Company's website and on the Zagreb Stock Exchange the following invitation was published: "PUBLIC INVITATION FOR THE SUBSCRIPTION OF 40.000.000 MINIMUM UP TO 45.000.000 MAXIMUM NEW ORDINARY SHARES OF PETROKEMIJA Plc." (<https://petrokemija.hr/Portals/0/JavniPoziv29102018.pdf>), (<http://www.zse.hr/userdocsimages/novosti/pHA3y8AOs2hYnVa7vzXB0g==.pdf>), whereby the Issuer invites all interested investors to subscribe for New Shares, in accordance with the

terms and conditions stated in the Public Invitation. An increase in the Company's share capital is anticipated to be made by cash payment from issuing at least 40,000,000 to a maximum of 45,000,000 new ordinary shares for a nominal value of HRK 10.00 ("New Shares").

Notice of this Public Invitation has been submitted to the Zagreb Stock Exchange ([www.zse.hr](http://www.zse.hr)), the Croatian Reporting Agency and to the Official Register of Regulatory Information at the Croatian Financial Services Supervisory Agency.

## 10. Financial risks in the upcoming period

In addition to the above, the future trends of Petrokemija Plc.'s financial result will be influenced by numerous factors. Besides the overall economic trends in 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 sulphur),
3. Changes in demand and sales prices of mineral fertilizers,
4. Price trends of CO<sub>2</sub> 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 politics of EU and Croatia.

The exposure of Petrokemija, Plc. to the developments in the global market represents a significant potential risk in terms of price and financial fluctuations in the remaining part of 2018. Effective risk management of natural gas price increase (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 -750 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 Plc. inevitably emits a certain amount of greenhouse gases for the emission of which it allocates significant funds, which, depending on the price of EU Emission Allowances units in the open market, amount to around HRK 25 to 30 million a year. Due to limited funding sources, the Company cannot purchase emission units at the most favourable moment, which significantly increases the risk of higher cost of greenhouse gas emission fees depending on the price movement of those units in the open market. This was the case in 2017 and in the first nine months of 2018 and it significantly contributed to an increase in losses (by HRK 101.3 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 of business restructuring in 2017. However, the challenges of maintaining financial and operational stability remain until the recapitalization process is finished. Most of the debt to the banks was resolved by the decision of the Croatian Government from May 2018, by purchasing a part of the loan liabilities from banks (HBOR, HPB and Erste Bank), HRK 450 million in total in favour of the new creditor, Republic of Croatia.

Due to the Company's insufficient liquidity, advance payments are used in the sales of mineral fertilizers. The market and financial results for the first nine months of 2018, as well as the assessment of the 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 the fourth quarter of 2018. The unsteady natural gas prices on the European spot market actualize the issue of the imbalance between the natural gas purchase price and the price of nitrogen mineral fertilizers on the global market (Urea and KAN), causing constant uncertainty in the estimates of financial results, as the duration of either a positive or a negative trend is hard to predict.

Majority shareholders' decisions in accordance with the decisions of the General Assembly of the Company from 9 July 2018 and the expected decisions of the General Assembly at the time of the publication of these reports (31 October, 2018), as well as the results of the Public Invitation for the Subscription of New Ordinary Shares of Petrokemija, Plc. from 29 October 2018, will probably have a significant impact on Petrokemija, Plc.'s business in the upcoming period.