PETROKEMIJA d.d.
RECAPITALIZATION PROCESS

PRESENTATION FOR INVESTORS

JULY 2018

PART 1

ANALYSIS OF CURRENT COMPANY SITUATION AND OPERATIONS

STARTING POSITION - 2017

The Company has unsustainable business model that must take a new direction through change in ownership structure

Area	
Introduction	• After several years' attempts of changing the ownership structure and attracting major investors in the value-creating chain – from production and trade of natural gas, down to logistics of mineral fertilizer sales and to end-users, in 2017/2018, the current owners conducted comprehensive preparations for implementation of privatization process and opening a new development cycle of the Company where all its present potentials would be utilized – from its favorable location, well-maintained production and logistic systems all the way to skilled work force. • Shortage of financial resources, reflected in the inability to change the business model and to adapt quickly to constant market changes, should be resolved in 2018 from permanent capital sources and a new management model of future investors. Loans granted by HBOR and commercial banks in 2016 and 2017 helped to bridge the cash gap transferred from previous years. The recapitalization should create the preconditions for a balanced model of financing plant modernization and investment in greater efficiency of all the Company processes.
31.12.2017	• Loss in business HRK 242.6 million, • Operating loss HRK 193.5 million, financial loss HRK 49.1 million, • Profit before interest, taxes and depreciation (EBITDA) -99.7 million negative, • Total revenues of Petrokemija d.d. HRK 1,996.2 million, total expenditures HRK 2,238.8 million; mineral fertilizer production 1,192 thousand tons, • Utilization of the current installed plant capacity of the plant 93.0% • Mineral fertilizer sales 1,167.1 thousand tons; share of mineral fertilizer sales volumes on the domestic market 27.2% • Capital and reserves on 31.12.2017 Petrokemija d.d. negative - HRK 196.0 million, • Investments HRK 103.3 million, • Employed on 31.12.2017 - Petrokemija d.d. 1,572; Petrokemija Group 1,707.

STARTING POSITION - 2017

The Company has unsustainable business model that must take a new direction through change in ownership structure

Area	

Value adjustments of assets and provisions upon financial statements for 2017	• The level of the loss in 2017 was also affected by the assets value adjustments for which auditors had expressed reserves in the previous years. The loss on value adjustments was increased by approximately HRK 95.8 million, accounted for 2017, but it had originated much earlier and for a number of years it was treated as open business and accounting issues, assuming that in the coming periods new market opportunities might open that would enable the reactivation of part of passive assets, stilled facilities, spare parts and materials and a part of investments in subsidiaries that did not have the expected effects in the previous period:
	  ◦ value adjustment of spare parts stocks, production materials and packaging for HRK 66.0 million;
	  ◦ value adjustment of stocks of raw materials, production materials and equipment in reserves for HRK 8.6 million,
	  ◦ value adjustment of Phosphoric Acid Plant for HRK 5.2 million,
	  ◦ value adjustment of Luka Šibenik of HRK 3.2 million for the purposes of reconciliation with net book value, as well as of share in Petrokemija Agro trade for HRK 5.3 million,
	  ◦ a provision was made for the cost of the future recovery of the Carbon Black Plant in the amount of HRK 7.5 million.
	
	• After the corrections have been made, the Management and the Supervisory Board estimate that the financial statements fairly present, in all significant respects, the financial position of the Company as of 31 December 2017 as well as its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the European Union (IFRS). Thereby, the requirements defined in Auditors' Reports for the previous five years have largely been met. By the expressions of reserve in the reports, all the Company owners and the interested investors were clearly warned of the risks for the future business as a result of certain assets and liabilities of the Company and Petrokemija Group.
	
	• The strategic goal of these decisions was to align the interests of the majority owner and potential investors based on a fair presentation of the financial position of the Company and without the auditors' reserves as expressed in in-depth analyses and previous bids in 2017 (except in the part of the possible future remediation of the phospho-gypsum landfill, which was also accepted as a long-term project that does not have a significant medium-term impact on the Company's business).

STARTING POSITION – Q1 2018

The Company has an unsustainable business model and a disrupted financing balance that calls for a necessary recapitalization

Area	
Q1 2018	• Losses in business HRK 78.8 million, • Operating loss HRK 35.9 million, financial loss HRK 42.9 million, • Profit before interest, taxes and depreciation (EBITDA) -13.5 million HRK negative, • Total revenues of Petrokemija d.d. HRK 466.3 million; total expenditures HRK 545.1 million, • Mineral fertilizer production 287,000 tons, • Utilization of the current installed production capacity of the facilities 82.2% • Mineral fertilizer sales 252 thousand tons; share of mineral fertilizer sales volumes on the domestic market 30.1% • Capital and reserves on 31.03.2018 Petrokemija d.d. -274.5 million negative, • Realized investments HRK 6.7 million, • Employed on 31.3.2018 - Petrokemija d.d. 1,573; Petrokemija Group 1,708.
Estimate 31.12.2018	• The business results estimate for 2018 is based on the Q1 performance and the projection of the remaining part of the year under changed conditions, taking into account the delay in the recapitalization process and the misbalance of in- and output prices of natural gas and mineral fertilizers, so the estimated loss level is HRK 291 million, or HRK 168 million more than the original planned projection of HRK -123 million. • In the estimate, the planned annual revenues were reduced by HRK 113 million (-5.5%), and expenditures were increased by HRK 55 million or 2.6% higher than planned.

STARTING POSITION - cont

The Company has an unsustainable business model and a disrupted financing balance that calls for a necessary recapitalization

Area	
Owners' support	• RESTRUCTURING PLAN: The Company must urgently implement measures of operational and financial restructuring to stabilize the Company business. The Company and the current owner have limited resources and tools to carry out the restructuring process. • INTRODUCTION OF PRIVATE INVESTOR: The Company has the need for entrance of a strategic partner and investor with the goal of stabilizing the business and establishing a sustainable business model, which can be summarized as: financing model, restructuring, stabilization of strategic raw material supply and improvement of sales market. • RECAPITALIZATION: Without recapitalization - increase in share capital - the Company has a number of limitations, consequently business risks within the 3- to 9-month period, and without the support of the majority owner, will have significant difficulties in business. • PRIVATIZATION MODEL: It is recommended for the future privatization model to include: (1) Strategic partner (2) Financial partners with the aim of establishing a stable and sustainable ownership and management model.
Financial position	• CASH GAP: On 31.03.2018, the Company reports an operating cash gap of HRK 670 million, and due to the level of indebtedness, the only possible model of financial restructuring is recapitalization by the owner and / or strategic partner in order to stabilize the business and create a sustainable business model of the Company. • BUSINESS ESTIMATE FOR 2018: Planned business result of the Company for 2018 is a loss of HRK 291 million. Unless the recapitalization takes place, the growth trend of negative capital value will continue. • FINANCIAL POSITION: High indebtedness and a continuing liquidity problem further disrupt business results. The Company lost the support of commercial banks (lending with the guarantees of the Republic of Croatia - the owner).

RESTRUCTURING AND RECAPITALIZATION PROCESS

The process is to be implemented in three phases that will create preconditions for a sustainable business

	Phases overview
1st PHASE	• Taking over HRK 450 million debt to banks by the Government of Croatia in order to overcome the burden of the past and enable implementation of the process with the ultimate goal of the Company privatization. • Increase of the share capital by stake in rights in the amount of HRK 450 million by converting the Government's claims to equity (debt to equity).
2nd PHASE	• Reduction of share capital to cover losses of 2017 and projected losses until July 2018, with simultaneous merger of shares. • After the reduction by merger of shares, the share capital will amount to HRK 100.3 million; HRK 150 million will be entered in the of capital reserves. • Total share capital reduction amounts to -HRK 392.6 million.
3rd PHASE	• Increase in share capital by contribution in cash in the amount of at least HRK 400 to a maximum of HRK 450 million through a public offering procedure provided a minimum payment is HRK 10 million per investor. • After the implementation of all three phases of the recapitalization process, the Government of Croatia will retain a certain percentage of ownership, while the major part will be the ownership of private investors.

1) Link to Decisions of General Meeting of Petrokemija, d.d. held on 9 July 2018:
https://petrokemija.hr/Investitori/Objave

PROFIT AND LOSS ACCOUNT FOR 2017 AND PLAN FOR 2018

The Company has no viable business model and the recapitalization process is necessary as soon as possible

P&L ACCOUNT (Abbreviated)

in mil HRK	2016.	2017.	2018.p
BUSINESS REVENUES			
Sales revenues	1.846	1.934	1.861
Other revenues	80	45	51
Total business revenues	**1.926**	**1.979**	**1.912**
BUSINESS EXPENDITURES			
Change in the value of stocks	95	14	71
Material costs	1.521	1.701	1.704
Emoloyee costs	192	184	184
Other costs and other business expenditures	84	84	81
Total business expenditures	**1.892**	**1.983**	**2.040**
EBITDA *	**34**	**-4**	**-128**
EBITDA (%)	**1,77%**	**-0,20%**	**-6,69%**
Financial expenditures	6.852	17	20
Financijski rashodi	46	67	95
Net profit	**-87**	**-243**	**-291**
Net profit %	**-4,52%**	**-12,28%**	**-15,22%**

*Note:

EBITDA for 2017 without HRK 95.8 mil value adjustment and reservations.

- In 2017, the Company **increased its operating income from HRK 1,925 million to HRK 1,979,** an increase of 2.8% compared to 2016. At the same time, operating expenses grew **from HRK 1,892 million to HRK 1,983 million (excluding one-off reservations and value adjustments), which is a growth of 4.8%.**
- Although the Company increased sales volumes in 2017, due to adverse movements in the global market and stronger competition, the average price drop was 3.0%, which reduced the effect of increased production (+ 11.5%) and sales (+ 7.5%).
- **The Company does not have sufficient cash reserves to ensure the stability of its operations** during the period of lower demand (summer months) but is forced to sell stocks and products at significantly lower prices to secure cash inflows.
- The Company achieved a negative EBITDA of -4 mil HRK, and with HRK 95 million in value adjustments and provisions (one-off items for the 2017 financial statement), total operating expenses less amortization amounted to HRK 2,078 million. Next to the previously created misbalance in the financing of the business results, it results in a lack of resources for regular servicing of the **Company's financial liabilities** and for **planned investments (realized in 2017: HRK 103m)**.

BALANCE SHEET AS ON 31.12.2017 AND PLAN FOR 31.12.2018

In order to establish a sustainable business model, the Company must reschedule the existing debt to financial institutions and key suppliers

BALANCE SHEET (Abbreviated)

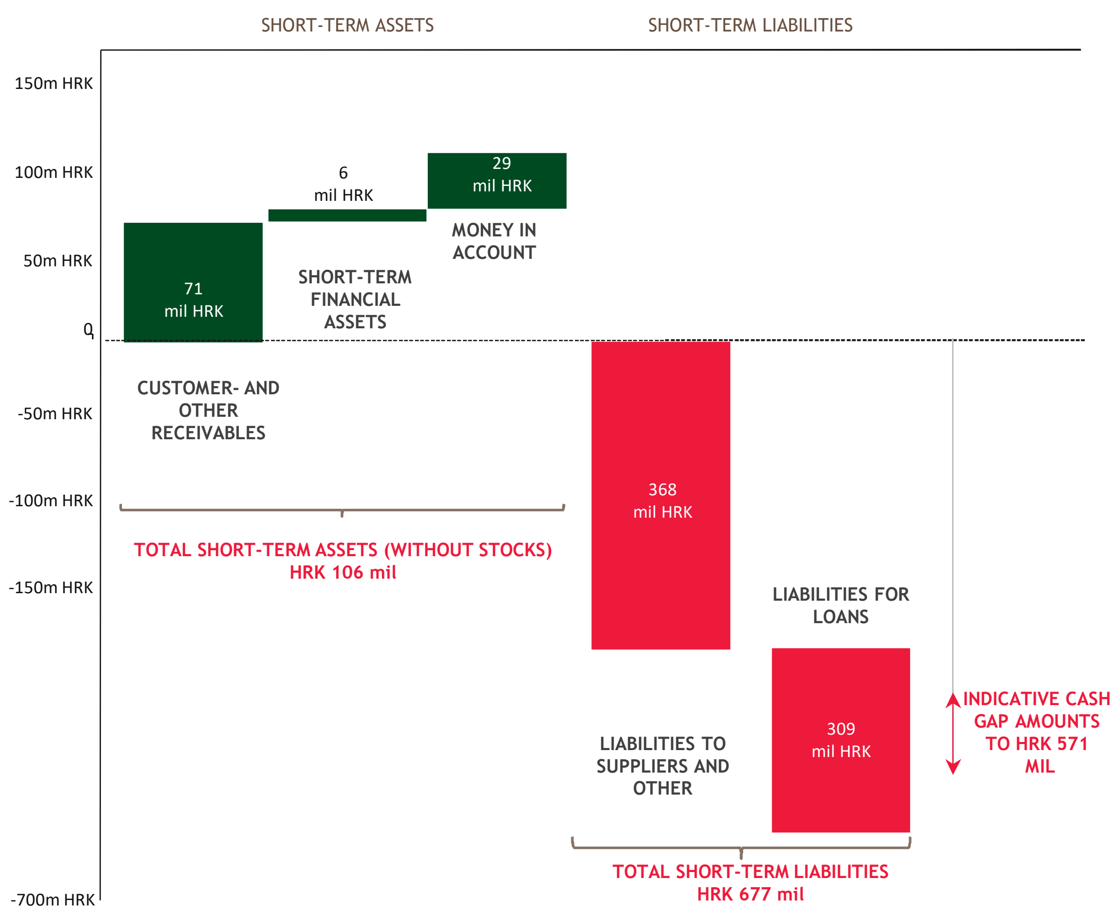
in mil HRK	31.12.2016.	31.12.2017.	31.12.2018.p
Long-term assets	**702**	**694**	**725**
Stocks / inventories	398	285	220
Customer and other receivables	79	71	170
Cash	22	26	130
Current assets	**532**	**388**	**520**
TOTAL ASSETS	**1.234**	**1.082**	**1.245**
Share capital	386	43	550
Retained profit or transferred loss	-252		0
Profit or loss for the year	-87	-243	-291
Capital and provisions	**47**	**-196**	**409**
Liabilities for loans	365	506	357
Long-term liabilities	**365**	**526**	**378**
Suppliers and other liabilities	464	370	213
Liabilities for loans	277	314	235
Short-term liabilities	**741**	**684**	**448**
TOTAL EQUITY AND LIABILITIES	**1.234**	**1.082**	**1.245**

- In the reviewed period, the Company has a **negative working capital of 571 million HRK (without stock)**, which shows a direct need for additional funds.
- Total loss as at 31.12.2017 amounts to HRK 243 mil and the capital and reserves are HRK 196 mil negative.
- **Total liabilities as of 31.12.2017 amount of HRK 1,272 million**, out of which HRK 528 million accounts for long-term liabilities and HRK 744 million for short-term liabilities.
- At the end of 2017, the largest creditors of the Company were HBOR with HRK 399 million, PPD with HRK 208.8 million, INA with HRK 88.4 million, Erste Bank with HRK 100 million, HPB with HRK 80 million, and PBZ with HRK 46.7 million.
- The total capital of the Company turned from the positive in 2016 (HRK 47 mil) into the negative in the amount of HRK 196 mil in 2017 due to new operating losses.

INDICATIVE CASH GAP

The Company does not have a viable business model and recapitalization is necessary in the shortest possible time to ensure short-term liquidity, restructuring and starting the investment cycle

INDICATIVE CASH GAP AS ON 31.12.2017 AMOUNTS TO HRK 571 MIL



- Total indicative cash gap as on 31.12.2017 was HRK -571 million and on 31 March 2018, HRK 669 million.
- The indicative cash gap is calculated without taking into account the product inventories due to the possibility of their quick marketability. Also, the part of the inventory relates to tools and spare parts, and a part of the inventory is under the pledge as a collateral for the debt to the lender INA d.d.
- When taking into account the value of inventories, the indicative cash gap on 31 March 2018 amounted to HRK 327 million.
- It is estimated that, after the recapitalization, the liquidity situation will significantly improve so that the cash gap on 31 December 2018 (calculated without stock value) is estimated at - HRK 148 mil. When the value of inventories is taken into account, the cash gap should be eliminated because the short-term assets are by HRK 72 million higher than the liabilities.

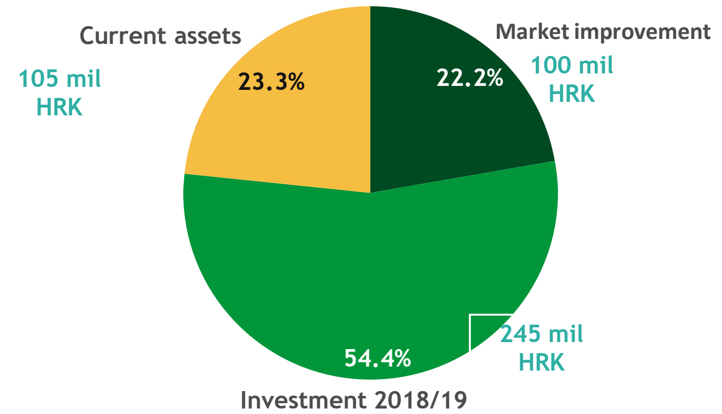
REASONS FOR RECAPITALIZATION

The key reason for Company recapitalization is cash gap as well as the need for further investment

WHY RECAPITALIZATION? 1

- **Cash gap** on 31.12.2017 amounts to **HRK 571 mil**
- The **planned CAPEX** for 2018 to 2022 period amounts to **HRK 594 million**. Further investment in the 2023-2027 period will be carried out according to the needs of the Company facilities.
- The Company cannot continue business operations without the support of the owner and so the recapitalization is absolutely necessary.
- At 31.12.2017, the Company has **total debt** in the amount of **HRK 1.272 million**
- The **planned amount of recapitalization** by strategic and financial partners **amounts to HRK 450 mil.**

ALLOCATION OF FUNDS RAISED BY RECAPITALIZATION – in 2018 3



WHY RECAPITALIZATION INSTEAD OF DEBT? 2

- The company cannot borrow on the capital market due to its negative capital.
- The Company has unfavorable debt structure and high debt cost, about 6% on average.
- Recapitalization of the Company provides a more favorable and stronger capital structure and reduces the risk of business, which brings the Company in a position to negotiate new more favorable financing terms on the market, where the new target debt cost is 3-4%.

STRUCTURE AND FLOW OF TRANSACTION 4

- **1st phase** - increase of share capital from HRK 42.9 mil to HRK 492.9 mil.
- **2nd phase** - reduction of share capital by HRK 392.6 million to cover the losses of 2017 and projected losses until July 2018, at a nominal price of HRK 10.00 / share.
- **3rd phase** - increase in share capital by at least HRK 450 million up to a maximum of HRK 450 in cash.

PART 2

PROJECTION OF NEW BUSINESS MODEL WITH RECAPITALIZATION

STRATEGIC ASSUMPTIONS OF THE NEW BUSINESS MODEL

Strategic assumptions are the basis for the realization of operational and financial indicators and the establishment of a sustainable business model

	AREA	MEASURE	NECESSARY CASH OUTFLOWS OF THE NEW MODEL(2018-2027)	ESTIMATED ANNUAL EFFECT	TOTAL EXPECTED CASH INFLOWS (2018 -2027)	EXPECTED NET EFFECT ON CASH FLOW (2018 -2027)
1	STRUCTURE OF INCOME	• Increase of average product price by revision of rebate policy as well as by greater focus on the domestic market, which has higher prices than export markets, and which is planned to achieve by revising customer payment terms (prolongation of payment deadlines). • Increase in business revenues is expected through price increase, which will be achieved by changing the of sales structure by products and markets with an additional focus on the domestic and the regional market (converging to the customer, forming sales teams for fieldwork), and withdrawing from distant export markets, as well as through the change of the rebate policy and sales terms that will result in the realization of better prices with higher added value. • Also, further dispersion of production and sales is planned for products that have a higher margin. • The goal is to raise prices by at least 3-4% already in 2018/19 with a further growth of 0.25% in the observed period. • One of the most significant measures is the Increase of revenues..	0 HRK	+ 59.4 mil HRK	+ 594.4 mil HRK	+ 594.4 mil HRK
2	STRATEGIC NATURAL GAS PROCUREMENT	• The new gas price as of 2018 reduces the cost down to about 10% per year, which will result in greater market competition and a reduction in total expenditures.	0 HRK	+49.4 mil HRK	+ 494.0 mil HRK	+ 494.0 mil HRK
	TOTAL		∑ 0 HRK	∑ + 108.8 mil HRK	∑ +1,089 mil HRK	**∑ +1,089 mil HRK**

OPERATIONAL ASSUMPTIONS OF THE NEW BUSINESS MODEL

Operational assumptions must ensure the establishment of a sustainable business model in the medium to long term

	AREA	MEASURE	NECESSARY CASH OUTFLOWS OF THE NEW MODEL(2018-2027)	ESTIMATED ANNUAL EFFECT	TOTAL EXPECTED CASH INFLOWS (2018 -2027)	EXPECTED NET EFFECT ON CASH FLOW (2018 -2027)
1	MODERNIZA- TI ON OF AMMONIA AND UREA PRODUCTION PLANTS	• The planned investment in the modernization of Ammonia Plant is HRK 174.9 million by 2022. • The planned investment in the modernization of Urea Plant is HRK 112.0 million by 2021. • The total expected reduction of gas consumption is 581,400 MWh per year.	- 286.9 mil HRK	+ cca 80 mil HRK	+ cca 400.0 mil HRK	¸+cca 400.0 mil HRK
2	OTHER CAPEX	• Investment in plant modernization and regular maintenance	Total planned investments by 2022 amount to HRK 594 mil, out of which HRK 286.9 mil in modernization of Ammonia and Urea Plant, and HRK 307.1 mil will be invested in regular maintenance and modernization of the rest of the facilities. After investing HRK 594 million by 2022, the Company will invest in modernization and maintenance of the facilities as needed and according to the possibilities.			
3	ORGANIZATION AND EMPLOYEES	• Operational changes also imply a reduction in total employee costs (gross + fees) during 2019	0 HRK	+ 10.0 mil HRK	+ 100.0 mil HRK	+ 100.0 mil HRK
4	MANAGEMENT	• Raising business efficiency through the establishment of a new management model and a reduction in other operating expenses. • Improving the supply chain by introducing new supply chain management	0 HRK	+ 20.5 mil HRK	+ 205.0 mil HRK	+ 205.0 mil HRK
	TOTAL		**∑ - 594 mil HRK**	**∑ + 110.5 mil HRK**	**∑ + 705.0 mil HRK**	**∑ + 109 mil HRK**

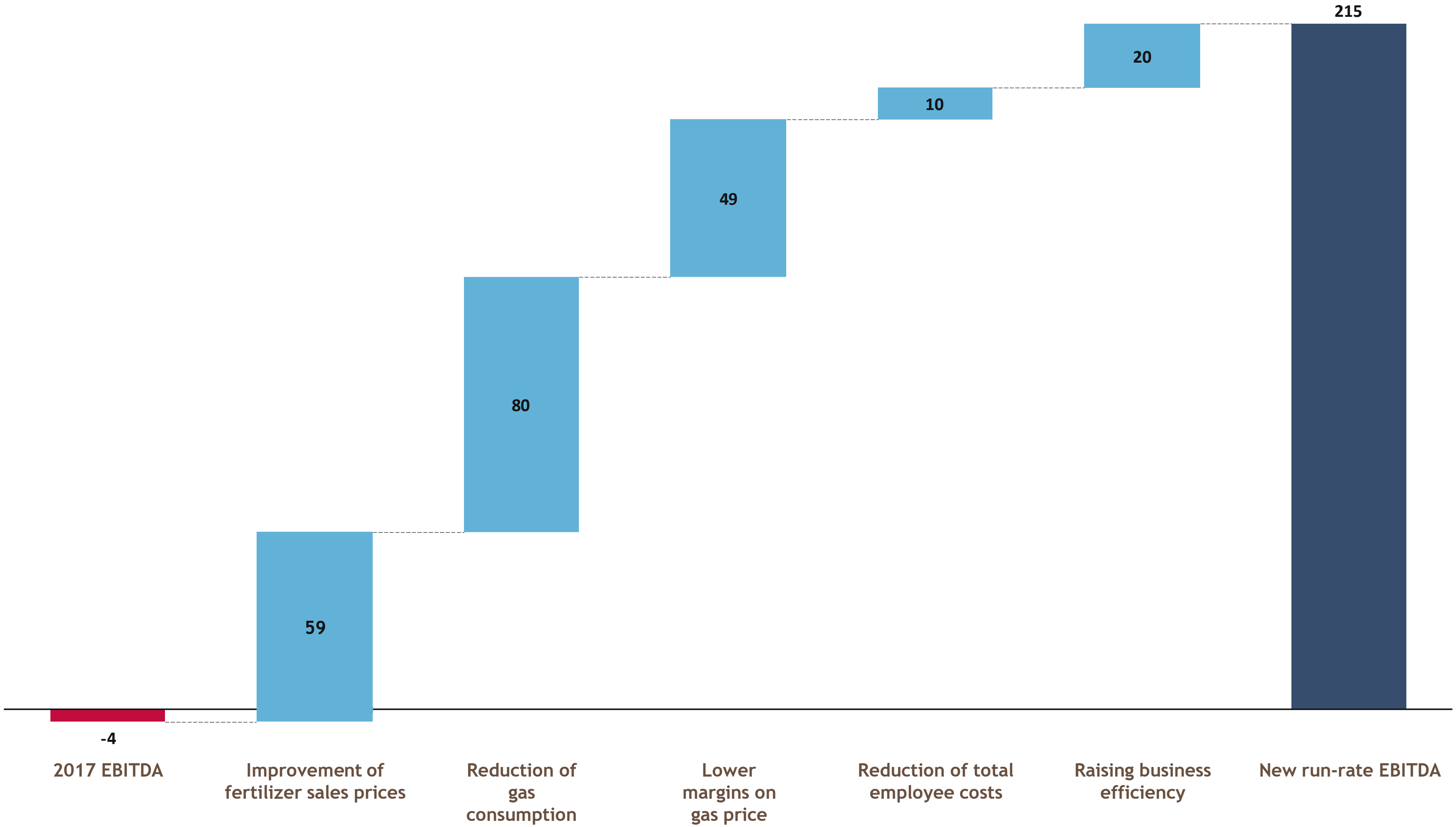
FINANCIAL INDICATORS OF THE NEW BUSINESS MODEL

Financial indicators of the new model refer primarily to the capital increase by recapitalization in money as well as the conversion of a part of the debt to equity and the reprogramming of the remaining Company debt

	AREA	MEASURE	NECESSARY CASH OUTFLOWS OF THE NEW MODEL (2018-2027)	ESTIMATED ANNUAL EFFECT	TOTAL EXPECTED CASH INFLOWS (2018 -2027)	EXPECTED NET EFFECT ON CASH FLOW (2018 -2027)
1	RECAPITALI-ZATION	• The total planned recapitalization in cash amounts to HRK 450 mil and is necessary for securing short-term liquidity required for the implementation of measures for operational restructuring as well as the commencement of the necessary investments. • Planned recapitalization will also provide a favorable capital and debt structure and thereby provide the potential for new borrowing in the future.	0 HRK	N/A	+ 450 mil HRK	+ 450 mil HRK
2	TAKING OVER OF PART OF DEBT BY THE REPUBLIC OF CROATIA	• With taking over HRK 450 million debt from banks, the Republic of Croatia releases the balance of the burden of the past and sets the foundation for comprehensive financial restructuring.	0 HRK	+13 mil HRK	+580 mil HRK	+ 580 mil HRK
3	RESCHEDULING OF DEBT TO GAS SUPPLIERS	• Rescheduling of approximately HRK 466 m debt to gas suppliers for a period of two to five years at a yearly interest rate of 4% to 4.55%, included in the interest expense plan of 18-27 (compared to 6% and 9% of the interest currently payable on the debt on loans to gas suppliers)	O HRK	cca 10 mil HRK	+ 26 mil HRK	+ 26 mil HRK
4	RESCHEDULING OF OTHER LIABILITIES	• Reprogramming of other financial liabilities implies reduced average interest rates to 3-4% per year.	0 HRK	+ 0.98 mil HRK	+ 9.8 mil HRK	+ 9.8 mil HRK
	TOTAL		**∑ 0 HRK**	**∑ + 23.98 mil HRK**	**∑ + 1,065.8 mil HRK**	**∑ 1,065.8 mil HRK**

EBITDA BUILD-UP

Strategic, financial and operational improvements will result in normalization of profitability

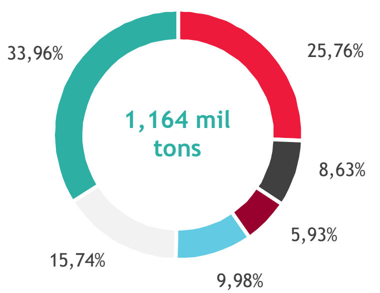


BUSINESS REVENUES - ASSUMPTIONS

Planned increase in revenues over the period 2018 - 2027 is on average 0.68% per year, as a result of the change in sales mix and focus on the Croatian market

BUSINESS PLAN KEY ASSUMPTIONS

Planned fertilizer volumes in tons in 2018



	2018.p	2027.p	CAGR	YOY
Planned volumes of fertilizars and semi-products (t)	1.197.050	1.250.000	0,48%	4,42%
Planned average price (HRK/t)	1.680	1.710	0,20%	1,81%
Planned sales revenues (mil HRK)	**2.011**	**2.138**	**0,68%**	**6,32%**

in mil HRK	2018.p	2027.p	CAGR	YOY
Other sales income	23,5	24,1	0,25%	2,27%
Other operating income	20,0	10,2	-7,21%	-48,99%
Other planned business revenues (mil HRK)	**43,5**	**34,3**	**-2,62%**	**-21,27%**

- The business plan is based on the assumptions of volume and price for the period 2018 - 2027, with 2018 and every second year until 2027 considered as 'overhaul years', thus the planned sales volume in those years is decreased.
- **The total planned volumes amount to 1,197,050 tons in overhaul years and 1,250,000 tons in other years.**
- Other sales revenues are planned at the level of **HRK 23.5 million, with growth of 0.25% per year** on average, making a total growth of 2.27% in the period 2018 - 2027.
- Other operating income is planned at the level of **HRK 20.0 million in overhaul years and HRK 10.0 million in other years.**
- **Total business revenues** are planned at HRK **2,011 million in 2018 to 2,138 million in 2027,** assuming the planned average weighted annual **revenues growth rate of 0.68%** or a total of 6.32% in the observed period.
- In 2018, a 3% price increase is planned as a result of the change of rabate policies, focus on new sales channels and on higher sales in the domestic market. In the period 2019 - 2027, a further average price increase of 0.20% a year is planned.

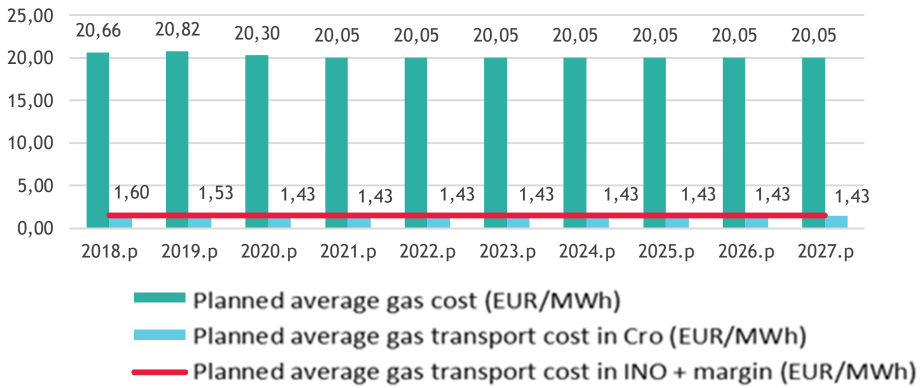
BUSINESS EXPENDITURES - ASSUMPTIONS

In addition to an increase in average prices, one of the key initiatives is to reduce the cost of natural gas, with the expected financial effect of about HRK 50 million per year

BUSINESS PLAN KEY ASSUMPTIONS

	2018.p	2021.p	2022.p	2027.p
Planned volumes of mineral fertilizers (tons)	**1.197.050**	**1.250.000**	**1.197.050**	**1.250.000**
Total planned gas consumption (MWh)	5.728.072	5.981.446	5.728.072	5.518.407
Total planned gas consumption (Sm3)	618.530.812	645.890.744	618.530.812	595.890.744
Planned average gas cost (EUR/MWh)	20,66	20,05	20,05	20,05
Total gas cost (mil HRK)	**1.020,8**	**1.030,9**	**987,2**	**951,1**

Planned gas price movements in the 2018 - 2027 period

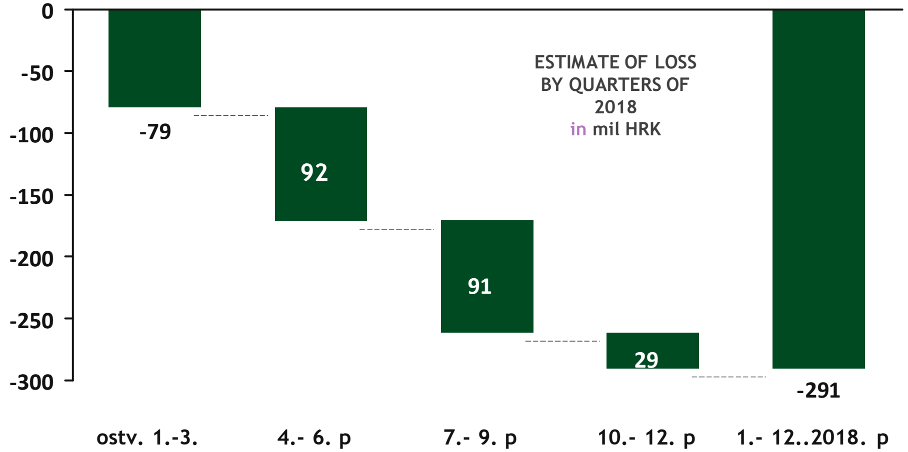


- The key cost savings measure refers to **the new price, which is expected to save approx. HRK 50 million a year.**
- **Investment of HRK 286.9 million is planned for Urea and Ammonia Plants by 2022**, whereby from 2023**, annual gas savings of 586,400 MWh are expected**, or about **HRK 83.4 million per year.**
- The planned cost of employees is based on the number of workers in 2017 and on average gross wages with an increase of 1% per year.
- **The total planned savings** in the segment of other operating expenses (spare parts, materials, etc.) are planned **at a total of HRK 20.5 million by 2018**, with an average annual growth of 5% in line with total planned revenue growth.
- **The "Contribution" of employees in the restructuring process** of the Company refers to the planned **savings on other material rights** in the planned amount of HRK 10.0 million.
- Total planned operating expenses increase in the observed period at an average weighted annual rate of 0.6%.
- All plan inputs related to gas costs are made on the basis of the available data on the situation on the European spot market at the transition of 2017/18.

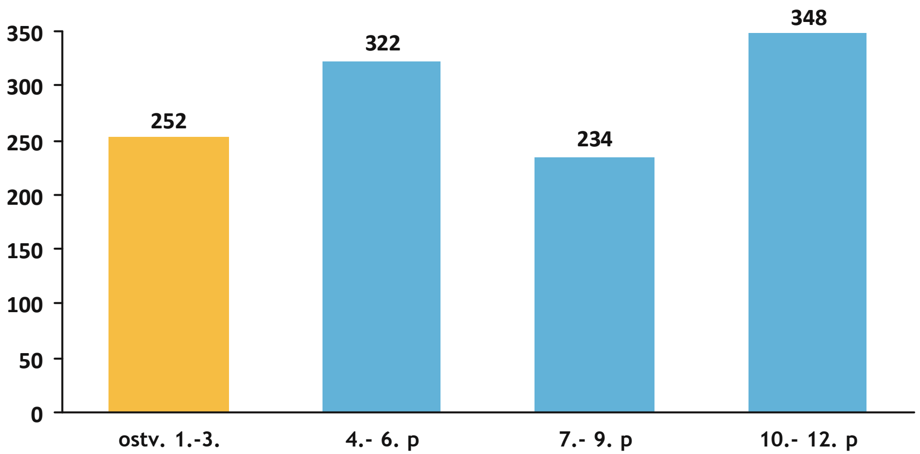
BUSINESS YEAR 2018 – SPECIFIC TRANSITION PERIOD

In 2018, preparations are underway for the process of restructuring and recapitalization in very unfavorable global market conditions

PROCJENA RAČUNA DOBITI I GUBITKA 2018. GODINE



ESTIMATE OF MINERAL FERTILIZER SALES BY QUARTER (000 t)



- Based on the financial results for the first quarter of 2018 and the estimates made on current elements of key business factors and quantified by the end of the current year, the level of loss is estimated to HRK 291 million.
- The low mineral fertilizer prices in the global market, which have been transferred from previous years, have a negative impact in 2018, and due to the planned overhaul the production volume will be reduced as compared to the previous year.
- The problems of Agrokor trade and buyers gathered around them are one of the limitations on the sale of mineral fertilizers on the domestic market.
- Due to the rise in natural gas prices in 2018, the sales price of Urea in other exports was brought to a level that does not cover even the direct cost of natural gas.
- The price of natural gas paid by Petrokemija in October 2017 was USD 267, and in April 2018 USD 326 / 1000 m3. This misbalance of in- and output prices caused a loss in operating business.
- There is also the issue of CO_2 compensation as a consequence of illiquidity of several years' cumulating obligations for the purchase of greenhouse gas emission units. At the end of 2017, these liabilities amounted to HRK 61 million, and due to the growth in unit prices, on 31 March 2018 they were HRK 96.8 million. In the meantime, HRK 2.4 million worth of units was purchased. In the first quarter of 2018, the total negative impact on the P&LA resulting from it was HRK 46.5 million.
- *Indicators of indebtedness and own financing are at a critical level because of lack of own funding; the capital is negative, which means that the Company is entirely financed from other sources, i.e. various forms of liabilities (loans, debt to suppliers, received advance payments from buyers and other) and its liabilities are by HRK 274.6 million higher than the value of the assets.*
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PART 3

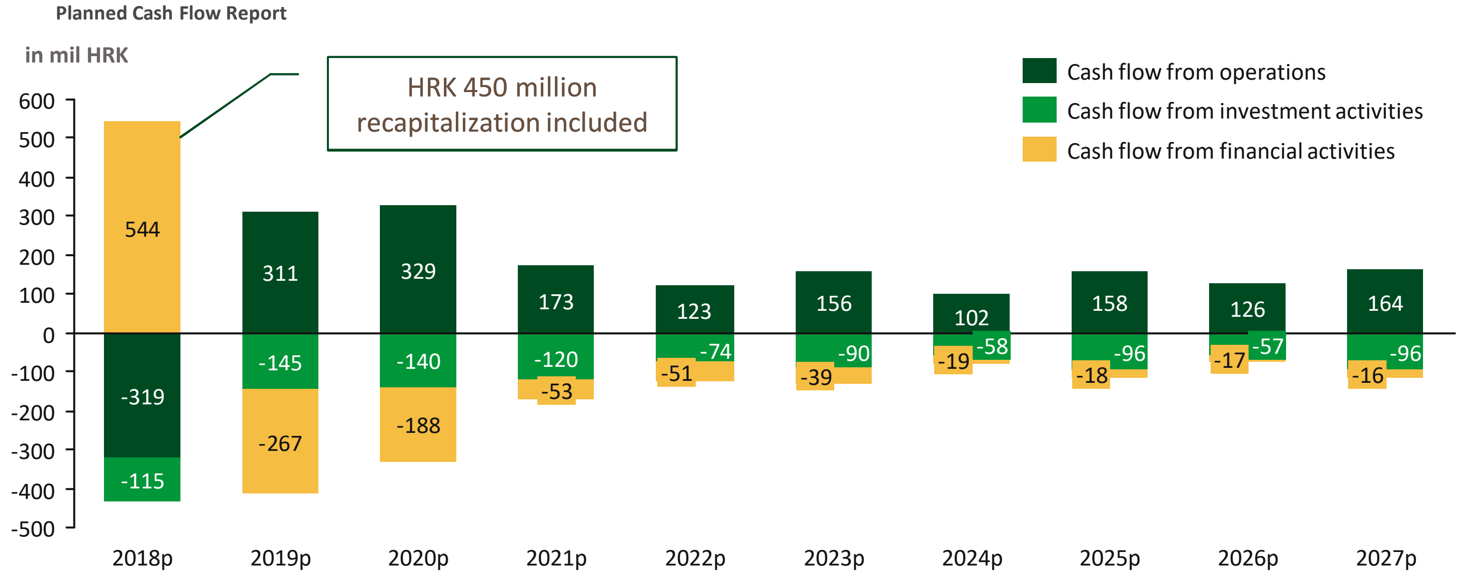
BUSINESS PROJECTION FOR 2018 -2027

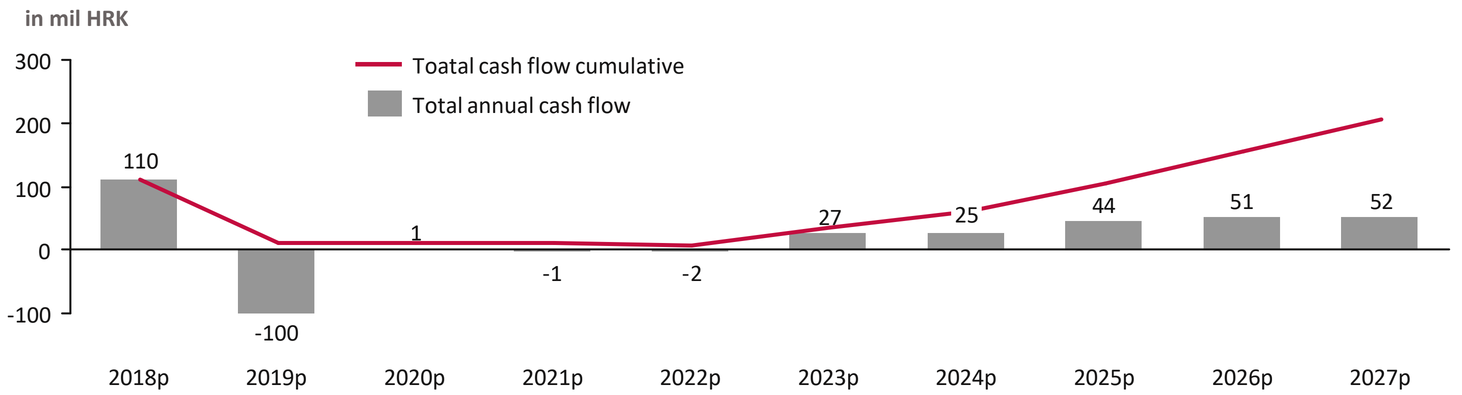
CASH FLOWS (2018 – 2027)

Planned cash flows after recapitalization and with the new business model are sufficient for implementation of all planned investments

KEY NOTES

- The planned cash flow statement assumes the implementation of all initiatives and implementation of the investment plan at an annual average of HRK 99.1 million.
- Planned cash flows also assume the implementation of financial restructuring measures by converting part of debt to equity (after having been taken over by the Republic of Croatia) and the reprogramming of other liabilities to gas suppliers for 2 - 5 years at an interest rate of 4 to 4.55% per annum.
- The total planned funds at the end of 2027 would amount to HRK 207 million (according to all the above assumptions).





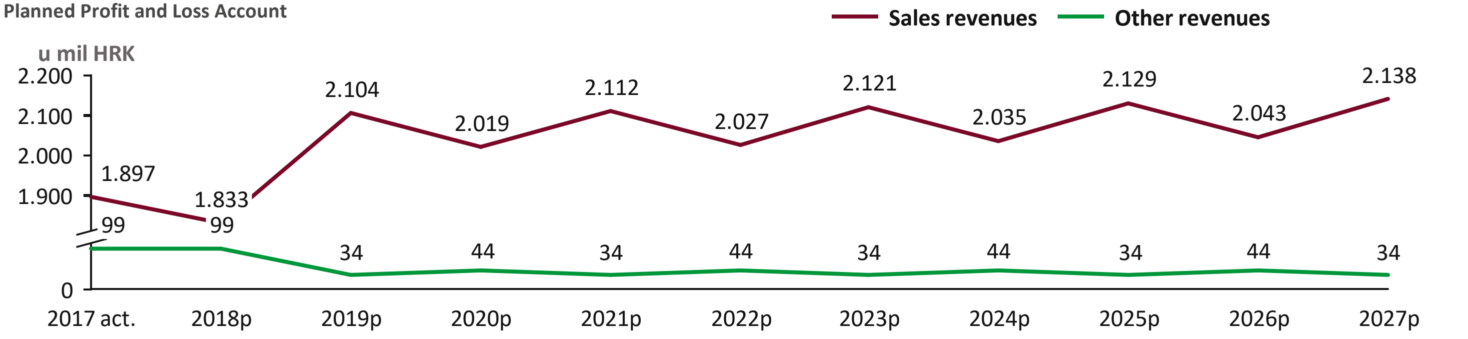
PROFIT AND LOSS ACCOUNT(2018 - 2027)

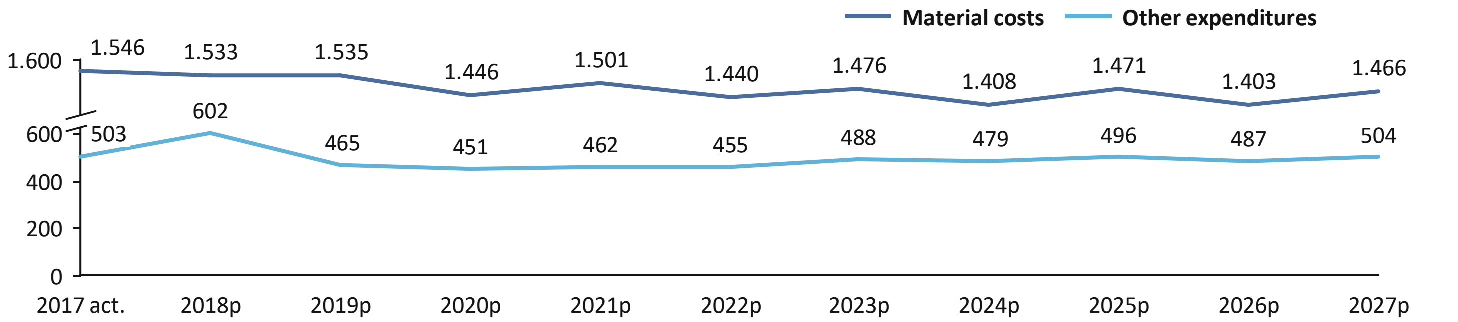
The average planned EBITDA margin in the observed period is 6.7%, or nominal HRK 143 mil, which is sufficient to settle all reprogrammed liabilities of the Company

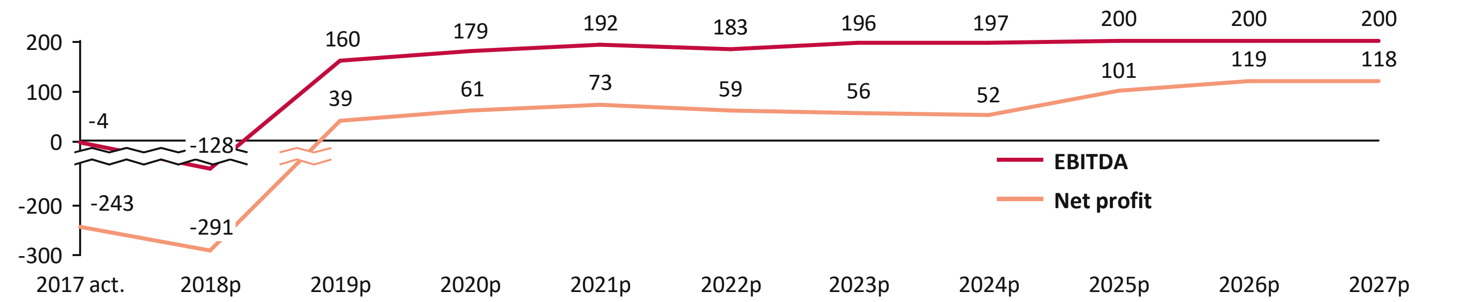
KEY NOTES

- The most significant changes in the structure of expenditures are visible in 2023 when full effects of the completion of a part of HRK 174.9 million investment in Ammonia Plant are expected, i.e. savings in natural gas of about 45 million Sm3 or about HRK 71.9 million, and in Urea Plant, with natural gas savings of about 7.0 mil Sm3 or about HRK 11.5 mil.
- After the modernization of the Ammonia and Urea Plants, a completely different concept of energy balance is expected, which will enable the elimination of a price-unfavorable model of own electricity production at the Energy Plant, whereby the total amount of electricity will be supplied under competitive market terms. Namely, due to the current technological constraints (balance of production and consumption of water steam needed in production), the Company is also forced to produce some of the electricity that could be purchased at a lower price than own production.

Planned Profit and Loss Account



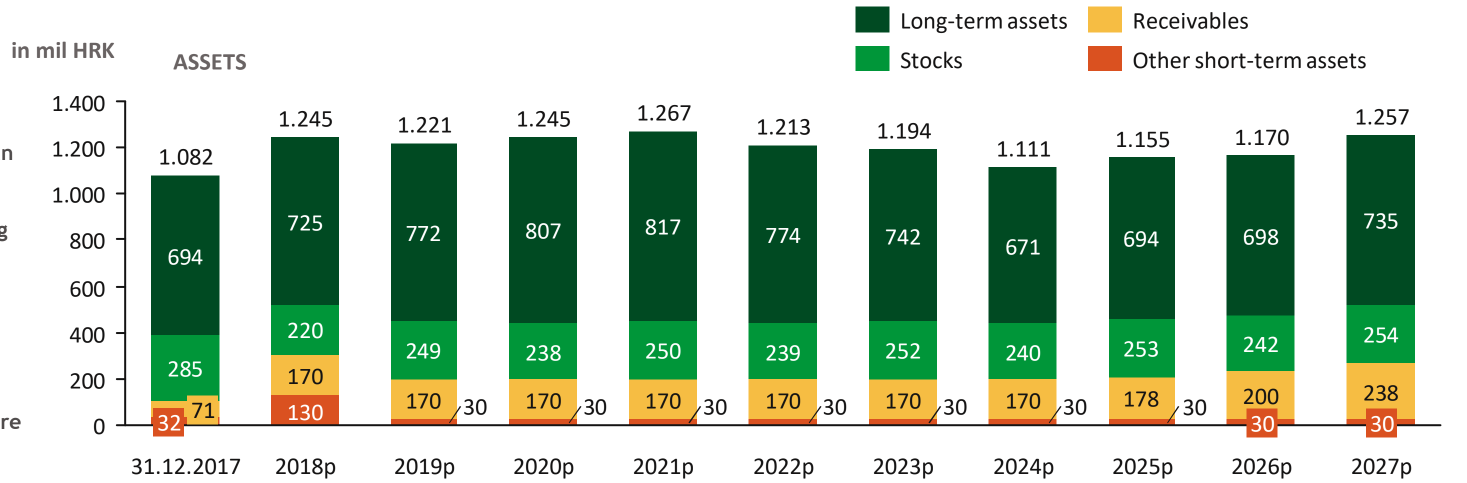


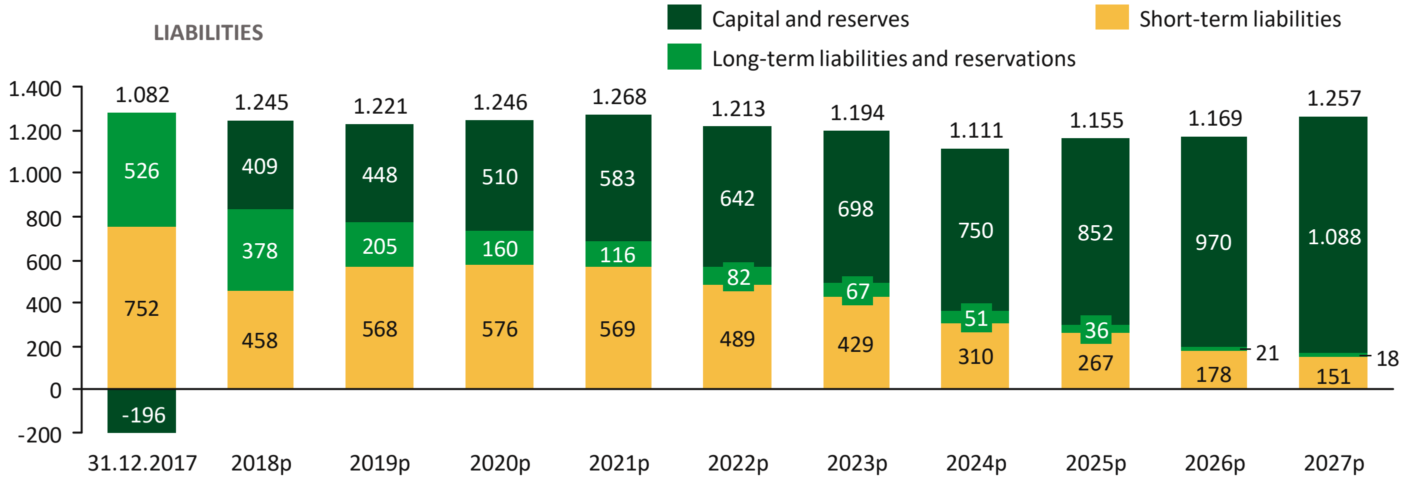


BALANCE SHEET (2017 - 2027)

Implementation of the Company recapitalization by the Strategic and financial partners and Republic of Croatia, as well as the implementation of the restructuring measures will result in the optimum capital structure of the Company

Planned Balance Sheet





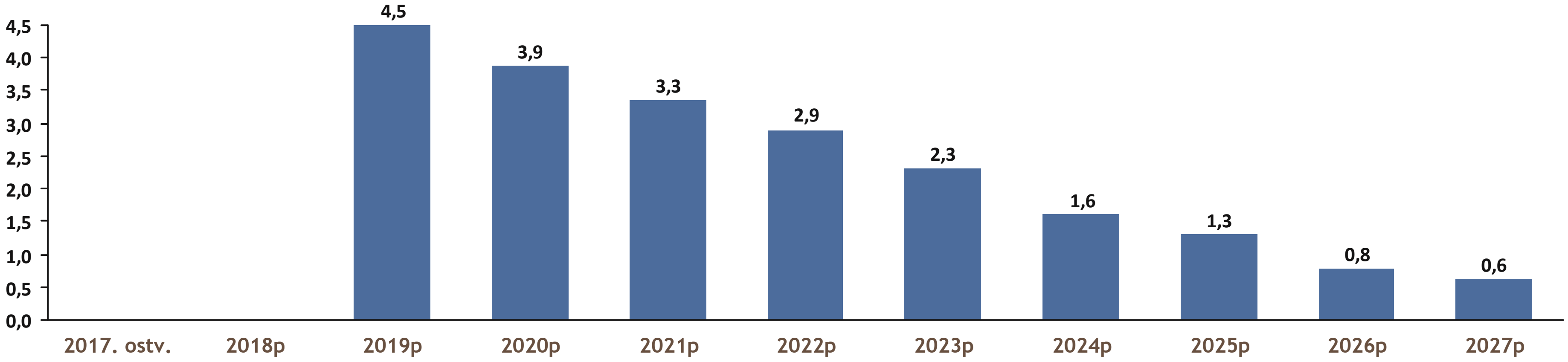
KEY NOTES

- **The recapitalization by means of taking over loan liabilities by Republic of Croatia, entering them into the Company capital, and then by increasing the share capital by HRK 450 million by the investors,** as well as reprogramming part of the liabilities and carrying out other operational and financial restructuring measures, will ensure an **adequate Company capital and liabilities structure** in the future, thereby providing **additional borrowing capacity for the implementation of all further planned and necessary investments in modernization.**
- This balance sheet also assumes a reprogramming of liabilities.
- The increase in customer receivables assumes that the **Company will give a higher deferral of payments than currently with the aim of increasing sales on the domestic market.**

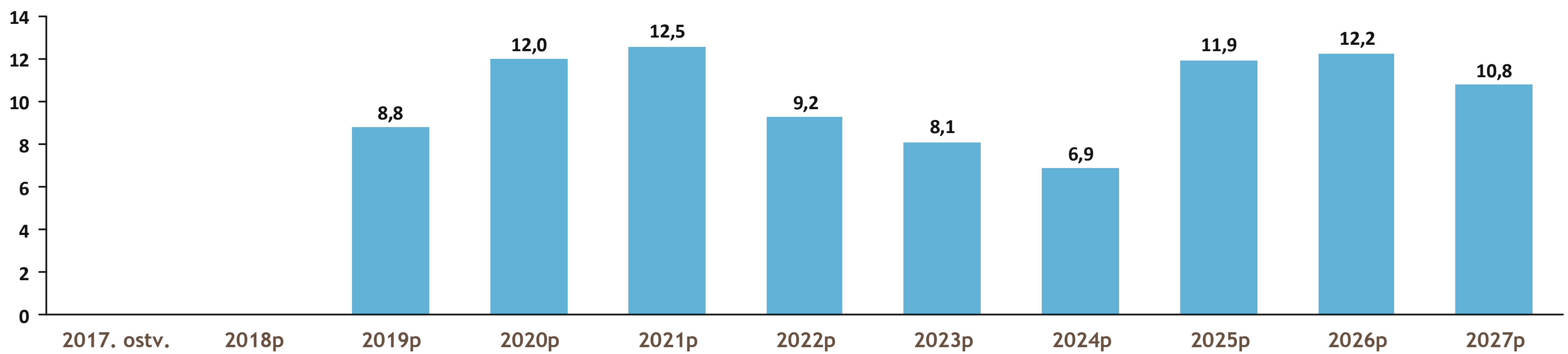
INDICATORS NET DEBT / EBITDA AND ROE 2017- 2027

Financial indicators prove long-term sustainability

NET DEBT / EBITDA:



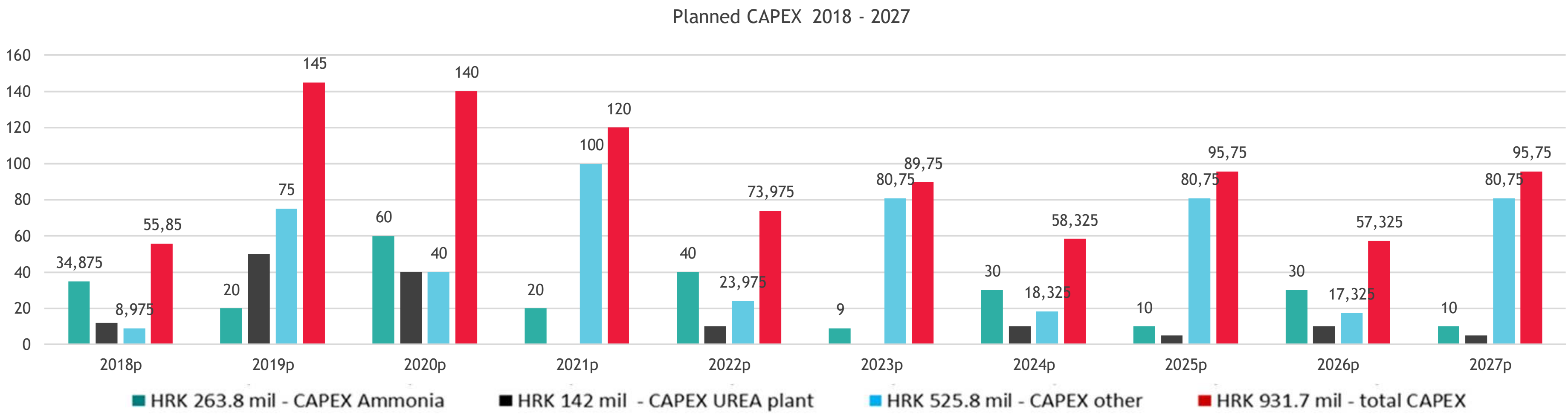
ROE (RETURN ON EQUITY) %



CAPEX ASSUMPTIONS

Total CAPEX is assumed at the level of HRK 990.1 million, or HRK 99.1 million per year on average. Due to acceleration of investment dynamics, the realization of investments in 2018 is estimated at HRK 115 million

CAPEX



SUMMARY OF MEASURES AND KEY EFFECTS

STRATEGIC ASSUMPTIONSEGIC ASSUMPTIONS

STRUCTURE OF REVENUES

- Increase of average product price by reviewing the rebate policy as well as by a higher focus on the domestic market that has higher prices than the export markets. This is planned to be achieved by reviewing customer payment terms (prolongation of payment deadlines). Increase of business revenues is expected through price increase, which will be achieved by changing the structure of sales by products and markets, with an additional focus on the domestic and regional market (converging to the customer, forming sales teams for fieldwork) and withdrawal from remote export markets, as well as by the change of the rebate policy and sales terms that will result in the realization of better prices with higher added value.
- Also, a further dispersion of production and sales is planned for products that have a higher margin.
- Increase of revenue is one of the most significant measures of the new business model.

STRATEGIC NATURAL GAS PROCUREMENT

- The new gas price as from 2018/2019 will ensure higher competitiveness and result in reduction of expenditures.

EXPECTED NET EFFECT ON CASH FLOW (2018 -2027)

∑ +1.089 mil HRK

OPERATIONAL ASSUMPTIONS

MODERNIZATION OF AMMONIA AND UREA PLANTS

- Investment in modernization of Ammonia Plant is planned in the total amount of HRK 174.9 million by 2022.
- Investment in modernization of Urea Plant is planned until 2021.
- The total expected reduction of gas consumption is 581,400 MWh per year.

OTHER CAPEX

- Investment in modernization of facilities and regular maintenence

ORGANIZATION AND EMPLOYEES

- Operational restructuring also implies reducing total employee costs (gross + fees) in the course of 2018/2019

MANAGEMENT

- Raising business efficiency through establishment of a new management model and a reduction of other operating expenses.
- Improving the supply chain by introducing new supply chain management.

EXPECTED NET EFFECT ON CASH FLOW (2018 -2027)

∑ +109 mil HRK

FINANCIAL INDICATORS OF THE NEW MODEL

RECAPITALIZATION

- Planned recapitalization in cash amounts to HRK 450 mil.
- The recapitalization will also provide a favorable structure of capital and debt and the potential for new borrowings in the future.

DEBT TO EQUITY

- Planned increase in share capital by entering the claims of HRK 450 million of the Republic of Croatia in equity.

REPROGRAMMING DEBT TO GAS SUPPLIERS

- Rescheduling of cca HRK 466 mil to gas suppliers for a period of 2 - 5 years at an interest rate of 4 to 4.55% (currently 9%)

REPROGRAMMING OTHER LIABILITIES

- Rescheduling implies a reduced average interest rate from about 6 to 4% per annum.

EXPECTED NET EFFECT ON CASH FLOW (2018 -2027)

∑ +1,065.8 mil HRK

ESTIMATED EFFECTS FOR IMPROVEMENT OF BUSINESS PROFITABILITY INCLUDING INVESTMENT IN THE NEW BUSINESS MODEL

RISKS

Key risks and risk management

Risk		Risk management
R1	Failure to achieve the revenue plan in profitable markets as a result of the fall in demand due to illiquidity and bankruptcy of key customers	• The Company will set up a sales organization that will strengthen the control of sales channels and establish direct relationship with the end customer
R2	Risk of USD and EUR exchange rate	• Adjustment of sales prices and the use of financial instruments to reduce the negative effects of exchange rate risks
R3	Gas price rise above the planned value	• As a result of the competitive gas supply terms of the Company, it is expected that in this case the price of competing products will also be under the pressure of higher gas prices. Since the Company, in accordance with the business plan will not be in the situation of marginal liquidity, it will not be forced to sell stock of finished products at unfavorable prices
R4	Failure to implement the planned investments and to realize planned savings in production	• Improvement of the process of technical and financial planning, implementation and control of investment projects • Control role of the Investment Committee
R5	The risk of the Company's non-liquidity can lead to the inability to approve deferred payments to customers on the Croatian market, accelerated sales of goods from stock at lower prices and delay in the implementation of planned investments	• Accelerating the process of the Company recapitalization and efficiently managing the cash flow

DISCLAIMER

- The Issuer shall use an exception to the obligation to publish a prospectus of issue in accordance with Art. 351, paragraph 1, item 3 of the Capital Market Act (CMA), since the offer of New Shares is addressed to investors who are obliged to pay a minimum of HRK 10,000,000.00 per investor for the subscribed New Shares, for each individual bid.

- In accordance with the applicable regulations, after the successful increase of the share capital by a public offer, the Issuer shall prepare a Prospectus for listing of the New Shares on the Official Market of the Zagreb Stock Exchange d.d. (ZSE) to be submitted to HANFA for approval. If HANFA issues a decision on approval of the Prospectus listing, the Issuer will publish it in accordance with Article 374 of the CMA, and thereafter intends to include the New Shares on the Official ZSE Market. The trading with the New Shares of the Company on the official ZSE market will be possible from the day decided by ZSE.

- The Issuer assumes the responsibility for the accuracy and completeness of this Investor Presentation / Recapitalization Process of Petrokemija d.d. Fertilizer Company (Presentation), i.e. information contained therein. According to the information available to the Issuer, its beliefs and knowledge, the information in the Presentation is a true representation of its property, including but not limited to rights and obligations, profit and loss, financial position as well as rights and obligations arising from or relating to Issuer’s New Shares, as well as the Issuer’s planned new business model after the share capital increase. According to the Issuer’s best knowledge, none of the facts that could affect the accuracy and / or completeness of this Presentation have been omitted, including, but not limited to, data that could significantly affect the decision making on investing in the Issuer's New Shares and related risks.

- The Agent of the Issue, Privredna banka Zagreb d.d. and the Legal Advisor of the Issuer Bogdanović, Dolički & Partneri, a law firm, assume no responsibility whatsoever, nor guarantees to the Issuer or any other third party (investors, subscribers, new shareholders, etc.) directly or indirectly for the obligation of the Issuer as regards the New Shares or for the accuracy and content of the Presentation, i.e. the completeness of the data in the Presentation. The information contained in this Presentation exclusively is relevant to the decision to invest in the Issuer's New Shares. Any potential investor shall make the decision to invest in the Issuer’s New Shares on the basis of the own estimate of the Issuer and the terms and conditions of the Offer of New Shares. The Issuer has not authorized any physical and / or legal person to provide information related to the New Shares of the Issuer. Thus, any third party information that differs from the information contained in this Presentation is not to be not considered relevant. Moreover, the Issuer does not expressly or implicitly confirm the accuracy of any unauthorized disclosures or statements, nor gives its consent to them or assumes any liability for any damages that investors may incur because of them.

- The accuracy and completeness of the information contained in this Presentation has been established in accordance with the situation at the date of this Presentation, unless expressly stated in the Presentation that it refers to another date. The Issuer points out the possibility that the information contained in this Presentation regarding the Issuer's business, its financial position and business results will change after the date of this Presentation. Statements referring to the future relate only to the time they were given and the Issuer does not assume any obligation to update or revise any statements about the future in accordance with new information, future events or other reasons. The Issuer does not herewith give a statement, forecast, or warrant that statements about the future will actually be realized. Statements about the future cannot be considered the most probable or a standard scenario, but are only one of the possible scenarios in the Issuer business. The competent law for the Presentation as a whole is the law of the Republic of Croatia with the exclusion of collision norms of international private law. Any disputes relating to the Issuer’s New Shares, including disputes relating to issues of validity of their issue, as well as the legal effects arising therefrom, will be settled before a court of jurisdiction in the Republic of Croatia.

DISCLAIMER

- Foreign investors should also comply with their relevant foreign country regulations. This Presentation shall not be considered as a recommendation for purchase or offer for the sale of the Issuer's New Shares on behalf, or for the account of the Issuer, or on behalf, or for the account of the companies affiliated with the Issuer, their affiliated companies and their representatives. The Presentation does not contain any advice, including, but not limited to, advice on investing in the Issuer's New Shares, legal or financial advice.

- The Issuer refers any investor considering the possibility of subscription and payment, or purchase and sale of the New Shares, to the necessity of own examination, evaluation and judgment of all facts, risks, trends, estimates and forecasts pertaining to the Issuer, the New Shares and the business environment.

- The Presentation is not intended for distribution outside the Republic of Croatia. The distribution of the Presentation, as well as offering and selling New Shares may be limited in some legislations by appropriate regulations. Investors are obliged to become familiar and comply with these regulations. Investors are obliged to act in accordance with the applicable law in the state where New Shares are purchased, offered or sold, or in the area in which they own or distribute the Presentation, and are required to obtain the approval or consent provided for by applicable legislation. The Issuer hereby does not allow to bid for the purchase of New Shares in any area except in the area where it is permitted by the applicable legislation.