



Petrokemija, Plc. Fertilizer Company
Aleja Vukovar 4, 44320 Kutina, Croatia
Ordinary share, PTKM-R-A ISIN HRPTKMRA0005
listed on the Official Market of the Zagreb Stock Exchange
Notice pursuant to the Capital Market Act

Notice of Croatian Government's Decision

At its yesterday's meeting, the Government of Republic of Croatia adopted a Decision on recapitalization of Petrokemija, Plc. Fertilizer Company, Kutina.

Details:

Pursuant to Article 8, and 31, paragraph 2 of the Croatian Government Act (Official Gazette No. 150/2011), in conjunction with Article 40 and 46 of the State Property Management Act (Official Gazette No. 94/2913), the Croatian Government at its session of _____ 2014 adopted a

DECISION

on the recapitalization of the PETROKEMIJA, Plc. Company, Kutina

I.

The information of the Ministry of Economy on the Decision on the share capital increase of PETROKEMIJA, Plc. Company, Kutina is adopted, passed at the General Meeting held on 20 May 2014, with the aim of implementation of the Program of Restructuring and Financial Consolidation the Company.

II.

The Restructuring and Sale Center is commissioned to, in the name and for the account of the Republic of Croatia, conduct the subscription and payment of a maximum of 8,333,333 Company shares from point I. of this Decision at a price ranging from HRK 30.00 to 100.00 per share, pursuant to the Public Invitation for subscription and payment of the Company new ordinary shares issued on 7 July 2014.

The Decision on the final price at which subscription and payment of shares from the preceding point of this Decision is executed, will be made by the State Office for State Property Management, with the approval of the Ministry of Economy.

III.

The Restructuring and Sale Center will execute the payment for shares from Point I. of this Decision from funds generated from the management of shares/business interests owned by the Republic of Croatia, managed by the Center.

In case of inability to timely raise funds for payment of shares in accordance with the preceding paragraph of this point, the Center will provide finances for payment of shares from point II. of this Decision by loans from commercial banks.

In case of raising funds by borrowings, approval is given to the Centre to, as a guarantee of loan repayment, sign a contract of pledge of the shares of Croatian Telecom Inc., Zagreb, owned by Republic of Croatia with the provider of the loan.

The Center is authorized to execute the return of funds obtained by borrowings by the method in the preceding paragraph of this point, from the revenues generated by the management of stocks/business interests owned by the Republic of Croatia and managed by the Center.

IV.

For carrying out the Company recapitalization process from point I. of this Decision, the Restructuring and Sale Center shall be entitled to compensation pursuant to the provisions of the Regulation on remuneration for management of shares and business interests (Official Gazette No. 130/2013).

V.

This Decision shall enter into force on the date of its adoption.

Class:

No:

Zagreb,

Prime Minister

Zoran Milanović

INFORMATION

In accordance with the Decision on Share Capital Increase adopted by the Petrokemija, Plc. General Meeting of 20 May 2014, a Public Invitation for subscription of new shares was published on July 7, 2014. The ownership structure prior to the recapitalization was: 43.8% Republic of Croatia, 27.6% pension funds and 28.6% other investors. The new share of Republic of Croatia will be determined after the recapitalization, depending on the shares of other investors in the recapitalization process.

In 2014, Petrokemija, Plc. continued the already started Restructuring Program (launched in collaboration with A.T. Kearny consultants in 2013), **based on cheaper domestic gas (basic raw material with 55% share in total costs), on condition of further growth of agricultural production. These are the two strategic prerequisites that must be met for the survival and future of Petrokemija, Plc.**

In order to respond to the strategic challenges that Petrokemija is facing, on 20 March 2014 its Management adopted a Program of Restructuring and Financial Consolidation for 2014 – 2018, which was adopted by the Supervisory Board on 9 April 2014.

The basic features of the program are:

- Focus on three main product groups and production volume of 1,050,000 tons per year;
- Access to open gas market and achieving a market price, i.e. reduction of approximately 15% compared to the levels of 2013;
- Increasing the productivity of business processes by 35%;
- Reducing the cost of procurement of strategic raw materials and other materials and services;
- Modernization of Ammonia Plant to reduce energy consumption;
- Compliance with the requirements of EU legislation through significant investment in facilities;
- Upgrading the sales model in the home region;

- Outsourcing of non-core activities.

The Restructuring and Financial Consolidation Program will enable Petrokemija the realization of 10%+ EBITDA margin (compared to -8% in 2013)

The program provides for refinancing of existing debt, additional financing of working capital and **recapitalization totaling about HRK 1.6 billion by the year 2018.**

The plan for the first phase in 2014 provides for refinancing of debt in the amount of about HRK 400 million, and a capital injection of HRK 500 million.

The second part is scheduled for late 2015 and early 2016 when the majority of investment activities is anticipated. Additional financing and raising of capital is required to finance the investment program (about HRK 1 billion), the cost of the redundancy program (about HRK 140 million) and financing working capital.

Petrokemija has started the implementation of the Program in increasing the productivity of the processes, reduction of procurement costs, and has begun the process of recapitalization in line with the Decision of the General Meeting of 20 May 2014.

The General Meeting had adopted a Decision on reduction the share capital for covering the accumulated losses, but also for the provision of the Company's capital reserves which are believed to be sufficient to cover future losses until the restructuring of the Company is completed. The new share capital of the Company, without the newly created capital reserves is HRK 30 per share.

Furthermore, the Company passed a Decision on increase of the share capital by issuing new shares against payment in cash in order to collect funds for the necessary investments that would ensure the production, restructuring and financing of current operations. In order to facilitate the implementation of the Company share capital increase at market principles, the price range of the Issue was determined, ranging from the nominal share value of HRK 30.00 up to HRK 100.00.

The Company share capital increase will be carried out against payment in cash – by issuing of minimum **8,333,333 and maximum of 16,666,666 new ordinary registered shares, with a nominal value of HRK 30.00**, in three rounds.

1st round begins at 12.00 hrs on 7 July and ends at 12:00 hrs on 21 July 2014.

2nd round is expected immediately after the first round, until the end of July 2014.

3rd round will be determined later, depending on the results of the first and second rounds, but according to current information it is expected to be implemented in September 2014.

A significant participation of the Republic of Croatia, as the largest shareholder, is expected in the recapitalization process through the first two rounds, which would ensure a successful recapitalization and carrying on with the started restructuring processes and starting investments.

Source:

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