

Zagreb, 20 March 2014

INA INDUSTRIJA NAFTE, d.d.
Av. V. Holjevca 10
10 000 Zagreb, Croatia
Ordinary shares INA-R-A ISIN HRINA0RA0007
Listed on the Zagreb Stock Exchange official market
Announcement in line with Capital Markets Act

Subject: INA-Industrija nafte, d.d. – Changes in regulation

On 19 March 2014 Government of the Republic of Croatia passed a Regulation on Compensation for Exploration and Exploitation of Hydrocarbons which will have significant and long term consequences on Company's operations.

With increasing the royalty rate for hydrocarbon production on existing fields by 100 %, INA in 2014 will have to pay around HRK 250 million more in comparison to the current amount while this effect will be around HRK 400 million in the following years.

The regulation applies the increase to all fields, also to more price sensitive, complex projects like INA's EOR (EOR - Enhanced Oil Recovery) project that we are carrying out on our fields Žutica and Ivanić.

After retroactive refinery taxes and the recent continuation of regulated gas price for households which resulted with the transfer of HRK 250 to 350 million annually to HEP, this decision is the third substantial negative change in the regulatory environment within a short time frame, as a result of which INA will have to reconsider its future investment plans (considering that a 2011 government regulation set the rate of royalty at 5% and this is what INA based its plans on).

INA is aware that 10 % royalty is in line with the most of European rates, however, INA as well as any investor builds its development plans on predictable regulatory frames, which is crucial in such an investment-intensive industry.

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