

# INA Group

## Results and activities in Q1 2011



## **Focusing on stabilizing finances and preparing for future growth**

*Further improvement of efficiency and significant investments to be implemented*

**1**

### **INA Q1 2011 results at a glance:**

*Benefiting from improved environment*

**2**

### **Focus of 2011: Securing long-term stability**

*Improved efficiency and stabilized financials*

**3**

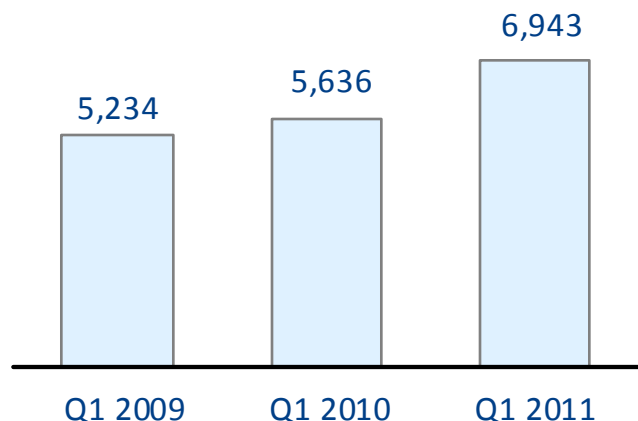
### **Setting the pace for future growth: Investing in Croatia and abroad**

*Remaining the major investor of Croatia with multi billion HRK investments*

# 1 Recovery of economy and INA's previous investments already visible in results

## Total net sales revenues of INA Group

HRK millions

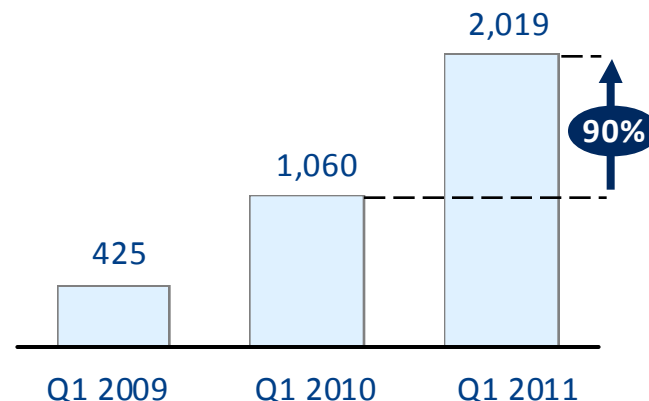


Net sales revenues increased backed by:

- Key investments of recent years already positively contributing to the results
- Stronger wholesale positions achieved on the B&H market
- Improving external environment driven by economic activity recovery

## Total EBITDA of INA Group<sup>1</sup>

HRK millions



Significantly increased EBITDA, also benefiting from:

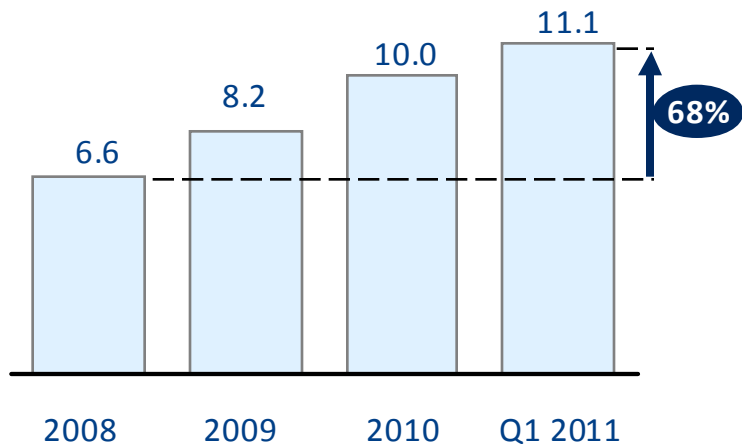
- Improved efficiency of operations (over HRK 1 bn efficiency improvements since 2008)
- Improved procurement process targeting further cost savings

1: EBITDA-including special items

## 2 The most demanding period of the process of financial stabilization is behind us But further financial consolidation steps are necessary in 2011 as well

### Net debt of INA Group

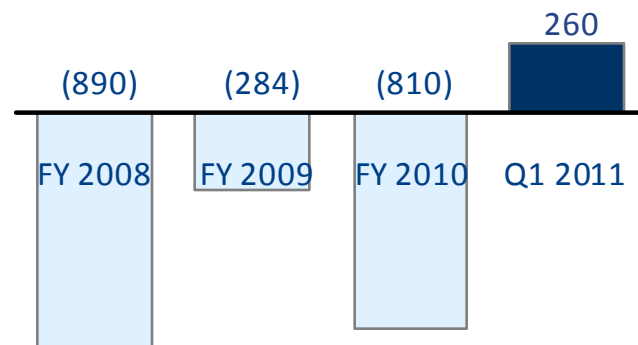
HRK billions



- Compared to pre-crisis levels, INA's net indebtedness increased by 68%, due to sustaining significant level of investments in key businesses and repayment of overdue liabilities
- In 2011 INA shall focus on re-stabilizing the level of indebtedness

### Financial results of INA Group

HRK millions



- INA is exposed to changes in exchange rates
- Strengthening of HRK against USD in Q1 2011 resulted in HRK 671 mn higher financial results than in the same period in 2010
- Changing of INA's loan portfolio is already contributing to more stabilized results

**Secured financial stability will enable INA Group  
to increase investments in coming years**

## 2 Further strict cost control to be implemented in coming years

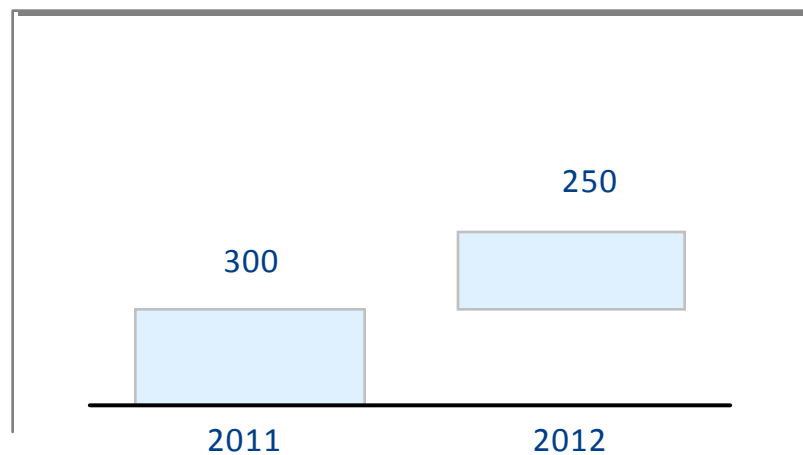
### Cost savings achieved between 2008-2010

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- Efficiency improvement programs delivering above the planned HRK 450 mn target
- Targeting more than HRK 100 mn savings annually in procurement

### Cost savings planned in INA Group in 2011-12

HRK millions



Significant cost savings (HRK 550 mn) planned in coming years by:

- Achieving lower cost levels closer to industrial benchmarks
- Revision of contracts and implementing a more efficient tendering process
  - >25% savings in IT and telecommunications
  - >10% savings in transportation
  - >20% savings in building operations
  - >30% savings in catering services

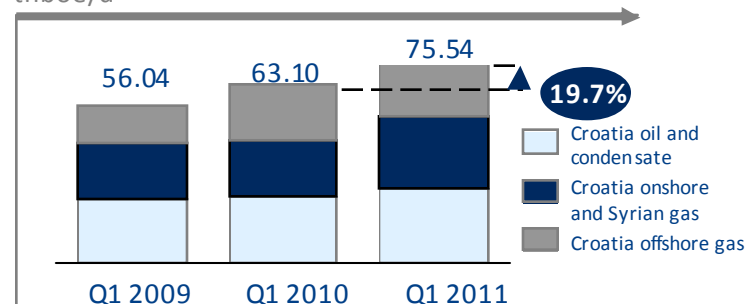
## 2 Financial and Operational results at a glance

HRK mln.	Q1 2010	Q1 2011	%
Net sales revenues	5,636	6,943	23.2
EBITDA	1,060	2,019	90.5
Profit from operation	343	1,118	225.9
Profit from operation excl. special items	417	1,349	223.5
Net financial gain (expenses)	(411)	260	n.a.
Net profit/loss for the period	(131)	1,053	n.a.
Net profit/loss for the period excl. special items	(72)	1,238	n.a.
Operating cash flow	(926)	(969)	4.6

- Increased hydrocarbon production (19.7%)
- Increased sales volumes in wholesale (6 %)
- Stabilized retail sales
- Increasing hydrocarbon prices (23.6%)
- Moderate upturn of realized refinery margins
- Enhanced operational efficiency
- Significant cost savings
- Positive contribution of financial results

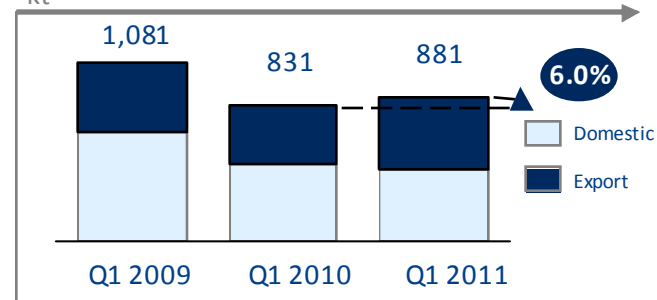
### Average hydrocarbon production

thboe/d



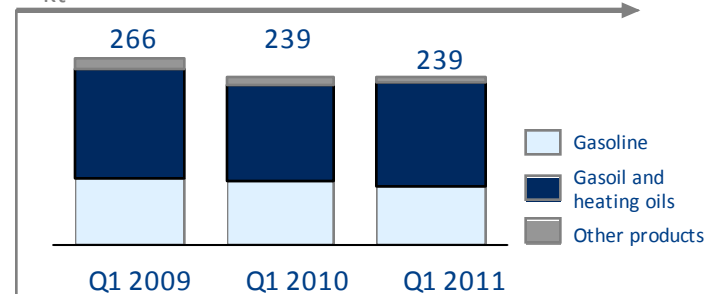
### Total sales of refined products

kt



### Total sales in retail

kt



## INA plans to provide the highest possible return to its shareholders

*Planning to intensively reinvest our profits in the coming years to achieve this goal*

### Key investment projects in 2011

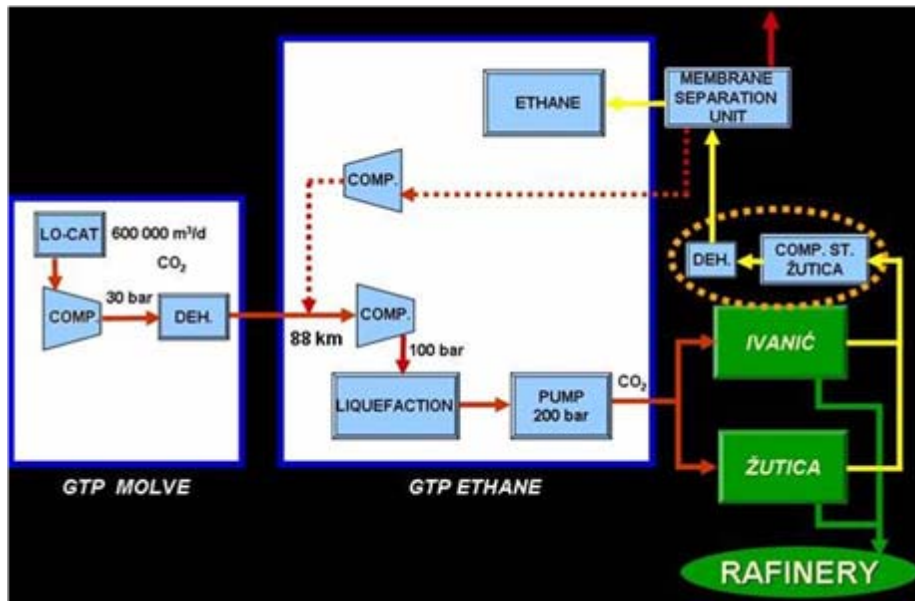
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- Initiating investments on Ivanic and Zutica oil fields to increase final oil recovery (EOR)
  - Over HRK 500 mn investments in the next 3 years
  - Increasing total production volume by 3.4 million tons of oil and 600 million cubic meters of gas in the following 2 decades
- Continuing refinery modernization
  - Continued environmental compliance
  - Residue upgrade to improve product Yield
  - Strengthened refinery flexibility
- Intensifying exploration activities in Croatia
  - Drilling multiple exploration wells
  - Preparing surveys and studies to identify upside potential
  - Executing workover operations on already discovered fields
- Modernizing INA's retail network
  - Over 40 stations to be modernized throughout the year
  - New visual identity implemented
  - Improving services to make our network the first choice of the customers

**With multi billion HRK investments over all business segments of INA in coming years, INA will remain the major investor of Croatia**

### 3 Launching the project of increasing oil recovery (EOR) on Ivanić and Žutica fields

*Maximize recovery rates from existing fields*



*Simplified technological scheme of the EOR Project on the Ivanić and Žutica oilfield*

- Application of one of the so-called tertiary enhanced oil recovery methods
  - Alternating injection of carbon dioxide and water in a partially depleted oil reservoir
  - INA EOR project will be the first case of application of tertiary methods in Croatia
- Investing over half of billion HRK in the next three years
- Production of an additional 3.4 million tons of oil and 600 million cubic meters of gas
- The project will include a total of 6 four-year cycles of alternating injection of water and carbon dioxide
  - First phase of cycle: injection of carbon dioxide
  - Second phase of cycle: two-year phase of water injection while simultaneously injecting carbon dioxide
- The first phase of the injection of carbon dioxide will begin in the first half of 2013



### 3 Intensified exploration activities

*Generate further value to shareholders and Croatia*



#### Recent success

- Zalata – Podravska Slatina: testing of Dravica-1 well completed
- Novi Gradac – Potony: extended exploration activities until August 31, 2011 after promising results through Potony-1 well
- Discovery of Selec field

#### Further investments in 2011

- Đeletovci-1 zapad – Well: Drilling, extension of Đeletovci oil field with an individual smaller object
- Hrastilnica-3 – Well: Drilling expected to start on the 1 June 2011
- Međimurje Surface Geochemical Survey: SGS Survey in NW Croatia with the purpose of ranking the three best prospects in the area
- Dinaridi Source Rock Study: G&G study, with the purpose to evaluate source rock potential
- Selec-1 - Workover operations, restoration of the location
- Operational program for the first NFW on Ivana SW area
- Geological program for second NFW on Ivana SW area and for two NFW on IRINA SW/IKA A Deep/IKA B Deep area
- Drilling one NFW on Ivana SW area (Ivana SW A1)
- Post appraisal studies for Ivana SW A1 (TLA and RM analyses, reports, HIIP revision)
- Regional geochemical and mineralogical studies

## RIJEKA PHASE-1 – COMBINE COMPLIANCE & FLEXIBILITY

*The first step towards an efficient, profitable Downstream*

### Full 10 ppm diesel and gasoline production while reducing environmental footprint

- Key focus was compliance with environmental regulations
- Full impact on 2011 operations
- Mild HCK complex (2.6 Mtpa) increase NCI to 9.1

### Environmental compliance in line with EU directives

- Grass-root Sulfur Recovery Unit reduces SO2 emission

### Improved yields and refinery utilization

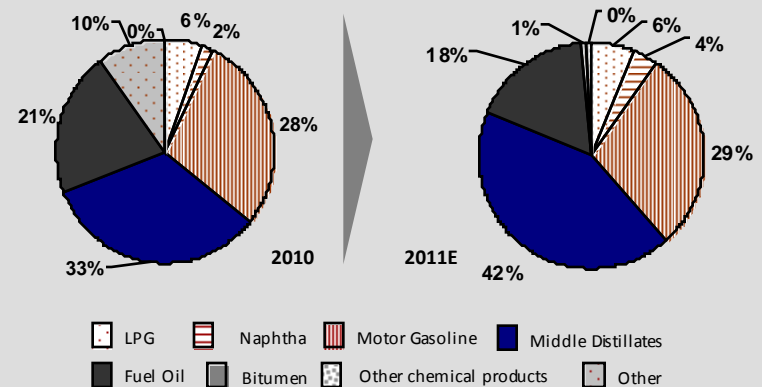
- Increase white product yield to 75%
- Middle distillates yield improves to match demand growth
- Sales of EU conform grades drives refinery utilisation (from 65% to 75%)

### Pace-setting regional position

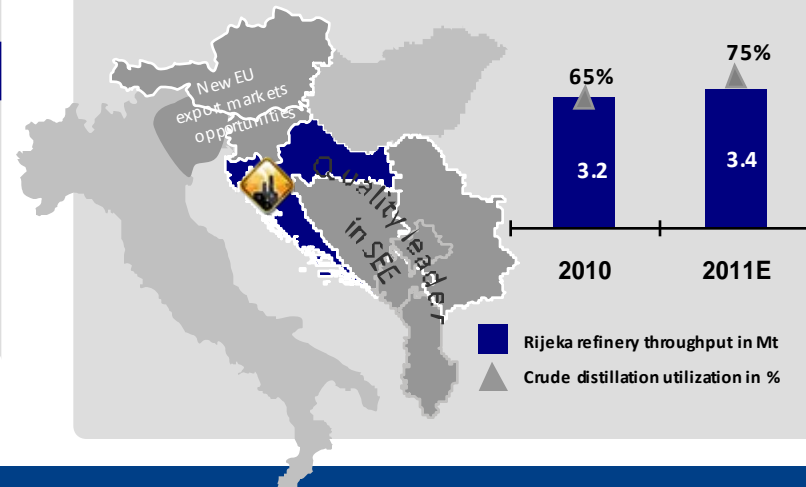
- Quality leader in SEE markets – pole position for regional market consolidation
- EU conform grades enable access to EU markets
- Replace cca. 500 kt off-spec product bulksales with more profitable regional distribution

**cca. 2 USD/bbl gross margin improvement of Rijeka refinery exp. in addition to compliance**

### Product yields – basis and after Phase 1



### Wider market for Rijeka ensures higher utilization



### 3 RIJEKA PHASE-2 – ENTERING THE TOP LEAGUE

*Upgrade almost 1 Mt heavy residue to marketable white products with robust investment economics*

#### Supportive Market Environment

- Shrinking heavy fuel oil markets due to tighter product specifications
- Gradual improvement of diesel spread and increasing light-heavy differentials
- Increasing regional demand imbalance favours diesel growth

#### Residue Upgrade Improves Product Yield

- Delayed Coker (1 Mtpa) technology with strong in-house references
- Implementation time of 3-4 years from FID influenced by local permitting procedures
- CAPEX estimated at cca. USD 450M level
- Additional 0.6 Mt high quality diesel production

#### Environmental compliance continued

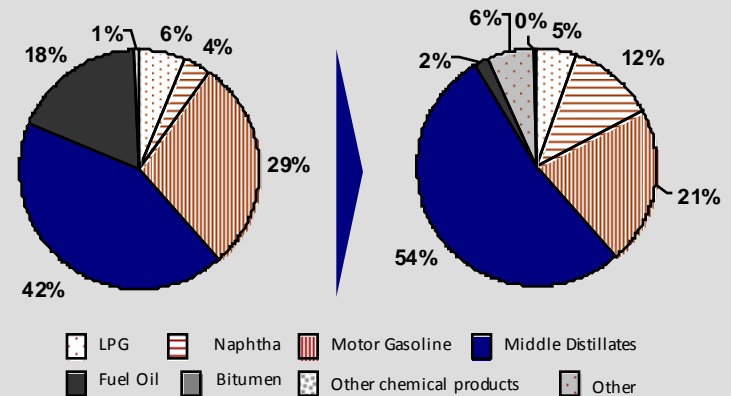
- Addition to existing Sulphur Recovery Unit to maintain EU level SO2 emission

#### Refinery Flexibility and Profitability set to strengthen

- Higher complexity (NCI 10+) residue destruction to match market demand slate

**3-4 USD/bbl gross margin improvement exp.**

#### Product yields – current and after Phase 2



#### Schematic flow chart of Rijeka refinery after Phase 2

