



INA's business results in 2014

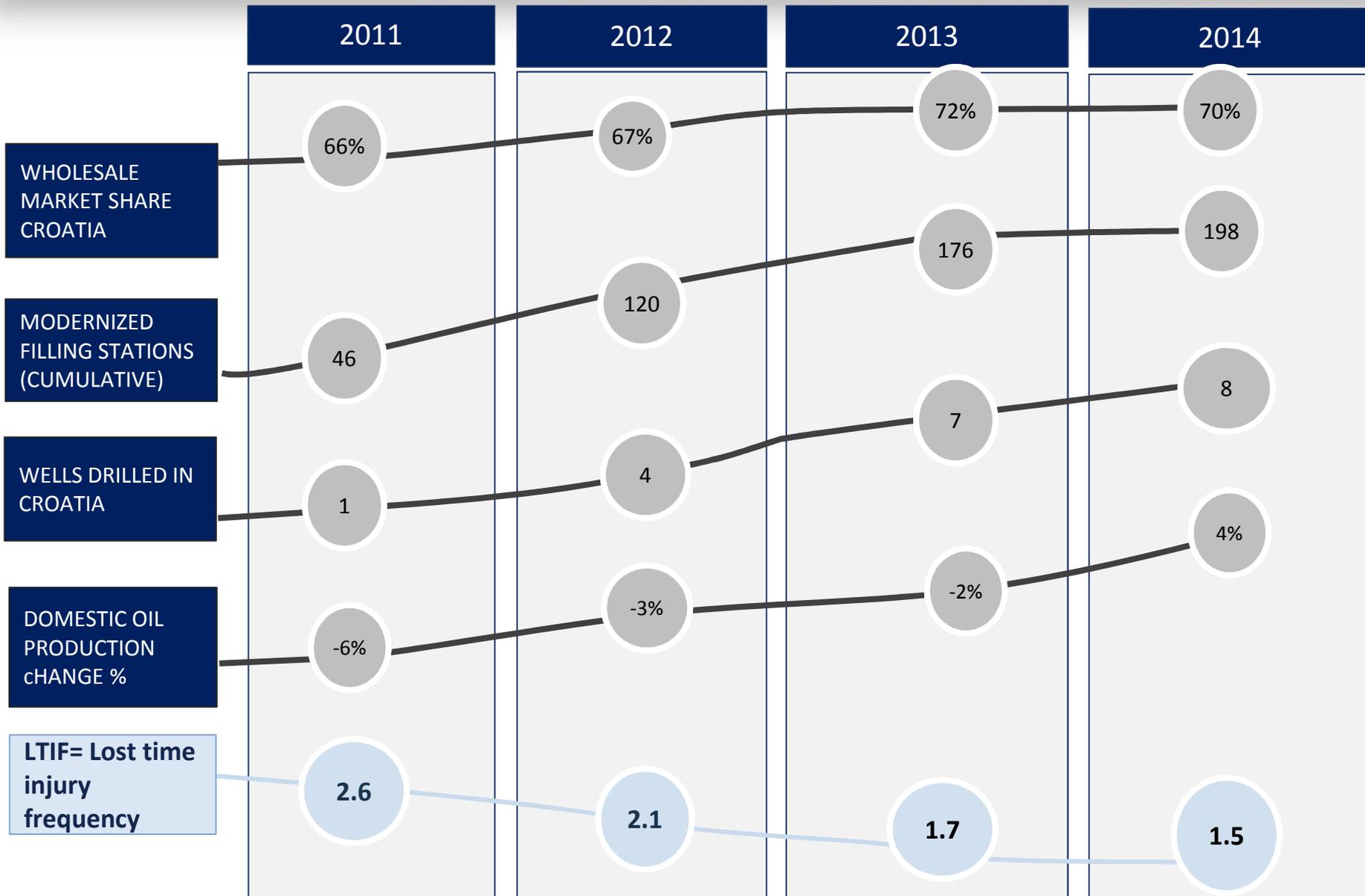
Annual General Meeting of INA, d.d.

Zagreb

June 12, 2015



Significantly improved operational and safety performance



Highlights of INA's business performance in 2014



ACHIEVEMENTS

- Improving health, safety and environmental performance with INA Group LTIF (Lost Time Injury Frequency) decreasing to 1.5 from 1.7 in 2013
- Croatian hydrocarbon production: 5% y-o-y (in 2015 Q1 this increased to 20%) – an achievement not seen in more than a decade
- Strong investments of HRK 1.7 bn despite the adverse environment
- Significantly increasing reinvestment ratio (66% vs. 55% in 2013)
- Improved operating performance in retail
- Improving financial position with gearing decreased to 20% from 27% at 2013 year-end

CHALLENGES

- Regulatory hits impacted INA's 2014 results by HRK 1.1 bn – o/w more than HRK 750 million on Upstream
- Further impairment of Syrian assets
- Low reserve replacement mainly due to lack of exploration acreage and unsuccessful wells
- Decreasing realized hydrocarbon prices by 17%, with a drastic drop of Brent prices especially in Q4, falling from 95 at the beginning of October to 55 USD/bbl by year-end
- Deteriorated downstream market environment with 5% lower average crack spread

CHALLENGES

RESPONSES

REGULATORY HITS

- Doubled royalty – HRK 223 mn
- Forced sales of gas inventory – HRK 270 mn
- Gas price regulation – HRK 260 mn
- Another tax charge on technological losses – HRK 325 mn

Altogether HRK 1.1 bn negative regulatory impact in 2014

- Temporary stability measures were enacted to limit taking further financial commitments
- INA's management revised the Business Plan with substantial OPEX and CAPEX cuts to avoid endangering INA's financial health and ensure inevitable financial rebalancing

CRUDE PRICE DECREASE

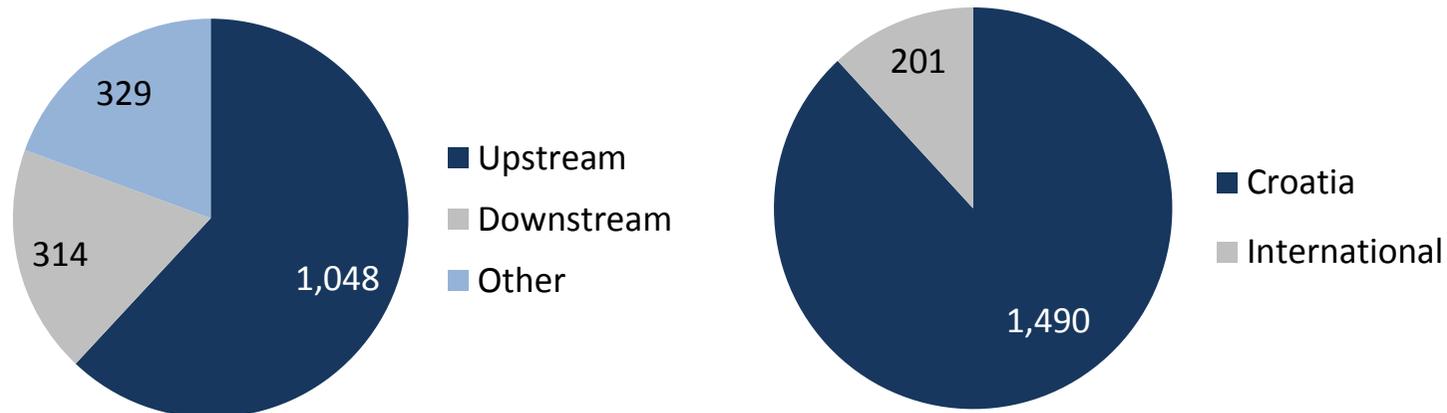
- Sharp decline of crude prices from as high as 115 USD/bbl to below 50 in January, floating largely around 55-65 USD/bbl since then
- Significant loss of revenues - Exploration & Production, the key profit generator of the company is hit the most
- INA's refineries remain loss making despite crude price decrease – capacity optimization became even more urging

- Proactive measures were defined in order to restore the profitability of the company:
- Identification and exploitation of further process and cost efficiency potentials
 - OPEX rationalization – focus on permanent savings
 - CAPEX review – project evaluation in the changed environment
 - Continuous efficiency improvement

Realizing robust investments despite regulatory challenges



Investments of INA Group
HRK mn



- Majority of CAPEX invested in Croatia, mainly in the Upstream segment
- Regulatory changes did not stimulate investments – despite this, they remained strong

UPSTREAM

- Exploration: 2 wells drilled in onshore Croatia
- Development: CO2 injection system started on the EOR project; construction phase of Međimurje project; close to 50 workover/well stimulation jobs performed; field development activities in Egypt and Angola

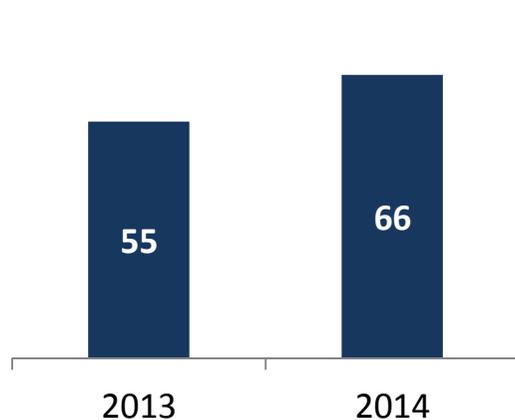
DOWNSTREAM

- Turnaround in Sisak refinery, including installation of new coke chambers finished in Q4 2014
- Improvement of INA's logistics infrastructure
- Intensive modernization of filling stations, capital reconstruction (KDR) projects in Bosnia and Herzegovina

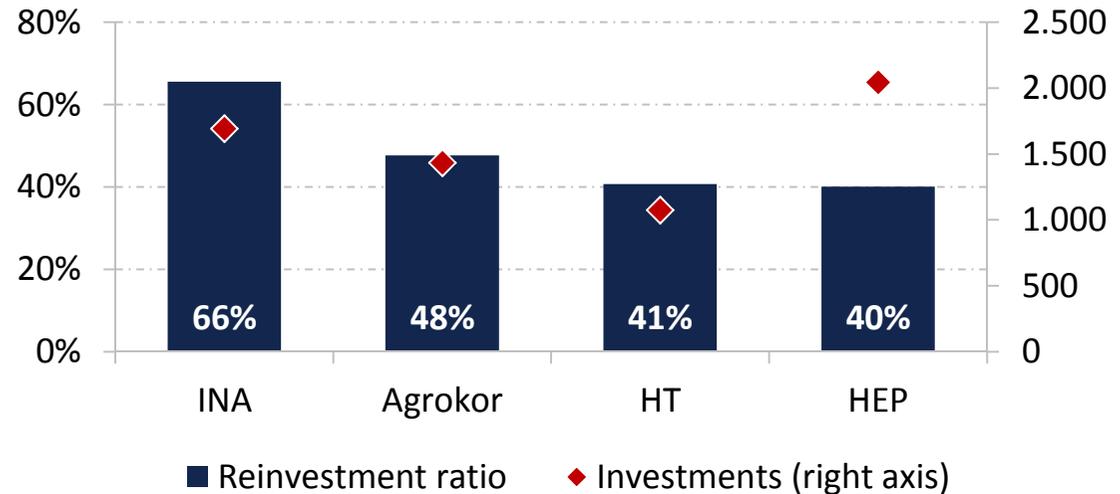
INA – One of the largest Croatian investors with the highest reinvestment ratio



Reinvestment ratio
CAPEX/EBITDA, %



Reinvestment ratio & investments of key Croatian companies -
CAPEX/EBITDA, %; HRK mn (right axis)



- **INA is consistently one of the biggest investors in Croatia**
- **INA invested a bigger chunk of its earnings in 2014 compared to 2013**
- **Compared to other key companies in Croatia INA has the highest reinvestment ratio**

Corporate social responsibility in 2014

DONATION AND SPONSORSHIPS

INA provided assistance and support to:

- Flooded areas in Slavonia
- Sisak and Rijeka local communities
- Children, youth and people with special needs
- Cultural and educational projects
- Sport
- Healthcare projects
- Raising awareness about the importance of nature protection such as „Green Belt”
- Local communities’ development projects through „Space for Your Ideas”



INA VOLUNTEER CLUB

- 439 members - 44% increased membership compared to 2013
- 2.072 volunteer hours in 19 actions
- INA volunteer club received “Recognition for Contribution of Business Sector to the Development of Volunteering”.

AWARDS



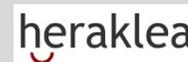
CORPORATE GOVERNANCE AWARD – by World Finance magazine



EMPLOYER PARTNER CERTIFICATE awarded for excellence in human resources management- successful recertification for the fourth consecutive year.

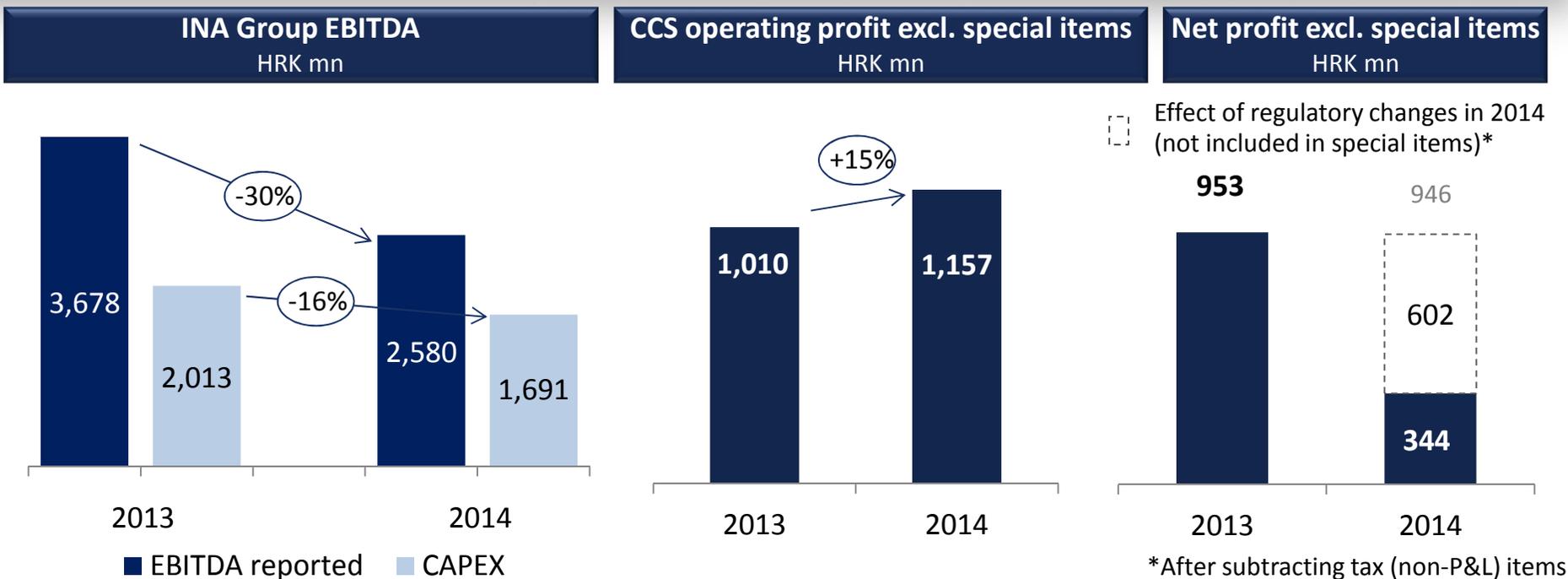


GOLDEN INDEX in the category „Professional support and organization of student projects awarded by student association eSTUDENT.



MYSTERY SHOPPING AWARD – MYSTERY SHOPPING AWARD-INA awarded once again for dedication to service quality.

Financial results

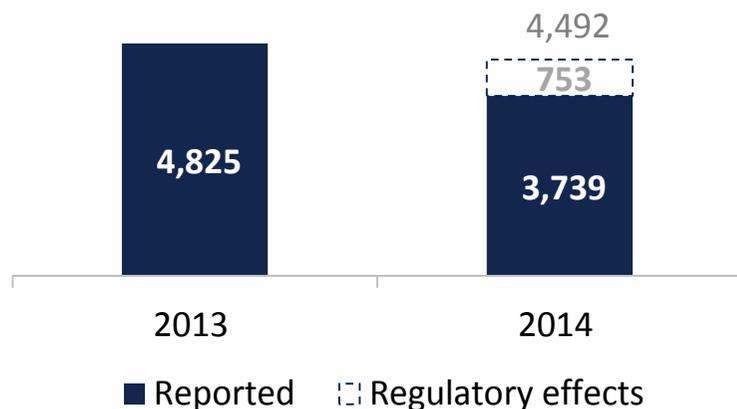


- While INA’s EBITDA decreased by 30% in such adverse environment, we kept our investments at the level of HRK 1.7 billion, higher than the average of the last two years
- INA increased operating profit adjusted for inventory effects and special items by 15%, while further strengthening its financial position
- INA Group net profit has been significantly impacted by the effect of regulatory hits – correcting out these changes net profit would be in line with the 2013 figure
- Additional charges on refinery technological losses of total HRK 325 mn, deteriorating INA’s downstream competitiveness and the climate for refinery production-related investments

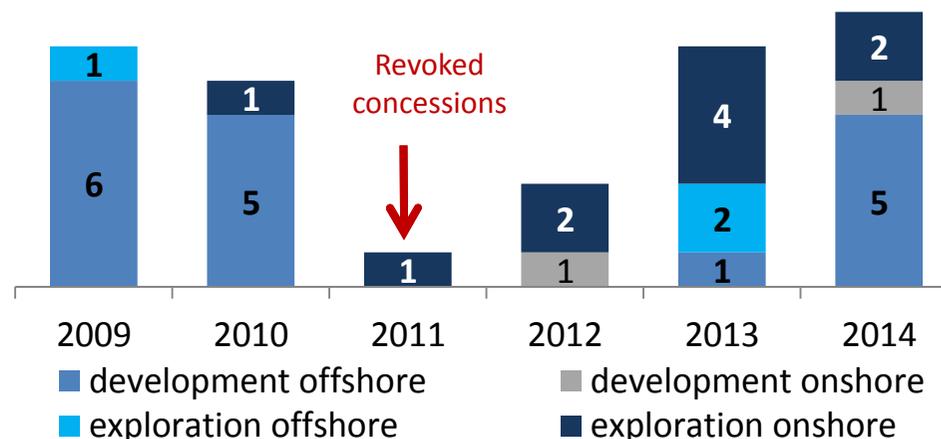
2014 business highlights – Exploration & Production



EBITDA
(HRK mln)



Exploration and development wells in Croatia



Crude oil production increased by 5% vs. 2013 with the majority of growth coming from domestic fields due to INA's workover campaign

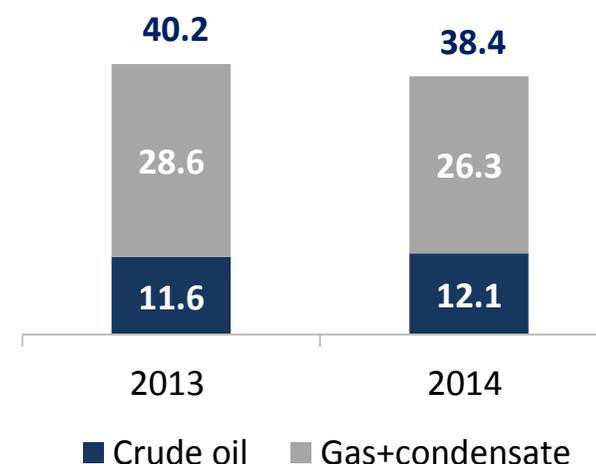
Natural gas production lower due to 1) Natural decline being only partly compensated by the start-up of Izabela field; 2) Complex and longer overhaul on main facilities GTP Molve and Ethane plant; 3) Larger Eni's share mainly due to restitution on Anamarija field

Significant negative regulatory impact – HRK 753 mn lost income in Upstream

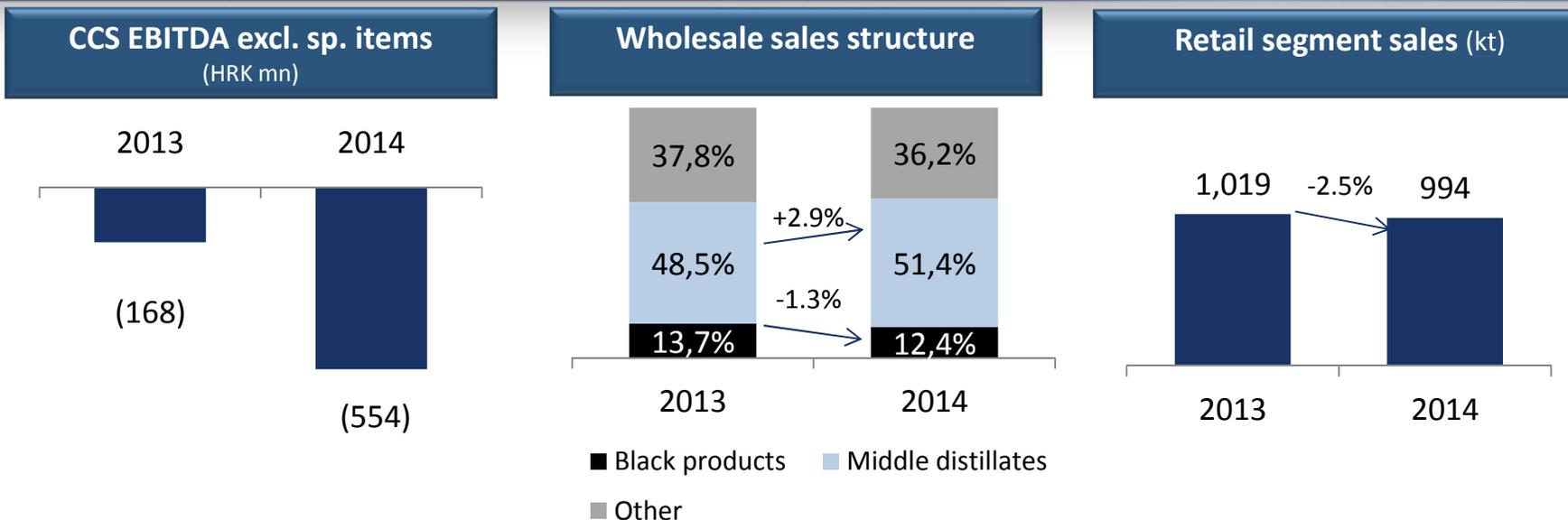
EBITDA of HRK 3,739 mn is 23% lower y-o-y due to regulatory effects, 17% lower average realized hydrocarbon price and lower total hydrocarbon production by 4%

Intensive drilling activities with focus on development wells

Average daily hydrocarbon production
Mboepd



2014 business highlights – Refining & Marketing (inc. Retail)



R&M segment's 'clean' CCS-based* EBITDA amounted to HRK (554) million which is HRK 386 mln below the same period last year, impacted by:

Positive drivers:

- (1) Improved sales structure: 2.9% higher middle distillates while 1.3% lower fuel oil share
- (2) Improved operating performance in retail - with successful efforts to implement a new retail operating model
- (3) Compensating lower domestic demand by stabilizing sales to Bosnia and Herzegovina and increased sales to other markets with

Negative drivers:

- (1) 5% lower average crack spreads
- (2) Declining demand and resulting lower sales due to economic recession and higher prices during most of the year
- (3) Higher share of own consumption and losses (12.7 in 2014 vs 11.7 in 2013)
- (4) Taxes on refinery technological losses (*not counted in CCS clean results*)

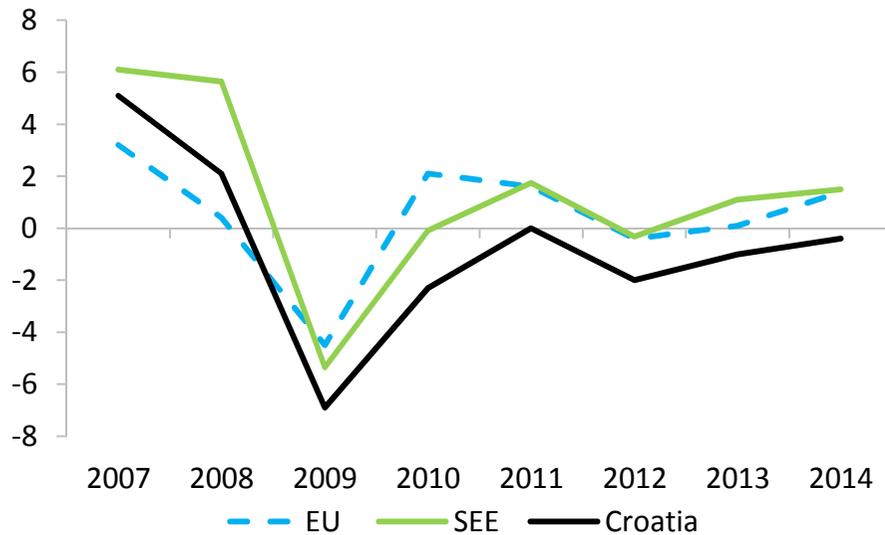
*CCS methodology eliminates from EBITDA/operating profit inventory holding gain/loss; impairment on inventories; FX gains/losses on debtors and creditors/operating profit by capturing the results of underlying hedge transactions. Clean CCS figures of the base periods were modified as well according to the improved methodology.

Overview of the downstream environment

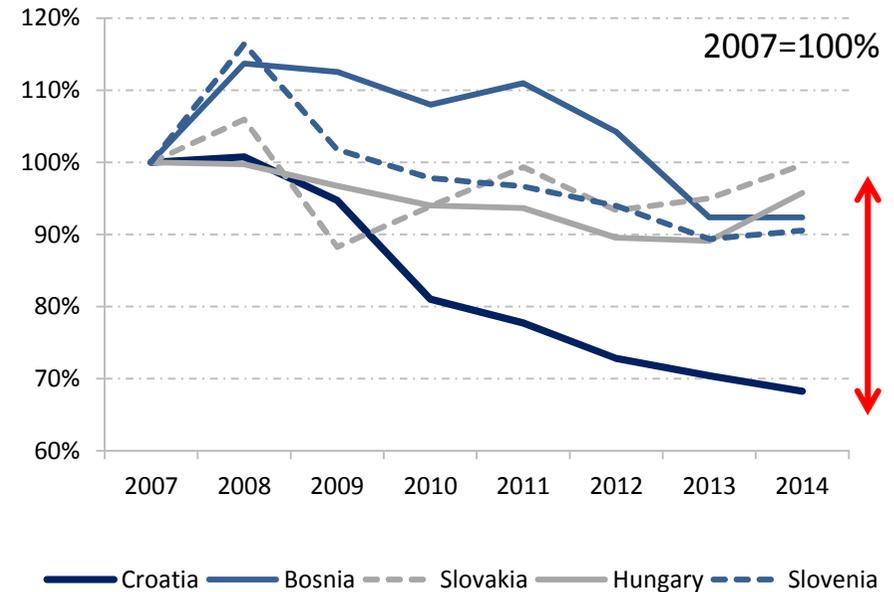
Croatia: recession is still present



GDP growth in different country groups and Croatia (%)



Refined product demand in the region and Croatia

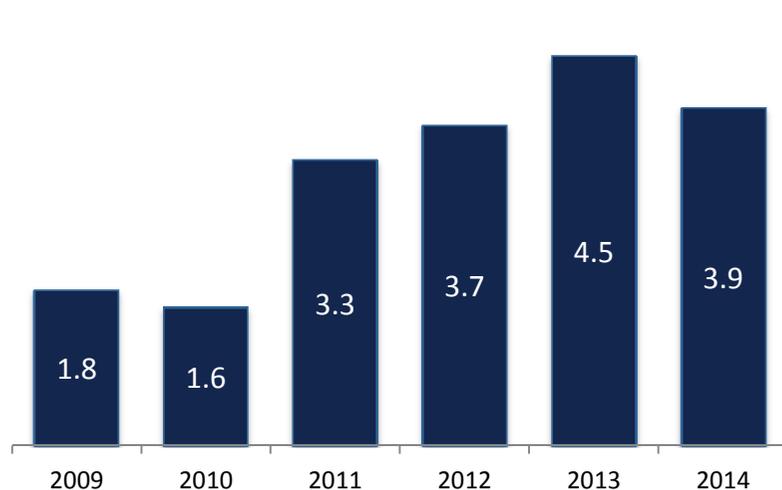


- The Croatian economy remained in recession during 2014, with GDP contracting by 0.4%
- The increase in diesel demand during the last months of 2014 coupled with better high frequency economic data in Q4 2014 allow scope for tempered optimism with respect to the local economy in 2015. Yet, with oil prices well below their 2014 peaks, 2015 will be a challenging year for INA.

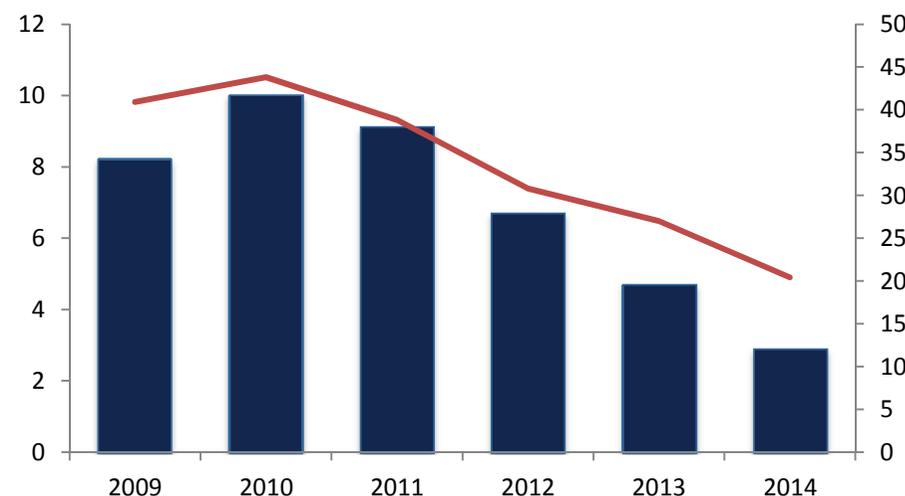
Financial position improved further



Operating cash flow (HRK bn)



Net indebtedness (left axis, HRK bn) and gearing ratio (right axis, %)



- Compensating the effect of adverse regulatory changes, measures taken by the management resulted in further improvement of INA's already stable financial position
- Operating cash flow remained strong despite substantial external effects, supported by efficient working capital management
- INA Group's net indebtedness decreased by 37% compared to 2013 year-end and amounted to HRK 2.9 bn at the end of 2014
- Gearing ratio was reduced further to 20.4% as of 31 December 2014, following the trend of previous years