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**PRESS RELEASE**

**Analysis of sustainable business options for the Sisak Refinery presented to INA stakeholders**

**Zagreb, September 7, 2017** – At a meeting held today, Deloitte presented to trade union partners and INA’s Works Council the results of the analysis of sustainable business options for the Sisak Refinery. Prior to that, the analysis was presented to INA’s Supervisory and Management Boards, and since now all the stakeholders are familiar with the report, in line with the good practice INA wishes to inform the public about the results of the above project.

According to INA’s business results, in 2016 the Sisak Refinery generated a negative cash flow in the amount of HRK (194) million, while the negative financial effect of the Sisak refinery on the core business profit was HRK (264) million. This trend continued in the first half of 2017 with HRK (113) million of negative cash flow and HRK (146) million in operating loss, which had a negative impact on the result of INA Group. Adding to this, as INA refining capacities refinery surpass by far the needs of small regional market whose demand has been falling for several years, it is necessary to find a sustainable long-term solution for INA`s refinery business.

The presented analysis, conducted in consultations with all the relevant stakeholders, indicates several possible solutions for which potential was identified for improving the Sisak refinery business results, i.e. decreasing the loss which has been continuously generated at current operation mode. Along with the elaboration of the provided options, their implementation plan by 2021 was also created.

This analysis, the same as previous ones, shows that the conversion of the Sisak Refinery into a logistics centre is the most profitable solution economically speaking, as it would generate USD 93m in cash flow over the next three years, compared with the refinery’s current mode of operation. Several proposals from Deloitte’s analysis combine a possibility of transporting oil semi-products between the two refineries – in both directions – in order to optimise the use of capacities, with the possibility of producing bitumen and calcified coke in Sisak. This would help unburden Rijeka during the three years of construction of the heavy residues processing plant when it would also be possible to eventually start the Biorefinery in Sisak. In the meantime Sisak would continue working in intervals when it comes to oil refining, while the secondary facilities would be operating continuously, without interruptions, which would help safeguard jobs and minimise losses for the company.

Deloitte’s Zlatko Bazianec stated: “In order to take into consideration all the relevant and collected factors and to make the report as comprehensive as possible, the analysis has also identified several transitional solutions closely connected to the realisation of the heavy residues processing plant in the Rijeka Refinery and the planned launch of the Bio-Refinery in Sisak. These options would help reduce the opportunity cost and safeguard more jobs in the medium term. Additionally, they imply a higher business activity and continuous operation of specific facilities in the Sisak refinery.”

The report presented by Deloitte clearly indicates that the transitional option is only a medium-term solution that implies the conversion of the Sisak Refinery potentially into a Bio-Refinery and logistics centre from 1 January 2021 or by the launch of the heavy residues processing plant in the Rijeka Refinery at the latest, INA’s investment of HRK 3 billion estimated worth. A transitional solution would buy time for additional development of a long-term solution from INA’s Bio-Strategy, while minimising the losses generated by the Sisak Refinery by its current mode of operation, and it is up to the Management to make a decision on further steps based on an analysis of financial profitability and sustainability of presented solutions.

As a follow-up to the presented report, it is necessary to hold talks with all the relevant stakeholders about the future of the Sisak Refinery and start preparing all the steps necessary to establish the transport of domestic oil to the Rijeka Refinery, if possible by JANAF’s oil pipeline, while providing for all the logistics capacities (including the logistics centre project). Furthermore, in the context of the Bio-Refinery development it is necessary – together with the state institutions – to monitor and proactively advocate favourable outcomes of changes in the regulatory framework and the RED II directive. That option presents a potential long-term solution due to a series of technical and regulatory requisites which need to be fulfilled for eventual implementation.

**About INA Group**

INA Group has the leading role in Croatian oil business and a significant regional role in oil and gas exploration and production, oil processing, and the distribution of oil and oil derivatives. INA Group consists of several affiliated entities, entirely or partially owned by INA, d.d. The Group is based in Zagreb, Croatia. Apart from Croatia, INA currently has business operations in the segment of oil and gas exploration and production in Angola and Egypt. The oil is processed at INA’s oil refineries in Rijeka and Sisak, while INA’s regional retail network consists of 495 filling stations in Croatia and the neighbouring countries.

**PR**

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