INDUSTRIJA NAFTE, d.d.

Q2 AND H1 2014 – REPORT INA GROUP CONSOLIDATED

INA Group (ZB: INA-R-A; LSE: HINA; www.ina.hr) announced its H1 2014 results today. This report contains unaudited consolidated financial statements for the period ending 30 June 2014 as prepared by the management in accordance with the International Financial Reporting Standards.

INA Group financial results (IFRS)

Q1 2014*	Q2 2014	Q2 2013*	%	HRK mln.	H1 2013*	H1 2014	%
5,542	6,219	6,232	(0)	Net sales revenues	13,355	11,761	(12)
834	632	766	(17)	EBITDA [(1)]	1,778	1,466	(18)
393	141	(60)	n.a.	Profit/(loss) from operations	349	534	53
(90)	(37)	46	n.a.	Net financial expenses	(90)	(127)	41
241	131	(49)	n.a.	Net profit/loss attributable to equity holder	211	372	76
452	**732**	**1,875**	**(61)**	**Operating cash flow**	**2,134**	**1,184**	**(45)**
				Earnings per share			
24.1	13.1	(4.9)	n.a.	Basic and diluted/(loss) earnings per share (kunas per share)	21.1	37.2	76
4,687	4,269	5,200	(18)	Net debt	5,200	4,269	(18)
26.2	24.3	25.8		Net gearing	25.8	24.3	
280	**385**	**337**	**14**	**CAPEX total**	**500**	**665**	**33**

Q1 2014*	Q2 2014	Q2 2013*	%	USD mln [(2)]	H1 2013*	H1 2014	%
993	1,123	1,076	4	Net sales revenues	2,317	2,115	(9)
149	114	132	(14)	EBITDA [(1)]	308	264	(15)
70	25	(10)	n.a.	**Profit/(loss) from operations**	61	96	59
(16)	(7)	8	n.a.	Net financial expenses	(16)	(23)	46
43	24	(8)	n.a.	Net profit/loss attributable to equity holder	37	67	83
81	**132**	**324**	**(59)**	**Operating cash flow**	**370**	**213**	**(42)**
				Earnings per share			
4.3	2.4	(0.8)	n.a.	Basic and diluted/(loss) earnings per share (kunas per share)	3.7	6.7	83
840	768	902	(15)	Net debt	902	768	(15)
50	**70**	**58**	**20**	**CAPEX total**	**87**	**120**	**38**

[(1)] EBITDA = EBIT + Depreciation + Impairment + Provisions
[(2)] In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for Q1 2014 – 5.5811 HRK/USD; Q2 2013 – 5.7902 HRK/USD; Q2 2014 – 5.5392 HRK/USD; H1 2013 – 5.7638 HRK/USD; H1 2014 – 5.5603 HRK/USD
Note: No special items were recognized in 2014 or comparable periods
** Restatement of comparable previous periods was made – see on page 12*

With systematic, conscious and efficient efforts INA successfully mitigated the effect of weakening market conditions and negative regulatory changes, achieving net profit of HRK 372 million (76% above the same period last year) and an operating profit of HRK 534 million (53% increase vs. H1 2013), in H1 2014. In the same period INA increased investments by 33%, while further reducing net debt level at HRK 4,269 million, 18% lower compared to H1 2013.
INA's constant effort in moderating natural decline have resulted with a slight increase in crude oil production from existing domestic fields rewarding the intensive well workover program launched late last year, temporarily reversing the natural decline trend. Additionally increase of production in Egypt by 16% resulted in a 3% increase in total crude production for H1 2014. Results are also visible in Croatian onshore gas production, limiting the natural decline to a very low 2% against H1 2013. Finally, offshore gas production seems stabilizing in H1 2014, moreover, one could notice a slight increase compared to Q2 2013. Further improvement in offshore gas production will result from the start of production on Izabela field, but its results will be visible in the coming period.

INA Group's EBITDA for the H1 2014 amounted to HRK 1,466 million, this 18% decrease in yearly comparison was influenced by 12% decrease in sales revenues which was impacted by (1) 15% lower average realized hydrocarbon prices partly due to new regulation and decrease in natural gas price in Croatia coupled with (2) 7% lower hydrocarbon production as well as (3) unfavourable refining environment reflected in 22% lower average crack spread. Additionally, (4) in the frame of aforementioned regulatory changes made in Q1 with starting their negative effects in Q2, royalty rate was also doubled on existing fields. On the other hand operating profit showed a 53% increase compared to 2013 when INA booked higher negative impairments.

Downstream performance was below 2013 level due to number of external factors including 22% lower average crack spread and further fall in market demand and purchasing power as well as higher share of own consumption and losses. On the other hand Retail managed to maintain sales level of 448 kt which is only a 1% decrease in spite of ongoing economic slowdown.

Operating cash flow remains strong, at HRK 1,184 million in H1 2014 while Group's financial position improved further as gearing level decreasing to 24.3% from 25.8% a year ago, while net debt amounted to HRK 4,269 million, 18% lower compared to the end of H1 2013.

Capital expenditures in H1 2014 increased by 33% compared to H1 2013, amounting to HRK 665 million, with majority invested in Croatia, mainly in the Upstream segment.

- **Exploration and Production**: In H1 2014, EBITDA reached HRK 2,082 million, which is lower by HRK 531 million than in the same period last year. The difference is mostly attributable to the significant effect of inventory transfer in H1 2013 which had one off positive effect on previous year results. Moreover, in H1 2014 regulation environment changed significantly what had negative impact on Upstream business. Royalty which is paid based on value of domestic production was increased from 5% to 10% starting from 26 March 2014 and also Prirodni plin is not gas household distributor starting from 1 April 2014, but instead INA is obliged to provide HEP with natural gas for 1.7 HRK/cm compared to previous price towards distributors of 2.2 HRK/cm, resulting a much lower average realized hydrocarbon price. Finally, despite some major achievements as a result of continuation of investment activities the Group realized production decline especially in offshore production in comparison with the base period.

- **Refining and Marketing (including Retail)**: In H1 2014 the Refining and Marketing segment's reported 'clean' CCS-based EBITDA amounted to HRK (405) million and was below H1 2013 level. INA captured available market opportunities by maintaining motor fuel sales on key inland markets of Croatia and Bosnia around the same level as last year, in spite of the deteriorated market environment and lower inland demand during May - June caused by floods in parts of Croatia and Bosnia. As international markets provided much lower available crack spreads (mogas lower by 14 USD/t, gasoil lower by 15 USD/t, fuel oil lower by 25 USD/t vs same period last year) capturing spot export markets with thin sales margins offered no economic incentive with INA's current assets. Refining and Marketing also had a better sales structure (higher share of motor fuels and lower share of fuel oil), continued its disciplined cost control efforts, on-demand operation and decreased energy consumption. These efforts could not offset the negative impact of the 22% lower average crack spread and less favourable processing mix driven by unplanned fall-outs of some conversion units during Q1 2014. Management efforts to build up a strong capital project pipeline resulted in capital expenditures of HRK 158 million in H1 2014, higher by HRK 41 mln than the investments during the same period of 2013.
- **Corporate and Other**[1]**: EBITDA** of the segment increased by HRK 240 million from HRK (167) million in H1 2013 to HRK 81 million in H1 2014, mainly because of higher Crosco contribution as a result of higher capacity engagement.

Commenting on the results, Mr. Zoltán Áldott, President of the Management Board said:

With continuous and conscious management efforts INA delivered improved operating and net profits for H1 2014, effectively mitigating the adverse effects of still difficult market conditions and regulatory changes that had negative impact on our upstream and gas business.

We have strengthened our financial position further while increasing our capital investments by as much as 33%, primarily in our upstream segment which was also reflected in increasing crude oil production from existing domestic fields and temporarily reversed production decline as a result of our intensive well workover program. Additional upside in the start of production on Izabela filed will be visible from the coming period.

In downstream business we further demonstrated improvement of the sale structure and cost control, but these efforts were not able to mitigate strong negative influence of lower average crack spread and sales volumes related to deepening economic crisis on core markets. In retail sizeable modernization activities and efforts aimed at increasing the service level provided for solid business operations despite a shrinking market.

[1] Include Corporate Functions and subsidiaries providing safety and protection services, technical services, accounting services, corporate support and other services.

INDUSTRIJA NAFTE, d.d.

Management discussion

*Exploration and Production**

Q1 2014**	Q2 2014	Q2 2013**	%	Segment IFRS results (HRK mln)	H1 2013**	H1 2014	%
2,166	1,716	1,907	(10)	Net sales revenues	5,091	3,882	(24)
1,181	901	1,090	(17)	EBITDA	2,613	2,082	(20)
992	656	552	19	Operating profit	1,703	1,648	(3)
226	261	249	5	CAPEX	364	487	34

* Exploration and Production refers to the Upstream of INA, d.d. and following subsidiaries: INA Naftaplin IE&PL, Guernsey, Adriagas S.r.l. Milano, Prirodni plin d.o.o.

*** Restatement of comparable previous periods was made – see on page 12*

Q1 2014	Q2 2014	Q2 2013	%	Hydrocarbon production	H1 2013	H1 2014	%
11,974	**11,894**	**11,767**	**1**	**Crude oil production (boe/d)**	**11,626**	**11,934**	**3**
8,690	8,629	8,700	(1)	Croatia	8,555	8,659	1
2,191	2,032	1,815	12	Egypt	1,823	2,111	16
1,093	1,233	1,252	(2)	Angola	1,248	1,163	(7)
25,281	**23,857**	**27,440**	**(13)**	**Natural gas production (boe/d)**	**27,698**	**24,565**	**(11)**
11,178	10,021	13,345	(25)	Croatia - offshore	13,494	10,596	(21)
14,103	13,837	14,095	(2)	Croatia - onshore	14,204	13,969	(2)
2,246	**2,194**	**2,337**	**(6)**	**Condensate (boe/d)**	**2,398**	**2,220**	**(7)**
2,246	2,194	2,337	(6)	Croatia	2,398	2,220	(7)
39,500	**37,945**	**41,544**	**(9)**	**Total hydrocarbon production (boe/d)**	**41,722**	**38,719**	**(7)**
Q1 2014	**Q2 2014**	**Q2 2013**	**%**	**Average realised hydrocarbon price**	**H1 2013**	**H1 2014**	**%**
77	63	81	(23)	Total hydrocarbon price (USD/boe)*	83	70	(15)
Q1 2014	**Q2 2014**	**Q2 2013**	**%**	**Natural gas trading - mln cm**	**H1 2013**	**H1 2014**	**%**
60	29	164	(83)	Natural gas imports	409	89	(78)
528	561	402	40	Total natural gas sales - domestic market	1,202	1,089	(9)

* Calculated based on total external sales revenue including natural gas selling price as well.

Q2 2014 vs. Q1 2014 RESULTS

In Q2 2014, EBITDA decreased by 24% compared to Q1 2014 reflecting primarily lower production in Q2 2014 and lower natural gas price due to regulatory changes and increased competition. Additional burden for Upstream in Q2 was created through royalty rate increase from 5% to 10%. Finally, Q2 performance was negatively affected by impairment of receivables in Egypt.

Production decreased by 3.9%, which is mainly attributable reconciliation on Anamaria field and higher water-cut on one part of exploitation field Marica partially compensated by off-shore gas production uplift by 1 mboepd as a result of continuation of drilling campaign on Ika field area. Prirodni plin operations were negatively affected by forced gas sale in Q1 2014 but in Q2 imported volumes decreased by more than 50% in the Q2 2014, an 89% decline compared to previous year. Some of the losses were reversed in Q2 when remaining volumes were sold at somewhat higher price, but still at a much discounted level.

Q2 2014 vs. Q2 2013 RESULTS

Lower Upstream operating profit in Q2 2014 reflects the 23% lower average realized hydrocarbon price due to lower natural gas prices as a result of regulatory changes, and slightly decreased hydrocarbon production coming from natural depletion of the mature domestic onshore fields partially compensated by performed development activities in Northern Adriatic. Furthermore, the result was negatively affected by higher royalty rate residing from regulatory changes.

H1 2014 vs. H1 2013 RESULTS

Total **natural gas** production in H1 2014 was 11% lower than in H1 2013,

- The year-on-year decrease on natural gas production was mainly due to water cuts and restitution on Annamaria offshore field. Natural decline was somewhat compensated by start up of new drilled well Ika B3 HOR and higher INA net share on ALCA.
- Start of production on Izabela field will have a positive effect in the coming periods with expected contribution to offshore gas production by approximatelly 1.6 mboe/d during 2014.

Crude oil production increased in H1 2014 by 2.6% compared to H1 2013:

- Higher domestic crude oil production is a result of well testing optimisation of wells in Slavonia within 4P Project (increasing production on existing fields) and additional production coming from new wells testing.
- Egyptian oil production in H1 2014 was higher by 15.8% than H1 2013 due to higher production on North Baharyia and East Yidma Concessions. Intensive and sucessfull drilling campaign on North Bahariya Concession was the main part which contributed the most in the H1 2014 at Egyptian operations.
- Decreased domestic condensate production due to natural decline on main gas condensate fields.

- Angolan H1 2014 crude oil production in yearly comparison showed a 6.8% decrease due to unplanned production losses and natural decline as well as lower INA's average share in crude oil production,

Additional unfavourable regulatory changes have been imposed on the Upstream segment, which have already affected Q1 results and continue to burden operations on an on-going basis, starting in Q2 2014. Gas trading regulation changes have appointed HEP as wholesale market supplier for tariff customers starting from 1 April 2014 and INA has been obliged to supply HEP at a reduced price compared to the previous regulated household gas price. Further to gas trading, increasing the royalty rate for hydrocarbon production on existing fields by 100 % will force INA to reconsider its future investment plans, since it applies the increase to all fields, also to more price sensitive, complex projects like INA's EOR.

Upstream EBITDA result declined by HRK 531 mln in H1 2014 compared to the same period last year as result of positive inventory transfer effect from H1 2013, lower average realized hydrocarbon price (lower by 15%) mainly due to new negative regulatory changes, partly offset by positive effect of lower COGS due to the above mentioned reason.
Operating profit decreased in H1 2014 compared to 2013 as a result of combination of decreased EBITDA slightly moderated by positive effect of lower impairment of Egyptian receivables.
Prirodni Plin's losses in H1 2014 amounted to HRK 497 million on EBIT level determined by forced gas sale from storage facility in Q1 followed by further sales at significantly decreased prices in Q2.

EXPLORATION AND PRODUCTION CAPITAL EXPENDITURES

Exploration and Production segment's CAPEX in H1 2014 amounted to HRK 487.71 million. Capital investments in Croatia amounted HRK 435.56 million and capital investments abroad HRK 52.15 million. In comparison with H1 2013 capital investments are higher in total for HRK 123.71 million or 34%. Increased investments level is mainly result of on-going offshore development drilling campaign on Ika field and intensive EOR project activities.

E&P CAPEX H1 2014 (HRK million)	Croatia	Egypt	Angola
Exploration	**34.7**	**-4.3**	
Development	**349.3**	**58.5**	**-2.0**
Exploration: 30.4 (6%) Development: 405.8 (83%) Other: 51.5 (11%)	**Exploration Onshore:** Hrastilnica-4 well drilled in Q1. Čepelovac-1 North well drilling preparation in progress. Fracturing campaign, unconventional, Three wells - Peteranec -4, Žutica -249 DU and Iva -2DU prepared for fracturing operations. **Development Onshore:** EOR project - Finalization of workovers on the injection wells for CO2 and salt water and finalization of connections on surface facilities. Submitted request for trial work of whole EOR project system to Ministry. Drilling of development well Gola-10 ongoing. During H1 2014, 10 capital well workovers were performed, 1 is in progress. **Development Offshore:** Ika JZ project – Four wells were drilled and completed, Ika JZ platform deck construction and detail engineering finished. Ika B platform revamping works were completed in 1Q 2014. In May drilling of IKA A4 horizontal well started and is in progress. Ivana A/K optimization project - Contract award is finished and detail engineering of process skid is on-going.	**Exploration:** No activities, H1 actual related to billing statement's adjustments received for Disouq and East Yidma concessions which resulted in negative figures. Both concessions expired. **Development:** **North Bahariya Concession** –Four wells were successfully drilled and two of them put in production. In addition, three water source wells were drilled, while workover operations were performed on 16 wells. **West Abu Gharadig Concession** – There were no drilling operations, as well as workover operations, in H1 2014. CAPEX was mainly spent for the planned projects (contaminated sand treatment, facilities upgrading) and G&A. **Ras Qattara Concession** – Three workover activities were performed in H1 2014. Beside the workover activities, CAPEX was related to the small projects activities and G&A. **Sidi Rahman Concession –** workover operations and rig-less operations were conducted on Sidi Rahman-1 and Sidi Rahman-6 wells. Rizk East-1ST well is drilled and put into production.	**Development:** **Block 3/05**: The Operator continued with the execution of planned production, well intervention, maintenance, inspection and facilities engineering activities. CAPEX for period resulted in negative figures due to Operator decision to reclassify part of CAPEX to OPEX due to accounting considerations. **Block 3/05A**: Preparation activities for drilling of development well Gazela-101 was on-going. The drilling rig arrived to the drilling area on June 24, 2014.

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Refining and Marketing, including Retail*

Q1 2014**	Q2 2014	Q2 2013**	%	Segment IFRS results (HRK mln)	H1 2013**	H1 2014	%
3,795	4,775	4,830	(1)	Revenues	9,470	8,570	(10)
(320)	(187)	(129)	45	EBITDA	(129)	(507)	293
(268)	(138)	77	n.a.	CCS-based R&M EBITDA	79	(405)	n.a.
(492)	(364)	(358)	2	Operating profit/(loss)	(543)	(856)	58
(452)	(300)	(142)	110	CCS-based R&M operating loss	(324)	(752)	132
46	112	72	56	CAPEX and investments (w/o acquisition)	117	158	35

*Refers to Refining & Marketing including Retail INA. d.d. and following subsidiaries: Maziva Zagreb, InterIna Ljubljana, INA BH Sarajevo, Holdina Sarajevo, INA Hungary, INA Crna Gora, INA Beograd, INA Kosovo

*** Restatement of comparable previous periods was made – see on page 12*

Q1 2014	Q2 2014	Q2 2013	%	Refinery processing (kt)	H1 2013	H1 2014	%
93	(0)	144	n.a.	Domestic crude oil	182	93	(49)
355	664	615	8	Imported crude oil	1,289	1,019	(21)
33	-	35	n.a.	Condensate	45	33	(25)
199	188	167	13	Other feedstock	360	388	8
680	**853**	**962**	**(11)**	**Total refinery throughput**	**1,876**	**1,533**	**(18)**
Q1 2014	**Q2 2014**	**Q2 2013**	**%**	**Refinery production (kt)**	**H1 2013**	**H1 2014**	**%**
39	51	56	(9)	LPG	105	90	(14)
175	216	282	(23)	Motor gasoline	541	392	(28)
208	289	319	(9)	Diesel	628	497	(21)
33	22	37	(42)	Heating oil	92	55	(41)
13	42	34	25	Kerosene	55	55	1
9	11	3	296	Naphtha	14	19	37
83	102	127	(19)	Fuel oil	241	185	(23)
3	-	13	n.a.	Bitumen	17	3	(84)
24	17	(13)	n.a.	Other products*	(26)	41	n.a.
588	**750**	**857**	**(12)**	**Total**	**1,666**	**1,338**	**(20)**
4	5	5	1	Refinery loss	11	10	(9)
89	97	99	(3)	Own consumption	199	185	(7)
680	**853**	**962**	**(11)**	**Total refinery production**	**1,876**	**1,533**	**(18)**
Q1 2014	**Q2 2014**	**Q2 2013**	**%**	**Refined product sales by country (kt)**	**H1 2013**	**H1 2014**	**%**
371	422	486	(13)	Croatia	856	794	(7)
111	128	129	(0)	B&H	236	240	1
17	51	43	18	Slovenia	70	69	(3)
173	243	207	17	Other markets	481	416	(14)
674	**844**	**865**	**(2)**	**Total**	**1,644**	**1,518**	**(8)**
Q1 2014	**Q2 2014**	**Q2 2013**	**%**	**Refined product sales by product (kt)**	**H1 2013**	**H1 2014**	**%**
46	56	65	(13)	LPG	120	102	(15)
166	219	220	(0)	Motor gasoline	467	385	(17)
291	366	361	1	Diesel	614	657	7
39	26	33	(20)	Heating oil	82	65	(20)
12	38	37	3	Kerosene	51	50	(1)
12	7	3	145	Naphtha	16	19	18
81	103	113	(9)	Fuel oil	235	183	(22)
6	10	19	(46)	Bitumen	25	16	(35)
21	19	15	24	Other products*	35	39	13
674	**844**	**865**	**(2)**	**Total**	**1,644**	**1,518**	**(8)**
196	252	262	(4)	o/w Retail segment sales	455	448	(1)

*Other products = Benzene-rich cut, liquid sulphur, coke, motor oils. Ind, lubricants, base oils, spindle oil, waxes, blend. gas oil "M", atmosp. residue, intermediaries and other. Negative values in production can occur as a result of higher volume of semifinished products used in processing than produced in certain period.

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Q2 2014 vs. Q1 2014 RESULTS

Refining and Marketing (including Retail) 'clean' CCS-based EBITDA amounted to HRK (138) million in Q2 2014, which was by HRK 130 million better compared to the previous quarter performance. Main contributors to positive difference were (1) higher sales volumes by 25%, (2) improved Brent-Ural spread (1.6 in Q2 2014 vs. 1.4 USD/bbl in Q1 2014), (3) lower share of own consumption and losses related to more stable operation of refineries' key conversion units. These factors were partially mitigated with negative effects of (1) slightly lower R&M spread deriving from lower sales spread, (2) higher operating expenses coming from increased regular maintenance costs.

Reported EBITDA in Q2 2014 amounted to HRK (187) mln and was HRK 133 mln better in comparison with Q1 2014 mainly as a result of above mentioned reasons.

Q2 2014 vs. Q2 2013 RESULTS

Refining and Marketing (including Retail) 'clean' CCS-based EBITDA and reported EBITDA amounted to HRK (138) million and HRK (187) million in Q2 2014, both lower in comparison with Q2 2013.

Refining and Marketing (including Retail) (1) maintained sales of profitable motor fuels at last year's level in spite of the deteriorated market environment (record low diesel and fuel oil crack spreads) and lower inland demand during May - June caused by floods in parts of Croatia and Bosnia. The segment (2) decreased its operating expenses driven by lower transportation cost, (3) lower energy consumption and (4) improved sales structure driven by higher motor fuels sales volumes and lower black products sales. The (1) lower R&M spread deriving from 14% lower average crack spread (record low diesel and fuel oil crack spreads) and lower sales spread and (2) higher share of own consumption and losses negatively impacted results.

H1 2014 vs. H1 2013 RESULTS

In H1 2014, the Refining and Marketing (including Retail) 'clean' CCS-based EBITDA and reported EBITDA amounted to HRK (405) million and HRK (507) million, both below H1 2013 level.

In the same time the segment captured available market opportunities by (1) maintaining motor fuel sales on key inland markets of Croatia and Bosnia around the same level as last year. As international markets provided much lower available crack spreads capturing spot export markets with thin sales margins offered no economic incentive with INA's current assets. Refining and Marketing also had a (2) better sales structure (higher motor fuel and lower fuel oil share), (3) lower energy consumption and a (4) more favourable Brent-Ural spread. The result was negatively impacted by (1) the unfavourable external environment reflected in 10% lower average R&M spread and 22% lower average crack spread (lower diesel, gasoline and fuel oil crack spread), (2) lower sales volumes by 8% combined with (3) less favourable processing mix mainly related to fall-outs of some conversion units during Q1 2014 and (4) higher share of own consumption and losses.

The segment's operating profit in H1 2014 declined over the same period last year by HRK 313 million, reaching HRK (856) million.

Deteriorated external environment in comparison with previous year, decline in estimated motor fuel demand in Croatia as well as weaker purchasing power put pressure on sales resulting in lower transfers to own retail and sales volumes to end users. Export sales volumes, primarily on spot markets (with tight sales margins), were lower, offering no economic incentive within such an external environment with INA's current assets.

RETAIL OPERATIONS SALES VOLUME

Total sales volumes of Retail segment in H1 2014 amounted to 448 kt, recording a slight (1%) decrease in comparison to the same period of the previous year as a result of weaker purchasing power, deepening economic crisis and negative consequences of the floods in May 2014. Throughput per site in H1 2014 was 1% lower compared to same period last year. The decrease in sales volumes compared to H1 2013 was influenced by lower sales of motor gasoline by 6% while gas and heating oils increased by 1%. Analysis of the structure of motor gasoline sales showed decrease in sales of premium fuels in favour of regular fuels with more affordable price, indicating still present market contraction.

On 30 June 2014, INA Group operated a network of 449 stations (395 in Croatia and 54 abroad, of which 47 in Bosnia and Herzegovina, 6 in Slovenia and 1 in Montenegro).

CAPITAL EXPENDITURES

Management efforts to put a strong capital project pipeline in place resulted in capital expenditures of HRK 158 million in H1 2014, HRK 41 mln higher than the investments in the same period of the 2013.

One of the major sustainable type projects in R&M is the first phase of the turnaround in Sisak Refinery which has been completed to ensure safe, reliable, efficient operation with maximum mechanical availability of the units. Other major projects include closing the blow down system and replacing the coke chambers which have been delivered on site in Sisak and are ready to be installed during Q3 2014.

Retail capital expenditures in H1 2014 amounted to HRK 35.9 million and were lower by HRK 18.7 million than the investments in the same period of the 2013, due to different dynamics of realization of projects. Spending was focused on modernization and capital reconstruction of petrol stations. At the same time, LPG project was presented with the aim of increasing the number of sites that offer auto gas as an alternative fuel that is more environmentally-friendly and favours longer useful life of car engine, therefore its intensive use in the future is expected.

Condensed Consolidated Income Statement – INA-GROUP
For the period ended 30 June 2013 and 2014
(In HRK millions)

Q1 2014	Q2 2014	Q2 2013	%		Note	H1 2013	H1 2014	%
				Sales revenue				
3,586	3,643	4,016	(9)	a) domestic		8,462	7,229	(15)
1,956	2,576	2,216	16	b) exports		4,893	4,532	(7)
5,542	**6,219**	**6,232**	**(0)**	**Total sales revenue**	1	**13,355**	**11,761**	**(12)**
83	129	67	93	Income from own consumption of products and services		103	212	106
64	65	212	(69)	Other operating income		275	129	(53)
5,689	**6,413**	**6,511**	**(2)**	**Total operating income**		**13,733**	**12,102**	**(12)**
(287)	202	(168)	n.a.	Changes in inventories of finished products and work in progress		97	(85)	n.a.
(2,345)	(3,768)	(3,188)	18	Cost of raw materials and consumables	2	(7,076)	(6,113)	(14)
(460)	(447)	(567)	(21)	Depreciation and amortization	4	(1,131)	(907)	(20)
(368)	(425)	(404)	5	Other material costs	4	(766)	(793)	4
(347)	(324)	(301)	8	Service costs	4	(547)	(671)	23
(560)	(618)	(637)	(3)	Staff costs	5	(1,196)	(1,178)	(2)
(948)	(848)	(1,047)	(19)	Cost of other goods sold	3	(2,467)	(1,796)	(27)
(25)	(40)	(243)	(84)	Impairment and charges (net)		(265)	(65)	(75)
44	(4)	(16)	(75)	Provisions for charges and risks (net)		(33)	40	n.a.
(5,296)	**(6,272)**	**(6,571)**	**(5)**	**Operating expenses**		**(13,384)**	**(11,568)**	**(14)**
393	**141**	**(60)**	**n.a.**	**Profit/(loss) from operations**		**349**	**534**	**53**
				Share in the profit of associated companies				
61	29	70	(59)	Finance income		169	90	(47)
(151)	(66)	(24)	175	Finance costs		(259)	(217)	(16)
(90)	**(37)**	**46**	**n.a.**	**Net loss from financial activities**	7	**(90)**	**(127)**	**41**
303	**104**	**(14)**	**n.a.**	**Profit/(loss) before tax**		**259**	**407**	**57**
(62)	27	(35)	n.a.	Income tax expense	6	(48)	(35)	(27)
241	**131**	**(49)**	**n.a.**	**Profit/(loss) for the year**		**211**	**372**	**76**
				Attributable to				
241	131	(49)	n.a.	Owners of the Company		211	372	76
0	0	-	n.a.	Non-controlling interests		-	0	n.a.
241	**131**	**(49)**	**n.a.**			**211**	**372**	**76**
				Earnings per share				
24.1	13.1	(4.9)	n.a.	Basic and diluted earnings per share (kunas per share)		21.1	37.2	76

Condensed Consolidated Statement of Comprehensive Income – INA-GROUP
For the period ended 30 June 2013 and 2014
(in HRK million)

Q1 2014	Q2 2014	Q2 2013	%		H1 2013	H1 2014	%
241	**131**	**(49)**	n.a.	**Profit/(loss) for the year**	**211**	**372**	**76**
				Other comprehensive income, net of income tax:			
-	-	-	n.a.	Remeasurement of defined benefit obligation	(11)	-	n.a.
22	(14)	(256)	(95)	Exchange differences on translating foreign operations	(65)	8	n.a.
39	(21)	(20)	5	Gain/(loss) on available-for-sale financial assets	(7)	18	n.a.
61	**(35)**	**(276)**	**(87)**	**Other comprehensive income/(loss), net of income tax**	**(83)**	**26**	**n.a.**
302	**96**	**(325)**	**n.a.**	**Total comprehensive income/(loss) for the period**	**128**	**398**	**211**
				Attributable to:			
302	96	(325)	n.a.	Owners of the Company	128	398	211
0	0	-	n.a.	Non-controlling interests	-	0	n.a.

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated Statement of Financial Position – INA-GROUP
At 30 June 2014
(in HRK millions)

	Note	31 Dec 2013	30 June 2014	%
Assets				
Non-current assets				
Intangible assets	9	524	515	(2)
Property, plant and equipment	10	15,979	15,789	(1)
Goodwill		183	183	0
Investments in associates and joint ventures		22	22	0
Other investments		169	23	(86)
Long-term receivables		230	214	(7)
Derivative financial instruments		3	-	n.a.
Deferred tax		1,127	1,149	2
Available for sale assets		330	352	7
Total non-current assets		**18,567**	**18,247**	**(2)**
Current assets				
Inventories	12	3,219	3,697	15
Trade receivables net	13	2,564	2,486	(3)
Other receivables		847	641	(24)
Derivative financial instruments		2	-	n.a.
Other current assets		142	193	36
Prepaid expenses and accrued income		166	209	26
Cash and cash equivalents		402	283	(30)
Current assets		**7,342**	**7,509**	**2**
Assets classified as held for sale		-	-	n.a.
Total current assets		**7,342**	**7,509**	**2**
Total assets	8	**25,909**	**25,756**	**(1)**
Equity and liabilities				
Capital and reserves				
Share capital	11	9,000	9,000	0
Revaluation reserve		6	24	300
Other reserves		2,284	2,292	0
Retained earnings / (Deficit)		1,586	1,958	23
Equity attributable to equity holder of the parent		**12,876**	**13,274**	**3**
Non-controlling interests		(1)	(1)	0
Total equity		**12,875**	**13,273**	**3**
Non-current liabilities				
Long-term loans		1,889	951	(50)
Other non-current liabilities		76	70	(8)
Employee benefits obligation		135	178	32
Provisions		2,754	2,841	3
Deferred tax liability		7	8	14
Total non-current liabilities		**4,861**	**4,048**	**(17)**
Current liabilities				
Bank loans and overdrafts		2,975	3,305	11
Current portion of long-term debt		299	296	(1)
Trade payables	15	2,841	2,852	0
Taxes and contributions		749	726	(3)
Other current liabilities		661	617	(7)
Accruals and deferred income		126	197	56
Employee benefits obligation		11	8	(27)
Provisions		511	434	(15)
Current liabilities		**8,173**	**8,435**	**3**
Liabilities directly associated with assets classified held for sale		-	-	n.a.
Total current liabilities		**8,173**	**8,435**	**3**
Total liabilities	14	**13,034**	**12,483**	**(4)**
Total equity and liabilities		**25,909**	**25,756**	**(1)**

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated Cash Flow Statement - INA GROUP
For the period ended 30 June 2013 and 2014
(in HRK millions)

Q1 2014	Q2 2014	Q2 2013	%		Note	H1 2013	H1 2014	%
241	**131**	**(49)**	**n.a.**	**Profit/(loss) for the year**		**211**	**372**	**76**
				Adjustments **for:**				
460	447	567	(21)	Depreciation and amortisation		1,131	907	(20)
62	(27)	35	n.a.	Income tax (benefit)/expenses recognized in (loss)/profit		48	35	(27)
137	247	246	0	Impairment charges (net)		444	384	(14)
(112)	(207)	(3)	6,800	Reversal of impairment		(179)	(319)	78
(7)	4	(1)	n.a.	Gain on sale of property, plant and equipment		(4)	(3)	(25)
-	-	-	n.a.	Gain on purchase of investments and shares		-	-	n.a.
27	(27)	(113)	(76)	Foreign exchange loss/(gain)		(13)	-	n.a.
29	22	40	(45)	Interest expense (net)		62	51	(18)
11	22	16	38	Other financial expense recognised in profit		(12)	33	n.a.
(44)	4	15	(73)	Increase in provisions		32	(40)	n.a.
22	21	21	0	Decommissioning interests		41	43	5
(4)	-	(6)	n.a.	Other non-cash items		(4)	(4)	0
822	**637**	**768**	**(17)**	**Operating cash flow before working capital changes**	16	**1,757**	**1,459**	**(17)**
				Movements in working capital	17			
458	(943)	(122)	673	(Increase)/decrease in inventories		(476)	(485)	2
560	(686)	312	n.a.	(Increase)/decrease in receivables and prepayments		(440)	(126)	(71)
(1,316)	1,757	1,006	75	(Decrease)/increase in trade and other payables		1,416	441	(69)
524	**765**	**1,964**	**(61)**	**Cash generated from operations**		**2,257**	**1,289**	**(43)**
(72)	(33)	(89)	(63)	Taxes paid		(123)	(105)	(15)
452	**732**	**1,875**	**(61)**	**Net cash inflow from operating activities**		**2,134**	**1,184**	**(45)**
				Cash flows used in investing activities				
(290)	(363)	(333)	9	Payments for property, plant and equipment		(516)	(653)	27
(47)	40	(76)	n.a.	Payment for intangible assets		(86)	(7)	(92)
2	3	2	50	Proceeds from sale of non-current assets		5	5	0
-	-	-	n.a.	Purchase of subsidiaries		-	-	n.a.
-	-	-	n.a.	Dividends received from companies classified as available for sale and from other companies		-	-	n.a.
5	5	7	(29)	Interest received and other financial income		11	10	(9)
43	(4)	(23)	(83)	Investments and loans to third parties, net		(25)	39	n.a.
(287)	**(319)**	**(423)**	**(25)**	**Net cash used for investing activities**	18	**(611)**	**(606)**	**(1)**
				Cash flows from financing activities				
1,243	731	3,984	(82)	Additional long-term borrowings		3,984	1,974	(50)
(2,323)	(606)	(6,821)	(91)	Repayment of long-term borrowings		(6,972)	(2,929)	(58)
3,724	4,289	3,512	22	Additional short-term borrowings		7,128	8,013	12
(2,845)	(4,846)	(2,838)	71	Repayment of short term borrowings		(5,583)	(7,691)	38
-	-	-	n.a.	Dividends paid		-	-	n.a.
(16)	(9)	(29)	(69)	Interest paid on long-term loans		(49)	(25)	(49)
-	-	-	n.a.	Other long-term liabilities, net		-	-	n.a.
(32)	(8)	(2)	300	Interest paid on short term loans and other financing charges		8	(40)	n.a.
(249)	**(449)**	**(2,194)**	**(80)**	**Net cash from financing activities**		**(1,484)**	**(698)**	**(53)**
(84)	(36)	(742)	(95)	Net (decrease)/increase in cash and cash equivalents		39	(120)	n.a.
402	314	1,205	(74)	At 1 January		488	402	(18)
(4)	5	35	(86)	Effect of foreign exchange rate changes		(29)	1	n.a.
314	283	498	(43)	At the end of period		498	283	(43)

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated Statement of Changes in Equity – INA-GROUP
For the period ended 30 June 2013 and 2014
(in HRK millions)

Attributable to equity holders of the parent

	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Non controlling interest	Total equity
Balance as at 1 January 2013	**9,000**	**2,505**	**13**	**3,437**	**14,955**	**(1)**	**14,954**
Profit for the period	-	-	-	211	211	-	211
Purchase of non-controlling interest	-	-	-	-	-	-	-
Other comprehensive loss, net	-	(76)	(7)	-	(83)	-	(83)
Total comprehensive income, net	**-**	**(76)**	**(7)**	**211**	**128**	**-**	**128**
Dividends payable	-	-	-	(343)	(343)	-	(343)
Balance as at 30 June 2013	**9,000**	**2,429**	**6**	**3,305**	**14,740**	**(1)**	**14,739**

	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Non controlling interest	Total equity
Balance as at 1 January 2014	**9,000**	**2,284**	**6**	**1,586**	**12,876**	**(1)**	**12,875**
Loss for the period	-	-	-	372	372	0	372
Other comprehensive loss, net	-	8	18	-	26	-	26
Total comprehensive loss for the year	**-**	**8**	**18**	**372**	**398**	**0**	**398**
Dividends paid	-	-	-	-	-	-	-
Balance as at 30 June 2014	**9,000**	**2,292**	**24**	**1,958**	**13,274**	**(1)**	**13,273**

INDUSTRIJA NAFTE, d.d.

INA Group Summary Segmental Results of Operations

Q1 2014	Q2 2014	Q2 2013	%	(HRK mln)	H1 2013	H1 2014	%
				Sales			
2,166	1,716	1,907	(10)	Exploration & Production	5,091	3,882	(24)
3,795	4,775	4,830	(1)	Refining & Marketing including Retail	9,470	8,570	(10)
486	686	464	48	Corporate and Other	899	1,172	30
(905)	(958)	(969)	(1)	Inter-segment revenue	(2,105)	(1,863)	(11)
5,542	**6,219**	**6,232**	**(0)**	**Sales**	**13,355**	**11,761**	**(12)**
				Operating expenses, net other income from operating activities			
(1,174)	(1,060)	(1,355)	(22)	Exploration & Production	(3,388)	(2,234)	(34)
(4,287)	(5,139)	(5,188)	(1)	Refining & Marketing including Retail	(10,013)	(9,426)	(6)
(572)	(676)	(664)	2	Corporate and Other	(1,201)	(1,248)	4
884	797	915	(13)	Inter-segment eliminations	1,596	1,681	5
(5,149)	**(6,078)**	**(6,292)**	**(3)**	**Expenses**	**(13,006)**	**(11,227)**	**(14)**
				Profit/(loss) from operations			
992	656	552	19	Exploration & Production	1,703	1,648	(3)
(492)	(364)	(358)	2	Refining & Marketing including Retail	(543)	(856)	58
(86)	10	(200)	n.a.	Corporate and Other	(302)	(76)	(75)
(21)	(161)	(54)	198	Inter-segment eliminations	(509)	(182)	(64)
393	**141**	**(60)**	**n.a.**	**Profit/(loss) from operations**	**349**	**534**	**53**
				Share in the profit of associate companies			
(90)	**(37)**	**46**	**n.a.**	**Net loss from financial activities**	**(90)**	**(127)**	**41**
303	**104**	**(14)**	**n.a.**	**Profit/(loss) before taxation**	**259**	**407**	**57**
(62)	27	(35)	n.a.	Income tax expense	(48)	(35)	(27)
241	**131**	**(49)**	**n.a.**	**Profit/(loss) for the year**	**211**	**372**	**76**
Q1 2014	**Q2 2014**	**Q2 2013**	**%**	**Depreciation**	**H1 2013**	**H1 2014**	**%**
267	256	348	(26)	Exploration & Production	694	523	(25)
138	137	166	(17)	Refining & Marketing including Retail	326	275	(16)
55	54	53	2	Corporate and Other	111	109	(2)
460	**447**	**567**	**(21)**	**Total**	**1,131**	**907**	**(20)**
Q1 2014	**Q2 2014**	**Q2 2013**	**%**	**EBITDA***	**H1 2013**	**H1 2014**	**%**
1,181	901	1,091	(17)	Exploration & Production	2,614	2,082	(20)
(319)	(188)	(129)	46	Refining & Marketing including Retail	(129)	(507)	293
24	57	(128)	n.a.	Corporate and Other	(167)	81	n.a.
(53)	(137)	(68)	101	Inter-segment eliminations	(540)	(190)	(65)
833	**633**	**766**	**(17)**	**Total**	**1,778**	**1,466**	**(18)**

* EBITDA = EBIT + Depreciation + Impairment + Provisions

Sales data include intra-group sales and related costs are included in the operating costs of the business segment making the purchase. Intra-group transactions are eliminated for consolidated sales data and operating costs.

INDUSTRIJA NAFTE, d.d.

Financial overview and notes

INCOME STATEMENT

Notes

H1 2014 RESULTS

1 **Total sales revenues** in H1 2014 amounted to HRK 11,761 million and were 12% below the H1 2013 level, primarily triggered by lower natural gas sales deriving from lower production due to natural decline and lower prices reflecting direct sales to HEP, unfavorable external environment which reflected in lower sales prices and lower sales volumes of oil products on export markets.

2 **Costs of raw materials and consumables** were 14% below H1 2013 levels at HRK 6,113 million, as processing of other raw material volumes was lower.

3 **Costs of goods sold** recorded a decrease of 27% to HRK 1,796 million resulting from lower import of natural gas compared to H1 2013.

4 Within **other operating costs** realized in H1 2014

- Other material costs were higher by 4% and amounted to HRK 793 million.
- Service costs in the amount of HRK 671 million recorded an increase of 23% mainly due to ENI tax related to 2013 which had neutral impact on H1 2014 result due to release of related provision.
- Depreciation in the amount of HRK 907 million was 20% lower compared to H1 2013 mainly due to lower Syrian depreciation.
- Adjustments and provisions of HRK 25 million decreased 92% as a result of value adjustments reversal related to EGPC receivables and reversal of ENI tax provision.

5 **Staff costs** in the amount HRK 1,178 million were 2% below H1 2013. Staff cost represents cost of net salaries in the amount of HRK 609 million, cost of employee income tax in the amount of HRK 258 million, tax on payroll in the amount of HRK 149 million and other payroll related costs in the amount of HRK 162 million for the six month period ended 30 June 2014. For the six month period ended 30 June 2014 staff cost includes cost of net salaries in the amount of HRK 630 million, cost of employee income tax in the amount HRK 272 million, tax on payroll in the amount HRK 149 million, and other payroll related costs in the amount HRK 145 million.

6 **Income tax in** H1 2014 amounted to HRK 35 million compared to tax expense of HRK 48 million in H1 2013.
Tax costs and deferred taxes during the interim period are calculated on the basis of actual results and the profit tax rate, 20% for both H1 2014 and H1 2013.

7 **Net financial expenses** in the amount of HRK 127 million were recorded in H1 2014, compared to net financial expenses of HRK 90 million in H1 2013.

- Net foreign exchange loss was HRK 6.7 million in H1 2013, compared to HRK 1.8 million net foreign exchange gains recorded in H1 2014.
- Interest payable amounted to HRK 95.5 million and interest received HRK 10.6 million in H1 2014, compared to interest payable of HRK 92.2 million and HRK 8.8 million interests received in H1 2013.
- Other financial net expenses amounted to HRK 43.8 mln, compared to financial net expenses of HRK 0.1 mln in H1 2013.

Restatement

*A change has been made in recording of „Suppliers/buyers forex gain“ and "reversal of impairment before insolvency deal" (originally recorded in „Other operating income“), which are now recorded in „Financial income“. On the other hand „Forex loss on suppliers/buyers“ originally recorded in „Other nonmaterial expenses“, and "realised fees of bank charge accrued long term loan" originally recorded in "impairment and charges" are now recorded in „Financial expenditures".

Crosco Group reclassification

Starting from 1 January 2014, INA Group has revised its operational segments to integrate all corporate support and other service related activities in Corporate and Other segment. As a consequence, Crosco Group has been reclassified to Corporate and Other segment from Exploration & Production. Comparative periods have been restated accordingly.

Special items

In addition to international accounting standards and international reporting standards and regulatory requests the company discloses special items to achieve higher level of transparency and to provide better understanding of the usual business operations. Business events not occurring regularly and having significant effect on operations and results are considered as special items. At the beginning of 2013 INA has adopted the materiality level for the special items in the amount of EUR 10 million or above. Furthermore, in accordance with adopted accounting policies and IFRS 36 – Impairment of Assets, INA performs impairment testing at the end of each reporting period.

Intersegment eliminations

Intersegment elimination line within the operating results is used to provide segmental results as International Accounting Standards requests, guided with the transparency of presented information which needs to fulfil the highest requests of consistency and reliability. For this purpose and for purpose of having the segmental results presenting fair market relations between the segments, which are fully aligned with on demand operations of the Refining and Marketing including Retail segment, parity of internal transfer between E&P and R&M including retail is based on delivered quantities. This line shows the effect on operating profit of the change in the amount of unrealized profit deferred in respect of transfers between segments. Unrealized profits arise where the item transferred is held in inventory by the receiving segment and a third party sale takes place only in a subsequent quarter. For segmental reporting purposes the deliverer segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place. Intersegment EBITDA effect on E&P and R&M including retail results in H1 2014 is HRK 190 million which is lower compared to HRK 540 million in H1 2013 due to different operational mode of Sisak refinery.

INDUSTRIJA NAFTE, d.d.

BALANCE SHEET

Notes

8 As at 30 June 2014, INA Group **total assets** amounted to HRK 25,756 million and were 1% lower compared to 31 December 2013.

9 In the period ended 30 June 2014, INA Group invested HRK 6 million in **intangible assets**. The effect of depreciation equals to HRK 16 million. Foreign exchange revaluation of oil and gas fields increased net book value in amount of HRK 1 million.

10 In the period ended 30 June 2014, INA Group invested HRK 659 million in **property, plant and equipment**. Capitalized decommissioning costs increased the value of assets by HRK 50 million. Foreign exchange revaluation increased net book value in amount of HRK 7 million. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 891 million. In the absence of parameters needed for unit-cost production depreciation calculation method due to Force Majeure, straight-line depreciation method for surface assets in Syria was applied starting from 1 January 2013, in order to fairly reflect the amortization of the equipment. Depreciation impact of surface assets in Syria in 2014 was HRK 168 million. Impairment of assets equals HRK 8 million. Correction of prior year depreciation increased net book value of property, plant and equipment in amount of HRK 4 million. Disposals of tangible assets equal HRK 3 million. Decrease of INA Group net book value is also result of foreign exchange differences in the amount of HRK 8 million.

11 **Issued capital** as at 30 June 2014 amounted to HRK 9,000 million. There was no movement in the issued capital of the Company in either the current or the prior financial reporting.

12 **Inventories** amounted to HRK 3,697 million, which is an increase of 15% compared to 31 December 2013 as a result of higher crude oil inventories.

13 **Trade receivables** decreased by 3% to the amount of HRK 2,486 million due to lower natural gas sales deriving from lower production due to natural decline and lower prices reflecting direct sales to HEP.

14 As at 30 June 2014 **total liabilities** amounted to HRK 12,483 million, which is a decrease of 4% compared to the 31 December 2013 level.
INA Group **net debt** decreased by 10% and amounted to HRK 4,269 million compared to 31 December 2013. **Gearing ratio**[2] decreased from 27.0% as at 31 December 2013, to 24.3% as at 30 June 2014.

15 **Trade payables** increased by 1% to HRK 2,852 million, as a result of lower liabilities for imported crude oil.

CASH FLOW

Notes

16 The **operating cash-flow before changes in working capital** amounted to HRK 1,459 million in H1 2014, representing a decrease of HRK 298 million, or 17%, compared to H1 2013, mainly as a result of lower EBITDA.

17 **Changes in working capital** affected the operating cash flow negatively by HRK 170 million, primarily due to

- Increase in trade payables by HRK 441 mln
- Increase value of inventories by HRK 485 million and
- Increase in receivables by HRK 126 million.

18 **Net outflows in investing activities** amounted to HRK 606 million, in comparison with HRK 611 million of outflows in H1 2013.

Subsequent events

Start of production on the Izabela field

In July INA-Industrija nafte, d.d. and Edison International S.p.A. started a production on the Izabela field in the northern part of Adriatic Sea upon agreeing on the final outstanding issues by which all the preconditions for the beginning of the gas exploitation have been fulfilled. Total reserves of the Izabela gas field are estimated at around 1.4 billion cm of gas (8.5 MMboe), while the expected production is at the level of around 280 million cm per year (4.5 mboepd), which will be divided between the partners INA and Edison in accordance with the Production Sharing Agreement.

Supervisory Board Employee representative

On the meeting held on 9 July 2014, Workers Council of INA-Inudstrija nafte, d.d. revoked Mr Božo Mikuš and elected Mrs Maja Rilović as the Employee representative in the Supervisory Board of INA, d.d.

[2] Net debt / net debt plus equity incl. minority interests

INDUSTRIJA NAFTE, d.d.

Financial instruments and risk management

Risk Management and Hedging Policy for INA Group is providing the framework under which INA and its consolidated subsidiaries manage and maintain commodity, foreign exchange and interest rate risk at an acceptable level. Beside financial (market) risks, the most important risks are the credit risk and the liquidity risk.

a) Market risk

Commodity price risk management
INA purchases crude oil on a spot market in US dollars, mostly using short-term credit facility arrangements. INA may use derivative instruments in managing its commodity exposure.

Foreign currency risk management
Many Group transactions are priced and denominated in foreign currency and thus the Group is exposed to currency risk. The Group has net long USD and EUR, and net short HRK exposure of operative cash flow position. The Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of June 30, 2014, there were no open cross currency transactions.

Interest rate risk management
INA Group companies use borrowed funds at both fixed and floating interest rates consequently the Group is exposed to the interest rate risk. The Group does not speculate on interest rate developments and primarily chooses floating rates. As of June 30, 2014 there were no open interest rate swap transactions.

Other price risk
INA is exposed to equity price risks arising from equity investments held for strategic reasons and not for trading.

b) Credit risk

Sales of goods and services with deferred payment create credit risk, a risk of non-payment and risk that the counterparty will default on its contractual obligations. According to existing “Customer Credit Management Procedure” creditworthiness and risk in dealing with customers is estimated based on internal credit assessment model as well as using the services of creditworthiness agencies. There is no significant credit risk exposure of INA Group that is not covered with collateral, other than those to the institutions and entities controlled by the state and the local government, and exposure toward customers under certain concession agreements abroad. In order to minimize credit risk INA is using credit risk insurance services. INA to a limited extent is also using services of agencies for “out-of-court” collection of receivables.

c) Liquidity risk

The Group's liquidity risk is managed by maintaining adequate reserves of liquidity and credit lines by continuous monitoring of projected and actual cash flow and due dates for account receivables and payables.
As of June 30, 2014, the INA Group had contracted short-term credit lines amounting to HRK 1.77 bn, excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and contracted long-term credit lines amounting to HRK 4.90 bn.

Related party transactions

INA Group has dominant positions in Croatia in oil and gas exploration and production, oil refining and the sale of gas and petroleum products. As a result of the INA Group strategic position within the Croatian economy, a substantial portion of its business and the business of its subsidiaries is transacted with the Croatian Government, its departments and agencies, and the companies with the Republic of Croatia being their majority shareholder.
Transactions between INA, d.d. and its subsidiaries, which are related parties of the Company, have been eliminated on Group level consolidation. During 2014, INA Group entered into the following trading transactions with the following related parties:

INA-Group	Amounts owed from related parties	Amounts owed to related parties
HRK mln	30 June 2014	30 June 2014
Companies available for sale		
JANAF d.d. Zagreb	1	117
Strategic partner		
MOL Plc	100	42
Companies controlled by strategic partner		
Tifon d.o.o.	74	1
Energopetrol d.d.	49	-
Kalegran Ltd.	21	-
MOL SLOVENIJA d.o.o.	8	9
Slovnaft, a.s.	-	3
Companies controlled by the State		
Petrokemija Kutina	315	1
Hrvatska elektroprivreda	146	19
Hrvatske željeznice	29	10
Jadrolinija	46	2
Croatia Airlines	33	-
HANDA	5	-
Podzemno skladište plina Okoli	1	1
Plinacro	-	26

INA-Group	Sales of goods	Purchase of goods
HRK mln	30 June 2014	30 June 2014
Companies available for sale		
JANAF d.d. Zagreb	2	24
Strategic partner		
MOL Plc	294	342
Companies controlled by strategic partner		
Tifon d.o.o.	340	25
Energopetrol d.d.	244	-
Kalegran Ltd.	66	1
Mol Commodity Trading Kft.	47	-
MOL SLOVENIJA d.o.o.	40	40
Slovnaft, a.s.	4	55
IES-Italiana Energia e Servizi s.p.a.	-	1
Companies controlled by the State		
Hrvatska elektroprivreda	738	60
Petrokemija Kutina	436	-
HANDA	133	-
Croatia Airlines	101	-
Jadrolinija	87	2
Hrvatske željeznice	61	34
Podzemno skladište plina Okoli	10	45
Plinacro	24	127

INDUSTRIJA NAFTE, d.d.

Segmental Information

30 June 2014 Assets and liabilities	Exploration and production	Refining and marketing including Retail	Corporate and other	Intersegment transfers	Total
Property, plant and equipment	8,616	5,471	1,780	(78)	15,789
Intangible assets	391	14	110	-	515
Investments in associates and joint ventures	22	-	-	-	22
Inventories	215	3,734	297	(549)	3,697
Trade receivables, net	801	1,449	550	(314)	2,486
Not allocated assets					3,247
Total assets					**25,756**
Trade payables	573	2,338	255	(314)	2,852
Not allocated liabilities					9,631
Total liabilities					**12,483**
Other segment information					
Capital expenditure:	**487**	**158**	**20**	**-**	**665**
Property, plant and equipment	485	158	16	-	659
Intangible assets	2	-	4	-	6
Depreciation and amortisation	**523**	**275**	**109**	**-**	**907**
Impairment losses/(income) PP&E, net recognized in profit and loss	7	-	(3)	-	4
Other impairment losses/(income), net recognized in profit and loss	(17)	77	1	-	61
Total impairment losses/(income), net	**(10)**	**77**	**(2)**	**-**	**65**

31 December 2013 Assets and liabilities	Exploration and production	Refining and marketing including Retail	Corporate and other	Intersegment transfers	Total
Property, plant and equipment	8,581	5,589	1,865	(56)	15,979
Intangible assets	389	16	119	-	524
Investments in associates and joint ventures	22	-	-	-	22
Inventories	509	2,779	298	(367)	3,219
Trade receivables, net	936	1,432	585	(389)	2,564
Not allocated assets					3,601
Total assets					**25,909**
Trade payables	873	1,949	408	(389)	2,841
Not allocated liabilities					10,193
Total liabilities					**13,034**
Other segment information					
Capital expenditure:	**1,256**	**545**	**210**	**-**	**2,011**
Property, plant and equipment	1,062	540	162	-	1,764
Intangible assets	194	5	48	-	247
Depreciation and amortisation	**1,400**	**645**	**216**	**-**	**2,261**
Impairment losses/(income) PP&E,net recognized in profit and loss	1,300	738	-	-	2,038
Other impairment losses/(income),net recognized in profit and loss	568	167	40	(33)	742
Total impairment losses/(income), net	**1,868**	**905**	**40**	**(33)**	**2,780**

INDUSTRIJA NAFTE, d.d.

Main external parameters

Q1 2014	Q2 2014	Q2 2013	%		H1 2013	H1 2014	%
108.2	109.7	102.4	7.1	Brent dtd (USD/bbl)	107.5	108.9	1.3
1.39	1.61	0.1	1,598.2	Brent-Ural spread	0.80	1.50	87.1
961.2	1,008.4	947.7	6.4	Premium unleaded gasoline 10 ppm (USD/t)*	995.9	984.5	(1.2)
919.4	917.0	880.4	4.2	Gas oil – ULSD 10 ppm (USD/t)*	922.3	918.2	(0.4)
571.5	575.3	574.1	0.2	Fuel oil 3,5% (USD/t)*	591.1	573.4	(3.0)
889.9	824.3	737.9	11.7	LPG (USD/t)*	802.4	857.6	6.9
42.4	51.1	59.2	(13.7)	Average crack spread	60.8	47.3	(22.2)
142.6	178.8	172.7	3.5	Crack spread – premium unleaded (USD/t)*	182.7	160.4	(12.2)
100.8	87.4	105.4	(17.1)	Crack spread – gas oil (USD/t)*	109.1	94.2	(13.6)
(247.1)	(254.3)	(200.8)	26.6	Crack spread - fuel oil 3,5% (USD/t)*	(222.2)	(250.6)	12.8
71.3	(5.3)	(37.0)	(85.7)	Crack spread - LPG (USD/t)*	(10.8)	33.6	n.a.
5.58	5.54	5.79	(4.3)	HRK/USD average	5.76	5.56	(3.5)
5.58	5.54	5.71	(2.9)	HRK/USD closing	5.71	5.56	(2.6)
7.65	7.60	7.56	0.5	HRK/EUR average	7.57	7.62	0.7
7.66	7.60	7.45	2.0	HRK/EUR closing	7.45	7.57	1.6
0.24	0.23	0.28	(17.9)	3m USD LIBOR (%)	0.28	0.23	(17.9)
0.30	0.30	0.21	42.9	3m EURIBOR (%)	0.21	0.30	42.9

** FOB Mediterranean*

INDUSTRIJA NAFTE, d.d.

Announcements in H1 2014

July 09, 2014	Supervisory Board Employee representative
July 04, 2014	Start of production on the Izabela field
June 27, 2014	Disposal of shares
June 24, 2014	General Assembly Decisions
June 20, 2014	Amendment of the Invitation to the General Assembly
May 21, 2014	Supervisory Board meeting held
May 16, 2014	General Meeting notice
March 26, 2014	Supervisory Board meeting held
March 26, 2014	Code of Corporate Governance Questionnaire for 2013
March 21, 2014	Changes in regulation
February 28, 2014	Response to the inquiry of the Zagreb Stock Exchange
February 28, 2014	Announcement
January 14, 2014	Contracts signed for works on Međimurje project

INA, d.d. Shareholders structure by number of shares

	31 Dec 06	31 Dec 07	31 Dec 08	31 Dec 09	31 Dec 10	31 Dec 11	31 Dec 12	31 Dec 13	30 June 14
MOL Plc.	2,500,001	2,500,001	4,715,538	4,715,538	4,715,538	4,725,620	4,908,207	4,908,207	4,908,207
Government of the Rep. of Croatia	5,180,367	4,484,918	4,483,552	4,483,552	4,483,552	4,483,552	4,483,552	4,483,552	4,483,552
Private and institutional investors	2,319,632	3,015,081	800,91	800,91	800,91	790,828	608,241	608,241	608,241
Total	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**

Source: Central Clearing Depositary Company

Changes in organization, Management Board or Supervisory Board

Supervisory Board
During the second quarter there was no change in the Supervisory Board

Management Board
At the session of the Supervisory Board held on 21 May 2014, Supervisory Board accepted the resignation of Dr. Pál Kara from the position of the member of INA, d.d. Management Board and unanimously appointed Dr. Gábor Horváth as member of INA, d.d. Management Board for a period from 21 May 2014 until 31 March 2015.

Board of Executive Directors
During the second quarter there was no change in the Board of Executive Directors.

Management representation

INA Group's consolidated financial statements for H1 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRS), i.e. they present fairly, in all material aspects, the financial position of the company, results of its operations and cash flows.

Management Board:

Zoltán Áldott	President
Niko Dalić	Member
Gábor Horváth	Member
Ivan Krešić	Member
Davor Mayer	Member
Péter Ratatics	Member