INDUSTRIJA NAFTE, d.d.

Q3 AND Q1-Q3 2014 – REPORT INA GROUP CONSOLIDATED

INA Group (ZB: INA-R-A; www.ina.hr) announced its Q1-Q3 2014 results today. This report contains unaudited consolidated financial statements for the period ending 30 September 2014 as prepared by the management in accordance with the International Financial Reporting Standards.

INA Group financial results (IFRS)

Q2 2014	Q3 2014	Q3 2013*	%	HRK mln.	Q1-Q3 2013*	Q1-Q3 2014	%
6,219	7,103	7,428	(4)	Net sales revenues	20,783	18,864	(9)
632	925	1,066	(13)	EBITDA (1)	2,844	2,391	(16)
141	508	371	37	Profit/(loss) from operations	720	1,042	45
(37)	(215)	(109)	97	Net financial expenses	(199)	(342)	72
131	211	175	21	Net profit/loss attributable to equity holder	386	583	51
732	838	490	71	Operating cash flow	2,624	2,022	(23)
				Earnings per share			
13.1	21.1	17.5	21	Basic and diluted/(loss) earnings per share (kunas per share)	38.6	58.3	51
4,269	4,010	5,709	(30)	Net debt	5,709	4,010	(30)
24.3	22.3	27.8		Net gearing	27.8	22.3	
385	430	519	(17)	CAPEX total	1,019	1,095	7

Q2 2014	Q3 2014	Q3 2013*	%	USD mln (2)	Q1-Q3 2013*	Q1-Q3 2014	%
1,123	1,238	1,305	(5)	Net sales revenues	3,621	3,356	(7)
114	161	187	(14)	EBITDA (1)	496	425	(14)
25	89	65	36	Profit/(loss) from operations	125	185	48
(7)	(37)	(19)	96	Net financial expenses	(35)	(61)	75
24	37	31	20	Net profit/loss attributable to equity holder	67	104	54
132	146	86	70	Operating cash flow	457	360	(21)
				Earnings per share			
2.4	3.7	3.1	20	Basic and diluted/(loss) earnings per share (kunas per share)	6.7	10.4	54
768	713	995	(28)	Net debt	995	713	(28)
70	75	91	(18)	CAPEX total	178	195	10

(1) EBITDA = EBIT + Depreciation + Impairment + Provisions
(2) In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for Q2 2014 – 5.5392 HRK/USD; Q3 2013 – 5.6928 HRK/USD; Q3 2014 – 5.7390 HRK/USD; Q1-Q3 2013 – 5.7396 HRK/USD; Q1-Q3 2014 – 5.6215 HRK/USD
Note: One off-item in the amount of HRK 127 million in Q1-Q3 2013 relates to the additional VAT and income tax obligation for 2008 and 2009 based on the Ministry of Finance Resolution
No special items were recognized in 2014
** Restatement of comparable previous periods was made – see on page 12*

INA Group operating profit in the first nine months 2014 amounted to HRK 1,042 million, 45% increase compared to 2013, achieved in spite of unfavorable external environment in the Downstream segment and regulatory burden on the Upstream.

Operating cash flow reached the level of HRK 2,022 million in first nine months 2014. Partly due to interim management measures to compensate the effect of adverse regulatory changes, financial position of the Company improved further, net debt decreased to HRK 4,010 million, 30% lower than in the same period last year, while gearing dropped to 22.3%. INA took advantage of favorable financing conditions offered to the company and decreased financing costs as well. In the same period INA increased investments by 7% despite challenging regulatory environment to a level of close to HRK 1.1 billion, with majority invested in Croatia, mainly in the Upstream segment.

INA Group's EBITDA reached HRK 925 million in Q3 2014, which is 46% above the previous quarter, however 13% drop compared to Q3 2013.

Exploration & Production has made multiple steps in order to compensate for the natural decline but the segment results were pressured by regulatory changes in the gas trading business as well as doubled royalty. The current quarter's EBITDA is 31% lower than a year ago and 7% behind the previous quarter. On a year-to date basis constant activities in well optimisation and workovers on domestic onshore as well as an increase in Egyptian and Angolan output led to an increase of oil production, however gas production fell by 12% mainly driven by the natural decline, but also lower INA production share due to drilling activities on NACA, whole year restitution on Annamaria offshore field and more complex and longer annual overhaul on main facilities GTP Molve and Ethane plant. Significant decrease in average hydrocarbon price influenced by the aforementioned regulatory change also negatively influenced the year-to-date result.

Considerable management efforts were made to increase productivity and competitive position of INA Downstream, visible in improved sales structure and decrease in energy consumption, but the effect of unfavorable external environment, including 9% lower average crack spread and further fall in key markets demand triggered by lower purchasing power and unusually long period of bad weather during summer period, have resulted in a performance still behind Q1-Q3 2013. In Q3 2014 Downstream performance improved in a seasonally better environment in comparison with the previous quarter and also against the base period, but this was not enough to mitigate the overall negative external trend during 2014.

Nevertheless strict cost control and further optimization of INA activities will be needed in the coming period in order to ensure sustainable operations and further value creation for all stakeholders.

- **Exploration and Production**: In Q1-Q3 2014, EBITDA reached HRK 2,916 million, which is lower by HRK 897 million than in the same period last year. The difference is mostly attributable to the significant effect of inventory transfer in Q1-Q3 2013 which had a one-off positive effect on previous year results. Moreover, in Q1-Q3 2014 the regulatory environment changed significantly which had a negative impact on Upstream business. Royalty rate was increased from 5% to 10% starting from 26 March 2014 and the regulated price of natural gas to households was reduced from 2.4 to 1.7 HRK/cm, resulting in a much lower average realized hydrocarbon price. Finally, despite some major achievements as a result of continuation of investment activities, the Group faced production decline especially in offshore and onshore production of natural gas in comparison with the base period. On the positive side INA increased its crude oil production by 2% in the first nine month of 2014 compared to the base period.

- **Refining and Marketing (including Retail)**: In Q1-Q3 2014 the Refining and Marketing segment's reported 'clean' CCS-based EBITDA amounted to HRK (389) million and was below Q1-Q3 2013 level. Deteriorated market environment with lower average crack spread (lower diesel, gasoline and fuel oil crack spread) as well as shrinking market demand resulted in decreased sales volumes. Less favourable production yield is mainly related to fall-outs of some conversion units during Q1 2014, which was driven by fire in Sisak DCU boiler in 2013 and further availability problems in the same boiler in 2014. Although total sales volumes decreased, sales structure improved, i.e. motor fuel share increased, while fuel oil share decreased. Additionally last year performance was positively influenced with change of inventories evaluation methodology (HRK 216 mn) and revenues from insurance and contractual penalties (HRK 85 mn). Refining and Marketing continued its disciplined cost control efforts, on-demand operation and decreased energy consumption.
- **Corporate and Other**[1]**: EBITDA** of the segment increased by HRK 297 million from HRK (202) million in Q1-Q3 2013 to HRK 95 million in Q1-Q3 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:

We achieved significantly stronger operating and net profit in the first nine months of 2014 compared to the same period last year (45% and 51% increase respectively) despite unfavourable regulatory changes affecting our upstream segment (forced sale of gas inventory, transfer of the households supply to HEP with regulated gas prices, royalty increase) which impacted our results by HRK 591 mn in the subject period.

Our focus on reliable, stable and increasingly efficient operations are visible in increased crude oil production in Exploration & Production, improved sales structure and lower energy consumption in Refining & Marketing business together with further modernization and efficiency improvement in Retail.

The main goal of the management is to pursue the most suitable development strategy for INA providing topline growth, with Upstream being the key growth driver, both in domestic and international activities. In line with such efforts, we increased investments by 7%, close to HRK 1.1 billion, with majority invested in Croatia.

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

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Management discussion
*Exploration and Production**

Q2 2014	Q3 2014	Q3 2013**	%	Segment IFRS results (HRK mln)	Q1-Q3 2013**	Q1-Q3 2014	%
1,716	1,400	1,774	(21)	Net sales revenues	6,865	5,282	(23)
901	834	1,200	(31)	EBITDA	3,813	2,916	(24)
656	564	788	(28)	Operating profit	2,491	2,212	(11)
261	306	417	(27)	CAPEX	781	793	2

* 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*

Q2 2014	Q3 2014	Q3 2013	%	Hydrocarbon production	Q1-Q3 2013	Q1-Q3 2014	%
11,894	**11,588**	**11,516**	**1**	**Crude oil production (boe/d)**	**11,589**	**11,817**	**2**
8,629	8,499	8,847	(4)	Croatia	8,653	8,605	(1)
2,032	1,904	1,839	4	Egypt	1,828	2,041	12
1,233	1,185	830	43	Angola	1,107	1,171	6
23,857	**22,127**	**25,214**	**(12)**	**Natural gas production (boe/d)**	**26,861**	**23,743**	**(12)**
10,021	10,798	10,718	1	Croatia - offshore	12,558	10,664	(15)
13,837	11,329	14,497	(22)	Croatia - onshore	14,303	13,080	(9)
2,194	**1,894**	**2,370**	**(20)**	**Condensate (boe/d)**	**2,389**	**2,110**	**(12)**
2,194	1,894	2,370	(20)	Croatia	2,389	2,110	(12)
37,945	**35,609**	**39,100**	**(9)**	**Total hydrocarbon production (boe/d)**	**40,838**	**37,671**	**(8)**

Q2 2014	Q3 2014	Q3 2013	%	Average realized hydrocarbon price**	Q1-Q3 2013	Q1-Q3 2014	%
63	73	85	(14)	Total hydrocarbon price (USD/boe)*	83	71	(15)

Q2 2014	Q3 2014	Q3 2013	%	Natural gas trading - mln cm	Q1-Q3 2013	Q1-Q3 2014	%
29	12	104	(88)	Natural gas imports	513	101	(80)
561	276	365	(24)	Total natural gas sales - domestic market	1,567	1,365	(13)

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

Q1-Q3 2014 vs. Q1-Q3 2013 RESULTS

In Q1-Q3 2014, EBITDA reached HRK 2,916 million, which is lower by HRK 897 million than in the same period last year. The difference is mostly attributable to the significant effect of inventory transfer in Q1-Q3 2013 which had one off positive effect on previous year results. However, multiple changes in the regulatory environment had a negative impact on the Upstream segment. Forced gas sale impacted the result by HRK (270) million, while the reduction in the regulated gas price created additional HRK (174) million and the effect of doubled royalty reached HRK (147) million; totaling HRK (591) million in the first nine months 2014. Finally, despite some major achievements as a result of continuation of investment activities, the Group faced production decline in the period. Prirodni Plin's losses in Q1-Q3 2014 amounted to HRK 530 million on EBIT level determined by forced gas sale from storage facility in Q1.

Total **natural gas** production in Q1-Q3 2014 was 11,6% lower than in Q1-Q3 2013,

- The year-on-year decrease on off-shore natural gas production was mainly amplified by water cuts, lower INA production share due to drilling activities on NACA and whole year restitution on Annamaria offshore field. Natural decline was somewhat compensated by start up of production on Izabela field with contribution to offshore gas production by approximatelly 1.75 mboe/d since the July startup.
- Onshore-natural gas production was impacted by more complex and longer annual overhaul on main facilities GTP Molve and Ethane plant.

Crude oil production increased in Q1-Q3 2014 by 2% compared to Q1-Q3 2013:

- Domestic crude oil production almost stabilized at last year level as a result of well optimisation, workovers and additional production coming from new wells testing.
- Decreased domestic condensate production was faced with decline on gas condesate fields and longer more complex annual overhaul on main gas facilities.
- Egyptian oil production in Q1-Q3 2014 was higher by 11.6% than Q1-Q3 2013 due to higher production on North Baharyia and East Yidma Concessions. Intensive and sucessfull drilling campaign on North Bahariya Concession, as well as new well production and higher INA share on East Yidma Concession were the main points which contributed the most in the Q1-Q3 2014 at Egyptian operations.
- Angolan Q1-Q3 2014 crude oil production in yearly comparison showed a 5.7% increase due to last year longer production shut down period caused by maintenance on FSO Palanca.

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Additional unfavorable 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, started 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.

Q3 2014 vs. Q2 2014 RESULTS

In Q3 2014, EBITDA decreased by 7% compared to Q2 2014 reflecting primarily lower production during this quarter.

Production decreased by 6.2%, which is mainly attributable annual overhaul performed on Gas Treatment Plant (GTP) Molve and Ethane plant in September. Production shut down in July in Angola during preparation for drilling and natural decline and technical problems on wells in Egypt also lowered the production. At the same time realized price increased by 10 USD/boe mainly as a result of forced gas sale at a depressed price in Q2.

Q3 2014 vs. Q3 2013 RESULTS

Lower Upstream operating profit in Q3 2014 reflects the 14% lower average realized hydrocarbon price due to lower natural gas prices as a result of regulatory changes, and a 9% decrease of hydrocarbon production coming from more complex and longer maintenance on GTP Molve and Ethane plant than previous year. This was partly offset with start up production on Izabela offshore gas field, higher production in Egypt due to the successful drilling campaign as well as the increase in the Angolan production after last year's shut down due to post maintenance activities. Furthermore, the result was negatively affected by higher royalty rate residing from regulatory changes and reduction of regulated gas price to households.

EXPLORATION AND PRODUCTION CAPITAL EXPENDITURES

Exploration and Production segment's CAPEX in Q1-Q3 2014 amounted to HRK 793 million. Capital investments in Croatia amounted HRK 699 million and capital investments abroad HRK 93 million. In comparison with Q1-Q3 2013 capital investments are in total higher by HRK 12 million or 2%. Increased investments level is mainly result of offshore development drilling campaign on Ika field and intensive EOR project activities. In EOR project INA received the approval for trial CO_2 injection on the oil field Ivanić for approximately 80% of wells. Injection on oilfield Žutica could not start because of ongoing activities on solving property rights with DUUDI. It is expected to solve property rights until the end of 2014 and prepare all other permits for start CO_2 injection on Žutica in the middle of 2015. First oil response from oilfield Ivanić is expected in the second part of the 2015 while oil response from Žutica oilfield is expected in 2016.

E&P CAPEX Q1-Q3 2014 (HRK million)	Croatia	Egypt	Angola
Exploration	53.8	-4.1	
Development	571.1	82.8	14.8
Exploration: 49.7 (6.3%) Development: 668.7 (84.4%) Other: 74.2 (9.3%)	**Exploration Onshore:** Hrastilnica-4 well drilled in Q1. Drilling of Čepelovac-1 North well started on July 31st and it is on-going. Fracturing campaign, unconventional, three wells - Peteranec -4, Žutica -249 DU and Iva -2DU prepared for fracturing operations. The second phase of fracturing campaign started on September 29th. **Development Onshore:** EOR project - Finalized workovers on the injection wells for CO2 and salt water and finalization of connections on surface facilities. Permit for trial work of CO2 injection on Ivanić field obtained from relevant Ministry. Well preparation for second phase of EOR Project is in progress. Drilling of Gola-10 well is on hold after drilling of new deviated wellbore which is finished and casing is installed. Drilling and testing of well is expected beginning of the next year after procurement of the missing equipment. During Q1-Q3 2014, 17 capital well work-overs were performed, also 1 hydraulic fracturing job was performed and 4 are in progress. **Development Offshore:** Ika JZ project – Four wells were drilled and completed, Ika JZ platform deck construction and detail engineering was finished. Hook-up and Commissioning activities are in progress. Ika B platform revamping works were completed in 1Q 2014. Project Ika A-4 HOR development well which started in Q2 2014 is finished. Well is drilled, production completion is finished, while well was connected to existing gathering system. Ivana A/K optimization project - Contract award is finished and detail engineering of process skid is on-going. Gas production from Izabela field started in Q2 2014. Gas production and maintenance activities are in progress.	**Exploration:** No activities, 1Q-3Q 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** – Seven wells were successfully drilled and five of them were put in production. Testing of one well is in progress. One well drilled was unsuccessful. In addition, four water source wells were drilled and drilling one additional is in progress. Workover operations were performed on sixteen wells and on one well workover operations are in progress. **West Abu Gharadig Concession** – Completed one well was put into production. Workover operations were performed on three wells. Activities performed were related to planned projects (contaminated sand treatment, facilities upgrading). **Ras Qattara Concession** – Three workover activities were performed. One well is drilled and completed for production , while drilling of second well is on-going. **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. Workover operations were performed on Sidi Rahman-5 and Rizk East-1 ST wells in order to perforate new intervals.	**Development:** **Block 3/05**: The Operator continued with the execution of planned production, well intervention, maintenance, inspection and facilities engineering activities and continued with implementing on going major development projects. 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**: Drilling of Gazela-101 was on-going. The drilling rig arrived to the drilling area on June 24, 2014. Well spud on July 28th, 2014. In September occurred unexpected technical problems during drilling – stuck in hole. Decided to side-track.

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Refining and Marketing, including Retail*

Q2 2014	Q3 2014	Q3 2013**	%	Segment IFRS results (HRK mln)	Q1-Q3 2013**	Q1-Q3 2014	%
4,775	5,978	6,111	(2)	Revenues	15,581	14,548	(7)
(187)	(91)	(125)	(27)	EBITDA	(254)	(598)	135
(138)	16	(60)	n.a.	CCS-based R&M EBITDA	19	(389)	n.a.
(364)	(235)	(357)	(34)	Operating profit/(loss)	(900)	(1,091)	21
(300)	(121)	(298)	(59)	CCS-based R&M operating loss	(622)	(873)	40
112	85	97	(12)	CAPEX and investments (w/o acquisition)	214	243	14

*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*

Note: One off-item in the amount of HRK 127 million in Q-Q3 2013 relates to the additional VAT and income tax obligation for 2008 and 2009 based on the Ministry of Finance Resolution

Q2 2014	Q3 2014	Q3 2013	%	Refinery processing (kt)	Q1-Q3 2013	Q1-Q3 2014	%
(0)	161	109	48	Domestic crude oil	291	254	(13)
664	517	774	(33)	Imported crude oil	2,063	1,536	(26)
-	41	26	58	Condensate	71	74	5
188	256	213	21	Other feedstock	573	644	13
853	**975**	**1,121**	**(13)**	**Total refinery throughput**	**2,997**	**2,508**	**(16)**
Q2 2014	**Q3 2014**	**Q3 2013**	**%**	**Refinery production (kt)**	**Q1-Q3 2013**	**Q1-Q3 2014**	**%**
51	64	66	(3)	LPG	171	154	(10)
216	266	329	(19)	Motor gasoline	869	658	(24)
289	323	403	(20)	Diesel	1,031	820	(20)
22	30	41	(27)	Heating oil	133	85	(36)
42	32	49	(35)	Kerosene	104	87	(16)
11	7	6	16	Naphtha	20	26	30
102	111	118	(6)	Fuel oil	359	296	(18)
-	-	6	n.a.	Bitumen	22	3	(88)
17	20	(27)	n.a.	Other products*	(53)	62	n.a.
750	**853**	**991**	**(14)**	**Total**	**2,657**	**2,191**	**(18)**
5	7	6	11	Refinery loss	17	17	(1)
97	115	123	(6)	Own consumption	323	301	(7)
853	**975**	**1,121**	**(13)**	**Total refinery production**	**2,997**	**2,508**	**(16)**
Q2 2014	**Q3 2014**	**Q3 2013**	**%**	**Refined product sales by country (kt)**	**Q1-Q3 2013**	**Q1-Q3 2014**	**%**
422	518	553	(6)	Croatia	1,409	1,311	(7)
128	139	139	(0)	B&H	376	379	1
51	69	107	(36)	Slovenia	177	137	(22)
243	320	230	39	Other markets	711	736	4
844	**1,046**	**1,029**	**2**	**Total**	**2,673**	**2,563**	**(4)**
Q2 2014	**Q3 2014**	**Q3 2013**	**%**	**Refined product sales by product (kt)**	**Q1-Q3 2013**	**Q1-Q3 2014**	**%**
56	67	62	9	LPG	183	170	(7)
219	306	298	2	Motor gasoline	765	691	(10)
366	412	421	(2)	Diesel	1,035	1,069	3
26	31	29	7	Heating oil	111	97	(13)
38	57	53	8	Kerosene	104	108	3
7	12	6	93	Naphtha	22	31	39
103	120	125	(3)	Fuel oil	359	304	(15)
10	10	17	(42)	Bitumen	42	26	(38)
19	29	17	71	Other products*	52	69	32
844	**1,046**	**1,029**	**2**	**Total**	**2,673**	**2,563**	**(4)**
252	306	321	(5)	o/w Retail segment sales	776	754	(3)

*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.

Q1-Q3 2014 vs. Q1-Q3 2013 RESULTS

In Q1-Q3 2014, the Refining and Marketing (including Retail) 'clean' CCS-based EBITDA and reported EBITDA amounted to HRK (389) million and HRK (598) million respectively, both significantly below Q1-Q3 2013 level.

The result was mainly under the pressure of (1) unfavorable external environment reflected in 9% lower average crack spread (lower diesel, gasoline and fuel oil crack spread), which also led to (2) lower sales volumes by 4% combined with (3) less favorable production yields mainly related to fall-outs of some conversion units during Q1 2014, which was driven by fire in Sisak DCU boiler in 2013 and further availability problems in the same boiler in 2014. These production upsets also caused (4) higher share of own consumption and losses.

However, (1) although total sales volumes decreased, sales structure improved, i.e. motor fuel share increased and fuel oil share decreased, (2) energy consumption decreased and (3) Brent-Ural spread was more favorable.

The segment's operating profit in Q1-Q3 2014 declined over the same period last year by HRK 191 million, reaching HRK (1,091) 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 were lower due to tight sales margins. Additionally last year performance was positively influenced with change of inventories evaluation methodology (HRK 216 mn) and revenues from insurance and contractual penalties (HRK 85 mn).

RETAIL OPERATIONS

Total sales volumes of Retail segment in Q1-Q3 2014 amounted to 754 kt, recording (3%) decrease in comparison to the same period of the previous year as a result of weaker purchasing power, deepening economic crisis, negative influence of unusually bad weather and negative consequences of the floods in May 2014. Throughput per site in Q1-Q3 2014 was 3% lower compared to same period last year. The decrease in sales volumes compared to Q1-Q3 2013 was influenced by lower sales of motor gasoline by 7% while gas and heating oils maintained the same level as Q1-Q3 2013. Analysis of the structure of motor gasoline sales showed decrease in sales of premium fuels in favor of regular fuels with more affordable price, indicating still present market contraction.

On 30 September 2014, INA Group operated a network of 442 stations (391 in Croatia and 51 abroad, of which 44 in Bosnia and Herzegovina, 6 in Slovenia and 1 in Montenegro). During 2014 strong focus of Retail was on development of new retail operating model (PSUM / COCA) by launching a Pilot project with the objective that certain filling stations (20 locations), use a form of partnership governance that ensures more efficient operations. Until today 17 filling stations operating under the entrepreneurial model while a selection procedure is in process for the remaining 3 filling stations included in the pilot project. The Management Board of the Company discussed and generally supports the implementation of entrepreneurial model on additional 60 retail sites in 2014 while the final MB decision will be made after preparation of detailed trend analyses of filling stations already operating in Entrepreneurship model.

Q3 2014 vs. Q2 2014 RESULTS

In Q3 2014 Refining and Marketing (including Retail) reached a positive result on 'clean' CCS-based EBITDA basis, which amounted to HRK 16 million. This is better result compared to the previous quarter by HRK 154 million. Main contributors to positive difference were (1) in line with seasonal trend significantly higher sales volumes (by 24%) with improved motor fuel sales, especially on key inland markets of Croatia and Bosnia, (2) improved external environment, i.e. higher crack spreads especially on, diesel, LPG and fuel oil and (3) increased Retail fuel unit margin and higher seasonal sales volumes. However, result was negatively influenced by (1) higher share of own consumption and losses resulting from production upsets in September and fire accident in August and (2) less favorable Brent-Ural spread (1.6 in Q2 2014 vs. 0.4 USD/bbl in Q3 2014).

Reported EBITDA in Q3 2014 amounted to HRK (91) mln and was HRK 96 mln better in comparison with Q2 2014 mainly as a result of above mentioned contributors.

Q3 2014 vs. Q3 2013 RESULTS

Refining and Marketing (including Retail) 'clean' CCS-based EBITDA and reported EBITDA amounted to HRK 16 million and HRK (91) million in Q3 2014, representing an improvement compared to Q3 2013.

The segment's performance was supported by (1) improved external environment with 9% higher average crack spread, (2) higher sales volumes especially on wholesale market, while transfers to own retail decreased, (3) improved wholesale margin by 12% and increased Retail fuel unit margin, which was enabled by free pricing of fuel from 20 February 2014, as well as (4) decreased operating expenses driven by lower transportation costs and energy consumption. These factors were partially mitigated with negative effects of (1) higher share of own consumption and losses resulting from production upsets in September and fire accident in August.

CAPITAL EXPENDITURES

Capital expenditures amounted to HRK 243 million in Q1-Q3 2014, HRK 29 million higher than the investments in the same period of the 2013.

R&M capital expenditures in Q1-Q3 2014 amounted to HRK 185 million and were higher by 77 HRK million than the investments in the same period of the 2013. Retail capital expenditures in Q1-Q3 2014 amounted to HRK 58 million and were lower by HRK 46 million than the investments in the same period of the 2013 having in mind the greatest number of petrol stations has already been modernized. Besides modernization of filling stations focus is also onto LPG projects with the aim of increasing the number of sites that offer auto gas as an alternative fuel.

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

Q2 2014	Q3 2014	Q3 2013	%		Note	Q1-Q3 2013	Q1-Q3 2014	%
				Sales revenue				
3,643	3,908	4,561	(14)	a) domestic		13,023	11,137	(14)
2,576	3,195	2,867	11	b) exports		7,760	7,727	(0)
6,219	**7,103**	**7,428**	**(4)**	**Total sales revenue**	1	**20,783**	**18,864**	**(9)**
129	114	87	31	Income from own consumption of products and services		190	326	72
65	84	196	(57)	Other operating income		471	213	(55)
6,413	**7,301**	**7,711**	**(5)**	**Total operating income**		**21,444**	**19,403**	**(10)**
202	(426)	28	n.a.	Changes in inventories of finished products and work in progress		125	(511)	n.a.
(3,768)	(3,405)	(4,398)	(23)	Cost of raw materials and consumables	2	(11,474)	(9,518)	(17)
(447)	(444)	(546)	(19)	Depreciation and amortization	4	(1,677)	(1,351)	(19)
(425)	(630)	(372)	69	Other material costs	4	(1,138)	(1,423)	25
(324)	(331)	(387)	(14)	Service costs	4	(934)	(1,002)	7
(618)	(639)	(578)	11	Staff costs	5	(1,774)	(1,817)	2
(848)	(945)	(938)	1	Cost of other goods sold	3	(3,405)	(2,741)	(20)
(40)	(43)	(85)	(49)	Impairment and charges (net)		(350)	(108)	(69)
(4)	70	(64)	n.a.	Provisions for charges and risks (net)		(97)	110	n.a.
(6,272)	**(6,793)**	**(7,340)**	**(7)**	**Operating expenses**		**(20,724)**	**(18,361)**	**(11)**
141	**508**	**371**	**37**	**Profit/(loss) from operations**		**720**	**1,042**	**45**
				Share in the profit of associated companies				
29	191	290	(34)	Finance income		459	281	(39)
(66)	(406)	(399)	2	Finance costs		(658)	(623)	(5)
(37)	**(215)**	**(109)**	**97**	**Net loss from financial activities**	7	**(199)**	**(342)**	**72**
104	**293**	**262**	**12**	**Profit/(loss) before tax**		**521**	**700**	**34**
27	(82)	(87)	(6)	Income tax expense	6	(135)	(117)	(13)
131	**211**	**175**	**21**	**Profit/(loss) for the year**		**386**	**583**	**51**
				Attributable to				
131	211	175	21	Owners of the Company		386	583	51
0	(0)	-	n.a.	Non-controlling interests		-	0	n.a.
131	**211**	**175**	**21**			**386**	**583**	**51**
				Earnings per share				
13.1	21.1	17.5	21	Basic and diluted earnings per share (kunas per share)		38.6	58.3	51

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

Q2 2014	Q3 2014	Q3 2013	%		Q1-Q3 2013	Q1-Q3 2014	%
131	**211**	**175**	**21**	**Profit/(loss) for the year**	**386**	**583**	**51**
				Other comprehensive income, net of income tax:			
-	-	-	n.a.	Remeasurement of defined benefit obligation	(11)	-	n.a.
(14)	369	(69)	n.a.	Exchange differences on translating foreign operations	(134)	377	n.a.
(21)	135	11	1,127	Gain/(loss) on available-for-sale financial assets	4	153	3,725
(35)	**504**	**(58)**	**n.a.**	**Other comprehensive income/(loss), net of income tax**	**(141)**	**530**	**n.a.**
96	**715**	**117**	**511**	**Total comprehensive income/(loss) for the period**	**245**	**1,113**	**354**
				Attributable to:			
96	715	117	511	Owners of the Company	245	1,113	354
0	(0)	-	n.a.	Non-controlling interests	-	0	n.a.

INDUSTRIJA NAFTE, d.d.

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

	Note	31 Dec 2013	30 Sept 2014	%
Assets				
Non-current assets				
Intangible assets	9	524	544	4
Property, plant and equipment	10	15,979	16,103	1
Goodwill		183	183	0
Investments in associates and joint ventures		22	22	0
Other investments		169	24	(86)
Long-term receivables		230	178	(23)
Derivative financial instruments		3	-	n.a.
Deferred tax		1,127	1,058	(6)
Available for sale assets		330	521	58
Total non-current assets		**18,567**	**18,633**	**0**
Current assets				
Inventories	12	3,219	2,953	(8)
Trade receivables net	13	2,564	2,339	(9)
Other receivables		847	439	(48)
Derivative financial instruments		2	-	n.a.
Other current assets		142	236	66
Prepaid expenses and accrued income		166	304	83
Cash and cash equivalents		402	288	(28)
Current assets		**7,342**	**6,559**	**(11)**
Assets classified as held for sale		-	4	n.a.
Total current assets		**7,342**	**6,563**	**(11)**
Total assets	**8**	**25,909**	**25,196**	**(3)**
Equity and liabilities				
Capital and reserves				
Share capital	11	9,000	9,000	0
Revaluation reserve		6	159	2,550
Other reserves		2,284	2,661	17
Retained earnings / (Deficit)		1,586	2,169	37
Equity attributable to equity holder of the parent		**12,876**	**13,989**	**9**
Non-controlling interests		(1)	(1)	0
Total equity		**12,875**	**13,988**	**9**
Non-current liabilities				
Long-term loans		1,889	572	(70)
Other non-current liabilities		76	67	(12)
Employee benefits obligation		135	188	39
Provisions		2,754	2,850	3
Deferred tax liability		7	10	43
Total non-current liabilities		**4,861**	**3,687**	**(24)**
Current liabilities				
Bank loans and overdrafts		2,975	3,417	15
Current portion of long-term debt		299	309	3
Trade payables	15	2,841	1,984	(30)
Taxes and contributions		749	662	(12)
Other current liabilities		661	621	(6)
Accruals and deferred income		126	153	21
Employee benefits obligation		11	5	(55)
Provisions		511	370	(28)
Current liabilities		**8,173**	**7,521**	**(8)**
Liabilities directly associated with assets classified held for sale		-	-	n.a.
Total current liabilities		**8,173**	**7,521**	**(8)**
Total liabilities	**14**	**13,034**	**11,208**	**(14)**
Total equity and liabilities		**25,909**	**25,196**	**(3)**

INDUSTRIJA NAFTE, d.d.

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

Q2 2014	Q3 2014	Q3 2013	%		Note	Q1-Q3 2013	Q1-Q3 2014	%
131	**211**	**175**	**21**	**Profit/(loss) for the year**		**386**	**583**	**51**
				Adjustments **for:**				
447	444	546	(19)	Depreciation and amortisation		1,677	1,351	(19)
(27)	82	87	(6)	Income tax (benefit)/expenses recognized in (loss)/profit		135	117	(13)
247	115	101	14	Impairment charges		545	499	(8)
(207)	(72)	(16)	350	Reversal of impairment		(195)	(391)	101
4	(6)	(1)	500	Gain on sale of property, plant and equipment		(5)	(9)	80
-	-	(48)	n.a.	Gain on purchase of investments and shares		(48)	-	n.a.
(27)	166	22	655	Foreign exchange loss/(gain)		9	166	1,744
22	20	35	(43)	Interest expense (net)		97	71	(27)
22	7	22	(68)	Other financial expense recognised in profit		10	40	300
4	(70)	64	n.a.	Increase in provisions		96	(110)	n.a.
21	22	21	5	Decommissioning interests		62	65	5
-	(1)	(11)	(91)	Other non-cash items		(15)	(5)	(67)
637	**918**	**997**	**(8)**	**Operating cash flow before working capital changes**	**16**	**2,754**	**2,377**	**(14)**
				Movements in working capital	17			
(943)	719	139	417	(Increase)/decrease in inventories		(337)	234	n.a.
(686)	295	157	88	(Increase)/decrease in receivables and prepayments		(283)	169	n.a.
1,757	(1,077)	(633)	70	(Decrease)/increase in trade and other payables		783	(636)	n.a.
765	**855**	**660**	**30**	**Cash generated from operations**		**2,917**	**2,144**	**(26)**
(33)	(17)	(170)	(90)	Taxes paid		(293)	(122)	(58)
732	**838**	**490**	**71**	**Net cash inflow from operating activities**		**2,624**	**2,022**	**(23)**
				Cash flows used in investing activities				
(363)	(300)	(403)	(26)	Payments for property, plant and equipment		(919)	(953)	4
40	(56)	(162)	(65)	Payment for intangible assets		(248)	(63)	(75)
3	15	1	1,400	Proceeds from sale of non-current assets		6	20	233
-	-	13	n.a.	Purchase of subsidiaries		13	-	n.a.
-	7	3	133	Dividends received from companies classified as available for sale and from other companies		3	7	133
5	5	6	(17)	Interest received and other financial income		17	15	(12)
(4)	4	1	300	Investments and loans to third parties, net		(24)	43	n.a.
(319)	**(325)**	**(541)**	**(40)**	**Net cash used for investing activities**	**18**	**(1,152)**	**(931)**	**(19)**
				Cash flows from financing activities				
731	229	564	(59)	Additional long-term borrowings		4,548	2,203	(52)
(606)	(628)	(1,567)	(60)	Repayment of long-term borrowings		(8,539)	(3,557)	(58)
4,289	4,629	5,536	(16)	Additional short-term borrowings		12,664	12,642	(0)
(4,846)	(4,712)	(4,263)	11	Repayment of short term borrowings		(9,846)	(12,403)	26
-	-	(343)	n.a.	Dividends paid		(343)	-	n.a.
(9)	(11)	(22)	(50)	Interest paid on long-term loans		(71)	(36)	(49)
-	-	-	n.a.	Other long-term liabilities, net		-	-	n.a.
(8)	(14)	(43)	(67)	Interest paid on short term loans and other financing charges		(35)	(54)	54
(449)	**(507)**	**(138)**	**267**	**Net cash from financing activities**		**(1,622)**	**(1,205)**	**(26)**
(36)	6	(189)	n.a.	Net (decrease)/increase in cash and cash equivalents		(150)	(114)	(24)
314	283	498	(43)	At 1 January		488	402	(18)
5	(1)	2	n.a.	Effect of foreign exchange rate changes		(27)	-	n.a.
283	288	311	(7)	At the end of period		311	288	(7)

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated Statement of Changes in Equity – INA-GROUP
For the period ended 30 September 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	-	-	-	386	386	-	386
Purchase of non-controlling interest	-	-	-	-	-	-	-
Other comprehensive loss, net	-	(134)	(7)	-	(141)	-	(141)
Total comprehensive income, net	**-**	**(134)**	**(7)**	**386**	**245**	**-**	**245**
Dividends payable	-	-	-	(343)	(343)	-	(343)
Balance as at 30 Sept 2013	**9,000**	**2,371**	**6**	**3,480**	**14,857**	**(1)**	**14,856**

	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	-	-	-	583	583	0	583
Other comprehensive loss, net	-	377	153	-	530	-	530
Total comprehensive loss for the year	**-**	**377**	**153**	**583**	**1,113**	**0**	**1,113**
Dividends paid	-	-	-	-	-	-	-
Balance as at 30 Sept 2014	**9,000**	**2,661**	**159**	**2,169**	**13,989**	**(1)**	**13,988**

INDUSTRIJA NAFTE, d.d.

INA Group Summary Segmental Results of Operations

Q2 2014	Q3 2014	Q3 2013	%	(HRK mln)	Q1-Q3 2013	Q1-Q3 2014	%
				Sales			
1,716	1,400	1,774	(21)	Exploration & Production	6,865	5,282	(23)
4,775	5,978	6,111	(2)	Refining & Marketing including Retail	15,581	14,548	(7)
686	735	553	33	Corporate and Other	1,452	1,907	31
(958)	(1,010)	(1,010)	0	Inter-segment revenue	(3,115)	(2,873)	(8)
6,219	**7,103**	**7,428**	**(4)**	**Sales**	**20,783**	**18,864**	**(9)**
				Operating expenses, net other income from operating activities			
(1,060)	(836)	(986)	(15)	Exploration & Production	(4,374)	(3,070)	(30)
(5,139)	(6,213)	(6,468)	(4)	Refining & Marketing including Retail	(16,481)	(15,639)	(5)
(676)	(744)	(656)	13	Corporate and Other	(1,857)	(1,992)	7
797	1,198	1,053	14	Inter-segment eliminations	2,649	2,879	9
(6,078)	**(6,595)**	**(7,057)**	**(7)**	**Expenses**	**(20,063)**	**(17,822)**	**(11)**
				Profit/(loss) from operations			
656	564	788	(28)	Exploration & Production	2,491	2,212	(11)
(364)	(235)	(357)	(34)	Refining & Marketing including Retail	(900)	(1,091)	21
10	(9)	(103)	(91)	Corporate and Other	(405)	(85)	(79)
(161)	188	43	337	Inter-segment eliminations	(466)	6	n.a.
141	**508**	**371**	**37**	**Profit/(loss) from operations**	**720**	**1,042**	**45**
				Share in the profit of associate companies			
(37)	**(215)**	**(109)**	**97**	**Net loss from financial activities**	**(199)**	**(342)**	**72**
104	**293**	**262**	**12**	**Profit/(loss) before taxation**	**521**	**700**	**34**
27	(82)	(87)	(6)	Income tax expense	(135)	(117)	(13)
131	**211**	**175**	**21**	**Profit/(loss) for the year**	**386**	**583**	**51**

Q2 2014	Q3 2014	Q3 2013	%	Depreciation	Q1-Q3 2013	Q1-Q3 2014	%
256	254	326	(22)	Exploration & Production	1,020	777	(24)
137	139	167	(17)	Refining & Marketing including Retail	493	414	(16)
54	51	53	(4)	Corporate and Other	164	160	(2)
447	**444**	**546**	**(19)**	**Total**	**1,677**	**1,351**	**(19)**

Q2 2014	Q3 2014	Q3 2013	%	EBITDA*	Q1-Q3 2013	Q1-Q3 2014	%
901	834	1,199	(30)	Exploration & Production	3,813	2,916	(24)
(188)	(91)	(123)	(26)	Refining & Marketing including Retail	(252)	(598)	137
57	14	(35)	n.a.	Corporate and Other	(202)	95	n.a.
(137)	168	25	572	Inter-segment eliminations	(515)	(22)	(96)
633	**925**	**1,066**	**(13)**	**Total**	**2,844**	**2,391**	**(16)**

* 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

Q1-Q3 2014 RESULTS

1 **Total sales revenues** in Q1-Q3 2014 amounted to HRK 18,864 million and were 9% below the Q1-Q3 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.

2 **Costs of raw materials and consumables** were 17% below Q1-Q3 2013 levels at HRK 9,518 million, as processing of other raw material volumes was lower.

3 **Costs of goods sold** recorded a decrease of 20% to HRK 2,741 million resulting from lower import of natural gas compared to Q1-Q3 2013.

4 Within **other operating costs** realized in Q1-Q3 2014

- Other material costs were higher by 25% and amounted to HRK 1,423 million, firstly due to subcontractors costs related to STSI project in Belarus in the amount of HRK 185 million and secondly due to long term gas transportation contracts which are on 'take or pay' principle and transportation costs were incurred although there was no imports.
- Service costs in the amount of HRK 1,002 million recorded an increase of 7% mainly due to ENI tax related to 2013 which had neutral impact on Q1-Q3 2014 result due to release of related provision.
- Depreciation in the amount of HRK 1,351 million was 19% lower compared to Q1-Q3 2013 mainly due to lower Syrian depreciation.
- Adjustments and provisions had a positive effect of HRK 449 million compared to Q1-Q3 2013 due to lower impairment of natural gas as a result on lower natural gas inventories, value adjustments reversal related to EGPC receivables and reversal of ENI tax provision.

5 **Staff costs** in the amount HRK 1,817 million were 2% higher compared to Q1-Q3 2013. Staff cost represents cost of net salaries in the amount of HRK 930 million, cost of employee income tax in the amount of HRK 407 million, tax on payroll in the amount of HRK 235 million, severance payments in amount of HRK 53 million and other payroll related costs in the amount of HRK 245 million for the nine month period ended 30 September 2014. For the nine month period ended 30 September 2014 staff cost includes cost of net salaries in the amount of HRK 942 million, cost of employee income tax in the amount HRK 404 million, tax on payroll in the amount HRK 222 million, severance payments in amount of HRK 15 million and other payroll related costs in the amount HRK 206 million.

6 **Income tax in** Q1-Q3 2014 amounted to HRK 117 million compared to tax expense of HRK 135 million in Q1-Q3 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 Q1-Q3 2014 and Q1-Q3 2013.

7 **Net financial expenses** in the amount of HRK 342.7 million were recorded in Q1-Q3 2014, compared to net financial expenses of HRK 198.8 million in Q1-Q3 2013.

- Net foreign exchange loss was HRK 172.1 million in Q1-Q3 2014, compared to HRK 59.1 million net foreign exchange loss recorded in Q1-Q3 2013.
- Interest payable amounted to HRK 140.8 million and interest received HRK 15.5 million in Q1-Q3 2014, compared to interest payable of HRK 146.7 million and HRK 13.0 million interests received in Q1-Q3 2013.
- Other financial net expenses amounted to HRK 45.4 mln, compared to financial net expenses of HRK 6.0 mln in Q1-Q3 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 fulfill 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 Q1-Q3 2014 is HRK 22 million which is lower compared to HRK 515 million in Q1-Q3 2013 due to different operational mode of Sisak refinery.

BALANCE SHEET

Notes

8 As at 30 September 2014, INA Group **total assets** amounted to HRK 25,196 million and were 3% lower compared to 31 December 2013.

9 In the period ended 30 September 2014, INA Group invested HRK 19 million in **intangible assets**. The effect of depreciation equals to HRK 24 million. Foreign exchange revaluation of oil and gas fields increased net book value in amount of HRK 26 million. Transfer to tangible assets decreased net book value in amount of HRK 2 million. Foreign exchange differences increased net book value in amount of HRK 1 million.

10 In the period ended 30 September 2014, INA Group invested HRK 1,076 million in property, plant and equipment. Capitalized decommissioning costs increased the value of assets by HRK 51 million. Foreign exchange revaluation increased net book value in amount of HRK 353 million. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 1,327 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 252 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 3 million. Disposals of tangible assets in amount of HRK 13 million. Transfer from intangible assets increased net book value in amount of HRK 2 million. Decrease of INA Group net book value is also result of foreign exchange differences in the amount of HRK 9 million. Transfer to assets held for sale decreased net book value in amount of HRK 4 million.

11 **Issued capital** as at 30 September 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 2,953 million, which is a decrease of 8% compared to 31 December 2013 as a result of lower natural gas inventories caused by changes in Croatian gas market.

13 **Trade receivables** decreased by 9% to the amount of HRK 2,339 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 September 2014 **total liabilities** amounted to HRK 11,208 million, which is a decrease of 14% compared to the 31 December 2013 level.
INA Group **net debt** decreased by 16% and amounted to HRK 4,010 million compared to 31 December 2013. **Gearing ratio**[2] decreased from 27.0% as at 31 December 2013, to 22.3% as at 30 September 2014.

15 **Trade payables** decreased by 30% to HRK 1,984 million, as a result of lower liabilities for imported crude oil and natural gas.

CASH FLOW

Notes

16 The **operating cash-flow before changes in working capital** amounted to HRK 2,377 million in Q1-Q3 2014, representing a decrease of HRK 377 million, or 14%, compared to Q1-Q3 2013, mainly as a result of lower EBITDA.

17 **Changes in working capital** affected the operating cash flow negatively by HRK 233 million, primarily due to

- Decrease in trade payables by HRK 636 mln
- Decrease value of inventories by HRK 234 million and
- Decrease in receivables by HRK 169 million.

18 **Net outflows in investing activities** amounted to HRK 931 million, in comparison with HRK 1,152 million of outflows in Q1-Q3 2013.

Subsequent events

Ministry of Finance Report

INA, d.d. has received the Report on the tax supervision by the Ministry of Finance, determining additional, retrospective VAT and corporate income tax obligation for 2010 and 2011 in the amount of HRK 319 million including the penalty interest up to the date of Report issue, based on the difference in calculating own consumption and losses and evidencing oil derivatives in refinery production. INA will appeal to this report within the given deadline. Payment of the mentioned amount will be required only if the final second instance tax resolution confirms the findings of the Report.

Similar decision was made in 2013 referring to 2008 and 2009 operations, against which INA filed a lawsuit to the Administrative Court. Namely, INA did calculate its tax obligation in line with the best business practice and relevant regulations, applying the International Accounting Standards, therefore INA considers that the Ministry's methodology for estimation is unfounded.

Furthermore INA would like to emphasize that such decisions represent a burden for Croatia's refining industry, and if continued in the future, can have detrimental impact on the operations level of INA's refineries and future investments.

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

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 September 30, 2014, there were no open cross currency swap 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. The Group may use interest rate swap to manage interest rate risk. As of September 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 September 30, 2014, the INA Group had contracted short-term credit lines amounting to HRK 1.82 bn, excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and long-term credit lines amounting to HRK 5.24 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 the nine months period ended 2014 and 2013, 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 Sept 2014	30 Sept 2014
Companies available for sale		
JANAF d.d. Zagreb	1	69
Strategic partner		
MOL Plc	33	99
Companies controlled by strategic partner		
Tifon d.o.o.	73	1
Energopetrol d.d.	49	-
Kalegran Ltd.	22	-
MOL SLOVENIJA d.o.o.	9	8
Slovnaft, a.s.	-	10
Companies controlled by the State		
Petrokemija Kutina	161	-
Hrvatska elektroprivreda	135	6
Jadrolinija	61	2
Croatia Airlines	34	-
Hrvatske željeznice	33	12
HANDA	-	52
Podzemno skladište plina Okoli	-	1
Plinacro	-	25

INA-Group	Sales of goods	Purchase of goods
HRK mln	30 Sept 2014	30 Sept 2014
Companies available for sale		
JANAF d.d. Zagreb	2	37
Strategic partner		
MOL Plc	518	468
Companies controlled by strategic partner		
Tifon d.o.o.	568	28
Energopetrol d.d.	263	-
Kalegran Ltd.	100	2
Mol Commodity Trading Kft.	64	3
MOL SLOVENIJA d.o.o.	72	60
Slovnaft, a.s.	26	103
TISZA CHEMICAL GROUP PLC.	8	-
Companies controlled by the State		
Hrvatska elektroprivreda	1,083	100
Petrokemija Kutina	436	1
Croatia Airlines	170	-
Jadrolinija	162	6
HANDA	136	52
Hrvatske željeznice	91	49
Podzemno skladište plina Okoli	10	59
Croatia osiguranje	6	29
Plinacro	4	185

Segmental Information

30 September 2014 Assets and liabilities	Exploration and production	Refining and marketing including Retail	Corporate and other	Intersegment transfers	Total
Property, plant and equipment	9,017	5,372	1,800	(86)	16,103
Intangible assets	420	14	110	-	544
Investments in associates and joint ventures	22	-	-	-	22
Inventories	166	2,875	290	(378)	2,953
Trade receivables, net	555	1,542	519	(277)	2,339
Not allocated assets					3,235
Total assets					**25,196**
Trade payables	505	1,409	347	(277)	1,984
Not allocated liabilities					9,224
Total liabilities					**11,208**
Other segment information					
Capital expenditure:	**793**	**243**	**59**	**-**	**1,095**
Property, plant and equipment	785	243	48	-	1,076
Intangible assets	8	-	11	-	19
Depreciation and amortisation	**777**	**414**	**160**	**-**	**1,351**
Impairment losses/(income) PP&E, net recognized in profit and loss	8	-	-	-	8
Other impairment losses/(income), net recognized in profit and loss	5	104	19	(28)	100
Total impairment losses/(income), net	**13**	**104**	**19**	**(28)**	**108**

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

Q2 2014	Q3 2014	Q3 2013	%		Q1-Q3 2013	Q1-Q3 2014	%
109.7	101.8	110.4	(7.7)	Brent dtd (USD/bbl)	108.5	106.6	(1.7)
1.61	0.38	0.5	(17.8)	Brent-Ural spread	0.69	1.17	69.7
1,008.4	949.5	993.4	(4.4)	Premium unleaded gasoline 10 ppm (USD/t)*	995.1	973.2	(2.2)
917.0	877.7	943.5	(7.0)	Gas oil – ULSD 10 ppm (USD/t)*	929.4	904.8	(2.6)
575.3	558.2	592.8	(5.8)	Fuel oil 3,5% (USD/t)*	591.7	568.3	(3.9)
824.3	784.6	822.9	(4.7)	LPG (USD/t)*	809.3	832.1	2.8
51.1	72.4	66.2	9.4	Average crack spread	63.2	57.8	(8.5)
178.8	179.1	158.5	13.0	Crack spread – premium unleaded (USD/t)*	174.7	170.6	(2.3)
87.4	107.3	108.6	(1.3)	Crack spread – gas oil (USD/t)*	108.9	98.8	(9.2)
(254.3)	(207.4)	(242.1)	(14.3)	Crack spread - fuel oil 3,5% (USD/t)*	(228.8)	(229.2)	0.2
(5.3)	14.1	(12.0)	n.a.	Crack spread - LPG (USD/t)*	(11.2)	24.5	n.a.
5.54	5.74	5.69	0.8	HRK/USD average	5.74	5.62	(2.1)
5.54	5.74	5.64	1.7	HRK/USD closing	5.64	6.02	6.7
7.60	7.61	7.53	1.0	HRK/EUR average	7.56	7.62	0.8
7.60	7.61	7.61	(0.0)	HRK/EUR closing	7.61	7.63	0.2
0.23	0.23	0.26	(10.4)	3m USD LIBOR (%)	0.28	0.23	(15.6)
0.30	0.16	0.22	(26.3)	3m EURIBOR (%)	0.21	0.25	17.3

** FOB Mediterranean*

INDUSTRIJA NAFTE, d.d.

Announcements in Q1-Q3 2014

October 17, 2014	Verdict by the High Administrative Court
October 09, 2014	Redundancy Program
September 02, 2014	Announcement
September 02, 2014	GDR delisting
August 04, 2014	Personnel changes in Refining and Marketing BD
August 01, 2014	Intention to delist GDR
July 31,2014	Merger agreement - Prirodni plin
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 Sept 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 third quarter there was no change in the Supervisory Board

Management Board
During the third quarter there was no change in the Management Board.

Board of Executive Directors
As of 1 September 2014 Mr. Artur Thernesz finished his assignment as the Executive Director of INA's Refining and Marketing business division. Until the appointment of the new head of this business segment following an on-going international headhunting procedure, Mr Bengt Viktor Oldsberg, former Director of Production Centre is appointed for the position of Executive Director of Refining and Marketing.

Management representation

INA Group's consolidated financial statements for Q1-Q3 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