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Datum - Date: 16.04.2014.

Naš znak - Re:

Open letter of the Management Board of INA

To prepare for the last winter season, INA-Industrija nafte, d.d. (INA) through its company Prirodni plin d.o.o. (Prirodni plin) filled the only domestic gas storage facility with over 550 million cubic metres of natural gas so that no household or industrial consumer be left without adequate supply even in coldest winter temperatures. We acted in good faith and responsibly, in line with our multiyear role on the market, during which we always secured safe and uninterrupted supply to our consumers.

Due to an unexpectedly mild winter and resulting low consumption, we closed the winter with significant storage inventory, what is usual practice since this type of storages are never depleted to zero especially because security of supply reason. At the end of the winter, the regulation of the gas market has changed and from 1 April 2014 INA and Prirodni plin is no longer responsible for household supply, this role was taken over by Government owned Hrvatska elektroprivreda d.d. (HEP). The Government also allocated most of the gas storage capacity to HEP by its decision but left unrealistically short transition time for INA to sell its gas remaining in storage which still stood at over 40% of total storage capacity at the end of February, the time when the Government decision was taken.

Although INA through Prirodni plin submitted a request to keep enough storage capacity based on the real business needs of our production and remaining commercial activities, it has not been granted sufficient gas storage capacities by Podzemno skladište plina d.o.o. (PSP), another Government-owned entity.

These factors together prevented INA to orderly withdraw and sell a large part of its gas in an orderly manner, almost 200 million cubic metres. The quantity of this gas is comparable to the annual consumption of Zagreb households.

The storage company PSP is currently running a forced sale of this remaining gas inventory owned by Prirodni plin/INA, claiming European best practice. This is not only a damaging and unfair procedure due to the lack of real competition for this gas inventory, but also not needed from a market supply and storage operation point of view because all relevant obligations of other storage users could be fulfilled without auctioning our gas. As the first two rounds of this „public” auction, on which only HEP, Prvo plinarsko društvo d.o.o. (PPD) and MET Croatia Energy Trade d.o.o. (MET) can participate and buy the gas as low as 25% of the market value of the gas due to the definition of tender

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HR70 2484 0081 1006 1948 3
HR62 2360 0001 1013 0359 5
HR81 2330 0031 1002 0454 6
HR96 2407 0001 1001 5214 9
HR78 2390 0011 1003 3707 6
HR75 2503 0071 1000 6218 3
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AT21 1200 0528 4400 3466 (EUR)
AT91 1200 0528 4400 3467 (USD)
CH95 0968 6001 0887 4000 2 (EUR)
CH25 0968 6001 0887 4000 1 (USD)
NL98 INGB 0650 7815 38 (EUR)
NL23 INGB 0020 0370 90 (USD)
CH36 0874 1016 2235 0000 1

Trgovački sud u Zagrebu

Commercial Court in Zagreb
MBS: 080000604
Uplaćen temeljni kapital – Paid capital stock
9.000.000,00 kn - HRK
Broj izdanih dionica / Nominalna vrijednost
No. of issued shares / Nominal value
10.000.000 / 900,00 kn - HRK
Matični broj – Reg. No. 3586243
OIB - 27759560625

rules, so far no offers were received, so the auction price goes lower. If the auctioning continues, the sale could cause a damage of some HRK 350 mn to Prirodni plin/INA, at the same time transferring this value to these Government-owned and private companies. In this way, for example PPD or MET can buy gas under 60 lipas per cubic metre at the auction, while the same gas is sold to Zagreb households for five times as much.

This revenue losses, which could be more than 20% of INA's investments spent in Croatia last year, will seriously affect the funds of INA available for investments, and put Croatian workplaces at risk at the Company. We believe neither is in the interest of the Government of Croatia.

Having contacted all relevant regulatory institutions, government bodies and market players, INA's Management Board tried everything in its power to prevent the forced sale from happening, either by trying to sell the gas or by trying to secure sufficient storage facilities at least for a temporary period. We either received no or negative responses.

As we have exhausted all other possibilities, the only possible way to prevent a significant damage to INA is a quick decision of the Government to stop this irresponsible and damaging auction. We therefore also publicly appeal as the Management Board of INA, representing all the shareholders of the company but also the interest of all employees of the company to the Government of Croatia and personally to resort the Minister of Economy to adopt all necessary measures to stop the auction by PSP and to at least temporarily allocate enough gas storage capacities and time to Prirodni plin/INA to enable for the orderly withdrawal of the gas and its sale on realistic market terms.

The Management Board of INA