

## Q1 2012 – REPORT INA GROUP CONSOLIDATED

INA Group (ZB: INA-R-A; LSE: HINA; www.ina.hr) announced its Q1 2012 results today. This report contains unaudited consolidated financial statements for the period ending 31 March 2012 as prepared by the management in accordance with the International Financial Reporting Standards.

### INA Group financial results (IFRS)

HRK mln.	2011	Q4 2011	Q1 2011	Q1 2012	%
Net sales revenues	30,028	7,301	6,943	7,256	5
EBITDA reported <sup>(1)</sup>	6,522	1,233	1,808	1,297	(28)
<b>EBITDA excl. special items <sup>(2)</sup></b>	<b>6,776</b>	<b>1,328</b>	<b>1,808</b>	<b>1,475</b>	<b>(18)</b>
Operating profit reported	3,039	145	1,134	588	(48)
<b>Operating profit excl. special items <sup>(2)</sup></b>	<b>4,078</b>	<b>790</b>	<b>1,365</b>	<b>834</b>	<b>(39)</b>
Net financial expenses	(663)	(522)	244	23	(91)
Net profit/loss for the period <sup>(3)</sup>	1,815	(257)	1,053	412	(61)
<b>Net profit for the period excl. special items <sup>(2)</sup></b>	<b>2,634</b>	<b>248</b>	<b>1,238</b>	<b>630</b>	<b>(49)</b>
<b>Operating cash flow</b>	<b>3,534</b>	<b>1,264</b>	<b>(780)</b>	<b>473</b>	<b>n.a.</b>
<b>Earnings per share</b>					
Basic and diluted earnings per share (kunas per share)	181.5	(25.7)	105.3	41.2	(61)
Net gearing	38.82	38.82	44.39	37.14	(16)
<b>USD mln <sup>(4)</sup></b>					
Net sales revenues	5,620	1,314	1,283	1,259	(2)
EBITDA reported <sup>(1)</sup>	1,221	222	334	225	(33)
<b>EBITDA excl. special items <sup>(2)</sup></b>	<b>1,268</b>	<b>239</b>	<b>334</b>	<b>256</b>	<b>(23)</b>
<b>Operating profit reported</b>	<b>569</b>	<b>26</b>	<b>210</b>	<b>102</b>	<b>(51)</b>
<b>Operating profit excl. special items <sup>(2)</sup></b>	<b>763</b>	<b>142</b>	<b>252</b>	<b>145</b>	<b>(43)</b>
Net financial expenses	(124)	(94)	45	4	(91)
Net profit/loss for the period <sup>(3)</sup>	340	(46)	195	72	(63)
<b>Net profit for the period excl. special items <sup>(2)</sup></b>	<b>493</b>	<b>45</b>	<b>229</b>	<b>109</b>	<b>(52)</b>
<b>Operating cash flow</b>	<b>661</b>	<b>227</b>	<b>(144)</b>	<b>82</b>	<b>n.a.</b>
<b>Earnings per share</b>					
Basic and diluted earnings per share (USD per share)	34.0	(4.6)	19.5	7.2	(63)

<sup>(1)</sup> EBITDA = EBIT + Depreciation + Impairment + Provisions

<sup>(2)</sup> Excludes special items related to asset impairment, provision, severance payments and special items income. The Q1 2012 EBIT was negatively influenced by HRK 246 million special items

<sup>(3)</sup> INA Group net profit attributable to equity holder

<sup>(4)</sup> In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for Q4 2011: 5.5564 HRK/USD; Q1-Q4 2011: 5.3435; Q1 2011 – 5.4119 HRK/USD; Q1 2012 – 5.7621 HRK/USD

The Q1 2012 result, similarly to the previous quarter, was led by the Exploration and Production segments' contribution which was stable compared to last quarter of 2011 despite the HRK 382 million losses generated by the gas trading business. Despite the challenging market environment (i.e. rising product and crude prices combined with deteriorating demand), as a result of the new R&M management's effort in improving operational efficiency and market reach, the Refining and Marketing segment significantly improved its results and had a positive contribution at the EBITDA level which was also supported by a slightly improving environment (improved crack spreads compared to the previous quarters).

INA Group results in Q1 2012 have been significantly influenced by the external macro environment, the market, regulatory and political changes in INA's key areas of operations. Operations in Croatia have been suffering (1) from the tightened market demand for crude oil products and (2) regulatory constraints in the respect of the capped natural gas prices for households and small industrial companies, while in the international arena (3) INA did not receive any revenues from its Syrian operations in the first quarter of 2012. Despite the mentioned trends, as a result of the management's continuous efforts in increasing operational efficiency in recent years, INA Group managed to deliver strong results with an operating profit excluding special items amounting to HRK 834 million.

In February 2012, Croatian Government passed the Decision concerning restrictive measures against the Syrian Arab Republic, in line with which, INA announced "force majeure" and temporarily suspended all business activities in Syria until the "force majeure" circumstances cease to exist. However, the company maintains its economic interests and with this action does not exit the project.

Despite no revenues derived from the Syrian operations, EBITDA excluding special items (one of the most important financial performance indicator for oil and gas companies) decreased only by 18% compared to the same period last year meanwhile increased compared to Q4 2011, to HRK 1,475 million. At the net profit level (excluding special items) in Q1 2012, the result improved over Q4 2011, with HRK 630 million net profit compared to HRK 248 million net profit in Q4 2011, while net financial profit reached HRK 23 million in the first quarter of 2012 as a result of net foreign exchange gains.

- ▶ **Exploration and Production:** Despite no revenues have been realized from the Syrian operations, operating profit, excluding special items amounted to HRK 1,032 million (USD 179 million) in Q1 2012. The operating profit was negatively affected by the contribution of the gas trading operations due to the gas price cap of HRK 2.13/cm prolonged at the end of 2011 for small industrial customers and the losses derived from supplying tariff household customers. These negative factors were partly compensated by 9% lower unit OPEX resulting from the achievements in the management's effort to rationalize costs and a 15% higher average sales price.
- ▶ **Refining and Marketing -** Amidst continuously challenging market environment, the segment recorded improved positive contribution of HRK 131 million (USD 23 million) to the Group level EBITDA figure, meanwhile operating losses have been lowered to HRK 52 million (USD 9 million) compared to previous periods. The improved performance was a result of a more favorable product slate (resulting from the modernization of the refineries and from their continuously optimized operation), improving external environment, while gain on own produced inventories and internal efficiency improvements added to the decrease of the reported loss. The result was negatively influenced by higher oil price leading to higher costs of own consumption, and by the upward trends in purchased energy prices.
- ▶ **Retail segment:** In Q1 2012, the segment generated operating loss (excluding special items) in the amount of HRK 7 million (USD 1 million). As a result of optimized sales and operations with introduction of premium CLASS fuel, decreased operating costs and network optimization (mostly staff costs and costs of value adjustments and provisions), the results improved compared to previous periods despite the drop in sales as a result of decreasing market demand.
- ▶ **Corporate and Other<sup>1</sup>:** The segment delivered an operating loss excluding special items of HRK 156 million (USD 27 million) in Q1 2012. This represents lower operating loss by HRK 1 million compared to the last year.
- ▶ **Net financial expenses:** HRK 23 million net financial profit was recorded in Q1 2012, compared to the net financial profit of HRK 244 million in Q1 2011. The difference primarily reflected decreased net foreign exchange gains and slightly higher interest expenses compared to Q1 2011.
- ▶ **Capital expenditures:** INA Group CAPEX was slightly below last year's level mainly as a result of later scheduling of projects within the year compared to previous years and no investments made in Syria due to an announced "force majeure", amounting to a total of HRK 166 million in Q1 2012 (including correlating exploration one-off expenditures amounting to HRK 49 million relating to 2D/3D seismic acquisition on South Adriatic). Exploration and Production segment accounted for the majority of investments (HRK 121 million including one-off exploration costs), Refining and Marketing capital expenditures were mostly related to the development of the refining system while Retail capex was directed to modernization and revitalization of the network.
- ▶ **Operating cash flow:** The operating cash-flow before changes in working capital amounted to HRK 1,300 million, in Q1 2012. Changes in working capital affected the operating cash flow negatively by HRK 773 million, primarily due to increased value of inventories by HRK 190 million (reflecting both higher prices and higher volumes) and lower liabilities by HRK 602 million related to re-established liquidity. Mentioned factors resulted in HRK 473 million net cash inflow from operating activities that INA Group generated in Q1 2012.
- ▶ **Net debt** amounted to HRK 8,610 million, and was further reduced by 6% (compared to end of December), which resulted in an improving but still high **gearing ratio** that was at the level of 37.1% as at 31 March 2012 (compared to 38.8% as at 31 December 2011). The management is committed to further improve the financial position of the company.

<sup>1</sup> Include Corporate Functions and subsidiaries providing safety and protection services, technical services, accounting services, corporate support and other services.

**Mr Zoltán Áldott, President of the Management Board commented the result:**

“INA Group delivered strong results in Q1 2012 – despite negative external developments and no revenues received from Syria – mainly as a result of management’s significant efforts to further optimize operations and to increase efficiency.

Backed by a strengthened financial background, INA prepared a strong investment cycle for the coming period. The retail modernization program is being carried in an intensified manner, as a result of which by the end of 2012, INA will have the largest number of new or modernized filling stations in Croatia that will ensure maintaining our market leading position. After a number of large scale investments in the refineries have been completed in 2011, further investments are being carried out to increase operational efficiency, while INA is also working together with local communities to secure the necessary permits to kick-start the residue upgrade project in Rijeka refinery. INA also puts strong effort into exploration activities, aiming at drilling 4-6 exploratory wells in Croatia in 2012, meanwhile the EOR project with investments worth over HRK 500 mn in a three year period is also in progress.

Despite the severe weather conditions, INA ensured security of gas supply to the consumers of Croatia during the previous period, by providing additional gas quantities through the interconnector built by Plinacro and MOL between Croatia and Hungary. The management of INA is committed to implement actions that ensure future growth and development of the company and Croatia as its host country, with strong focus on value creating investments in all business areas.”

## **Overview of the macro environment**

The combination of better economic data from the US and the injection of over EUR 1 trillion in 3-year liquidity by the European Central Bank in two operations at the end of November 2011 and the end of February 2012 heralded an improvement in risk sentiment and reduction in Eurozone sovereign yields during Q1 2012. Leading indicators were also firmer in Q1 2012 pointing to a better GDP figure for Q1 2012 than the 0.3% qoq contraction posted in the last quarter of 2011. Nonetheless, the recovery in the developed world remains tentative and exposed to risk.

Economic weakness in the developed world, especially in the Eurozone, is constraining oil demand with the International Energy Agency forecasting an increase in global oil demand of only 0.8m b/d (0.9% yoy) this year. Supply issues in non-OPEC producers (South Sudan, Yemen, Syria, etc.) have reduced output by approximately 750,000 b/d despite a solid recovery in output in Libya. Nonetheless, toward the end of Q1 2012 increased OPEC production and an increase in crude stocks lead to a moderation in oil prices.

The Croatian economy contracted 0.7% yoy in Q4 2011 and on balance economic indicators released to date point to a further contraction in growth in Q1 2012. Revised merchandise trade data for 2011 revealed better than expected export growth in euro terms of 7.7% yoy and excluding oil and ships merchandise exports rose 9.2% yoy. In the first two months of 2012 merchandise exports have fallen 8% yoy however underlying exports (ex ships and oil) have increased by 4.3% yoy. Unemployment continued to rise in Q1 2012, reflecting seasonal weakness as well as underlying factors. Real wage growth was 1.5% yoy in January 2012 while credit growth to households in January-February 2012 was negative in real terms. In the first two months of 2012 retail sales rose 1.5% yoy, however, this may reflect consumption brought forward before the increase in VAT by 2 percentage points to 25% in March. Inflationary pressures remained muted in Q1 2012. Consumer prices over this period rose 1.5% and incorporate the impact of the increase in VAT in March.

Industrial production contracted 3.1% yoy in January-February 2012 with trend figures pointing to further decline in coming months. Corporate deposits continue to contract, falling over HRK5.8bn in the first two months of the year as companies continue to reduce external indebtedness. Nonetheless, capital goods imports are up 4.5% yoy over this period.

Credit rating agencies have maintained Croatia's investment grade credit rating in response to the 2012 budget which aims to cut spending in nominal terms by close to HRK4bn and aiming for a consolidated government budget deficit of 3.8% of GDP (ESA 95 standard measure). The Ministry of Finance has also announced better than expected tax receipts in the first 10 weeks of 2012. The government increased short-term debt issuance by HRK6.7bn in Q1 2012 and with a successful international bond issue in April has covered most of this year's borrowing requirement.

During Q1 2012 the currency remained weak leading to three interventions in January and February totalling EUR458mn in the currency market to support the local currency. Coordination between the central bank and Ministry of Finance over debt issuance strategy have helped stabilise the EUR/HRK exchange rate which ended Q1 2012 at 7.51 after approaching 7.60 levels in January and February. High debt service obligations of all sectors of the economy in Q1 2012 and uncertainty over the ongoing Eurozone crisis have underpinned HRK weakness even as the current account deficit has narrowed.

In 2012 we continue to expect weak domestic demand especially in the first half of 2012 given the government's efforts to reduce the fiscal deficit, combined with a likely recession in the Eurozone this year.

## Management discussion

### Exploration and Production\*

2011	Segment IFRS results (HRK mln)	Q4 2011	Q1 2011	Q1 2012	%
13,329	Net sales revenues	4,032	3,236	3,767	16
8,053	EBITDA reported	1,997	1,860	1,281	(31)
8,122	EBITDA excl. special items**	2,026	1,860	1,426	(23)
6,141	Operating profit reported	1,679	1,471	806	(45)
6,129	Operating profit excl. special items**	1,647	1,575	1,032	(34)
799	CAPEX	332	191	72	(62)

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

\*\* The Q1 2012 performance was negatively influenced by HRK 226 million special items.

2011	Hydrocarbon production*	Q4 2011	Q1 2011	Q1 2012	%
<b>15,285</b>	<b>Crude oil production (boe/d)*</b>	<b>13,835</b>	<b>15,841</b>	<b>12,699</b>	<b>(20)</b>
9,106	Croatia	8,602	9,387	8,721	(7)
2,837	Syria	1,789	3,260	439	(87)
1,762	Egypt	1,894	1,683	1,924	14
1,579	Angola	1,550	1,511	1,615	7
<b>49,170</b>	<b>Natural gas production (boe/d)</b>	<b>48,384</b>	<b>49,433</b>	<b>44,330</b>	<b>(10)</b>
21,784	Croatia - offshore	20,728	23,136	18,774	(19)
13,923	Croatia - onshore	13,829	14,634	16,394	12
13,463	Syria	13,827	11,664	9,163	(21)
<b>9,912</b>	<b>Condensate (boe/d)</b>	<b>8,687</b>	<b>10,264</b>	<b>5,571</b>	<b>(46)</b>
5,958	Croatia	4,530	7,058	2,767	(61)
3,954	Syria	4,157	3,206	2,804	(13)
<b>74,366</b>	<b>Total hydrocarbon production (boe/d)</b>	<b>70,906</b>	<b>75,538</b>	<b>62,601</b>	<b>(17)</b>

2011	Average realised hydrocarbon price**	Q4 2011	Q1 2011	Q1 2012	%
99	Crude oil and condensate price (USD/bbl)	93	87	100	16
71	Average realised gas price (USD/boe)	72	63	72	15
78	Total hydrocarbon price (USD/boe)*	77	68	78	15

2011	Natural gas trading - mln cm	Q4 2011	Q1 2011	Q1 2012	%
876	Natural gas imports	312	216	367	69
3,033	Total natural gas sales - domestic market	976	968	964	(0)

2011	Natural gas price differential to import prices (HRK/000 cm)	Q4 2011	Q1 2011	Q1 2012	%
(510)	Total price	(694)	(146)	(666)	357

\*Excluding separated condensate

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

#### First quarter 2012 vs. fourth quarter 2011 results

In Q1 2012, **operating profit, excluding special items** amounted to HRK 1,032 million. This drop in the operating result compared to Q4 2011 reflects:

- Decreased hydrocarbon production and negative contribution of the gas trading operations; Prirodni plin delivered an EBIT loss of HRK 382 million in Q1 2012
- Lower sales of domestic crude oil and condensate to Sisak Refinery, while significant additional sales from stock was boosted the Q4 result, in the first quarter, the refinery operations have been optimized in line with market requirements and the decrease of demand for crude oil products
- Higher costs partly related to G&G in the Adriatic.

Natural gas sales on the domestic market remained almost flat compared to both Q4 and Q1 2011, however the result was burdened by the strong increase of natural gas imports and the increase of the import price. In spite of the higher import price, which reflects the volatility and trends of the international crude oil products markets, management was determined to ensure the stability of supply for the Croatian market even in the terms of prolonged gas price cap which resulted with USD 24.5 million loss in Q1 2012, additionally negatively influenced by financial costs of Prirodni plin.

**Average daily hydrocarbon production excluding Syrian contribution** decreased by 2% compared to Q4 2011 and it amounted to 50,195 boe/day. **Total average daily hydrocarbon production** with the amount of 62,601 boe in Q1 2012 showed a decrease of 12% compared to Q4 2011, mainly due to "force majeure" in Syria which has been declared on February 26<sup>th</sup> 2012 causing a temporary suspension of all local activities, coupled with lower domestic hydrocarbon production levels. Hydrocarbon production

realized in Syria prior “force majeure” announcement has been incorporated to the production levels for Q1 2012. The operating result was effected by the depreciation costs booked for Syria for the period after “force majeure”.

### **First quarter 2012 vs. first quarter 2011 results**

In Q1 2012, **operating profit, excluding special items**, decreased by HRK 543 million compared to the Q1 2011.

- Positive effects of (1) 15% improved average realized hydrocarbon prices together with (2) 9% lower unit production OPEX, (3) weaker kuna against USD could not compensate for the
- Negative effects of (4) temporary suspended activities in Syria and lack of revenue from the country, (5) lower domestic production and (6) regulated gas price to domestic sales.

Reported Q1 2012 **operating profit** amounted to HRK 806 million and was negatively influenced by HRK 226 million special items majority of which related to the additional tax payment at the Angolan concessions.

Q1 2012 **average daily hydrocarbon production excluding** Syrian contribution decreased by 13% compared to Q1 2011 and it amounted to 50,195 boe/day. **Total average daily hydrocarbon production** in Q1 2012 has decreased by 17% compared to the Q1 last year mainly due to the unfavorable production trends in Croatia and the developments in the Syrian concession.

Croatian onshore net **gas production** decreased by 7%, due to the natural depletion of mature fields but due to modification in methodology (NGL and BOE conversion factor), comparison show 12 % increase. Offshore production decreased by 19% due to severe weather conditions, natural decline and water cut on North Adriatic. In addition, due to the nature of Production Sharing Agreement INA's share from the North Adriatic offshore production could be relatively stable during this year, and would be closer to the levels realized in Q1 2012. Natural gas production was under additional unfavorable influence of the “force majeure” declared in Syria.

Croatian **crude production** declined by 7% in Q1 2012 compared to the last year, due to natural depletion of the fields. Due to the different methodology the condensate production in Q1 2012 compared to total production with NGL (C2+) in Q1 2011 show decrease of 60 %. Decrease of 60 % is caused by 10% lower condensate production and remaining 50% is caused by modified production process due to discontinued ethane production and in fact results in an increase of Panon natural gas production.

International crude production, except Syria, was higher. In Egypt crude production was 14% higher due to good results of workover activities on North Bahariya and drilling activities on West Abu Gharadig. Angolan cured production was 7% higher due to wells' performance in 2012 coming from wells interventions executed in 2H 2011.

**Upstream sales revenues** boosted by 16% in Q1 2012 compared to the last year. An increase of the revenues was mostly affected by (1) higher average hydrocarbon prices and (2) positive exchange rate effect.

After encountering significant obstacles in the collection of receivables from the Syrian partner for its share of hydrocarbon production since October 2011, and after the decision by the Croatian government to accept the EU regulation against Syria, the company announced “force majeure” and has so far not received the amounts outstanding for its share of the local production.

In Q1 2012 Upstream expenditures increased over 60% to the level of HRK 3.0 billion, compared to the Q1 previous year, mainly as a result of increased uncontrollable costs relating to natural gas imports and already mentioned special items. Surge in imported volumes of natural gas (with almost 70%) and increased import price, as a result of international market movements were the main driver of uncontrollable costs increase. Significantly increased royalty payments additionally increases Upstream expenditures. In Q1 2012 unit production cost decreased by 9%, compared to Q1 2011, due to efficiency improvement measures.

### **Exploration and Production capital expenditures**

Exploration and Production segment's CAPEX in 1Q 2012 amounted to HRK 121 million, including correlating exploration one-off expenditures amounting to HRK 49 million (relating to 2D/3D seismic acquisition on South Adriatic). Capital investments in Croatia amounted HRK 77 million, capital investments abroad HRK 20 million and CROSCO's investment HRK 24 million. In comparison with 1Q 2011 capitals investments are lower in total for HRK 69 million or 36%. Decreased investments level is a result of rescheduled works execution based on the project organization and contractors availability cancellation of all exploration and in line with the announced “force majeure” decreasing.

E&P CAPEX Q1 2012* (HRK million)	Croatia	Syria	Egypt	Angola
Exploration	68.3	3.4	-	-
Development	6.1	5.8	5.0	5.7
Exploration: 71.7 (76.03%) Development: 22.6 (23.97%)	On Adriatic investments were related mainly to exploration. 2D/3D seismic acquisition on Central and South Adriatic started on the 30th of December 2011 and finished on the 6th of March 2012 and it was acquired 1215 Skm of 3D area and 843 km of 2D line. On onshore drilling of exploration well Hrastilnica-3 finished in March and after that started drilling of second exploration well Đeletovci-1Z. Development investments were mainly related to wells workover activities.	All planned activities cancelled due to political situation. Investments represent allocated G&A costs and construction activities for the period Jan-Feb 26th before "force majeure" announcement. Activities are fully in line with US and EU sanctions; and dependent on the termination of the "force majeure"	On North Bahariya concession drilling of Abrar-4 well was completed at the end of February 2012, moreover, Abrar-5 was also drilled and completed in March, and was directly put in production. In addition, Workover operations were completed on Abrar South-1 and Rawda-1 wells. On Ras Qattara and West Abu El Gharadig concessions workover operations were performed in order of optimizing production level.	1Q 2012 investments on block 3/05a were related to FEED (front engineering and design) activities on Punja and Caco Gazela Fields. On block 3/05 investments were related to FSO Palanca dry dock maintenance and GLCC-LLCC separator construction activities.

\*One-off exploration expenditures in the amount HRK 50 million included

\*\* Excluding Croscoco capital expenditures

## Further business related developments

### Syrian developments

Company continued to encounter significant obstacles in the collection of receivables from the Syrian partner for its share of hydrocarbon production and there has been no improvement in this situation since October 2011, except for one minor cash payment locally received, which was only enough to cover locally born costs of operations.

In February 2012 Croatian government has passed Decision on the implementation of international restrictive measures established by the decision of the Council of the European Union in relation to the Syrian Arab Republic. The Decision prohibits purchase, import and transport of oil and other petroleum products from Syria, sell and transfer of oil and gas technology as well as providing financial or insurance services for such transactions.

On 26 February 2012 complying with the Croatian Government Decision INA delivered the "force majeure" notice to the General Petroleum Company (GPC) of Syria related to the Production Sharing Agreement for the Hayan Block signed in 1998 and Production Sharing Agreement for the Aphamia Block signed in 2004. INA maintains its economic interests and "force majeure" does not mean the termination of the project. INA does not expect to receive any revenues neither to realize its production share from its Syrian project for the foreseeable future, i.e. until the termination of the "force majeure".

### Revoked exploration licenses

Company has placed significant efforts into project preparation for Croatian onshore exploration activities and accordingly detailed work plans have been developed for those exploration areas. INA has identified a number of potential prospects suitable for further development; however, company activities remain limited until the further licenses could be obtained. INA will continue with intensified exploration activities in the next years on the concessions it holds in Croatia and abroad as well.

### Croatian natural gas trading business environment

The application of the maximum level of the natural gas price for the eligible customers of 2.13 HRK per cm is extended until 31 March 2012 and additionally until 30 April 2012. Capping of the price according to the Government decision cumulated USD 24.5 million losses for the gas trading operations during the first quarter 2012.

## Refining and Marketing\*

2011	Segment IFRS results (HRK mln)	Q4 2011	Q1 2011	Q1 2012	%
17,926	Revenues	4,128	4,073	4,095	1
(1,078)	EBITDA reported	(619)	100	131	31
(1,020)	EBITDA excl. special items**	(604)	100	142	42
(2,528)	Operating loss reported	(1,414)	(119)	(52)	(56)
(1,637)	Operating loss excl. special items**	(803)	(28)	(35)	25
266	Replacement modification	5	198	155	(22)
(15)	Impairment on inventories	80	(81)	24	n.a.
69	Foreign exchange rate differences	(28)	73	11	(85)
(1,956)	CCS-based R&M operating loss	(860)	(218)	(225)	3
575	CAPEX and investments (w/o acquisition)	247	98	38	(61)

\*Refers to Refining & Marketing INA, d.d. and following subsidiaries: Maziva Zagreb, Proplin (until October, 2011), Osijek Petrol, Interina Ljubljana, INA BH Sarajevo, Holdina Sarajevo, INA Hungary, INA -Crna Gora, INA Beograd, INA Kosovo

\*\*The Q1 2012 performance includes HRK 17 million negative special items

\*\*\*Starting from Q2 2011 effect of inventories impairment excluded from Estimated CCS-based Operating profit/(loss)

2011	Refinery processing (kt)	Q4 2011	Q1 2011	Q1 2012	%
399	Domestic crude oil	190	110	136	24
2,745	Imported crude oil	351	891	572	(36)
129	Condensate	62	34	20	(41)
777	Other feedstock	180	162	220	36
<b>4,051</b>	<b>Total refinery throughput</b>	<b>783</b>	<b>1,197</b>	<b>949</b>	<b>(21)</b>
2011	Refinery production (kt)	Q4 2011	Q1 2011	Q1 2012	%
214	LPG	40	58	51	(13)
877	Motor gasoline	181	232	194	(16)
982	Diesel	228	249	225	(9)
199	Heating oil	62	65	56	(14)
118	Kerosene	20	18	16	(13)
95	Naphtha	24	21	24	11
545	Fuel oil	95	167	97	(42)
49	Bitumen	0	17	0	n.a.
369	Other products*	20	193	155	(20)
<b>3,448</b>	<b>Total</b>	<b>669</b>	<b>1,020</b>	<b>818</b>	<b>(20)</b>
29	Refinery loss	6	9	6	(27)
573	Own consumption	107	168	125	(26)
<b>4,051</b>	<b>Total refinery production</b>	<b>783</b>	<b>1,197</b>	<b>949</b>	<b>(21)</b>
2011	Refined product sales by country (kt)	Q4 2011	Q1 2011	Q1 2012	%
1,923	Croatia	496	432	413	(4)
539	B&H	130	131	104	(20)
1,100	Other markets	147	318	176	(45)
<b>3,561</b>	<b>Total</b>	<b>772</b>	<b>881</b>	<b>693</b>	<b>(21)</b>
2011	Refined product sales by product (kt)	Q4 2011	Q1 2011	Q1 2012	%
246	LPG	45	65	59	(9)
902	Motor gasoline	189	215	177	(18)
1,247	Diesel	305	263	269	2
201	Heating oil	62	64	51	(21)
116	Kerosene	18	12	12	0
95	Naphtha	22	23	24	9
537	Fuel oil	90	182	83	(54)
91	Bitumen	22	15	6	(59)
127	Other products*	19	43	12	(71)
<b>3,561</b>	<b>Total</b>	<b>772</b>	<b>881</b>	<b>693</b>	<b>(21)</b>
1,023	o/w Retail segment sales	160	231	214	(7)

\*Other products = FCC gasoline, petrol components, other gasoline, benzene-rich cut, other diesel fuels and components, liquid sulphur, coke, motor oils. Ind, lubricants, base oils, spindle oil, waxes, blend, gas oil "M", atmsop, residue, intermediaries and other



### **First quarter 2012 vs. fourth quarter 2011 results**

In the first quarter R&M segment has turned its contribution to the Group EBITDA positive and recorded a level of HRK 142 million excluding special items.

In the first quarter 2012 external environment improved compared to extraordinarily unfavorable conditions in the fourth quarter 2011:

- Positive effects of: (1) higher average crack spread, even though it was under pressure of diesel and fuel oil crack spread worsening, (2) improved Brent-Ural spread,
- Negative effects of: (1) rising crude oil and natural gas price coupled with (2) overall depressed demand in core markets.

Refining and Marketing **operating loss excluding special items** was significantly reduced in comparison with the previous quarter. HRK 768 million improved result was influenced by the following effects:

- Positive effects of (1) higher average crack spread, (2) increased yield of marketable motor fuels, as a result of better feedstock selection and the optimization of refineries' operations, (3) higher light and heavy crude differentials, (4) gain on inventory revaluations, (5) efficiency improvement programs.
- Profitability was negatively influenced by significantly increased crude price contributing to increased energy costs and higher cost of own consumption.

The reported Q1 2012 operating loss in the amount of HRK 52 million was negatively affected by HRK 17 million special items.

Refining and Marketing segment's '**clean**' **CCS-based operating loss** (excluding effects of special items, inventory revaluation and foreign exchange differences on debtors and creditors) in Q1 2012 was significantly reduced compared to Q4 2011 by HRK 635 million, mainly resulting from internal efforts made by the management on (1) production yield restructuring, (2) better feedstock selection and (3) on demand refineries operation.

In line with refinery throughput and still depressed market demand, the **total refined product sales** decreased by 10% in Q1 2012 compared to the prior quarter. INA kept strong market position in spite of the Croatian demand which has been pushed down by still slow economic recovery.

### **First quarter 2012 vs. first quarter 2011 results**

Segment improved its EBITDA contribution to the Group level EBITDA amidst mixed **external environment** and depressed product demand in the core markets driven by the continuously increasing fuel product prices:

- Negative effects of: (1) rising crude oil price (2) weaker HRK on operating costs and (3) motor fuel consumption decline in core markets due to economic outlook worsening.
- Positive effects of: (1) higher average crack spread, (2) improved Brent-Ural spread, (3) LPG and fuel oil domestic market demand increase

In Q1 2012, Refining & Marketing segment HRK 7 million higher **operating loss (excluding special items)** remained at the almost same level compared to the same period previous year. Management efforts resulted in continuously improving trend of sales structure with increasing share of motor fuels nearing the 70% level at the end of Q1 2012 (compared to 50% end of Q1 2011) Main drivers were:

- Negative effects: The result was weighed by (1) upward trending energy costs, (2) higher depreciation costs as a result of assets put in use upon completion of refinery development projects (3) raising own consumption and loss costs due to higher oil price.
- Positive effects: (1) production optimization by selecting better feedstocks with less heavy residue and improving total conversion to motor fuels (2) resulting in higher average product spread in Q1 2012, (3) significant decrease in low margin seaborne sales compared to the same period last year, (4) gain on own produced inventories and (5) efficiency improvement programs.

In the challenging environment the Group focuses on internal improvements, aiming to reach break-even annual operation till 2014 with gradual improvements, such as (1) short term efficiency actions: costs cutting, logistics network rationalization (2) on-demand operation of refineries (3) new pipeline connection between refineries for flexible, synergetic operation of the two refineries and (4) preparation for residue upgrading (new Coker unit).

Estimated CCS-based operating loss in Q1 2012 compared to the same period previous year increased by HRK 7 million, due to unfavorable refining environment.

Record high motor fuel prices coupled with harsh winter conditions in February impacted overall motor fuels demand development, while LPG and fuel oil demand are estimated to have increased. B&H market consumption has been estimated to have been decreased.

Change in regional motor fuel demand 2012 Q1 vs. 2011 Q1 in %	Market			INA(sales)		
	Gasoline	Diesel	Motor fuels	Gasoline	Diesel	Motor fuels
Croatia	-12%	-13%	-13%	-2%	4%	2%
Bosnia and Herzegovina	-19%	-0%	-6%	-19%	-10%	-13%

INA's presence on domestic market in motor fuel sales is expected to have increased as a result of improved competitiveness, increased marketing efforts and developments together with increased yield of quality products. Biofuels were officially introduced to the market as of 1st April 2012.

### **Refining and Marketing capital expenditures**

CAPEX spending of the segment in Q1 2012 was HRK 38 million. The large scale of the first phase of the modernization program has been completed last year. Start-up of hydrocracking complex (hydrocracking, hydrogen generation, sulphure recovery and ancillary units) at Rijeka Refinery marked 2011, leading to producing only EURO V standard gasoline and diesel fuel start-up and activation of. At Sisak Refinery, completion of Isomerization unit in 2011, its successful start-up and putting on-stream in Q1 2012 significantly improves the octane pool in gasoline blending.

## Retail Services\*

2011	Segment IFRS results (HRK mln)	Q4 2011	Q1 2011	Q1 2012	%
7,676	Revenues	1,822	1,522	1,617	6
95	EBITDA reported	(11)	(2)	13	n.a.
140	EBITDA excl. special items**	8	(2)	24	n.a.
47	Operating profit/(loss) reported	32	(41)	(9)	(78)
109	Operating profit/(loss) excl. special items**	57	(25)	(7)	(72)
106	CAPEX and investments (w/o acquisition)	49	8	2	(75)

\* Refers to Retail INA, d.d. and Petrol Rijeka and retail of subsidiaries: Proplin (until October 3, 2011), Osijek Petrol, Interina Ljubljana, Holdina Sarajevo, INA - Crna Gora

\*\*The Q1 2012 performance was negatively influenced by HRK 2 million special items

2011	Refined product retail sales (kt)	Q4 2011	Q1 2011	Q1 2012	%
386	Motor gasoline	86	83	75	(11)
707	Gas and heating oils	169	147	134	(8)
34	LPG	8	8	7	(15)
3	Other products	1	1	1	(8)
1,131	<b>Total</b>	<b>264</b>	<b>239</b>	<b>216</b>	<b>(9)</b>

2011	Refined product retail sales (kt)	Q4 2011	Q1 2011	Q1 2012	%
1,079	Croatia	251	228	206	(10)
39	B&H	9	8	7	(9)
14	Other markets	3	3	3	4
1,131	<b>Total</b>	<b>264</b>	<b>239</b>	<b>216</b>	<b>(9)</b>

### First quarter vs. fourth quarter 2011 results

**Retail Services operating loss excluding special items** in Q1 2012 amounted to HRK 7 million, below the Q4 2011 level, which was supported by asset impairment reversal.

- The main drivers of lower result were: (1) lower fuel margin, and (2) lower sales volumes.

Sales volumes were 18% lower as a result of seasonal patterns, higher fuel prices, adverse weather conditions and slower economic recovery.

### First quarter vs. first quarter 2011 results

**Realized operating loss excluding special items** lower by HRK 18 million compared to the Q1 2011.

- Better result arose from: (1) higher other operating incomes (interest revenues from customers) and (2) expiration of the lease contract with Energoinvest.

Operating loss for the Q1 2012 amounted to HRK 9 million, including HRK 2 million negative effects of special items.

**Total sales volumes** of INA Retail Group decreased by 9%, while average throughput per site in first quarter 2012 was lower by 5% compared to the same period of the previous year.

- Sales volumes of all fuel types were below the ones realized in the first quarter of 2011. Both motor gasoline and diesel sales volumes were decreased due to the drop in the demand coupled with increasing prices
- In relative terms the largest decline in sales was recorded on the LPG sales (by 15%) mostly as a result of higher selling prices in relation to the year 2011 and reduction in the retail network due to integration of Proplin.
- In March 2012, two diesel fuels with bio component and a new Eurosuper BS 98 + Class fuel were introduced.

As of 31 March 2012 INA Group's **retail network** operated 446 filling stations, o/w in Croatia 394, the neighbouring Bosnia and Herzegovina 45, Slovenia 6 and Montenegro 1. Closure of non-profitable filling stations and the expiration of the lease contract for 11 Energoinvest's filling stations were reasons for the reduced number of filling stations compared to the first quarter 2011 (26 filling stations less).

### Retail capital expenditures

After the started modernization program of INA's Retail network in 2011, project "Blue Concept" successfully continues this year. During the first quarter 2012 in the scope of the modernization program preliminary reconstruction activities were initiated at 15 petrol stations in the Dalmatian region, including among others Split, Dubrovnik, Šibenik and Makarska.

Capital expenditures in Q1 2012 amounted to HRK 2 million, and were lower than Q4 2011, partially as a consequence of different modernization dynamics during the year.

## Financial overview

### Income statement

#### Q1 2012 results

**Total sales revenues** generated by INA Group in Q1 2012 amounted to HRK 7,256 million, which was 5% higher compared to Q1 2011, mainly as a result of increased realized hydrocarbon prices. However, hydrocarbon sales volumes were lower in comparison to the same period last year.

**Costs of raw materials and consumables** decreased by 16% and amounted to HRK 3,402 million as a result of 36% lower volumes of imported crude, while average import price of crude rose by 20% compared to Q1 2011. In order to meet the market demand, lower processing of crude oil was mitigated with higher import of crude oil products.

The **costs of goods sold** increased by 86% to HRK 1,957 million mostly due to higher import of natural gas related to both higher volumes and higher prices compared to Q1 2011. Purchase volumes of crude oil products were also higher due to series of unplanned shutdowns related to unfavorable weather in February.

Within the **other operating costs** incurred in Q1 2012:

- Other material costs increased by 5% to HRK 411 million.
- Service costs amounted to HRK 441 million representing an increase of 75% mainly due to higher royalty and increased VAT costs.
- Depreciation of HRK 628 million represented an increase of 34% compared to Q1 2011, after more assets were put in operation in H2 2011, i.e. new upstream facilities in Syria and new units at Rijeka Refinery.
- Adjustments and provisions of HRK 81 million were by HRK 124 million lower compared to Q1 2011.

**Staff costs** decreased by 7% and amounted to HRK 619 million due to workforce optimization. The headcount as at 31 March 2012 was 13,982 which represent a 4% decrease compared to the 14,578 employees as at 31 March 2011.

In December 2010 INA Group implemented the redundancy program in order to increase efficiency and for the purpose of stabilization of economic operations and the needs of reorganization in order to improve business processes in the next period. From December 31, 2011 INA terminated the contracts of 150 employees and severance payments in the total amount of HRK 44 million were made.

**Net financial expenses**, positive in the amount of HRK 23 million were recorded in Q1 2012, compared to the net financial profit of HRK 244 million in Q1 2011.

- Net foreign exchange gains were HRK 139 million in Q1 2012 mainly related to the appreciation of HRK against USD, compared to Q1 2011 net foreign exchange gains of HRK 330 million
- Interests payable were HRK 40 million in Q1 2012 (compared to HRK 33 million in Q1 2011), while interest received amounted to HRK 7 million (in Q1 2011 interest receives were also HRK 7 million).

In Q1 2012 **income tax expense** decreased by HRK 133 million to the amount of HRK 192 million

Company has recognized revenues in the income statement from hydrocarbon sales in Syria which had been realized, in line with international accounting standards, meaning that the cash principle has been applied since the beginning of 2011. INA until now did not receive the outstanding revenues for its share of hydrocarbon production in Syria neither it expects to realize its production share from its Syrian project for the foreseeable future, i.e. at least the "force majeure" conditions cease to exist. Following the changes of the parameters for the functional depreciation (INA's production share during the "force majeure") on the major part of the Syrian assets and in line with the IFRS, depreciation would not be booked for the cash generating assets from February 2012 till force majeure conditions will cease to exist.

Under current practice and in line with the international accounting standards the company adjusts its receivables that are 180 days or older. Accordingly the company has adjusted a significant amount of its receivables in Egypt that meet these criteria.

Until March 2012, HRK 1,116 million recurring cost savings (924 excluding inter-segmental) and HRK 486 million revenue improvements have been achieved compared to the 2008 baseline at INA Group level.

Altogether, HRK 1,602 million recurring EBIT improvement (1,410 excluding inter-segmental) has been delivered since the program's inception in 2010.

The positive decreasing trend of controllable costs continued in Q1 2012 with a ~6% decline in controllable costs compared to Q1 2011.

### Balance sheet

As at 31 March 2012, INA Group **total assets** amounted to HRK 30,840 million and were almost at the same level in comparison to 31 December 2011. **Property, plant and equipment** recorded a decrease of 3% because the depreciation was higher than the investments in non-current assets.

**Inventories** amounted to HRK 3,910 million, which is an increase of 6% compared to 31 December 2011, reflecting both higher volumes and higher prices. Stored up finished products and work in progress inventories from own production increased by 105 kt.

**Trade receivables** decreased by 10% as a result of management efforts to collect overdue receivables.

As at 31 March 2011 **total liabilities** decreased by 1% to the amount of HRK 16,266 million mostly as an effect of lower trade payables compared to 31 December 2011 level.

**Trade payables** decreased by 30% to HRK 1,425 million, mostly because of better liquidity which enabled the payment of liabilities. Long-term and short-term provisions amounted to HRK 3,037 million and were 4% higher compared to the end of 2011.

INA Group **net indebtedness** decreased by 6% and amounted to HRK 8,610 million, primarily because INA managed to reduce its long-term debt as a result of higher own cash generating capabilities. **Gearing ratio**<sup>2</sup> decreased from 38.8% as at 31 December 2011, to 37.1% as at 31 March 2012.

### Cash flow

The **operating cash-flow before changes in working capital** amounted to HRK 1,300 million, in Q1 2012, representing a decrease of HRK 519 million, or 29%, compared to Q1 2011, mainly as a result of lower EBITDA.

**Changes in working capital** affected the operating cash flow negatively by HRK 773 million, primarily due to:

- Increased value of inventories by HRK 190 million (reflecting both higher prices and higher volumes)
- Lower liabilities by HRK 602 million related to re-established liquidity.

Tax payment affected operating cash flow by HRK 54 million. Mentioned factors resulted in HRK 473 million net cash inflow from operating activities that INA Group generated in Q1 2012.

**Net outflows in investing activities** amounted to HRK 33 million, in comparison with HRK 556 million outflows in Q1 2011. A decrease is resulted by the nature of key projects, some of which are nearing completion, and for the reason of current market environment.

<sup>2</sup> Net debt / net debt plus equity incl. minority interests

## **Financial instruments and risk management**

INA Group continuously detects and monitors financial risks (commodity risk, FX and interest rate risk) in its operation. Risk Management and Hedging Policy for INA Group is providing the framework under which INA and its consolidated subsidiaries manage and maintain at an acceptable level commodity, foreign exchange and interest rate risk, allowing the Group to achieve its strategic goals while protecting the company's future financial stability and flexibility. It integrates and measures all financial risks at group level in a model using Monte Carlo simulation while senior management reviews regularly Financial Risk Reports.

Beside financial (market) risks, the most important risks include the credit risk and the liquidity risk. INA used derivative instruments for managing those risks to a limited extent. Derivative financial instruments, which INA uses for the purpose of hedging the financial risks, are regulated by ISDA (International Swaps and Derivatives Association) Agreements signed with other counterparties. INA does not use derivative financial instruments for speculative purposes.

### **a) Market risk**

#### **Commodity price risk management**

INA purchases crude oil mostly through short-term arrangements in US dollars at spot market prices. The required quantities of gas are purchased at a price denominated in US dollars in accordance to 3-year supply contract with Italian ENI. In addition to oil exploration, production and refining, one of the INA's core activities is marketing and sales of refined products and natural gas. Domestic prices of refined products are determined under the pricing formula set out in the Refined Product Pricing Regulation (effective since 2001) which, to a limited extent, is hedging the Group from the changes in crude and oil product prices and the foreign currency risk, enabling refinery products to be reprised bi-weekly, with certain limitations, depending on the market (Platts) prices and the fluctuations of the Croatian kuna against the US dollar.

INA may use swap and option instruments in managing its commodity exposure. During Q1 2012 INA concluded short term commodity swap transactions for inventory changes and pricing period hedging purposes. These transactions were initiated to reduce exposure to potential price movements during the refinery inventory build down period, and for harmonisation of pricing periods for crude oil and oil products purchases with crude oil refining period and oil products sales pricing periods. Due to extreme volatility of crude oil and crude products prices caused by uncertainties which were surrounding World economy in 2011, INA executed a hedge in the form of buying option instruments, in order to protect against potential losses in values of inventory of finished products and work in progress in case of adverse price movement. Option instruments have expired during Q1 2012, and they could not be exercised as average price in the hedged period was higher than strike prices.

#### **Foreign currency risk management**

As the Group operates on the domestic market and abroad many transactions are priced and denominated in foreign currency and it is thus exposed to currency risk. The Group has net long USD and EUR, and net short HRK operative cash flow position.

Generally, the Group applies natural hedge to manage its currency risk exposure based on the principle that the currency mix of the debt portfolio should reflect the free cash flow currency exposure of the Group. Furthermore, in order to avoid a high exposure to volatility of individual currency (i.e. USD), INA applies portfolio approach in the process of selection of currencies in the debt portfolio. Additionally, the Refined Product Pricing Regulation enables the company to partly transfer the unfavourable movements of exchange rates to domestic products market.

INA may use cross currency swaps to adjust the currency mix of the debt portfolio. As of March 31, 2012, there were no open cross currency transactions.

#### **Interest rate risk management**

INA Group companies use borrowed funds at both fixed and variable interest rates (mostly variable) and the Group is consequently exposed to the interest rate risk. As an energy company, the Group does not speculate on interest rate developments and therefore primarily chooses floating rates. However, in case of certain instruments and macro environments, choosing fixed interest funds can be more advantageous.

INA may use interest rate swaps to manage the relative level of its exposure to cash flow interest rate risk associated with floating interest-bearing borrowings. As of March 31, 2012, 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**

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Group. Overdue receivables have a negative impact on INA Group's liquidity while provisions due to overdue receivables negatively affect results of the Group.

According to existing Credit Risk Management Procedure Group estimates creditworthiness and risk in dealing with customers based on internal model of evaluation as well as using the services of creditworthiness agencies. Furthermore, in accordance with

the results the customers are classified in different risk categories, credit limits are assigned and payment security instruments are collected as a means of mitigating the risk of financial loss from defaults.

Part of sales with deferred payment is towards state institutions state owned companies or companies owned by the local government which do not provide payment security instruments. Other customers provide us with debentures being the most common payment security instrument on the Croatian market. Other payment security instruments such as bank guarantees, mortgages and corporate guarantees are provided in smaller extent, while foreign customers provide mainly letters of credit and bank guarantees, in smaller extent corporative guarantees and in exceptional cases bills of exchange.

There is no significant credit risk exposure of INA Group that is not be 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. Given that the Republic of Croatia is a one of the major shareholders of the Group itself, credit risks to a significant extent depend on the policy of the Croatian Government.

In addition to mentioned measures for receivables collection, INA is using services of agencies for "out of court" collection of receivables, which are specialized in intermediation in collection of receivables.

The risk of collection of overdue debt from the customers is present especially in litigated receivables from customers in bankruptcy.

### c) Liquidity risk

The Group's liquidity risk is managed by maintaining adequate reserves and credit lines and by continuous monitoring of projected and actual cash flow and due dates for account receivables and payables.

INA Group's policy is to ensure sufficient funding sources with the goal of reaching sufficient frame of available credit lines to cover INA Group liquidity as well as investments needs.

As of March 31, 2012, INA had contracted short-term bank loans amounting to 520 million USD (CNB middle rate), excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products.

High liquidity risk is related to import of crude oil and oil products for which in accordance with international practices INA has contracted short-term trade finance facilities with first class commercial bank groups.

### d) Fair value of financial instruments

The Group has concluded some long-term sale or purchase contracts that contain embedded derivatives as defined by IAS 39. An embedded derivative is a component of a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

## Main external parameters

2011		Q4 2011	Q1 2011	Q1 2012	%
111.3	Brent dtd (USD/bbl)	109.3	105.0	118.5	12.9
978.1	Premium unleaded gasoline 10 ppm (USD/t)*	927.2	920.8	1,060.4	15.2
957.0	Gas oil – ULSD 10 ppm (USD/t)*	963.4	908.0	1,005.7	10.8
603.0	Fuel oil 3,5% (USD/t)*	617.8	549.0	674.1	22.8
903.3	LPG (USD/t)*	871.9	902.7	1,047.3	16.0
30.9	Average crack spread	43.3	8.2	70.8	767.2
136.2	Crack spread – premium unleaded (USD/t)*	100.3	126.8	164.0	29.4
115.1	Crack spread – gas oil (USD/t)*	136.5	113.9	109.3	(4.1)
(238.8)	Crack spread - fuel oil 3,5% (USD/t)*	(209.2)	(245.1)	(222.3)	(9.3)
61.4	Crack spread - LPG (USD/t)*	45.0	108.6	150.9	39.0
5.34	HRK/USD average	5.56	5.41	5.76	6.4
5.82	HRK/USD closing	5.82	5.24	5.62	7.2
7.43	HRK/EUR average	7.49	7.40	7.55	2.0
7.53	HRK/EUR closing	7.53	7.38	7.51	1.7
0.34	3m USD LIBOR (%)	0.48	0.31	0.51	66.8
1.39	3m EURIBOR (%)	1.50	1.10	1.04	(4.8)

\* FOB Mediterranean

### Related party transactions

The company 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 Company's 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 the Company and its subsidiaries, which are related parties of the Company, have been eliminated on Group level consolidation. Details of transactions between INA, d.d. and the Group companies and other related parties are disclosed below.

Product sales between related parties were made at the usual prices of the Group, reduced by discounts and rebates depending on each particular relationship. Purchases of products between related parties were made at market prices, including appropriate discounts depending on each particular relationship. INA d.d. generally seeks collateral for oil product sold to its related parties, except from customers who are state budget beneficiaries or fully owned by the state. The liabilities of the related parties to INA, d.d. are presented net of impairment of for bad and doubtful receivables.

INA-Group HRK mln	Amounts owed from related parties 31 March 2012	Amounts owed to related parties 31 March 2012
<b>Companies available for sale</b>		
JANAF d.d. Zagreb	1	32
<b>Strategic partner</b>		
MOL Plc	78	40
<b>Companies controlled by strategic partner</b>		
Tifon d.o.o.	45	2
Kalegran Ltd.	10	-
Slovnaft, a.s.	-	7
Slovnaft, Petrochemicals s.r.o.	-	-
Mol Lub Kft.	-	-
MOL SLOVENIJA d.o.o.	2	12
IES-Italiana Energia e Servizi s.p.a.	-	-
TVK Nyrt.	-	-
Geoinform Kft.	-	1
Intermol d.o.o.	-	-
Energopetrol d.d.	39	-
MOL-MSZKSZ	-	-
<b>Companies controlled by the State</b>		
Hrvatska elektroprivreda	281	3
Other	418	24
INA, d.d. HRK mln	Sales of goods 31 March 2012	Purchase of goods 31 March 2012
<b>Companies available for sale</b>		
JANAF d.d. Zagreb	1	29
<b>Strategic partner</b>		
MOL Plc	114	66
<b>Companies controlled by strategic partner</b>		
Tifon d.o.o.	188	1
Moltrade Mineralimpex Zrt.	-	-
Slovnaft, a.s.	-	15
Slovnaft, Petrochemicals s.r.o.	-	-
Mol Lub Kft.	-	1
MOL SLOVENIJA d.o.o.	5	21
IES-Italiana Energia e Servizi s.p.a.	2	-
TVK Nyrt.	-	1
Intermol d.o.o.	4	-
Energopetrol d.d.	130	-
Geophysical services Ltd.	-	-
<b>Companies controlled by the State</b>		
Hrvatska elektroprivreda	930	45
Other	456	129



### INA Group Summary Segmental Results of Operations

2011	(HRK mln)	Q4 2011	Q1 2011	Q1 2012	%
<b>Sales</b>					
13,329	Exploration & Production	4,032	3,236	3,767	16
17,926	Refining & Marketing	4,128	4,073	4,095	1
7,676	Retail	1,822	1,522	1,617	6
674	Corporate and Other	292	88	83	(6)
(9,577)	Inter-segment revenue	(2,973)	(1,976)	(2,306)	17
<b>30,028</b>	<b>Sales</b>	<b>7,301</b>	<b>6,943</b>	<b>7,256</b>	<b>5</b>
<b>Operating expenses, net other income from operating activities</b>					
(7,188)	Exploration & Production	(2,353)	(1,765)	(2,961)	68
(20,454)	Refining & Marketing	(5,542)	(4,192)	(4,147)	(1)
(7,629)	Retail	(1,790)	(1,563)	(1,626)	4
(1,295)	Corporate and Other	(444)	(265)	(240)	(9)
9,577	Inter-segment eliminations	2,973	1,976	2,306	17
<b>(26,989)</b>	<b>Expenses</b>	<b>(7,156)</b>	<b>(5,809)</b>	<b>(6,668)</b>	<b>15</b>
<b>Profit/(loss) from operations</b>					
6,141	Exploration & Production	1,679	1,471	806	(45)
(2,528)	Refining & Marketing	(1,414)	(119)	(52)	(56)
47	Retail	32	(41)	(9)	(78)
(621)	Corporate and Other	(152)	(177)	(157)	(11)
0	Inter-segment eliminations	0	0	0	n.a.
<b>3,039</b>	<b>Profit from operations</b>	<b>145</b>	<b>1,134</b>	<b>588</b>	<b>(48)</b>
<b>Share in the profit of associate companies</b>					
<b>(663)</b>	<b>Net loss from financial activities</b>	<b>(522)</b>	<b>244</b>	<b>23</b>	<b>(91)</b>
<b>2,376</b>	<b>Profit before taxation</b>	<b>(377)</b>	<b>1,378</b>	<b>611</b>	<b>(56)</b>
(573)	Income tax expense	109	(325)	(192)	(41)
<b>1,803</b>	<b>Profit for the year</b>	<b>(268)</b>	<b>1,053</b>	<b>419</b>	<b>(60)</b>

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.

### INA Group Summary Segmental Results of Operations

2011	Operating Profit Excluding Special Items (HRK mln)	Q4 2011	Q1 2011	Q1 2012	%
6,129	Exploration & Production	1,647	1,575	1,032	(34)
(1,637)	Refining & Marketing	(803)	(28)	(35)	25
109	Retail	57	(25)	(7)	(72)
(523)	Corporate and Other	(111)	(157)	(156)	(1)
0	Inter-segment eliminations	0	0	0	n.a.
<b>4,078</b>	<b>Total</b>	<b>790</b>	<b>1,365</b>	<b>834</b>	<b>(39)</b>
2011	Depreciation (HRK mln)	Q4 2011	Q1 2011	Q1 2012	%
1,895	Exploration & Production	422	331	429	30
502	Refining & Marketing	200	77	140	82
92	Retail	22	23	24	4
151	Corporate and Other	40	38	35	(8)
<b>2,640</b>	<b>Total</b>	<b>684</b>	<b>469</b>	<b>628</b>	<b>34</b>
2011	EBITDA* (HRK mln)	Q4 2011	Q1 2011	Q1 2012	%
8,053	Exploration & Production	1,997	1,860	1,281	(31)
(1,078)	Refining & Marketing	(619)	100	131	31
95	Retail	(11)	(2)	13	n.a.
(548)	Corporate and Other	(134)	(150)	(128)	(15)
<b>6,522</b>	<b>Total</b>	<b>1,233</b>	<b>1,808</b>	<b>1,297</b>	<b>(28)</b>
2011	EBITDA Excluding Special Items* (HRK mln)	Q4 2011	Q1 2011	Q1 2012	%
8,122	Exploration & Production	2,026	1,860	1,426	(23)
(1,020)	Refining & Marketing	(604)	100	142	42
140	Retail	8	(2)	24	n.a.
(466)	Corporate and Other	(102)	(150)	(116)	(22)
<b>6,776</b>	<b>Total</b>	<b>1,328</b>	<b>1,808</b>	<b>1,475</b>	<b>(18)</b>

\* EBITDA = EBIT + Depreciation + Impairment + Provisions

**Condensed Consolidated Income Statement – INA-GROUP**  
**For the period ended 31 March 2011 and 2012**  
 (in HRK millions)

2011		Q4 2011	Q1 2011	Q1 2012	%
	Sales revenue				
18,115	a) domestic	5,316	4,348	5,114	18
11,913	b) exports	1,985	2,595	2,142	(17)
<b>30,028</b>	<b>Total sales revenue</b>	<b>7,301</b>	<b>6,943</b>	<b>7,256</b>	<b>5</b>
309	Income from own consumption of products and services	131	35	24	(31)
485	Other operating income	120	208	118	(43)
<b>30,822</b>	<b>Total operating income</b>	<b>7,552</b>	<b>7,186</b>	<b>7,398</b>	<b>3</b>
	Changes in inventories of finished products and work in progress				
394		(510)	1,043	729	(30)
(13,657)	Cost of raw materials and consumables	(2,073)	(4,060)	(3,402)	(16)
(2,640)	Depreciation and amortization	(684)	(469)	(628)	34
(1,801)	Other material costs	(511)	(393)	(411)	5
(1,217)	Service costs	(351)	(252)	(441)	75
(2,752)	Staff costs	(722)	(663)	(619)	(7)
(5,267)	Cost of other goods sold	(2,152)	(1,053)	(1,957)	86
(1,256)	Impairment and charges (net)	(599)	(98)	12	n.a.
413	Provisions for charges and risks (net)	195	(107)	(93)	(13)
<b>(27,783)</b>	<b>Operating expenses</b>	<b>(7,407)</b>	<b>(6,052)</b>	<b>(6,810)</b>	<b>13</b>
<b>3,039</b>	<b>Profit from operations</b>	<b>145</b>	<b>1,134</b>	<b>588</b>	<b>(48)</b>
	Share in the profit of associated companies				
145	Finance income	(62)	392	168	(57)
(808)	Finance costs	(460)	(148)	(145)	(2)
<b>(663)</b>	<b>Net loss from financial activities</b>	<b>(522)</b>	<b>244</b>	<b>23</b>	<b>(91)</b>
<b>2,376</b>	<b>Profit before tax</b>	<b>(377)</b>	<b>1,378</b>	<b>611</b>	<b>(56)</b>
(573)	Income tax expense	109	(325)	(192)	(41)
0	Deferred taxes	0	0	0	n.a.
<b>1,803</b>	<b>Profit for the year</b>	<b>(268)</b>	<b>1,053</b>	<b>419</b>	<b>(60)</b>
	Attributable to				
1,815	Owners of the Company	(257)	1,053	412	(61)
(12)	Non-controlling interests	(11)	0	7	n.a.
<b>1,803</b>		<b>(268)</b>	<b>1,053</b>	<b>419</b>	<b>(60)</b>
	<b>Earnings per share</b>				
181.5	Basic and diluted earnings per share (kunas per share)	(25.7)	105.3	41.2	(61)

**INA-INDUSTRIJA NAFTE d.d.**  
**Condensed Consolidated Statement of Comprehensive Income – INA-GROUP**  
**For the period ended 31 March 2011 and 2012**  
 (in HRK million)

2011		Q4 2011	Q1 2011	Q1 2012	%
<b>1,803</b>	<b>Profit for the year</b>	<b>(268)</b>	<b>1,053</b>	<b>419</b>	<b>(60)</b>
	Other comprehensive income:				
276	Exchange differences arising from foreign operations	401	(9)	(255)	2,733
(27)	Gains on available-for-sale investments, net	30	10	45	350
<b>249</b>	<b>Other comprehensive income, net</b>	<b>431</b>	<b>1</b>	<b>(210)</b>	<b>n.a.</b>
<b>2,052</b>	<b>Total comprehensive income for the year</b>	<b>163</b>	<b>1,054</b>	<b>209</b>	<b>(80)</b>
	Attributable to:				
2,064	Owners of the Company	174	1,054	202	(81)
(12)	Non- controlling interests	(11)	0	7	n.a.

**Condensed Consolidated Statement of Financial Position – INA-GROUP**  
**At 31 March 2011 and 2012**  
**(in HRK millions)**

31 March 2011	1 January 2012	31 March 2012	%
<b>Assets</b>			
<b>Non-current assets</b>			
846	880	800	(9)
21,337	20,294	19,627	(3)
225	183	183	0
21	34	34	(0)
339	355	192	(46)
197	162	210	30
9	5	5	0
290	662	807	22
431	325	381	17
<b>23,695</b>	<b>22,900</b>	<b>22,239</b>	<b>(3)</b>
<b>Current assets</b>			
4,454	3,693	3,910	6
2,647	3,282	2,946	(10)
630	456	668	46
2	2	2	0
31	76	41	(47)
204	79	191	142
363	337	843	150
<b>8,331</b>	<b>7,925</b>	<b>8,601</b>	<b>9</b>
12	0	0	n.a.
<b>8,343</b>	<b>7,925</b>	<b>8,601</b>	<b>9</b>
<b>32,038</b>	<b>30,825</b>	<b>30,840</b>	<b>0</b>
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
9,000	9,000	9,000	0
37	0	45	n.a.
2,331	2,616	2,361	(10)
2,477	2,759	3,168	15
<b>13,845</b>	<b>14,375</b>	<b>14,574</b>	<b>1</b>
2	(10)	0	n.a.
<b>13,847</b>	<b>14,365</b>	<b>14,574</b>	<b>1</b>
<b>Non-current liabilities</b>			
6,887	5,630	5,441	(3)
122	126	130	3
131	104	97	(7)
2,663	2,715	2,770	2
<b>9,803</b>	<b>8,575</b>	<b>8,438</b>	<b>(2)</b>
<b>Current liabilities</b>			
4,214	1,918	2,224	n.a.
317	1,904	1,788	16
2,079	2,032	1,425	(6)
1,071	1,524	1,826	(30)
213	246	200	20
116	48	87	(19)
15	13	11	81
363	200	267	(15)
<b>8,388</b>	<b>7,885</b>	<b>7,828</b>	<b>(1)</b>
0	0	0	n.a.
<b>8,388</b>	<b>7,885</b>	<b>7,828</b>	<b>(1)</b>
<b>18,191</b>	<b>16,460</b>	<b>16,266</b>	<b>(1)</b>
<b>32,038</b>	<b>30,825</b>	<b>30,840</b>	<b>0</b>

**Condensed Consolidated Cash Flow Statement - INA GROUP**  
**For the period ended 31 March 2011 and 2012**  
 (in HRK millions)

2011	Q4 2011	Q1 2011	Q1 2012	%
<b>1,803</b>	<b>(268)</b>	<b>1,053</b>	<b>419</b>	<b>(60)</b>
<b>Profit/(loss) for the year</b>				
<b>Adjustments for:</b>				
2,640	684	469	628	34
573	(109)	325	192	(41)
0	0	0	0	n.a.
1,489	758	208	137	(34)
(305)	(192)	(110)	(149)	35
(14)	(5)	(2)	(2)	0
48	20	7	0	n.a.
201	257	(321)	(136)	(58)
140	46	24	30	25
162	185	18	36	100
(389)	(171)	111	97	(13)
0	0	0	0	n.a.
118	32	27	24	(11)
(10)	(1)	10	24	140
<b>6,456</b>	<b>1,236</b>	<b>1,819</b>	<b>1,300</b>	<b>(29)</b>
<b>Operating cash flow before working capital changes</b>				
<b>Movements in working capital</b>				
(641)	1,281	(1,126)	(190)	(83)
(113)	(499)	245	19	(92)
(1,706)	(688)	(1,715)	(602)	(65)
0	0	0	0	n.a.
<b>3,996</b>	<b>1,330</b>	<b>(777)</b>	<b>527</b>	<b>n.a.</b>
<b>Cash generated from operations</b>				
(462)	(66)	(3)	(54)	1,700
<b>3,534</b>	<b>1,264</b>	<b>(780)</b>	<b>473</b>	<b>n.a.</b>
<b>Net cash inflow from operating activities</b>				
<b>Cash flows used in investing activities</b>				
(1,533)	(752)	(543)	(182)	(66)
(121)	(66)	(25)	(14)	(44)
14	2	2	2	0
0	0	0	0	n.a.
22	0	0	0	n.a.
0	0	0	0	n.a.
0	0	0	0	n.a.
8	0	1	1	0
28	8	7	7	(0)
(9)	0	2	153	7,550
<b>(1,591)</b>	<b>(808)</b>	<b>(556)</b>	<b>(33)</b>	<b>(94)</b>
<b>Net cash used for investing activities</b>				
<b>Cash flows from financing activities</b>				
80	53	25	67	168
(1,313)	39	(1,167)	(276)	(76)
19,267	3,245	6,709	4,289	(36)
(19,081)	(3,920)	(4,038)	(3,935)	(3)
(480)	0	0	0	n.a.
(66)	(66)	(1)	(26)	2,500
(8)	(1)	1	(2)	n.a.
(251)	(5)	(80)	(63)	(21)
<b>(1,852)</b>	<b>(655)</b>	<b>1,449</b>	<b>54</b>	<b>(96)</b>
<b>Net cash from financing activities</b>				
91	(199)	113	494	337
317	558	317	337	6
(71)	(22)	(67)	12	n.a.
337	337	363	843	132
<b>At the end of period</b>				

**Condensed Consolidated Statement of Changes in Equity – INA-GROUP**  
**For the period ended 31 March 2011 and 2012**  
**(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
<b>Balance as at 1 January 2011</b>	<b>9,000</b>	<b>2,340</b>	<b>27</b>	<b>1,424</b>	<b>12,791</b>	<b>2</b>	<b>12,793</b>
Profit for the year	0	0	0	1,053	1,053	0	1,053
Other comprehensive income, net	0	(9)	10	0	1	0	1
Other comprehensive income, net	0	(9)	10	1,053	1,054	0	1,054
Dividends payable	0	0	0	0	0	0	0
<b>Balance as at 31 March 2011</b>	<b>9,000</b>	<b>2,331</b>	<b>37</b>	<b>2,477</b>	<b>13,845</b>	<b>2</b>	<b>13,847</b>

	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Non controlling interest	Total equity
<b>Balance as at 1 January 2012</b>	<b>9,000</b>	<b>2,616</b>	<b>0</b>	<b>2,759</b>	<b>14,375</b>	<b>(10)</b>	<b>14,365</b>
Profit for the year	0	0	0	409	409	0	409
Other comprehensive income, net	0	(255)	45	0	(210)	10	(200)
Total comprehensive income for the year	0	(255)	45	409	199	10	209
Dividends paid	0	0	0	0	0	0	0
<b>Balance as at 31 March 2012</b>	<b>9,000</b>	<b>2,361</b>	<b>45</b>	<b>3,168</b>	<b>14,574</b>	<b>0</b>	<b>14,574</b>

## Announcements in 2012

January 19, 2012	Response to query
February 14, 2012	Report for 4Q 2011, unaudited, consolidated and unconsolidated
February 24, 2012	The Croatian government decision on restrictive measures against Syria
February 27, 2012	Notice on "force majeure" in Syria
March 02, 2012	Extraordinary General Meeting notice
April 06, 2012	Supervisory Board meeting announcement
April 11, 2012	General Meeting decisions
April 12, 2012	Supervisory Board meeting held
April 12, 2012	Annual report for 2011, audited, consolidated and unconsolidated

## 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 March 12
MOL Plc.	2,500,001	2,500,001	4,715,538	4,715,538	4,715,538	4,725,620	4,725,620
Government of the Republic of Croatia	5,180,367	4,484,918	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	800,910	800,910	800,910	790,828	790,828
<b>Total</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>10,000,000</b>

Source: Central Clearing Depository Company. As per information available on the MOL Plc. website the Company controls 49.08% of the issue.

## Changes in organisation, Management Board or Supervisory Board

### Supervisory Board

At the Extraordinary General meeting of INA-INDUSTRIJA NAFTE d.d. held on April 11, 2012 Ábel Galács and József Simola were recalled and Szabolcs I. Ferencz and Ferenc Horváth were appointed Supervisory Board members with the term of office until June 10, 2013.

### Management Board

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

### Management representation

INA Group's consolidated financial statements for Q1, 2012 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 of INA Group.

Management Board:

Zoltán Áldott	President of INA, d.d. Board
Niko Dalić	Member
Pal Zoltan Kara	Member
Ivan Krešić	Member
Davor Mayer	Member
Peter Ratatics	Member

**APPENDIX**  
**SPECIAL ITEMS IN OPERATING PROFIT AND EBITDA**  
(in HRK mln)

2011	Q4 2011	Q1 2011	Q1 2012
<b>INA GROUP</b>			
(1,039)			(246)
	(645)	(231)	
<b>Total impact of special items on operating profit</b>			
(254)	(95)	0	(178)
<b>Total impact of special items on EBITDA</b>			
<b>Exploration &amp; Production</b>			
12	32	(104)	(226)
(69)	(29)	0	(10)
Incentive measures			
0	65	(65)	0
Impairment of assets in Libya (Crosco)			
0	0	0	33
Reversal - IAS 36			
0	0	0	(124)
Angola - oil tax concession			
0	0	0	(11)
Egypt - extra cost of production			
0	0	0	(122)
Provisions - Angola			
(9)	(2)	(20)	8
Provisions for incentives			
(22)	(2)	(19)	0
Provisions for litigations			
112	0	0	0
Provisions (Prirodni plin tax case)			
<b>Refining &amp; Marketing</b>			
(891)	(611)	(91)	(17)
(58)	(15)	0	(11)
Incentive measures			
(165)	0	0	0
Impairment of gas bottles - Proplin			
(655)	(655)	0	0
Impairment of assets - Refinery			
(11)	0	(30)	11
Provisions for incentives			
(2)	59	(61)	0
Provisions for litigations			
0	0	0	(17)
Assets under construction			
<b>Retail</b>			
(62)	(25)	(16)	(2)
(45)	(19)	0	(11)
Incentive measures			
(11)	0	(16)	11
Provisions for incentives			
(6)	(6)	0	(2)
Provisions for litigations			
<b>Corporate functions</b>			
(98)	(41)	(20)	(1)
(82)	(32)	0	(12)
Incentive measures			
(13)	(6)	(20)	11
Provisions for incentives			
(3)	(3)	0	0
Provisions for litigations			



INA Group  
Condensed Consolidated Interim Financial Statements with  
Notes for the period ended 31 March 2012

## Contents

---

	<i>Page</i>
Condensed Consolidated Income Statement	2
Condensed Consolidated Statement of Comprehensive Income	3
Condensed Consolidated Statement of Financial Position	4
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Cash Flow Statement	7
Notes to Condensed Consolidated Financial Statements	9

INA GROUP  
Condensed Consolidated Income Statement  
For the period ended 31 March 2012  
(all amounts in HRK millions)  
(unaudited)

	Notes	Three months ended:		Three months ended:	
		31 March 2012	31 March 2011	31 March 2012	31 March 2011
Sales revenue					
a) domestic		5,114	4,348	5,114	4,348
b) exports		2,142	2,595	2,142	2,595
<b>Total sales revenue</b>	3	<b>7,256</b>	<b>6,943</b>	<b>7,256</b>	<b>6,943</b>
Income from own consumption of products and services		24	35	24	35
Other operating income		118	208	118	208
<b>Total operating income</b>		<b>7,398</b>	<b>7,186</b>	<b>7,398</b>	<b>7,186</b>
Changes in inventories of finished products and work in progress		729	1,043	729	1,043
Cost of raw materials and consumables		(3,402)	(4,060)	(3,402)	(4,060)
Depreciation and amortisation		(628)	(469)	(628)	(469)
Other material costs		(411)	(393)	(411)	(393)
Service costs		(441)	(252)	(441)	(252)
Staff costs	5	(619)	(663)	(619)	(663)
Cost of other goods sold		(1,957)	(1,053)	(1,957)	(1,053)
Impairment charges (net)		12	(98)	12	(98)
Provision for charges and risks (net)		(93)	(107)	(93)	(107)
<b>Operating expenses</b>		<b>(6,810)</b>	<b>(6,052)</b>	<b>(6,810)</b>	<b>(6,052)</b>
<b>Profit from operations</b>		<b>588</b>	<b>1,134</b>	<b>588</b>	<b>1,134</b>
Finance income		168	392	168	392
Finance costs		(145)	(148)	(145)	(148)
<b>Net profit from financial activities</b>		<b>23</b>	<b>244</b>	<b>23</b>	<b>244</b>
<b>Profit before tax</b>		<b>611</b>	<b>1,378</b>	<b>611</b>	<b>1,378</b>
Income tax expense	6	(192)	(325)	(192)	(325)
<b>Profit for the year</b>		<b>419</b>	<b>1,053</b>	<b>419</b>	<b>1,053</b>
<b>Attributable to:</b>					
Owners of the Company		412	1,053	412	1,053
Non-controlling interests		7	-	7	-
		<b>419</b>	<b>1,053</b>	<b>419</b>	<b>1,053</b>
<b>Earnings per share</b>					
Basic and diluted earnings per share (kunas per share)	7	41.2	105.3	41.2	105.3

The accompanying accounting policies and notes form an integral part of this Condensed Consolidated Income Statement.

INA GROUP  
Condensed Consolidated Statement of Comprehensive Income  
For the period ended 31 March 2012  
(all amounts in HRK millions)  
(unaudited)

Notes	Three months ended:		Three months ended:	
	31 March 2012	31 March 2011	31 March 2012	31 March 2011
<b>Profit for the year</b>	<b>419</b>	<b>1,053</b>	<b>419</b>	<b>1,053</b>
Other comprehensive income:				
Exchange differences arising from foreign operations	(255)	(9)	(255)	(9)
Gains on available-for-sale investments, net	45	10	45	10
<b>Other comprehensive income, net</b>	<b>(210)</b>	<b>1</b>	<b>(210)</b>	<b>1</b>
<b>Total comprehensive income for the year</b>	<b>209</b>	<b>1,054</b>	<b>209</b>	<b>1,054</b>
<b>Attributable to:</b>				
Owners of the Company	202	1,054	202	1,054
Non-controlling interests	7	-	7	-

The accompanying accounting policies and notes form an integral part of this Condensed Consolidated Statement of Comprehensive Income.

INA GROUP  
Condensed Consolidated Statement of Financial Position  
At 31 March 2012  
(all amounts in HRK millions)  
(unaudited)

<b>ASSETS</b>	<b>Notes</b>	<b>31 March 2012</b>	<b>31 December 2011</b>
<b>Non-current assets</b>			
Intangible assets	8	800	880
Property, plant and equipment	9	19,627	20,294
Goodwill		183	183
Investments in associates and joint ventures		34	34
Other investments		192	355
Long-term receivables		210	162
Derivative financial instruments		5	5
Deferred tax		807	662
Available for sale assets		381	325
<b>Total non – current assets</b>		<b>22,239</b>	<b>22,900</b>
<b>Current assets</b>			
Inventories		3,910	3,693
Trade receivables, net		2,946	3,282
Other receivables		668	456
Derivative financial instruments		2	2
Other current assets		41	76
Prepaid expenses and accrued income		191	79
Cash and cash equivalents		843	337
<b>Total current assets</b>		<b>8,601</b>	<b>7,925</b>
<b>TOTAL ASSETS</b>		<b>30,840</b>	<b>30,825</b>

The accompanying accounting policies and notes form an integral part of this Condensed Consolidated Statement of Financial Position.

INA GROUP  
Condensed Consolidated Statement of Financial Position  
At 31 March 2012  
(all amounts in HRK millions)  
(unaudited)

<b>EQUITY AND LIABILITIES</b>	<b>Notes</b>	<b>31 March 2012</b>	<b>31 December 2011</b>
<b>Capital and reserves</b>			
Share capital	10	9,000	9,000
Revaluation reserve		45	-
Other reserves		2,361	2,616
Retained earnings	11	3,168	2,759
<b>Equity attributable to equity holders of the parent</b>		<b>14,574</b>	<b>14,375</b>
Non - controlling interests		-	(10)
<b>TOTAL EQUITY</b>		<b>14,574</b>	<b>14,365</b>
<b>Non – current liabilities</b>			
Long-term loans		5,441	5,630
Other non-current liabilities		130	126
Employee benefit obligation		97	104
Provisions		2,770	2,715
<b>Total non–current liabilities</b>		<b>8,438</b>	<b>8,575</b>
<b>Current liabilities</b>			
Bank loans and overdrafts		2,224	1,918
Current portion of long-term loans		1,788	1,904
Trade payables		1,425	2,032
Taxes and contributions		1,826	1,524
Other current liabilities		200	246
Accruals and deferred income		87	48
Employee benefit obligation		11	13
Provisions		267	200
<b>Total current liabilities</b>		<b>7,828</b>	<b>7,885</b>
<b>TOTAL LIABILITIES</b>		<b>16,266</b>	<b>16,460</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>30,840</b>	<b>30,825</b>

The accompanying accounting policies and notes form an integral part of this Condensed Consolidated Statement of Financial Position.

INA GROUP  
Condensed Consolidated Statement of Changes in Equity  
For the period ended 31 March 2012  
(all amounts in HRK millions)  
(unaudited)

	Share capital	Other reserves	Revaluation reserves	Retained earnings or accumulated deficit	Attributable to equity holders of the parent	Non controlling interest	Total
<b>Balance at 1 January 2011</b>	<b>9,000</b>	<b>2,340</b>	<b>27</b>	<b>1,424</b>	<b>12,791</b>	<b>2</b>	<b>12,793</b>
Profit for the year	-	-	-	1,053	1,053	-	1,053
Other comprehensive income, net	-	(9)	10	-	1	-	1
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(9)</b>	<b>10</b>	<b>1,053</b>	<b>1,054</b>	<b>-</b>	<b>1,054</b>
<b>Balance at 31 March 2011</b>	<b>9,000</b>	<b>2,331</b>	<b>37</b>	<b>2,477</b>	<b>13,845</b>	<b>2</b>	<b>13,847</b>
<b>Balance at 1 January 2012</b>	<b>9,000</b>	<b>2,616</b>	<b>-</b>	<b>2,759</b>	<b>14,375</b>	<b>(10)</b>	<b>14,365</b>
Profit for the year	-	-	-	409	409	-	409
Other comprehensive income, net	-	(255)	45	-	(210)	10	(200)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(255)</b>	<b>45</b>	<b>409</b>	<b>199</b>	<b>10</b>	<b>209</b>
<b>Balance at 31 March 2012</b>	<b>9,000</b>	<b>2,361</b>	<b>45</b>	<b>3,168</b>	<b>14,574</b>	<b>-</b>	<b>14,574</b>

The accompanying accounting policies and notes form an integral part of this Condensed Consolidated Statement of Changes in Equity.

INA GROUP  
Condensed Consolidated Cash Flow Statement  
For the period ended 31 March 2012  
(all amounts in HRK millions)  
(unaudited)

Three months ended:

	<b>Notes</b>	<b>31 March 2012</b>	<b>31 March 2011</b>
<b>Profit for the year</b>		<b>419</b>	<b>1,053</b>
<b>Adjustments for:</b>			
Depreciation and amortisation		628	469
Income tax (benefit)/expense recognized in (loss)/profit		192	325
Impairment charges (net)		137	208
Reversal of impairment		(149)	(110)
Gain on sale of property, plant and equipment		(2)	(2)
Gain/(loss) on sale investments and shares		-	7
Foreign exchange loss		(136)	(321)
Interest expense (net)		30	24
Other finance expense recognised in profit		36	18
Increase in provisions		97	111
Decommissioning interests		24	27
Change in provision for charges and risks and other non-cash items		24	10
		<b>1,300</b>	<b>1,819</b>
<b>Movements in working capital</b>			
Increase in inventories		(190)	(1,126)
Increase in receivables and prepayments		19	245
Decrease in trade and other payables		(602)	(1,715)
<b>Cash generated from operations</b>		<b>527</b>	<b>(777)</b>
Taxes paid		(54)	(3)
<b>Net cash inflow from operating activities</b>		<b>473</b>	<b>(780)</b>
<b>Cash flows used in investing activities</b>			
Payments for property, plant and equipment		(182)	(543)
Payments for intangible assets		(14)	(25)
Proceeds from sale of non-current assets		2	2
Dividends received from companies classified as available for sale and from other companies		1	1
Interest received and other financial income		7	7
Investments and loans to third parties, net		153	2
<b>Net cash used for investing activities</b>		<b>(33)</b>	<b>(556)</b>



INA GROUP  
 Condensed Consolidated Cash Flow Statement  
 For the period ended 31 March 2012  
 (all amounts in HRK millions)  
 (unaudited)

---

Three months ended:

	<u>Notes</u>	<u>31 March 2012</u>	<u>31 March 2011</u>
<b>Cash flows from financing activities</b>			
Additional long-term borrowings		67	25
Repayment of long-term borrowings		(276)	(1,167)
Additional short-term borrowings		4,289	6,709
Repayment of short-term borrowings		(3,935)	(4,038)
Interest paid on long-term loans		(26)	(1)
Other long-term liabilities, net		(2)	1
Interest paid on short-term loans and other financing charges		(63)	(80)
<b>Net cash from financing activities</b>		<b><u>54</u></b>	<b><u>1,449</u></b>
<b>Net increase in cash and cash equivalents</b>			
At 1 January		337	317
Effect of foreign exchange rate changes		12	(67)
<b>At 31 March</b>		<b><u>843</u></b>	<b><u>363</u></b>

The accompanying accounting policies and notes form an integral part of this Condensed Consolidated Cash Flow Statement.

## 1. BASIS OF PREPARATION

Financial statements have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting". For preparing unaudited condensed consolidated financials, the Board is required to give estimates and assumptions that influence the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities as at the date of reporting and the reported income and expenses during the reporting period. The estimates are based on the information available at the date of preparing financial statements and actual amounts may differ from those estimated. Estimates and assumptions are revised on a continuous basis. Amendments of accounting estimates are recognised in the period influenced by such amendments, if only that period is influenced, or in future periods if both the current period and future periods are influenced.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statement have been prepared under the historical cost convention, except for certain properties and financial instruments that are measured at revaluated amounts or fair values, as appropriate.

A number of new or revised Standards and Interpretations are effective for the financial year beginning on 1 January 2012. Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated statements as were applied in the preparation of the Group`s financial statement for the year ended 31 December 2011.

### ***Adoption of new and revised International Financial Reporting Standards***

#### *Standards and Interpretations effective in the current period*

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- **Amendments to IFRS 1 „First –time Adoption of IFRS”** – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 7 „Financial Instruments - Disclosures”** –Transfer of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IAS 12 „Income tax”,** - Deferred tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the INA Group accounting policies.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Adoption of new and revised International Financial Reporting Standards (continued)*

#### *Standards and Interpretations in issue not yet adopted*

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- **IFRS 9 „Financial Instruments”**, as amended in 2010, (effective for annual periods beginning on or after 1 January 2015),
- **IFRS 10 “Consolidated Financial Statements”**, published on May 2011, supersedes the previous version of IAS 27 (2008) “Consolidated and Separate Financial Statements”, (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 11 “Joint Arrangements”**, published on May 2011, superseded IAS 31 “Interests in Joint Ventures” (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 12 “Disclosure of Interests in Other Entities”**, published on May 2011 (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 13 “Fair Value Measurement”**, published on May 2011 (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 7 “Financial Instruments: Disclosures”**, published in December 2011, amendments enhancing disclosures about offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013).
- **IFRS 7 “Financial Instruments: Disclosures”** - published in December 2011, amendments requiring disclosures about the initial application of IFRS 9 (effective for annual periods beginning on or after 1 January 2015),
- **IAS 27 „Separate Financial Statements”** (as amended in 2011), consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10 “Consolidated Financial Statements”, (effective date of IAS 27 (as amended in 2011) for annual periods beginning on or after 1 January 2013),
- **IAS 28 (as amended in 2011) “Investments in Associates and Joint Ventures”** issued. This version supersedes IAS 28 (2003) “Investments in Associates” (effective date of IAS 28 (as amended in 2011) for annual periods beginning on or after 1 January 2013).

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Adoption of new and revised International Financial Reporting Standards (continued)**

*Standards and Interpretations in issue not yet adopted (continued)*

- **Amendments to IAS 1 “Presentation of Financial Statements”** - Revising the way of presenting the other comprehensive income (effective for annual periods beginning on or after 1 July 2012).
- **Amendments to IAS 19 “Employee Benefits”** - Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- **IAS 32 “Financial Instruments: Presentation”** - published in December 2011, amendments to application guidance on the offsetting of financial assets and financial instruments (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 20 „Stripping Costs in the Production Phase of a Surface Mine”** (effective for annual periods beginning on or after 1 January 2013).

INA Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

## 3. SEGMENT INFORMATION

Reporting segments have been defined along value chain standard for the oil companies:

- Exploration and Production – exploration, production and selling of crude oil and natural gas
- Refining and Marketing – crude oil processing, wholesale of refinery products, trading and logistics
- Retail – selling of fuels and commercial goods in retail station
- Business functions – providing services for core activities

INA GROUP  
Notes to Condensed Consolidated Financial Statements  
For the period ended 31 March 2012  
(all amounts in HRK millions)  
(unaudited)

**3. SEGMENT INFORMATION (continued)**

Revenues and results of the period by operative segments follows below:

**INA Group**

<b>31 March 2012</b>	<b>Exploration and production</b>	<b>Refining and marketing</b>	<b>Retail</b>	<b>Corporate and other</b>	<b>Elimination</b>	<b>Total</b>
Sales to external customers	2,898	2,740	1,604	14	-	7,256
Inter-segment sales	869	1,355	13	69	(2,306)	-
<b>Total revenue</b>	<b>3,767</b>	<b>4,095</b>	<b>1,617</b>	<b>83</b>	<b>(2,306)</b>	<b>7,256</b>
Operating expenses, net of other operating income	(2,961)	(4,147)	(1,626)	(240)	2,306	(6,668)
<b>Profit from operations net of other income</b>	<b>806</b>	<b>(52)</b>	<b>(9)</b>	<b>(157)</b>	<b>-</b>	<b>588</b>
Net finance gain						23
Profit before tax						611
Income tax expense						(192)
<b>Profit for the year</b>						<b>419</b>

INA GROUP  
Notes to Condensed Consolidated Financial Statements  
For the period ended 31 March 2012  
(all amounts in HRK millions)  
(unaudited)

---

**3. SEGMENT INFORMATION (continued)**

**INA Group**

<b>31 March 2011</b>	<b>Exploration and production</b>	<b>Refining and marketing</b>	<b>Retail</b>	<b>Corporate and other</b>	<b>Elimination</b>	<b>Total</b>
Sales to external customers	2,594	2,824	1,517	8	-	6,943
Inter-segment sales	642	1,249	5	80	(1,976)	-
<b>Total revenue</b>	<b>3,236</b>	<b>4,073</b>	<b>1,522</b>	<b>88</b>	<b>(1,976)</b>	<b>6,943</b>
Operating expenses, net of other operating income	(1,765)	(4,192)	(1,563)	(265)	1,976	(5,809)
<b>Profit from operations net of other income</b>	<b>1,471</b>	<b>(119)</b>	<b>(41)</b>	<b>(177)</b>	<b>-</b>	<b>1,134</b>
Net finance gain						244
Profit before tax						1,378
Income tax expense						(325)
<b>Profit for the year</b>						<b>1,053</b>

INA GROUP  
Notes to Condensed Consolidated Financial Statements  
For the period ended 31 March 2012  
(all amounts in HRK millions)  
(unaudited)

**3. SEGMENT INFORMATION (continued)**

**INA Group**

<b>31 March 2012</b>	<b>Exploration and production</b>	<b>Refining and marketing</b>	<b>Retail</b>	<b>Corporate and other</b>	<b>Elimination</b>	<b>Total</b>
<b>Assets and liabilities</b>						
Property, plant and equipment	11,865	6,297	970	508	(13)	19,627
Intangible assets	718	14	3	65	-	800
Investments in associates and joint ventures	34	-	-	-	-	34
Inventories	855	3,163	60	148	(316)	3,910
Trade receivables, net	1,598	1,054	448	103	(257)	2,946
Not allocated assets						3,523
<b>Total assets</b>						<b>30,840</b>
Trade payables	708	488	120	366	(257)	1,425
Not allocated liabilities						14,841
<b>Total liabilities</b>						<b>16,266</b>
<b>Other segment information</b>						
<b>Capital expenditure:</b>	<b>72</b>	<b>38</b>	<b>2</b>	<b>4</b>	<b>-</b>	<b>116</b>
Property, plant and equipment	60	38	2	2	-	102
Intangible assets	12	-	-	2	-	14
<b>Depreciation and amortisation</b>	<b>430</b>	<b>140</b>	<b>23</b>	<b>35</b>	<b>-</b>	<b>628</b>
Impairment losses/(income) PP&E, net recognized in profit and loss	(33)	-	-	-	-	(33)
Other impairment losses/(income), net recognized in profit and loss	(34)	51	3	1	-	21
<b>Total impairment losses/(income), net</b>	<b>(67)</b>	<b>51</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>(12)</b>

INA GROUP  
Notes to Condensed Consolidated Financial Statements  
For the period ended 31 March 2012  
(all amounts in HRK millions)  
(unaudited)

**3. SEGMENT INFORMATION (continued)**

**INA Group**

<b>31 December 2011</b>	<b>Exploration and production</b>	<b>Refining and marketing</b>	<b>Retail</b>	<b>Corporate and other</b>	<b>Elimination</b>	<b>Total</b>
<b>Assets and liabilities</b>						
Property, plant and equipment	12,375	6,417	990	524	(12)	20,294
Intangible assets	782	13	4	81	-	880
Investments in associates and joint ventures	34	-	-	-	-	34
Inventories	1,270	2,598	61	150	(386)	3,693
Trade receivables, net	1,977	985	388	318	(386)	3,282
Not allocated assets						2,642
<b>Total assets</b>						<b>30,825</b>
Trade payables	2,504	909	176	386	(1,943)	2,032
Not allocated liabilities						14,428
<b>Total liabilities</b>						<b>16,460</b>
<b>Other segment information</b>						
<b>Capital expenditure:</b>	<b>799</b>	<b>575</b>	<b>106</b>	<b>50</b>	<b>-</b>	<b>1,530</b>
Property, plant and equipment	726	567	105	11	-	1,409
Intangible assets	73	8	1	39	-	121
<b>Depreciation and amortisation</b>	<b>1,894</b>	<b>502</b>	<b>92</b>	<b>152</b>	<b>-</b>	<b>2,640</b>
Impairment losses/(income) PP&E, net recognized in profit and loss	(33)	655	(62)	-	-	560
Other impairment losses/(income), net recognized in profit and loss	325	351	9	11	-	696
<b>Total impairment losses/(income), net</b>	<b>292</b>	<b>1,006</b>	<b>(53)</b>	<b>11</b>	<b>-</b>	<b>1,256</b>



#### 4. SEASONALITY OF OPERATIONS

Demand for certain oil products and natural gas varies according to the seasons.

In the months of April to September, with the peak occurring in August (the "Tourist Season"), retail motor fuel sales are significantly higher, by volume and by number of transactions, particularly along coastal routes, than in the remaining months of the year, due to the incoming of tourists to Croatia in this period. The increased number of transactions at INA Group's petrol stations also leads to an increase in non-fuel sales at those sites during these periods.

Natural gas sales are higher in the winter heating season.

#### 5. STAFF COSTS

Staff cost is presenting cost of net salaries in the amount of HRK 319 million, cost of employee income tax in the amount HRK 138 million, tax on payroll in the amount HRK 85 million and other payroll related costs in the amount 77 million HRK for the period ending 31 March 2012. For the period ending 31 March 2011 in staff cost is presented cost of net salaries in the amount in the amount HRK 347 million, cost of employee income tax in the amount HRK 144 million, tax on payroll in the amount HRK 99 million, and other payroll related costs in the amount HRK 73 million.

#### 6. TAX COSTS AND DEFERRED TAXES

Tax costs and deferred taxes during the interim period are calculated on the basis of actual results and the profit tax rate, 20% for the period ending 31 March 2012 and 20% for the period ending 31 March 2011.

#### 7. EARNINGS PER SHARE

	INA Group	
	Three months ended:	
	31 March 2012	31 March 2011
<b>Basic and diluted earnings per share (in HRK)</b>	<b>41.2</b>	<b>105.3</b>
<b>Earnings</b>	<b>Three months ended:</b>	
	<b>31 March 2012</b>	<b>31 March 2011</b>
Earnings used in the calculation of total basic earnings per share (profit for the period attributable to equity holders of the parent)	412	1,053
	<b>412</b>	<b>1,053</b>
<b>Number of shares</b>	<b>Three months ended:</b>	
	<b>31 March 2012</b>	<b>31 March 2011</b>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share (in millions)	10	10

## 8. INTANGIBLE ASSETS

In the period ending 31 March 2012, the Group invested HRK 14 million in intangible assets. The effect of depreciation equals HRK 20 million. Retranslation caused by U.S. dollar exchange rate differences on oil and gas fields decreased net book value of INA Group in amount of HRK 27 million. Transfer from tangible assets is HRK 1 million. Transfer to Property, Plant and Equipment decreased net book value of intangible assets in amount of HRK 47 million.

## 9. PROPERTY, PLANT AND EQUIPMENT

In the period ending 31 March 2012, INA Group invested HRK 102 million in property, plant and equipment. Reversal of capitalised decommissioning costs decreased the value of assets by HRK 8 million. Retranslation caused by U.S. dollar exchange rate differences on oil and gas fields decreased net book value of INA Group in amount of HRK 225 million. Reversal of Impairment in according with IAS 36 in INA Group equals HRK 32 million. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 608 million. Reversal of depreciation for a prior year increased net book value in amount of HRK 1 million. Value adjusted investments decreased net book value in amount of HRK 16 million. The decrease of INA Group net book value is also result of foreign exchange differences in the amount of HRK 8 million. Transfer from intangible assets increased the value of Property, plant and equipment in amount of HRK 47 million.

## 10. SHARE CAPITAL

Issued capital as at 31 March 2012 amounted to HRK 9,000 million. There was no movements in the issued capital of the Company in either the current or the prior financial reporting.

## 11. RETAINED EARNINGS

	<b>INA Group</b>
	<b>Retained earnings / (Accumulated deficit)</b>
<b>Balance at 1 January 2012</b>	<b>2,759</b>
Profit for the period	412
Effect of purchase of non - controlling interest	(3)
<b>Balance at 31 March 2012</b>	<b>3,168</b>

## 12. 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. Details of transactions between INA Group companies and other related parties are disclosed below.

## 12. RELATED PARTY TRANSACTIONS (continued)

During the three months ended 2012 and 2011, INA Group entered into the following trading transactions with the following related parties:

### INA Group

	Sales of goods		Purchase of goods	
	31 March 2012	31 March 2011	31 March 2012	31 March 2011
<b>Companies available for sale</b>				
JANAF d.d. Zagreb	1	1	29	19
<b>Strategic partner</b>				
MOL Plc	114	110	66	153
<b>Companies controlled by strategic partner</b>				
Tifon d.o.o.	188	146	1	2
Energopetrol d.d.	130	30	-	-
MOL SLOVENIJA d.o.o.	5	-	21	18
IES-Italiana Energia e Servizi s.p.a.	2	-	-	-
Intermol d.o.o.	4	-	-	-
Slovnaft, Petrochemicals s.r.o.	-	-	-	-
Moltrade Mineralimpex Zrt.	-	-	-	-
Slovnaft, a.s.	-	-	15	-
Mol Lub Kft.	-	-	1	-
TVK Nyrt.	-	-	1	-
Geophysical services Ltd.	-	-	-	-
<b>Companies controlled by the State</b>				
Hrvatska elektroprivreda	930	588	45	33
Ostalo	456	325	129	190

## 12. RELATED PARTY TRANSACTIONS (continued)

During the period, INA Group entered into the following outstanding balances with the following related parties:

INA Group	Amounts owed from related parties		Amounts owed to related parties	
	31 December		31 December	
	31 March 2012	2011	31 March 2012	2011
<b>Companies available for sale</b>				
JANAF d.d. Zagreb	1	1	32	25
<b>Strategic partner</b>				
MOL Plc	78	110	40	67
<b>Companies controlled by strategic partner</b>				
Tifon d.o.o.	45	42	2	1
Energopetrol d.d.	39	24	-	-
Intermol d.o.o.	-	8	-	-
MOL SLOVENIJA d.o.o.	2	10	12	9
Slovnaft, a.s.	-	-	7	5
Slovnaft, Petrochemicals s.r.o.	-	-	-	1
Mol Lub Kft.	-	-	-	1
IES-Italiana Energia e Servizi s.p.a.	-	-	-	2
TVK Nyrt.	-	-	-	1
Geoinform Kft.	-	-	1	-
Kalegran Ltd.	10	9	-	-
MOL-MSZKSZ	-	1	-	-
<b>Companies controlled by the State</b>				
Hrvatska elektroprivreda	281	550	3	14
Ostalo	418	277	24	44

Loans to and from related parties:

INA Group	Amounts of loans owed by related parties		Amounts of loans owed to related parties	
	31 December		31 December	
	31 March 2012	2011	31 March 2012	2011
<b>Strategic partner</b>				
MOL Plc	-	-	-	979
<b>Companies controlled by strategic partner</b>				
Energopetrol d.d.	114	326	66	-
Rotary	83	83	-	-

### 13. CONTINGENT LIABILITIES

#### *EDISON INTERNATIONAL S.p.a arbitration procedure*

In 2002, EDISON INTERNATIONAL S.p.a. and INA, d.d. concluded the Production Sharing Agreement for the contractual area of north Adriatic, Izabela and Iris/Iva blocks (Agreement).

EDISON INTERNATIONAL S.p.a. initiated the arbitration procedure on 29 June 2011 by delivering the Notice of Arbitration. On 19 July 2011 INA provided its response to the Notice of Arbitration and also set its Counterclaim. On 26 September 2011 INA, d.d. received the decision on the appointment of arbitration panel president in the concerned arbitration procedure, which represents the finalization of the procedure of arbitration panel appointment and formation. In line with the arbitration clause from the Agreement, the seat of the arbitration procedure shall be in Vienna and the procedure shall be conducted in line with UNCITRAL rules.

On 6 December 2011, by the Procedural Decision, the arbitration panel adopted the Agreement between the parties and arbitrators, Special Procedural Rules and the Timetable.

EDISON INTERNATIONAL S.p.a. filed the Statement of Claim on 20 February 2012 and INA, d.d. needs to provide its response to the claim and the counterclaim by 25 May 2012.

EDISON INTERNATIONAL S.p.a. in its claim states that INA essentially did not adhere to the Agreement, i.e. that it breached the obligations arising from the Agreement, and Edison is consequently claiming the amount of EUR 110.5 million.

#### *Findings Report received from the Ministry of Finance*

On 20 February 2012 INA d.d. received from the Financial Police at the Ministry of Finance a Report on the findings in connection with the supervision of legality, correctness and timeliness of the calculation, declaration and payment of budgetary revenue for the period 1 January 2008 until 31 December 2009.

The inspection covered value-added tax and corporate income tax for the period 1 January 2008 - 31 December 2009. According to the Findings Report, the Company has been imposed additional tax liabilities as well as late-payment interest for the period from 2008 to 2009. The total additional tax liability amounts to approximately HRK 131 million and consist of the following:

- Corporate Income Tax Liability for the year 2008 in the amount of around HRK 63 million, plus late-payment interest of approximately HRK 26 million;
- Corporate Income Tax Liability for the year 2008 in the amount of around HRK 12 million, plus late-payment interest of approximately HRK 4 million;
- Excise duty for the year 2008 in the amount of around HRK 1 million, plus late-payment interest of approximately HRK 500 thousand;
- VAT liability for the year 2009 in the amount of around HRK 19 million, plus late-payment interest of approximately HRK 5 million.

INA d.d. challenges all the findings identified in the Report prepared by the Financial Police of the Ministry of Finance as well as all the additionally imposed liabilities and has filed a complaint against the Report within the legally prescribed deadline. Namely, INA d.d. considers that the Ministry of Finance, Financial Police, has determined the additional liabilities on the basis of wrongly determined factual findings and misapplication of substantive law and is confident of proving this in the pending administrative proceedings. From the total amount of the potential additional tax, excise duty and penalty interest liabilities identified in the Report, the unpredictable liability amounts to approximately HRK 129 million.

### **13. CONTINGENT LIABILITIES (continued)**

#### *Angolan Ministry of Finance audit*

INA entered the Block 3 Production Sharing Agreement in Angola as member of related contractor groups in 1980 and started crude oil lifting from its development areas in 1985.

Angolan Ministry of Finance audited all blocks on which INA, d.d. performs activities and exploits crude oil. The audit was completed for the period from 2003 until 2009. The audit for 2010 is currently ongoing. For the period 2003 - 2009 the Angolan Ministry of Finance imposed to INA, d.d. additional tax and profit oil liabilities. INA, d.d. paid the liabilities relating to the 2003 – 2006 period and made a provision for the additional liabilities imposed for the period 2007 – 2009. Based on the estimation, INA, d.d. made a provision for the potential tax and profit oil liability relating to the ongoing audit for 2010.

Although the Angolan Ministry of Finance did not start the audit of 2011. INA, d.d. estimated the potential contingent liability in this regard in the amount of approximately HRK 33 million.

### **14. SUBSEQUENT EVENTS**

#### *Extraordinary General Assembly held*

On 11 April 2012 Extraordinary General Shareholders' Assembly of INA INDUSTRIJA NAFTE, d.d. Zagreb was held attended by 9,500,566 shares or 95.006 % of 10,000,000 shares in total.

Following decisions on the revocation and the election of the members of the Supervisory Board of the Company were passed at the General shareholders assembly, with the necessary majority of votes present:

1. Ábel Galács and József Simola are hereby recalled from the duty of the Supervisory Board member.
2. As new members of the Supervisory Board of INA, d.d. Szabolcs I. Ferencz and Ferencz Horváth are elected.
3. The members of the Supervisory Board of the Company from Article 2 of this Decision are elected as of the date of entry into force of this Decision until 10 June 2013.