

## Q1 2013 – REPORT INA GROUP CONSOLIDATED

INA Group (ZB: INA-R-A; LSE: HINA; www.ina.hr) announced its Q1 2013 results today. This report contains unaudited consolidated financial statements for the period ending 31 March 2013 as prepared by the management in accordance with the International Financial Reporting Standards.

### INA Group financial results (IFRS)

HRK million	Q4 2012	2012	Q1 2012	Q1 2013	%
Net sales revenues	7,275	29,895	7,256	7,123	(2)
EBITDA reported <sup>(1)</sup>	887	4,578	1,297	1,008	(22)
Operating result	(166)	1,356	588	549	(7)
Net financial expenses	(72)	(289)	23	(131)	n.a.
Net profit/loss for the period <sup>(2)</sup>	(252)	681	412	376	(9)
Operating cash flow	308	3,742	473	260	(45)
<b>Earnings per share</b>					
Basic and diluted earnings per share (Kuna per share)	(25.2)	68.1	41.2	37.6	(9)
Net gearing	30.83	30.83	37.14	30.43	(18)
<b>CAPEX</b>					
International	45	120	20	124	520
Domestic	501	1,166	145	39	(73)
<b>USD million <sup>(3)</sup></b>	<b>Q4 2012</b>	<b>2012</b>	<b>Q1 2012</b>	<b>Q1 2013</b>	<b>%</b>
Net sales revenues	1,253	5,109	1,259	1,241	(1)
EBITDA reported <sup>(1)</sup>	153	782	225	176	(22)
Operating result	(29)	232	102	96	(6)
Net financial expenses	(12)	(49)	4	(23)	n.a.
Net profit/loss for the period <sup>(2)</sup>	(43)	116	72	66	(8)
Operating cash flow	53	640	82	45	(45)
<b>Earnings per share</b>					
Basic and diluted earnings per share (USD per share)	(4.3)	11.6	7.2	6.6	(8)
<b>CAPEX</b>					
International	8	21	3	22	520
Domestic	86	199	25	7	(73)

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

<sup>(2)</sup> INA Group net profit attributable to equity holder

<sup>(3)</sup> In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for Q4 2012 - 5.8038; 2012 – 5.8509 HRK/USD; Q1 2012 – 5.7621 HRK/USD; Q1 2013 – 5.7383 HRK/USD

<sup>(4)</sup> Starting from 1 January 2013, the reporting of Refining and Marketing segment and Retail segment is merged as Refining and Marketing including Retail segment value chain aligning the presentation with international industry reporting practice. As a result of this resegmentation, the Group has the following two reporting segments: Upstream and Refining and Marketing including Retail. Comparative periods have been restated accordingly.

Difficult conditions prevalent in INA Group's operating environment during the second half of 2012 continued into Q1 2013, presenting the Company with a number of operational challenges. These included adjusting INA Group's operations to depressed market demand for crude oil products and the decreasing natural gas demand driven by the prolonged economic slowdown in the Company's core markets. Although the overall crack spread environment was slightly deteriorating, INA took advantage of partial improvements, mainly as a result of improved product yield.

INA Group's revenues remained almost flat at around HRK 7 billion, with 25% increased exports. In the first quarter the Company has maintained the production level of refined products, in spite of the dropping domestic demand. Increasing exports to Bosnia, Slovenia and other markets made up more than half of the Group refined product sales, strongly underlined by efforts placed in capturing these export markets, positively accompanied by reduced imports of refined products. At just above HRK 1 billion, EBITDA declined by 22% compared to Q1 2012 driven by lower production due to natural depletion of hydrocarbon fields production and the pressure from Refining and Marketing including retail segment coming from a fall in product demand and slight decrease of average crack spread.

In Q1 2013, INA Group achieved positive results in both operating profit and net profit, which stood at HRK 549 million and HRK 376 million, respectively. Improved operational efficiency reflected in reduced operating expenditures was a strong contributor to this solid performance, which was moderated by the above-mentioned negative effects. During Q1 2013, as a result of the management's strong commitment to and efforts aimed at providing a stable source of funding for future capital expenditures, INA Group secured a USD 400 million syndicated loan facility. This transaction was in line with the Group's financial objectives which include continuous improvement in the Company's financial position and debt structure.

As a result, the Group was able to continue with its investment programs despite the challenging operating environment in its core regional markets, with capital expenditures for the quarter reaching HRK 163 million. These were mainly spent on domestic projects aimed at enhanced oil recovery, the large-scale modernization of INA's retail network, and project preparation for the refining system development, especially heavy residue treatment.

- ▶ **Exploration and Production:** In Q1 2013, EBITDA reached HRK 1.61 billion, up by HRK 331 million over the same period last year due to higher average realized hydrocarbon price, slightly improved performance of the gas trading operations (decreased imported natural gas volumes) and enhanced cost structure reflecting management efforts aimed improving operational efficiency. These positive trends were moderated with lower hydrocarbon production reflecting natural depletion of domestic fields.
- ▶ **Refining and Marketing including Retail:** Despite the challenging market environment in Q1 2013, the segment recorded a positive CCS based EBITDA, a result more favorable than the last quarter. The improved performance was a result of a favorable product slate (resulting from continuous optimization of refinery operations), the strong gasoline crack spread, and strong efforts made in capturing additional markets through increasing exports and internal efficiency improvements. Negative factors that offset this result included higher processed crude oil prices, a lower share of processed domestic crude, higher energy costs and decrease in average crack spread. Weakening product demand was clearly visible in the drop of retail volumes which was overcompensated by enhanced export activities. High staff costs in retail continued to be a major burden on the business.
- ▶ **Corporate and Other<sup>1</sup>:** The 13% lower operating loss of the segment (HRK 136 million) in Q1 2013 compared to the same period last year is testament to management efforts in further process optimization and cost control.
- ▶ **CAPEX** spending in Q1 2013 reached HRK 163 million, similar to the level of the same period in 2012. The focus was on capital projects in Croatia, especially onshore upstream where preparation for three new exploration wells were completed, a retail modernization program and refining and marketing HSE and efficiency improvement project. New refining and marketing initiatives planned for 2013 include preparatory activities for deep conversion project at Rijeka refinery, and HSE and energy efficiency projects aimed at improving internal operational efficiency. With 103 already modernized filling stations, INA is the leading premium retailer in Croatia and is currently reconstructing 5 further stations.

#### **Commenting on the results, Mr. Zoltán Ádott, President of the Management Board said:**

INA Group's environment in the first quarter of 2013 remained challenging and negative movements from 2012 continued into 2013, but the Company achieved stable positive results. The management's continued efforts for efficiency improvement and cost control become more and more important as prolonged economic slowdown in Croatia and the rest of INA's core region continues to limit performance. After successfully completing INA's 3-year efficiency improvement program (OptINA2), we have continued with further efficiency improvement actions on a business-by-business basis, with a primary focus on downstream. Results of these activities are visible in, among other aspects, a 20% decrease in other material and service costs.

Exploration and production was positively influenced by higher realized prices and lower import gas volumes but the total result was moderated by natural production decline. Refining operations in whole Europe continue to be burdened by volatile crack spreads and depressed demand leading to closure of a number of plants. Croatia has also witnessed another difficult quarter in terms of fuel demand but INA managed to more than counter-balance the drop in domestic demand by intensifying sales activities in other markets, resulting in the increase of exports by one fourth.

CAPEX spending was focused on domestic projects, especially onshore exploration, where, while continuing our EOR projects, preparation for three new exploration wells was completed. INA's two refineries are jointly supplying the Croatian and the regional market and further system development is primarily oriented in the HSE and efficiency improvement areas in order to maximize synergies between refineries and increase the depth of conversion resulting in a better product yield. Large scale retail network modernization carried out in 2012 and continuing in 2013 resulted in INA having the largest number of modernized petrol stations in Croatia and ensured INA's position as leading premium retailer in Croatia.

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

## Management discussion

### Exploration and Production\*

Q4 2012	2012	Segment IFRS results (HRK million)	Q1 2012	Q1 2013	%
3,296	12,264	Net sales revenues	3,767	3,182	(16)
1,456	5,361	EBITDA reported	1,280	1,611	26
1,242	3,787	Operating profit reported	806	1,341	66
228	690	CAPEX **	72	115	60

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

\*\* Not including one-off exploration OPEX

Q4 2012	2012	Hydrocarbon production*	Q1 2012	Q1 2013	%
<b>11,998</b>	<b>12,296</b>	<b>Crude oil production (boe/d)*</b>	<b>12,699</b>	<b>11,484</b>	<b>(10)</b>
8,645	8,792	Croatia	8,721	8,408	(4)
-	109	Syria**	439	-	n.a.
1,869	1,909	Egypt	1,924	1,831	(5)
1,484	1,486	Angola	1,615	1,245	(23)
<b>27,825</b>	<b>33,025</b>	<b>Natural gas production (boe/d)</b>	<b>44,330</b>	<b>27,958</b>	<b>(37)</b>
12,938	15,768	Croatia - offshore	18,774	13,644	(27)
14,887	14,978	Croatia - onshore	16,394	14,314	(13)
-	2,278	Syria**	9,163	-	n.a.
<b>2,512</b>	<b>3,234</b>	<b>Condensate (boe/d)</b>	<b>5,571</b>	<b>2,460</b>	<b>(56)</b>
2,512	2,537	Croatia	2,767	2,460	(11)
-	697	Syria**	2,804	-	n.a.
<b>42,335</b>	<b>48,555</b>	<b>Total hydrocarbon production (boe/d)</b>	<b>62,601</b>	<b>41,902</b>	<b>(33)</b>
Q4 2012	2012	Average realized hydrocarbon price***	Q1 2012	Q1 2013	%
85	83	Total hydrocarbon price (USD/boe)*	78	83	7
Q4 2012	2012	Natural gas trading - mln cm	Q1 2012	Q1 2013	%
270	1,129	Natural gas imports	367	246	(33)
717	2,631	Total natural gas sales - domestic market	964	801	(17)
Q4 2012	2012	Natural gas price differential to import prices (HRK/000 cm)	Q1 2012	Q1 2013	%
(452)	(536)	Total price	(666)	(547)	(18)

\*Excluding separated condensate

\*\*The production on Syrian fields in 2012 lasted only 57 days. From 26 of February 2012 Syrian production was stopped by Force Majeure announcement. (the data should not be taken into consideration). Crude production in Syria decreased at faster rate as the crude production cuts started already in Q4 2011 due to local constraints.

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

#### Q1 2013 vs. Q4 2012 results

In Q1 2013, EBITDA increased compared to Q4 2012 reflecting (1) a 9% decreased imported natural gas volumes at trading and (2) additional increased revenue from the effect of domestically produced crude oil and condensate volumes transfer parity modification (HRK 207 million) which implied that not only the total Croatian oil and condensate production of the period but also the inventory accumulated during 2012 were transferred to the Refining and marketing including retail (Sisak Refinery) in Q1 2013 and (3) a slight increase in Adriatic production volumes. However, these positive trends were moderated by (1) lower average hydrocarbon production resulting mainly from natural depletion in both Adriatic and the Panon basin, (2) continued negative contribution of Prirodni Plin trading business (HRK -310 million in Q1 2013), which was mainly affected by higher amount of total sold volumes and increased negative price differential which could be only offset by lower natural gas import volumes. During the first quarter of 2013 Company has experienced tightening of the domestic gas market, visible in decreased demand of both households and industrial customers which closely follows declining domestic economic trends. Altogether, drop in the demand and the pressures on the prices due to opening of the market unfavorably effect gas trading operations.

#### Q1 2013 vs. Q1 2012 results

The Q1 2013 Upstream result improvement over Q1 2012 reflects (1) a 7% improved average realized hydrocarbon price (2) 33% lower natural gas imports combined with a 18% decreased price differential and (3) fully sold domestic production volumes harmonized through the on demand refineries operations. However, this result was unfavorably affected by a decrease in hydrocarbon production due to natural depletion.

Total **natural gas** production was 37% lower than in Q1 2012 reflecting (1) the absence of Syrian production in Q1 2013 due to the announcement of Force Majeure, and (2) a natural decline and water cuts on both on and Offshore fields in Croatia and regular maintenance activities. Natural gas production in the Croatian off-shore fields has significantly decreased due to higher level of water cuts, maintenance works and decommissioning on the partner side of Aiza Lura field and natural depletion.

Croatian **crude production** declined in 2013 due to natural depletion of the fields. Internationally, crude production was 5% lower in Egypt due to a natural production decline of the old fields on Ras Qattara and West Abu Gharadig Concessions, as well as a production decline at the Sidi Rahman field on the East Yidma Concession; this negative effect was further compounded by a 23% lower crude production in Angola resulting from unplanned production losses, mostly gas lift injection related, and natural decline. No Syrian crude volumes were recorded in Q1 2013 as the Company temporarily suspended activities in line with international and domestic regulation and local Syrian developments. Production volumes in Syria were accounted for only up to the Force Majeure announcement (February 26 2012).

The Company has recorded Syrian production volumes in its reports until Force Majeure announcement on February 26 2012 in spite of receiving no revenues. Comparable total hydrocarbon production decrease, when adjusted for the Syrian production volumes of 2012, decreased 17 %. As a result of the above mentioned trends, Upstream sales revenues were lower year-year reflecting (1) a decrease in hydrocarbon production and (2) lower natural gas sales volumes. These negative effects have been mitigated in part by the higher average realized hydrocarbon price.

Q1 2013 Upstream expenditures decreased by 38% compared to Q1 2012 to HRK 1.84 billion, reflecting (1) a decreased cost of imported natural gas resulting from a 33% reduction in import volumes, and (2) a drop in depreciation mainly due to absence of Syrian production volumes.

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

Exploration and Production segment's CAPEX in Q1 2013 amounted to HRK 115 million, down by 5% compared to Q1 2012. Capital investments in Croatia amounted to HRK 74.3 million, whilst international and CROSCO's capital investments reached HRK 35.8 million and HRK 5.3 million, respectively. The lower investment level is mainly a result of fact that offshore exploration drilling activities on the Ivana-C block on CA North Adriatic have not yet started due to rig availability; offshore exploration drilling is expected to start in July 2013. CROSCO's capex spending was below Q1 2012 levels on the back of rescheduled equipment delivery and procurement process constraints.

During Q1 2013 company spent HRK 16.1 million for exploration activities including in Croatia (HRK 10 mill) - well site preparation for three new exploration wells – Bunjani-1 S, Krunoslavje-2 and Caginec-1 and activities related to Molve-23 well preparation for fracking and in Egypt (HRK 6 mill) for exploration well Helal-1 drilling in the Disouq concession. Development expenditures amounted to HRK 81 million and related in Croatia (HRK 51 mill) to Adriatic investments - Ika JZ platform engineering, jacket construction activities, engineering follow-up, insurance cost and in-house PM and onshore - within the scope of EOR project on-going activities at Ivanić field, Ethane and Žutica field. The remaining onshore development activities mainly related to well general workovers. In Egypt (HRK 22 million) related to Drilling of Abrar-17 well started in January 2013 and well is put into production at the beginning of March. Drilling of well Ganna West also started in March. Ras Qattara and West Abu El Gharadig: Workover operations were performed in order to optimize production level and in Angola (HRK 8 mill) 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 Topsides Facilities Upgrade (TFU).

## Refining and Marketing, including Retail\*

Q4 2012	2012	Segment IFRS results (HRK million)	Q1 2012	Q1 2013	%
4,898	20,994	Revenues	4,353	5,820	34
(441)	(295)	EBITDA reported	145	(17)	n.a.
(42)	99	Replacement modification gain (+) / loss (-)	155	(8)	n.a.
(15)	13	Impairment on inventories gain (+) / loss (-)	24	8	(67)
(5)	(7)	Foreign exchange rate differences gain (+) / loss (-)	11	(21)	n.a.
(326)	(331)	CCS-based R&M including Retail EBITDA**	(24)	4	n.a.
(1,297)	(1,836)	Operating profit/(loss) reported	(61)	(203)	233
(540)	(1,218)	CCS-based R&M including Retail operating loss***	(232)	(181)	(22)
268	457	CAPEX and investments (w/o acquisition)	40	45	13

\*Refers to Refining & Marketing including retail INA, d.d. and following subsidiaries: INA MazivalInterIna Ljubljana, INA BH Sarajevo, Holdina Sarajevo, INA Hungary, INA Crna Gora, INA Beograd, INA Kosovo

\*\*Excluding negative special items (HRK 53 million in Q4 2012, HRK 69 million in 2012, HRK 22 million in Q1 2012)

\*\*\*Excluding negative special items (HRK 696 million in Q4 2012, HRK 723 million in 2012, HRK 19 million in Q1 2012)

Q4 2012	2012	Refinery processing (kt)	Q1 2012	Q1 2013	%
138	496	Domestic crude oil	136	38	(72)
576	2,448	Imported crude oil	572	674	18
33	113	Condensate	20	9	(54)
206	1,009	Other feedstock	220	193	(13)
<b>953</b>	<b>4,065</b>	<b>Total refinery throughput</b>	<b>949</b>	<b>914</b>	<b>(4)</b>
Q4 2012	2012	Refinery production (kt)	Q1 2012	Q1 2013	%
52	236	LPG	51	49	(4)
266	1,164	Motor gasoline	194	259	33
306	1,334	Diesel	225	309	37
53	181	Heating oil	56	55	(3)
15	97	Kerosene	16	21	34
13	61	Naphtha	24	11	(52)
121	440	Fuel oil	97	114	18
(0)	26	Bitumen	-	4	n.a.
0	(6)	Other products*	155	(13)	n.a.
<b>827</b>	<b>3,532</b>	<b>Total</b>	<b>818</b>	<b>809</b>	<b>(1)</b>
5	26	Refinery loss	6	5	(22)
121	507	Own consumption	125	100	(20)
<b>953</b>	<b>4,065</b>	<b>Total refinery production</b>	<b>949</b>	<b>914</b>	<b>(4)</b>
Q4 2012	2012	Refined product sales by country (kt)	Q1 2012	Q1 2013	%
441	1,848	Croatia	419	373	(11)
138	521	B&H	111	115	3
8	38	Slovenia	8	27	237
268	1,100	Other markets	171	277	70
<b>855</b>	<b>3,507</b>	<b>Total</b>	<b>709</b>	<b>791</b>	<b>12</b>
Q4 2012	2012	Refined product sales by product (kt)	Q1 2012	Q1 2013	%
57	261	LPG	59	56	(5)
222	1,001	Motor gasoline	182	251	38
335	1,365	Diesel	279	262	(6)
45	154	Heating oil	51	49	(3)
19	117	Kerosene	12	14	11
11	60	Naphtha	24	13	(45)
117	402	Fuel oil	83	121	46
16	57	Bitumen	6	6	(1)
34	91	Other products*	13	19	52
<b>855</b>	<b>3,507</b>	<b>Total</b>	<b>709</b>	<b>791</b>	<b>12</b>
241	1,042	o/w Retail segment sales	216	193	(11)

\*Other products = Benzene-rich cut, liquid sulphur, coke, motor oils. Ind, lubricants, base oils, spindle oil, waxes, blend. gas oil "M", atmsp. residue, intermediaries and other

### Q1 2013 vs. Q4 2012 results

In Q1 2013, the Refining and Marketing, including Retail segment's operating result strongly improved over the last quarter of 2012 - driven by (1) improving refinery production yield and higher white product yields with the average of 74.7% in Q1 2013 compared to 73.0% in Q4 2012, (2) lower own consumption and loss, (3) enhanced utilization of new plants, (4) on-demand refinery operation allowing better and broader feedstock selection and (5) higher motor fuel sales, partially related to increased sea sales.

Negative items that partly offset these positive developments were (1) higher price of processed crude oil, (2) lower share of processed domestic crude and (3) depressed diesel and LPG crack spread which fell by almost 90%.

The **Refining and Marketing, including Retail** segment's 'clean' **CCS-based operating result** improved by HRK 359 million compared to Q4 2012 as a result of above mentioned drivers.

Due to still depressed market demand which impacted refinery throughput and consequently reflected on total refined product sales decline of 7% in Q1 2013 compared to the prior quarter.

### **Q1 2013 vs. Q1 2012 results**

The segment EBITDA in Q1 2013 decreased by HRK 162 million, reaching HRK (17) million. This decline reflects (1) the lower average crack spread, (2) the increased processed crude oil price; (3) a slight decrease in the Brent-Ural spread (4) a continuous decline in motor fuel consumption in INA Group's core markets, and (5) higher energy costs, mainly due to increased natural gas and fuel oil consumption.

The above-mentioned negative drivers were moderated by (1) 12% higher sales, (2) diversified feedstock selection and significantly lower own consumption and loss (11.5% in Q1 2013 vs. 13.8% in Q1 2012), (3) on-demand refinery operation, and (4) inventory management resulting low volume levels compared to the same period of the previous year.

Despite the continued decreasing domestic demand the company did not decrease refinery production, but oppositely kept the crude oil products production at a stable level increasing exports, favorably contributing to the national economy. Efforts of the management aimed at optimizing marketing policy and the efforts made by the commercial team result in capturing additional export markets (in Bosnia and Slovenia) and increasing customers' base by winning tenders and supply contracts. These efforts have shown its value, in improved sales slate, especially in increased gasoline sales enabling the company to utilize the favorable crack spread.

Segment's **operating result** declined by HRK 142 million quarter-on-quarter, mainly due to the considerably lower gain on inventories. This trend was mitigated by significantly increased sales of marketable products as the share of white fuel products was kept high at the expense of non-profitable black products.

Although domestic demand for both gasoline and diesel has been in a continuous decline, the segment managed to achieve higher motor fuel sales due to the management's persistent efforts aimed at improving this segment's performance. INA Group capitalized on the favorable gasoline crack spread environment, achieving significantly higher sales of mainly seaborne gasoline. Greater improvement in this segment's performance was limited by the negative GDP growth which continued into 2013, affecting consumer spending across all sectors, most notably in construction and transport industries.

### **Capital expenditures**

CAPEX levels in Q1 2013 were somewhat lower than in the same period of 2012 (HRK 21 million in Q1 2013 vs. HRK 38 million in Q1 2012). Numerous growth and HSE/sustainable projects launched in 2012 as part of this division's development programs will be completed or developed further in 2013. **Retail** Capital expenditures totaled HRK 24 million in Q1 2013 and have increased over the Q1 2012 due to different schedule and execution of the intensive modernization program. As part of the network modernization program, which aims to improve the brand identity and functionality of filling stations and to achieve a high level of customer service and consumer satisfaction, 103 filling stations were modernized in 2012, while 5 filling stations are currently in the construction phase and 1 in the tendering phase.

### **Retail operations sales volume**

In Q1 2013, **total retail sales** volumes decreased by 11% compared to the same period last year. Motor gasoline sales recorded a drop of 12%, while gas oil sales decreased by 10%. LPG sales also declined, by 11%, partially as a result of postponed installation of additional LPG units. The sales were lower due to reduced demand, lower number of operational filling stations coming from postponed modernization activities from 2012 and adverse weather conditions pushing forward the agricultural season. Throughput per site in Q1 2013 was 8% lower compared to the same period last year, as a result of lower sales due to the deepening economic crisis and intensified network modernization program causing temporary closure of a certain number of filling stations.

On 31 March 2013, INA Group operated a network of 445 filling stations (393 in Croatia and 52 abroad, of which 45 were in Bosnia and Herzegovina, 6 in Slovenia and 1 in Montenegro).

**Condensed Consolidated Income Statement – INA-GROUP**  
**For the period ended 31 March 2012 and 2013**  
 (In HRK millions)

Q4 2012	2012		Note	Q1 2012	Q1 2013	%
		Sales revenue				
4,816	19,090	a) domestic		5,114	4,446	(13)
2,459	10,805	b) exports		2,142	2,677	25
<b>7,275</b>	<b>29,895</b>	<b>Total sales revenue</b>	<b>1</b>	<b>7,256</b>	<b>7,123</b>	<b>(2)</b>
104	269	Income from own consumption of products and services		24	36	50
115	353	Other operating income		118	105	(11)
<b>7,494</b>	<b>30,517</b>	<b>Total operating income</b>		<b>7,398</b>	<b>7,264</b>	<b>(2)</b>
(66)	281	Changes in inventories of finished products and work in progress		729	265	(64)
(3,521)	(15,151)	Cost of raw materials and consumables	2	(3,402)	(3,888)	14
(572)	(2,016)	Depreciation and amortization	4	(628)	(420)	(33)
(415)	(1,696)	Other material costs	4	(411)	(362)	(12)
(345)	(1,360)	Service costs	4	(441)	(292)	(34)
(772)	(2,636)	Staff costs	5	(619)	(559)	(10)
(1,488)	(5,377)	Cost of other goods sold	3	(1,957)	(1,420)	(27)
(693)	(1,063)	Impairment and charges (net)		12	(22)	n.a.
212	(143)	Provisions for charges and risks (net)		(93)	(17)	(82)
<b>(7,660)</b>	<b>(29,161)</b>	<b>Operating expenses</b>		<b>(6,810)</b>	<b>(6,715)</b>	<b>(1)</b>
<b>(166)</b>	<b>1,356</b>	<b>Profit from operations</b>		<b>588</b>	<b>549</b>	<b>(7)</b>
		Share in the profit of associated companies				
39	137	Finance income		168	85	(49)
(111)	(426)	Finance costs		(145)	(216)	49
<b>(72)</b>	<b>(289)</b>	<b>Net loss from financial activities</b>	<b>7</b>	<b>23</b>	<b>(131)</b>	<b>n.a.</b>
<b>(238)</b>	<b>1,067</b>	<b>Profit before tax</b>		<b>611</b>	<b>418</b>	<b>(32)</b>
(15)	(380)	Income tax expense	6	(192)	(42)	(78)
<b>(253)</b>	<b>687</b>	<b>Profit for the year</b>		<b>419</b>	<b>376</b>	<b>(10)</b>
		Attributable to				
(252)	681	Owners of the Company		412	376	(9)
(1)	6	Non-controlling interests		7	-	n.a.
<b>(253)</b>	<b>687</b>			<b>419</b>	<b>376</b>	<b>(10)</b>
		Earnings per share				
(25.2)	68.1	Basic and diluted earnings per share (kunas per share)		41.2	37.6	(9)

**Condensed Consolidated Statement of Comprehensive Income – INA-GROUP**  
**For the period ended 31 March 2012 and 2013**  
 (in HRK million)

Q4 2012	2012		Q1 2012	Q1 2013	%
<b>(253)</b>	<b>687</b>	<b>Profit for the year</b>	<b>419</b>	<b>376</b>	<b>(10)</b>
		Other comprehensive income:			
(40)	(111)	Exchange differences arising from foreign operations	(255)	191	n.a.
7	13	Gains on available-for-sale investments, net	45	13	(71)
		Actuarial gain/losses on defined benefit plans	-	(11)	
<b>(33)</b>	<b>(98)</b>	<b>Other comprehensive income, net</b>	<b>(210)</b>	<b>193</b>	<b>n.a.</b>
<b>(286)</b>	<b>589</b>	<b>Total comprehensive income for the year</b>	<b>209</b>	<b>569</b>	<b>172</b>
		Attributable to:			
(285)	583	Owners of the Company	202	569	182
(1)	6	Non- controlling interests	7	-	n.a.

**Condensed Consolidated Statement of Financial Position – INA-GROUP**  
**At 31 March 2012 and 2013**  
**(in HRK millions)**

	Note	1 January 2013	31 March 2013	%
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets	9	676	695	3
Property, plant and equipment	10	18,716	18,708	(0)
Goodwill		183	183	0
Investments in associates and joint ventures		34	34	(0)
Other investments		187	188	1
Long-term receivables		202	209	3
Derivative financial instruments		5	4	(20)
Deferred tax		544	652	20
Available for sale assets		340	356	5
<b>Total non-current assets</b>		<b>20,887</b>	<b>21,029</b>	<b>1</b>
<b>Current assets</b>				
Inventories	12	3,352	3,731	11
Trade receivables net	13	2,770	3,030	9
Other receivables		516	604	17
Derivative financial instruments		2	2	0
Other current assets		30	47	57
Prepaid expenses and accrued income		142	298	110
Cash and cash equivalents		488	1,206	147
<b>Current assets</b>		<b>7,300</b>	<b>8,918</b>	<b>22</b>
Assets classified as held for sale		-	-	n.a.
<b>Total current assets</b>		<b>7,300</b>	<b>8,918</b>	<b>22</b>
<b>Total assets</b>	8	<b>28,187</b>	<b>29,947</b>	<b>6</b>
<b>Equity and liabilities</b>				
<b>Capital and reserves</b>				
Share capital	11	9,000	9,000	0
Revaluation reserve		13	15	15
Other reserves		2,505	2,696	8
Retained earnings / (Deficit)		3,437	3,813	11
<b>Equity attributable to equity holder of the parent</b>		<b>14,955</b>	<b>15,524</b>	<b>4</b>
Non-controlling interests		(1)	(1)	0
<b>Total equity</b>		<b>14,954</b>	<b>15,523</b>	<b>4</b>
<b>Non-current liabilities</b>				
Long-term loans		1,161	1,037	(11)
Other non-current liabilities		101	93	(8)
Employee benefits obligation		100	113	13
Provisions		2,713	2,696	(1)
<b>Total non-current liabilities</b>		<b>4,075</b>	<b>3,939</b>	<b>(3)</b>
<b>Current liabilities</b>				
Bank loans and overdrafts		1,266	2,166	71
Current portion of long-term debt		4,725	4,794	1
Trade payables	15	1,684	1,801	7
Taxes and contributions		497	675	36
Other current liabilities		596	540	(9)
Accruals and deferred income		36	102	183
Employee benefits obligation		10	9	(10)
Provisions		344	398	16
<b>Total current liabilities</b>		<b>9,158</b>	<b>10,485</b>	<b>14</b>
<b>Total liabilities</b>	14	<b>13,233</b>	<b>14,424</b>	<b>9</b>
<b>Total equity and liabilities</b>		<b>28,187</b>	<b>29,947</b>	<b>6</b>



**Condensed Consolidated Cash Flow Statement - INA GROUP**  
**For the period ended 31 March 2012 and 2013**  
**(in HRK millions)**

Q4 2012	2012	Note	Q1 2012	Q1 2013	%
<b>(253)</b>	<b>687</b>		<b>419</b>	<b>376</b>	<b>(10)</b>
		<b>Profit/(loss) for the year</b>			
		Adjustments for:			
572	2,016	Depreciation and amortization	628	420	(33)
15	380	Income tax (benefit)/expenses recognized in (loss)/profit	192	42	(78)
748	1,281	Impairment charges (net)	137	198	45
(55)	(218)	Reversal of impairment	(149)	(176)	18
(29)	(36)	Gain on sale of property, plant and equipment	(2)	(3)	50
-	-	Gain on sale investments and shares	-	-	n.a.
126	44	Foreign exchange loss/(gain)	(136)	100	n.a.
28	123	Interest expense (net)	30	22	(27)
(21)	98	Other financial expense recognized in profit	36	(28)	n.a.
(219)	136	Increase in provisions	97	17	(82)
28	115	Decommissioning interests	24	20	(17)
(79)	(85)	Other non-cash items	24	2	(92)
<b>861</b>	<b>4,541</b>	<b>Operating cash flow before working capital changes</b>	<b>16</b>	<b>990</b>	<b>(24)</b>
		Movements in working capital	17		
808	190	(Increase)/decrease in inventories	(190)	(354)	86
308	379	(Increase)/decrease in receivables and prepayments	19	(752)	n.a.
(1,483)	(120)	(Decrease)/increase in trade and other payables	(602)	410	n.a.
<b>494</b>	<b>4,990</b>	<b>Cash generated from operations</b>	<b>527</b>	<b>294</b>	<b>(44)</b>
(186)	(1,248)	Taxes paid	(54)	(34)	(37)
<b>308</b>	<b>3,742</b>	<b>Net cash inflow from operating activities</b>	<b>473</b>	<b>260</b>	<b>(45)</b>
		<b>Cash flows used in investing activities</b>			
(530)	(1,190)	Payments for property, plant and equipment	(182)	(183)	1
(36)	(99)	Payment for intangible assets	(14)	(10)	(29)
2	9	Proceeds from sale of non-current assets	2	3	50
-	1	Dividends received from companies classified as available for sale and from other companies	1	-	n.a.
(1)	19	Interest received and other financial income	7	4	(43)
(3)	142	Investments and loans to third parties, net	153	(2)	n.a.
<b>(568)</b>	<b>(1,118)</b>	<b>Net cash used for investing activities</b>	<b>18</b>	<b>(188)</b>	<b>470</b>
		<b>Cash flows from financing activities</b>			
42	318	Additional long-term borrowings	67	-	n.a.
(27)	(1,934)	Repayment of long-term borrowings	(276)	(151)	(45)
3,876	15,280	Additional short-term borrowings	4,289	3,616	(16)
(3,743)	(15,936)	Repayment of short term borrowings	(3,935)	(2,745)	(30)
(20)	(93)	Interest paid on long-term loans	(26)	(20)	(23)
1	-	Other long-term liabilities, net	(2)	-	n.a.
21	(96)	Interest paid on short term loans and receive /(payments) fair value of derivatives	(63)	10	n.a.
<b>150</b>	<b>(2,461)</b>	<b>Net cash from financing activities</b>	<b>54</b>	<b>710</b>	<b>1,215</b>
(110)	163	Net (decrease)/increase in cash and cash equivalents	494	782	58
609	337	At the beginning of the period	337	488	45
(11)	(12)	Effect of foreign exchange rate changes	12	(64)	n.a.
488	488	At the end of period	843	1,206	43

**Condensed Consolidated Statement of Changes in Equity – INA-GROUP**  
**For the period ended 31 March 2012 and 2013**  
**(in HRK millions)**

**Attributable to equity holders of the parent**

	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Non-controlling interest	Total equity
Balance as at 1 January 2012	9,000	2,616	-	2,759	14,375	(10)	14,365
Profit for the year	-	-	-	412	412	-	412
Other comprehensive income, net	-	(255)	45	(3)	(213)	10	(203)
Total comprehensive income, net	-	(255)	45	409	199	10	209
Dividends payable	-	-	-	-	-	-	-
Balance as at 31 March 2012	9,000	2,361	45	3,168	14,574	-	14,574
	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Non-controlling interest	Total equity
Balance as at 1 January 2013	9,000	2,505	13	3,437	14,955	(1)	14,954
Profit for the year	-	-	-	376	376	-	376
Other comprehensive income, net	-	191	2	-	-	-	-
Total comprehensive income for the year	-	191	2	376	569	-	569
Dividends paid	-	-	-	-	-	-	-
Balance as at 31 March 2013	9,000	2,696	15	3,813	15,524	(1)	15,523

## INA Group Summary Segmental Results of Operations\*

Q4 2012	2012	(HRK million)	Q1 2012	Q1 2013	%
		<b>Sales</b>			
3,296	12,264	Exploration & Production	3,767	3,182	(16)
4,898	20,994	Refining and marketing including retail	4,353	5,820	34
233	598	Corporate and Other	83	98	18
(1,152)	(3,961)	Inter-segment revenue	(947)	(1,977)	109
<b>7,275</b>	<b>29,895</b>	<b>Sales</b>	<b>7,256</b>	<b>7,123</b>	<b>(2)</b>
		<b>Operating expenses, net other income from operating activities</b>			
(2,054)	(8,477)	Exploration & Production	(2,961)	(1,841)	(38)
(6,195)	(22,830)	Refining and marketing including retail	(4,414)	(6,023)	36
(344)	(1,193)	Corporate and Other	(240)	(234)	(3)
1,152	3,961	Inter-segment eliminations **	947	1,524	61
<b>(7,441)</b>	<b>(28,539)</b>	<b>Expenses</b>	<b>(6,668)</b>	<b>(6,574)</b>	<b>(1)</b>
		<b>Profit/(loss) from operations</b>			
1,242	3,787	Exploration & Production	806	1,341	66
(1,297)	(1,836)	Refining and marketing including retail	(61)	(203)	233
(111)	(595)	Corporate and Other	(157)	(136)	(13)
		Inter-segment eliminations		(453)	n.a.
<b>(166)</b>	<b>1,356</b>	<b>Profit from operations</b>	<b>588</b>	<b>549</b>	<b>(7)</b>
		<b>Share in the profit of associate companies</b>			
<b>(72)</b>	<b>(289)</b>	<b>Net loss from financial activities</b>	<b>23</b>	<b>(131)</b>	<b>n.a.</b>
<b>(238)</b>	<b>1,067</b>	<b>Profit before taxation</b>	<b>611</b>	<b>418</b>	<b>(32)</b>
(15)	(380)	Income tax expense	(192)	(42)	(78)
<b>(253)</b>	<b>687</b>	<b>Profit for the year</b>	<b>419</b>	<b>376</b>	<b>(10)</b>
Q4 2012	2012	Depreciation (HRK million)	Q1 2012	Q1 2013	%
350	1,192	Exploration & Production	430	237	(45)
200	720	Refining and marketing including retail	163	160	(1)
22	104	Corporate and Other	35	23	(34)
<b>572</b>	<b>2,016</b>	<b>Total</b>	<b>628</b>	<b>420</b>	<b>(33)</b>
Q4 2012	2012	EBITDA* (HRK million)	Q1 2012	Q1 2013	%
1,456	5,361	Exploration & Production	1,280	1,611	26
(441)	(295)	Refining and marketing including retail	145	(17)	n.a.
(128)	(488)	Corporate and Other	(128)	(115)	(10)
-	-	Intersegment elimination	-	(471)	
<b>887</b>	<b>4,578</b>	<b>Total</b>	<b>1,297</b>	<b>1,008</b>	<b>(22)</b>

\* EBITDA = EBIT + Depreciation + Impairment + Provisions

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

## Financial overview and notes

### Income statement

#### Notes

#### Q1 2013 results

- 1 **Total sales revenues** in Q1 2013 amounted to HRK 7,123 million and were slightly below Q1 2012 level, primarily triggered by lower average realized crude oil price and crude oil products prices, as well as decreased crude oil and natural gas sales volumes, partially offset with higher oil derivatives sales volumes compared to the same period last year.
- 2 **Costs of raw materials and consumables** were 14% higher compared to Q1 2012 and amounted to HRK 3,888 million, as average import price and volumes of imported crude oil were higher.
- 3 **Costs of goods sold** recorded a decrease of 27% and amounted to HRK 1,420 million resulting from lower sold volumes of imported natural gas and lower import of refined products compared to Q1 2012.
- 4 Within the **other operating costs** realized in Q1 2013:
  - Other material costs were lower by 12% and amounted to HRK 362 million.
  - Service costs in the amount of HRK 292 million recorded a decrease of 34% mainly due to lower royalty and decreased VAT costs.
  - Depreciation was 33% lower and amounted to HRK 420 million mainly due to "force majeure" announced in February 2012 that reduced Exploration and Production depreciation.
  - Adjustments and provisions of HRK 39 million were by 52% lower.
- 5 **Staff costs** in the amount HRK 559 million were 10% lower compared to Q1 2012 as a result of workforce optimization. Staff cost represents cost of net salaries in the amount of HRK 302 million, cost of employee income tax in the amount of HRK 125 million, tax on payroll in the amount of HRK 70 million and other payroll related costs in the amount of HRK 62 million for the three month period ended 31 March 2013. For the three month period ended 31 March 2012 staff cost includes 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 HRK 77 million. In the first three months 2013 INA terminated the contracts of 16 employees and severance payments in the total amount of HRK 3 million were made.
- 6 **Income tax expense** decreased by 78% to the amount of HRK 42 million.  
Tax costs and deferred taxes during the interim period are calculated on the basis of actual results and the profit tax rate, 20% for both Q1 2013 and Q1 2012.
- 7 **Net financial expenses** in the amount of HRK 131 million were recorded in Q1 2013, compared to the net financial income of HRK 23 million in Q1 2012.
  - Net foreign exchange losses were HRK 119 million in Q1 2013 mainly related to the depreciation of HRK against USD, compared to HRK 139 million net foreign exchange gains recorded in Q1 2012
  - Interest payable amounted to HRK 37 million and interest received HRK 4 million in Q1 2013, compared to interest payable of HRK 40 million and interest received HRK 7 million in Q1 2012.

The 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 until 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.

#### *Intersegment eliminations*

Intersegment elimination line within the operating results has been introduced for the company to be able to provide segmental results as International Accounting Standards requests, guided with the transparency of presented information which needs to fulfill the highest requests of consistency and reliability. For this purpose and for purpose of having the segmental results presenting fair market relations between the segments, which are fully aligned with on demand operations of the Refining and marketing including retail segment, parity of internal transfer between E&P and R&M including retail has changed to be based on delivered quantities. This line shows the effect on operating profit of the change in the amount of unrealized profit deferred in respect of transfers between segments. Unrealized profits arise where the item transferred is held in inventory by the receiving segment and a third party sale takes place only in a subsequent quarter. For segmental reporting purposes the deliverer segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place. The change is introduced from 1st of January 2013 and one time effect on E&P and R&M including retail results, related to correction of opening balance amounts to HRK 207 million and HRK 216 million, respectively.

## Balance sheet

### Notes

- 8 As at 31 March 2013, INA Group **total assets** amounted to HRK 29,947 million and were 6% higher compared to 31 December 2012.
- 9 In the period ended 31 March 2013, the Group invested HRK 10 million in **intangible assets**. The effect of depreciation equals to HRK 8 million. Foreign exchange revaluation of oil and gas fields increased the net book value in amount of HRK 17 million. Impaired investments amounted to HRK 1 million and transfer from tangible assets increased net book value in amount of HRK 1 million.
- 10 In the period ended 31 March 2013, INA Group invested HRK 153 million in **property, plant and equipment**. Reversal of capitalized decommissioning costs decreased the value of assets by HRK 1 million. Foreign exchange revaluation increased the net book value in amount of HRK 214 million. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 412 million. Correction of prior year depreciation increased net book value of property, plant and equipment in amount of HRK 1 million. Decrease of INA Group net book value is also result of foreign exchange differences in the amount of HRK 12 million. Transfer to intangible assets decreased net book value in amount of HRK 1 million. Correction of prior year eliminations increased INA Group net book value in amount of HRK 34 million. Correction of prior year impairment increased INA Group net book value in amount of HRK 16 million.
- 11 **Issued capital** at 31 March 2013 amounted to HRK 9,000 million. There were no movements in the issued capital of the Company in either the current or the prior financial reporting.
- 12 **Inventories** amounted to HRK 3,731 million, which is an increase of 11% compared to 31 December 2012, as a result of higher crude oil purchases made in order to secure the high level of production and support export oriented efforts of the refining and marketing including retail segment.
- 13 **Trade receivables** increased by 9% to the amount of HRK 3,030 million resulting from higher export sales of crude oil products.
- 14 As at 31 March 2013 **total liabilities** amounted to HRK 14,424 million, which is an increase of 9% compared to the 31 December 2012 level.  
INA Group **net indebtedness** slightly increased by 2% and amounted to HRK 6,791 million, as a result of higher working capital compared to 31 December 2012. **Gearing ratio**<sup>2</sup> decreased from 30.8% as at 31 December 2012, to 30.4% as at 31 March 2013.
- 15 **Trade payables** increased by 7% to HRK 1,801 million, as a result of higher amount of imported crude oil.

## Cash flow

### Notes

- 16 The **operating cash-flow before changes in working capital** amounted to HRK 990 million in Q1 2013, representing a decrease of HRK 310 million, or 24%, compared to Q1 2012, mainly as a result of lower EBITDA.
- 17 **Changes in working capital** affected the operating cash flow negatively by HRK 696 million, primarily due to
- Increase in receivables by HRK 752 million
  - Increased value of inventories by HRK 354 million
- 18 **Net outflows in investing activities** amounted to HRK 188 million, in comparison with HRK 33 million of outflows in Q1 2012.

## IRAN Moghan-2 Block

Currently INA, D.D. holds a Service Contract for the Exploration and Development of the Moghan-2 Block in Iran signed on 8 April 2008 with the National Iranian Oil Company (NIOC). The contract came into effect on 1 June 2008 and regulates INA as the operator in the exploration, appraisal and development phase while NIOC will conduct production operations. Minimum exploration work commitments include seismic surveys (2D and 3D) and drilling of one exploration well with minimum financial obligation amounting to USD 40.3 million. Obligatory Exploration phase expired on 31 May 2012. Due to the very complex developments regarding the international regulation for operating in Iran, including restrictive measures, actual project costs as of 30 June 2012 amounted to USD 4.5 million.

The Company is currently not engaged in any activities that would be in breach of the EU and wider international trade sanctions against Iran and will continue with its efforts to ensure all future activities are carried out in compliance with the aforementioned regulation.

## Contingent liabilities

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

EDISON INTERNATIONAL S.p.a. in its claim states that INA essentially did not adhere to the Production Sharing Agreement for the contractual area of north Adriatic, Izabela and Iris/Iva blocks, i.e. that it breached the obligations arising from the Agreement, and Edison is consequently claiming the amount of EUR 108 million. On 19 July 2011, INA provided its response to the Notice of Arbitration and also set out its Counterclaim. The seat of arbitration is Vienna, Republic of Austria, and the arbitration proceedings are being conducted pursuant to the UNCITRAL Arbitration Rules 2010. Further, written submissions were being exchanged and hearing was held in December 2012 in Vienna. The hearing was followed by another round of written submissions and the judgment of the Arbitral Tribunal is pending.

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

*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 potential tax liability and late penalty interest determined by the tax resolution was decreased compared to the initial liabilities determined in the Report and amounts to approximately HRK 124 million. INA, d.d. filed the appeal to the tax resolution within the prescribed deadline and is confident of proving its case in the pending administrative proceedings.

**Subsequent events***Revolving credit facility agreement signed*

INA, d.d. has signed a USD 400 million long-term multicurrency revolving credit facility agreement. The facility is realized on international market for general corporate purposes. Maturity of the credit facility is 3 years with an option for 1+1 year extension. The facility is coordinated by Erste Group Bank AG and ING Bank N.V., whereas the facility agent is The Bank of Tokyo–Mitsubishi UFJ, Ltd. In addition to this facility INA has signed an intragroup long-term loan agreement provided from MOL Group by which intragroup financing has been increased from USD 200 million to USD 300 million.

*Contract on gas supply signed with Petrokemija d.d.*

Prirodni plin d.o.o., member of INA Group and Petrokemija d.d. have signed an Amendment to the Gas Supply Contract for the period ending 31 December 2014. Under the Amendment to the Contract, gas supply period was extended for one more year, until end of next year, where Petrokemija and Prirodni plin have agreed more favorable supply conditions in accordance with current market conditions. Existing two year supply Contract has been signed for the period until end of 2013. With the Amendment delivery of around 523 million m<sup>3</sup> of natural gas was agreed for 2013, while delivery of around 300 million m<sup>3</sup> is estimated for next year. Quantities agreed for 2014 cover a significant part of Petrokemija gas needs and at the same time provide additional flexibility for both Petrokemija and INA to react to potential changes in the gas market.

**Financial instruments and risk management**

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

**a) Market risk****Commodity price risk management**

INA purchases crude oil on a spot market price in US dollars, mostly through short-term credit facility arrangements. The required quantities of gas are purchased at a price denominated in US dollars in accordance to 3-year supply contract with Italian ENI. Domestic prices of refined products are determined under the pricing formula set out in the Highest Retail Refined Product Pricing Regulation which, to a limited extent, is protecting the Group from the changes in crude and oil product prices and the foreign currency risk, enabling refinery products to be reprised bi-weekly. INA may also use derivative instruments in managing its commodity exposure.

**Foreign currency risk management**

Many Group transactions are priced and denominated in foreign currency and thus the Group is exposed to currency risk. The Group has net long USD and EUR, and net short HRK exposure of operative cash flow position. The Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of March 31, 2013, there were no open cross currency transactions.

**Interest rate risk management**

INA Group companies use borrowed funds at both fixed and floating interest rates (mostly floating) consequently the Group is exposed to the interest rate risk. The Group does not speculate on interest rate developments and primarily chooses floating rates. As of March 31, 2013, there were no open interest rate swap transactions.

**Other price risk**

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

**b) Credit risk**

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

### c) Liquidity risk

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

As of March 31, 2013, the Group had contracted short-term bank credit lines amounting to HRK 1.96 bn, excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and contracted long-term credit lines amounting to HRK 8.68 bn.

### 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.

### 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 for bad and doubtful receivables

INA Group	Amounts owed from related parties	Amounts owed to related parties
HRK million	31 March 2013	31 March 2013
<b>Companies available for sale</b>		
JANAF d.d. Zagreb	-	28
<b>Strategic partner</b>		
MOL Nyrt.	46	39
<b>Companies controlled by strategic partner</b>		
Energopetrol d.d.	58	-
Tifon d.o.o.	47	2
Kalegran Ltd.	22	-
MOL SLOVENIJA d.o.o.	2	12
<b>Companies controlled by the State</b>		
Hrvatska elektroprivreda	260	11
Petrokemija Kutina	259	-
Other	110	44

INA Group	Sales of goods	Purchase of goods
HRK million	31 March 2013	31 March 2013
<b>Companies available for sale</b>		
JANAF d.d. Zagreb	1	37
<b>Strategic partner</b>		
MOL Nyrt.	118	286
<b>Companies controlled by strategic partner</b>		
Tifon d.o.o.	168	1
Energopetrol d.d.	116	-
Kalengran Ltd.	32	-
MOL SLOVENIJA d.o.o.	7	18
Slovnaft, a.s.	-	35
<b>Companies controlled by the State</b>		
Hrvatska elektroprivreda	717	46
Petrokemija Kutina	256	-
Other	125	124

## Segmental Information

31 March 2013	Exploration and production	Refining and Marketing including retail	Corporate and other	Intersegment transfers	Total
<b>Assets and liabilities</b>					
Property, plant and equipment	11,674	6,366	681	(13)	18,708
Intangible assets	589	14	92	-	695
Investments in associates and joint ventures	34	-	-	-	34
Inventories	596	3,445	146	(456)	3,731
Trade receivables, net	1,499	1,617	99	(185)	3,030
Not allocated assets					3,749
<b>Total assets</b>					<b>29,947</b>
Trade payables	645	1,230	111	(185)	1,801
Not allocated liabilities					12,623
<b>Total liabilities</b>					<b>14,424</b>
<b>Other segment information</b>					
<b>Capital expenditure:</b>	<b>115</b>	<b>45</b>	<b>3</b>	<b>-</b>	<b>163</b>
Property, plant and equipment	107	45	1	-	153
Intangible assets	8	-	2	-	10
<b>Depreciation and amortization</b>	<b>237</b>	<b>160</b>	<b>23</b>	<b>-</b>	<b>420</b>
Impairment losses/(income) PP&E, net recognized in profit and loss	-	-	-	-	-
Other impairment losses/(income), net recognized in profit and loss	3	40	(3)	(18)	22
<b>Total impairment losses/(income), net</b>	<b>3</b>	<b>40</b>	<b>(3)</b>	<b>(18)</b>	<b>22</b>
<b>31 December 2012</b>					
Assets and liabilities	Exploration and production	Refining and Marketing including retail	Corporate and other	Elimination	Total
Property, plant and equipment	1,1571	6,475	695	(25)	18,716
Intangible assets	565	15	96	-	676
Investments in associates and joint ventures	34	-	-	-	34
Inventories	1,610	2,278	139	(675)	3,352
Trade receivables, net	1,748	1,039	217	(234)	2,770
Not allocated assets					2,630
<b>Total assets</b>					<b>28,187</b>
Trade payables	832	838	248	(234)	1,684
Not allocated liabilities					11,549
<b>Total liabilities</b>					<b>13,233</b>
<b>Other segment information</b>					
<b>Capital expenditure:</b>	<b>690</b>	<b>457</b>	<b>83</b>	<b>-</b>	<b>1,230</b>
Property, plant and equipment	648	449	34	-	1,131
Intangible assets	42	8	49	-	99
<b>Depreciation and amortization</b>	<b>1,192</b>	<b>720</b>	<b>104</b>	<b>-</b>	<b>2,016</b>
Impairment losses/(income) PP&E, net recognized in profit and loss	(38)	662	-	-	624
Other impairment losses/(income), net recognized in profit and loss	243	193	3	-	439
<b>Total impairment losses/(income), net</b>	<b>205</b>	<b>855</b>	<b>3</b>	<b>-</b>	<b>1,063</b>



### SPECIAL ITEMS IN OPERATING PROFIT AND EBITDA (in HRK million)

Q4 2012	2012	Q4 2011		Q1 2012	Q1 2013
			<b>INA GROUP</b>		
(65)	(756)	(645)	<b>Total impact of special items on operating profit</b>	(246)	-
(42)	(122)	(95)	<b>Total impact of special items on EBITDA</b>	(178)	
(28)	(50)	32	<b>Exploration &amp; Production</b>	(226)	
(5)	(28)	(29)	Incentive measures	(2)	
-	(30)	-	Impairment of assets	-	
(12)	(15)	-	Angola	246	
-	-	-	Egypt - extra cost of production	11	
(31)	(4)	(4)	Provisions (ENI, litigations, incentives)	(31)	
13	25	-	Reversal - IAS 36	-	
7	1	-	Iran Moghan-2 Block - service contract exit accrual	-	
		65	Impairment of assets in Libya (Crosco)	-	
(10)	(696)	(633)	<b>Refining &amp; Marketing including retail</b>	(19)	
(6)	(673)	(655)	Impairment of assets	(17)	
(15)	(53)	(34)	Incentive measures	(22)	
(2)	5	53	Provisions (litigations, incentives)	20	
13	23	-	Reversal of provisions (litigations, incentives)	-	
-	-	-	Revenues from insurance	-	
(27)	(10)	(41)	<b>Corporate functions</b>	(1)	
(10)	(61)	(32)	Incentive measures	(12)	
-	(1)	-	Impairment of assets	-	
5	2	-	Reversal of provisions (litigations, incentives)	-	
(22)	49	(9)	Provisions for incentives	11	
-	1	-	Revenues from insurance	-	

### Main external parameters

Q4 2012	2012		Q1 2012	Q1 2013	%
110.0	111.6	Brent dtd (USD/bbl.)	118.5	112.6	(5.0)
967.3	1,021.1	Premium unleaded gasoline 10 ppm (USD/t)*	1,060.4	1,044.2	(1.5)
959.7	968.5	Gas oil – ULSD 10 ppm (USD/t)*	1,005.7	964.2	(4.1)
582.3	624.6	Fuel oil 3,5% (USD/t)*	674.1	608.0	(9.8)
986.4	930.9	LPG (USD/t)*	1,047.3	866.9	(17.2)
135.0	177.0	Crack spread – premium unleaded (USD/t)*	164.0	192.8	17.5
127.4	124.4	Crack spread – gas oil (USD/t)*	109.3	112.7	3.1
(250.0)	(219.5)	Crack spread - fuel oil 3,5% (USD/t)*	(222.3)	(243.5)	9.5
154.1	86.8	Crack spread - LPG (USD/t)*	150.9	15.5	(89.8)
5.80	5.85	HRK/USD average	5.76	5.74	(0.3)
5.73	5.73	HRK/USD closing	5.62	5.92	5.3
7.52	7.51	HRK/EUR average	7.55	7.58	0.4
7.55	7.55	HRK/EUR closing	7.51	7.59	1.1
0.32	0.43	3m USD LIBOR (%)	0.51	0.29	(43.5)
0.20	0.58	3m EURIBOR (%)	1.04	0.21	(79.9)

\* FOB Mediterranean

## Announcements in Q1 2013

April 12 2013	Contract on gas supply signed with Petrokemija d.d.
April 04 2013	Revolving credit facility agreement signed
March 29, 2013	Annual document of disclosed information
March 29, 2013	Disposal of shares
March 28, 2013	Supervisory Board Meeting held
January 15, 2013	Answer to Zagreb Stock Exchange Query

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

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

Source: Central Clearing Depository Company.

## Changes in organization, Management Board or Supervisory Board

### Supervisory Board

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

### Management Board

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

### Board of Executive Directors

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

## Management representation

INA Group's consolidated financial statements for Q1 2013 have been prepared in accordance with the International Financial Reporting Standards (IFRS), i.e. they present fairly, in all material aspects, the financial position of the company, results of its operations and cash flows.

Management Board:

Zoltán Áldott	President of INA, d.d. Board
Niko Dalić	Member
Pál Zoltán Kara	Member
Ivan Krešić	Member
Davor Mayer	Member
Péter Ratatics	Member