Q2 AND H1 2011 – REPORT INA GROUP CONSOLIDATED

INA Group (ZB: INA-R-A; LSE: HINA; www.ina.hr) announced its Q2 and H1 2011 results today. This report contains unaudited consolidated financial statements for the period ending 30 June 2011 as prepared by the management in accordance with the International Financial Reporting Standards.

INA Group financial results (IFRS)

HRK mln.	Q1 2011	Q2 2011	Q2 2010	%	H1 2010	H1 2011	%
Net sales revenues	6,943	7,817	5,678	37.7	11,314	14,760	30.5
EBITDA [(1)]	2,019	2,079	1,453	43.1	2,513	4,098	63.1
EBITDA excl. special items [(2)]	2,019	2,074	1,130	83.6	2,190	4,093	86.9
Operating profit/(loss)	1,118	1,078	745	44.7	1,088	2,196	101.8
Operating profit/(loss) excl. special items [(2)]	1,349	1,158	552	109.8	969	2,507	158.7
Net financial gain (expenses)	260	72	(693)	n.a.	(1,104)	332	n.a.
Net profit/loss for the period [(3)]	1,053	893	23	3,782.6	(108)	1,946	n.a.
Net profit/loss for the period excl. special items [(2)]	1,238	956	(131)	n.a.	(203)	2,194	n.a.
Operating cash flow	(969)	1,626	1,961	(17.1)	1,035	657	(36.5)

USD mln [(4)]	Q1 2011	Q2 2011	Q2 2010	%	H1 2010	H1 2011	%
Net sales revenues	1,283	1,523	999	52.5	2,067	2,799	35.4
EBITDA [(1)]	373	405	256	58.5	459	777	69.3
EBITDA excl. special items [(2)]	373	404	199	103.3	400	776	94.0
Operating profit/(loss)	207	210	131	60.3	199	416	109.5
Operating profit/(loss) excl. special items [(2)]	249	226	97	132.4	177	475	168.5
Net financial gain (expenses)	48	14	(122)	n.a.	(202)	63	n.a.
Net profit/loss for the period [(3)]	195	174	4	4,201.1	(20)	369	n.a.
Net profit/loss for the period excl. special items [(2)]	229	186	(23)	n.a.	(37)	416	n.a.
Operating cash flow	(179)	317	345	(8.1)	189	125	(34.1)

(1) EBITDA = EBIT + Depreciation + Impairment + Provisions

(2) Excludes special items items related to asset impairment, stock evaluation, deferred taxes, provision, severance payments and special items income. The H1 2011 EBIT was negatively influenced by HRK 311 million special items relating to provisions and value adjustments.

3) INA Group net profit attributable to equity holder

(4) In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for Q1 2011: 5.4119 HRK/USD; Q2 2010: 5.6857 HRK/USD, Q2 2011: 5.1325 HRK/USD; H1 2010: 5.4734 HRK/USD., H1 2011: 5.2733

INA Group continued with strong operational results and reached HRK 4,093 mln EBITDA in the first half of 2011, excluding special items, what is an increase of 87% compared to the same period of previous year, while operating profit, excluding special items, more than doubled in the first six months of 2011, reaching HRK 2,507 mln. This trend of improved results is reflecting more efficient operations and performance of key businesses, positive contribution of key investment projects and a generally better external environment. Higher crude oil prices coupled with increased average daily hydrocarbon production improved Upstream results compared to H1 2010 making it main profit contributor in this quarter again. Contribution of the downstream operations to the results also improved compared to the same period of 2010, but still remained negative mainly due to still very weak refining environment and partially as a result of certain complications during the start-up of the hydrocracker complex at Rijeka and negative effect of inventories revaluation in Q2 2011.

In the second quarter of 2011 INA Group delivered stable results reaching HRK 2,074 mln EBITDA, excluding special items, what is an increase of 84% compared to the same period of the previous year. In line with this significant improvement, operating profit, excluding special items reached HRK 1,158 mln in Q2 of 2011. Improved results reflect more efficient operations and performance of key businesses and partially improved external environment compared to Q2 2010. In Q2 2011 positive effects of higher crude oil prices, increased average daily hydrocarbon production, increased sales volumes in wholesale, were just partly off-set by lower average crack spread and less favourable white products yields of refineries and increased depreciation, mainly in Upstream. Beside the mentioned improving external and internal trends, results were positively affected by the efforts of the management to reduce operating expenses through strict cost management and control.

Net profit of INA Group in H1 2011 has shown a strong improvement over the same period last year, reaching HRK 1,946 mln compared to HRK 108 mln net loss realised in H1 2010. In addition to the operating profit drivers, improved result at the net profit level was mainly driven by the unrealised forex gains on the revaluation of credit facilities due to the weaker US dollar against Croatian Kuna at the end of the first half of 2011 (net financial profit of HRK 332 million was recorded in H1 2011 in comparison with net financial loss of HRK 1,104 million in the same period last year).

Overall operations

- **Exploration and Production:** operating profit, excluding special items, in H1 2011 showed a strong increase of HRK 1,298 million, over H1 2010 figure and amounted to HRK 3,312 million (USD 628 million). This profit growth came from a combination of positive effects, such as increased production volumes (18% higher average daily hydrocarbon production) from Croatian off-shore and Syria which overcompensated the decrease in the mature Croatian onshore fields as well as 34% higher average realized hydrocarbon prices due to improving macro environment, i.e. increased crude price on the back of the economic activity improvement and supply shocks due to the MENA region development. Increase in operating profit was additionally backed by the achievements in the Company's effort on cost reduction resulting in 5% lower unit OPEX.
- **Refining and Marketing**: In H1 2011, the segment generated operating loss, excluding special items, of HRK 496 million (USD 94 million), which is HRK 185 million lower than in H1 2010. The loss is reflecting on the still challenging refining environment; however improvement was reached mainly as a result of 8% higher sales volumes (mostly EURO V products) with stronger presence in B&H market, optimized crude oil procurement and realised efficiency improvement measures. Certain complications arose during the start-up of the hydrocracker complex at Rijeka refinery that influenced our Q1 2011 results negatively, but starting from May 2011 it operates continuously.
- **Retail segment:** generated a HRK 12 million (2 million USD) operating loss excluding special items in H1 2011, or HRK 18 million lower result compared to H1 2010 mostly due to non-performed assets impairment that had a positive effect in H1 2010. The sales volumes were in line with H1 2010 (excl. Crobenz' sales volumes, a subsidiary sold in Q3 2010) but introduction of EURO V quality throughout the entire domestic network ensured a better product slate and higher margins.
- **Corporate and Other[1]:** In the first six months of 2011, an operating loss excluding special items of HRK 297 million (USD 56 million) was recorded. Lower operating loss by HRK 73 million in comparison with H1 2010 resulted mainly from lower subcontractor costs related to cost-cutting measures which also contributed to the reduction of other costs.
- **A net financial profit** in the amount of HRK 332 million was recorded in the first six months of 2011, compared to the net financial loss of HRK 1,104 million in the first six months of 2010. The difference of HRK 1,436 million occurred because of mainly unrealized forex gains, mostly on credit facilities (as opposed to forex losses in H1 2010), and lower interest expenses. Other financial expenses were also HRK 59 million lower compared to the same period last year.
- **Capital expenditures:** In H1 2011 CAPEX amounted to HRK 585 million with major CAPEX projects executed in all business segments. Exploration and Production accounted for majority of CAPEX with HRK 331 million, primarily spent on development operations. Refining and Marketing spent HRK 202 million, mostly allocated on the refinery modernisation programme while HRK 41 million was invested into retail operations.
- **Operating cash flow:** In the first six months of 2011, the operating cash-flow before changes in working capital improved to HRK 3,608 million, HRK 1,832 million higher than in the same period 2010. Operating cash-flow was positive and amounted to HRK 657 million (36% down in comparison with H1 2010). Changes in working capital decreased the operating cash flow in H1 2011 by HRK 2,623 million, primarily as a result of higher value of inventories due to the coupled effect of higher prices and higher volumes, and decreased liabilities due to re-established liquidity, while the paid taxes had additional negative effect of HRK 328 million.
- INA Group **net indebtedness**, as at 30 June 2011, slightly increased to the amount of HRK 9,989 million compared to HRK 9,938 million at the end of 2010. **Gearing ratio**, as at 30 June 2011, decreased to 42.4% from 43.7% as at 31 December 2010 based on better operating results.

1 Includes Corporate Functions and subsidiaries providing safety and protection services, technical services, corporate support and other services.

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

"One more successful quarter is behind Ina where good results were delivered showing that the company is on the path of regaining profitability and delivering value to its shareholders. Glancing at our results, exploration and production has delivered strong operating result backed by key development projects which started to generate returns visible in the increased levels of production. Nevertheless the Refining and Marketing segment was still influenced by ambiguous environment with reduced average crack spreads but improving margins on certain products. However, key activities of the segment will be aimed at stabilising operations and continuing with further value creating investments in our refining system and market optimisation to strengthen competitiveness and market position.

After the serious accident in the Sisak refinery, currently we are on the way of the recovery. After the recovery activities are being finalized, we will make all the necessary steps to ensure the safety and stability of our operations. As soon as INA can ensure safety of its workers and the citizens of Sisak, the protection of the environment and uninterrupted operations, the refinery will be restarted.

After stabilising operations in the previous year and concluding a strong investment cycle, we are focusing on further continuing to improving the efficiency of operations and identifying potential areas for new investment opportunities. Therefore, INA is aiming to continue its key investment programmes, including development of Upstream projects in Syria and North Adriatic region and exploiting opportunities in Croatian onshore exploration. We will further proceed with value creating investment programs in our refineries and within the framework of retail network modernisation and revitalisation by the end of 2011 around 50 petrol stations will be modernized.

Management has continued with improving operational efficiency focusing on controlling costs, further improving procurement process with an aim of reaching additional savings, while at the same time concentrating on identifying further areas with improvement potential."

INDUSTRIJA NAFTE, d.d.

Overview of the macro environment

Global economy has grown 4.3 percent in the first quarter of this year; however it is slowing down temporarily and is expected to pick up the growth pace again in the second half of the year. Growth is unevenly spread across the markets. Many advanced economies which are experiencing fiscal and financial sector balance sheet problems that effect employment have week growth rates, while emerging and developing economies continue with the strong recovery.
Japanese earthquake and tsunami had a strong effect on the national economy, with supply disruptions weighing heavily on industrial production, and consumption. Growth was slow in the United States as well, in part due to higher commodity prices, bad weather, and supply chain disruptions from the Japanese earthquake. On the other hand, euro area recorded stronger growth backed by investments in Germany and France. The Euro-area is primarily focused on solving the debt crisis. The economies in the peripheral countries and the effects of taken measures in order to bring back the debt levels, are starting to slow down the expansion, leaving highly indebted economies lagging behind. Emerging and developing economies evolved as expected, but with considerable variation across regions.

Commodity markets are characterised by volatility since April. After a strong increase in April, commodity prices went through a correction in May, and in June. Commodity markets were negatively influenced by the Greek debt crisis and debt concerns in other EU economies, global inflationary pressures and the ongoing growth restraint in China to fight inflation. Crude oil prices came close to 130 USD/bbl in April, and fell in May and June. Crude oil prices were additionally influenced by IEA decision of 23 June to release 60 million boe of crude that it was holding in stock.
External business environment in H1 2011 mostly resulted from turbulent developments and fear that it could disrupt oil supply, therefore the price of oil rose and in April it reached the maximum average of 123 USD/bbl from 2008. In May and June 2011 crude oil prices decreased but still remained above Q1 2011 level. In Q2 2011 average price of crude oil increased by 49.9% (from 78.3 USD/bbl to 117.4 USD/bbl) compared with Q2 2010, while the average crack spread (FOB Med) decreased by 34.5% (from 38.3 USD/t to 25.1 USD/t). Crack spreads of the main products were: for unleaded petrol BMB Euro 95 (V) it increased by 16.3% (to 152.8 USD/t) and for Eurodiesel it increased by 14.4% (to 99.3 USD/t). The negative spread for fuel oil increased by 67.0% (to -268.3 USD/t).

Unlike the surrounding economies, Croatian GDP has fallen by 0.8 percent in the first quarter of this year, when compared to Q1 2010. This contraction of economic activity is coming from decreased personal consumption (-0,1%), reduced public spending and decreased capital investments, additionally backed by strong fall of goods and services exports which have fallen more than 11%. Stabilised consumption together with the good tourist season, and improving exports in May could indicate a favourable effect of the goods and services exports on the yearly level. Industrial production has shown improving sings in April and May after a negative Q1, however looking at first five months the production has fallen by 1.9%. Prices of goods and services for personal consumption, measured by consumer price indices, as compared to June 2010, that is, at the annual level, increased by 2.0% and on the average by 1.8% annually.
Croatia's accession negotiations with the EU were formally concluded on June 30 and during that process 35 chapters were closed. Council of the EU foresees Croatia's EU membership on July 1, 2013, after the ratification process, planned to last 18 months, is concluded. During the last week, the Croatian Government has announced December 4 as the date for parliamentary elections (pending official confirmation by the President of Croatia), around which the signature of the Accession Treaty with the EU is also planned, thus allowing the accession referendum to take place within 30 days from the signature of the Treaty.

INDUSTRIJA NAFTE, d.d.

Management discussion

*Exploration and Production**

Q1 2011	Q2 2011	Q2 2010	%	Segment IFRS results (HRK mln)	H1 2010	H1 2011	%
3,236	3,178	2,337	36.0	Net sales revenues	5,101	6,414	25.7
1,469	1,837	1,393	31.9	Operating profit/(loss)	2,348	3,306	40.8
1,573	1,739	1,059	64.2	Operating profit excl. special items**	2,014	3,312	64.4
1,969	2,477	1,875	32.1	EBITDA	3,262	4,446	36.3
1,969	2,392	1,437	66.5	EBITDA excl. special items**	2,824	4,361	54.4
191	140	269	(48.0)	CAPEX	785	331	(57.8)

* Exploration and Production refers to the Upstream of INA, d.d. and following subsidiaries: Crosco Group, INA Naftaplin IE&PL, Guernsey, Adriagas S.r.l. Milano, Prirodni plin d.o.o.
** The H1 2011 performance was negatively influenced by HRK 6 million special items, of which HRK 112 million releases of provisions had a positive effect, while HRK 27 million to incentives, HRK 26 million related to provisions and HRK 65 million to impairment had negative effects.

Q1 2011	Q2 2011	Q2 2010	%	Hydrocarbon production*	H1 2010	H1 2011	%
190.7	**187.6**	**179.3**	4.7	**Crude oil production** (kt)*	**390.9**	**378.3**	(3.2)
114.5	114.9	118.0	(2.6)	Croatia	239.7	229.4	(4.3)
37.3	33.7	36.9	(8.8)	Syria	64.3	71.0	10.5
20.5	19.9	24.3	(17.9)	Egypt	49.1	40.4	(17.6)
18.4	19.1	0.0	n.a.	Angola	37.9	37.5	(1.1)
755.7	**778.3**	**655.4**	**18.8**	**Natural gas production** (mln cm)	**1,255.4**	**1,534.1**	**22.2**
353.7	342.2	353.9	(3.3)	Croatia - offshore	655.4	695.9	6.2
223.7	218.9	235.3	(7.0)	Croatia - onshore	474.7	442.6	(6.8)
178.3	217.3	66.2	228.4	Syria	125.3	395.6	215.8
97.8	**106.8**	**64.1**	66.8	**Condensate** (kt)	**129.9**	**204.7**	**57.5**
15,841	15,519	16,208	(4.2)	Crude oil (boe/d)	16,146	15,688	(2.8)
10,264	11,009	7,100	55.0	Natural gas Condensate (boe/d)	7,433	10,639	43.1
49,434	50,352	42,388	18.8	Natural Gas (boe/d)	40,826	49,896	22.2
23,136	22,136	22,887	(3.3)	o/w: Croatia off-shore (boe/d)	21,314	22,633	6.2
75,538	**76,880**	**65,697**	**17.0**	**Total hydrocarbon production** (boe/d)	**64,406**	**76,223**	**18.3**

Q1 2011	Q2 2011	Q2 2010	%	Average realised hydrocarbon price**	H1 2010	H1 2011	%
86.8	107.1	68.0	57.4	Crude oil and condensate price (USD/bbl)	66.6	98.5	47.8
67.7	83.9	57.9	45.0	Total hydrocarbon price (USD/boe)*	56.1	75.0	33.9

Q1 2011	Q2 2011	Q2 2010	%	Natural gas trading - mln cm	H1 2010	H1 2011	%
216.4	138.1	388.2	(64.4)	Natural gas imports	692.5	354.5	(48.8)
968.3	543.4	548.4	(0.9)	Total natural gas sales - domestic market	1,524.8	1,511.7	(0.9)

Q1 2011	Q2 2011	Q2 2010	%	Natural gas price differential to import prices (HRK/000 cm)	H1 2010	H1 2011	%
(30.7)	(364.9)	(548.1)	(33.4)	Eligible customers' price	(421.7)	(149.5)	(64.5)
(411.9)	(684.1)	(541.5)	26.3	Tariff customers' price	(278.3)	(502.8)	80.7
(169.3)	(404.6)	(550.1)	(26.5)	Total price	(380.3)	(247.5)	(34.9)

*Excluding separated condensate
** Calculated based on total external sales revenue including natural gas selling price as well

In Q2 2011, Upstream operating profit, excluding special items, increased by HRK 166 million and reached HRK 1,739 million compared to HRK 1,573 million operating profit in Q1 2011. This profit growth derived from a combination of positive effects, such as (1) 24% higher average realised hydrocarbon prices, and (2) slight decrease of average production cost. Positive effects were partly offset by (3) stronger kuna against USD, (4) slightly lower sales revenues due to the seasonal trends of natural gas sales, (5) significantly increased deprecation as a result of assets activation in this period, primary in Syria and (6) higher royalty payment according to changed legislation from April 2011.

Operating profit, excluding special items, in Q2 2011 increased strongly by 64%, over Q2 2010 figure. This favourable result is mainly coming from (1) 17% increase in average daily hydrocarbon production, as a result of the investments made into the key projects in the recent periods and (2) 45% increased total realised hydrocarbon price, moderated primary by (3) 10% stronger kuna against USD. The reported Q2 2011 operating profit amounted to HRK 1,837 million and was positively impacted by HRK 98 million special items.

Upstream H1 2011 operating profit, excluding special items shows a strong increase of HRK 1,298 million, over H1 2010 figure. The main drivers for the profit improvement were (1) 18% higher hydrocarbon production, (2) 34% better average realized hydrocarbon price after the continuous recovery of global economy and (3) the achievements in the Company's effort on cost reduction resulting 5% lower unit opex. Reported H1 2011 operating profit amounted to HRK 3,306 million and was negatively influenced by HRK 6 million special items.

Average daily hydrocarbon production in H1 2011 was at 76,223 boe, up 18% compared to the same period of last year, as the increasing contribution of the development projects more than offset the production decrease of the maturing onshore oil and gas fields. Due to higher net share and higher Annamaria field production, production on the Adriatic was 6% higher than in H1 2010. In H1 2011 unit production cost compared to the H1 2010 was 5% lower supported by efficiency improvement measures and higher production quantities.

In H1 2011 Croatian on-shore natural gas production decreased by 7%, due to the natural depletion of maturing fields. Natural gas production outside Croatia significantly increased compared to H1 2010, coming from Syria after start up of Oil and gas station Jihar and Gas Treatment Plant. Political tensions in the first half of the year in Syria did not effect the daily operation developments of blocks and production. International crude production fell by 2%, compared to H1 2010 because of lower production in Egypt due to natural decline and postponed workover activities and development drilling because of political riots at the beginning of the year. Onshore domestic crude production declined by 4%.

In Syria due the recent investment and further field developments, the average daily hydrocarbon production is expected to be around 22 Mboe in 2011, premising normal operational environment, while peak production could reach 24.5 Mboe in 2012-2013. In addition, due to the nature of Production Sharing Agreement INA's share from the North Adriatic offshore production could be relatively stable in the next two years. The average daily production could be 25 Mboe in 2011.

Upstream revenues in H1 2011 increased by 26% compared to H1 2010 primarily as combined effect of (1) stronger hydrocarbon production, (2) higher sales volumes and (3) higher average hydrocarbon prices. Revenues were partially offset by unfavourable effect of stronger kuna.

Exploration and Production segment's **CAPEX** in H1 2011 amounted HRK 331 million, out of which majority was spent in Syria (HRK 130 million) on development and exploration activities, on exploration and development on North Adriatic (HRK 12 million) and on-shore Croatia (HRK 21 million), while HRK 168 million in other countries, primary in Egypt and Angola. On Hayan block **in Syria**, investments related to drilling one well and activities connected to Gas Treatment Plant, which include connecting roads, camp reallocation and furnishing of living quarters, electrical interconnections and miscellaneous civil works. Capital expenditure **on North Adriatic**, on Ivana K, included construction activities on finalization of first phase of optimization of existing system of the North Adriatic contract area and installation of necessary equipment for accepting Izabela field gas production. The major part of the investment was covered by INA's partner in this project. **In Angola** the activities planned for the first half of 2011 related to construction of Floating Storage Hull Repair on Palanca Terminal and replacement of corroded piping were postponed until partner's approval. Also, Operator (Sonangol P&P) decided to postpone annual workover for Q1 2011 due to good production results. **In Egypt,** development activities in Q1 related to the finalization of drilling activities on West Abu Gharadig concession, drilling activities on SR-3 well on Sidi Rahman concession, drilling activities on two wells on Ras Qattara concession and drilling activities on two wells on North Bahariya concession. On concession Sidi Rahman workover activities on wells SR-1 and SR-2 started also in H1 2011. On the Žutica oil field i**n Croatia** within the EOR project testing activities of future injection and production wells were proceeded. This would be the first case of tertiary methods application in Croatia. Total expenditures for this project in the next three years would amount to HRK 500 million but the project would increase the production over the next 20 years. In H2 2011 on North Adriatic the start of exploration drilling activities on Ilena-1dir well (Ivana Field) are expected and on Ivana A/K workover activities on two turbo compressors will be finished. In addition, On Aphamia block in Syria the start of exploration drilling activities on BAS-2 well are expected at the beginning of Q4 2011.

INDUSTRIJA NAFTE, d.d.

*Refining and Marketing**

Q1 2011	Q2 2011	Q2 2010	%	Segment IFRS results (HRK mln)	H1 2010	H1 2011	%
4,073	4,927	3,472	41.9	Revenues	6,442	9,000	39.7
(120)	(618)	(496)	24.6	Operating profit/(loss) reported	(796)	(738)	(7.3)
(29)	(467)	(381)	22.6	Operating profit/(loss) excl. special items**	(681)	(496)	(27.2)
(300)	(370)	(223)	65.9	Estimated CCS-based Operating profit/(loss) excl. special items	(502)	(670)	33.5
134	(340)	(385)	(11.7)	EBITDA	(586)	(206)	(64.8)
134	(317)	(270)	17.4	EBITDA excl. special items**	(471)	(183)	(61.1)
98	104	386	(73.1)	CAPEX and investments (w/o acquisition)	709	202	(71.5)

*Refers to Refining & Marketing INA. d.d. and following subsidiaries: Maziva Zagreb, Proplin, Crobenz (until 30 September 2010), Osijek Petrol, InterIna Ljubljana, INA BH Sarajevo, Holdina Sarajevo, INA Hungary, FPC London, INA -Crna Gora, INA Beograd, INA Kosovo, Interina Holding London, Holdina Guernsey.
**The H1 2011 performance includes HRK 242 million negative special items of which HRK 67 mln provisions, HRK 23 mln incentives and HRK 152 mln impairment[2].

Q1 2011	Q2 2011	Q2 2010	%	Refinery processing (kt)	H1 2010	H1 2011	%
110	100	119	(16.4)	Domestic crude oil	223	210	(5.8)
891	804	799	0.7	Imported crude oil	1,662	1,695	2.0
34	33	34	(2.5)	Condensate	68	67	(1.4)
162	216	44	389.6	Other feedstock	92	378	309.0
1,197	**1,153**	**996**	15.7	**Total refinery throughput**	**2,045**	**2,350**	**14.9**
Q1 2011	**Q2 2011**	**Q2 2010**	**%**	**Refinery production (kt)**	**H1 2010**	**H1 2011**	**%**
232	241	214	12.8	Motor gasoline	423	473	11.9
249	289	258	11.7	Diesel	487	537	10.4
65	29	35	(17.8)	Heating oil	111	94	(15.1)
18	33	26	28.3	Kerosene	39	51	31.0
21	32	17	89.1	Naphtha	37	53	43.3
17	33	21	53.8	Bitumen	31	49	58.6
418	319	320	(0.1)	Other products*	689	738	7.1
1,020	**976**	**891**	9.5	**Total**	**1,817**	**1,996**	**9.9**
9	9	8	7.2	Refinery loss	16	17	11.8
168	168	97	73.7	Own consumption	213	336	58.2
1,197	**1,153**	**996**	15.7	**Total refinery production**	**2,045**	**2,350**	**14.9**
Q1 2011	**Q2 2011**	**Q2 2010**	**%**	**Refined product sales by country (kt)**	**H1 2010**	**H1 2011**	**%**
432	466	502	(7.2)	Croatia	971	898	(7.5)
131	137	131	4.5	B&H	218	268	23.0
318	378	260	45.3	Other markets	536	696	29.8
881	**981**	**894**	9.8	**Total**	**1,725**	**1,862**	**8.0**
Q1 2011	**Q2 2011**	**Q2 2010**	**%**	**Refined product sales by product (kt)**	**H1 2010**	**H1 2011**	**%**
215	264	208	26.5	Motor gasoline	436	478	9.8
263	316	325	(2.6)	Diesel	561	580	3.2
64	36	41	(11.0)	Heating oil	111	100	(9.6)
12	34	31	7.5	Kerosene	44	46	4.7
23	33	14	129.5	Naphtha	41	55	34.9
15	35	20	73.8	Bitumen	31	50	63.6
289	263	254	3.6	Other products*	501	552	10.1
881	**981**	**894**	**9.8**	**Total**	**1,725**	**1,862**	**7.9**
231	204	315	(35.0)	o/w Retail segment sales	530	435	(17.9)
650	777	579	34.1	o/w Direct sales to other end-users	1,195	1,427	19.4

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

In Q2 2011, R&M segment's operating loss (excluding special items) was HRK 467 million, increased by HRK 438 million in comparison with Q1 2011 operating loss, mainly as a result of (1) significant negative effect of inventories revaluation due to crude oil prices, (2) unfavorable FX movements, (3) still weak refining environment driven by extremely low level fuel oil crack spread and (4) high own consumption cost due to increased crude oil cost and high share of own consumption. These negative effects were just partially diminished by (5) 100 kt higher sales due to seasonal demand and (6) better yield of white products due to continuous operations of new plants at Rijeka refinery from May 2011.

In comparison with Q2 2010 the operating loss, excluding special items, was by HRK 86 million higher due to (1) 49.9% higher prices of Brent FOB Med crude oil, (2) 34.5% lower average crack spreads, (3) worse yield of white products due to discontinuities in operation of new plants and lower processing of Azeri type crude due to increased REB Azeri spread. Sales were by 87 kt higher, with higher exports lower domestic sales which have fallen less than market demand. Reported operating loss in Q2 2010 amounted to HRK 618 million.

[2] This impairment relates to the treatment of gas bottles at Proplin which needed to be harmonized with the current situation.

Compared to H1 2010 the operating result (excluding special items) was HRK 185 million better and was influenced by (1) 8% higher sales volumes (mostly EURO V products) with stronger presence on B&H market where higher sales of gasoil and bitumen was achieved. The result was also positively influenced by (2) optimized crude oil procurement, (3) realized efficiency improvement measures, (4) positive effect of FX differences and (5) continuous operation of Hydrocracker unit from May 2011. These positive effects were partially offset with (6) lower average crack spread by 48% and (7) unfavorable product yield due to planned and unplanned shut downs and discontinuities in operation of new plants in Q1 2011. Refinery production is optimized in order to reduce fuel oil production because of decreased regional market demand and significantly increased negative fuel oil crack spread. Reported H1 2011 operating loss amounted to HRK 738 million.

On the other hand the estimated CCS-based operating loss for H1 2011 (excluding negative effect of special items and significant positive effect of foreign exchange differences on debtors and creditors compared to the same period last year), increased by HRK 168 million as a combined negative affects of (1) high own consumption cost due to rising crude quotations until April 2011, (2) still challenging crack spread environment, especially due to very low black product crack spreads and (3) technical complications during the start up new plants in Rijeka refinery.

External business environment in H1 2011 mostly resulted from turbulent developments and fear that it could disrupt oil supply, therefore the price of oil rose and in April it reached the maximum average of 123 USD/bbl from 2008. In May and June 2011 crude oil prices decreased but still remained above Q1 2011 level. In comparison with the same period of 2010 average price of crude oil increased by 43.9% (from 77.3 USD/bbl to 111.2 USD/bbl), while the average crack spread (FOB Med) decreased by 48% (from 33.4 USD/t to 17.4 USD/t). Crack spreads of the main products were: for unleaded petrol BMB Euro 95 (V) it increased by 3.5% (to 139.8 USD/t) and for Eurodiesel it increased by 44.9% (to 106.6 USD/t). The negative spread for fuel oil increased by 69.6% (to -256.7 USD/t) and was around the lowest levels in the past two years.

Increase of total refinery throughput recorded in Q1 2011 continued in Q2 2011 reaching 15% higher throughput in H1 2011, compared to the same period last year. The reasons behind the increased refinery processing operations were (1) planned and unplanned shutdowns and great overhaul of Rijeka Refinery in H1 2010 and (2) continuous operation of new plants in Rijeka Refinery from May 2011. On the other hand the processing was negatively influenced by (3) a decreasing trend of fuel demand in domestic and main export markets, (4) planned shut down of Sisak Refinery and Rijeka Refinery and (5) unplanned complete shutdown of Sisak Refinery from 20 June 2011 caused by the fire incident. Lower processing of Azeri light crude oil due to increased REB Azeri spread (by 458 kt) and discontinuities in operation of new plants in Rijeka Refinery at the beginning of the year had a negative impact on product yield. Share of white products decreased to 65% compared to 69% in H1 2010 with significant share of own consumption. MOGAS EURO V quality reached more than 70% in total MOGAS production.

Despite decreased domestic and B&H market demand INA's market position was strengthened on both markets due to improved competitiveness as a result of new products' introduction. Total sales volumes have increased by 137 kt in H1 2011 in comparison with the same period last year. Sale on domestic market had a decrease of 7.5% which is less than the market demand decrease of 12%. On the other hand sales on the B&H market recorded a strong increase of 23.0% where new products were introduced. There was an increase of total gasoline sales by 9.8% and diesel sales by 3.2%, while heating oil sales decreased by 9.6%.

In H1 2011 capital expenditures reached HRK 202 million and were mostly spent on first phase of refinery modernization. At Rijeka refinery the Hydrocracker complex (consisting of Hydrocracker, Sulphur Recovery and Hydrogen Generation units and related off-sites), was mechanically completed in 2010 and after a successful start-up procedure units were smoothly in operation from May. The new units not just ensure that the refinery is able to produce only EURO V standard gasoline and diesel fuel, but also improve the refinery yield towards middle distillates, giving more than 40% of total products through which the profitability of the refinery is expected to improve as well in the future. At Sisak Refinery, the FCC-gasoline hydrodesulphurization unit and the new Claus plant were completed in 2008, thus since 2009 the refinery has been producing low-sulfur components (20 ppm) for blending EURO-IV/V gasoline grades and reduced its emission. The Isomerisation unit, which will improve the gasoline octane pool, has been completed but the start-up was postponed to Q4 2011 in line with the refinery re-start after finish of remediation works due to the fire incident occurred at the end of June. Key units and plants of the Sisak refinery were not damaged in the incident, however the processing was stopped and the refinery is expected to come back on stream during Q4 after completing remediation and the overhaul planned for Q4 which has now been moved partially forward to Q3.

Projects scheduled for execution in the second phase of refinery modernization are in the preparatory phase. While still there is no final decision, as the company is currently searching the best option for continuation of refinery modernization in light of external conditions, one of the key element could be the heavy residue upgrade of Rijeka refinery. For this the Environmental Impact Study (EIS) based on delayed coking technology has been submitted to the Ministry of Environment in 2009. Since than according to request of authorities the EIS was supplemented in 2010 and there were several public hearings as well. Depending on the environmental licenses in the next years INA is aiming to spend up to USD 450 million on refinery modernization of Rijeka, which would improve further not only the complexity, the yield and profitability of the unit, but the HSE conditions, including air quality as well.

INDUSTRIJA NAFTE, d.d.

*Retail Services**

Q1 2011	Q2 2011	Q2 2010	%	Segment IFRS results (HRK mln)	H1 2010	H1 2011	%
1,522	1,976	1,667	18.5	Revenues	2,900	3,498	20.6
(42)	12	24	(50.0)	Operating profit/(loss)	(94)	(30)	(68.1)
(26)	14	50	(72.0)	Operating profit/(loss) excl. special items**	6	(12)	n.a.
4	38	83	(54.2)	EBITDA	78	42	(46.2)
4	53	83	(36.1)	EBITDA excl. special items**	78	57	(26.9)
8	33	8	341.3	CAPEX and investments (w/o acquisition)	9	41	356.7

* Refers to Retail INA. d.d. and Petrol Rijeka and retail of subsidiaries: Proplin, Crobenz (until 30 September 2010), Osijek Petrol, Interina Ljubljana, Holdina Sarajevo, INA - Crna Gora
**The H1 2011 performance was negatively influenced by HRK 18 million special items.

Q1 2011	Q2 2011	Q2 2010	%	Refined product retail sales (kt)	H1 2010	H1 2011	%
83	98	107	(8.2)	Motor gasoline	195	182	(6.9)
147	179	182	(1.6)	Gas and heating oils	322	326	1.3
8	9	11	(16.9)	LPG	21	17	(20.0)
1	1	1	(5.4)	Other products	2	2	(3.0)
239	**287**	**301**	**(4.5)**	**Total**	**540**	**526**	**(2.5)**

Q1 2011	Q2 2011	Q2 2010	%	Refined product retail sales (kt)	H1 2010	H1 2011	%
228	274	287	(4.5)	Croatia	513	502	(2.3)
8	10	10	(0.9)	B&H	18	18	(1.3)
3	4	4	(17.2)	Other markets	8	6	(21.7)
239	**287**	**301**	**(4.6)**	**Total**	**540**	**526**	**(2.5)**

Retail Services' operating profit excluding special items in Q2 2011 amounted to HRK 14 million compared to HRK 26 million operating loss in Q1 2011. This improvement was mainly result of (1) 20% higher sales volumes due to the seasonal trends and (2) improved unit margin coming partially from the introduction of EURO V quality products throughout the entire domestic network.

Q2 2011 result was HRK 36 million lower in comparison to Q2 2010 operating profit excluding special items. Higher margin and lower staff costs in Q2 2011 could not compensate for the changed methodology of assets impairment[3] which had a positive impact in Q2 2010. The reported Q2 2011 operating profit amounted to HRK 12 million and was negatively impacted by HRK 2 million special items.

In H1 2011 Retail segment has generated an operating loss of HRK 12 million (excluding special items) compared to HRK 6 million operating profit in H1 2010. Despite significantly higher margin, operating result in H1 2011 was lower mainly as a consequence of assets impairment mentioned above. The reported H1 2011 operating loss amounted to HRK 30 million and was negatively impacted by HRK 18 million special items.

Total retail sales volumes consisted primarily of diesel fuels and motor gasoline sales, and **in H1 2011 amounted to 526 kt** what was at the level of H1 2010 (excl. Crobenz' sales volumes, a subsidiary sold in Q3 2010). In H1 2011 INA Group experienced a 1.3% increase in diesel sales while motor gasoline sales decreased by 6.9%. LPG sales dropped by 20.0% reflecting an overall decreasing trend in LPG sales caused by increase of its sales price compared to the previous years. Average throughput per site in H1 2011 improved 1.0% compared to H1 2010.

Compared to Q2 2010 (excl. Crobenz' sales volumes), sales volumes in Q2 2011 were lower by 2.3% as a result of lower sales realization in retail subsidiaries**.** Q2 2011 sales volumes were higher compared to Q1 2011 due to the seasonal trends of the tourist season.

As of 30 June 2011 the retail services operated 469 petrol stations (of which 417 in Croatia, 45 in Bosnia-Herzegovina, 6 in Slovenia and 1 in Montenegro), what is a decrease of 20 petrol stations compared to 30 June 2010. Main reasons for the decreased number of petrol stations were sale of 14 Crobenz' petrol stations and closing of non-profitable petrol stations.

Retail CAPEX significantly increased compared to HRK 9 million in H1 2010 and amounted to HRK 41 million in H1 2011. On newly constructed petrol stations Galižana-West and Župa HRK 15 million was spent. The remaining amount of CAPEX was related to implementation of INA's retail network development strategy with new capital investments and operational improvements in the quality of services provided at petrol stations. Overall network revitalization and modernization project takes place including a new visual identity – Blue Concept project. INA plans to modernize around 50 petrol stations by the end of 2011, putting an emphasis on the new visual identity. Out of these 50, reconstruction and refurbishing of 13 petrol stations has been completed since the end of 2010 when the modernisation was launched, and reconstruction of additional six and capital reconstruction of additional three was initiated. Apart from the high quality CLASS fuels and new design of petrol stations the modernization will bring additional improvements in technical sense and service offered.

[3] Assets impairment is to be recognised at the end of the year

Financial overview

Operations

Based on the Gas Master Agreement signed by the Government of the Republic of Croatia and MOL on 30 January 2009 and amended on 16 December 2009, the Croatian Government should have taken over the gas trading business before 1 December 2010. Since this has not happened and the ongoing negotiations do not yet indicate a revised timeline, this activity no longer meets the criteria for discontinued operations. Consequently, assets, liabilities, revenues and expenses are disclosed among continuing activities within the Exploration and Production segment.

The transaction of selling INA's 100% ownership in Crobenz d.d. ("Crobenz") to LUKOIL Croatia d.o.o. ("Lukoil") was completed on 30 September 2010. The sale process was initiated based on INA's obligation under the decision of the Croatian Competition Agency ("the Agency") of 9 June 2009. Following the signing of the First Amendment to the Shareholders Agreement between the Croatian Government and MOL on 30 January 2009, MOL's gaining the operational control over INA had been investigated by the Croatian Competition Agency, upon which the Agency passed its final Decision on 9 June 2009 approving the transaction under certain conditions including the sale of INA's 100% ownership in Crobenz. On 21 July 2010, INA d.d. signed a sale agreement with LUKOIL for the disposal of its 100% interest in Crobenz. As decided by the Croatian Competition Agency ("the Agency"), the sale was conducted by a trustee. At a meeting held on 29 July 2010 the Agency decided to approve the transaction implementing the mandate from its Resolution on the conditional approval of the MOL/INA concentration and it also granted the necessary clearance for the Lukoil/Crobenz concentration. Crobenz is active in the wholesale and retail trade in petroleum products. The Crobenz retail network consists of 14 service stations operating under the Crobenz brand.

Management Board made a decision on the business restructuring of Proplin, a 100% owned subsidiary of INA d.d., member of INA Group. The decision on the business restructuring was prompted by the changes in market circumstances seen in the last years and by the growing need to respond appropriately to new challenges in order to ensure stable and profitable operations of this important part of the INA Group business was made by INA Management Board in March 2011. By this decision all operations of Proplin d.o.o (principal activity being autogas, industry/bulk and cylinder sales of LPG in Croatia) will be integrated back to INA and the company will be merged with its mother company. In May 2011, Merger Agreement between INA d.d., as acquiring company and PROPLIN d.o.o., as merged company was concluded and it is expected that the full integration of Proplin will be completed in early October 2011.
The Management Board of PROplin d.o.o. passed a decision on the start of launching the legally prescribed procedure with the objective to design a Workforce Redundancy Program. The program comprises 75 employees of the total of 345 employees in PROplin d.o.o. and it will be created respecting the social dialogue with the union.
According to the release available at MOL Plc. Internet pages it has concluded an option agreement for 1.6% of INA, d.d shares. Additionally MOL has acquired 21,009 of INA, d.d. shares through the OTC or Zagreb Stock Exchange.

Significant accounting judgements and estimates

From the second quarter of 2010, INA Group reclassified income and costs of interests and foreign exchange differences of buyers and suppliers from financial activities to operating activities and from Q1 2011 to the business segments level. Also in Q2 2010 in North Adriatic, Egypt and Angola cash generating units are redefined in a way that the contract area has become cash generating unit.
The agreement between the major shareholders on the takeover of gas trading company by the Government was not reached by deadline as originally set out in the Amendment to the gas master agreement, therefore, since Q4 2010 the Company does not present the gas trading business results as the results from discontinued activities.
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.

Overall operations

INA Group total sales revenues[4] increased by 30% reaching HRK 14,760 million in the first half of 2011 compared to the same period last year, primarily as a combined effect of higher revenues from refined product sales supported by the introduction of Euro V products (higher prices and higher volumes) and higher sales of Syrian natural gas and crude oil (higher prices and higher volumes).

Costs of raw materials and consumables increased by 42% during the first six months 2011 compared to the same period last year, mainly because of 36% increase in crude oil average purchase price (the average price of Brent FOB Med rose by 44% on the world market) and the 2% higher refining of imported crude. The value of finished goods and work in progress inventories increased

[4] Consolidated sales

by HRK 828 million compared to the opening balance (31 Dec 2010) and compared to 30 June 2010 it was also higher by HRK 673 million. The cost of goods sold decreased by 8% and amounted to HRK 1,762 million mainly as a result of lower purchase volumes of imported natural gas. Other material costs in the amount of HRK 829 million, increased by 4% due to higher maintenance costs, transportation costs and higher costs of outsourced services. The costs of services decreased by HRK 619 million to HRK 599 million predominantly as a result of HRK 555 million lower financial costs related to operations. In the first six months of 2011 depreciation rose by 32% and amounted to HRK 1,164 million mostly as an effect of assets put in use upon completion of projects. Adjustments and provisions of HRK 738 million were at higher level for HRK 195 million mostly due to higher impairments.
In the first half of 2011, total staff costs in the amount of HRK 1,366 million, decreased by 4% compared to the same period last year, mainly due to lower headcount as a result of Workforce Restructuring Programme launched at the end of 2010. The headcount as at 30 June 2011 was 14,599, which represents a 11% decrease compared to the 16,339 employees as at 30 June 2010.
In December 2010 INA Group implemented the redundancy programme in order to increase efficiency and for the purpose of stabilisation of economic operations and the needs of reorganisation in order to improve business processes in the next period. The programme is conciliated with the Croatian Employment Service and INA's trade union representatives, and was partially executed in November and December 2010. Additionally, in the first half of 2011, INA terminated the contracts of 358 employees and severance payments in the total amount of HRK 107 million were made. Representatives of the labour unions present in INA have conceded to the Programme and no significant disputes arose as a result of its implementation.

Net financial profit in the amount of HRK 332 million was recorded in the first six months of 2011, compared to the net financial loss of HRK 1,104 million in the first six months of 2010. Net forex gains on credit facilities amounted to HRK 450 million compared to the HRK 910 million losses in H1 2010. The interest expense of HRK 52 million was 18 million lower compared to the same period 2010, mainly due to the positive effect of long-term debt interests' revenues. Other financial expenses amounted to HRK 66 million which was HRK 59 million lower compared to the first six months of 2010 mainly attributable to the positive effect of embedded derivates.
The profit tax for the first six months of 2011 was HRK 583 million compared to HRK 92 million calculated for the same period last year.

New Regulation on compensation payment for concession for exploitation of mineral raw materials has been in force since April, 6th 2011 (Official Gazette 40/11). The amount of compensation is calculated as a percentage of the market value of the produced hydrocarbons and was increased from 3.6% to 5.0%, that could increase INA's fee by approximately HRK 70 million per annum.

Maximum selling prices for fuel products retail are determined by the regulation adopted by the Ministry of Economy, Labor and Entrepreneurship (Official Gazette 37/2011) of the Republic of Croatia, which provides formulae for setting prices relative to international market prices. From 4 April 2011 retail prices of fuel products are changing every 14 days and the oil companies are authorized to apply different retail prices within the maximum price set by the Ministry. Retail prices for gas stations located on highways and on the coast are deregulated, except for blue diesel. From June 21, INA started to apply differentiated prices at 37 petrol stations located on highways (for Eurosuper BS 95 and Eurodizel BS fuels, as well as Class fuels Eurosuper BS 95 Class and Eurodizel BS Class). In comparison to the stations which do not have the option of free formation of retail prices, the prices will be slightly higher, i.e. by HRK 0.02 to 0.05, depending on location. In addition, retail prices were changed on additional 20 petrol stations, where the mentioned fuels will be sold at reduced retail prices. The prices at these stations will be reduced by HRK 0.02 to 0.05, depending on location.

Balance sheet

Total INA Group assets amounted to HRK 31,179 million as at 30 June 2011 at the same level compared to 31 December 2010. Non-current tangible and intangible assets decreased by 5%, primarily due to increased depreciation because of assets put in use upon completion of capital investments. In addition, retranslation of changes in U.S. dollar on oil and gas fields decreased net book value of INA Group tangible assets in amount of HRK 659 million. Goodwill and investments in subsidiaries and joint ventures increased by HRK 11 million to HRK 599 million. Deferred taxes were by HRK 33 million higher and amounted to HRK 313 million.

The main reason for total assets increase was higher value of inventories. In H1 2011, inventories amounted to HRK 4,421 million, which is an increase of 40% due to the coupled effect of higher prices and higher volumes. Stored up finished products and work in progress inventories from own production increased by 89 kt and crude oil inventories increased by 121 kt partly as a result of shut down and therefore lower processing in Sisak Refinery caused by a fire event. In spite of both increased sales prices and volumes of hydrocarbon products, net trade debtors, as at 30 June 2011, amounted to HRK 2,636 million which is a decrease of 14% compared to 31 December 2010 as a result of management efforts to collect overdue receivables.

As at 30 June 2011 total liabilities amounted to HRK 17,605 million and they were 5% lower than on 31 December 2010, primarily as an effect of lower trade creditors, while INA Group indebtedness slightly increased compared to 31 Dec 2010 level. Trade creditors amounted to HRK 2,456 million which is a decrease of HRK 1,330 million, mostly because of better liquidity which enabled the payment of liabilities**.** Liabilities for taxes and contributions increased by HRK 337 million to HRK 1,126 million, due to higher corporate tax as a result of increased profitability. Long-term and short-term provisions rose by HRK 127 million mostly due to higher provisions for field abandonment.

INA Group net indebtedness, as at 30 June 2011, slightly increased by HRK 51 million to the amount of HRK 9,989 million compared to HRK 9,938 million at the end of 2010. Gearing ratio[5], as at 30 June 2011, decreased to 42.4% from 43.7% as at 31 December 2010.

Cash flow

In the first six months of 2011, the operating cash-flow before changes in working capital improved to HRK 3,608 million, HRK 1,832 million higher than in the same period last year, primarily as an effect of a stronger EBITDA. Changes in working capital decreased the operating cash flow in H1 2011 by HRK 2,623 million, primarily as a result of higher value of inventories by HRK 1,515 million due to the coupled effect of higher prices and higher volumes, decreased liabilities (HRK 1,254 million) due to re-established liquidity and additional negative effect of taxes paid (HRK 328 million). In the first half of 2011, INA Group generated net cash inflow from operating activities in the amount of HRK 657 million.

Net inflows from investing activities amounted to HRK 491 million, compared to H1 2010 outflows of HRK 1,548 million. This change reflects the nature of key projects, some of which are nearing completion and current market environment.

5 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. Market Price Risk Management Policy (adopted in 2010) is providing the framework under which INA and its consolidated subsidiaries manage its commodity, foreign exchange and interest rate risk at an acceptable level, 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 Financial Risk Reports quarterly.
Beside financial (market) risks, the most important risks include the credit risk and the liquidity risk. The Group used derivative instruments for managing those risks to a very limited extent. The Group does not use derivative financial instruments for speculative purposes.

a) Market risk

Commodity price risk management

The Group purchases crude oil mostly through short-term arrangements in US dollars at spot market prices while 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, hedging the Group from the changes in crude and oil product prices and the currency risk, enabling refinery products to be repriced bi-weekly, with certain limitations, depending on the market (Platts) prices and the fluctuations of the Croatian kuna against the US dollar.

The Group may use swap and option instruments in managing its commodity exposure. During H1 2011 INA concluded short term commodity swap transactions for inventory 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.

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.
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 position of the Group.
The Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of June 30, 2011, there were no open cross currency transactions.
Additionally, the Refined Product Pricing Regulation enables the company to partly transfer the unfavourable movements of exchange rates to domestic products market.

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.
The Group 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 June 30, 2011, there were no open interest rate swap transactions.

Other price risk

The Group 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 effect results. According to existing Credit Risk Management Procedure, in dealing with its customers, Group applies risk categorisation, sets up credit limits and obtains collaterals as a means of mitigating the risk of financial loss from defaults. Debentures being the prevailing payment security instrument on the Croatian market are mainly taken as collateral.

There is no significant credit risk exposure of INA Group that would not be covered with collateral, other than those to the institutions and entities controlled by the state. Given that the Republic of Croatia is a major shareholder of the Group itself, credit risks to a significant extent depend on the policy of the Croatian Government. Present is, as well, the potential risk of difficulties in collection of sold oil and gas under certain concession agreements abroad.

The risk of collection of overdue debt from the customers is present especially in litigated receivables from customers in bankruptcy. Collection under lawsuits and bankruptcies are lengthy trials with uncertain outcomes, on which the Group has very limited control.

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 amounts receivable and payable.
INA Group's policy is to ensure sufficient external funding sources with the goal of reaching sufficient level of committed credit lines frame available to cover INA Group liquidity as well as investments needs.
As of June 30, 2011, INA had contracted short-term bank loans amounting to 374 million USD (excluding overdrafts and credit lines to finance the purchase of crude oil and oil products).
Till December 2010 crude oil and oil products were imported through INA d.d. foreign subsidiaries Interina London and Interina Guersney, while since December 2010 it is being imported directly by parent company (INA d.d.). In accordance with international practices for crude oil and oil products purchases INA has contracted short-term credit facilities ("trade financing") with first class commercial banks. Total credit potential of these facilities as of June 30, 2011 amounted to 800 million USD.

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.

Related party transactions

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 parent company and the Group companies are disclosed.

INA parent company HRK mln	Amounts owed from related parties 30 June 2011	Amounts owed to related parties 30 June 2011
Foreign related companies		
Interina Ltd Guernsey	-	121
Holdina Sarajevo	116	7
Interina d.o.o. Ljubljana	1	-
Interina Ltd London	-	100
Adriagas Milano	-	-
INA – Crna Gora d.o.o. Podgorica	10	-
INA – Beograd d.o.o. Beograd	16	-
Domestic related companies		
Crosco Grupa	2	31
Osijek Petrol d.d.	52	1
Crobenz d.d. Zagreb	-	-
Proplin d.o.o. Zagreb	104	20
STSI d.o.o. Zagreb	3	94
Maziva Zagreb d.o.o. Zagreb	25	15
ITR d.o.o. Zagreb	2	9
Sinaco d.o.o. Zagreb	1	33
Hostin d.o.o. Zagreb	-	0
Prirodni plin d.o.o. Zagreb	968	137
Companies available for sale		
JANAF d.d. Zagreb	-	-
Strategic partner		
MOL Plc	57	42
Companies controlled by strategic partner		
Tifon d.o.o.	45	1
Moltrade Mineralimpex Zrt.	-	126
Slovnaft, a.s.	-	6
Slovnaft, Petrochemicals s.r.o.	1	-
Mol Lub Kft.	-	-
MOL SLOVENIJA d.o.o.	2	-
IES-Italiana Energia e Servizi s.p.a.	1	-
TVK Nyrt.	-	1
Intermol d.o.o.	3	-
Energopetrol d.d.	30	-
Geophysical services Ltd.	-	0
Companies controlled by the State	0	0
Hrvatska elektroprivreda	108	15
Hrvatske željeznice	1	7
Croatia osiguranje	-	-
Hrvatske vode	-	3
Hrvatska pošta	2	-
MORH	17	-
Hrvatske šume	7	-
Jadrolinija	45	1
Narodne novine	-	-
Croatia Airlines	43	-
Petrokemija Kutina	-	-
Plinacro	-	4
Hrvatske autoceste	1	4
Podzemno skladište plina Okoli	-	-

INA parent company	Sales of goods	Purchase of goods
HRK mln	30.06.2011.	30.06.2011.
Foreign related companies		
Interina Ltd Guernsey	-	-
Holdina Sarajevo	394	-
Interina d.o.o. Ljubljana	14	-
Interina Ltd London	-	-
Adriagas Milano	-	-
INA – Crna Gora d.o.o. Podgorica	30	-
INA – Beograd d.o.o. Beograd	50	-
Domestic related companies		
Crosco Grupa	7	45
Osijek Petrol d.d.	69	-
Crobenz d.d. Zagreb	-	-
Proplin d.o.o. Zagreb	226	77
STSI d.o.o. Zagreb	7	97
Maziva Zagreb d.o.o. Zagreb	53	26
ITR d.o.o. Zagreb	2	11
Sinaco d.o.o. Zagreb	2	53
Hostin d.o.o. Zagreb	-	-
Prirodni plin d.o.o. Zagreb	2,327	105
Companies available for sale		
JANAF d.d. Zagreb	1	23
Strategic partner		
MOL Plc	292	281
Companies controlled by strategic partner		
Tifon d.o.o.	348	3
Moltrade Mineralimpex Zrt.	-	1,141
Slovnaft, a.s.	1	18
Slovnaft, Petrochemicals s.r.o.	-	-
Mol Lub Kft.	-	1
MOL SLOVENIJA d.o.o.	4	-
IES-Italiana Energia e Servizi s.p.a.	13	-
TVK Nyrt.	-	1
Intermol d.o.o.	3	-
Energopetrol d.d.	220	-
Geophysical services Ltd.	-	-
Companies controlled by the State		
Hrvatska elektroprivreda	111	58
Hrvatske željeznice	-	26
Croatia osiguranje	-	31
Hrvatske vode	-	11
Hrvatska pošta	-	1
MORH	34	-
Jadrolinija	63	1
Narodne novine	-	-
Croatia Airlines	105	-
Petrokemija Kutina	-	-
Plinacro	-	-
Hrvatske autoceste	-	29
Podzemno skladište plina Okoli	1	-

INDUSTRIJA NAFTE, d.d.

INA Group Summary Segmental Results of Operations

Q1 2011	Q2 2011	Q2 2010	%	(HRK mln)	H1 2010	H1 2011	%
				Sales			
3,236	3,178	2,337	36	Exploration & Production	5,101	6,414	26
4,073	4,927	3,472	42	Refining & Marketing	6,442	9,000	40
1,522	1,976	1,667	19	Retail	2,900	3,498	21
88	136	224	(39)	Corporate and Other	373	224	(40)
(1,976)	(2,400)	(2,022)	19	Inter-segment revenue	(3,502)	(4,376)	25
6,943	**7,817**	**5,678**	**38**	**Sales**	**11,314**	**14,760**	**30**
				Operating expenses, net other income from operating activities			
(1,767)	(1,341)	(944)	42	Exploration & Production	(2,753)	(3,108)	13
(4,193)	(5,545)	(3,968)	40	Refining & Marketing	(7,238)	(9,738)	35
(1,564)	(1,964)	(1,643)	20	Retail	(2,994)	(3,528)	18
(277)	(289)	(400)	(28)	Corporate and Other	(743)	(566)	(24)
1,976	2,400	2,022	19	Inter-segment eliminations	3,502	4,376	25
(5,825)	**(6,739)**	**(4,933)**	**37**	**Expenses**	**(10,226)**	**(12,564)**	**23**
				Profit from operations			
1,469	1,837	1,393	32	Exploration & Production	2,348	3,306	41
(120)	(618)	(496)	25	Refining & Marketing	(796)	(738)	(7)
(42)	12	24	(50)	Retail	(94)	(30)	(68)
(189)	(153)	(176)	(13)	Corporate and Other	(370)	(342)	(8)
0	0	0	n.a.	Inter-segment eliminations	0	0	n.a.
1,118	**1,078**	**745**	**45**	**Profit/(loss) from operations**	**1,088**	**2,196**	**102**
				Share in the profit of associate companies			
260	**72**	**(693)**	**n.a.**	**Net profit/(loss) from financial activities**	**(1,104)**	**332**	**n.a.**
1,378	**1,150**	**52**	**2,112**	**Profit/(loss) before taxation**	**(16)**	**2,528**	**n.a.**
(325)	(258)	(29)	790	Income tax	(92)	(583)	534
1,053	**892**	**23**	**3,778**	**Profit/(loss) for the period**	**(108)**	**1,945**	**n.a.**

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

INDUSTRIJA NAFTE, d.d.

INA Group Summary Segmental Results of Operations

Q1 2011	Q2 2011	Q2 2010	%	Operating Profit Excluding Special Items (HRK mln)	H1 2010	H1 2011	%
1,573	1,739	1,059	64	Exploration & Production	2,014	3,312	64
(29)	(467)	(381)	23	Refining & Marketing	(681)	(496)	(27)
(26)	14	50	(72)	Retail	6	(12)	n.a.
(169)	(128)	(176)	(27)	Corporate and Other	(370)	(297)	(20)
0	0	0	n.a.	Inter-segment eliminations	0	0	n.a.
1,349	**1,158**	**552**	**110**	**Total**	**969**	**2,507**	**159**

Q1 2011	Q2 2011	Q2 2010	%	Depreciation (HRK mln)	H1 2010	H1 2011	%
329	537	315	70	Exploration & Production	597	866	45
77	99	78	27	Refining & Marketing	154	176	14
23	24	23	4	Retail	47	47	0
38	37	41	(10)	Corporate and Other	84	75	(11)
467	**697**	**457**	**53**	**Total**	**882**	**1,164**	**32**

Q1 2011	Q2 2011	Q2 2010	%	EBITDA* (HRK mln)	H1 2010	H1 2011	%
1,969	2,477	1,875	32	Exploration & Production	3,262	4,446	36
134	(340)	(385)	(12)	Refining & Marketing	(586)	(206)	(65)
4	38	83	(54)	Retail	78	42	(46)
(88)	(96)	(120)	(20)	Corporate and Other	(241)	(184)	(24)
0	0	0	n.a.	Inter-segment eliminations	0	0	n.a.
2,019	**2,079**	**1,453**	**43**	**Total**	**2,513**	**4,098**	**63**

Q1 2011	Q2 2011	Q2 2010	%	EBITDA Excluding Special Items* (HRK mln)	H1 2010	H1 2011	%
1,969	2,392	1,437	66	Exploration & Production	2,824	4,361	54
134	(317)	(270)	17	Refining & Marketing	(471)	(183)	(61)
4	53	83	(36)	Retail	78	57	(27)
(88)	(54)	(120)	(55)	Corporate and Other	(241)	(142)	(41)
0	0	0	n.a.	Inter-segment eliminations	0	0	n.a.
2,019	**2,074**	**1,130**	**84**	**Total**	**2,190**	**4,093**	**87**

* *EBITDA = EBIT + Depreciation + Impairment + Provisions*

INDUSTRIJA NAFTE, d.d.

INA-INDUSTRIJA NAFTE d.d.
Condensed Consolidated Income Statement – INA-GROUP
For the period ended 30 June 2010 and 2011
(in HRK millions)

Q1 2011	Q2 2011	Q2 2010	%		H1 2010	H1 2011	%
				Sales revenue			
4,348	3,943	3,470	14	a) Domestic	7,184	8,291	15
2,595	3,874	2,208	75	b) Exports	4,130	6,469	57
6,943	**7,817**	**5,678**	**38**	**Total sales revenue**	**11,314**	**14,760**	**30**
35	54	147	(63)	Income from own consumption of products and services	198	89	(55)
433	430	801	(46)	Other operating income	1,246	863	(31)
7,411	**8,301**	**6,626**	**25**	**Total operating income**	**12,758**	**15,712**	**23**
1,043	(215)	260	n.a.	Changes in inventories of finished products and work in progress	673	828	23
(4,062)	(3,824)	(2,801)	37	Cost of raw materials and consumables	(5,569)	(7,886)	42
(467)	(697)	(457)	53	Depreciation and amortization	(882)	(1,164)	32
(393)	(436)	(360)	21	Other material costs	(796)	(829)	4
(264)	(335)	(749)	(55)	Service costs	(1,218)	(599)	(51)
(663)	(703)	(722)	(3)	Staff costs	(1,420)	(1,366)	(4)
(1,053)	(709)	(801)	(11)	Cost of other goods sold	(1,915)	(1,762)	(8)
(208)	(319)	(225)	42	Impairment and charges	(488)	(527)	8
(226)	15	(26)	n.a.	Provisions for charges and risks	(55)	(211)	284
(6,293)	**(7,223)**	**(5,881)**	**23**	**Operating expenses**	**(11,670)**	**(13,516)**	**16**
1,118	**1,078**	**745**	**45**	**Profit from operations**	**1,088**	**2,196**	**102**
				Share in the profit of associated companies			
392	148	37	300	Finance revenue	61	540	785
(132)	(76)	(730)	(90)	Finance costs	(1,165)	(208)	(82)
260	**72**	**(693)**	**n.a.**	**Net (loss) / profit from financial activities**	**(1,104)**	**332**	**n.a.**
1,378	**1,150**	**52**	**2,112**	**Profit before tax**	**(16)**	**2,528**	**n.a.**
(325)	(258)	(29)	790	Income tax	(92)	(583)	534
0	0	0	n.a.	Deferred taxes	0	0	n.a.
1,053	**892**	**23**	**3,778**	**Profit / (Loss) for the year**	**(108)**	**1,945**	**n.a.**
				Attributable to			n.a.
1,053	893	23	3,783	Equity holders of the parent	(108)	1,946	n.a.
0	(1)	0	n.a.	Minority interest	0	(1)	n.a.
1,053	**892**	**23**	**3,778**		**(108)**	**1,945**	**n.a.**
				Earning per share (in HRK)			
105.3	89.3	2.3	3,783	Basic and diluted earnings/(loss) per share (kunas per share) from all operations	(10.8)	194.6	n.a.

INA-INDUSTRIJA NAFTE d.d.
Condensed Consolidated Statement of Comprehensive Income – INA-GROUP
For the period ended 30 June 2010 and 2011
(in HRK million)

Q1 2011	Q2 2011	Q2 2010	%		H1 2010	H1 2011	%
1,053	**892**	**23**	**3,778**	**Profit/(loss) for the year**	**(108)**	**1,945**	**n.a.**
				Other comprehensive income:			
(9)	(680)	28	n.a.	Exchange differences arising from foreign operations	40	(689)	n.a.
10	(5)	(36)	(86)	Gains on available-for-sale investments, net	(26)	5	n.a.
1	**(685)**	**(8)**	**8,463**	**Other comprehensive income/(loss), net**	**14**	**(684)**	**n.a.**
1,054	**207**	**15**	**1,280**	**Total comprehensive income/(loss) for the year**	**(94)**	**1,261**	**n.a.**
				Attributable to:			
1,054	208	15	1,287	Owners of the Company	(94)	1,262	n.a.
0	(1)	0	n.a.	Non- controlling interests	0	(1)	n.a.

INDUSTRIJA NAFTE, d.d.

INA-INDUSTRIJA NAFTE d.d.
Condensed Consolidated Statement of Financial Position – INA-GROUP
At 30 June 2010 and 2011
(in HRK millions)

31 Dec 2010		30 June 2010	30 June 2011	%
	Assets			
	Non-current assets			
840	Intangible assets	764	848	11
21,555	Property, plant and equipment	21,073	20,509	(3)
232	Goodwill	295	221	(25)
22	Investments in associates and joint ventures	60	34	(43)
334	Other investments	316	344	9
240	Long-term receivables	277	193	(30)
4	Derivative financial instruments	0	8	n.a.
280	Deferred tax	352	313	(11)
417	Available for sale assets	364	423	16
23,924	**Total non-current assets**	**23,501**	**22,893**	**(3)**
	Current assets			
3,157	Inventories	3,787	4,421	17
3,052	Trade receivables net	2,666	2,636	(1)
586	Other receivables	697	611	(12)
1	Derivative financial instruments	25	8	(68)
40	Other current assets	51	35	(31)
142	Prepaid expenses and accrued income	289	271	(6)
317	Cash and cash equivalents	467	304	(35)
7,295	**Current assets**	**7,982**	**8,286**	**4**
12	Assets classified as held for sale	195	0	n.a.
7,307	**Current assets**	**8,177**	**8,286**	**1**
31,231	**Total assets**	**31,678**	**31,179**	**(2)**
	Equity and liabilities			
	Capital and reserves			
9,000	Share capital	9,000	9,000	0
27	Revaluation reserve	(16)	32	n.a.
2,340	Other reserves	2,351	1,651	(30)
1,424	Retained earnings / (Deficit)	355	2,890	714
12,791	**Equity attributable to equity holder of the parent**	**11,690**	**13,573**	**16**
2	Non-controlling interests	8	1	(88)
12,793	**Total equity**	**11,698**	**13,574**	**16**
	Non-current liabilities			
7,301	Long-term loans	6,045	5,436	(10)
125	Other non-current liabilities	134	119	(11)
129	Employee benefits obligation	128	135	5
2,620	Provisions	2,317	2,934	27
10,175	**Total non-current liabilities**	**8,624**	**8,624**	**0**
	Current liabilities			n.a.
1,659	Bank loans and overdrafts	2,557	3,214	26
1,295	Current portion of long-term debt	1,542	1,643	7
3,786	Trade payables	5,424	2,456	(55)
789	Taxes and contributions	1,053	1,126	7
200	Other current liabilities	265	249	(6)
124	Accruals and deferred income	178	74	(58)
16	Employee benefits obligation	14	12	(14)
394	Provisions	239	207	(13)
8,263	**Current liabilities**	**11,272**	**8,981**	**(20)**
0	Liabilities directly associated with assets classified held for sale	84	0	n.a.
8,263	**Total current liabilities**	**11,356**	**8,981**	**(21)**
18,438	**Total liabilities**	**19,980**	**17,605**	**(12)**
31,231	**Total equity and liabilities**	**31,678**	**31,179**	**(2)**

INA-INDUSTRIJA NAFTE d.d.
Condensed Consolidated Cash Flow Statement - INA GROUP
For the period ended 30 June 2010 and 2011
(in HRK millions)

Q1 2011	Q2 2011	Q2 2010	%		H1 2010	H1 2011	%
1,053	**892**	**23**	**3,778**	**Profit/(loss) for the year**	**(108)**	**1,945**	**n.a.**
				Adjustments for:			
467	697	457	53	Depreciation and amortisation	882	1,164	32
325	258	29	790	Income tax (benefit)/expenses recognized in (loss)/profit	92	583	534
0	0	0	n.a.	(Gain) / loss over / under lifting receivable	0	0	n.a.
208	319	225	42	Impairment charges (net) and reversal impairment	488	527	8
(98)	6	(559)	n.a.	Reversal of impairment	(727)	(92)	(87)
(2)	(8)	0	n.a.	Gain on sale of property, plant and equipment	0	(10)	n.a.
7	4	0	n.a.	Gain on sale investments and shares	0	11	n.a.
(321)	(122)	419	n.a.	Foreign exchange loss/(gain)	922	(443)	n.a.
24	28	128	(78)	Interest expense (net)	141	52	(63)
18	(6)	31	n.a.	Other financial expense recognised in profit	54	12	(78)
111	(297)	60	n.a.	Increase in provisions	103	(186)	n.a.
0	0	0	n.a.	Net book value of sold assets classified as held for sale	0	0	n.a.
27	27	(107)	n.a.	Decommissioning interests	(72)	54	n.a.
0	(9)	1	n.a.	Change in provision for charges and risks and other non-cash items	1	(9)	n.a.
1,819	**1,789**	**707**	**153**	**Operating cash flow before working capital changes**	**1,776**	**3,608**	**103**
				Movements in working capital			
(1,315)	(200)	(409)	(51)	(Increase)/decrease in inventories	(927)	(1,515)	63
245	(99)	(69)	43	(Increase)/decrease in receivables and prepayments	(128)	146	n.a.
(1,715)	461	1,732	(73)	(Decrease)/increase in trade and other payables	314	(1,254)	n.a.
0	0	0	n.a.	(Decrease)/increase in provisions	0	0	n.a.
(966)	**1,951**	**1,961**	**(0)**	**Cash generated from operations**	**1,035**	**985**	**(5)**
(3)	(325)	0	n.a.	Taxes paid	0	(328)	n.a.
(969)	**1,626**	**1,961**	**(17)**	**Net cash inflow from operating activities**	**1,035**	**657**	**(36)**
				Cash flows used in investing activities			
(354)	(135)	(702)	(81)	Payments for property, plant and equipment	(1,443)	(489)	(66)
(25)	(23)	34	n.a.	Payment for intangible assets	(78)	(48)	(38)
2	9	0	n.a.	Proceeds from sale of non-current assets	0	11	n.a.
0	0	0	n.a.	Investments of subsidiaries	0	0	n.a.
0	22	0	n.a.	Payments from sale of subsidiaries	0	22	n.a.
0	0	0	n.a.	Acquisition of investments in associates and joint ventures and other companies	0	0	n.a.
0	0	0	n.a.	Proceeds from sale of investments	0	0	n.a.
1	0	0	n.a.	Dividends received from companies classified as available for sale and from other companies	2	1	(50)
7	6	0	n.a.	Interest received	0	13	n.a.
2	(3)	34	n.a.	Investments and loans to third parties, net	(29)	(1)	(97)
(367)	**(124)**	**(634)**	**(80)**	**Net cash used for investing activities**	**(1,548)**	**(491)**	**(68)**
				Cash flows from financing activities			
25	1	315	(100)	Additional long-term borrowings	455	26	(94)
(1,167)	100	(122)	n.a.	Repayment of long-term borrowings	(167)	(1,067)	539
6,709	4,279	1,174	264	Additional short-term borrowings	4,723	10,988	133
(4,038)	(5,378)	(2,560)	110	Repayment of short term borrowings	(4,289)	(9,416)	120
(1)	1	(4)	n.a.	Interest paid on long-term loans	(12)	0	n.a.
1	(5)	(3)	67	Other long-term liabilities, net	(7)	(4)	(43)
0	(480)	0	n.a.	Dividends paid	0	(480)	n.a.
(80)	(58)	(56)	4	Interest paid on short term loans and other financing charges	(83)	(138)	66
1,449	**(1,540)**	**(1,256)**	**23**	**Net cash from financing activities**	**620**	**(91)**	**n.a.**
113	(38)	71	n.a.	Net (decrease)/increase in cash and cash equivalents	107	75	(30)
317	363	402	(10)	At 1 January	367	317	(14)
(67)	(21)	(1)	2,000	Effect of foreign exchange rate changes	(2)	(88)	4,300
363	304	472	(36)	At the end of period	472	304	(36)

INDUSTRIJA NAFTE, d.d.

INA – INDUSTRIJA NAFTE d.d.
Condensed Consolidated Statement of Changes in Equity – INA-GROUP
For the period ended 30 June 2010 and 2011
(in HRK millions)

Attributable to equity holders of the parent

	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Minority interests	Total equity
Balance as at 1 January 2010	**9,000**	**2,311**	**10**	**463**	**11,784**	**8**	**11,792**
Profit / loss for the year	0	0	0	(108)	(108)	0	(108)
Other comprehensive income, net	0	40	(26)	0	14	0	14
Total comprehensive income for the year	0	40	(26)	(108)	(94)	0	(94)
Dividends payable	0	0	0	0	0	0	0
Balance as at 30 June 2010	**9,000**	**2,351**	**(16)**	**355**	**11,690**	**8**	**11,698**

	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Minority interests	Total equity
Balance as at 1 January 2011	**9,000**	**2,340**	**27**	**1,424**	**12,791**	**2**	**12,793**
Profit / loss for the year	0	0	0	1,946	1,946	(1)	1,945
Other comprehensive income, net	0	(689)	5	0	(684)	0	(684)
Total comprehensive income for the year	0	(689)	5	1,946	1,262	(1)	1,261
Dividends payable	0	0	0	(480)	(480)	0	(480)
Balance as at 30 June 2011	**9,000**	**1,651**	**32**	**2,890**	**13,573**	**1**	**13,574**

Capital Expenditure

Q1 2011	Q2 2011	Q2 2010	%	Capital Expenditures (HRK mln)	H1 2010	H1 2011	%
191	140	269	(48)	Exploration & Production	785	331	(58)
98	104	386	(73)	Refining & Marketing	709	202	(72)
8	33	8	341	Retail	9	41	357
6	5	6	(12)	Corporate & other	5	11	120
303	**282**	**668**	**(58)**	**Total**	**1,508**	**585**	**(61)**

Q1 2011	Q2 2011	Q2 2010	%	Capital Expenditures - Tangible Assets (HRK mln)	30 June 2010	30 June 2011	%
166	129	306	(58)	Exploration & Production	710	295	(58)
98	104	386	(73)	Refining & Marketing	709	202	(72)
8	33	8	340	Retail	9	41	356
6	(7)	3	n.a.	Corporate & other	2	(1)	n.a.
278	**259**	**702**	**(63)**	**Total**	**1,430**	**537**	**(62)**

Main external parameters

Q1 2011	Q2 2011	Q2 2010	%		H1 2010	H1 2011	%
105.0	117.4	78.3	49.9	Brent dtd (USD/bbl)	77.3	111.2	43.9
920.8	1,040.6	723.8	43.8	Premium unleaded gasoline 10 ppm (USD/t)*	719.5	980.7	36.3
908.0	987.1	679.2	45.3	Gas oil – ULSD 10 ppm (USD/t)*	658.1	947.6	44.0
549.0	619.6	431.7	43.5	Fuel oil 3,5% (USD/t)*	433.2	584.3	34.9
902.7	928.4	642.1	44.6	LPG (USD/t)*	689.7	915.5	32.7
8.2	25.1	38.3	(34.5)	Average crack spread	33.4	17.4	(48.1)
126.8	152.8	131.4	16.3	Crack spread – premium unleaded (USD/t)*	135.0	139.8	3.5
113.9	99.3	86.8	14.4	Crack spread – gas oil (USD/t)*	73.6	106.6	44.9
(245.1)	(268.3)	(160.6)	67.0	Crack spread - fuel oil 3,5% (USD/t)*	(151.3)	(256.7)	69.6
108.6	40.5	49.7	(18.5)	Crack spread - LPG (USD/t)*	105.2	74.6	(29.1)
5.41	5.13	5.69	(9.7)	HRK/USD average	5.47	5.27	(3.7)
5.24	5.13	5.90	(13.1)	HRK/USD closing	5.90	5.13	(13.1)
7.40	7.39	7.25	1.9	HRK/EUR average	7.27	7.39	1.8
7.38	7.37	7.19	2.5	HRK/EUR closing	7.19	7.37	2.5
0.31	0.26	0.44	(40.4)	3m USD LIBOR (%)	0.35	0.29	(18.4)
1.10	1.42	0.69	105.2	3m EURIBOR (%)	0.67	1.25	87.3

** FOB Mediterranean*

INDUSTRIJA NAFTE, d.d.

Announcements in 2011

July 26, 2011	INA presented Optina 2 project
July 13, 2011	Proplin
July 12, 2011	Receivables collection procedure
July 08, 2011	Response to the Zagreb Stock Exchange query
June 21, 2011	Merger agreement
June 15, 2011	Management Board Meeting held
June 10, 2011	Reaction to the article
June 10, 2011	Retail network modernization
June 08, 2011	Management Board appointment
May 30, 2011	Supervisory Board Employee representative
May 27, 2011	Announcement
May 27, 2011	Crude oil transportation contract
May 23, 2011	Legal opinion
May 23, 2011	General Meeting decisions
May 23, 2011	Counterproposal to the Annual General Meeting
May 23, 2011	Hanfa's Decision from May 23, 2011
May 18, 2011	Hanfa's Decision
May 16, 2011	Suspension of trading
May 13, 2011	Shareholders notification
May 09, 2011	Suspension of trading
May 06, 2011	Annual report 1Y, audited, non consolidated, 2010
May 06, 2011	Annual report 1Y, audited, consolidated, 2010
May 04, 2011	Management Board Meeting
May 02, 2011	First quarter Q1, unaudited, non consolidated, 2011
April 29, 2011	First quarter Q1, unaudited, consolidated, 2011
April 28, 2011	Suspension of trading
April 15, 2011	General Meeting notice
April 04, 2011	Suspension of trading prolonged
March 30, 2011	Audited report
March 30, 2011	Supervisory board meeting
March 29, 2011	Appointment announcement
March 28, 2011	Suspension of trading
March 01, 2011	Announcement
February 16, 2011	Fourth quarter Q4., unaudited, non consolidated, 2010
February 15. 2011	Fourth quarter Q4., unaudited, consolidated, 2010
February 14, 2011	Rijeka refinery modernisation first phase completed
February 10, 2011	Management Board members appointed
January 17, 2011	Supervisory Board meeting held
January 17, 2011	Extraordinary general assembly held
January 07, 2011	Selec – 1 satellite oil field discovery
January 04, 2011	Shares disposal

INDUSTRIJA NAFTE, d.d.

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 March 11	30 June 11
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
Total	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**

Source: Central Clearing Depositary Company

Changes in organisation, Management Board or Supervisory Board

Supervisory Board

At the Extraordinary General meeting of INA-INDUSTRIJA NAFTE d.d. held on January 17, 2011 Ivan Šuker, Tomislav Ivić and Božidar Pankretić were recalled and Davor Štern, Gordana Sekulić and Damir Vanđelić were appointed supervisory board members with the term of office until 13 June 2013. At the meeting held on January 17, 2011 the Supervisory Board of INA-Industrija nafte d.d. Zagreb appointed Mr Davor Štern a new Chairman of the Supervisory Board.
In accordance with the article 163., paragraph 3. of the Labour Act (official Gazette 149/09), in connection with the article 256, paragraph 2 of the Companies Act (official Gazette 118/03) elections for the INA, d.d. Supervisory Board Employee representative were held on 12 May 2011. Mrs Maja Rilović was elected as the Employee representative in the Supervisory Board of INA, d.d. with the term of office starting from May 24, 2011.

Management Board

During the circular voting procedure on February 10, 2011 INA Supervisory Board appointed three new members of INA Management Board. The new members of INA Management Board are Niko Dalić, Ivan Krešić and Davor Mayer, all three appointed with the mandate starting from 11th February 2011 until 1st April 2015. At the same session Tomislav Dragičević, Josip Petrović and Dubravko Tkalčić were recalled from the duty of the members of INA Management Board as of 10th February 2011. Besides, the term of office of Mr. Attila Holoda and Mr. Lajos Alacs as members of INA Management Board is extended for the period until April 1st, 2015.
On the session of the Supervisory Board of INA-INDUSTRIJA NAFTE d.d. held on June 7th, 2011, two new members of the Management Board were appointed. New Management Board members are dr. Pál Kara and Péter Ratatics, both appointed with the mandate starting as of June 9, 2011 until April 1, 2015. At the same session, Supervisory Board accepted the resignation of Attila Holoda and Lajos Alács from the position of the members of the Management Board as of June 8, 2011.
The Management Board of INA – Industrija nafte, d.d. at its session held on June 14, 2011 recalled Mr. Bojan Milković from the duties of CEO and Executive director for exploration and production as of June 14, at his own request.
At the same session the Management Board appointed Mr. Želimir Šikonja to the position of Executive director for exploration and production of oil and gas for indefinite period of time.
The Management Board unanimously prolonged authorization of its President, Mr. Zoltán Áldott, for the supervision of functions directly subordinated to Chief Executive Officer for the period of 90 days or until further decision.

Management representation

INA Group's consolidated financial statements for Q2 and H1, 2011 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

INA Group
Condensed Interim Financial Statements with Notes for the period ended 30 June 2011

Finance Function
Accounting and Tax Sector

Contents

Condensed Consolidated Income Statement

For the period ended 30 June 2011

(all amounts in HRK millions)

(unaudited)

		Six months ended:		Three months ended:	
	Notes	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Sales revenue					
a) domestic		8,291	7,184	3,943	3,470
b) exports		6,469	4,130	3,874	2,208
Total sales revenue	3	**14,760**	**11,314**	**7,817**	**5,678**
Income from own consumption of products and services		89	198	54	147
Other operating income		863	1,246	430	801
Total operating income		**15,712**	**12,758**	**8,301**	**6,626**
Changes in inventories of finished products and work in progress		828	673	(215)	260
Cost of raw materials and consumables		(7,886)	(5,569)	(3,824)	(2,801)
Depreciation and amortisation		(1,164)	(882)	(697)	(457)
Other material costs		(829)	(796)	(436)	(360)
Service costs		(599)	(1,218)	(335)	(749)
Staff costs	5	(1,366)	(1,420)	(703)	(722)
Cost of other goods sold		(1,762)	(1,915)	(709)	(801)
Impairment and charges (net)		(527)	(488)	(319)	(225)
Provision for charges and risks (net)		(211)	(55)	15	(26)
Operating expenses		**(13,516)**	**(11,670)**	**(7,223)**	**(5,881)**
Profit from operations		**2,196**	**1,088**	**1,078**	**745**
Finance income		540	61	148	37
Finance costs		(208)	(1,165)	(76)	(730)
Net profit/(loss) from financial activities		**332**	**(1,104)**	**72**	**(693)**
Profit/(loss) before tax		**2,528**	**(16)**	**1,150**	**52**
Income tax expense	6	(583)	(92)	(258)	(29)
Profit/(loss) for the year		**1,945**	**(108)**	**892**	**23**
Attributable to:					
Owners of the Company		**1,946**	**(108)**	**893**	**23**
Non-controling interests		(1)	-	(1)	-
		1,945	**(108)**	**892**	**23**
Earnings/(loss) per share					
Basic and diluted earnings/(loss) per share (kunas per share)	7	194.6	(10.8)	89.3	2.3

Condensed Consolidated Statement of Comprehensive Income

For the period ended 30 June 2011

(all amounts in HRK millions)

(unaudited)

	Notes	Six months ended:		Three months ended:	
		30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Profit/(loss) for the year		**1,945**	**(108)**	**892**	**23**
Other comprehensive income/(loss):					
Exchange differences arising from foreign operations		(689)	40	(680)	28
Gains on available-for-sale investments,net		5	(26)	(5)	(36)
Other comprehensive income, net		**(684)**	**14**	**(685)**	**(8)**
Total comprehensive income/(loss) for the year		**1,261**	**(94)**	**207**	**15**
Attributable to:					
Owners of the Company		1,262	(94)	208	15
Non-controling interests		(1)	-	(1)	-

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

Condensed Consolidated Statement of Financial Position

At 30 June 2011

(all amounts in HRK millions)

(unaudited)

ASSETS	**Notes**	**30 June 2011**	**31 December 2010**
Non-current assets			
Intangible assets	8	848	840
Property, plant and equipment	9	20,509	21,555
Goodwill		221	232
Investments in associates and joint ventures		34	22
Other investments		344	334
Long-term receivables		193	240
Derivative financial instruments		8	4
Deferred tax		313	280
Available for sale assets		423	417
Total non – current assets		**22,893**	**23,924**
Current assets			
Inventories		4,421	3,157
Trade receivables, net		2,636	3,052
Other receivables		611	586
Derivative financial instruments		8	1
Other current assets		35	40
Prepaid expenses and accrued income		271	142
Cash and cash equivalents		304	317
		8,286	**7,295**
Assets classified as held for sale		-	12
Total current assets		**8,286**	**7,307**
TOTAL ASSETS		**31,179**	**31,231**

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

Condensed Consolidated Statement of Financial Position

At 30 June 2011

(all amounts in HRK millions)

(unaudited)

EQUITY AND LIABILITIES	**Notes**	**30 June 2011**	**31 December 2010**
Capital and reserves			
Share capital	10	9,000	9,000
Revaluation reserve		32	27
Other reserves		1,651	2,340
Retained earnings	11	2,890	1,424
Equity attributable to equity holders of the parent		**13,573**	**12,791**
Non - controlling interests		1	2
TOTAL EQUITY		**13,574**	**12,793**
Non – current liabilities			
Long-term loans		5,436	7,301
Other non-current liabilities		119	125
Employee benefit obligation		135	129
Provisions		2,934	2,620
Total non–current liabilities		**8,624**	**10,175**
Current liabilities			
Bank loans and overdrafts		3,214	1,659
Current portion of long-term loans		1,643	1,295
Trade payables		2,456	3,786
Taxes and contributions		1,126	789
Other current liabilities		249	200
Accruals and deferred income		74	124
Employee benefit obligation		12	16
Provisions		207	394
		8,981	8,263
Liabilities directly associated with assets classified held for sale		-	-
Total current liabilities		**8,981**	**8,263**
TOTAL LIABILITIES		**17,605**	**18,438**
TOTAL EQUITY AND LIABILITIES		**31,179**	**31,231**

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

Condensed Consolidated Statement of Changes in Equity

For the period ended 30 June 2011

(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
Balance at 1 January 2010	**9,000**	**2,311**	**10**	**463**	**11,784**	**8**	**11,792**
Loss for the year	-	-	-	(108)	(108)	-	(108)
Other comprehensive income, net	-	40	(26)	-	14	-	14
Total comprehensive loss for the year	**-**	**40**	**(26)**	**(108)**	**(94)**	**-**	**(94)**
Balance at 30 June 2010	**9,000**	**2,351**	**(16)**	**355**	**11,690**	**8**	**11,698**
Balance at 1 January 2011	**9,000**	**2,340**	**27**	**1,424**	**12,791**	**2**	**12,793**
Profit for the year	-	-	-	1,946	1,946	(1)	1,945
Other comprehensive income, net	-	(689)	5	-	(684)	-	(684)
Total comprehensive income for the year	**-**	**(689)**	**5**	**1,946**	**1,262**	**(1)**	**1,261**
Dividents paid	-	-	-	(480)	(480)	-	(480)
Balance at 30 June 2011	**9,000**	**1,651**	**32**	**2,890**	**13,573**	**1**	**13,574**

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

Condensed Consolidated Cash Flow Statement

For the period ended 30 June 2011

(all amounts in HRK millions)

(unaudited)

	Notes	Six months ended: 30 June 2011	30 June 2010
Profit/(loss) for the year		**1,945**	**(108)**
Adjustments for:			
Depreciation and amortisation		1,164	882
Income tax (benefit)/expense recognized in (loss)/profit		583	92
Impairment charges (net)		527	488
Reversal of impairment		(92)	(727)
Gain on sale of property, plant and equipment		(10)	-
Gain on sale investments and shares		11	-
Foreign exchange loss/(gain)		(443)	922
Interest expense (net)		52	141
Other finance expense recognised in profit		12	54
Increase in provisions		(186)	103
Decommisioning interests		54	(72)
Other non-cash item		(9)	1
		3,608	**1,776**
Movements in working capital			
(Increase) in inventories		(1,515)	(927)
Decrease/(increase) in receivables and prepayments		146	(128)
(Decrease)/increase in trade and other payables		(1,254)	314
Cash generated from operations		**985**	**1,035**
Taxes paid		(328)	-
Net cash inflow from operating activities		**657**	**1,035**
Cash flows used in investing activities			
Payments for property, plant and equipment		(489)	(1,443)
Payments for intangible assets		(48)	(78)
Proceeds from sale of non-current assets		11	-
Proceeds from sale of subsidiary		22	-
Dividends received from companies classified as available for sale and from other companies		1	2
Interest received		13	-
Investments and loans to third parties, (net)		(1)	(29)
Net cash used for investing activities		**(491)**	**(1,548)**

(all amounts in HRK millions)

		Six months ended:	
	Notes	**30 June 2011**	**30 June 2010**
Cash flows from financing activities			
Additional long-term borrowings		26	455
Repayment of long-term borrowings		(1,067)	(167)
Additional short-term borrowings		10,988	4,723
Repayment of short-term borrowings		(9,416)	(4,289)
Dividend paid		(480)	-
Interest paid on long-term loans		-	(12)
Other long-term liabilities, (net)		(4)	(7)
Interest paid on short-term loans and other financing charges		(138)	(83)
Net cash from financing activities		**(91)**	**620**
Net increase in cash and cash equivalents		**75**	**107**
At 1 January		317	367
Effect of foreign exchange rate changes		(88)	(2)
At 30 June		**304**	**472**

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 2011. 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 2010.

Adoption of new and revised 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:

New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have also been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 24 “Related Party Disclosures” - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised standards (continued)

Standards and Interpretations effective in the current period (continued)

- Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011).

- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, most amendments are to be applied for annual periods beginning on or after 1 January 2011.

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:

- 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 - Disclosure" – Disclosures – Transfer of Financial Assets (effective for annual periods beginning on or after 1 July 2011),

- IAS 12 "Income tax", as amended in December 2010, (effective for annual periods beginning on or after 1 January 2012),

- IFRS 9 "Financial Instruments", as amended in 2010, (effective for annual periods beginning on or after 1 January 2013),

- 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),

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised standards (continued)

Standards and Interpretations in issue not yet adopted (continued)

- 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).

INA Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Management anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

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

(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

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

30 June 2011	**Exploration and production**	**Refining and marketing**	**Retail**	**Corporate and other**	**Intersegment transfers**	**Total**
Sales to external customers	5,118	6,118	3,488	36	-	14,760
Inter-segment sales	1,296	2,882	10	188	(4,376)	-
Total revenue	**6,414**	**9,000**	**3,498**	**224**	**(4,376)**	**14,760**
Operating expenses, net of other operating income	(3,108)	(9,738)	(3,528)	(566)	4,376	(12,564)
Profit from operations net of other income	**3,306**	**(738)**	**(30)**	**(342)**	**-**	**2,196**
Net finance income						332
Profit before tax						2,528
Income tax expense						(583)
Profit for the year						**1,945**

(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

30 June 2010	**Exploration and production**	**Refining and marketing**	**Retail**	**Corporate and other**	**Elimination**	**Total**
Sales to external customers	4,203	4,198	2,867	46	-	11,314
Inter-segment sales	898	2,244	33	327	(3,502)	-
Total revenue	**5,101**	**6,442**	**2,900**	**373**	**(3,502)**	**11,314**
Operating expenses, net of other operating income	(2,753)	(7,238)	(2,994)	(743)	3,502	(10,226)
Profit/(loss) from operations net of other income	**2,348**	**(796)**	**(94)**	**(370)**	**-**	**1,088**
Net finance income/(income)						(1,104)
Profit/(loss) before tax						(16)
Income tax expense/(benefit)						(92)
Profit/(loss) for the year						**(108)**

(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

30 June 2011 **Assets and liabilities**	**Exploration and production**	**Refining and marketing**	**Retail**	**Corporate and other**	**Elimination**	**Total**
Property, plant and equipment	12,102	6,925	928	554	-	20,509
Intangible assets	748	6	2	92	-	848
Investments in associates and joint ventures	34	-	-	-	-	34
Inventories	1,098	3,422	60	143	(302)	4,421
Trade receivables, net	1,269	1,043	434	180	(290)	2,636
Not allocated assets						2,731
Total assets						**31,179**
Trade payables	477	1,702	173	394	(290)	2,456
Not allocated liabilities						15,149
Total liabilities						**17,605**
Other segment information						
Capital expenditure:	**331**	**202**	**41**	**11**	-	**585**
Property, plant and equipment	295	202	41	(1)	-	537
Intangible assets	36	-	-	12	-	48
Depreciation and amortisation	**865**	**176**	**47**	**76**	**-**	**1,164**
Impairment losses recognized in profit and loss	60	-	-	-	-	60

(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

31 December 2010 **Assets and liabilities**	**Exploration and production**	**Refining and marketing**	**Retail**	**Corporate and other**	**Elimination**	**Total**
Property, plant and equipment	13,119	6,884	950	602	-	21,555
Intangible assets	715	7	4	114	-	840
Investments in associates and joint ventures	22	-	-	-	-	22
Inventories	783	2,274	70	30	-	3,157
Trade receivables, net	1,696	1,071	357	302	(374)	3,052
Not allocated assets						2,605
Total assets						**31,231**
Trade payables	771	2,727	204	462	(378)	3,786
Not allocated liabilities						14,652
Total liabilities						**18,438**
Other segment information						
Capital expenditure:	**1,473**	**1,328**	**52**	**38**	**-**	**2,891**
Property, plant and equipment	1,293	1,328	51	14	-	2,686
Intangible assets	180	-	1	24	-	205
Depreciation and amortisation	**1,160**	**330**	**94**	**166**	**-**	**1,750**
Impairment losses recognized in profit and loss	(443)	-	(60)	-	-	(503)

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

For the period ending 30 June 2011 in staff cost is presented cost of net salaries in the amount of 680 million HRK, cost of employee income tax in the amount 280 million HRK, tax on payroll in the amount 201 million HRK and other payroll related costs in the amount 205 million HRK. For the period ending 30 June 2011 in staff cost is presented cost of net salaries in the amount in the amount 723 million HRK, tax on payroll in the amount 310 million HRK, tax on payroll in the amount 249 million HRK, and other payroll related costs in the amount 138 million HRK.

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 December 2010 and 20% for the period ending 30 June 2011.

7. EARNINGS PER SHARE

	Six months ended: 30 June 2011	Six months ended: 30 June 2010
Basic and diluted earnings/(loss) per share (in HRK)	**194.6**	**(10.8)**

Earnings	Six months ended: 30 June 2011	Six months ended: 30 June 2010
Earnings used in the calculation of total basic earnings per share (profit/(loss) for the period attributable to equity holders of the parent)	1,946	(108)
	1,946	**(108)**

Number of shares	Six months ended: 30 June 2011	Six months ended: 30 June 2010
	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 30 June 2011, the Group invested HRK 48 million in intangible assets. The effect of depreciation equals HRK 38 million. Value adjusted investments equals HRK 1 million. The transfer on tangible assets is HRK 1 million.

(all amounts in HRK millions)

9. PROPERTY, PLANT AND EQUIPMENT

In the period ending 30 June 2011, INA Group invested HRK 537 million in property, plant and equipment. Capitalised decommissioning costs increased the value of assets by HRK 261 million. Retranslation of changes in U.S. dollar on oil and gas fields decreased net book value of INA Group in amount of HRK 659 million. Impairment in INA Group was HRK 60 million. The effect of depreciation reduced book value in amount of HRK 1.126 million. Disposal of assets was HRK 8 million. The increase in the carrying value of the INA Group was also result of foreign exchange differences in the amount of HRK 9 million. Transfer from intangible assets increased the value of tangible assets in amount of HRK 1 million. Assets value adjusting in Sisak refinery decreased book value of tangible assets in amount of HRK 1 million.

10. SHARE CAPITAL

Issued capital as at 30 June 2011 amounted to 9,000 million HRK. There was no movements in the issued capital of the Company in either the current or the prior financial reporting.

11. RETAINED EARNINGS

	INA Group
	Retained earnings/ (Accumulated deficit)
Balance at 1 January 2011	**1,424**
Dividends paid	(480)
Profit for the period	1,946
Balance at 30 June 2011	**2,890**

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, d.d. and the Group companies and other related parties are disclosed below.

(all amounts in HRK millions)

12. RELATED PARTY TRANSACTIONS (continued)

During the year, INA, d.d. entered into the following trading transactions with the following related parties:

INA, d.d.	Sales of goods		Purchase of goods	
	Six months ended:		Six months ended:	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Foreign related companies				
Interina Ltd Guernsey	-	1,158	-	159
Holdina Sarajevo	394	225	-	16
Interina d.o.o. Ljubljana	14	11	-	-
Interina Ltd London	-	-	-	4,738
Adriagas Milano	-	-	-	2
INA Crna Gora d.o.o Podgorica	30	23	-	-
INA Beograd d.o.o Beograd	50	46	-	-
Domestic related companies				
Crosco Grupa	7	3	45	88
Osijek Petrol d.d.	69	211	-	-
Proplin d.o.o. Zagreb	226	227	77	22
STSI d.o.o. Zagreb	7	8	97	250
Maziva Zagreb d.o.o. Zagreb	53	44	26	4
ITR d.o.o. Zagreb	2	1	11	13
Sinaco d.o.o. Zagreb	2	1	53	62
Hostin d.o.o. Zagreb	-	-	-	3
Prirodni plin d.o.o. Zagreb	2,327	2,188	105	43
Polybit d.o.o.	-	-	-	-
Companies available for sale				
JANAF d.d. Zagreb	1	-	23	20
Strategic partner				
MOL Plc	292	153	281	738
Companies controlled by strategic partner				
Tifon d.o.o.	348	57	3	-
Moltrade Mineralimpex Zrt.	-	-	1,141	8
Slovnaft, a.s.	1	-	18	-
Slovnaft, Petrochemicals s.r.o.	-	-	-	-
Mol Lub Kft.	-	-	1	1
MOL SLOVENIJA d.o.o.	4	-	-	-
IES-Italiana Energia e Servizi s.p.a.	13	-	-	-
TVK Nyrt.	-	-	1	1
Intermol d.o.o.	3	22	-	-
Energopetrol d.d.	220	162	-	-
Geophysical services Ltd.	-	-	-	15

(all amounts in HRK millions)

12. RELATED PARTY TRANSACTIONS (continued)

During the year, INA, d.d. entered into the following outstanding balances with the following related parties:

INA, d.d.	Sales of goods		Purchase of goods	
	Six months ended:		Six months ended:	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Companies controlled by the State				
Hrvatska elektroprivreda	111	196	58	83
Hrvatske željeznice	-	25	26	21
Croatia osiguranje	-	2	31	31
Hrvatske vode	-	-	11	10
Hrvatska pošta	-	-	1	1
MORH	34	25	-	-
Jadrolinija	63	51	1	2
Narodne novine	- -		-	1
Croatia Airlines	105	72	-	-
Petrokemija Kutina	-	6	-	-
Plinacro	-	-	-	-
Hrvatske autoceste	-	-	29	26
Podzemno skladište plina Okoli	1	1	-	-

(all amounts in HRK millions)

12. RELATED PARTY TRANSACTIONS (continued)

During the year, INA, d.d. entered into the following outstanding balances with the following related parties:

INA, d.d.	Amounts owed from related parties		Amounts owed to related parties	
	30 June 2011	31 December 2010	30 June 2011	31 December 2010
Foreign related companies				
Interina Ltd Guernsey	-	-	121	128
Holdina Sarajevo	116	81	7	5
Interina d.o.o. Ljubljana	1	3	-	-
Interina Ltd London	-	-	100	2,183
Adriagas Milano	-	-	-	1
INA Crna Gora d.o.o Podgorica	10	15	-	-
INA Beograd d.o.o Beograd	16	7	-	-
Domestic related companies				
Crosco Grupa	2	2	31	50
Osijek Petrol d.d.	52	123	1	1
Proplin d.o.o. Zagreb	104	109	20	22
STSI d.o.o. Zagreb	3	8	94	173
Maziva Zagreb d.o.o. Zagreb	25	21	15	28
ITR d.o.o. Zagreb	2	-	9	14
Sinaco d.o.o. Zagreb	1	1	33	36
Hostin d.o.o. Zagreb	-	-	-	-
Prirodni plin d.o.o. Zagreb	968	2,271	137	346
Companies available for sale				
JANAF d.d. Zagreb	-	-	-	4
Strategic partner				
MOL Plc	57	30	42	609
Companies controlled by strategic partner				
Tifon d.o.o.	45	99	1	6
Moltrade Mineralimpex Zrt.	-	-	126	-
Slovnaft, a.s.	-	-	6	1
Slovnaft, Petrochemicals s.r.o.	1	-	-	-
Mol Lub Kft.	-	-	-	-
MOL SLOVENIJA d.o.o.	2	-	-	-
IES-Italiana Energia e Servizi s.p.a.	1	-	-	-
TVK Nyrt.	-	-	1	1
Intermol d.o.o.	3	-	-	-
Energopetrol d.d.	30	34	-	-
Geophysical services Ltd.	-	-	-	-

(all amounts in HRK millions)

12. RELATED PARTY TRANSACTIONS (continued)

During the year, INA, d.d. entered into the following outstanding balances with the following related parties:

INA, d.d.	Amounts owed from related parties		Amounts owed to related parties	
	30 June 2011	31 December 2010	30 June 2011	31 December 2010
Companies controlled by the State				
Hrvatska elektroprivreda	108	209	15	7
Hrvatske željeznice	1	1	7	13
Croatia osiguranje	-	-	-	1
Hrvatske vode	-	-	3	3
Hrvatska pošta	2	2	-	-
MORH	17	14	-	-
Hrvatske šume	7	5	-	-
Jadrolinija	45	33	1	-
Narodne novine	-	-	-	-
Croatia Airlines	43	24	-	-
Petrokemija Kutina	-	194	-	-
Plinacro	-	-	4	-
Hrvatske autoceste	1	1	4	5
Podzemno skladište plina Okoli	-	-	-	6

13. SUBSEQUENT EVENTS

Receivables collection procedure

12 July 2011 the procedure for enforced collection of the total overdue receivables in the amount of more than 68 million HRK from company DIOKI was initiated related to the delivered ethane from INA, d.d. and delivered natural gas from Prirodni plin, d.o.o. As the next step, INA is considering delivery suspension of ethane and natural gas. INA has shown maximum flexibility in the effort to achieve mutual agreement with the company with which INA has a long partnership relation and has continued with regular deliveries of natural gas and ethane to DIOKI, despite DIOKI's high liabilities in the last two years. Intensive talks have been initiated during which Dioki hasn't offered an acceptable solution. DIOKI has also not paid its debt until day. This is therefore a necessary business move in the order to protect INA's business operations.