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H1 2013 – REPORT INA GROUP CONSOLIDATED

INA Group (ZB: INA-R-A; LSE: HINA; www.ina.hr) announced its Q2 and H1 2013 results today. This report contains unaudited consolidated financial statements for the period ending 30 June 2013 as prepared by the management in accordance with the International Financial Reporting Standards.

INA Group financial results (IFRS)

HRK mln.	Q1 2013	Q2 2013	Q2 2012	%	H1 2012	H1 2013	%
Net sales revenues	7,123	6,232	7,275	(14)	14,531	13,355	(8)
EBITDA reported [(1)]	1,008	742	932	(20)	2,229	1,750	(21)
Operating result	**549**	**61**	**(97)**	**n.a.**	**491**	**610**	**24**
Net financial expenses	(131)	69	(274)	n.a.	(251)	(62)	(75)
Net profit/loss for the period [(2)]	376	67	(304)	n.a.	108	443	310
Operating cash flow	**260**	**1,874**	**1,461**	**28**	**1,934**	**2,134**	**10**
Earnings per share							
Basic and diluted earnings per share (kunas per share)	37.6	6.7	(30.4)	n.a.	10.8	44.3	310
Net gearing	30.43	25.78	33.95		33.95	25.78	
CAPEX total	163	337	242	39	406	500	23
Domestic	127	256	200	28	344	383	11
International	36	81	42	93	62	117	89

USD mln [(3)]	Q1 2013	Q2 2013	Q2 2012	%	H1 2012	H1 2013	%
Net sales revenues	1,241	1,076	1,242	(13)	2,502	2,317	(7)
EBITDA reported [(1)]	176	128	159	(19)	384	304	(21)
Operating result	**96**	**11**	**(17)**	**n.a.**	**85**	**106**	**25**
Net financial expenses	(23)	12	(47)	n.a.	(43)	(11)	(75)
Net profit/loss for the period [(2)]	66	12	(52)	n.a.	19	77	313
Operating cash flow	**45**	**324**	**249**	**30**	**333**	**370**	**11**
Earnings per share							
Basic and diluted earnings per share (USD per share)	6.6	1.2	(5.2)	n.a.	1.9	7.7	313
CAPEX total	28	58	41	41	70	87	24
Domestic	22	44	34	30	59	66	12
International	6	14	7	95	11	20	90

(1) EBITDA = EBIT + Depreciation + Impairment + Provisions
(2) INA Group net profit attributable to equity holder
(3) In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for Q1 2013 – 5.7383 HRK/USD; Q2 2012 - 5.8577 HRK/USD; Q2 2013 – 5.7902 HRK/USD; H1 2012 – 5.8084 HRK/USD; H1 2013 – 5.7638 HRK/USD
(4) Starting from 1 January 2013, the reporting of Refining and Marketing segment and Retail segment is merged as Refining and Marketing including Retail segment value chain aligning the presentation with international industry reporting practice. As a result of this resegmentation, the Group has the following two reporting segments: Upstream and Refining and Marketing including Retail. Comparative periods have been restated accordingly.

INA Group core market revenues remained under pressure during the first half of 2013, falling by 8% year-on-year to HRK 13.4 billion, as the Company continued to face challenges in the economic environment driven by the prolonged economic slowdown. Deteriorating macroeconomic environment including decreased crude oil prices, a drop in crack spreads and depressed market demand contributed to this trend. However, despite the unfavorable environment, INA was able to achieve an improved product yield and overall efficiency levels, supported by strong cost control. As a result of further optimization of the Company's marketing strategy and the proactive efforts of the commercial team directed at customer base growth, INA strengthened its market presence in the Company's core export markets of Slovenia and Bosnia, whilst maintaining its market leading position in its home market where sales continued to increase.

Owing to continuous efficiency enhancements implemented during the previous quarters in response to difficult conditions, INA Group's net profit for the first half of 2013 reached HRK 443 million, while EBITDA at just over HRK 1.7 billion, declined by 21% compared to H1 2012 driven by lower production due to natural depletion of hydrocarbon fields production and the difficult conditions in the Refining and Marketing segment (including Retail). INA Group's operating result of HRK 610 million was to a large extent driven by efficiency improvements, including material and service type cost management, energy savings, and revenue optimization achieved through above-mentioned marketing activities.

In Q2 2013, INA Group achieved positive results in both operating profit and net profit, which stood at HRK 61 million and HRK 67 million, respectively. Improved operational efficiency reflected in the reduced operating expenditures was a strong contributor to this performance, which was moderated by the above-mentioned negative effects. At above HRK 700 million EBITDA declined 20% in line with the negative trend in the Group's revenues.

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Capital expenditure for the first six months of 2013 increased by 23% year-on-year to HRK 500 million, driven in particular by higher spending during the second quarter as a result of accelerated activity levels across all business segments. INA strongly intensified domestic E&P activities, especially onshore upstream efforts where at four new exploration wells preparations for drilling were completed. At the same time, the retail modernization program picked up pace in Q2 2013, along with the Refining and Marketing HSE and efficiency improvement project. New refining and marketing initiatives planned for 2013 include preparatory activities for the deep conversion project at Rijeka refinery, and HSE and energy efficiency projects aimed at improving internal operational efficiency. In the scope of the retail network modernization INA renewed 132 filling stations, by far becoming the network with largest number of modernized stations.

As a result of the Group's ability to secure a stable source of funding, INA was able to continue with its investment programs despite the challenging environment in its core regional markets. Decreased financing costs and improved gearing levels, which declined from 31% as at 31 December 2012 to 26% as at 30 June 2013, are a result of the management's continuous efforts aimed at maintaining the Group's solid financial position.

- **Exploration and Production**: In H1 2013, EBITDA reached HRK 2.7 billion, just above the same period last year due to the improved average realized hydrocarbon price, moderated losses of the gas trading operations (driven by decreased imported natural gas volumes) and enhanced cost structure. These positive trends were moderated by lower hydrocarbon production reflecting natural depletion of domestic fields.
- **Refining and Marketing (including Retail)**: The segment recorded EBITDA of HRK (148) million in the first half of 2013, compared to (169) million in the same period last year. The improvement is a result of the management's efforts focused on increasing motor fuel wholesale performance (both in domestic and export markets), the strong focus on optimizing supply/production channels and disciplined cost control efforts. However, the positive effects of continuous optimization and internal efficiency improvements were largely offset by lower average crack spreads, the decreasing Brent-Ural spread as well as the lower share of processed domestic crude. Continued high employee costs in Retail also had a negative effect on the business.
- **Corporate and Other[1]:** The 13% lower operating loss of the segment (HRK 302 million) in H1 2013 compared to the same period last year is testament to the management's efforts in further process optimization and cost control.

Commenting on the results, Mr. Zoltán Áldott, President of the Management Board said:

INA Group's economic environment in the first half of 2013 remained challenging and utilizing internal improvements is still imperative to maintain stable positive results. EBITDA in the first half of 2013 was at the level of HRK 1.7 billion, 22% lower than 2012, as deteriorating downstream environment and ongoing economic slowdown in Croatia as well as other core markets continues to limit performance. Nevertheless the operating result stays positive highlighting the constant management efforts in efficiency improvement.

Exploration and Production, the main contributor to the Group results, continues to compensate for the natural decline with, among other factors, constant internal optimization. Upstream optimization is carried out through simplifying and modifying the production and administration processes while at the same time utilizing maintenance synergies and optimizing technical support teams operations. Minimizing the production costs in this way significantly decreases operating expenditures of the segment.

In spite of the still declining market demand in INA's core region and low margins, INA Refining and Marketing benefited from the continuous focus on improved product yield supported by active crude selection, lower own consumption and loss and improved energy efficiency. Efforts made in direction of taking a stronger regional role, boosting exports and broadening the customer base resulted in a more than threefold increase in export sales to Slovenia and solid growth in Bosnia. In the same time, modernized domestic retail network ensured leading domestic position.

Investments in the first six months of 2013 increased by 23% compared to the same period in 2012, with levels reaching HRK 500 million. The biggest portion of CAPEX is allocated in Exploration and Production as the key growth segment of the entire Group. Our intensified onshore drilling campaign continues, and we have also increased emphasis on new exploration and development projects in the North Adriatic, in the framework of which we have commenced exploration drilling with our Labin rig. Exploration activities also intensified in Egypt where INA has increased its stake in East Yidma and Disouq concessions. Alongside with upstream investments, Refining and marketing HSE and efficiency improvement projects, preparatory activities for the deep conversion project at Rijeka refinery are underway, as well as continuation of retail modernization program, aiming to ensure future growth.

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

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Management discussion

*Exploration and Production**

Q1 2013	Q2 2013	Q2 2012	%	Segment IFRS results (HRK mln)	H1 2012	H1 2013	%
3,182	2,463	2,773	(11)	Net sales revenues	6,540	5,645	(14)
1,611	1,074	1,365	(21)	EBITDA reported	2,646	2,685	1
1,341	642	673	(5)	Operating profit reported	1,479	1,983	34
115	248	156	59	CAPEX **	228	363	59

* 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.
** Not including one-off exploration OPEX

Q1 2013	Q2 2013	Q2 2012	%	Hydrocarbon production*	H1 2012	H1 2013	%
11,484	**11,767**	**12,357**	**(5)**	**Crude oil production (boe/d)***	**12,528**	**11,626**	**(7)**
8,408	8,700	8,889	(2)	Croatia	8,805	8,555	(3)
-	-	-	n.a.	Syria**	220	-	n.a.
1,831	1,815	1,963	(8)	Egypt	1,944	1,823	(6)
1,245	1,252	1,505	(17)	Angola	1,560	1,248	(20)
27,958	**27,440**	**32,226**	**(15)**	**Natural gas production (boe/d)**	**38,278**	**27,698**	**(28)**
13,644	13,345	16,523	(19)	Croatia - offshore	17,648	13,494	(24)
14,314	14,095	15,704	(10)	Croatia - onshore	16,049	14,204	(11)
-	-	-	n.a.	Syria**	4,582	-	n.a.
2,460	**2,337**	**2,719**	**(14)**	**Condensate (boe/d)**	**4,145**	**2,398**	**(42)**
2,460	2,337	2,719	(14)	Croatia	2,743	2,398	(13)
-	-	-	n.a.	Syria**	1,402	-	n.a.
41,902	**41,544**	**47,302**	**(12)**	**Total hydrocarbon production (boe/d)**	**54,951**	**41,722**	**(24)**
Q1 2013	**Q2 2013**	**Q2 2012**	**%**	**Average realised hydrocarbon price*****	**H1 2012**	**H1 2013**	**%**
83	81	84	(3)	Total hydrocarbon price (USD/boe)*	80	83	3
Q1 2013	**Q2 2013**	**Q2 2012**	**%**	**Natural gas trading - mln cm**	**H1 2012**	**H1 2013**	**%**
246	164	244	(33)	Natural gas imports	610	409	(33)
801	402	525	(23)	Total natural gas sales - domestic market	1,489	1,202	(19)

*Excluding separated condensate
**The production on Syrian fields in 2012 lasted only 57 days. From 26 of February 2012 Syrian production was stopped by Force Majeure announcement. (the data should not be taken into consideration). Crude production in Syria decreased at faster rate as the crude production cuts started already in Q4 2011 due to local constraints.
*** Calculated based on total external sales revenue including natural gas selling price as well

Q2 2013 vs. Q1 2013 results

In Q2 2013, EBITDA decreased compared to Q1 2013 reflecting (1) the decreased average realized hydrocarbon price, (2) lower sales of domestic oil to the Sisak Refinery due to transfer of inventories in Q1 2013, accumulated during 2012 (the effect of domestically produced crude oil and condensate volumes transfer parity modification amounted to HRK (166) million), (3) the increased negative price differential based on less favorable gas sales, and (4) the structural decrease in international revenues due to lower prices and adjusted receivables in Egypt. Upstream operations remain burdened by the negative contribution of Prirodni Plin which at HRK (150) million EBITDA improved over the previous quarter, while the service company had a less favorable effect on operations than the previous quarter negatively contributing to the upstream result.

Q2 2013 vs. Q2 2012 results

Lower Upstream Segment Operating profit in Q2 2013 reflects the 3% lower average realized hydrocarbon price, in line with international market trends, and 12% decreased hydrocarbon production, mainly as a result of lower offshore Adriatic contribution and coming from the natural depletion of the mature domestic onshore fields. Furthermore, the result was negatively affected by 7% higher negative natural gas price differential compared to import prices.

H1 2013 vs. H1 2012 results

The H1 2013 Upstream result improvement over H1 2012 reflects (1) the improved average realized hydrocarbon price, (2) 33% lower natural gas imports combined with a 19% lower price differential visible in improved but still negative contribution of the gas trading operations, and (3) internal efficiency improvements resulting in decreased operating expenditures. The first half 2013 result was unfavorably affected by a decrease in hydrocarbon production due to natural depletion both in on and offshore fields and the lack of Syrian volumes. During the first half of 2013, the Company experienced tightening of the domestic gas market, visible in decreased demand from both households and industrial customers, in line with negative domestic economic trends. This development, coupled with gas trading market liberalization, placed significant pressure on pricing levels.

Total **natural gas** production was 28% lower than in H1 2012, reflecting the absence of Syrian production in H1 2013 due to the earlier announcement of Force Majeure, a natural decline and water cuts on both on and offshore fields in Croatia, and regular maintenance activities. Natural gas production at the Croatian offshore fields decreased significantly due to increased water cuts, maintenance works and decommissioning on the partner's side of the Aiza Lura field, and natural depletion. However after the sharp decline offshore contribution stabilized around daily 13 thousand barrel oil equivalent (mboepd) during the first half of 2013.

Croatian **crude production** declined in 2013 due to natural depletion of the fields. Internationally, crude production was 6% lower in Egypt due to a natural production decline at the old fields on Ras Qattara and West Abu Gharadig Concessions, as well as a production decline at the Sidi Rahman field on the East Yidma Concession. This negative effect was further compounded by a 20% lower crude production in Angola mostly related to gas lift injection and delayed well perforating operations by the operator and natural decline. No Syrian crude volumes were recorded in H1 2013 as the Company temporarily suspended activities in line with international and domestic regulation and local Syrian developments. Production volumes in Syria were accounted for only up to the Force Majeure announcement (February 26, 2012). However, no revenues were received since end of 2011.

Excluding Syrian production volumes in 2012, the comparable total hydrocarbon production decrease was 14%. As a result of the above mentioned negative trends, Upstream sales revenues were 14% lower year-on-year at HRK 5,645 million. These negative effects were mitigated in part by the higher average realized hydrocarbon price.
Under current practice and in line with the international accounting standards, the Company adjusts its receivables that are 60 days or older. Adjustment of receivables is a recurring process generally applicable to all receivables; therefore it is not considered a one-off item. Accordingly, the Company has impaired HRK 151 million of its receivables in Egypt that meet these criteria.

H1 2013 Upstream expenditures decreased by 28% compared to H1 2012 to HRK 3.7 billion, reflecting (1) decreased operational expenditures coming from internal efficiency improvements, (2) 33% lower volumes of imported natural gas, and (3) lower levels of deprecation in line with the Company's' production profile in the first half of 2013.

Exploration and Production capital expenditures

Exploration and Production segment's CAPEX in H1 2013 increased to HRK 363.7 million (excluding the one-off exploration opex of HRK 0.7 million). Capital investments in Croatia amounted to HRK 190.9 million, capital investments abroad were HRK 116.8 million and CROSCO's investments HRK 46.0 million. In comparison with H1 2012, capital investments are HRK 93.2 million (34.4%) higher mainly as a result of higher domestic exploration drilling activities, exploration drilling activities on the Disouq concession in Egypt, and higher investment levels in Angola block 3/05 and higher onshore exploration drilling activities.

E&P CAPEX H1 2013 (HRK million)	Croatia	Egypt	Angola	Syria
Exploration	53.7	58.9	0	
o/w expl. one off opex	0.7			
Development	121.6	35.7	22.2	
Exploration: 112.6 (32 %) Development: 179.5 (51 %) Other: 71.6 (17%)	Exploration: On onshore - performed well site preparation and drilling activities on two new exploration wells – Bunjani-1 South, and Krunoslavlje-2. Spud in of Caginec-1 well was in June. Also, activities related to Molve-23 well preparation for frack services started. On offshore (Ivana C) - Technical inspection of offshore drilling rig Labin was performed on 20th June in Uljanik shipyard in Pula. Towing of offshore drilling rig Labin from Uljanik shipyard to the Ilena location started on 28th June. Positioning of drilling rig Labin at the location. Start of drilling Ilena 1 dir well in July. Development: On Adriatic investments were related to Ika JZ platform engineering, jacket and deck construction activities, engineering follow-up, insurance cost and PM in-house. On onshore in scope of EOR project ongoing were on-site activities on Ivanić field, Ethane and Žutica field. The main of the rest onshore development activities were related to well general workowers.	Exploration: On new concession Disouq ongoing is drilling of exploration well Helal-1 Development: North Bahariya: In period 1-2Q four wells out of six planned were drilled, completed and put into production: Abrar-17, Abrar-8, Ganna West-1 and Abrar South-3. Ras Qattara and West Abu El Gharadig: Workower operations were performed in order of optimizing production level. On WAG Raml-27 well was completed and put into production in January. On RQ drilled were two wells: Zarif-42 (dry, P&A) and Zarif-43 (to be perforated and put into production). Sidi Rahman – drilling of SR-6 well started in May and it is ongoing.	H1 2013 investments on block 3/05a were related to FEED (front engineering and design) activities on Punja and Caco Gazela Fields. On block 3/05 investments were related to Topsides Facilities Upgrade (TFU), while FSO Terminal Palanca dry dock hull repair activities were postponed from May to July.	No activities due to announced Force Majeure

Refining and Marketing, including Retail*

Q1 2013	Q2 2013	Q2 2012	%	Segment IFRS results (HRK mln)	H1 2012	H1 2013	%
5,820	3,650	5,420	(33)	Revenues	9,773	9,470	(3)
(17)	(131)	(313)	(58)	EBITDA reported	(169)	(148)	(12)
4	28	(130)	n.a.	CCS-based R&M EBITDA**	(133)	31	n.a.
(203)	(359)	(578)	(38)	Operating profit/(loss) reported	(639)	(562)	(12)
(181)	(190)	(372)	(49)	CCS-based R&M operating loss***	(604)	(372)	(38)
45	72	61	18	CAPEX and investments (w/o acquisition)	101	117	16

*Refers to Refining & Marketing including retail INA. d.d. and following subsidiaries: INA MazivaInterIna Ljubljana, INA BH Sarajevo, Holdina Sarajevo, INA Hungary, INA Crna Gora, INA Beograd, INA Kosovo
**Excluding negative special items (HRK 53 million in Q4 2012, HRK 69 million in 2012, HRK 22 million in Q1 2012)
***Excluding negative special items (HRK 696 million in Q4 2012, HRK 723 million in 2012, HRK 19 million in Q1 2012)

Q1 2013	Q2 2013	Q2 2012	%	Refinery processing (kt)	H1 2012	H1 2013	%
38	144	117	22	Domestic crude oil	254	182	(28)
674	615	552	11	Imported crude oil	1,124	1,289	15
9	35	40	(13)	Condensate	61	45	(26)
193	167	359	(53)	Other feedstock	579	360	(38)
914	**962**	**1,069**	**(10)**	**Total refinery throughput**	**2,018**	**1,876**	**(7)**
Q1 2013	**Q2 2013**	**Q2 2012**	**%**	**Refinery production (kt)**	**H1 2012**	**H1 2013**	**%**
49	56	66	(15)	LPG	117	105	(10)
259	282	373	(24)	Motor gasoline	567	541	(5)
309	319	420	(24)	Diesel	645	628	(3)
55	37	22	68	Heating oil	78	92	17
21	34	31	9	Kerosene	47	55	17
11	3	15	(82)	Naphtha	38	14	(64)
114	127	100	27	Fuel oil	196	241	23
4	13	11	12	Bitumen	11	17	45
(13)	(13)	(110)	(88)	Other products*	44	(26)	n.a.
809	**857**	**928**	**(8)**	**Total**	**1,746**	**1,666**	**(5)**
5	5	8	(29)	Refinery loss	14	11	(25)
100	99	133	(25)	Own consumption	258	199	(23)
914	**962**	**1,069**	**(10)**	**Total refinery production**	**2,018**	**1,876**	**(7)**
Q1 2013	**Q2 2013**	**Q2 2012**	**%**	**Refined product sales by country (kt)**	**H1 2012**	**H1 2013**	**%**
373	478	422	13	Croatia	841	851	1
115	122	114	6	B&H	226	236	5
27	43	8	412	Slovenia	17	70	323
277	208	323	(36)	Other markets	493	484	(2)
791	**851**	**868**	**(2)**	**Total**	**1,577**	**1,642**	**4**
Q1 2013	**Q2 2013**	**Q2 2012**	**%**	**Refined product sales by product (kt)**	**H1 2012**	**H1 2013**	**%**
56	62	67	(8)	LPG	126	118	(7)
251	216	298	(27)	Motor gasoline	479	467	(3)
262	352	307	15	Diesel	586	614	5
49	33	28	18	Heating oil	78	82	4
14	37	35	7	Kerosene	47	51	8
13	3	15	(82)	Naphtha	40	16	(59)
121	113	82	37	Fuel oil	165	235	42
6	19	15	28	Bitumen	21	25	19
19	15	20	(23)	Other products*	33	35	6
791	**851**	**868**	**(2)**	**Total**	**1,577**	**1,642**	**4**
193	262	262	0	o/w Retail segment sales	477	455	(5)

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

Q2 2013 vs. Q1 2013 results

In Q2 2013, the Refining and Marketing (including Retail) realized EBITDA of HRK (131) million, which was lower compared to the previous quarter primarily due to (1) the challenging external environment, i.e. lower average crack spread with unfavorable LPG and fuel oil crack spread, (2) decreased Brent-Ural spread, (3) higher energy costs, and (4) a decrease in the crude oil price which negatively affected inventory revaluation.

These negative effects were partially offset by 1) improved motor fuel wholesale performance, (2) the increased share of processed domestic crude, (3) better energy optimization, and (4) the lower price of processed crude oil.

The **Refining and Marketing** segment's **'clean' CCS-based operating result** remained almost flat compared to Q1 2013. In Q2 2013, total sales were higher by 8%. Moreover, the revenue mix improved significantly, i.e. motor fuel sales increased, while fuel oil sales decreased over Q1 2013.

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Q2 2013 vs. Q2 2012 results

In Q2 2013, the Refining and Marketing segment's EBITDA increased by HRK 182 million in comparison with Q2 2012, mainly as a result of (1) continuous optimization of production capacities (2) on demand refineries operation (3) strong cost control and (4) timely captured favorable export opportunities.

These factors were somewhat offset by (1) the unfavorable crack spread environment, especially on fuel oil and LPG, (2) lower motor fuel transfers to own retail, and (3) higher cost of purchased energy (natural gas and electricity).

R&M segment's **'clean' CCS-based operating loss** improved by HRK 182 million compared to Q2 2012 as a result of above mentioned drivers.

H1 2013 vs. H1 2012 results

The **Refining and Marketing** segment's **'clean' CCS-based operating result** was at HRK (372) million, representing a HRK 232 million improvement compared to H1 2012, mainly resulting from (1) improved wholesale performance, (2) timely captured favorable export opportunities (3) diversified feedstock selection with higher share of superior quality crude oil in processing, (4) significantly better energy optimization due to more stable operation of key conversion units, (5) on demand refinery operation, (6) lower processed crude oil price, and (7) stringent cost control resulting in significantly lower opex.
The above-mentioned positive drivers were only partially moderated by (1) the 26% lower average crack spread, (2) lower motor fuel transfers to own retail, (3) lower share of processed domestic crude, and (4) decreased Brent-Ural spread.

The segment operating profit in H1 2013 showed continued and stable improvement over the same period last year by HRK 77 million, reaching HRK (562) million.

The increase in motor fuel sales resulted from the management's efforts to improve the segment's performance, despite the continued decline in estimated domestic demand, especially during Q1 2013. The achieved sales performance, with Croatian wholesale stabilized and additional exports to Bosnia and trippled sales in Slovenia resulted in an improved earnings performance compared to the same period of 2012.

The yield of profitable motor fuel products increased despite the lower refinery throughput, which predominantly resulted from on demand refinery operations. Increased usage of a higher quality crude mix resulted mainly from the Rijeka Refinery block operation and Vacuum Gas Oil feedstock usage.

Retail operations sales volume

In H1 2013, **total retail sales** volumes decreased by 5% compared to H1 2012. In the same period, motor gasoline sales recorded a drop of 7%, while gas oil sales decreased by 3%. The structure of diesel sales indicated an increase in demand for high-quality fuels with a bio component. The sales slump resulted from the continued negative economic trends, such as the weakening purchasing power, lower living standards, increased selling prices and a higher unemployment rate. Sales volumes were also negatively impacted by the long and cold winter and lower number of active filling stations due to the intensive network modernization program.

Throughput per site in H1 2013 was 3% lower compared to the first half of the previous year, indicating both a contracting market and acceleration of the network modernization program which saw a certain number of petrol stations temporarily closed.

On 30 June 2013, INA Group operated a network of 444 filling stations (392 in Croatia and 52 abroad, of which 45 in Bosnia and Herzegovina, 6 in Slovenia and 1 in Montenegro).

Capital expenditures

Capital expenditures in H1 2013 were HRK 16 million higher than in the same period of 2012 (HRK 117 million in H1 2013 vs. HRK 101 million in H1 2012). Major projects as the Delayed Coker closed blow down system in Sisak, Coke chamber replacement in Sisak and Deep cut on Vacuum Distillation are in the preparation phase. Most of the capital investments related to these projects are expected to be realized during the second half of 2013. Numerous growth and HSE/sustainable projects launched in 2012 as part of this division's development programs will also be completed or further developed in 2013. Retail capital expenditures in H1 2013 amounted to HRK 55 million and were higher by HRK 19 million than the investments in the same period of the 2012. As part of the intensive INA Retail network modernization program, which aims to increase the visual identity and functionality of filling stations and achieve a high level of customer service and consumer satisfaction, 132 filling stations were modernized, while 1 filling station is in tendering phase.

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Condensed Consolidated Income Statement – INA-GROUP
For the period ended 30 June 2012 and 2013
(In HRK millions)

Q1 2013	Q2 2013	Q2 2012	%		Note	H1 2012	H1 2013	%
				Sales revenue				
4,446	4,016	4,252	(6)	a) domestic		9,366	8,462	(10)
2,677	2,216	3,023	(27)	b) exports		5,165	4,893	(5)
7,123	**6,232**	**7,275**	**(14)**	**Total sales revenue**	1	**14,531**	**13,355**	**(8)**
36	67	59	14	Income from own consumption of products and services		83	103	24
105	220	68	224	Other operating income		186	325	75
7,264	**6,519**	**7,402**	**(12)**	**Total operating income**		**14,800**	**13,783**	**(7)**
265	(168)	(387)	(57)	Changes in inventories of finished products and work in progress		342	97	(72)
(3,888)	(3,214)	(3,764)	(15)	Cost of raw materials and consumables	2	(7,166)	(7,102)	(1)
(420)	(422)	(429)	(2)	Depreciation and amortization	4	(1,057)	(842)	(20)
(362)	(404)	(430)	(6)	Other material costs	4	(841)	(766)	(9)
(292)	(307)	(307)	0	Service costs	4	(748)	(599)	(20)
(559)	(637)	(656)	(3)	Staff costs	5	(1,275)	(1,196)	(6)
(1,420)	(1,047)	(926)	13	Cost of other goods sold	3	(2,883)	(2,467)	(14)
(22)	(243)	(312)	(22)	Impairment and charges (net)		(300)	(265)	(12)
(17)	(16)	(288)	(94)	Provisions for charges and risks (net)		(381)	(33)	(91)
(6,715)	**(6,458)**	**(7,499)**	**(14)**	**Operating expenses**		**(14,309)**	**(13,173)**	**(8)**
549	**61**	**(97)**	**n.a.**	**Profit from operations**		**491**	**610**	**24**
				Share in the profit of associated companies				
85	89	18	394	Finance income		80	146	83
(216)	(20)	(292)	(93)	Finance costs		(331)	(208)	(37)
(131)	**69**	**(274)**	**n.a.**	**Net loss from financial activities**	7	**(251)**	**(62)**	**(75)**
418	**130**	**(371)**	**n.a.**	**Profit before tax**		**240**	**548**	**128**
(42)	(63)	67	n.a.	Income tax expense	6	(125)	(105)	(16)
376	**67**	**(304)**	**n.a.**	**Profit for the year**		**115**	**443**	**285**
				Attributable to				
376	67	(304)	n.a.	Owners of the Company		108	443	310
-	-	-	n.a.	Non-controlling interests		7	-	n.a.
376	**67**	**(304)**	**n.a.**			**115**	**443**	**285**
				Earnings per share				
37.6	6.7	(30.4)	n.a.	Basic and diluted earnings per share (kunas per share)		10.8	44.3	310

Condensed Consolidated Statement of Comprehensive Income – INA-GROUP
For the period ended 30 June 2012 and 2013
(in HRK million)

Q1 2013	Q2 2013	Q2 2012	%		H1 2012	H1 2013	%
376	**67**	**(304)**	**n.a.**	**Profit for the year**	**115**	**443**	**285**
				Other comprehensive income:			
191	(256)	462	n.a.	Exchange differences arising from foreign operations	207	(65)	n.a.
13	(20)	(37)	(46)	Gains on available-for-sale investments, net	8	(7)	n.a.
(11)	-	-	n.a.	Actuar gain/losses on defined benefit plans	-	(11)	n.a.
193	**(276)**	**425**	**n.a.**	**Other comprehensive income, net**	**215**	**(83)**	**n.a.**
569	**(209)**	**121**	**n.a.**	**Total comprehensive income for the year**	**330**	**360**	**9**
				Attributable to:			
569	(209)	121	n.a.	Owners of the Company	323	360	11
-	-	-	n.a.	Non- controlling interests	7	-	n.a.

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated Statement of Financial Position – INA-GROUP
At 30 June 2013
(in HRK millions)

	Note	1 January 2013	30 June 2013	%
Assets				
Non-current assets				
Intangible assets	9	676	746	10
Property, plant and equipment	10	18,716	18,305	(2)
Goodwill		183	183	0
Investments in associates and joint ventures		34	34	(0)
Other investments		187	202	8
Long-term receivables		207	262	27
Derivative financial instruments		-	4	n.a.
Deferred tax		544	611	12
Available for sale assets		340	331	(3)
Total non-current assets		**20,887**	**20,678**	**(1)**
Current assets				
Inventories	12	3,352	3,817	14
Trade receivables net	13	2,770	2,317	(16)
Other receivables		516	902	75
Derivative financial instruments		-	2	n.a.
Other current assets		32	58	81
Prepaid expenses and accrued income		142	248	75
Cash and cash equivalents		488	498	2
Current assets		**7,300**	**7,842**	**7**
Assets classified as held for sale		-	-	n.a.
Total current assets		**7,300**	**7,842**	**7**
Total assets	8	**28,187**	**28,520**	**1**
Equity and liabilities				
Capital and reserves				
Share capital	11	9,000	9,000	0
Revaluation reserve		13	6	(54)
Other reserves		2,505	2,429	(3)
Retained earnings / (Deficit)		3,437	3,537	3
Equity attributable to equity holder of the parent		**14,955**	**14,972**	**0**
Non-controlling interests		(1)	(1)	(10)
Total equity		**14,954**	**14,971**	**0**
Non-current liabilities				
Long-term loans		1,161	2,561	121
Other non-current liabilities		101	89	(12)
Employee benefits obligation		100	125	25
Provisions		2,713	2,744	1
Deferred tax liability		-	13	n.a.
Total non-current liabilities		**4,075**	**5,532**	**36**
Current liabilities				n.a.
Bank loans and overdrafts		1,266	2,805	122
Current portion of long-term debt		4,725	332	(93)
Trade payables	15	1,684	2,389	42
Taxes and contributions		497	1,053	112
Other current liabilities		596	906	52
Accruals and deferred income		36	152	322
Employee benefits obligation		10	6	(40)
Provisions		344	374	9
Current liabilities		**9,158**	**8,017**	**(12)**
Liabilities directly associated with assets classified held for sale		-	-	n.a.
Total current liabilities		**9,158**	**8,017**	**(12)**
Total liabilities	14	**13,233**	**13,549**	**2**
Total equity and liabilities		**28,187**	**28,520**	**1**

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated Cash Flow Statement - INA GROUP
For the period ended 30 June 2012 and 2013
(in HRK millions)

Q1 2013	Q2 2013	Q2 2012	%		Note	H1 2012	H1 2013	%
376	**67**	**(304)**	**n.a.**	**Profit/(loss) for the year**		**115**	**443**	**285**
				Adjustments for:				
420	422	429	(2)	Depreciation and amortisation		1,057	842	(20)
42	63	(67)	n.a.	Income tax (benefit)/expenses recognized in (loss)/profit		125	105	(16)
198	246	317	(22)	Impairment charges (net)		454	444	(2)
(176)	(3)	(5)	(40)	Reversal of impairment		(154)	(179)	16
(3)	(1)	-	n.a.	Gain on sale of property, plant and equipment		(2)	(4)	100
-	-	-	n.a.	Gain on sale investments and shares		-	-	n.a.
100	(113)	186	n.a.	Foreign exchange loss/(gain)		50	(13)	n.a.
22	40	36	11	Interest expense (net)		66	62	(6)
(28)	16	(1)	n.a.	Other financial expense recognised in profit		35	(12)	n.a.
17	15	293	(95)	Increase in provisions		390	32	(92)
20	21	24	(13)	Decommissioning interests		48	41	(15)
2	(6)	6	n.a.	Other non-cash items		30	(4)	n.a.
990	**767**	**914**	**(16)**	**Operating cash flow before working capital changes**	**16**	**2,214**	**1,757**	**(21)**
				Movements in working capital	17			
(354)	(122)	(60)	103	(Increase)/decrease in inventories		(250)	(476)	90
(752)	312	(30)	n.a.	(Increase)/decrease in receivables and prepayments		(11)	(440)	3,900
410	1,006	1,425	(29)	(Decrease)/increase in trade and other payables		823	1,416	72
294	**1,963**	**2,249**	**(13)**	**Cash generated from operations**		**2,776**	**2,257**	**(19)**
(34)	(89)	(788)	(89)	Taxes paid		(842)	(123)	(85)
260	**1,874**	**1,461**	**28**	**Net cash inflow from operating activities**		**1,934**	**2,134**	**10**
				Cash flows used in investing activities				
(183)	(333)	(140)	138	Payments for property, plant and equipment		(322)	(516)	60
(10)	(76)	(16)	375	Payment for intangible assets		(30)	(86)	187
3	2	-	n.a.	Proceeds from sale of non-current assets		2	5	150
-	-	-	n.a.	Proceeds from sale of subsidiaries		-	-	n.a.
-	-	-	n.a.	Dividends received from companies classified as available for sale and from other companies		1	-	n.a.
4	7	8	(13)	Interest received and other financial income		15	11	(27)
(2)	(23)	(8)	188	Investments and loans to third parties, net		145	(25)	n.a.
(188)	**(423)**	**(156)**	**171**	**Net cash used for investing activities**	**18**	**(189)**	**(611)**	**223**
				Cash flows from financing activities				
-	3,984	163	2,344	Additional long-term borrowings		230	3,984	1,632
(151)	(6,821)	(1,423)	379	Repayment of long-term borrowings		(1,699)	(6,972)	310
3,616	3,512	3,771	(7)	Additional short-term borrowings		8,060	7,128	(12)
(2,745)	(2,838)	(4,063)	(30)	Repayment of short term borrowings		(7,998)	(5,583)	(30)
-	-	-	n.a.	Dividends paid		-	-	n.a.
(20)	(29)	(25)	16	Interest paid on long-term loans		(51)	(49)	(4)
-	-	1	n.a.	Other long-term liabilities, net		(1)	-	n.a.
10	(2)	18	n.a.	Interest paid on short term loans and other financing charges		(45)	8	n.a.
710	**(2,194)**	**(1,558)**	**41**	**Net cash from financing activities**		**(1,504)**	**(1,484)**	**(1)**
782	(743)	(253)	194	Net (decrease)/increase in cash and cash equivalents		241	39	(84)
488	1,206	843	43	At 1 January		337	488	45
(64)	35	(31)	n.a.	Effect of foreign exchange rate changes		(19)	(29)	53
1,206	498	559	(11)	At the end of period		559	498	(11)

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated Statement of Changes in Equity – INA-GROUP
For the period ended 30 June 2012 and 2013
(in HRK millions)

Attributable to equity holders of the parent

	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Non controlling interest	Total equity
Balance as at 1 January 2012	**9,000**	**2,616**	**-**	**2,759**	**14,375**	**(10)**	**14,365**
Profit for the year	-	-	-	108	108	7	115
Purchase of non-controlling interest	-	-	-	(3)	(3)	3	-
Other comprehensive income, net	-	207	8	-	215	-	215
Total comprehensive income, net	**-**	**207**	**8**	**105**	**320**	**10**	**330**
Dividends payable	-	-	-	-	-	-	-
Balance as at 30 June 2012	**9,000**	**2,823**	**8**	**2,864**	**14,695**	**-**	**14,695**
Balance as at 1 January 2013	**9,000**	**2,505**	**13**	**3,437**	**14,955**	**(1)**	**14,954**
Profit for the year	-	-	-	443	443	-	443
Other comprehensive income, net	-	(76)	(7)	-	(83)	-	(83)
Total comprehensive income for the year	**-**	**(76)**	**(7)**	**443**	**360**	**-**	**360**
Dividends paid	-	-	-	(343)	(343)	-	(343)
Balance as at 30 June 2013	**9,000**	**2,429**	**6**	**3,537**	**14,972**	**(1)**	**14,971**

INDUSTRIJA NAFTE, d.d.

INA Group Summary Segmental Results of Operations*

Q1 2013	Q2 2013	Q2 2012	%	(HRK mln)	H1 2012	H1 2013	%
				Sales			
3,182	2,463	2,773	(11)	Exploration & Production	6,540	5,645	(14)
5,820	3,650	5,420	(33)	Refining & Marketing including Retail	9,773	9,470	(3)
98	148	124	19	Corporate and Other	207	246	19
(1,977)	(29)	(1,042)	(97)	Inter-segment revenue	(1,989)	(2,006)	1
7,123	**6,232**	**7,275**	**(14)**	**Sales**	**14,531**	**13,355**	**(8)**
				Operating expenses, net other income from operating activities			
(1,841)	(1,821)	(2,100)	(13)	Exploration & Production	(5,061)	(3,662)	(28)
(6,023)	(4,009)	(5,998)	(33)	Refining & Marketing including Retail	(10,412)	(10,032)	(4)
(234)	(314)	(316)	(1)	Corporate and Other	(556)	(548)	(1)
1,524	(27)	1,042	n.a.	Inter-segment eliminations	1,989	1,497	(25)
(6,574)	**(6,171)**	**(7,372)**	**(16)**	**Expenses**	**(14,040)**	**(12,745)**	**(9)**
				Profit/(loss) from operations			
1,341	642	673	(5)	Exploration & Production	1,479	1,983	34
(203)	(359)	(578)	(38)	Refining & Marketing including Retail	(639)	(562)	(12)
(136)	(166)	(192)	(14)	Corporate and Other	(349)	(302)	(13)
(453)	(56)	-	n.a.	Inter-segment eliminations	-	(509)	n.a.
549	**61**	**(97)**	**n.a.**	**Profit from operations**	**491**	**610**	**24**
				Share in the profit of associate companies			
(131)	**69**	**(274)**	**n.a.**	**Net loss from financial activities**	**(251)**	**(62)**	**(75)**
418	**130**	**(371)**	**n.a.**	**Profit before taxation**	**240**	**548**	**128**
(42)	(63)	67	n.a.	Income tax expense	(125)	(105)	(16)
376	**67**	**(304)**	**n.a.**	**Profit for the year**	**115**	**443**	**285**

Q1 2013	Q2 2013	Q2 2012	%	Depreciation (HRK mln)	H1 2012	H1 2013	%
237	234	220	6	Exploration & Production	650	471	(28)
160	166	181	(8)	Refining & Marketing including Retail	344	326	(5)
23	22	28	(21)	Corporate and Other	63	45	(29)
420	**422**	**429**	**(2)**	**Total**	**1,057**	**842**	**(20)**

Q1 2013	Q2 2013	Q2 2012	%	EBITDA* (HRK mln)	H1 2012	H1 2013	%
1,611	1,074	1,365	(21)	Exploration & Production	2,646	2,685	1
(17)	(131)	(313)	(58)	Refining & Marketing including Retail	(169)	(148)	(12)
(115)	(132)	(120)	10	Corporate and Other	(248)	(247)	(0)
(471)	(69)	-	n.a.	Inter-segment eliminations	-	(540)	n.a.
1,008	**742**	**932**	**(20)**	**Total**	**2,229**	**1,750**	**(21)**

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

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

INDUSTRIJA NAFTE, d.d.

Financial overview and notes

Income statement

Notes

H1 2013 results

1 **Total sales revenues** in H1 2013 amounted to HRK 13,355 million and were 8% below the H1 2012 level, primarily triggered by lower average crack spread, as well as decreased natural gas sales volumes, partially offset by higher oil derivatives sales volumes compared to the same period last year.

2 **Costs of raw materials and consumables** were slightly below H1 2012 levels at HRK 7,102 million, as processing of other raw material and average import price were lower.

3 **Costs of goods sold** recorded a decrease of 14% to HRK 2,467 million resulting from lower sold volumes of imported natural gas compared to H1 2012.

4 Within **other operating costs** realized in H1 2013:

- Other material costs were lower by 9% year-on-year at HRK 766 million.
- Service costs in the amount of HRK 599 million recorded a decrease of 20% mainly due to lower royalty and decreased VAT costs.
- Depreciation was 20% lower and amounted to HRK 842 million mainly due to decreased hydrocarbons production underlined with natural depletion.
- Adjustments and provisions of HRK 298 million down 56% related to value adjustments of international operations in previous year.

5 **Staff costs** in the amount HRK 1,196 million were 6% lower compared to H1 2012 as a result of workforce optimization. Staff costs represent the cost of net salaries in the amount of HRK 630 million, cost of employee income tax in the amount of HRK 272 million, tax on payroll in the amount of HRK 149 million and other payroll related costs in the amount of HRK 145 million for the six month period ended 30 June 2013. For the six month period ended 30 June 2012, staff costs include the cost of net salaries in the amount of HRK 630 million, cost of employee income tax in the amount HRK 278 million, tax on payroll in the amount HRK 168 million, and other payroll related costs in the amount HRK 199 million.

6 **Income tax expense** decreased by 16% to HRK 105 million.
Tax costs and deferred taxes during the interim period are calculated on the basis of actual results and the profit tax rate, 20% for the periods ended 30 June 2013 and 30 June 2012.

7 **Net financial expenses** in the amount of HRK 62 million were recorded in H1 2013, compared to the net financial expenses of HRK 251 million in H1 2012.

- Net foreign exchange gains were HRK 24 million in H1 2013 mainly related to the appreciation of HRK against USD, compared to HRK 62 million net foreign exchange losses recorded in H1 2012.
- Interest payable amounted to HRK 92 million and interest received HRK 9 million in H1 2013, compared to interest payable of HRK 85 million and HRK 12 million interests received in H1 2012.

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

Under current practice and in line with the international accounting standards the Company adjusts its receivables that are 60 days or older. Accordingly the Company has adjusted a significant amount of its receivables in Egypt that meet these criteria.

One off items
In addition to international accounting standards and international reporting standards and regulatory requests the company discloses one-off items to achieve higher level of transparency and to provide better understanding of the usual business operations. Economic events in company's income statement that are non-recurring in their nature are triggered by different than usual operating conditions. One-off items are considered to be the ones not accruing regularly and having the effect to the results which is above EUR 10 million. Company has established the practice of providing the one off items in its reports; however absence in a given quarter only indicates that no such items have been identified in that quarter and not a change in its approach.

Intersegment eliminations
Intersegment elimination line within the operating results has been introduced for the company to be able to provide segmental results as International Accounting Standards requests, guided with the transparency of presented information which needs to fulfill the highest requests of consistency and reliability. For this purpose and for purpose of having the segmental results presenting fair market relations between the segments, which are fully aligned with on demand operations of the Refining and Marketing including Retail segment, parity of internal transfer between E&P and R&M including retail has changed to be based on delivered quantities. This line shows the effect on operating profit of the change in the amount of unrealized profit deferred in respect of transfers between segments. Unrealized profits arise where the item transferred is held in inventory by the receiving segment and a third party sale takes place only in a subsequent quarter. For segmental reporting purposes the deliverer segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place. The change is introduced from 1st of January 2013 and effect on E&P and R&M including retail results amounts to HRK 270 million and HRK 252 million, respectively.

INDUSTRIJA NAFTE, d.d.

Balance sheet

Notes

8 As at 30 June 2013, INA Group **total assets** amounted to HRK 28,520 million and were 1% higher compared to 31 December 2012.

9 In the period ended 30 June 2013, INA Group invested HRK 86 million in **intangible assets**. The effect of depreciation equals to HRK 14 million. Foreign exchange revaluation of oil and gas fields decreased the net book value in amount of HRK 3 million. Disposals of intangible assets equals HRK 1 million. Transfer from tangible assets increased net book value of intangible assets in amount of HRK 1 million. Foreign exchange differencies increased net book value in amount of HRK 1 million.

10 In the period ended 30 June 2013, INA Group invested HRK 412 million in property, plant and equipment. Reversal of capitalized decommissioning costs decreased the value of assets by HRK 1 million. Foreign exchange revaluation decreased the net book value in amount of HRK 26 million The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 828 million. Correction of prior year depreciation increased net book value of property, plant and equipment in amount of HRK 1 million. Decrease of INA Group net book value is also result of foreign exchange differences in the amount of HRK 16 million. Transfer to intangible assets decreased net book value in amount of HRK 1 million. Disposals of intangible assets equals HRK 2 million. Correction of prior year eliminations increased INA Group net book value in amount of HRK 34 million. Correction of prior year impairment increased INA Group net book value in amount of HRK 16 million.

11 **Issued capital** as at 30 June 2013 amounted to HRK 9,000 million. There was no movements in the issued capital of the Company in either the current or the prior financial reporting.

12 **Inventories** amounted to HRK 3,817 million, which is an increase of 14% compared to 31 December 2012, mainly as a result of higher crude oil inventories.

13 **Trade receivables** decreased by 16% to the amount of HRK 2,317 million resulting from lower sales revenues due to decrease in crack spreads, lower hydrocarbon production reflecting natural depletion of domestic fields and decreased natural gas sales volumes.

14 As at 30 June 2013 **total liabilities** amounted to HRK 13,549 million, which is an increase of 2% compared to the 31 December 2012 level mainly driven by higher crude oil liabilities.
INA Group **net indebtedness** decreased by 22% and amounted to HRK 5,200 million, as a result of lower working capital compared to 31 December 2012. **Gearing ratio**[2] decreased from 30.8% as at 31 December 2012, to 25.8% as at 30 June 2013.

15 **Trade payables** increased by 42% to HRK 2,388 million, as a result of higher amount of imported crude oil.

Cash flow

Notes

16 The **operating cash-flow before changes in working capital** amounted to HRK 1,757 million in H1 2013, representing a decrease of HRK 457 million, or 21%, compared to H1 2012, mainly as a result of lower EBITDA.

17 **Changes in working capital** affected the operating cash flow positively by HRK 500 million, primarily due to

- Increase in trade payables by HRK 1,416 mln, partially offset by
- Increase in receivables by HRK 440 million,
- Increased value of inventories by HRK 476 million.

18 **Net outflows in investing activities** amounted to HRK 610 million, in comparison with HRK 189 million of outflows in H1 2012.

IRAN Moghan-2 Block

Currently INA, D.D. holds a Service Contract for the Exploration and Development of the Moghan-2 Block in Iran signed on 8 April 2008 with the National Iranian Oil Company (NIOC). The contract came into effect on 1 June 2008 and regulates INA as the operator in the exploration, appraisal and development phase while NIOC will conduct production operations. Minimum exploration work commitments include seismic surveys (2D and 3D) and drilling of one exploration well with minimum financial obligation amounting to USD 40.3 million. Obligatory Exploration phase expired on 31 May 2012. Due to the very complex developments regarding the international regulation for operating in Iran, including restrictive measures, actual project costs as of 30 June 2012 amounted to USD 4.5 million. The Company is currently not engaged in any activities that would be in breach of the EU and wider international trade sanctions against Iran and will continue with its efforts to ensure all future activities are carried out in compliance with the aforementioned regulation. Since the coming into force of international restrictive measures, INA has been constantly taking significant steps to comply with the sanctions regime in relation to its investment in Iran. Since 2011 INA has not conducted any of its contracted activities and in 2012 decided to withdraw from the project for the period the related restrictive measures are in force against Iran.

Subsequent events

After closing of the reporting period the Company has received information about the attack on one of the smaller gas and condensate gathering plants in Syria. At this point the assessment of the damages is in progress.

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

INDUSTRIJA NAFTE, d.d.

Financial instruments and risk management

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

a) Market risk

Commodity price risk management

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

Foreign currency risk management

Many Group transactions are priced and denominated in foreign currency and thus the Group is exposed to currency risk. The Group has net long USD and EUR, and net short HRK exposure of operative cash flow position. The Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of June 30, 2013, there were no open cross currency transactions.

Interest rate risk management

INA Group companies use borrowed funds at both fixed and floating interest rates (mostly floating) consequently the Group is exposed to the interest rate risk. The Group does not speculate on interest rate developments and primarily chooses floating rates. As of June 30, 2013, there were no open interest rate swap transactions.

Other price risk

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

b) Credit risk

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

c) Liquidity risk

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

As of June 30, 2013, the INA Group had contracted short-term bank credit lines amounting to HRK 1.84 bn, excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and contracted long-term credit lines amounting to HRK 5.97 bn.

d) Fair value of financial instruments

The Group has concluded some long-term sale or purchase contracts that contain embedded derivatives as defined by IAS 39.

INDUSTRIJA NAFTE, d.d.

Related party transactions

The company has dominant positions in Croatia in oil and gas exploration and production, oil refining and the sale of gas and petroleum products. As a result of the Company's strategic position within the Croatian economy, a substantial portion of its business and the business of its subsidiaries is transacted with the Croatian Government, its departments and agencies, and the companies with the Republic of Croatia being their majority shareholder. Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on Group level consolidation. Details of transactions between INA, d.d. and the Group companies and other related parties are disclosed below.

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

INA-Group	Amounts owed from related parties	Amounts owed to related parties
HRK mln	30 June 2013	30 June 2013
Companies available for sale		
JANAF d.d. Zagreb	1	42
Strategic partner		
MOL Plc	48	23
Companies controlled by strategic partner		
Energopetrol d.d.	48	-
Tifon d.o.o.	52	3
Kalegran Ltd.	21	-
MOL SLOVENIJA d.o.o.	4	9
Companies controlled by the State		
Hrvatska elektroprivreda	120	6
Petrokemija Kutina	235	-
Hrvatske željeznice	32	15
Other	125	37

INA-Group	Sales of goods	Purchase of goods
HRK mln	30 June 2013	30 June 2013
Companies available for sale		
JANAF d.d. Zagreb	2	58
Strategic partner		
MOL Plc	195	512
Companies controlled by strategic partner		
Tifon d.o.o.	363	38
Energopetrol d.d.	296	-
Kalegran Ltd.	64	-
Mol Commodity Trading Kft.	25	-
MOL SLOVENIJA d.o.o.	18	41
MOL SERBIA d.o.o.	5	-
IES-Italiana Energia e Servizi s.p.a.	2	2
Slovnaft, a.s.	-	64
Companies controlled by the State		
Hrvatska elektroprivreda	1,087	82
Petrokemija Kutina	637	-
Hrvatske željeznice	66	33
Other	298	236

INDUSTRIJA NAFTE, d.d.

Segmental Information

30 June 2013 Assets and liabilities	Exploration and production	Refining and marketing including Retail	Corporate and other	Intersegment transfers	Total
Property, plant and equipment	11,396	6,232	689	(13)	18,304
Intangible assets	631	14	101	-	746
Investments in associates and joint ventures	34	-	-	-	34
Inventories	770	3,423	133	(509)	3,817
Trade receivables, net	911	1,473	129	(196)	2,317
Not allocated assets					3,301
Total assets					**28,519**
Trade payables	643	1,816	125	(196)	2,388
Not allocated liabilities					11,160
Total liabilities					**13,548**
Other segment information					
Depreciation and amortisation	**471**	**326**	**45**	**-**	**842**
Impairment losses/(income) PP&E, net recognized in profit and loss	-	-	-	-	-
Other impairment losses/(income), net recognized in profit and loss	218	76	2	(31)	265
Total impairment losses/(income), net	**218**	**76**	**2**	**(31)**	**265**

31 December 2012 Assets and liabilities	Exploration and production	Refining and marketing including Retail	Corporate and other	Intersegment transfers	Total
Property, plant and equipment	11,571	6,475	695	(25)	18,716
Intangible assets	565	15	96	-	676
Investments in associates and joint ventures	34	-	-	-	34
Inventories	1,610	2,278	139	(675)	3,352
Trade receivables, net	1,748	1,039	217	(234)	2,770
Not allocated assets					2,639
Total assets					**28,187**
Trade payables	832	909	248	(305)	1,684
Not allocated liabilities					11,549
Total liabilities					**13,233**
Other segment information					
Depreciation and amortisation	**1,192**	**720**	**104**	**-**	**2,016**
Impairment losses/(income) PP&E,net recognized in profit and loss	(38)	662	-	-	624
Other impairment losses/(income),net recognized in profit and loss	243	193	3	-	439
Total impairment losses/(income), net	205	855	3	-	1,063

INDUSTRIJA NAFTE, d.d.

Main external parameters

Q1 2013	Q2 2013	Q2 2012	%		H1 2012	H1 2013	%
112.6	102.4	108.2	(5.3)	Brent dtd (USD/bbl)	113.3	107.5	(5.2)
1,044.2	947.7	1,012.7	(6.4)	Premium unleaded gasoline 10 ppm (USD/t)*	1,036.6	995.9	(3.9)
964.2	880.4	937.1	(6.0)	Gas oil – ULSD 10 ppm (USD/t)*	971.4	922.3	(5.1)
608.0	574.1	623.9	(8.0)	Fuel oil 3,5% (USD/t)*	649.0	591.1	(8.9)
866.9	737.9	801.2	(7.9)	LPG (USD/t)*	924.3	802.4	(13.2)
62.4	59.2	90.3	(34.4)	Average crack spread	82.2	60.8	(26.1)
192.8	172.7	237.8	(27.4)	Crack spread – premium unleaded (USD/t)*	223.3	182.7	(18.2)
112.7	105.4	162.1	(35.0)	Crack spread – gas oil (USD/t)*	158.1	109.1	(31.0)
(243.5)	(200.8)	(151.1)	32.9	Crack spread - fuel oil 3,5% (USD/t)*	(164.2)	(222.2)	35.3
15.5	(37.0)	26.2	n.a.	Crack spread - LPG (USD/t)*	111.0	(10.8)	n.a.
5.74	5.79	5.86	(1.2)	HRK/USD average	5.81	5.76	(0.8)
5.92	5.71	5.97	(4.5)	HRK/USD closing	5.97	5.71	(4.5)
7.58	7.56	7.52	0.5	HRK/EUR average	7.54	7.57	0.4
7.59	7.45	7.51	(0.8)	HRK/EUR closing	7.51	7.45	(0.8)
0.29	0.28	0.47	(40.0)	3m USD LIBOR (%)	0.49	0.28	(42.9)
0.21	0.21	0.69	(69.8)	3m EURIBOR (%)	0.87	0.21	(75.9)

** FOB Mediterranean*

INDUSTRIJA NAFTE, d.d.

Announcements in H1 2013

June 28 2013	Arbitral Tribunal resolution
May 06 2013	General Meeting decisions
May 02 2013	Code of Corporate Governance Questionnaire for 2012
April 25 2013	General Meeting notice
April 12 2013	Contract on gas supply signed with Petrokemija d.d.
April 04 2013	Revolving credit facility agreement signed
March 29, 2013	Annual document of disclosed information
March 29, 2013	Disposal of shares
March 28, 2013	Supervisory Board Meeting held
January 15, 2013	Answer to Zagreb Stock Exchange Query

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

	31 Dec 06	31 Dec 07	31 Dec 08	31 Dec 09	31 Dec 10	31 Dec 11	31 Dec 12	30 June 13
MOL Plc.	2,500,001	2,500,001	4,715,538	4,715,538	4,715,538	4,725,620	4,908,207	4,908,207
Government of the Rep. of Croatia	5,180,367	4,484,918	4,483,552	4,483,552	4,483,552	4,483,552	4,483,552	4,483,552
Private and institutional investors	2,319,632	3,015,081	800,91	800,91	800,91	790,828	608,241	608,241
Total	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**

Source: Central Clearing Depositary Company.

Changes in organization, Management Board or Supervisory Board

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

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

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

Management representation

INA Group's consolidated financial statements for Q2 H1 2013 have been prepared in accordance with the International Financial Reporting Standards (IFRS), i.e. they present fairly, in all material aspects, the financial position of the company, results of its operations and cash flows.
Management Board:

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