

# First Impression

July 30, 2010

Oil&gas/Croatia

## INA

### Last recommend.: Hold

Last target price	HRK 2,031
Close (03.05.10.)	HRK 1,660
Market Cap (EUR mn)	2,491
Free float	8%
Reuters	INA.ZA
Bloomberg	INARA CZ

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### Strong upstream offsets all other parts (neutral)

- Upstream performance improved further
- Some improvement in downstream and disc. operation, but still loss generators
- Noteworthy period end reassessment losses on FX items
- We expect neutral market reaction

INA reported EBIT from continuing operations, excl. one-off items, of HRK 665mn (our estimate: HRK 988 mn). Main profit contributor was upstream while downstream (R&M+retail) remained still in the red. Bottom line was further weighed by the remarkable period end reassessment loss suffered on FX loans and trade creditors, the latter reclassified in business books from financial activities into operating activities (C&O). Moreover, discontinued operations generated a further net loss of HRK 131mn (1H: HRK -328mn) although it was planned that the natural gas trading company would operate without generating losses in 2010. However, there are ongoing negotiations with some large eligible customers with whom new contracts still have to be concluded.

**Upstream:** 2Q EBIT (continuing, excl. one-offs) was up by 201% yoy and by 1.3% qoq. Compared to 1Q the positive impacts of higher hydrocarbon prices and stronger USD had a more muted effect than we had reckoned with. Average daily hydrocarbon production was 65.7 thboe/d (19.9% yoy, 4.1% qoq). In 1H the 9-12% declines on its matured onshore domestic fields were more than offset. The North Adriatic gas production increased by 57.1% yoy, in accordance with the PSA and as a result of putting in operation new gas fields. International crude production rose by 94% yoy because of a higher production in Syria and Angola. Natural gas production outside Croatia increased by 57.2% yoy, after the start-up of the oil and gas station Jihar in Syria. Average production cost in case of the development projects declined significantly in Syria (-9.9% yoy in 1H) and in Croatian off-shore (-24.3%).

**Downstream:** R&M and retail are still suffering from lower sales volumes (R&M: -17.5% yoy, retail: -3.8% yoy) citing the economic downturn as the main reason. R&M operations were further weighed by the additional cost related to the introduction of Euro V quality products which are distributed in the whole retail network since the end of the 2Q. At the same time first positive effects of cost efficiency measurements are visible especially in the retail division.

**Outlook and recommendation:** Apart from the bias caused by aforementioned reclassification of FX items figures and main trends are broadly in line, thus we do not calculate with any noteworthy market impact, either for INA or MOL. We maintain our "hold" for the time being.

### INA 2Q 2010 result

in HRK mn	2Q 10	2Q 09	+/- %	RCB est.	+/- %
Operating profit excl special items	665	68	878%	988	-33%
Exploration & Production	1,190	396	201%	1,293	-8%
Refining & Marketing	-89	-22	-305%	-85	-5%
Retail	49	12	308%	-31	neg.
Net profit from continuing operations excl special items	-10	709	neg.	110	neg.
Net profit from continuing operations	144	737	-81%	110	31%
Net profit from disc. operations	-121	-215	44%	-119	-1%
Net profit	23	522	-96%	-9	neg.
Operating CF	1,961	1,238	58%	679	189%

Source: INA, Raiffeisen Research

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