

Q1 2016 – REPORT INA GROUP CONSOLIDATED

INA Group (ZB: INA-R-A; www.ina.hr) announced its Q1 2016 results today. This report contains unaudited consolidated financial statements for the period ending 31 March 2016 as prepared by the management in accordance with the International Financial Reporting Standards.

INA Group financial results (IFRS)

Q4 2015	2015	HRK mln.	Q1 2015*	Q1 2016	%
3,918	18,861	Net sales revenues	3,798	2,602	(31)
517	2,664	EBITDA ⁽¹⁾	716	95	(87)
632	2,952	EBITDA excl. special items ⁽²⁾	777	263	(66)
800	3,669	CCS EBITDA excl. special items	1,001	379	(62)
(2,120)	(1,338)	Profit/(loss) from operations	327	(159)	n.a.
(741)	138	Operating profit excl. special items ⁽²⁾	327	(159)	n.a.
(572)	843	CCS Operating profit excl. special items	557	(39)	n.a.
(122)	(411)	Net financial expenses	(260)	84	n.a.
(1,777)	(1,418)	Net profit/loss attributable to equity holder	50	(66)	n.a.
(398)	58	Net profit/loss for the period excl. special items ⁽²⁾	50	(66)	n.a.
570	1,954	Operating cash flow	(704)	3	n.a.
Earnings per share					
(177.7)	(141.8)	Basic and diluted/(loss) earnings per share (kunas per share)	5.0	(6.6)	n.a.
3,032	3,032	Net debt	4,196	3,352	(20)
22.3	22.3	Net gearing	25.7	24.3	
677	1,650	CAPEX total	236	342	45
588	1,387	Domestic	189	292	54
89	263	International	47	50	6
Q4 2015	2015	USD mln ⁽³⁾	Q1 2015*	Q1 2016	%
563	2,748	Net sales revenues	557	376	(32)
74	388	EBITDA ⁽¹⁾	105	14	(87)
91	430	EBITDA excl. special items ⁽²⁾	114	38	(67)
115	535	CCS EBITDA excl. special items	147	55	(63)
(305)	(195)	Profit/(loss) from operations	48	(23)	n.a.
(106)	20	Operating profit excl. special items ⁽²⁾	48	(23)	n.a.
(82)	123	CCS Operating profit excl. special items	82	(6)	n.a.
(18)	(60)	Net financial expenses	(38)	12	n.a.
(255)	(207)	Net profit/loss attributable to equity holder	7	(10)	n.a.
(57)	8	Net profit/loss for the period excl. special items ⁽²⁾	7	(10)	n.a.
82	285	Operating cash flow	(103)	0	n.a.
Earnings per share					
(25.5)	(20.7)	Basic and diluted/(loss) earnings per share (kunas per share)	0.7	(1.0)	n.a.
434	434	Net debt	595	504	(15)
97	240	CAPEX total	35	49	43
84	202	Domestic	28	42	52
13	38	International	7	7	4

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

⁽²⁾ The Q1 2016 EBITDA was negatively influenced by HRK 168 million special items related to severance payments

⁽³⁾ In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for Q4 2015 – 6.9608 HRK/USD; Q1-Q4 2015 – 6.8623 HRK/USD; Q1 2015 – 6.8173 HRK/USD; Q1 2016 – 6.9116 HRK/USD; as at Sept 30, 2015 – 6.7931 HRK/USD; as at Dec 31, 2015 – 6.9918 HRK/USD; as at Mar 31, 2015 – 7.0503 HRK/USD; as at Mar 31, 2016 – 6.6481 HRK/USD

* Restatement of comparable previous periods was made – see on page 12

The results in Q1 2016 reflect the continuation of adverse market conditions, with CCS EBITDA excluding special items of HRK 379 million, a 62% decrease compared to the same period of 2015. Negative drivers impacting Exploration and Production have further deteriorated with Brent falling to 34 USD/bbl, thus also impacting the gas price, both regulated and market. On the other hand the upward trend in domestic crude production continued, driving total crude production over 15 mboe/d, a result not achieved since 2011. It needs to be emphasized that this has been achieved in a situation where INA has no exploration licenses. Refining and marketing operations have been challenged with a less supportive Downstream environment, with a 14% decrease in average crack spreads and a continued depressed market demand. Still, rationalization of Retail operations that started in 2015, continued with the transfer of retail staff to INA Maloprodajni servisi. This will ensure a more sustainable and competitive business model for future operations.

The overall result was impacted by special items related to severance payments, amounting to HRK 168 million on EBITDA level, primarily caused by the previously mentioned new operating model of Retail.

Net debt, although increased compared to Q4 2015, is still 20% below Q1 2015 figures and amounts to very safe HRK 3,352 million with gearing ratio of 24.3.

CAPEX level of HRK 342 million was 45% higher than in Q1 2015, which is a very strong result having in mind the overall deteriorated environment.

- ▶ **Exploration and Production:** In Q1 2016, EBITDA excl. special items reached HRK 547 million, representing a decrease of HRK 348 million compared to the first quarter of the previous year. Significant negative impact derived primarily from Brent price drop and lower natural gas prices. Gas prices decreased as a consequence of reduced households gas price but also general intensification of the market competition pushing down prices.
- ▶ **Refining and Marketing (including Retail):** In Q1 2016 CCS EBITDA excl. special items amounted to HRK (80) million while reported EBITDA amounted to HRK (344) million. The result was mainly driven by lower crude processing levels (due to the turnaround of the Rijeka Refinery) and lower total sales performance partially offset with better unit sales margins, mainly on export markets. Additionally, retail business operations were extended with development of new, additional non-fuel services.
- ▶ **Corporate and Other¹:** EBITDA excl. special items of the segment amounted to HRK (67) million, a decrease compared to Q1 2015 level by HRK 124 million. EBITDA was lower mainly due to negative contribution of Croscoc, driven by lower engagement of drilling platforms due to unfavourable external environment.

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

Q1 2016 was the first full quarter marked by the extremely low Brent environment of around USD 34 per barrel. Consequently, CSS EBITDA excluding special items reached HRK 379 million which represents a drop from last year's result. Additionally, the accounting result was affected by one-offs caused by the restructuring in the Retail segment.

As a response to the volatile environment, the Company management launched a stabilisation program with the aim to mitigate negative effects of low prices and to ensure healthy foundations for future investments. Also, for full year we expect stronger results even if the price environment does not improve.

In this light, CAPEX has increased compared to the same period of 2015, reaching the level of HRK 342 million.

Despite the fact that INA currently has limited exploration concessions, we managed to increase the crude oil production by 10%, mainly in Croatia, but also in our Egyptian concession. This is a strong result showing the effect of the continued workover campaign and of a stable capital expenditure level.

In the Downstream segment, Retail operations have made a significant step in adjusting to market conditions and aligning with the competitors with the transfer of operational staff to INA Maloprodajni servisi. Refining production level and sales volumes are somewhat lower compared to same period last year, as a result of turnaround in Rijeka Refinery completed in Q1 2016. By the end of the year we expect higher volumes both for production and sales.

¹ Include Corporate Functions and subsidiaries providing technical services, accounting services, corporate support and other services.

Management discussion

Exploration and Production*

Q4 2015	2015	Segment IFRS results (HRK mln)	Q1 2015**	Q1 2016	%
1,083	4,970	Net sales revenues	1,237	933	(25)
696	3,150	EBITDA	870	539	(38)
722	3,212	EBITDA excl. special items	895	547	(39)
(1,215)	372	Operating profit	701	251	(64)
(252)	1,376	Operating profit excl. special items	701	251	(64)
280	840	CAPEX with one-off	148	165	12

* Exploration and Production refers to the Upstream of INA, d.d. and following subsidiaries: Adriagas S.r.l. Milano, Croplin d.o.o.

** Restatement of comparable previous periods was made – see on page 12

*** The Q1 2016 EBITDA was negatively influenced by HRK 8 million special items related to Severance payments

Q4 2015	2015	Hydrocarbon production	Q1 2015	Q1 2016	%
14,730	13,974	Crude oil production (boe/d)	13,724	15,110	10
11,452	10,674	Croatia	10,466	11,749	12
2,121	2,093	Egypt	2,051	2,235	9
1,157	1,207	Angola	1,207	1,125	(7)
24,422	24,967	Natural gas production (boe/d)	26,007	23,119	(11)
11,903	12,202	Croatia - offshore	12,988	10,461	(19)
12,519	12,765	Croatia - onshore	13,020	12,658	(3)
1,907	1,916	Condensate (boe/d)	1,984	1,906	(4)
41,058	40,857	Total hydrocarbon production (boe/d)	41,715	40,135	(4)

Q4 2015	2015	Average realised hydrocarbon price	Q1 2015	Q1 2016	%
41	48	Total hydrocarbon price (USD/boe)*	48	36	(25)

Q4 2015	2015	Natural gas trading - mln cm	Q1 2015	Q1 2016	%
286	1,142	Total natural gas sales - domestic market	288	281	(2)

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

Q1 2016 vs. Q1 2015

In Q1 2016, Exploration and Production EBITDA excl. special items reached HRK 547 million, representing a decrease of 39% compared to Q1 2015. Operating profit of the segment amounted to HRK 251 million, negatively impacted by HRK (67) million impairment of receivables. Total hydrocarbon production reached 40.1 mboe per day, a decrease of 1.6 mboe per day compared to the previous year. This was partially mitigated with higher domestic crude oil production after well optimisation and workovers, enhanced by higher Egyptian production.

Compared to the same period last year, Brent price in Q1 2016 was 37% lower and had a negative impact on crude oil sales in the amount of HRK (150) million. Lower realised natural gas prices, as consequence of reduction in the regulated gas price and adverse market environment (new contracts from Q4 2015) caused additional HRK (105) million negative effect compared to the previous year (o/w HRK (18) million related to reduction in the regulated gas price). Nevertheless, in Q1 2016, INA and Petrokemija have agreed on the collection of Petrokemija overdue receivables as well as continuation of the natural gas delivery from 1 April 2016, with the new terms.

Crude oil production in Q1 2016 increased by 10% compared to the same period last year as a result of:

- Domestic crude oil production increased by 12% as a result of overall exploitation field potential revision and performed well workovers and optimisations
- Oil production in Egypt was higher by 9% as a result of better performance on North Bahariya and East Yidma concessions while 7% fall in Angola is due to lower well performance on Block 3/05 caused by natural decline.

Total **natural gas** production in Q1 2016 was 11% lower than in Q1 2015 mainly resulting from:

- Offshore natural gas production (lower by 19%) and onshore natural gas production (lower by 3%) both negatively driven by natural decline and water cuts.

Lower domestic **condensate** production by 4% as a consequence of natural decline on main gas condensate fields.

Q1 2016 vs. Q4 2015

In Q1 2016, realised EBITDA excl. special items was 23% lower compared to Q4 2015 mostly as a consequence of further 23% Brent price decrease which, together with slightly lower natural gas prices, led to 12% lower total realised hydrocarbon price.

Domestic gas production decreased compared to previous quarter primarily due to lower offshore natural gas production caused by natural decline and water cut together with negative effect of decrease in crude oil price on INA's production share. This negative effect was partially mitigated with higher domestic crude oil production as a result of performed well optimization, workovers and impact of EOR project and higher Egypt crude oil production on North Bahariya and East Yidma Concessions after drilling activities performed in 2015 and 2016.

CAPITAL EXPENDITURES

Exploration and Production CAPEX in Q1 2016 amounted to HRK 165 million. Capital investments in Croatia amounted HRK 134 million whereas capital investments abroad were HRK 31 million. In comparison with Q1 2015, capital investments were higher in total by HRK 17 million or 11%. Increased investments level was result of higher onshore development and numerous sustain type projects in Croatia.

E&P CAPEX Q1 2016 (HRK million)	Croatia	Egypt	Angola
Exploration	3.7	-	-
Development	95.0	21.7	9.7
Other	35.0	-	-

CAPITAL EXPENDITURES DESCRIPTION

Croatia exploration

Bunjani-2 South – well testing and pressure build up test are still in progress after which the decision about next steps will be made.

Legrad 3D seismic - seismic interpretation, prospect identification & resources estimation in progress.

Croatian onshore bid round - PSA for the onshore Block Drava-2 has been passed into the Government procedure, harmonization with Croatian state bodies in progress.

Hydrocarbon evaluation studies of Sava & Mura area (Pannonian basin) - activities were intensified due to expected next onshore tender launch in H2 2016.

Croatia development

Croatia Offshore

Ivana K revamping activities: obtaining operational permit, completing test production.

Ika JZ: test production in progress (extended), permitting for concession in progress.

Croatia Onshore

EOR project: Trial injection of CO₂ is in progress at 7 wells at Ivanić and 4 wells on Žutica North.

Selec – 3 – drilling finished. Due to inability to obtain necessary permits, putting into production will not be realized in 2016 as planned.

Medimurje project: achieved mechanical readiness at almost all facilities, testing of separate technological units; final works at gas pipeline route. Planned trial production start up - July 2016.

Wells General Workovers are ongoing as planned, with the total of 32 wells in scope; 6 WOs finished, 7 WOs ongoing and 9 WOs in preparation.

Egypt

North Bahariya – two new wells were drilled and one well was converted to water injector. A well drilled in 2015 was completed for production in Q1 2016. Workover operations were successfully completed on two wells.

Ras Qattara – small Project's activities were performed - upgrading Zarif and Faras process, overhauling facilities and civil works.

West Abu El Gharadiq – small Project's activities were performed - upgrading Raml process and civil works.

Sidi Rahman – Work program for 2016 is restricted and includes surface facilities project and workover operations. There were no activities in Q1 2016.

Angola

Block 3/05 - Production start-up of well Bufalo-113 and water injector well Bufalo-110; well perforating/acidizing across several fields, Cobo-Pambi reservoir model, ESP (Electric Submersible Pump) pilot project on two Palanca field wells; Facilities maintenance on PAL, PAC and COB fields; Bufalo-110 wellbore workover operations were conducted.

Block 3/05A - On the Gazela-101 ST-1 well post-drilling studies are in progress.

Refining and Marketing, including Retail*

Q4 2015	2015	Segment IFRS results (HRK mln)	Q1 2015**	Q1 2016	%
3,122	14,831	Revenues	2,576	1,904	(26)
(206)	(575)	EBITDA	(276)	(344)	25
(146)	(410)	EBITDA excl. special items	(253)	(196)	(23)
22	307	CCS-based DS EBITDA	(29)	(80)	172
(582)	(1,325)	Operating profit/(loss)	(426)	(302)	(29)
(358)	(1,101)	Operating profit/(loss) excl. special items	(426)	(302)	(29)
(189)	(396)	CCS-based DS operating loss	(196)	(182)	(7)
339	613	CAPEX and investments (w/o acquisition)	38	172	353

*Refers to Refining & Marketing including Retail INA, d.d. and following subsidiaries: INA-Maziva, Polybit Rijeka (liquidated in Q4 2015), InterINA Ljubljana, INA BH Sarajevo, HoldINA Sarajevo, INA Crna Gora, INA Beograd, INA Kosovo, Osijek Petrol (merged into INA, d.d. in Q4 2015), Petrol Rijeka

** Restatement of comparable previous periods was made – see on page 12

*** The Q1 2016 EBITDA was negatively influenced by HRK 148 million special items related to Severance payments

Q4 2015	2015	Refinery processing (kt)	Q1 2015	Q1 2016	%
145	553	Domestic crude oil	75	121	62
455	2,212	Imported crude oil	268	179	(33)
21	85	Condensate	8	21	179
116	673	Other feedstock	183	24	(87)
737	3,523	Total refinery throughput	534	345	(35)
Q4 2015	2015	Refinery production (kt)	Q1 2015	Q1 2016	%
41	210	LPG	28	14	(49)
209	946	Motor gasoline	144	89	(38)
216	1,130	Diesel	131	96	(27)
35	144	Heating oil	36	30	(17)
17	105	Kerosene	11	8	(33)
8	52	Naphtha	10	6	(42)
105	389	Fuel oil	45	37	(18)
6	108	Other products*	63	11	(83)
638	3,085	Total	469	291	(38)
4	29	Refinery loss	7	4	(47)
95	409	Own consumption	57	51	(12)
737	3,523	Total refinery production	534	345	(35)
Q4 2015	2015	Refined product sales by country (kt)	Q1 2015	Q1 2016	%
465	1,790	Croatia	362	362	0
135	523	B&H	112	114	2
14	183	Slovenia	11	10	(7)
283	1,126	Other markets	101	92	(9)
896	3,622	Total	586	578	(1)
Q4 2015	2015	Refined product sales by product (kt)	Q1 2015	Q1 2016	%
48	238	LPG	40	37	(7)
191	940	Motor gasoline	142	130	(8)
352	1,465	Diesel	274	283	3
57	172	Heating oil	49	59	20
19	127	Kerosene	14	14	5
5	49	Naphtha	6	6	(10)
142	394	Fuel oil	31	15	(51)
12	37	Bitumen	5	5	(1)
71	199	Other products*	26	29	14
896	3,622	Total	586	578	(1)
236	996	o/w Retail segment sales	197	191	(3)

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

Q1 2016 vs. Q1 2015

In Q1 2016, Refining and Marketing (including Retail) CCS-based EBITDA excl. special items amounted to HRK (80) million, which is a HRK 51 million decrease compared to Q1 2015. Despite the relatively favourable refinery environment, INA Refining & Marketing segment could not reach positive result in Q1 2016, therefore the capital expenditures could not be financed by operative results.

Refining & Marketing operations

The result was mainly driven by 1) lower crack spread (especially diesel) and somewhat lower sales spreads, 2) lower processing levels (due to the turnaround of the Rijeka Refinery in Q1 2016) and 3) decreased total sales driven by lower export volumes together with lower domestic motor fuel sales. This was partially offset with lower fixed OPEX, resulting from long term OPEX efficiency efforts.

Retail operations

Total sales volumes of Retail segment in Q1 2016 amounted to 191 kt and decreased 3% compared to Q1 2015 mainly driven by lower sales of diesel and heating oil by 2%, combined with a 5% motor gasoline sales decline. Continued market dieselization drives a downward trend in motor gasoline share in favour of diesel fuel.

Throughput per site in Q1 2016 was in line with Q1 2015. Non-fuel margin revenue increased compared to Q1 2015, on the back of continuous goods supplier expansion and development of new, non-fuel related services.

On 31 March 2016, INA Group operated a network of 437 Retail sites (387 in Croatia, 43 in Bosnia and Herzegovina, 6 in Slovenia and 1 in Montenegro), of which 60 Retail sites in Croatia were included in the Entrepreneurship model. Compared to Q1 2015, five underperforming Retail sites were closed.

Q1 2016 vs. Q4 2015

In Q1 2016 Refining and Marketing (including Retail) realised lower CCS-based EBITDA result by HRK (102) million compared to the previous quarter.

Result was mainly impacted by 1) lower processing level mostly due to Rijeka Refinery turnaround together with, 2) lower motor fuel sales on domestic market with decreased unit sales margins, alongside with 3) reduced export sales mostly on Slovenian and Bosnian market. These factors were partially offset with decreased Brent crude price from 44 USD/bbl to 34 USD/bbl which resulted in better refining margins and a lower fixed OPEX at almost each OPEX category.

CAPITAL EXPENDITURES

Total capital expenditures amounted to HRK 172 million in Q1 2016, HRK 134 million higher compared to Q1 2015. Refining and Marketing capital expenditures amounted to HRK 140 million, mainly relating to logistics development projects, maintenance and investment projects implemented during Rijeka Refinery turnaround, which was completed in Q1 2016. Retail segment expenditures reached HRK 32 million, being HRK 21 million above the same period in 2015. Retail segment in Croatia and Bosnia and Herzegovina completed five knock-down-rebuilds; three modernizations and other minor projects. Further improvements such as new "Fresh corner" non-fuel concept and construction of two new highway greenfield projects in Bosnia and Herzegovina are ongoing.

Condensed Consolidated Income Statement – INA-GROUP
For the period ended 31 March 2015 and 2016
 (In HRK millions)

Q4 2015	2015	Note	Q1 2015	Q1 2016	%
		Sales revenue			
2,484	11,116	a) domestic	2,394	1,839	(23)
1,434	7,745	b) exports	1,404	763	(46)
3,918	18,861	Total sales revenue	3,798	2,602	(31)
174	466	Capitalised value of own performance	66	103	56
183	448	Other operating income	134	35	(74)
4,275	19,775	Total operating income	3,998	2,740	(31)
(316)	(238)	Changes in inventories of finished products and work in progress	318	115	(64)
(1,531)	(8,364)	Cost of raw materials and consumables	(1,221)	(624)	(49)
(942)	(2,191)	Depreciation and amortization	(413)	(394)	(5)
(596)	(2,572)	Other material costs	(570)	(457)	(20)
(192)	(706)	Service costs	(181)	(151)	(17)
(609)	(2,422)	Staff costs	(593)	(637)	7
(514)	(2,809)	Cost of other goods sold	(1,035)	(891)	(14)
(1,322)	(1,546)	Impairment and charges (net)	(8)	(85)	963
(373)	(265)	Provisions for charges and risks (net)	32	225	603
(6,395)	(21,113)	Operating expenses	(3,671)	(2,899)	(21)
(2,120)	(1,338)	Profit/(loss) from operations	327	(159)	n.a.
		Share in the profit of associated companies			
42	197	Finance income	142	183	29
(164)	(608)	Finance costs	(402)	(99)	(75)
(122)	(411)	Net loss from financial activities	(260)	84	n.a.
(2,242)	(1,749)	Profit/(loss) before tax	67	(75)	n.a.
465	331	Income tax expense	(17)	9	n.a.
(1,777)	(1,418)	Profit/(loss) for the year	50	(66)	n.a.
		Attributable to			
(1,777)	(1,418)	Owners of the Company	50	(66)	n.a.
-	-	Non-controlling interests	-	-	n.a.
(1,777)	(1,418)		50	(66)	n.a.
		Earnings per share			
(177.7)	(141.8)	Basic and diluted earnings per share (kunas per share)	5.0	(6.6)	n.a.

Condensed Consolidated Statement of Comprehensive Income – INA-GROUP
For the period ended 31 March 2015 and 2016
 (in HRK million)

Q4 2015	2015		Q1 2015	Q1 2016	%
(1,777)	(1,418)	Profit/(loss) for the year	50	(66)	n.a.
		Other comprehensive income, net of income tax:			
7	36	Remeasurement of defined benefit obligation	(10)	-	n.a.
94	358	Exchange differences on translating foreign operations	404	(80)	n.a.
24	95	Gain/(loss) on available-for-sale financial assets	28	-	n.a.
125	489	Other comprehensive income/(loss), net of income tax	422	(80)	n.a.
(1,652)	(929)	Total comprehensive income/(loss) for the period	472	(146)	n.a.
		Attributable to:			
(1,652)	(929)	Owners of the Company	472	(146)	n.a.
-	-	Non-controlling interests	-	-	n.a.

Condensed Consolidated Statement of Financial Position – INA-GROUP
At 31 March 2016
(in HRK millions)

	Note	31 Dec 2015	31 March 2016	%
Assets				
Non-current assets				
Intangible assets	9	388	383	(1)
Property, plant and equipment	10	12,730	12,588	(1)
Goodwill		152	152	0
Investments in associates and joint ventures		22	22	0
Other investments		14	25	79
Long-term receivables		144	149	3
Deferred tax		2,094	2,108	1
Available for sale assets		581	581	0
Total non-current assets		16,125	16,008	(1)
Current assets				
Inventories	12	1,820	1,747	(4)
Trade receivables net	13	1,724	1,623	(6)
Other receivables		136	169	24
Corporative income tax receivables		23	23	0
Other current assets		224	199	(11)
Prepaid expenses and accrued income		54	105	94
Cash and cash equivalents		275	146	(47)
Current assets		4,256	4,012	(6)
Assets classified as held for sale		1	1	0
Total current assets		4,257	4,013	(6)
Total assets	8	20,382	20,021	(2)
Equity and liabilities				
Capital and reserves				
Share capital	11	9,000	9,000	0
Legal reserves		330	330	0
Revaluation reserve		216	216	0
Other reserves		1,641	1,561	(5)
Retained earnings / (Deficit)		(602)	(668)	11
Equity attributable to equity holder of the parent		10,585	10,439	(1)
Non-controlling interests		-	-	n.a.
Total equity		10,585	10,439	(1)
Non-current liabilities				
Long-term loans		400	319	(20)
Other non-current liabilities		66	63	(5)
Employee benefits obligation		101	97	(4)
Provisions		3,266	3,210	(2)
Deferred tax liability		22	23	4
Total non-current liabilities		3,855	3,712	(4)
Current liabilities				
Bank loans and overdrafts		2,768	2,281	(18)
Current portion of long-term debt		139	898	546
Trade payables	15	1,400	1,259	(10)
Taxes and contributions		665	670	1
Other current liabilities		271	238	(12)
Accruals and deferred income		64	70	9
Employee benefits obligation		8	6	(25)
Provisions		627	448	(29)
Total current liabilities		5,942	5,870	(1)
Total liabilities	14	9,797	9,582	(2)
Total equity and liabilities		20,382	20,021	(2)

Condensed Consolidated Cash Flow Statement - INA GROUP
For the period ended 31 March 2015 and 2016
 (in HRK millions)

Q4 2015	2015		Note	Q1 2015	Q1 2016	%
(1,777)	(1,418)	Profit/(loss) for the year		50	(66)	n.a.
		Adjustments for:				
942	2,191	Depreciation and amortisation		413	394	(5)
(465)	(331)	Tax (benefit)/expense recognised in income statement		17	(9)	n.a.
1,322	1,546	Impairment charges (net)		8	85	963
(2)	(19)	Gain on sale of property, plant and equipment		(4)	(5)	25
-	(32)	Gain on sale investments and shares		-	-	n.a.
52	206	Foreign exchange (gain)/loss		176	(105)	n.a.
23	58	Interest expense (net)		15	10	(33)
30	77	Other finance (income)/expense recognised in profit		51	(2)	n.a.
302	194	(Decrease)/increase in provisions		(32)	(231)	622
17	69	Decommissioning interests and other provision		18	13	(28)
(14)	(19)	Net gain/loss on derivative financial instruments and hedge transactions		(9)	9	n.a.
(5)	8	Other non-cash items		(14)	(3)	(79)
425	2,530	Operating cash flow before working capital changes	16	689	90	(87)
		Movements in working capital	17			
283	6	Decrease/(increase) in inventories		(637)	80	n.a.
403	220	Increase in receivables and prepayments		(205)	(33)	(84)
(529)	(645)	Decrease in trade and other payables		(436)	(129)	(70)
582	2,111	Cash generated from operations		(589)	8	n.a.
(12)	(157)	Taxes paid		(115)	(5)	(96)
570	1,954	Net cash inflow from operating activities		(704)	3	n.a.
		Cash flows used in investing activities				
(598)	(1,608)	Capital expenditures, exploration and development costs		(157)	(353)	125
(9)	9	Payment for intangible assets		(72)	(20)	(72)
2	33	Proceeds from sale of non-current assets		5	5	0
-	(3)	Payments related to sale of subsidiary		-	-	n.a.
6	7	Dividends received from companies classified as available for sale and from other companies		-	-	n.a.
(3)	15	Interest received and other financial income		10	-	n.a.
29	39	Investments and loans to third parties, net		14	(9)	n.a.
(573)	(1,508)	Net cash used for investing activities	18	(200)	(377)	89
		Cash flows from financing activities				
-	1,602	Additional long-term borrowings		1,366	-	n.a.
(6)	(1,926)	Repayment of long-term borrowings		(551)	(66)	(88)
2,116	12,237	Additional short-term borrowings		2,966	2,976	0
(1,952)	(12,221)	Repayment of short term borrowings		(2,930)	(2,635)	(10)
-	(150)	Dividends paid		-	-	n.a.
(3)	(16)	Interest paid on long-term loans		(6)	(3)	(50)
(20)	(124)	Interest paid on short-term loans and other interest charges		(54)	(43)	(20)
135	(598)	Net cash used in financing activities		791	229	(71)
132	(152)	Net (decrease)/increase in cash and cash equivalents		(113)	(145)	28
-	467	At 1 January		467	275	(41)
9	(40)	Effect of foreign exchange rate changes		(72)	16	n.a.
141	275	At the end of period		282	146	(48)

Condensed Consolidated Statement of Changes in Equity – INA-GROUP
For the period ended 31 March 2015 and 2016
(in HRK millions)

Attributable to equity holders of the parent

	Share capital	Legal reserves	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Non controlling interest	Total equity
Balance as at 1 January 2015	9,000	330	2,851	121	(641)	11,661	(1)	11,660
Profit for the period	-	-	-	-	50	50	-	50
Other comprehensive profit net	-	-	394	28	-	422	-	422
Total comprehensive profit, net	-	-	394	28	50	472	-	472
Balance as at 31 March 2015	9,000	330	3,245	149	(591)	12,133	(1)	12,132
Balance as at 1 January 2016	9,000	330	1,641	216	(602)	10,585	-	10,585
Loss for the period	-	-	-	-	(66)	(66)	-	(66)
Other comprehensive loss net	-	-	(80)	-	-	(80)	-	(80)
Total comprehensive loss, net	-	-	(80)	-	(66)	(146)	-	(146)
Balance as at 31 March 2016	9,000	330	1,561	216	(668)	10,439	-	10,439

INA Group Summary Segmental Results of Operations

Q4 2015	2015	(HRK mln)	Q1 2015	Q1 2016	%
		Sales			
1,083	4,970	Exploration & Production	1,237	933	(25)
3,122	14,831	Refining & Marketing including Retail	2,576	1,904	(26)
606	2,348	Corporate and Other	672	405	(40)
(893)	(3,288)	Inter-segment revenue	(687)	(640)	(7)
3,918	18,861	Sales	3,798	2,602	(31)
		Operating expenses, net other income from operating activities			
(2,298)	(4,598)	Exploration & Production	(536)	(682)	27
(3,704)	(16,156)	Refining & Marketing including Retail	(3,002)	(2,206)	(27)
(947)	(2,856)	Corporate and Other	(678)	(485)	(28)
911	3,411	Inter-segment eliminations	745	612	(18)
(6,038)	(20,199)	Expenses	(3,471)	(2,761)	(20)
		Profit/(loss) from operations			
(1,215)	372	Exploration & Production	701	251	(64)
(582)	(1,325)	Refining & Marketing including Retail	(426)	(302)	(29)
(341)	(508)	Corporate and Other	(6)	(80)	1,233
18	123	Inter-segment eliminations	58	(28)	n.a.
(2,120)	(1,338)	Profit/(loss) from operations	327	(159)	n.a.
		Share in the profit of associate companies			
(122)	(411)	Profit/(loss) from financial activities	(260)	84	n.a.
(2,242)	(1,749)	Profit/(loss) before taxation	67	(75)	n.a.
465	331	Income tax expense	(17)	9	n.a.
(1,777)	(1,418)	Profit/(loss) for the year	50	(66)	n.a.
		Depreciation			
761	1,468	Exploration & Production	224	223	(0)
134	533	Refining & Marketing including Retail	136	129	(5)
47	190	Corporate and Other	53	42	(21)
942	2,191	Total	413	394	(5)
		EBITDA*			
696	3,150	Exploration & Production	870	539	(38)
(206)	(575)	Refining & Marketing including Retail	(276)	(344)	25
12	(53)	Corporate and Other	57	(67)	n.a.
15	142	Inter-segment eliminations	65	(33)	n.a.
517	2,664	Total	716	95	(87)
		Operating Profit Excluding Special Items			
(252)	1,376	Exploration & Production	701	251	(64)
(358)	(1,101)	Refining & Marketing including Retail	(426)	(302)	(29)
(149)	(260)	Corporate and Other	(6)	(80)	1,233
18	123	Inter-segment eliminations	58	(28)	n.a.
(741)	138	Total	327	(159)	n.a.

* EBITDA = EBIT + Depreciation + Impairment + Provisions

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

Financial overview and notes

INCOME STATEMENT

Notes Q1 2016 RESULTS

- 1 **Total sales revenues** in Q1 2016 amounted to HRK 2,602 million and were 31% below Q1 2015 level, primarily triggered by lower Exploration and production sales revenue due to lower Brent, and consequently also lower average wholesale and retail prices of oil derivatives.
- 2 **Costs of raw materials and consumables** were 49% below Q1 2015 level at HRK 624 million, resulting from lower prices and lower processing.
- 3 **Costs of goods sold** in Q1 2016 recorded a decrease of 14% compared to Q1 2015, and amounted to HRK 891 million resulting from different sales structure.
- 4 Other **operating costs** realized in Q1 2016 include:
 - Other material costs were lower by 20% and amounted to HRK 457 million resulting from lower engagement in Croscoc and lower subcontractors costs related to STSI project in Belarus.
 - Service costs in the amount of HRK 151 million recorded a decrease of 17% mainly due to lower engagement in Croscoc and ENI tax which is not charged in Q1 2016 as a result of agreement with Ministry of Finance.
 - Depreciation in the amount of HRK 394 million was 5% lower compared to Q1 2015.
 - Adjustments and provisions had a positive effect in the amount of HRK 140 million and was HRK 116 million higher compared to Q1 2015 resulting from released employee related provisions connected with establishment of INA Maloprodajni servisi and released litigation provisions in Holdina, partially offset with receivables value adjustments.
- 5 **Staff costs** in the amount HRK 637 million were 7% higher compared to Q1 2015. Staff cost represents cost of net salaries in the amount of HRK 275 million, cost of tax and contributions for pension and health insurance in the amount of HRK 202 million, non-taxable severance payments for employees whose employment contracts are terminated due to business reasons in net amount of HRK 119 million and other payroll related costs in the amount of HRK 41 million for the period ended 31 March 2016. For the period ended 31 March 2015 staff cost includes cost of net salaries in the amount of HRK 305 million, cost of tax and contributions for pension and health insurance in the amount HRK 205 million, non-taxable severance payments for employees whose employment contracts are terminated due to business reasons in net amount of HRK 33 million and other payroll related costs in the amount HRK 50 million.
- 6 **Deferred tax** in Q1 2016 amounted to HRK 9 million income tax benefit compared to HRK 17 million income tax expense in Q1 2015. 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 31 March 2016 and 31 March 2015.
- 7 **Net financial result** is positive in Q1 2016 compared to loss recorded in Q1 2015 mainly as a result of forex differences.
 - Net foreign exchange profit was HRK 112 million in Q1 2016 while in Q1 2015 net foreign exchange loss was HRK 183 million.
 - Interest payable amounted to HRK 21 million and interests received to HRK 5 million in Q1 2016 while in Q1 2015 interest payables amounted to HRK 41 million and interests received to HRK 5 million.
 - Other financial net expenses amounted to HRK 12 million, and are lower compared to HRK 40 million in Q1 2015.

Restatement

*A change has been made in the recording of "Financial income and expenses": "Realized and unrealized loss of fair value hedge transactions"; "Negative unrealized FV of hedged items"; "Realized and unrealized gain of fair value hedge transactions"; "Positive unrealized FV of hedged items" are now recorded in "Other Income".

Special items

In addition to international accounting standards, international reporting standards and regulatory requests the company discloses special items to achieve a higher level of transparency and to provide better understanding of the usual business operations. Business events not occurring regularly and having significant effect on operations and results are considered as special items. INA has adopted the materiality level for the special items in the amount of USD 10 million or above. If special items reaches materiality level on cumulative basis, previous quarters are restated. Furthermore, in accordance with the adopted accounting policies and IFRS 36 – Impairment of Assets, INA performs impairment testing at the end of each reporting period if impairment indicators are assessed to be significant.

Intersegment eliminations

Intersegment elimination line within the operating results is used to provide segmental results as International Accounting Standards requests, guided with the transparency of presented information which needs to fulfil the highest requests of consistency and reliability. For this purpose and also for the 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 Exploration and production and Refining and Marketing including Retail is based on delivered quantities. This line shows the effect of the change on operating profit 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 company level profit is only reported when the related third party sale has taken place. Intersegment EBITDA effect on results in Q1 2016 is HRK -33 million which is lower compared to HRK 71 million in Q1 2015 due to different operational mode of Sisak refinery.

BALANCE SHEET

Notes

- 8 As at 31 March 2016 INA Group **total assets** amounted to HRK 20,021 million and were 2% lower compared to 31 December 2015.
- 9 In the period ended 31 March 2016, INA Group invested HRK 10 million in intangible assets. The effect of depreciation equals HRK 9 million. Foreign exchange revaluation of oil and gas fields decreased net book value in amount of HRK 8 million. Emission quotas increased NBV in amount of HRK 2 million.
- 10 In the period ended 31 March 2016, INA Group invested HRK 332 million in property, plant and equipment. Foreign exchange revaluation decreased net book value in amount of HRK 86 million. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 385 million. In the absence of parameters needed for unit-cost production depreciation calculation method due to Force Majeure, straight-line depreciation method for surface assets in Syria was applied starting from 1 January 2013, in order to fairly reflect the amortization of the equipment. Depreciation impact of surface assets in Syria in 2016 was HRK 7 million. Write-off of negative wells reduced net book value in amount of HRK 1 million. Disposal of tangible assets equals HRK 1 million. Transfer to merchandizing goods decreased net book value in amount of HRK 1 million.
- 11 **Issued capital** as at 31 March 2016 amounted to HRK 9,000 million. There was no movement in the issued capital of the Company in either the current or the prior financial reporting.
- 12 **Inventories** amounted to HRK 1,747 million, and have decreased by 4% compared to 31 December 2015 as a result of lower crude oil inventories.
- 13 **Trade receivables** decreased to HRK 1,623 million and are 6% lower compared to the opening balance, on 31 December 2015 resulting from lower sales revenue.
- 14 As at 31 March 2016 **total liabilities** amounted to HRK 9,582 which is 2% or HRK 215 million lower compared to 31 December 2015. INA Group **net debt** increased by 11% and amounted to HRK 3,352 million compared to 31 December 2015. **Gearing ratio**² increased from 22.3% as at 31 December 2015, to 24.3% as at 31 March 2016.
- 15 **Trade payables** decreased by 10% to HRK 1,259 million, as a result of lower liabilities for imported crude oil.

CASH FLOW

Notes

- 16 The **operating cash-flow before changes in working capital** amounted to HRK 90 million in Q1 2016 representing a decrease of HRK 599 million, or 87%, compared to Q1 2015, which is in line with change in EBITDA performance compared to the previous year.
- 17 **Changes in working capital** affected the operating cash flow negatively by HRK 82 million, due to:
- Decrease in trade and other payables by HRK 129 million as result of lower liabilities for imported crude oil.
 - Decreased value of inventories by HRK 80 million due to lower Brent, partly compensated by higher volumes of imported crude.
 - Increase in receivables by HRK 33 million as a result of lower sales revenues in Q1 2016 compared to Q1 2015.
- 18 **Net outflows in investing activities** amounted to HRK 377 million, in comparison with HRK 200 million outflows in Q1 2015.

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

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 are credit risk and liquidity risk.

a) Market risk

Commodity price risk management (price risk)

INA purchases crude oil and oil products on a spot market in USD, mostly using short-term credit facility arrangements. The required quantities of gas had been purchased in EUR based on spot prices. INA may use derivative instruments in managing its commodity exposure. As of 31 March 2016, INA had opened short-term forward commodity swap transactions to hedge its exposure to changes in pricing periods and to changes in inventory levels.

Foreign currency risk management

Many INA Group's transactions are priced and denominated in foreign currency and thus INA Group is exposed to currency risk. INA Group has net long USD and EUR, and net short HRK exposure of operative cash flow position. INA Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of 31 March 2016, there were no open cross currency swap transactions.

Interest rate risk management

INA Group companies use borrowed funds with floating interest rates and consequently INA Group is exposed to the interest rate risk. INA Group does not speculate on interest rate developments and generally chooses floating rates. INA Group may use interest rate swap to manage interest rate risk. As of 31 March 2016, 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 "Customer Credit Management Procedure" creditworthiness and risk in dealing with customers is estimated based on internal credit assessment model as well as on the services provided by credit rating agencies. There is no significant credit risk exposure of INA Group that is not covered with payment security instruments, 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. In order to minimize credit risk, INA is using credit risk insurance services. INA, to a limited extent, is also using services of agencies and attorneys-at-law offices for "out-of-court" collection of receivables.

c) Liquidity risk

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

As of 31 March 2016, INA Group had contracted and available short-term credit lines amounting to HRK 1.75 bn excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and contracted and available long-term credit lines amounting to HRK 3.11 bn.

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.

During the 2016, INA Group entered into the following trading transactions with the following related parties:

INA-Group	Sales of goods	Purchase of goods
HRK mln	31 March 2016	31 March 2016
Companies available for sale		
JANAF d.d. Zagreb	1	1
Strategic partner		
MOL Nyrt.	47	325
Companies controlled by strategic partner		
Tifon d.o.o.	74	2
Energopetrol d.d.	37	-
MOL SLOVENIJA d.o.o.	13	12
Kalegran Ltd.	1	-
MOL Commodity Trading Kft.	-	2
MOL Petrochemical Co. Ltd.	-	2
Slovnaft, a.s.	-	31

INA-Group	Amounts owed from related parties	Amounts owed to related parties
HRK mln	31 March 2016	31 March 2016
Companies available for sale		
JANAF d.d. Zagreb	-	4
Strategic partner		
MOL Nyrt.	27	52
Companies controlled by strategic partner		
Kalegran Ltd.	101	-
Energopetrol d.d.	50	-
Tifon d.o.o.	55	-
MOL SLOVENIJA d.o.o.	6	5
Slovnaft, a.s.	-	5
MOL Petrochemical Co. Ltd.	-	1

Segmental Information

31 March 2016					
Assets and liabilities	Exploration and production	Refining and marketing including Retail	Corporate and other	Intersegment transfers	Total
Property, plant and equipment	5,923	5,162	1,661	(158)	12,588
Intangible assets	219	46	118	-	383
Investments in associates and joint ventures	22	-	-	-	22
Inventories	189	1,513	237	(192)	1,747
Trade receivables, net	515	788	535	(215)	1,623
Not allocated assets					3,658
Total assets					20,021
Trade payables	326	817	331	(215)	1,259
Not allocated liabilities					8,323
Total liabilities					9,582
Other segment information					
Capital expenditure:	165	172	15	(10)	342
Property, plant and equipment	162	172	10	(10)	334
Intangible assets	3	-	5	-	8
Depreciation and amortisation	223	129	42	-	394
Total impairment losses/(income), net	78	11	1	(5)	85
31 December 2015					
Assets and liabilities	Exploration and production	Refining and marketing including Retail	Corporate and other	Intersegment transfers	Total
Property, plant and equipment	6,056	5,130	1,692	(148)	12,730
Intangible assets	224	45	119	-	388
Investments in associates and joint ventures	22	-	-	-	22
Inventories	164	1,604	227	(175)	1,820
Trade receivables, net	582	790	611	(259)	1,724
Not allocated assets					3,698
Total assets					20,382
Trade payables	371	837	451	(259)	1,400
Not allocated liabilities					8,397
Total liabilities					9,797
Other segment information					
Capital expenditure:	830	613	234	(37)	1,640
Property, plant and equipment	814	608	208	(37)	1,593
Intangible assets	16	5	26	-	47
Depreciation and amortisation	1,468	533	190	-	2,191
Total impairment losses/(income), net	1,218	8	301	19	1,546

Main external parameters

Q4 2015	2015		Q1 2015	Q1 2016	%
43.8	52.4	Brent dtd (USD/bbl)	53.9	33.9	(37.1)
1.16	0.51	Brent-Ural spread	0.68	1.21	78.4
464.3	557.2	Premium unleaded gasoline 10 ppm (USD/t)*	544.7	396.5	(27.2)
406.2	493.8	Diesel – ULSD 10 ppm (USD/t)*	517.6	311.3	(39.9)
183.5	254.9	Fuel oil 3,5% (USD/t)*	274.6	134.3	(51.1)
434.1	446.5	LPG (USD/t)*	516.1	376.4	(27.1)
38.7	72.8	Average crack spread	92.2	79.0	(14.4)
133.3	160.9	Crack spread – premium unleaded (USD/t)*	136.7	139.7	2.2
75.1	97.5	Crack spread – diesel (USD/t)*	109.6	54.6	(50.2)
(147.6)	(141.4)	Crack spread - fuel oil 3,5% (USD/t)*	(133.4)	(122.4)	(8.2)
103.0	50.2	Crack spread - LPG (USD/t)*	108.1	119.6	10.7
6.96	6.86	HRK/USD average	6.82	6.91	1.3
6.99	6.99	HRK/USD closing	7.05	6.65	(5.7)
7.62	7.61	HRK/EUR average	7.68	7.62	(0.8)
7.64	7.64	HRK/EUR closing	7.64	7.52	(1.6)
0.41	0.32	3m USD LIBOR (%)	0.26	0.62	139.9
(0.09)	(0.02)	3m EURIBOR (%)	0.12	(0.19)	n.a.

* FOB Mediterranean

Announcements in 2016

28 April 2016	General Assembly INA Industrija nafte d.d.
27 April 2016	Management board meeting announcement
12 April 2016	Supervisory Board Employee representative
30 March 2016	Code of Corporate Governance Questionnaire for 2015
30 March 2016	Supervisory Board meeting held
25 March 2016	Supervisory Board meeting announcement
23 March 2016	Decrease of regulated gas price for households
25 February 2016	Notification of Home Member State
19 February 2016	Management Board meeting announcement

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

	31 Dec 2006	31 Dec 2007	31 Dec 2008 31 Dec 2009 31 Dec 2010	31 Dec 2011	31 Dec 2012 31 Dec 2013 31 Dec 2014 31 Dec 2015	31 March 2016
MOL Plc.	2,500,001	2,500,001	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
Private and institutional investors	2,319,632	3,015,081	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

Source: Central Clearing Depository Company

Changes in organization, Management Board or Supervisory Board

Supervisory Board

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

Management Board

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

Board of Executive Directors

Effective from 1 February 2016, Dr. Ákos Székely replaced Mr. András Huszár as Executive Director for Finance.

Management representation

INA Group's consolidated financial statements for Q1 2016 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
Niko Dalić	Member
Gábor Horváth	Member
Ivan Krešić	Member
Davor Mayer	Member
Péter Rátatics	Member