

INA Group (ZB: INA-R-A; www.ina.hr) announced its Q1 2018 results today. This report contains unaudited consolidated financial statements for the period ending 31 March 2018 as prepared by the management in accordance with the International Financial Reporting Standards.

INA Group financial results (IFRS)

2017	HRK mln	Q1 2017	Q1 2018	%
18,582	Net sales revenues*	3,834	3,705	(3)
3,373	EBITDA ⁽¹⁾	640	481	(25)
3,234	EBITDA excl. special items ⁽²⁾	640	481	(25)
3,053	CCS EBITDA excl. special items	517	482	(7)
1,418	Profit/(loss) from operations	198	65	(67)
1,379	Operating profit excl. special items ⁽²⁾	198	65	(67)
1,198	CCS Operating profit excl. special items	75	66	(12)
146	Net financial result	40	7	(82)
1,220	Net profit/loss attributable to equity holder	199	1	(99)
1,181	Net profit/loss for the period excl. special items ⁽²⁾	199	1	(99)
1,660	Simplified Free Cash Flow ⁽³⁾	308	286	(7)
2,484	Operating cash flow	(186)	337	n.a.
Earnings per share				
122.0	Basic and diluted/(loss) earnings per share (kunas per share)	19.9	0.1	(99)
1,397	Net debt	2,818	1,254	(55)
10.8	Net gearing (%)	20.7	9.8	
1,393	CAPEX total	209	196	(6)
1,262	Domestic	195	164	(16)
131	International	14	32	127
2017	USD mln ⁽⁴⁾	Q1 2017	Q1 2018	%
2,806	Net sales revenues	547	612	12
509	EBITDA ⁽¹⁾	91	79	(13)
488	EBITDA excl. special items ⁽²⁾	91	79	(13)
461	CCS EBITDA excl. special items	74	80	8
214	Profit/(loss) from operations	28	11	(62)
208	Operating profit excl. special items ⁽²⁾	28	11	(62)
181	CCS Operating profit excl. special items	11	11	2
22	Net financial result	6	1	(80)
184	Net profit/loss attributable to equity holder	28	0	(99)
178	Net profit/loss for the period excl. special items ⁽²⁾	28	0	(99)
251	Simplified Free Cash Flow ⁽³⁾	44	47	8
375	Operating cash flow	(27)	56	n.a.
Earnings per share				
18.4	Basic and diluted/(loss) earnings per share (kunas per share)	2.8	0.0	(99)
223	Net debt	407	208	(49)
210	CAPEX total	30	32	9
191	Domestic	28	27	(2)
20	International	2	5	163

* Related to Revenue from contracts with customers

⁽¹⁾ EBITDA = EBIT + Depreciation, amortization and impairment (net), restatement of comparable previous periods was made – see on page 10

⁽²⁾ No significant one-off items in Q1 2018 or Q1 2017

⁽³⁾ Simplified free cash flow = CCS EBITDA excluding special items - capital expenditures

⁽⁴⁾ In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for Q1 2017 – 7.0148 HRK/USD; Q1 2018 – 6.0530 HRK/USD; 2017 – 6.6224 HRK/USD; as at Dec 31, 2017 – 6.2697 HRK/USD; as at Mar 31, 2017 – 6.9278 HRK/USD; as at Mar 31, 2018 – 6.0296 HRK/USD

INA Group revenues stayed in Q1 2018 at the level of Q1 2017 – amounting to HRK 3,705 million, where the realized price increase offset the slightly lower volumes. CCS EBITDA decreased slightly to HRK 482 million, while operating cash flow remained strong at HRK 337 million in Q1 2018.

Exploration & Production benefited from the positive external environment with 29% higher realized hydrocarbon price and consequently EBITDA increased by 14% to HRK 732 million despite 7% lower hydrocarbon production. Refining Marketing incl. Retail CCS EBITDA in Q1 2018 turned to negative HRK (145) million. The less favorable environment together with planned maintenance activities resulted in lower processing level in refining, which also impacted the total sales volumes. Retail fuel sales remained stable while the non-fuel sales continued to grow.

CAPEX amounted to HRK 196 million, a slight decrease of 6% compared to Q1 2017. At the same time net debt slightly decreased and amounted to HRK 1,254 million at the end of Q1 2018 with the gearing rate below 10%.

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

INA Group operations in Q1 2018, with the revenues level similar to the same period 2017, represent a stable result within the volatile environment. Although the first quarter was marked by the favorable Brent environment of around USD 67 per barrel, the refining environment was weak with most of the crack spreads deteriorated compared to Q1 2017.

Consequently, the Refining and Marketing results turned to negative, additionally pushed by the lower plant availability caused by maintenance activities in key refining plants in Rijeka. Retail volumes remained stable, while the non-fuel sales continuously grow, in line with the strategy of expanding the offer at INA Retail sites.

On the other hand, Upstream achieved better results, where higher realized prices, combined with the continuous increase in domestic crude oil production, offset natural decline from Offshore fields. Also, exploration works on Drava-02 area are in progress as planned.

Similar CAPEX levels and more than stable financial position represent a good starting point for future growth.

Management discussion

Exploration and Production*

2017	Segment IFRS results (HRK mln)	Q1 2017	Q1 2018	%
4,448	Net sales revenues	1,163	1,140	(2)
2,782	EBITDA **	640	732	14
2,529	EBITDA excl. special items ***	640	732	14
1,666	Operating profit	375	495	32
1,413	Operating profit excl. special items ***	375	495	32
1,911	Simplified Free Cash Flow****	532	605	14
618	CAPEX	108	127	18

* 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 10

*** No significant one-off items in Q1 2018 or Q1 2017

**** Simplified free cash flow = EBITDA excluding special items - capital expenditures

2017	Hydrocarbon production	Q1 2017	Q1 2018	%
14,515	Crude oil production (boe/d)	14,100	14,119	0
12,165	Croatia	11,498	12,087	5
1,536	Egypt	1,680	1,384	(18)
815	Angola	922	648	(30)
21,287	Natural gas production (boe/d)	22,871	20,519	(10)
7,723	Croatia - offshore	8,583	7,071	(18)
13,564	Croatia - onshore	14,288	13,448	(6)
1,786	Condensate (boe/d)	1,896	1,622	(14)
37,588	Total hydrocarbon production (boe/d)	38,867	36,261	(7)

2017	Average realised hydrocarbon price	Q1 2017	Q1 2018	%
42	Total hydrocarbon price (USD/boe)*	40	52	29

2017	Natural gas trading - mln cm	Q1 2017	Q1 2018	%
1,201	Total natural gas sales - domestic market	327	292	(11)

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

Q1 2018 vs. Q1 2017

KEY DRIVERS

- 24% higher Brent price; positive effect on oil and condensate sales revenues in the amount of HRK 223 million
- HRK 65 million higher natural gas revenues as a result of higher realized gas prices
- Domestic crude oil production higher by 5% as a result of:
 - Additional development projects and the EOR project
 - start-up of two new wells on Hrastilnica
- International crude oil production lower by 0.6 mboepd due to:
 - natural production decline in Egypt
 - natural production decline and various technical issues in Angola
- Natural gas production lower driven by:
 - 18% lower offshore natural gas production due to reservoir maturity reflected in increased water cut and sharp natural decline
 - lower onshore natural gas production by 6% mainly as a result of lower Deep Podravina fields performance due to increased water cut

CAPITAL EXPENDITURES

Q1 2018 (HRK million)	Croatia	Egypt	Angola
Exploration	26	-	-
Development	52	17	1
Other	31	-	-
TOTAL	109	17	1

- Higher investment level as a result of Drava-02 exploration drilling activities and activities in Egypt
- Drava-02 exploration program – Drilling of Severovci-1 well finished in February, while drilling of Mala Jasenovača-1 well is expected to start in June 2018.
- Total of 15 WWOs (well workovers) were performed as part of 4 projects.
- EOR – performed 3 WWOs; CO₂ injection ongoing as per reservoir requirements, currently on 5 wells at Ivanić and 8 at Žutica North
- Egypt, North Bahariya - Wells Abrar-10 and Ganna West-3 drilled and put into production. WWOs performed on 4 wells.

Refining and Marketing, including Retail*

2017	Segment IFRS results (HRK mln)	Q1 2017	Q1 2018	%
16,138	Revenues	3,197	3,040	(5)
831	EBITDA**	172	(146)	n.a.
945	EBITDA excl. special items***	172	(146)	n.a.
764	CCS-based DS EBITDA excl. special items***	49	(145)	n.a.
263	Operating profit/(loss)	34	(279)	n.a.
378	Operating profit/(loss) excl. special items***	34	(279)	n.a.
196	CCS-based DS operating loss	(89)	(278)	213
51	Simplified Free Cash Flow****	(46)	(209)	353
713	CAPEX and investments (w/o acquisition)	95	64	(33)

*Refers to Refining & Marketing including Retail INA, d.d. and following subsidiaries: INA Maziva d.o.o., INA Slovenija d.o.o., HoldINA d.o.o., INA Crna Gora d.o.o., INA d.o.o. Beograd, INA Kosovo d.o.o., Petrol d.d., Energopetrol d.d., INA BL d.o.o., INA MALOPRODAJNI SERVISI d.o.o.

** Restatement of comparable previous periods was made – see on page 10

*** No significant one-off items in Q1 2018 or Q1 2017

**** Simplified free cash flow = CCS EBITDA excluding special items - capital expenditures

2017	Refinery processing (kt)	Q1 2017	Q1 2018	%
587	Domestic crude oil	-	65	n.a.
2,803	Imported crude oil	453	381	(16)
80	Condensate	-	18	n.a.
622	Other feedstock	183	12	(93)
4,092	Total refinery throughput	636	476	(25)
2017	Refinery production (kt)	Q1 2017	Q1 2018	%
242	LPG	34	24	(31)
52	Naphtha	11	1	(89)
1,058	Gasoline	152	100	(35)
133	Kerosene	14	20	41
1,355	Diesel	212	121	(43)
143	Heating oil	37	34	(7)
512	Fuel oil	70	95	35
141	Other products*	25	11	(56)
3,635	Total	555	406	(27)
43	Refinery loss	7	7	(5)
415	Own consumption	74	64	(14)
4,092	Total refinery production	636	476	(25)
2017	Refined product sales by country (kt)	Q1 2017	Q1 2018	%
1,814	Croatia	389	365	(6)
616	B&H	117	128	10
70	Slovenia	16	18	15
1,727	Other markets	273	212	(23)
4,227	Total	795	723	(9)
2017	Refined product sales by product (kt)	Q1 2017	Q1 2018	%
291	LPG	48	45	(6)
50	Naphtha	11	3	(73)
1,044	Gasoline	183	141	(23)
175	Kerosene	16	19	21
1,755	Diesel	349	363	4
163	Heating oil	52	50	(4)
536	Fuel oil	99	77	(23)
51	Bitumen	7	4	(42)
162	Other products*	30	21	(28)
4,227	Total	795	723	(9)
1,056	o/w Retail segment sales	207	208	0
494	Total number of Retail sites	495	495	0

*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 2018 vs. Q1 2017

KEY DRIVERS

- Higher DTD Brent price (increase from 54 USD/bbl to 67 USD/bbl)
- Less favorable external environment with lower gasoline (-11 USD/t) and fuel oil (-37 USD/t) crack spreads, partially mitigated by higher diesel (+12 USD/t) crack spread
- Planned maintenance activities in the refineries resulted in lower processing level (-160 kt)
- Lower total sales volumes on both captive market (-12 kt) and other export markets (-59 kt) limited by lower refinery product availability mainly related to maintenance shut down
- Total retail sales volumes stayed stable at 208 kt, with a significant contribution of the network in Bosnia and Herzegovina supported by active sales of Class PLUS fuels and RON 100 Gasoline
- Non-fuel margin increase by 7% based on continuous expansion in goods, with Fresh Corner concept implementation and development of new non-fuel related services, contributing 53% to total Retail margin growth compared to last year period

CAPITAL EXPENDITURES

- Refining and Marketing capital expenditures amounted to HRK 51 mn
 - Ongoing activities on the Front End Engineering Design and preparation of next phase of Residue Upgrade Project
 - Contract for Engineering Procurement and Construction signed, Long Lead Items contracted and Building Permit issued for the Propane-propylene Splitter project
 - Continued investment activities in logistics and refinery development projects with special focus on environmental permit related projects and Rijeka Refinery projects for 2019
- Retail capital expenditures in Q1 2018 amounted to HRK 13 mn
 - Various investments projects including greenfield constructions, service station reconstructions, modernizations and other improvement projects
 - Multiple projects on expanding the non-fuel offer in line with the "Fresh corner" concept

Main external parameters

2017		Q1 2017	Q1 2018	%
54.2	Brent dtd (USD/bbl)	53.7	66.8	24.4
0.92	Brent-Ural spread (USD/bbl)	1.17	1.60	36.9
548.3	Gasoline - premium unleaded 10 ppm (USD/t)*	543.1	631.0	16.2
490.5	Diesel – ULSD 10 ppm (USD/t)*	477.5	588.9	23.3
298.3	Fuel oil 3.5% (USD/t)*	289.3	351.3	21.4
511.6	LPG (USD/t)*	543.1	527.7	(2.8)
138.3	Crack spread – gasoline (USD/t)*	136.9	125.5	(8.3)
80.5	Crack spread – diesel (USD/t)*	71.4	83.4	16.9
(111.7)	Crack spread – fuel oil 3.5% (USD/t)*	(116.8)	(154.2)	31.9
101.6	Crack spread – LPG (USD/t)*	136.9	22.2	(83.8)
1.80	Indicative refining margins (USD/bbl)**	1.73	0.53	(69.4)
6.62	HRK/USD average	7.01	6.05	(13.7)
6.27	HRK/USD closing	6.93	6.03	(13.0)
7.46	HRK/EUR average	7.47	7.44	(0.4)
7.51	HRK/EUR closing	7.44	7.43	(0.1)
1.26	3m USD LIBOR (%)	1.07	1.93	79.8
(0.33)	3m EURIBOR (%)	(0.33)	(0.33)	0.1

* FOB Mediterranean

** Indicative refining margins based on 2016 Solomon yields, dated Ural price used for all feedstock

Condensed Consolidated Statement of Profit or Loss – INA-GROUP
For the period ended 31 March 2017 and 2018
(In HRK millions)

2017	Note	Q1 2017	Q1 2018	%
18,582	Revenue from contracts with customers	3,834	3,705	(3)
327	Capitalised value of own performance	61	83	36
126	Other operating income	52	40	(23)
19,035	Total operating income	3,947	3,828	(3)
274	Changes in inventories of finished products and work in progress	169	73	(57)
(9,061)	Cost of raw materials and consumables	2 (1,758)	(1,428)	(19)
(1,955)	Depreciation, amortization and impairment (net)*	4 (442)	(416)	(6)
(1,823)	Other material costs	4 (413)	(454)	10
(466)	Service costs	4 (114)	(114)	0
(1,803)	Staff costs	5 (411)	(425)	3
(2,942)	Cost of other goods sold	3 (812)	(1,027)	26
7	Impairment and charges (net)*	4 (11)	42	n.a.
151	Provisions for charges and risks (net)	4 43	(14)	n.a.
(17,617)	Operating expenses	(3,749)	(3,763)	0
1,418	Profit/(Loss) from operations	198	65	(67)
	Share in the profit of associated companies			
452	Finance income	185	78	(58)
(306)	Finance costs	(145)	(71)	(51)
146	Net result from financial activities	40	7	(82)
1,564	Profit/(Loss) before tax	238	72	(70)
(342)	Income tax expense	6 (42)	(66)	58
1,222	Profit/(Loss) for the year	196	6	(97)
	Attributable to			
1,220	Owners of the Company	199	1	(99)
2	Non-controlling interests	(3)	5	n.a.
1,222		196	6	(97)
	Earnings per share			
122.0	Basic and diluted earnings per share (kunas per share)	19.9	0.1	(99)

* Restatement of comparable previous periods was made – see on page 10

Condensed Consolidated Statement of Financial Position – INA-GROUP
At 31 March 2018
(in HRK millions)

	Note	31 December 2017	31 March 2018	%
Assets				
Non-current assets				
Intangible assets	9	570	616	8
Property, plant and equipment	10	12,016	11,737	(2)
Other investments		13	13	0
Long-term receivables and other assets		96	149	55
Deferred tax		1,451	1,380	(5)
Non-current financial assets		665	700	5
Total non-current assets		14,811	14,595	(1)
Current assets				
Inventories	12	2,264	3,007	33
Trade receivables net	13	1,393	1,398	0
Other receivables		210	190	(10)
Corporative income tax receivables		10	18	80
Other current assets		139	121	(13)
Cash and cash equivalents		428	226	(47)
Current assets		4,444	4,960	12
Assets classified as held for sale		8	8	0
Total current assets		4,452	4,968	12
Total assets	8	19,263	19,563	2
Equity and liabilities				
Capital and reserves				
Share capital	11	9,000	9,000	0
Legal reserves		28	28	(0)
Fair value reserves		289	319	10
Other reserves		1,516	1,487	(2)
Retained earnings / (Deficit)		827	886	7
Equity attributable to equity holder of the parent		11,660	11,720	1
Non-controlling interests		(134)	(129)	(4)
Total equity		11,526	11,591	1
Non-current liabilities				
Long-term loans		122	59	(52)
Other non-current liabilities		52	49	(6)
Employee benefits obligation		73	73	0
Provisions		3,119	3,081	(1)
Deferred tax liability		14	14	(0)
Total non-current liabilities		3,380	3,276	(3)
Current liabilities				
Bank loans and overdrafts		1,581	1,303	(18)
Current portion of long-term debt		122	118	(3)
Trade payables	15	1,171	1,662	42
Taxes and contributions		626	766	22
Other current liabilities		540	480	(11)
Employee benefits obligation		5	5	0
Provisions		312	362	16
Total current liabilities		4,357	4,696	8
Total liabilities	14	7,737	7,972	3
Total equity and liabilities		19,263	19,563	2

Condensed Consolidated Cash Flow Statement - INA GROUP
For the period ended 31 March 2017 and 2018
(in HRK millions)

2017	Note	Q1 2017	Q1 2018	%
1,222	Profit for the year	196	6	(97)
	Adjustments for:			
1,804	Depreciation, amortisation and impairment (net)	442	416	(6)
342	Tax expense recognised in statement of profit or loss	42	66	58
143	Impairment charges (net)	10	(42)	n.a.
(16)	Gain on sale of property, plant and equipment	-	(2)	n.a.
(186)	Foreign exchange loss/(gain)	(68)	(32)	(53)
48	Interest expense (net)	29	5	(83)
(29)	Other finance expense/(income) recognised in profit	(6)	11	n.a.
(155)	(Decrease)/increase in provisions	(43)	12	n.a.
21	Decommissioning interests and other provision	6	10	67
48	Net (gain)/loss on derivative financial instruments and hedge transactions	(25)	29	n.a.
11	Other non-cash items	1	5	400
3,253	Operating cash flow before working capital changes	16	484	(17)
	Movements in working capital	17		
(327)	Decrease/(increase) in inventories	(280)	(840)	200
(76)	Decrease/(increase) in receivables and prepayments	(154)	33	n.a.
(333)	(Decrease)/increase in trade and other payables	(333)	664	n.a.
2,517	Cash generated from operations	(183)	341	n.a.
(33)	Taxes paid	(3)	(4)	33
2,484	Net cash inflow from operating activities	(186)	337	n.a.
	Cash flows used in investing activities			
(1,299)	Capital expenditures, exploration and development costs	(196)	(218)	11
(92)	Payment for intangible assets	(13)	(35)	169
26	Proceeds from sale of non-current assets	2	2	0
23	Payments related to sale of subsidiary	-	-	n.a.
	Dividends received from companies classified as available for sale and from other companies	-	-	n.a.
11	Interest received and other financial income	5	1	(80)
(52)	Investments and loans to third parties, net	(11)	(1)	(91)
(1,363)	Net cash used for investing activities	18	(251)	18
	Cash flows from financing activities			
(129)	Repayment of long-term borrowings	(67)	(59)	(12)
10,103	Additional short-term borrowings	2,189	2,527	15
(11,040)	Repayment of short term borrowings	(2,135)	(2,789)	31
(152)	Dividends paid	-	-	n.a.
(8)	Interest paid on long-term loans	(3)	(2)	(33)
(78)	Interest paid on short-term loans and other interest charges	12	20	67
(1,304)	Net cash used in financing activities	(4)	(303)	7,475
(183)	Net (decrease)/increase in cash and cash equivalents	(403)	(217)	(46)
611	At 1 January	611	428	(30)
-	Effect of foreign exchange rate changes	7	15	114
428	At the end of period	215	226	5

INA Group Summary Segmental Results of Operations

2017	(HRK mln)	Q1 2017	Q1 2018	%
Sales				
4,448	Exploration & Production	1,163	1,140	(2)
16,138	Refining & Marketing including Retail	3,197	3,040	(5)
1,451	Corporate and Other	272	379	39
(3,455)	Inter-segment revenue eliminations	(798)	(854)	7
18,582	Sales	3,834	3,705	(3)
EBITDA*				
2,782	Exploration & Production	640	732	14
831	Refining & Marketing including Retail	172	(146)	n.a.
(157)	Corporate and Other	(51)	(31)	(39)
(83)	Inter-segment profit eliminations	(121)	(74)	(39)
3,373	Total	640	481	(25)
EBITDA Excluding Special Items				
2,529	Exploration & Production	640	732	14
945	Refining & Marketing including Retail	172	(146)	n.a.
(157)	Corporate and Other	(51)	(31)	(39)
(83)	Inter-segment profit eliminations	(121)	(74)	(39)
3,234	Total	640	481	(25)
Operating Profit/Loss				
1,666	Exploration & Production	375	495	32
263	Refining & Marketing including Retail	34	(279)	n.a.
(428)	Corporate and Other	(90)	(77)	(14)
(83)	Inter-segment profit eliminations	(121)	(74)	(39)
1,418	Total	198	65	(67)
Operating Profit/Loss Excluding Special Items				
1,413	Exploration & Production	375	495	32
378	Refining & Marketing including Retail	34	(279)	n.a.
(328)	Corporate and Other	(90)	(77)	(14)
(83)	Inter-segment profit eliminations	(121)	(74)	(39)
1,379	Total	198	65	(67)
Property, plant and equipment				
5,329	Exploration & Production	5,585	5,163	(8)
5,582	Refining & Marketing including Retail	5,466	5,494	1
1,418	Corporate and Other	1,418	1,402	(1)
(313)	Inter-segment assets eliminations	(192)	(322)	68
12,016	Total	12,277	11,737	(4)

* EBITDA = EBIT + Depreciation, restatement of comparable previous periods was made – see on page 10

Intersegment profit eliminations

Intersegment transfer represents the effect of unrealized profit arising in respect of transfers of inventories from Exploration and Production to Refining and Marketing. Through intersegment transfer unrealized profit is eliminated (difference between transfer price and cost of domestic crude). For segmental reporting purposes the transferor 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. Intersegment EBITDA effect on results in Q1 2018 is HRK -74 million which is lower compared to HRK -121 million in Q1 2017 due to different schedule of domestic crude processing.

Financial overview and notes

STATEMENT OF PROFIT OR LOSS

Notes Q1 2018 RESULTS

- 1 **Total sales revenues** in Q1 2018 amounted to HRK 3,705 million and were 3% below the Q1 2017 level, triggered mainly by Refining & Marketing including Retail sales revenue decrease as a result of the less favorable external environment and refinery maintenance shut down.
- 2 **Costs of raw materials and consumables** were 19% below the Q1 2017 level at HRK 1,428 million, resulting mainly from lower processing.
- 3 **Costs of goods sold** in Q1 2018 recorded an increase of 26% compared to Q1 2017, and amounted to HRK 1,027 million resulting from different sales structure.
- 4 Other **operating costs** realized in Q1 2018 include:
- Other material costs were higher by 10% and amounted to HRK 454 million resulting mainly from higher Crosco engagement both in Croatia and abroad.
 - Service costs in the amount of HRK 114 million remained at the Q1 2017 level.
 - Depreciation in the amount of HRK 416 million was 6% lower compared to Q1 2017.
 - Adjustments and provisions had a positive effect in the amount of HRK 28 million and were HRK 4 million lower compared to Q1 2017 related mainly to the positive impact of net impairment of Egyptian (EGPC) receivables driven by better collection and lower value adjustments, partly offset by lower net provision for litigation.
- 5 **Staff costs** in the amount HRK 425 million were 3% higher compared to Q1 2017.
- 6 **Income tax expense** in Q1 2018 amounted to HRK 66 million compared to HRK 42 million income tax expense in Q1 2017. Tax costs and deferred taxes during the interim period are calculated on the basis of actual results and the profit tax rate, 18% for the periods ended 31 March 2017 and 31 March 2018.
- 7 **Net financial result** is positive in Q1 2018, although 82% lower compared to Q1 2017 mainly as a result of
- Net foreign exchange gain was HRK 26 million in Q1 2018 while in Q1 2017 net foreign exchange gain was HRK 81 million.
 - Interest payable amounted to HRK 10 million and interest received to HRK 0.5 million in Q1 2018 while in Q1 2017 interest payable amounted to HRK 35 million and interest received to HRK 0.4 million.
 - Other financial net expenses amounted to HRK 10 million and are higher compared to HRK 7 million in Q1 2017.

STATEMENT OF FINANCIAL POSITION

Notes

- 8 As at 31 March 2018 INA Group **total assets** amounted to HRK 19,563 million, 2% higher compared to 31 December 2017.
- 9 In the period ended 31 March 2018, INA Group invested HRK 31 million in **intangible assets**. The effect of depreciation equals HRK 11 million.
- 10 In the period ended 31 March 2018, INA Group invested HRK 165 million in **property, plant and equipment**. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 409 million.
- 11 **Issued capital** as at 31 March 2018 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 3,007 million, and have increased by 33% compared to 31 December 2017 as a result of higher imported crude and semi-finished products' inventories.
- 13 **Trade receivables** decreased to HRK 1,398 million and remaining at the year level.
- 14 As at 31 March 2018 **total liabilities** amounted to HRK 7,972 million which is 3% or HRK 235 million higher compared to 31 December 2017. INA Group **net debt** decreased by 10% and amounted to HRK 1,254 million compared to 31 December 2017. **Gearing ratio¹** decreased from 10.8% as at 31 December 2017, to 9.8% as at 31 March 2018.
- 15 **Trade payables** increased by 42% to HRK 1,662 million, as a result of higher liabilities for imported crude oil.

CASH FLOW

Notes

- 16 The **operating cash-flow before changes in working capital** amounted to HRK 484 million in Q1 2018 representing a decrease of HRK 100 million compared to Q1 2017, which is in line with the change in EBITDA performance compared to the previous year.
- 17 **Changes in working capital** affected the operating cash flow negatively by HRK 143 million, due to:
- Increased value of inventories by HRK 840 million mainly related to higher imported crude and semi-finished products.
 - Increase in trade and other payables by HRK 664 million as result of higher liabilities for imported crude oil.
 - Decrease in receivables by HRK 33 million as a result of lower sales revenues in Q1 2018 compared to Q1 2017.
- 18 **Net outflows in investing activities** amounted to HRK 251 million, in comparison to HRK 213 million outflows in Q1 2017.

Restatement

INA adjusted its EBITDA methodology and classification between impairment and value adjustment lines to better align the reporting to business reporting standards with EBITDA now being calculated as EBIT + Depreciation, amortization and impairment (net).

¹ Net debt / net debt plus equity incl. minority interests

Special items in operating profit and EBITDA (in HRK mln)

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. In Q1 2018, there were no special items to report.

Financial instruments and risk management

Risk Management procedures of INA Group are described in detail in INA's Consolidated and separate Financial Statements for the year ended 31 December 2017.

As of 31 March 2018 INA had:

- opened short-term forward commodity swap transactions to hedge its exposure to changes in pricing periods, inventory levels and refinery margins
- contracted and available short-term credit lines amounting to HRK 2.19 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 2.59 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 Q1 2018, 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 2018	31 March 2018
Companies available for sale		
JANAF d.d. Zagreb	2	7
Strategic partner		
MOL Nyrt.	51	173
Companies controlled by strategic partner		
Tifon d.o.o.	109	1
MOL SLOVENIJA d.o.o.	12	14
MOL Petrochemical	7	2
MOL-LUB Kft.	1	1
Slovnaft, a.s.	1	44
Mélyfűrészi Zrt.	1	3
MOL Commodity Trading Kft.	-	9
Amounts owed from related parties		
INA-Group	Amounts owed from related parties	Amounts owed to related parties
HRK mln	31 March 2018	31 March 2018
Companies available for sale		
JANAF d.d. Zagreb	1	13
Strategic partner		
MOL Nyrt.	26	53
Companies controlled by strategic partner		
Tifon d.o.o.	72	1
MOL Petrochemicals	7	-
MOL SLOVENIJA d.o.o.	4	7
Slovnaft, a.s.	-	11
Geoinform Kft.	-	3
MOL-LUB Kft.	-	1

Management representation

INA Group's consolidated financial statements for Q1 2018 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 Ratatics	Member