

INA GROUP and

INA - INDUSTRIJA NAFTE, d.d.

**Consolidated and separate
Financial Statements for the year ended
31 December 2018
Together with Independent Auditors' Report**

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Responsibility for the financial statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, which give a true and fair view of the state of affairs and results of INA - Industrija nafte, d.d. ("the Company") and its subsidiaries ("the Group") for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those consolidated and separate financial statements, the responsibilities of the Management Board include ensuring that:


- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed and
- the financial statements are prepared on the going concern basis.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and the Group and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.


Signed on behalf of the Company and the Group:


Sándor Fasimon, President of the Management Board of INA, d.d.


Niko Dalić, member of the Management Board


Ákos Székely, member of the Management Board


Ivan Krešić, member of the Management Board


Davor Mayer, member of the Management Board


Zsolt Pethő, member of the Management Board



INA - Industrija nafte, d.d.
Avenija Većeslava Holjevca 10
10000 Zagreb
Republic of Croatia

13 March 2019

Independent auditor's report

To the Shareholders of INA - Industrija Nafte, d.d.

Report on the audit of the separate and consolidated financial statements

Opinion

We have audited the separate financial statements of INA - Industrija Nafte, d.d. ("the Company"), and consolidated financial statements of INA - Industrija Nafte, d.d. and its subsidiaries (together "the Group"), which comprise the separate and consolidated statement of financial position as at 31 December 2018, the separate and consolidated statement of profit or loss and the separate and consolidated statement of other comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Company and Group as at 31 December 2018 and of its separate and consolidated financial performance and its separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS as adopted by EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report.

We are independent of the Company and Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

Key Audit Matter	How we addressed Key Audit Matter
<p>Estimation of hydrocarbon reserves</p> <p>A description of the key judgements and estimates regarding estimation of hydrocarbon reserves are included in Note 3 Significant accounting judgements and estimates in the separate and consolidated financial statements.</p> <p>The estimation of hydrocarbon reserves is a significant area of judgement due to the technical uncertainty in assessing quantities and complex contractual arrangements dictating the Company's and the Group's share of reportable volumes. Hydrocarbon reserves are also a fundamental indicator of the future potential of the Company's and the Group's performance and these estimates affect significant amounts in the separate and consolidated statement of financial position and the separate and consolidated statement of profit or loss. Therefore we believe that estimation of hydrocarbon reserves is a key audit matter.</p>	<p>Audit procedures included understanding of the process for determination of the hydrocarbon reserves and walkthrough of controls implemented in the process. We also assessed the competence and objectivity of technical experts to evaluate whether they are appropriately qualified to carry out the hydrocarbon reserve volumes estimation. We performed specific inquiry to the management of the Company and the Group in respect of consistency of the applied methodology for reserves estimate with previous year.</p> <p>We performed the test of details and for the significant changes in reserve volumes we tested whether the appropriate methodology was applied, the assumptions used are reasonable and adequately supported by underlying information provided by the management. We also performed analytical procedures on movements in hydrocarbon reserves during the year and reviewed that all significant changes were approved by the "Reserves and Resources Committee" and are in line with our expectations.</p> <p>We also assessed on the adequacy of the disclosures in the separate and consolidated financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>
<p>Impairments of the Company's and the Group's long lived assets</p> <p>Impairments of the Company's and the Group's long lived assets are disclosed in Note 6 Depreciation, amortization and impairment and in respective notes disclosing the underlying assets in the separate and consolidated financial statements; a description of the accounting policy and key judgements and estimates are included in Note 2 Accounting policies and Note 3 Significant accounting judgements and estimates respectively.</p> <p>Movements in oil and gas prices can have a significant effect on the carrying value of the Company's and the Group's long lived assets including upstream offshore and onshore, refining, retail and service related long lived assets as well as goodwill. A significant and rapid drop in prices also quickly impacts the Company's and the Group's operations and cash flows.</p>	<p>We performed understanding of the process and walked through the controls designed and operated by the Company and the Group relating to the assessment of the carrying value of respective long lived assets. We examined the methodology used by management to assess the carrying value of respective long lived assets, to determine its compliance with accounting standards and consistency of application. For the upstream, downstream and retail assets where the impairment indicators were not identified by the Company and the Group we assessed the management's competence in respect of impairment assessment by comparing the assumptions used in prior year to the achieved results in the current year.</p>

Key Audit Matter	How we addressed Key Audit Matter
<p>Impairments of the Company's and the Group's long lived assets (continued)</p> <p>Due to complexity and judgement used in the assessment of impairment indicators and impairment models, impairment of Company's and Group's long lived assets is a key audit matter.</p>	<p>Furthermore, we evaluated the assumptions used in the current year assessment of impairment indicators and tested whether these assumptions are in line with the results achieved in the current year as well as current development in the industry and the Company's and the Group's expectations for the key inputs to the impairment models.</p> <p>In respect of performed impairment tests, we used external data in assessing and corroborating the assumptions used in the impairment analysis, the most significant being future market oil prices and discount rates. We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis, tested the appropriateness of discount rates used in the calculation with the assistance of the specialists and performed procedures to assess the completeness of the impairment charges.</p> <p>We also assessed on the adequacy of the disclosures in the separate and consolidated financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>
<p>Estimation of decommissioning provisions</p> <p>Provisions associated with decommissioning of the assets are disclosed in Note 29 Provisions to the separate and consolidated financial statements; a description of the accounting policy and key judgements and estimates are included in Note 2 Accounting policies and Note 3 Significant accounting judgements and estimates respectively.</p> <p>Management reviews decommissioning provisions on an annual basis. This review incorporates the effects of any changes in local regulations, management's expected approach to decommissioning, cost estimates and discount rates. Decommission assets are recorded in an amount equal to the estimated provision, which is also amortized as part of the capital asset costs. Any change to the present value of the estimated costs is reflected as an adjustment of the provisions and the decommission assets. The calculation of decommissioning provisions requires significant management judgement because of the inherent complexity in estimating future costs and is therefore considered as key audit matter.</p>	<p>Audit procedures involved understanding the mandatory or constructive obligations with respect to the decommissioning of each asset based on the contractual arrangements and relevant local regulation to validate the appropriateness of the cost estimate. We obtained calculation of decommissioning provision from the Company and the Group and tested that all of the fields are included in the calculation, tested the appropriateness of discount rates used in the calculation, tested actual expenses that occurred during the current accounting period, inspected that decommissioning provision for the similar types of assets is in line with the expenses occurred in the current accounting period and assessed that the last year of production is aligned with the evaluation of reserves. As a part of our testing, we considered the competence and objectivity of the Company's and the Group's experts who produced the cost estimates.</p> <p>We also assessed on the adequacy of the disclosures in the separate and consolidated financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>

Other information included in the Company's and the Group's Annual Report for year 2018

Management is responsible for the other information. Other information consists of the information included in the Annual Report which includes the Management report, Corporate Governance Statement and Report on payments to governments, other than the separate and consolidated financial statements and our auditor's report thereon. The Company's and the Group's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the separate and consolidated financial statements does not cover the Other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and Audit Committee for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with IFRSs as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and the Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting

from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were initially appointed as the auditors of the Company by the General Meeting of Shareholders on 24 June 2014 and our uninterrupted engagement has lasted for 5 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 13 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company and its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the separate and consolidated financial statements.

Report on Regulatory requirements

The partner in charge of the audit resulting in this independent auditor's report is Berislav Horvat.

Berislav Horvat, President of the Management Board and certified auditor

Ernst & Young d.o.o.
Radnička cesta 50
10000 Zagreb
Republic of Croatia

13 March 2019

INA - INDUSTRIJA NAFTE, d.d.
INA Group Consolidated Statement of Profit or Loss
For the year ended 31 December 2018
(all amounts are presented in HRK millions)

		Year ended	Year ended
	Note	31 December 2018	31 December 2017
Revenue from contracts with customers	4	22,349	18,582
Capitalised value of own performance		416	327
Other operating income	5	529	174
Total operating income		23,294	19,083
Changes in inventories of finished products and work in progress		365	274
Cost of raw materials and consumables		(12,033)	(9,061)
Depreciation, amortisation and impairment (net)	6	(1,802)	(1,955)
Other material costs		(2,188)	(1,871)
Service costs		(569)	(466)
Staff costs	7	(1,927)	(1,803)
Cost of other goods sold		(3,605)	(2,942)
Impairment charges (net)	8	165	8
Provision for charges and risks (net)	9	(13)	151
Total operating expenses		(21,607)	(17,665)
Profit from operations		1,687	1,418
Finance income	10	54	452
Finance costs	10	(221)	(306)
Net (loss)/gain from financial activities		(167)	146
Profit before tax		1,520	1,564
Income tax expense	11	(343)	(342)
Profit for the year		1,177	1,222
Attributable to:			
Owners of the Company		1,178	1,220
Non-controlling interests		(1)	2
		1,177	1,222
Earnings per share			
Basic and diluted earnings per share (HRK per share)	12	117.75	121.99

The accompanying accounting policies and notes form an integral part of this consolidated statement of profit or loss.

INA - INDUSTRIJA NAFTE, d.d.

INA Group Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

		Year ended	Year ended
	Note	31 December 2018	31 December 2017
Profit for the year		1,177	1,222
Other comprehensive income, net of income tax:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of defined benefit obligation	33	(1)	12
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations	33	29	(143)
Loss on non-current financial assets	32	(154)	(10)
Other comprehensive loss, net of income tax		(126)	(141)
Total comprehensive income for the year		1,051	1,081
Attributable to:			
Owners of the Company		1,052	1,079
Non-controlling interests		(1)	2

The accompanying accounting policies and notes form an integral part of this consolidated statement of other comprehensive income.

INA - INDUSTRIJA NAFTE, d.d.
INA, d.d. Separate Statement of Profit or Loss
For the year ended 31 December 2018
(all amounts are presented in HRK millions)

		Year ended	Year ended
	Note	31 December 2018	31 December 2017
Revenue from contracts with customers	4	21,070	17,578
Capitalised value of own performance		14	10
Other operating income	5	335	413
Total operating income		21,419	18,001
Changes in inventories of finished products and work in progress		364	288
Cost of raw materials and consumables		(11,819)	(8,816)
Depreciation, amortisation and impairment (net)	6	(1,688)	(1,781)
Other material costs		(2,162)	(1,881)
Service costs		(787)	(700)
Staff costs	7	(950)	(909)
Cost of other goods sold		(3,169)	(2,666)
Impairment charges (net)	8	162	18
Provision for charges and risks (net)	9	(17)	146
Total operating expenses		(20,066)	(16,301)
Profit from operations		1,353	1,700
Finance income	10	505	384
Finance costs	10	(201)	(310)
Net gain from financial activities		304	74
Profit before tax		1,657	1,774
Income tax expense	11	(323)	(348)
Profit for the year		1,334	1,426

The accompanying accounting policies and notes form an integral part of this separate statement of profit or loss.

INA - INDUSTRIJA NAFTE, d.d.
 INA, d.d. Separate Statement of Other Comprehensive Income
 For the year ended 31 December 2018
 (all amounts are presented in HRK millions)

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Profit for the year		1,334	1,426
Other comprehensive income, net of income tax:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of defined benefit obligation	33	(1)	11
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations	33	47	(161)
Loss on non-current financial assets	32	(154)	(10)
Other comprehensive loss, net of income tax		(108)	(160)
Total comprehensive income for the year		1,226	1,266

The accompanying accounting policies and notes form an integral part of this separate statement of other comprehensive income.

INA - INDUSTRIJA NAFTE, d.d.
INA Group Consolidated Statement of Financial Position
At 31 December 2018
(all amounts are presented in HRK millions)

ASSETS	Note	31 December 2018	31 December 2017
Non-current assets			
Intangible assets	13	644	570
Property, plant and equipment	14	12,284	12,016
Investments in associates and joint venture	16	150	-
Other investments	17	16	13
Long-term receivables	18	732	96
Deferred tax assets	11	1,199	1,451
Non-current financial assets	19	479	665
Total non – current assets		15,504	14,811
Current assets			
Inventories	20	2,645	2,264
Trade receivables (net)	21,36	1,837	1,393
Other receivables	22	121	210
Corporate income tax receivables		8	10
Other current assets	23	174	139
Marketable securities		27	-
Cash and cash equivalents	24	422	428
		5,234	4,444
Held-for-sale assets		4	8
Total current assets		5,238	4,452
TOTAL ASSETS		20,742	19,263

The accompanying accounting policies and notes form an integral part of this consolidated statement of financial position.

INA - INDUSTRIJA NAFTE, d.d.

INA Group Consolidated Statement of Financial Position (continued)

At 31 December 2018

(all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	Note	31 December 2018	31 December 2017
Capital and reserves			
Share capital	31	9,000	9,000
Legal reserves		99	28
Fair value reserves	32	135	289
Other reserves	33	1,544	1,516
Retained earnings	34	1,036	827
Equity attributable to owners of the Company		11,814	11,660
Non-controlling interest	35	9	(134)
TOTAL EQUITY		11,823	11,526
Non – current liabilities			
Long-term loans	27	4	122
Other non-current liabilities	28	45	52
Employee benefit obligation	30	77	73
Provisions	29	3,462	3,119
Deferred tax liabilities	11	14	14
Total non–current liabilities		3,602	3,380
Current liabilities			
Bank loans	25	1,962	1,581
Current portion of long-term loans	25	125	122
Trade payables	26,36	1,720	1,171
Taxes and contributions	26	612	626
Other current liabilities	26	590	540
Employee benefit obligation	30	5	5
Provisions	29	303	312
Total current liabilities		5,317	4,357
Total liabilities		8,919	7,737
TOTAL EQUITY AND LIABILITIES		20,742	19,263

The accompanying accounting policies and notes form an integral part of this consolidated statement of financial position.

INA - INDUSTRIJA NAFTE, d.d.
INA, d.d. Separate Statement of Financial Position
At 31 December 2018
(all amounts are presented in HRK millions)

ASSETS	Note	31 December 2018	31 December 2017
Non-current assets			
Intangible assets	13	431	408
Property, plant and equipment	14	10,586	10,578
Investment in subsidiaries	15	1,960	1,079
Investments in associates and joint venture	16	150	-
Other investments	17	752	669
Long-term receivables	18	743	105
Deferred tax assets	11	1,089	1,343
Non-current financial assets	19	479	665
Total non-current assets		16,190	14,847
Current assets			
Inventories	20	2,351	2,021
Intercompany receivables	36	256	225
Trade receivables (net)	21,36	1,490	1,118
Other receivables	22	73	144
Corporate income tax receivables		-	1
Other current assets	23	165	494
Marketable securities		27	-
Cash and cash equivalents	24	335	364
Total current assets		4,697	4,367
TOTAL ASSETS		20,887	19,214

The accompanying accounting policies and notes form an integral part of this separate statement of financial position.

INA - INDUSTRIJA NAFTE, d.d.

INA, d.d. Separate Statement of Financial Position (continued)

At 31 December 2018

(all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	Note	31 December 2018	31 December 2017
Capital and reserves			
Share capital	31	9,000	9,000
Legal reserves		99	28
Fair value reserves	32	135	289
Other reserves	33	1,184	1,138
Retained earnings	34	1,934	1,426
TOTAL EQUITY		12,352	11,881
Non-current liabilities			
Long term loans	27	-	122
Other non-current liabilities	28	44	51
Employee benefit obligation	30	33	31
Provisions	29	3,599	3,241
Total non-current liabilities		3,676	3,445
Current liabilities			
Bank loans	25	1,767	1,359
Current portion of long-term loans	25	125	122
Intercompany payables	36	584	495
Trade payables	26,36	1,242	787
Taxes and contributions	26	514	527
Other current liabilities	26	395	374
Employee benefit obligation	30	3	3
Provisions	29	229	221
Total current liabilities		4,859	3,888
Total liabilities		8,535	7,333
TOTAL EQUITY AND LIABILITIES		20,887	19,214

The accompanying accounting policies and notes form an integral part of this separate statement of financial position.

INA - INDUSTRIJA NAFTE, d.d.
INA Group Consolidated Statement of Changes in Equity
For the year ended 31 December 2018
(all amounts are presented in HRK millions)

	Share capital	Legal reserves	Fair value reserves	Other reserves	(Accumulated loss)/ Retained earnings	Attributable to equity holders of the parent	Non controlling interest	Total
Balance at 1 January 2017	9,000	20	299	1,647	(233)	10,733	(136)	10,597
Transfer to legal reserves from retained earnings	-	8	-	-	(8)	-	-	-
Dividend paid	-	-	-	-	(152)	(152)	-	(152)
Subtotal	9,000	28	299	1,647	(393)	10,581	(136)	10,445
Profit for the year	-	-	-	-	1,220	1,220	2	1,222
Other comprehensive loss, net	-	-	(10)	(131)	-	(141)	-	(141)
Total comprehensive (loss)/income for the year	-	-	(10)	(131)	1,220	1,079	2	1,081
Balance at 31 December 2017	9,000	28	289	1,516	827	11,660	(134)	11,526
Opening changes due to effect of IFRS standard changes	-	-	-	-	58	58	-	58
Balance at 1 January 2018	9,000	28	289	1,516	885	11,718	(134)	11,584
Transfer to legal reserves from retained earnings	-	71	-	-	(71)	-	-	-
Dividend paid	-	-	-	-	(812)	(812)	-	(812)
Acquisition of non-controlling interest	-	-	-	-	(144)	(144)	144	-
Subtotal	9,000	99	289	1,516	(142)	10,762	10	10,772
Profit for the year	-	-	-	-	1,178	1,178	(1)	1,177
Other comprehensive (loss)/income, net	-	-	(154)	28	-	(126)	-	(126)
Total comprehensive (loss)/income for the year	-	-	(154)	28	1,178	1,052	(1)	1,051
Balance at 31 December 2018	9,000	99	135	1,544	1,036	11,814	9	11,823

The accompanying accounting policies and notes form an integral part of this consolidated statement of changes in equity.

INA - INDUSTRIJA NAFTE, d.d.
INA, d.d. Separate Statement of Changes in Equity
For the year ended 31 December 2018
(all amounts are presented in HRK millions)

	Share capital	Legal reserves	Fair value reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2017	9,000	20	299	1,288	160	10,767
Transfer to legal reserves from retained earnings	-	8	-	-	(8)	-
Dividend paid	-	-	-	-	(152)	(152)
Subtotal	9,000	28	299	1,288	-	10,615
Profit for the year	-	-	-	-	1,426	1,426
Other comprehensive loss, net	-	-	(10)	(150)	-	(160)
Total comprehensive (loss)/income for the year	-	-	(10)	(150)	1,426	1,266
Balance at 31 December 2017	9,000	28	289	1,138	1,426	11,881
Opening changes due to effect of IFRS standard changes	-	-	-	-	57	57
Balance at 1 January 2018	9,000	28	289	1,138	1,483	11,938
Transfer to legal reserves from retained earnings	-	71	-	-	(71)	-
Dividend paid	-	-	-	-	(812)	(812)
Subtotal	9,000	99	289	1,138	600	11,126
Profit for the year	-	-	-	-	1,334	1,334
Other comprehensive (loss)/income, net	-	-	(154)	46	-	(108)
Total comprehensive (loss)/income for the year	-	-	(154)	46	1,334	1,226
Balance at 31 December 2018	9,000	99	135	1,184	1,934	12,352

The accompanying accounting policies and notes form an integral part of this separate statement of changes in equity.

INA - INDUSTRIJA NAFTE, d.d.
INA Group Consolidated Statement of Cash Flows
For the year ended 31 December 2018
(all amounts are presented in HRK millions)

	Year ended	Year ended
Note	31 December 2018	31 December 2017
Profit for the year	1,177	1,222
Adjustments for:		
Depreciation, amortisation and impairment (net)	1,802	1,955
Income tax expense recognised in profit and loss	343	342
Impairment charges (net)	(165)	(8)
Loss/(gain) on sale of property, plant and equipment	3	(16)
Gain on acquisition of subsidiary	(291)	-
Foreign exchange loss/(gain)	45	(223)
Interest expense (net)	26	45
Other finance costs recognised in profit and loss	58	11
Decrease in provisions	(23)	(155)
Decommissioning interests and other provision	62	21
Net loss on derivative financial instruments	96	48
Other non-cash items	(2)	11
	3,131	3,253
Movements in working capital		
Increase in inventories	(725)	(327)
Increase in receivables and prepayments	(278)	(76)
Increase/(decrease) in trade and other payables	764	(333)
Cash generated from operations	2,892	2,517
Taxes paid	(61)	(33)
Net cash inflow from operating activities	2,831	2,484
Cash flows used in investing activities		
Capital expenditures, exploration and development costs	(1,842)	(1,277)
Payments for intangible assets	(125)	(114)
Proceeds from sale of non-current assets	9	26
Acquisition of subsidiary (net)	(147)	-
Investment in joint venture	(150)	-
Amount related to sale of subsidiary and associates (net)	-	23
Dividends received from companies classified as non-current financial assets and from other companies	1	20
Interest received and other financial income	11	11
Loans and other investments (net)	1	11
Net cash used for investing activities	(2,242)	(1,300)

INA - INDUSTRIJA NAFTE, d.d.
 INA Group Consolidated Statement of Cash Flows (continued)
 For the year ended 31 December 2018
(all amounts are presented in HRK millions)

	Year ended	Year ended
Note	31 December 2018	31 December 2017
Cash flows from financing activities		
Repayment of long-term borrowings	(122)	(129)
Change in short-term borrowings (net)	376	(1,000)
Dividends paid	(812)	(152)
Interest paid on long-term loans	(5)	(8)
Interest paid on short-term loans and other interest charges	(56)	(78)
Net cash used in financing activities	(619)	(1,367)
Net decrease in cash and cash equivalents	(30)	(183)
At 1 January	428	611
Effect of foreign exchange rate changes	24	-
At 31 December	422	428
24		

The accompanying accounting policies and notes form an integral part of this consolidated statement of cash flow.

INA - INDUSTRIJA NAFTE, d.d.
INA, d.d. Separate Statement of Cash Flows
For the year ended 31 December 2018
(all amounts are presented in HRK millions)

	Year ended	Year ended
Note	31 December 2018	31 December 2017
Profit for the year	1,334	1,426
Adjustments for:		
Depreciation, amortisation and impairment (net)	1,688	1,781
Income tax expense recognised in profit and loss	323	348
Impairment charges (net)	(162)	(18)
Gain on sale of property plant and equipment	(7)	(268)
Foreign exchange loss/(gain)	49	(159)
Interest expense/(gain) (net)	6	(3)
Income from reversal of impaired loans	(222)	-
Income from reversal of impaired investment in subsidiaries	(111)	-
Other finance (gain)/costs recognised in profit and loss	(85)	67
Decrease in provisions	(20)	(150)
Decommissioning interests	56	21
Net loss on derivative financial instruments and hedge transactions	96	48
Other non-cash items	4	-
	2,949	3,093
Movements in working capital		
Increase in inventories	(645)	(314)
Increase in receivables and prepayments	(320)	(121)
Increase in trade and other payables	1,022	6
Cash generated from operations	3,006	2,664
Taxes paid	(35)	(13)
Net cash inflow from operating activities	2,971	2,651
Cash flows used in investing activities		
Capital expenditures, exploration and development costs	(1,726)	(1,241)
Payment for intangible assets	(120)	(107)
Proceeds from sale of non-current assets	8	14
Acquisition of subsidiary	(265)	-
Investment in joint venture	(150)	-
Amount related to sale of subsidiary and associates (net)	-	23
Dividends received from companies classified as non-current financial assets and from other companies	1	20
Payments received from subsidiaries	1	-
Interest received and other financial income	51	13
Loans and other investments (net)	(250)	(186)
Net cash used in investing activities	(2,450)	(1,464)

INA - INDUSTRIJA NAFTE, d.d.
 INA, d.d. Separate Statement of Cash Flows (continued)
 For the year ended 31 December 2018
(all amounts are presented in HRK millions)

	Year ended	Year ended
Note	31 December 2018	31 December 2017
Cash flows from financing activities		
Repayment of long-term borrowings	(122)	(129)
Change in short-term borrowings (net)	416	(939)
Dividends paid	(812)	(152)
Interest paid on long-term loans	(5)	(8)
Interest paid on short-term loans and other interest charges	(50)	(75)
Net cash used in financing activities	(573)	(1,303)
Net decrease in cash and cash equivalents	(52)	(116)
At 1 January	364	500
Effect of foreign exchange rate changes	23	(20)
At 31 December	335	364
24		

The accompanying accounting policies and notes form an integral part of this separate statement of cash flow.

1. GENERAL

History and incorporation

INA-Industrija nafte, d.d. was founded on 1 January 1964 through the merger of Naftaplin Zagreb (oil and gas exploration and production company) with the Rijeka Oil Refinery and the Sisak Oil Refinery. Today, INA, d.d. is a medium-sized European oil company with the leading role in Croatian oil business and a strong position in the region in oil and gas exploration, refining and distribution of oil and oil derivatives.

INA-Industrija nafte, d.d. is a joint stock company owned by the Hungarian oil company MOL Nyrt (49.08%), the Republic of Croatia (44.84%) and institutional and private investors (6.08%). On 30 January 2009 MOL Nyrt and the Government of Croatia signed the Amendment to the Shareholders Agreement. Under the Amendment MOL Nyrt delegates five out of the nine members in the Supervisory Board and three out of six members of the Management Board including the President of the Management Board.

The ownership structure* of the INA Group as of 31 December 2018 and 31 December 2017:

	31 December 2018		31 December 2017	
	Number of shares	Ownership in %	Number of shares	Ownership in %
Zagrebačka banka d.d./Unicreditbank Hungary Zrt, for MOL Nyrt, Hungary	4,908,207	49.08	4,908,207	49.08
Government of the Republic of Croatia	4,483,552	44.84	4,483,552	44.84
Institutional and private investors	608,241	6.08	608,241	6.08
	10,000,000	100	10,000,000	100

*Source: Central Depository & Clearing Company Inc.

Principal activities

Principal activities of INA, d.d. and its subsidiaries (the Group) are:

- (i) exploration and production of oil and gas deposits, primarily onshore and offshore within Croatia and other than that INA, d.d. has concessions held abroad: Angola and Egypt;
- (ii) import of natural gas and sale of imported and domestically produced natural gas to industrial consumers and municipal gas distributors;
- (iii) refining and production of oil products through refineries located at Rijeka (Urinj) and Sisak, and Zagreb lubricants plants;
- (iv) distribution of fuels and associated products through a chain of 500 service stations in operation as of 31 December 2018 (of which 384 in Croatia and 116 outside Croatia);
- (v) trading in petroleum products through a network of foreign subsidiaries and representative offices, principally in Sarajevo, Ljubljana and Podgorica; and
- (vi) service activities incidental to onshore and offshore oil extraction through its drilling and oilfield services subsidiary Crosco d.o.o.

1. GENERAL (CONTINUED)

The Group has dominant positions in Croatia over oil and gas exploration and production, oil refining, and the sale of gas and petroleum products. INA, d.d. also holds an 11.795% interest in JANAF d.d., the company that owns and operates the Adria pipeline system.

Headquarter of the Group is located in Zagreb, Avenija V. Holjevska 10, Croatia. As at 31 December 2018 there were 10,842 employees at the Group (10,782 as at 31 December 2017). As at 31 December 2018 there were 4,138 employees at INA, d.d. (4,292 as at 31 December 2017).

The Group comprises a number of wholly and partially owned subsidiaries operating largely within the Republic of Croatia. Foreign subsidiaries include a number of trading subsidiaries that generally act as distributors of INA Group products and as representative offices within their local markets.

Supervisory Board, Management Board and Council of Directors

Supervisory Board

Supervisory Board since 14 June 2017 until 18 December 2020

Damir Vanđelić	President of the Supervisory Board
József Molnár	Vice President of the Supervisory Board
Luka Burilović	Member of the Supervisory Board
Szabolcs I. Ferencz	Member of the Supervisory Board
Ferenc Horváth	Member of the Supervisory Board
Damir Mikuljan	Member of the Supervisory Board
József Simola	Member of the Supervisory Board
László Uzsoki	Member of the Supervisory Board
Jasna Pipunić	Representative of employees in the Supervisory Board

Management Board

Management Board since 1 July 2018 until 30 June 2021

Sándor Fasimon	President of the Management Board
Niko Dalić	Member of the Management Board
Ivan Krešić	Member of the Management Board
Davor Mayer	Member of the Management Board
Zsolt Pethő	Member of the Management Board
Dr Ákos Székely	Member of the Management Board

Council of Directors

Council of Directors appointed by the decision of the Management Board since 1 December 2018 until recall

Gábor Horváth	Chief Financial Officer
Darko Markotić	Operating Director of Consumer Services and Retail; Acting Operating Director of Industrial Services
Stjepan Nikolić	Operating Director of Refining and Marketing
Tvrtko Perković	Operating Director of Exploration and Production

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Presentation of the financial statements

These consolidated and separate financial statements are prepared on the consistent presentation and classification basis. When the presentation or classification of items in the consolidated and separate financial statements is amended, comparative amounts are reclassified unless the reclassification is impracticable.

The Company's and the Group's financial statements are prepared in millions of HRK, which is the Company's functional currency.

Basis of accounting

The Company maintains its accounting records in Croatian language, in Croatian kuna, in accordance with Croatian law and the accounting principles and practices observed by enterprises in Croatia. The accounting records of the Company's subsidiaries in Croatia and abroad are maintained in accordance with the requirements of the respective local jurisdictions.

The Company's and the Group's financial statements are prepared under the historical cost convention, modified by the revaluation of certain assets and liabilities under conditions of hyperinflation in the period to 1993 and except for certain financial instruments that are measured at fair values at the end of each reporting period, and in accordance with International Financial Reporting Standards as adopted by European Union (EU).

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would consider those characteristics when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

The following new standards and amendments to the existing standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee and adopted by the EU are effective for the current period:

- **IFRIC Interpretation 22:** *Foreign currency transaction and advance consideration*, issued on 8 December 2016 (effective date for annual reporting periods beginning on or after 1 January 2018).
- **Amendments to IAS 40:** *Transfers of investment property*, issued on 8 December 2016 (effective date for annual reporting periods beginning on or after 1 January 2018).

2. ACCOUNTING POLICIES (CONTINUED)

Adoption of new and revised International Financial Reporting Standards (continued)

Standards and Interpretations effective in the current period (continued)

- **Amendments to IFRS 2: Classification and measurement of share-based payment transactions**, issued on 20 June 2016 and adopted in EU 26 February 2018 (effective date for annual periods beginning on or after 1 January 2018).
- **IFRS 9 Financial Instruments**, issued in July 2014 the final version that replaced the IAS 39 *Financial Instruments: Recognition and Measurement*, adopted in EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts** issued in September 2016 and adopted in EU 3 November 2017 (effective date for annual periods beginning on or after 1 January 2018).
- **IFRS 15 Revenue from Contracts with Customers**, issued in May 2014, including amendment to IFRS 15. Effective dates of IFRS 15, adopted in EU 22 September 2016 and **Clarifications to IFRS 15 Revenue from Contracts with Customers**, issued in April 2016 and adopted in EU on 31 October 2017 (effective date for annual periods beginning on or after 1 January 2018).

The adoption of these Standards and Interpretations had no significant impact on the financial statements of the Company and the Group. New standards are applied but comparative information has not been restated (e.g. recognising the cumulative effect of applying new standards in the opening balance of equity).

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- **IFRS 16 Leases**, issued in January 2016 replaces accounting treatment for leases and is a major revision of the way in which companies account for leases, adopted in EU on 31 October 2017 (effective date for annual periods beginning on or after 1 January 2019). The standard will affect primarily the accounting for the Companies and the Group operating leases. During 2018, the Company and the Group have performed a detailed impact assessment of IFRS 16 based on review of valid contracts. Estimated impact of IFRS 16 transition on the Company is HRK 380 million and the Group level is around HRK 160 million in terms of increased lease liability and leased assets. The Company and the Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company and the Group has leases of certain office equipment (i.e. personal computers, printing and photocopying machines) that are considered of low value.

2. ACCOUNTING POLICIES (CONTINUED)

Adoption of new and revised International Financial Reporting Standards (continued)

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective (continued)

- **IFRIC Interpretation 23: *Uncertainty over Income Tax Treatments***, issued on 7 June 2017 (effective date for annual reporting periods beginning on or after 1 January 2019).
- **Amendments to IFRS 9: *Prepayment features with negative compensation***, issued on 12 October 2017 (effective date for annual periods beginning on or after 1 January 2019).
- **Amendments to IAS 28: *Long-term interests in associates and joint ventures***, issued on 12 October 2017 (effective date for annual periods beginning on or after 1 January 2019).

The Group does not anticipate that the adoption of these Standards and Interpretations will have a significant impact on the financial statements of the Company and the Group, except for the above-mentioned impact of adoption IFRS 16.

Standards and Interpretations issued by IASB but not yet adopted by the EU

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue by the International Accounting Standards Board but not yet adopted by the EU. The endorsement might be expected in 2019:

- **IFRS 17: *Insurance contracts***, issued on 18 May 2017 to achieve the goal of a consistent, principle-based accounting for insurance contracts (effective date for annual periods beginning on or after 1 January 2021).
- **Annual Improvements Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement***, issued on 7 February 2018 (effective date for annual periods beginning on or after 1 January 2019).
- **Amendments to References to the Conceptual Framework in IFRS Standards**, issued on 29 March 2018 (effective date for annual periods beginning on or after 1 January 2020).
- **Amendment to IFRS 3: *Business Combinations***, issued on 22 October 2018 (effective date for annual periods beginning on or after 1 January 2020).
- **Amendments to IAS 1 and IAS 8: *Definition of Material***, issued on 31 October 2018 (effective date for annual periods beginning on or after 1 January 2020).
- **Annual Improvements to IFRS Standards 2015-2017 Cycle**, issued on 12 December 2017 (effective date for annual periods beginning on or after 1 January 2019).

2. ACCOUNTING POLICIES (CONTINUED)

Investments in subsidiaries in Parent Company financial statement (INA, d.d.)

In the Company's financial statements, investments in subsidiaries are accounted for at cost and reduced for impairment.

Basis of consolidated financial statements (INA Group)

The consolidated financial statements incorporate the financial statements of INA, d.d. (the Company) and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has ability to affect those returns through its power over the investee. The Group controls an investee if, and only if, the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of a control, is accounted for as equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2. ACCOUNTING POLICIES (CONTINUED)

Basis of consolidated financial statements (INA Group) (continued)

The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate.

Legal merger

In a case of legal merger of the companies in the Group, pooling of interest method is applied, balances of company that is merged are carried at net book values to a company, which is legal successor, and no restatements of prior periods are done.

Business combination

Business combinations are accounted for using the acquisition method.

The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

2. ACCOUNTING POLICIES (CONTINUED)

Business combination (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attribute amount of goodwill is included in the determination of the gain or loss on disposal.

Acquisition of entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that ultimately controls the Group are accounted for using pooling of interest accounting at the date of acquisition. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the consolidated financial statements of the parent group. The components of equity of the acquired entities are added to the same components within the Group equity except for issued capital. Consolidated financial statements reflect the results of combining entities from the date of acquisition.

Business combinations under common control are accounted for based on carrying values, with any effects directly recognised in equity.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement and legal entity whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale.

2. ACCOUNTING POLICIES (CONTINUED)

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When the Group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a Group entity transacts with a joint operation in which the Group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

Oil and gas properties

Exploration and appraisal costs

Exploration and appraisal costs are accounted for on the successful efforts method. Costs relating to exploration and appraisal drilling are initially capitalised as intangible oil and gas assets pending determination of the commercial viability of the relevant oil and gas properties.

License and data provision costs and costs associated with geological and geophysical activities are charged to the statement of profit or loss in the period in which they are incurred.

If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are charged to the statement of profit or loss in the period. If the prospects are deemed commercially viable, such costs are transferred to oil and gas properties. Management Board reviews the status of such prospects regularly.

Fields under development

Oil and gas field development costs are capitalised as tangible oil and gas assets.

Depreciation

Capitalised exploration and development costs of producing domestic and foreign oil and gas properties are depreciated using a unit of production method, in the proportion of actual production for the period to the total estimated remaining commercial reserves of the field.

Commercial reserves

Commercial reserves are proved developed oil and gas reserves. Changes in the commercial reserves of fields affecting unit of production calculations are dealt with prospectively over the revised remaining reserves. The Group performed reserves determination in accordance with SPE PRMS (Society of Petroleum Engineers Petroleum Resources Management System) guidelines.

2. ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets acquired separately are capitalized at cost and intangible assets acquired from a business acquisition are capitalized at fair value as at the date of acquisition. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. Amortisation is charged on assets with a finite useful life over the best estimate of their useful lives using the straight line method, except intangible assets on oil and gas fields are charged with a unit of production method. The amortisation period and the amortisation method are reviewed annually at each financial year-end.

Intangible assets are tested for impairment annually either individually or at the cash generating unit level. Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure the cost model is applied requiring the asset to be carried at cost less any accumulated impairment losses. Costs in development stage cannot be amortized. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment are shown at historical cost or valuation less accumulated depreciation and any accumulated impairment loss, except for land, which is stated at cost less any accumulated impairment loss. The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing an asset to its working condition and location for its intended use.

Expenditures incurred after property, plant and equipment have been put into operation are normally charged to statement of profit or loss in the period in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance, the expenditures are capitalised as an additional cost of property, plant and equipment. Costs eligible for capitalisation include costs of periodic, planned significant inspections and overhauls necessary for further operation.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss.

Depreciation, Depletion and Amortisation

Intangible assets and property, plant and equipment in use (excluding oil and gas properties) are depreciated on a straight-line basis on the following basis:

Software	5	years
Buildings	5 - 50	years
Refineries and chemicals manufacturing plants	3 - 15	years
Service stations	30	years
Telecommunication and office equipment	2 - 10	years

The residual values, useful lives and depreciation methods are reviewed at least annually.

2. ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as expenditure, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Finance and operating leases

If fulfilment of an arrangement depends on the use of a specific assets or conveys the right to use the assets, it is deemed to contain a lease element and is recorded accordingly.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Initial direct costs incurred are added to or deducted from the fair value. Lease payments are apportioned between the finance charges and reduction of the lease liability. Finance charges are charged directly against finance expenses.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of profit and loss on a straight-line basis over the lease term.

2. ACCOUNTING POLICIES (CONTINUED)

Receivables from customers

Trade receivables are carried at amortised cost less impairment. Receivables from customers are shown in amounts identified in the invoices issued to the customers in accordance with the agreement, order, delivery note and other documents which serves as basis for invoicing, decreased with impairment of receivables.

Accrued revenues are recorded at the end of reporting period for delivered goods or services if they have not been invoiced yet.

The adoption of IFRS 9 has changed the Company's and the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group recognises an allowance for ECL for all debt instruments not held at fair value through profit or loss and contract assets.

Expected credit loss model is used for calculation of impairment of receivables. The model incorporates forward-looking factors into assessment of impairment. INA Group applies the simplified approach for receivables. This means that allowance for the full lifetime expected credit loss is accounted for upon recognition of the financial instrument.

According to the impairment policy, following events are considered as objective evidence on impairment:

- legal claim against the customer;
- default of the issuer;
- total or partial release of claim;
- claim is under external connection;
- >180 days overdue;
- disappearance of an active market.

The calculation of loss rate:

- in case of performing third party items under simplified approach, loss rates are used to calculate the expected credit loss on these items at initial recognition;
- the loss rate is the arithmetic average of the yearly historical loss rates of the last three years. Upon calculating the historical loss rate for a given year, only receivables originated in given year are considered in the calculation;
- this average of yearly historical loss rates is adjusted by the forward-looking macroeconomic element.

Inventories

Inventories of crude oil, finished and semi-finished products and natural gas are valued as follows:

- Crude oil is carried at the weighted average cost or the production cost. If finished i.e. refined products are impaired, a calculation is used to reduce the crude oil reserve by an aliquot share to its net recoverable amount.
- Finished products are valued at the lower of cost or approximately 96.88% of future average sales price, which approximates the net recoverable amount.

2. ACCOUNTING POLICIES (CONTINUED)

Inventories (continued)

- Semi-finished products are measured using a calculation method, by which they are impaired to the extent that finished products on the basis of actual inventories at the period-end are impaired i.e. when the calculation shows that their net realisable value may not be recovered, by applying the impairment percentage to each individual semi-finished product on stock at the period-end.
- Imported natural gas held in underground storage is valued at the lower of cost, based on the price of imported gas at year-end including transport costs and weighted average sales price based on year-end prices.
- Domestic natural gas held in underground storage is valued at the lower of weighted average sales price and cost.
- Other inventories, which comprise mainly spare parts, materials and supplies, are valued at the lower of cost or valuation and net realisable value.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank, and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Used capitalisation rate for 2018 was 1.19% and for 2017 it was 1.41%.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

The individual financial statements of each Company and the Group entity are prepared in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Croatian kuna (HRK), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In the financial statements of the individual Group entities, transactions in currencies other than the entity's functional currency are translated to the functional currency of entity at the rates of exchange prevailing on the dates of the transactions.

At each statement of financial position date, monetary items denominated in foreign currencies are retranslated to the functional currency of the entity at the rates prevailing on the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2. ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Croatian kuna using exchange rates prevailing on the statement of financial position date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising from year-end translation, if any, are classified as equity and transferred to the Group's other reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

The foreign concessions of INA, d.d. meet the definition of foreign operation and are treated as such.

Business activities of INA, d.d. in Egypt, Angola and in international waters in the North Adriatic Sea (several blocks) are carried out with a significant degree of autonomy so the functional currency is US dollar (USD) except on gas field Isabella where the functional currency is euro (EUR). The total revenue of a foreign operation (from the sale of crude oil and natural gas) is denominated in that currency (USD or EUR), as most of the costs. Capital expenditures are planned and presented in dollars or euros. Although they are not separate legal entities, they meet the definition of a foreign operation in accordance with IAS 21.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Retirement Benefit and Jubilee Costs

For defined benefit plans for retirement and jubilee awards, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each annual reporting period.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment.

2. ACCOUNTING POLICIES (CONTINUED)

Retirement Benefit and Jubilee Costs (continued)

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line item. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans. A liability for a termination benefit is recognised when the entity can no longer withdraw the offer of the termination benefit or when the entity recognises any related restructuring costs.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's and the Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and are accounted for using the statement of financial position liability method.

Deferred tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year and are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred tax assets are recognised where it is more likely than not the assets will be realised in the future. At each date, the Company re-assessed unrecognised deferred tax assets and the carrying amount of deferred tax assets. No deferred tax liability is provided in respect of any future remittance of earnings of foreign subsidiaries where the Group is able to control the remittance of earnings and it is probable that such earnings will not be remitted in the foreseeable future, or where no liability would arise on the remittance.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company and the Group intend to settle its current tax assets and liabilities.

2. ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Current and deferred tax for the period

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax and deferred tax arises from the accounting for a business acquisition, the tax effect is included in accounting for the business combination.

Financial assets

Initial measurement of financial instruments

Financial assets are divided into two main categories, those measured at amortized cost and those measured at fair value. Fair value measurement is further divided into fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVTOCI).

Subsequent measurement of financial assets

Financial assets are classified in four categories:

Financial assets at amortized cost (debt instruments)

A debt instrument that meets the following two conditions is measured at amortized cost:

- Business model test: The financial asset is held to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes), and
- Cash flow characteristics test: The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through other comprehensive income (debt instruments)

A debt instrument that meets the following two conditions must be measured at FVTOCI unless the asset is designated at FVTPL under the fair value option:

- Business model test: The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- Cash flow characteristics test: The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's and the Group's debt instruments at FVTOCI includes only investments in short-term quoted debt marketable securities with very low credit risk.

Financial assets at fair value through profit or loss (debt instruments)

All other debt instruments must be measured at FVTPL (including derivatives).

2. ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Financial assets designated at fair value through other comprehensive income (equity instruments)

Upon initial recognition, the Company and Group can elect to classify irrevocably its equity investments as equity instruments designated at FVTOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

The Company and the Group elected to classify its listed equity investments under this category (see note 39).

Derecognition of financial assets

The basic premise for the derecognition model is to determine whether the asset under consideration for derecognition is:

- an asset in its entirety,
- specifically identified cash flows from an asset (or a group of similar financial assets),
- fully proportionate (pro rata) share of the cash flows from an asset (or a group of similar financial assets), or
- fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

Once the asset under consideration for derecognition has been determined, an assessment is made as to whether the asset has been transferred, and if so, whether the transfer of that asset is subsequently eligible for derecognition.

Impairment

The impairment model is based on the premise of providing for expected losses.

General approach

With the exception of purchased or originated credit impaired financial assets, expected credit losses are measured through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date);
- or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to contract assets or trade receivables that do not constitute a financing transaction in accordance with IFRS 15.

Simplified approach

The Company and the Group apply the simplified approach for the following financial assets: trade receivables, IFRS 15 contract assets and lease receivables. For all other financial instruments, general approach is applied.

Independently of the two approaches mentioned above, the impairment method stayed the same under the new standard in case of financial assets where there is an objective evidence on impairment. These are required to be assessed on a case by case basis. The maximum amount of impairment accounted for by the Company and Group is 100% of unsecured part of the financial asset.

2. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's and the Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company and the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. The Company and the Group do not have financial liabilities at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Company and the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs.

Derecognition of financial liabilities

A financial liability is removed from the statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires.

Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognized in profit or loss.

The Group does not have any financial instrument whose classification has changed as a result of applying IFRS 9 and does not have any instrument that the Group designated upon initial recognition as at fair value through profit or loss in order to reduce a measurement or recognition inconsistency.

Impairment is only accounted for trade receivables. No impairment is recognised on the remaining financial instruments based on materiality, history and expectations.

2. ACCOUNTING POLICIES (CONTINUED)

Segmental information

IFRS 8 *Operating segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Provisions for decommissioning and other obligations

Provisions are recognised when the Company and the Group have a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the discount factor which is calculated as CPI (Consumer Price Index) and real interest rate. When discounting is used, the reversal of such discounting in each year is recognised as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

Provision relating to the decommissioning and removal of assets, such as an oil and gas production facility are initially treated as part of the cost of the related property, plant and equipment. Subsequent adjustments to the provision arising from changes in estimates as decommissioning costs, reserves and production of oil and gas, risk free interest such as discount rate and inflation rate are also treated as an adjustment to the cost of the property, plant and equipment and thus dealt with prospectively in the statement of profit or loss through future depreciation of the asset. Any change to the present value of the estimated costs is reflected as an adjustment of the provisions and the decommission assets.

Provision for emission quotas

Liability for emission is not recognized until the amount of actual emission reaches the amount of quota allocated free of charge. This approach is due to the fact that allocated emission allowances are not recorded as intangibles, their asset value is zero. When actual emission exceeds the amount of emission rights granted, provision should be made on the actual market price for the exceeding emission allowances. It also means that it is not possible to record a provision earlier than the date when emissions reach the amount of allowances granted, nor is it possible to spread the expected shortfall through the calendar years.

Settlement with Government is carried out by offsetting the purchased rights with the provision recorded for the exceeding emissions. Penalty will be accounted for if the shortfall is not covered by purchased quotas.

Provision should be calculated for each installation separately and recorded on emitting segment.

Revenue from Contracts with Customers

Under IFRS 15 the Company and the Group recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company and Group expect to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework.

The Company and the Group consider whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price, the Company and the Group consider the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer.

2. ACCOUNTING POLICIES (CONTINUED)

Revenue from Contracts with Customers (continued)

Presentation and disclosure

Contracts with customers are presented in statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the performance of the Company and the Group and the customer's payment.

A contract liability is presented in the statement of financial position where a customer has paid an amount of consideration prior to the performing by transferring the related good or service to the customer.

Where the Company and the Group have performed the obligation by transferring a good or service to the customer and the customer has not yet paid the related consideration, a contract asset or a receivable is presented in the statement of financial position, depending on the nature of right to consideration. A contract asset is recognised when the Company's and the Group's right to consideration is conditional on something other than the passage of time, for example future performance of the Company and the Group. A receivable is recognised when the Company's and the Group's right to consideration is unconditional except for the passage of time.

Company's and Group's sales contracts generally comprise of only one performance obligation. As such, the Company and the Group do not disclose information about the allocation of the transaction price.

Excise duties

Excise duty is part of amounts collected on behalf of third parties.

Construction – maintenance and service contracts

For each performance obligation satisfied over time, the company and the Group recognizes revenue over time by measuring the progress towards complete satisfaction of that performance obligation. Management elected to use input method of calculating progress (costs incurred to date) in revenue recognition from construction contracts.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements and estimates in applying accounting policies

In the application of the accounting policies, which are described in note 2, Management made certain judgements and estimates that had a significant impact on the amounts reported in the financial statements (irrespective of the underlying estimates referred to below).

The preparation of financial statements in conformity with International Financial Reporting Standards, as adopted by EU requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to employee benefits, impairment of assets, determination of fair values of assets and liabilities, estimated decommissioning costs, environmental provision and provision for legal cases as well as carrying value of investments and given loans to subsidiaries and contract balances. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements when determinable.

These judgements and estimates are provided in detail in the accompanying notes. However, the critical judgements and estimates relate to the following areas:

Consequences of certain legal actions

The Group is involved in number of litigations arisen from the regular course of business. If there is a present obligation as a result of a past event (taking into account all available evidence, including the opinion of law experts) for which it is probable that outflow of resources will be required to settle the obligation and if a reliable estimate can be made of the amount of the obligation, provisions are recorded (see note 29).

Carrying value of property, plant and equipment

The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are expected oil and gas prices, production volumes, operating and capital expenditures, discount rates, period of cash flow projections, as well as assumptions and judgments used in determining cash receipts and payments. The impairment of assets in the consolidated statement of profit or loss amounted to HRK 32 million in 2018 (2017: HRK 145 million).

Carrying value of goodwill

In 2018 and 2017 there was no goodwill impairment (see note 13). The carrying amount of goodwill amounted to HRK 152 million as of 31 December 2018 and 31 December 2017 (see note 13).

Carrying value of intangible exploration and appraisal assets

The carrying amount of intangible exploration and appraisal assets amounted to HRK 229 million as of 31 December 2018 and HRK 201 million as of 31 December 2017 (see note 13). In 2018 impairment amounted of HRK 71 million and in 2017 there was no impairment of intangible exploration and appraisal assets (see note 13).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

Carrying value of production oil and gas assets

The carrying amount of production oil and gas assets amounted to HRK 3,491 million as of 31 December 2018 and HRK 3,794 million as of 31 December 2017 (see note 14). In 2018 the Group recognized impairment in the amount of HRK 32 million (2017: HRK 45 million) (see note 14).

Key assumptions used

Refining and Marketing

INA's management conducted an analysis of potential impairment triggers – whether the key value drivers of the business (market demand, crack spreads, oil price) turned considerably to the worse. The analysis concluded that for Refining and Marketing there is no impairment trigger, therefore no impairment test was performed.

Exploration and Production

Hydrocarbon price outlook, as the key value driver for upstream assets, has improved compared to the reporting period last year, which led to the conclusion that generally there are no impairment indicators for most of INA's upstream asset groups.

During 2018, INA's management identified five onshore fields with negative reserves change compared to 2017 reserves. The change was above -1MMboe which is considered as materiality threshold on asset level (Molve, Kalinovac, Hrastilnica, Ivanić and Žutica) with a total impact of -23.8 MMboe. The volume change for above five fields was identified as a triggering event for impairment testing, which was prepared for each field since they are identified as separate cash generating units. However, these revisions are on the fields with significant production volumes and quite low breakeven prices, so no impairment was recorded as at 31 December 2018.

Investments in Syria

Since 1998 INA, d.d. has had six (6) commercial discoveries on the Hayan Block (Jihar, Al Mahr, Jazal, Palmyra, Mustadira and Mazrur) with significant oil, gas and condensate reserves. INA, d.d. temporarily suspended all business activities in Syria on 26 February 2012 by announcing Force Majeure to comply with the relevant sanctions of the US and the EU.

Current situation

Main production activities have been taken over by Hayan Petroleum Company's local workforce, which INA, d.d. considers illegal.

Company has assessed situation in Syria and identified no material change compared to 2017. EU sanctions remain in place and the political situation has not changed significantly either for the better or worse from INA's investment perspective. INA, d.d. expects similar costs and benefits in case of return to operation of Syrian fields. Therefore, no triggering event for asset impairment was identified in 2018.

In line with the Petroleum Resources Management System (PRMS) rules, and the fact that Syrian assets are under Force Majeure and INA, d.d. has no control for a period of almost 7 years, the reserves are shifted from 2P to 2C category in 2017. No changes in 2018.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

Political developments in Egypt

Concerning the INA, d.d. operations in Egypt the key uncertainty of business is the timing of receivables collection. At 31 December 2018 gross book value of Egyptian General Petroleum Corporation receivables amounted to HRK 212 million out of which HRK 69 million was value adjusted. During 2018, INA, d.d. impaired HRK 72 million of receivables and managed to collect previously value adjusted receivables in the amount of HRK 315 million. Improvement in collection of receivables is due to better market environment in Egypt.

Quantification and determination of the decommissioning obligations for oil and gas properties

Decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to legal and regulatory requirements, new technologies becoming available and experience of decommissioning other assets. The expected timing, scope, expenditure and risk profile may also change. Therefore, significant estimates and assumptions are made in determining decommissioning provisions. The provision estimate requires significant management judgement and is reviewed on annual basis.

Management makes estimates of future expenditure in connection with decommissioning obligations using prices by reference to prior similar activities, as well as other assumptions like the estimated effects of any changes in local regulations, management's expected approach to decommissioning, cost estimates and discount rates. Furthermore, the time determined for the cash flows reflects the current estimates of priorities, technical equipment requirements and urgency of the obligations. The obligation with respect to the decommissioning provision for oil and gas properties amounted to HRK 3,029 million as at 31 December 2018 (31 December 2017: HRK 2,701 million) for INA, d.d. (see note 29).

The level of provisioning for environmental obligations

The applicable regulations, specifically the environmental protection legislation, do not specify the exact scope of activities or technology to be applied in provision based environmental liabilities. Provisions are recognised when the Group has a present obligation (legal or constructive) because of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Generally, the timing of provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. In determining the level of provisions for environmental obligations, the management relies on prior experience and their own interpretation of the related legislation. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure. At 31 December 2018 INA Group recognized environmental provision in the amount of HRK 412 million (2017: HRK 335 million) (see note 29), which covers investigation to determine the extent of contamination at specific site, treatment of accumulated waste generated by former activity, preliminary site investigation with corresponding laboratory analyses, soil excavation and replacement during the reconstruction of service stations. It does not cover the cost of remediation in lack of detailed National regulations.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

Availability of taxable profit against which the deferred tax assets can be utilised

A deferred tax asset is recognized for unused tax losses to the extent that is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning savings. Determining the amount of deferred taxes that can be recognised requires a significant level of judgement, which is based on the probable quantification of the time and level of future taxable profits, together with the future tax planning strategy.

Management believes that deferred tax asset recognized is recoverable. At 31 December 2018 the carrying amount of deferred tax assets of the INA Group amounted to HRK 1,199 million (2017: HRK 1,451 million) and deferred tax liabilities amounted to HRK 14 million at 31 December 2018 (2017: HRK 14 million). At 31 December 2018 the carrying amount of deferred tax assets of INA, d.d. amounted to HRK 1,089 million, (31 December 2017: HRK 1,343 million respectively) (see note 11).

If the Group was able to recognise all unrecognised deferred tax assets, profit and equity would have increased by HRK 31 million at 31 December 2018, (31 December 2017: HRK 62 million).

Actuarial estimates used determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions of discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. Provisions for retirement bonuses and jubilee awards for INA Group amounted to HRK 82 million as at 31 December 2018 (31 December 2017: HRK 78 million), and INA, d.d. amounted to HRK 36 million as at 31 December 2018 (31 December 2017: HRK 34 million) (see note 30).

Useful life of the assets

The INA Group and INA, d.d. review the estimated useful lives of property, plant and equipment at the end of each reporting period. Estimation of useful life is considered to be a significant accounting estimation that effects on the change in depreciation rates. The new review of asset useful life at the end of 2018 had no significant changes compared to the previous estimate.

Hydrocarbon reserves

Exploration and development projects involve many uncertainties and business risks that may give rise to significant expenditures. Exploration and development projects of the Company and the Group may be delayed or unsuccessful for many various reasons, including budgeted cost overrun, geological issues, difficulties in meeting the requirements of competent bodies, lacks of equipment and technical problems. These projects, particularly those pertaining to the wells in continental areas or other demanding terrain, often require deployment of new and advanced technologies, the development, purchase and installation of which may be expensive and that may not operate as expected.

Oil and natural gas exploration and drilling activities are subject to a wide range of inherent risks, including the risk of eruption, deposit damage, loss of control over the wells, perforation, craters, fire and natural disasters.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

Hydrocarbon reserves (continued)

The Company and the Group estimate and report hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. Estimation of hydrocarbon reserves is a significant area of judgement due to the technical uncertainty in assessing quantities and complex contractual arrangements dictating the Company's and the Group's share of reportable volumes.

As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may affect the Company's and the Group's reported financial position and results, which include:

- The carrying value of exploration and evaluation assets; oil and gas properties; property, plant and equipment; and goodwill may be affected due to changes in estimated future cash flows;
- Depreciation and amortization charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the Units of Production (UOP) method, or where the useful life of the related assets change;
- Provisions for decommissioning may require revision where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities;
- The recognition and carrying value of deferred tax assets may change due to changes in the judgments regarding the existence of such assets and in estimates of the likely recovery of such assets.

Carrying value of investments and given loans to subsidiaries (INA, d.d.)

The carrying amount of the investment in subsidiaries amounts to HRK 1,960 million as at 31 December 2018 and HRK 1,079 million as at 31 December 2017. During 2018, a net reversal of impairment in the amount of HRK 107 million was recorded (2017: impairment HRK 34 million). Due to the significance exposure to subsidiaries (calculated as the sum of carrying value of investment and given loans, net) the existence of impairment indicators requires significant Management judgment in determining the appropriate approach for testing impairment.

The carrying amount of loans granted to subsidiaries amounts to HRK 755 million as at 31 December 2018 and HRK 1,257 million at 31 December 2017. During 2018, INA, d.d. collected previously impaired loan given to subsidiary Energopetrol d.d and recorded reversal of impairment in the amount of HRK 222 million.

Contract balances

	<u>INA Group</u>		<u>INA, d.d.</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Trade receivables	1,837	1,393	1,490	1,118
Contract asset	2	-	-	-
Contract liabilities	28	26	-	-

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

Contract balances (continued)

Trade receivables are non-interest bearing and are generally on terms of 3 to 30 days. The acquisition of a subsidiary resulted in increase in trade receivables of HRK 29 million in 2018 (note 40). In 2018, HRK 1 million (2017: 3 HRK million) was recognised as impairment for expected credit losses on trade receivables.

Contract assets are initially recognised for revenue earned from construction services as receipt of consideration is conditional on successful completion of construction. Upon completion of construction services and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables.

Contract liabilities include short-term advances received for construction services in amount of HRK 28 million in 2018 as well as HRK 26 million in 2017. The remaining performance obligations are expected to be recognised in following year.

Due to non-material amount, these categories are not presented in separate line in statement of financial position. Contract assets are presented in line other current asset while contract liabilities are presented in line other current liabilities in statement of financial position.

Contract assets and contract liabilities are not presented in separate line in statement of financial position because they are not considered to be significant for the Company and the Group. Contract assets are presented in line other current asset while contract liabilities are presented in line other current liabilities in statement of financial position.

Performance obligations

Revenue from the sale and transportation of crude oil, natural gas, petroleum products and other merchandise is recognised when the customer obtains control of the goods, which is normally when title passes to the customer and the customer takes the physical possession, based on the contractual terms of the agreements.

Sales agreements mainly represent one performance obligation and the Company and the Group principally satisfies its performance obligations at a point in time.

Reclassification position of profit and loss

In 2018 INA Group and INA, d.d. 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 plus Depreciation, amortization and impairment (net). The effect of reclassification of account of profit and loss are as follows:

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Reclassification position of profit and loss (continued)

INA Group

	2017 before reclassification	Impairment of tangible asset	2017 reclassified
Impairment charges (net)	(143)	151	8
Depreciation, amortisation and impairment (net)	(1,804)	(151)	(1,955)
Total	(1,947)	-	(1,947)

INA, d.d.

	2017 before reclassification	Impairment of tangible asset	2017 reclassified
Impairment charges (net)	(30)	48	18
Depreciation, amortisation and impairment (net)	(1,733)	(48)	(1,781)
Total	(1,763)	-	(1,763)

In 2018 INA Group and INA, d.d. reclassified negative non-hedging commodity derivative from other operative income to other material cost. The effect of reclassification of account of profit and loss are as follows:

INA Group

	2017 before reclassification	Non-hedging commodity derivative	2017 reclassified
Other operating income	126	48	174
Other material costs	(1,823)	(48)	(1,871)
Total	(1,697)	-	(1,697)

INA, d.d.

	2017 before reclassification	Non-hedging commodity derivative	2017 reclassified
Other operating income	365	48	413
Other material costs	(1,833)	(48)	(1,881)
Total	(1,468)	-	(1,468)

4. SEGMENT INFORMATION

The INA Group operates through three core business segments. The strategic business segments offer different products and services. Reporting segments, which in INA Group represent business operations, have been defined along value chain standard for the oil companies:

- Exploration and Production - exploration, production and selling of crude oil;
- Refining and Marketing - crude oil processing, wholesale of refinery products, selling of natural gas, selling of fuels and commercial goods in retail stations and logistics; and
- Corporate and other - in addition to the core segments above, the operations of INA Group provides services for core activities.

Information regarding the results of each reportable segment is included below. Profit from operations is used to measure performance, as management believes that such information is the most relevant in evaluating the result of certain segments. However, Group financing (including finance costs and finance income) and income taxes are managed on Group basis and are not relevant to making business decisions at the level of business segments.

Intersegment transfer represents the effect of unrealized profit arising in respect of transfers of inventories from Exploration and Production to Refining and Marketing. Evaluation of inventories of domestic crude, finished and semi-finished products in Refining and Marketing is based on the transfer price from Exploration and Production to Refining and Marketing. Elimination of unrealized profit (difference between transfer price and cost of domestic crude) is performed through intersegment transfer. 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.

4. SEGMENT INFORMATION (CONTINUED)

The following table presents information on revenues and expenditures of INA Group operations for 2018:

	Exploration and Production	Refining and Marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
2018					
Sales to external customers	358	21,375	616	-	22,349
Intersegment sales	3,829	45	1,213	(5,087)	-
Total revenue	4,187	21,420	1,829	(5,087)	22,349
Operating expenses, net of other operating income	(1,931)	(21,578)	(2,111)	4,958	(20,662)
Profit/(loss) from operations	2,256	(158)	(282)	(129)	1,687
Net finance loss					(167)
Profit before tax					1,520
Income tax expense					(343)
Profit for the year					1,177

The following table presents information on revenues and expenditures of INA Group operations for 2017:

	Exploration and Production	Refining and Marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
2017					
Sales to external customers	348	17,848	386	-	18,582
Intersegment sales	3,412	151	1,065	(4,628)	-
Total revenue	3,760	17,999	1,451	(4,628)	18,582
Operating expenses, net of other operating income	(2,174)	(17,634)	(1,879)	4,523	(17,164)
Profit/(loss) from operations	1,586	365	(428)	(105)	1,418
Net finance gain					146
Profit before tax					1,564
Income tax expense					(342)
Profit for the year					1,222

INA - INDUSTRIJA NAFTE, d.d.
Notes to the financial statements (continued)
For the year ended 31 December 2018
(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

The following table presents information of financial position of INA Group operations for 2018:

31 December 2018	Exploration and Production	Refining and Marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Assets and liabilities					
Intangible assets	265	103	276	-	644
Property, plant and equipment	5,228	6,069	1,385	(398)	12,284
Investments in associates and joint venture	-	150	-	-	150
Inventories	196	2,538	246	(335)	2,645
Trade receivables, net	218	1,583	420	(384)	1,837
Not allocated assets					3,182
Total assets					20,742
Trade payables	306	1,339	459	(384)	1,720
Not allocated liabilities					7,199
Total liabilities					8,919
Other segment information					
Property, plant and equipment	581	1,057	119	(61)	1,696
Intangible assets	68	13	40	-	121
Capital expenditure:	649	1,070	159	(61)	1,817
Depreciation, amortisation and impairment (net)	1,031	577	194	-	1,802
Impairment charges (net)	225	(78)	9	9	165

* See note 8

The following table presents information of financial position of INA Group operations for 2017:

31 December 2017	Exploration and Production	Refining and Marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Assets and liabilities					
Intangible assets	238	59	273	-	570
Property, plant and equipment	5,329	5,607	1,418	(338)	12,016
Inventories	148	2,177	206	(267)	2,264
Trade receivables, net	62	1,266	375	(310)	1,393
Not allocated assets					3,020
Total assets					19,263
Trade payables	325	788	369	(311)	1,171
Not allocated liabilities					6,566
Total liabilities					7,737
Other segment information					
Property, plant and equipment	584	698	68	(47)	1,303
Intangible assets	34	15	41	-	90
Capital expenditure:	618	713	109	(47)	1,393
Depreciation, amortisation and impairment (net)	1,116	568	271	-	1,955
Impairment charges (net)	(66)	45	10	3	(8)

* See note 8

4. SEGMENT INFORMATION (CONTINUED)

BY GEOGRAPHICAL

INA Group

31 December 2018	Republic of				Other countries	Total
	Croatia	Egypt	Angola	Syria		
Intangible assets	459	1	-	-	184	644
Property, plant and equipment	10,910	131	82	255	906	12,284
Investments in joint venture	150	-	-	-	-	150
Inventories	2,491	7	7	-	140	2,645
Trade receivables, net	1,145	157	-	-	535	1,837
Not allocated assets						3,182
Total assets						20,742
Other segment information						
Property, plant and equipment	1,416	78	9	-	193	1,696
Intangible assets	115	1	-	-	5	121
Capital expenditure:	1,531	79	9	-	198	1,817

INA Group

31 December 2017	Republic of				Other countries	Total
	Croatia	Egypt	Angola	Syria		
Intangible assets	389	-	-	-	181	570
Property, plant and equipment	10,750	94	87	248	837	12,016
Inventories	2,135	8	-	-	121	2,264
Trade receivables, net	884	52	-	-	457	1,393
Not allocated assets						3,020
Total assets						19,263
Other segment information						
Property, plant and equipment	1,178	18	3	-	104	1,303
Intangible assets	84	-	-	-	6	90
Capital expenditure:	1,262	18	3	-	110	1,393

4. SEGMENT INFORMATION (CONTINUED)

INA Group

	<i>Revenues from external customers</i>	
	2018	2017
Republic of Croatia	12,289	10,352
Bosnia and Hercegovina	2,966	2,238
Switzerland	2,142	700
Great Britain	1,030	1,676
Italy	789	656
Other countries	3,133	2,960
	22,349	18,582

INA, d.d.

	<i>Revenues from external customers</i>	
	2018	2017
Republic of Croatia	12,207	10,257
Bosnia and Hercegovina	2,538	1,845
Switzerland	2,127	698
Great Britain	1,027	1,669
Italy	789	656
Other countries	2,382	2,453
	21,070	17,578

Information about major customers

In 2018 and 2017 there was no single customer which would contribute to 10% or more of Group's revenue.

5. OTHER OPERATING INCOME

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Gain on acquisition*	291	-	103	-
Income from rental activities	46	40	43	43
Income from revaluation of emission quotas	44	3	44	3
Surpluses	27	16	29	19
Penalty interest from customers	25	11	25	10
Commission fee and charges	14	14	13	13
Fee for sales of goods	11	-	11	-
Payment in kind	8	8	7	8
Profit from sale of assets	4	21	12	11
Income from tax refund	-	13	-	13
Income from sale of asset to subsidiary	-	-	-	261
Other	59	48	48	32
Total	529	174	335	413

*Please see note 40 for more details on gain recognised on acquisition.

6. DEPRECIATION, AMORTISATION AND IMPAIRMENT (NET)

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Depreciation of property, plant and equipment (note 14 b)	1,639	1,758	1,533	1,688
Impairment of tangible and intangible assets (net) (note 13 and 14)	103	145	103	45
Amortisation of intangible assets (note 13)	47	46	46	45
Write-off PP&E, net	13	6	6	3
	1,802	1,955	1,688	1,781

7. STAFF COSTS

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Net payroll	1,010	965	486	476
Tax and contributions for pensions and health insurance	657	615	348	334
Other payroll related costs	260	223	116	99
	1,927	1,803	950	909

INA Group and INA, d.d. employs the following number of employees, the majority of whom work within the Republic of Croatia:

	INA Group		INA, d.d.	
	2018	2017	2018	2017
	Number of employees	Number of employees	Number of employees	Number of employees
Refining and Marketing	6,227	6,132	2,422	2,445
Corporate and other	3,445	3,438	592	636
Exploration and Production	1,170	1,212	1,124	1,211
	10,842	10,782	4,138	4,292

8. IMPAIRMENT CHARGES (NET)

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Impairment of inventory, net	85	60	78	52
Impairment of trade receivables, net*	(259)	(77)	(246)	(77)
Other impairment, net	9	9	6	7
	(165)	(8)	(162)	(18)

*see note 3

9. PROVISIONS FOR CHARGES AND RISKS (NET)

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Provision for emission rights	82	11	82	11
Provision/(utilisation) of provision for legal claims	5	(22)	(7)	(29)
Utilisation of provision for incentives	(6)	(2)	(4)	(10)
(Utilisation)/provision for environmental liabilities	(13)	13	(6)	12
Provision for renewable energy	(39)	115	(39)	115
Utilisation of provision for retirement and jubilee benefits	-	(5)	-	(2)
Reversal of provision for Angolan taxes	-	(249)	-	(249)
Other provisions	(16)	(12)	(9)	6
	13	(151)	17	(146)

10. FINANCE INCOME AND FINANCE COST

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Foreign exchange gains from loans and cash	26	247	19	160
Foreign exchange gains from trade receivables and payables	17	179	1	130
Reversal of impairment from investment	6	-	111	-
Interest received and other financial income	4	6	32	54
Dividends received	1	20	-	20
Profit allocation received from subsidiaries	-	-	120	20
Reversal of impairment from loans given to subsidiaries	-	-	222	-
Finance income	54	452	505	384
Interest expense	90	51	92	51
Foreign exchange losses from trade receivables and payables	61	88	43	18
Fees on bank loans	29	25	28	24
Foreign exchange losses from loans and cash	27	115	23	113
Foreign exchange losses from provisions	7	-	7	-
Interest for long-term loans	5	8	5	8
Interest expense regarding legal cases	3	21	3	21
Capitalized borrowing costs	(3)	(3)	(3)	(3)
Impairment of investment in subsidiaries and interest from subsidiaries	-	-	-	77
Other financial costs	2	1	3	1
Finance costs	221	306	201	310
Net (loss)/gain from financial activities	(167)	146	304	74

11. TAXATION

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Deferred tax charge related to origination and reversal of temporary differences	286	319	287	341
Current tax expense	57	23	36	7
Income tax expense	343	342	323	348

Tax on profit generated in Croatia is determined by applying the rate of 18 percent, on pre-tax profit for the year.

Income taxes are recorded on the basis of estimated taxable income in accordance with the fiscal laws prevailing in the country in which they originate. INA, d.d. is subject to corporate income tax on its taxable profits in Croatia.

The income tax, determined on the basis of the accounting profit, is assessed as follows:

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Profit before tax	1,520	1,564	1,657	1,773
Expense tax calculated at 18%	274	281	298	319
Effect of different tax rates of entities operating in other jurisdictions	45	13	36	13
Adjustment of deferred tax assets as a result of new estimation of utilization	42	32	2	15
Tax effect of permanent differences	(17)	22	(13)	7
Tax effect of previous years	(1)	(6)	-	(6)
Income tax expense	343	342	323	348

Deferred tax assets and liabilities are measured by applying tax rates to be implemented in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or put into effect at the end of the reporting period.

Movements in deferred tax assets are set out in the following table:

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

11. TAXATION (CONTINUED)

INA Group	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Tax losses	Deferred taxes on fair value	Total
Balance at 1 January 2017	52	1,238	(441)	174	164	577	(8)	1,756
Charge directly to equity	-	-	-	(3)	2	-	-	(1)
Reversal of temporary differences	(7)	(22)	(97)	(72)	(10)	(245)	-	(453)
Origination of temporary differences	2	31	-	57	26	19	-	135
Balance at 31 December 2017	47	1,247	(538)	156	182	351	(8)	1,437
Charge directly to equity	-	-	-	-	34	-	-	34
Reversal of temporary differences	(4)	(21)	(97)	(56)	(55)	(207)	-	(440)
Origination of temporary differences	23	48	-	66	13	4	-	154
Balance at 31 December 2018	66	1,274	(635)	166	174	148	(8)	1,185

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

11. TAXATION (CONTINUED)

INA, d.d.	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Tax losses	Total
Balance at 1 January 2017	42	1,230	(442)	162	118	574	1,684
Charge directly to equity	-	-	-	(3)	2	-	(1)
Reversal of temporary differences	(2)	(17)	(96)	(66)	(6)	(245)	(432)
Origination of temporary differences	1	31	-	48	12	-	92
Balance at 31 December 2017	41	1,244	(538)	141	126	329	1,343
Charge directly to equity	-	-	-	-	34	-	34
Reversal of temporary differences	(2)	(19)	(97)	(49)	(55)	(208)	(430)
Origination of temporary differences	22	45	-	59	12	4	142
Balance at 31 December 2018	61	1,270	(635)	151	117	125	1,089

12. EARNINGS PER SHARE

	INA Group	
	31 December 2018	31 December 2017
Basic and diluted earnings per share (HRK per share)	117.75	121.99
Earnings	INA Group	
	31 December 2018	31 December 2017
Earnings used in the calculation of total basic earnings per share	1,178	1,220
	1,178	1,220
Number of shares	INA Group	
	31 December 2018	31 December 2017
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share (in millions)	10	10

On 27 June 2018 Regular Shareholders' Assembly of INA, d.d. was held and decision on dividend pay-out in amount of HRK 812 million was voted (HRK 81.20 per share) and in 2017 it was HRK 152 million (HRK 15.20 per share).

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

13. INTANGIBLE ASSETS

INA Group	Oil and gas properties	Software	Patents, Licences and other rights	Intangible assets under construction	Goodwill	Total
Balance at 1 January 2017	197	128	32	27	152	536
Additions	22	-	-	68	-	90
Amortisation	-	(42)	(4)	-	-	(46)
Foreign exchange translation of foreign operations	(18)	-	-	-	-	(18)
Emission allowances (net)	-	-	8	-	-	8
Transfer	-	45	-	(45)	-	-
Balance at 31 December 2017	201	131	36	50	152	570
Additions	64	-	-	57	-	121
Amortisation	-	(44)	(3)	-	-	(47)
Impairment of assets under construction	(71)	-	-	-	-	(71)
Acquisition of subsidiary	48	-	-	-	-	48
Foreign exchange translation of foreign operations	(12)	-	-	-	-	(12)
Emission allowances (net)	-	-	49	-	-	49
Transfer	(1)	35	10	(58)	-	(14)
Balance at 31 December 2018	229	122	92	49	152	644

In 2018, INA Group impaired asset under construction in amount of HRK 71 million. In 2017, there was no impairment of intangible asset of oil and gas properties at INA Group.

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

13. INTANGIBLE ASSETS (CONTINUED)

INA, d.d.	Oil and gas properties	Software	Patents, Licences and other rights	Intangible assets under construction	Total
Balance at 1 January 2017	197	126	31	26	380
Additions	22	-	-	61	83
Amortisation	-	(42)	(3)	-	(45)
Foreign exchange translation of foreign operations	(18)	-	-	-	(18)
Transfer	-	45	-	(45)	-
Emission allowances (net)	-	-	8	-	8
Balance at 31 December 2017	201	129	36	42	408
Additions	64	-	-	52	116
Amortisation	-	(44)	(2)	-	(46)
Impairment of assets under construction	(71)	-	-	-	(71)
Foreign exchange translation of foreign operations	(12)	-	-	-	(12)
Emission allowances (net)	-	-	49	-	49
Transfer	(1)	36	3	(51)	(13)
Balance at 31 December 2018	181	121	86	43	431

13. INTANGIBLE ASSETS (CONTINUED)

Goodwill

Investment of Croscos, d.o.o. in Rotary Zrt. Hungary

	INA Group	
	2018	2017
Cost	296	296
Accumulated impairment losses	(144)	(144)
Net book value	152	152

During 2018 and 2017 goodwill relating to the company Rotary Zrt. was tested for impairment and the test showed that the impairment is not required.

The recoverable amount of Rotary Zrt. business as at 31 December 2018, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by Company management covering a five-year period. The discount rate applied to cash flow projections is 8.6% (7.6% used in 2017) and cash flows beyond the five-year period are prepared taking into consideration utilization days of Rotary's assets, average daily rates based on past experience and future predictions in the projected period. Expenses are determined also in relation to the utilization of the assets.

It was concluded that the fair value has reached net book value (NBV) of goodwill recognized in books and impairment has not been charged.

The calculation of Rotary's net present value is most sensitive to the following assumptions:

- Daily rates
- Utilization
- Discount rates
- Employee cost.

Change in the estimates of these premises would influence the net present value (NPV) of the CGU, having an impact on the amount of impairment recognized in relation to Rotary's net realisable value.

Forecast daily rate prices and utilization days are based on management's estimates and available market data. Discount rates represent the current market assessment of the risks specific to Rotary Zrt., taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates.

INA - INDUSTRIJA NAFTE, d.d.
Notes to the financial statements (continued)
For the year ended 31 December 2018
(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT

a) By business operations

INA Group

	Exploration and Production	Refining and Marketing	Corporate and other	Total
Balance at 31 December 2017				
Cost	38,522	21,775	5,897	66,194
Accumulated depreciation	33,371	16,242	4,565	54,178
Net book value	5,151	5,533	1,332	12,016
Balance at 31 December 2018				
Cost	44,603	22,516	5,953	73,072
Accumulated depreciation	39,591	16,543	4,654	60,788
Net book value	5,012	5,973	1,299	12,284

INA, d.d.

	Exploration and Production	Refining and Marketing	Corporate and other	Total
Balance at 31 December 2017				
Cost	38,791	20,586	1,610	60,987
Accumulated depreciation	33,473	15,578	1,358	50,409
Net book value	5,318	5,008	252	10,578
Balance at 31 December 2018				
Cost	39,259	21,304	1,629	62,192
Accumulated depreciation	34,335	15,890	1,381	51,606
Net book value	4,924	5,414	248	10,586

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type

INA Group

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
At cost							
Balance at 1 January 2017	34,397	12,489	14,108	2,303	38	2,193	65,528
Additions	-	-	-	-	-	1,303	1,303
Change in capitalised decommissioning costs	199	-	-	-	-	-	199
Foreign exchange translation of foreign operations	(141)	-	-	-	-	-	(141)
Assets put in use, Transfer	708	161	253	45	5	(1,173)	(1)
Transfer from assets held for sale	-	-	8	-	-	-	8
Disposals	(23)	(367)	(188)	(61)	-	(62)	(701)
Reclassification between categories	(1)	(40)	(44)	85	4	(4)	-
Currency translation	-	(3)	(5)	(1)	-	-	(9)
Other	-	(1)	5	4	-	-	8
Balance at 31 December 2017	35,139	12,239	14,137	2,375	47	2,257	66,194
Additions	-	-	-	-	-	1,696	1,696
Change in capitalised decommissioning costs	(32)	-	-	-	-	-	(32)
Foreign exchange translation of foreign operations	29	-	-	-	-	-	29
Assets put in use, Transfer	441	292	406	124	-	(1,256)	7
Acquisition of subsidiary	4,970	721	52	4	-	1	5,748
Transfer to assets held for sale	-	(12)	136	(2)	-	-	122
Share capital increase of subsidiary	-	(11)	-	(1)	-	-	(12)
Disposals	(43)	(49)	(289)	(45)	-	(93)	(519)
Currency translation	-	(101)	(61)	(1)	-	(1)	(164)
Other	-	-	-	3	-	-	3
Balance at 31 December 2018	40,504	13,079	14,381	2,457	47	2,604	73,072

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA Group

Accumulated depreciation	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Balance at 1 January 2017	30,328	8,903	11,293	2,200	25	206	52,955
Charge for the year	1,022	248	414	69	-	-	1,753
Impairment (net)	(3)	-	98	2	-	-	97
Impairment of assets under construction	48	-	-	-	-	-	48
Transfer	(22)	12	14	(1)	5	(9)	(1)
Transfer from asset held from sale	-	-	8	-	-	-	8
Disposals	(23)	(359)	(184)	(58)	-	(61)	(685)
Reclassification between categories	(5)	57	(126)	(65)	13	126	-
Currency translation	-	(1)	(3)	-	-	(1)	(5)
Other	-	-	4	4	-	-	8
Balance at 31 December 2017	31,345	8,860	11,518	2,151	43	261	54,178
Charge for the year	905	244	405	78	-	-	1,632
Change in capitalised decommissioning costs	(5)	-	-	-	-	-	(5)
Impairment (net)	(4)	-	-	-	-	-	(4)
Impairment of assets under construction	36	-	-	-	-	-	36
Transfer	-	-	4	-	-	(11)	(7)
Acquisition of subsidiary	4,778	665	48	4	-	(3)	5,492
Transfer from assets held for sale	-	(8)	128	(2)	-	-	118
Share capital increase of subsidiary	-	(11)	-	(1)	-	-	(12)
Disposals	(43)	(25)	(290)	(43)	-	(93)	(494)
Currency translation	1	(89)	(54)	(2)	-	-	(144)
Other	-	(1)	(3)	2	-	-	(2)
Balance at 31 December 2018	37,013	9,635	11,756	2,187	43	154	60,788

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA Group

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Carrying amount							
Balance at 31 December 2018	3,491	3,444	2,625	270	4	2,450	12,284
Balance at 31 December 2017	3,794	3,379	2,619	224	4	1,996	12,016

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
At cost							
Balance at 1 January 2017	34,499	10,534	11,143	1,879	38	2,349	60,442
Additions	-	-	-	-	-	1,269	1,269
Change in capitalised decommissioning costs	214	-	-	-	-	-	214
Foreign exchange translation of foreign operations	(141)	-	-	-	-	-	(141)
Assets put in use	728	177	210	42	-	(1,157)	-
Transfers	(22)	5	13	-	5	(2)	(1)
Disposals	(23)	(530)	(147)	(41)	-	(62)	(803)
Other	-	1	4	2	-	-	7
Balance at 31 December 2017	35,255	10,187	11,223	1,882	43	2,397	60,987
Additions	-	-	-	-	-	1,559	1,559
Change in capitalised decommissioning costs	(29)	-	-	-	-	-	(29)
Foreign exchange translation of foreign operations	29	-	-	-	-	-	29
Capital increase from transfer of assets to subsidiary	-	(15)	(1)	-	-	-	(16)
Assets put in use	442	208	353	95	-	(1,098)	-
Transfers	-	-	14	-	-	(8)	6
Disposals	(42)	(15)	(163)	(31)	-	(93)	(344)
Other	-	1	-	(2)	-	1	-
Balance at 31 December 2018	35,655	10,366	11,426	1,944	43	2,758	62,192

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumpti on assets	Assets under construction	Total
Accumulated depreciation							
Balance at 1 January 2017	30,346	7,587	9,331	1,643	35	331	49,273
Charge for the year	1,045	203	375	60	-	-	1,683
Impairment (net)	(3)	-	-	-	-	-	(3)
Impairment of assets under construction	48	-	-	-	-	-	48
Transfers	(22)	11	12	2	5	(9)	(1)
Disposals	(22)	(335)	(141)	(38)	-	(62)	(598)
Other	-	1	4	2	-	-	7
Balance at 31 December 2017	31,392	7,467	9,581	1,669	40	260	50,409
Charge for the year	914	181	363	68	-	-	1,526
Change in capitalised decommissioning costs	(5)	-	-	-	-	-	(5)
Impairment (net)	(4)	-	-	-	-	-	(4)
Impairment of assets under construction	36	-	-	-	-	-	36
Capital increase of subsidiary	-	(11)	-	(1)	-	-	(12)
Transfers	-	-	3	1	-	(11)	(7)
Disposals	(42)	(13)	(158)	(31)	-	(93)	(337)
Other	1	1	-	(2)	-	-	-
Balance at 31 December 2018	32,292	7,625	9,789	1,704	40	156	51,606

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumpti on assets	Assets under construction	Total
Carrying amount							
Balance at 31 December 2018	3,363	2,741	1,637	240	3	2,602	10,586
Balance at 31 December 2017	3,863	2,720	1,642	213	3	2,137	10,578

I) Oil and gas reserves

The ability of INA Group and INA, d.d. to realise the net book value of oil and gas properties (see 14 b) above) in the future is dependent upon the extent to which commercially recoverable oil and gas reserves are available. During 2018, Exploration and Production performed assessment of the quantities of the Company's remaining proved developed oil and gas reserves which were commercially recoverable.

II) Ownership of land and buildings

Due to political developments in Croatia since 1990, certain local municipal land registers have not been fully established. The Company is in the process of registering of ownership, through the local courts in Croatia. Until the date of issuing of these financial statements, no claims have been made against the Company concerning its title to these assets.

III) Collective consumption assets

Collective consumption assets refers to domestic residential accommodation for the workforce of the company and some of its subsidiaries.

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

IV) Carrying value of property, plant and equipment

The Management Board performed identification and assessment of indicators in accordance with IAS 36. Impairment test was performed on assets where indicators of impairment have been identified. The total net impairment charge of INA Group is HRK 103 million in 2018 (2017: HRK 145 million).

- a) Exploration and Production recorded an impairment of property, plant and equipment in amount of HRK 103 million in 2018 (compared to impairment in amount of HRK 45 million in 2017):
- o Dry wells impairment of HRK 107 million was recorded on Božica HRK 60 million, Bunjani 2 South HRK 33 million, Drava II HRK 14 million (2017: dry wells impairment of HRK 48 million (Iva Duboka))
 - o Reversal of impairment of decommissioning assets in amount of HRK 4 million (2017: HRK 3 million).

Assumed hydrocarbon prices are based on stable expectations above 70 USD/bbl in middle-term periods (after 2021) while at 31 December 2017 the expectations were based on 50 USD/bbl. Therefore, impairment indicators in respect of hydrocarbon prices were not identified and no year-end impairment test were prepared.

However, impairment indicators were identified on five onshore fields with negative reserves change compared to 2017 reserves, i.e. -1 MMboe change on Molve, Kalinovac, Hrastilnica, Ivanić and Žutica with a total impact of 23.8 MMboe. Impairment tests were prepared for each field since they are identified as separate cash generating units. However, these revisions are on the fields with significant production volumes and quite low breakeven prices, so no impairment was recorded as at 31 December 2018.

- b) Since no impairment indicators were identified, impairment test for Refining and Marketing was not performed and no impairment or reversal of impairment of property, plant and equipment in 2018, neither in 2017 were recorded.
- c) Corporate and other recorded no impairment or reversal of impairment of property, plant and equipment in 2018, compared to 2017 when impairment was in amount of HRK 100 million regarding Labin platform. Impairment test of the Labin platform was triggered by low utilization of the asset. The test was based on planned rig utilization in the coming years and showed no need for additional impairment in 2018.

Discount rates used in the current assessment in 2018 and for 2017 are assets specific and are as follows:

	2018	2017
Exploration and Production		
Croatia	8.5%	9.1%
Syria	17.0%	17.6%
Egypt	12.0%	13.6%
Angola	12.0%	13.6%
Refining and Marketing		
Croatia	9.5%	9.1%
Bosnia and Herzegovina	12.0%	11.6%

A risk factor is included the discount rates considering the risk of each country (see note 3).

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

V) Review of the residual value

The Group has reviewed the residual value for depreciation purposes to reflect the changes in the definition of the residual value provided in IAS 16 and no need for any adjustment to the residual values related to the current or prior periods has been established. Useful life of decommissioning assets have been adjusted to reflect the economic life of fields.

VI) Held-for-sale assets

Management expects that sales transactions will be closed within the following twelve months.

	INA Group	
	31 December 2018	31 December 2017
Held-for-sale assets		
Property, plant and equipment	4	8
Assets classified held-for-sale	4	8

15. INVESTMENTS IN SUBSIDIARIES (in separate financial statement of INA, d.d.)

	INA, d.d.	
	31 December 2018	31 December 2017
Investments in subsidiaries	1,960	1,079
	INA, d.d.	
	2018	2017
Investments in subsidiaries at 1 January	1,079	805
ENERGOPETROL d.d. - share capital increase	496	-
INA Adria B.V. - investment	265	-
STSI, Integrirani tehnički servisi d.o.o. - reversal of impairment	39	-
INA SLOVENIJA d.o.o., - reversal of impairment	30	-
CROPLIN d.o.o. - reversal of impairment	25	-
CROSCO, naftni servisi d.o.o. - reversal of impairment	24	-
INA CRNA GORA d.o.o. - reversal of impairment	18	-
Holdina d.o.o. Sarajevo - share capital increase	13	-
Holdina d.o.o. Sarajevo - reversal of impairment	7	-
Hostin d.o.o. - reversal of impairment	7	-
PETROL d.d. RIJEKA - reversal of impairment	2	-
INA Maloprodajni servisi d.o.o. - reversal of impairment	1	-
Adrigas S.r.l. Milano - reversal of impairment	1	-
ENERGOPETROL d.d. - impairment	(47)	-
CROSCO, naftni servisi d.o.o. - impairment	-	(34)
CROSCO, naftni servisi d.o.o.- share capital increase	-	433
STSI, Integrirani tehnički servisi d.o.o. - share capital decrease	-	(40)
Hostin d.o.o. - share capital decrease	-	(15)
INA MAZIVA d.o.o. - share capital decrease	-	(70)
Total as of 31 December	1,960	1,079

15. INVESTMENTS IN SUBSIDIARIES (in separate financial statement of INA, d.d.) (CONTINUED)

The following portfolio changes were recorded in 2018:

At 9 March 2018 Commercial Court in Sarajevo, registered the increase of share capital in HOLDINA Sarajevo d.o.o. by entering ownership of five properties. Properties in INA d.d. books were written off by net book value in amount HRK 4 million, while Holdina Sarajevo's share increased by the appraised value in amount of HRK 13 million. The difference of HRK 9 million was recognized within other operating income.

At 18 April 2018 Commercial Court in Sarajevo, registered the increase of share capital in ENERGOPETROL d.d. in the amount of HRK 496 million by issuing new 10,480,000 shares. In accordance with this transaction, INA d.d. increased investment from 67.02% to 88.66% in ENERGOPETROL d.d.

At 15 November 2018 INA, d.d. acquired the investments of ENI B.V. in the amount of HRK 265 million, and the company changed its name to INA Adria B.V. By acquiring investment at INA Adria, INA, d.d. has become the sole owner of INAgip, a company that has changed its name to INA Jadran d.o.o. and is continuing to operate as the joint operation.

In 2018, based on using discounted cash flow method for valuation of investment in subsidiaries, INA, d.d. recognised reversal of impairment of investment in amount of HRK 107 million. Impairment of investments and reversal of impaired investment are recorded in INA Group companies as presented in the table above.

The following portfolio changes were recorded in 2017:

At 20 January 2017 Commercial Court in Zagreb registered the decrease of share capital in STSI d.o.o. in the amount of HRK 40 million.

At 23 January 2017 Commercial Court in Zagreb registered the decrease of share capital in HOSTIN d.o.o. in the amount of HRK 15 million.

At 6 February 2017 Commercial Court in Zagreb registered the decrease of share capital in INA MAZIVA d.o.o. in the amount of HRK 70 million.

At 20 July 2017 Commercial Court in Zagreb registered the increase of share capital in CROSCO d.o.o. in the amount of HRK 433 million.

In 2017 INA, d.d., increased share in Energopetrol by 0.0179%. by purchase of shares.

At 31 December 2017, the Company recognized an impairment of investment in Crosco d.o.o. in the amount of HRK 34 million based on comparison of shares value and value of net assets of Crosco Group.

At 7 July 2017, Crosco d.o.o. liquidated CROSCO International d.o.o. Slovenia. Before the liquidation, Crosco d.o.o. held 100% of share capital in CROSCO International d.o.o.

During 2017, Crosco d.o.o. has established a new company Crosco Ukraine LLC with ownership of 100%.

The Company has the following principal subsidiaries (*subsidiary owned directly by the Company):

15. INVESTMENTS IN SUBSIDIARIES (in separate financial statement of INA, d.d.) (CONTINUED)

The name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			31 December 2018	31 December 2017
<i>Oilfield services</i>				
*CROSCO, naftni servisi d.o.o.	Oilfield services	Croatia	100%	100%
Crosco B.V.	Oilfield services	Netherland	100%	100%
NORDIC SHIPPING LIMITED	Lease of drilling platforms	Marshall Islands	100%	100%
SEA HORSE SHIPPING Inc	Lease of drilling platforms	Marshall Islands	100%	100%
Rotary Zrt.	Oilfield services	Hungary	100%	100%
CROSCO UKRAINE LLC.	Oilfield services	Ukraine	100%	100%
CROSCO International d.o.o.	Oilfield services	Bosnia and Herzegovina	100%	100%
Crosco S.A. DE C.V.	Oilfield services	Mexico	99.90%	99.90%
<i>Oil exploration and production</i>				
*INA Naftaplin International Exploration and Production Ltd	Oil exploration and production	Guernsey	100%	100%
*INA ADRIA B.V. (former ENI CROATIA B.V.)	Extraction of natural gas	Netherland	100%	-
INA Jadran d.o.o. (former INAgip d.o.o.)	Extraction of natural gas	Croatia	100%	50%
<i>Tourism</i>				
*Hostin d.o.o.	Asset management, tourism	Croatia	100%	100%
<i>Ancillary services</i>				
*STSI Integrirani tehnički servisi d.o.o.	Technical services	Croatia	100%	100%
*Top Računovodstvo Servisi d.o.o.	Accounting services	Croatia	100%	100%
*Plavi tim d.o.o.	Informatics service	Croatia	100%	100%
<i>Production and trading</i>				
*INA MAZIVA d.o.o.	Production and lubricants trading	Croatia	100%	100%
<i>Trading</i>				
*INA Slovenija d.o.o. Ljubljana	Foreign trading	Slovenia	100%	100%
*INA BH d.d. Sarajevo	Foreign trading	Bosnia and Herzegovina	100%	100%
*Holdina d.o.o. Sarajevo	Foreign trading	Bosnia and Herzegovina	100%	100%
*INA d.o.o. Beograd	Foreign trading	Serbia	100%	100%
*INA Kosovo d.o.o.	Foreign trading	Kosovo	100%	100%
*Adrigas S.r.l. Milano	Pipeline project company	Italy	100%	100%
*INA Crna Gora d.o.o. Podgorica	Foreign trading	Montenegro	100%	100%
*PETROL d.d.	Trading	Croatia	100%	100%
*CROPLIN d.o.o.	Production of gas, distribution network of gas	Croatia	100%	100%
*INA Maloprodajni servisi d.o.o.	Trade agency in the domestic and foreign market	Croatia	100%	100%
*ENERGOPETROL d.d.	Retail (oil and lubricant)	Bosnia and Herzegovina	88.66%	67.02%
*INA BL d.o.o. Banja Luka	Trading	Bosnia and Herzegovina	100%	100%

15. INVESTMENTS IN SUBSIDIARIES (in separate financial statement of INA, d.d.) (CONTINUED)

At 31 December 2018 and 31 December 2017 Croplin d.o.o. had 9.1% ownership in Energo d.o.o. Rijeka and 40% ownership in Plinara Istočne Slavonije d.o.o. Vinkovci.

16. INVESTMENTS IN ASSOCIATES AND JOIN VENTURE

Name of company	Activity	Proportion of ownership	INA Group		INA, d.d.	
			31 December 2018	31 December 2017	31 December 2018	31 December 2017
Terra mineralna gnojiva d.o.o.	Purchase and sale of goods, performing	50.00%	150	-	150	-
Elektrometal d.d.	Gas distribution	30.75%	-	-	-	-
			150	-	150	-

Based on the Share Purchase Agreement signed by INA, d.d. and SOL S.p.A. Monza on 9 October 2017, the entire share (37.21%) of INA, d.d in SOL-INA was sold for HRK 24 million.

The Company has interests in other entities as follows:

Name of company	Activity	Place of incorporation and operation	INA Group and INA, d.d.	
			31 December 2018	31 December 2017
Hayan Petroleum Company*	Operating company (oil exploration, development and production)	Damascus, Syria	50%	50%
TERME Zagreb d.o.o.	Recreation and medical tourism	Zagreb, Croatia	50%	50%
INAgip d.o.o. Zagreb*	Exploration and production gas operator	Zagreb, Croatia	-	50%
ED INA d.o.o. Zagreb*	Research, development and hydrocarbon production	Zagreb, Croatia	50%	50%
Marina Petroleum Company *	Exploration and production oil operator	Cairo, Egypt	50%	50%
TERRA MINERALNA GNOJIVA d.o.o.	commercial mediation on domestic and foreign markets	Zagreb, Croatia	50%	-
Belvedere d.d.	Hotel trade	Dubrovnik, Croatia	31.80%	31.80%
ELEKTROMETAL d.d	Installing and mounting works, production of fire-proof elements, gas distribution	Bjelovar, Hrvatska	30.75%	30.75%

*investments that are joint operations in INA, d.d. and INA Group

After 15 November 2018, INAgip is reclassified from investments in associates and joint venture to investments in subsidiaries since INA, d.d. acquired 100% investments in INA Adria B.V.

16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (CONTINUED)

The following table summarises, in aggregate, the financial information of all individually non-material associates in which the Group has interests:

	INA Group and INA, d.d.	
	31 December 2018	31 December 2017
Aggregate carrying amount of the interests in these associates	-	-
The Group's share of profit from interest in non individually material associates	-	-
The Group's share of other comprehensive income	-	-
The Group's share of total comprehensive income	-	-

At 2 July 2018, based on the Commercial Court decision, Terra mineralna gnojiva d.o.o. was incorporated. INA, d.d. has 50% ownership of Terra mineralna gnojiva d.o.o. and participated with an investment of HRK 50,000.00 in share capital.

At 31 October 2018, INA, d.d. and Prvo plinarsko društvo d.o.o. as investors signed the Recapitalization Agreement on Petrokemija d.d. with CERP as a representative of the Republic of Croatia. INA, d.d. and Prvo plinarsko društvo d.o.o. paid HRK 300 million (HRK 150 million each), for 30,000,000 Petrokemija's shares after which they became majority owners of Petrokemija d.d., holding more than 50% of the share capital and respective management rights. The transaction was conducted through INA's and PPD's joint venture company Terra mineralna gnojiva d.o.o., which operates the company in accordance with the signed Shareholders' Agreement.

As at 31 December 2018, two months result share of INA d.d. and Group, in Petrokemija Group, is not included in INA Group financial statements.

16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (CONTINUED)

Summarised statements of financial position of Terra mineralna gnojiva d.o.o. - consolidated

	Petrokemija d.d.
Place of business	Kutina; Hrvatska
Percentage of interests	54.00%
	31 October 2018*
Current assets	854
Non-current assets	719
Current liabilities	(645)
Non-current liabilities	(612)
	31 October 2018*
Operating income	-
Operating expense	-
Total comprehensive income/(loss) for the year	-
Group' share in profit/(loss)	-
	31 December 2018
Group's share of net assets	
Investments in joint venture	150
Impairment	-
Group's carrying amount of the interest, net	150

* based on the latest available information from October 2018

At 17 March 2017, INA, d.d. acquired a share of 30.75% in the amount of HRK 8 million in Elektrometal d.d. based on the pre-bankruptcy settlement. At the same time, shares of Elektrometal were impaired in full amount.

	Elektrometal d.d.
Place of business	Bjelovar; Hrvatska
Percentage of interests	30.75%
	18 September 2017*
Current assets	28
Non-current assets	39
Current liabilities	147
Non-current liabilities	-
Operating income	87
Profit for the year	16
Total comprehensive gain for the year	16
Group' share of profit	-
	31 December 2018
Group's share of net assets	
Investments in associates	8
Impairment	(8)
Group's carrying amount of the interest, net	-

* based on the latest available public information from September 2017

17. OTHER INVESTMENTS

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Financial assets at fair value through profit or loss	9	6	7	6
Deposits	7	7	7	7
Long-term loans given to subsidiaries	-	-	738	656
	16	13	752	669

In total, the amount of long-term loans relates to given loans to subsidiaries (see note 36).

18. LONG-TERM RECEIVABLES AND OTHER ASSETS

INA Group	31 December 2018	31 December 2017
Receivables from long-term contracts	436	-
Prepayments for property, plant and equipment	181	15
Receivables for apartments sold	49	60
Prepayments for intangible assets	25	21
Other long-term receivables	41	-
	732	96

INA, d.d.	31 December 2018	31 December 2017
Receivables from long-term contracts	436	-
Prepayments for property, plant and equipment	180	13
Receivables for apartments sold	49	60
Prepayments for intangible assets	25	21
Long-term receivables from related party	12	11
Other long-term receivables	41	-
	743	105

Prior to 1996, the Company sold apartments it owned to its employees as provided by the laws of the Republic of Croatia. The properties were generally sold on credit and the related housing receivables are repayable on monthly instalments over periods of 20-35 years. The amounts payable to Croatian state, accounting for 65% of the value of sold apartments, are included in other non-current liabilities (see note 28). The receivables are secured with mortgage over the sold apartments. The principle is presented in the receivable amounts. The amounts do not include the interest portion.

19. NON-CURRENT FINANCIAL ASSETS

Equity instruments available-for-sale

Name of the Company	% shareholding held by INA, d.d.	Activity	INA Group and INA, d.d.	
			31 December 2018	31 December 2017
Jadranski Naftovod d.d.	11.795%	Pipeline ownership and operations	321	321
OMV Slovenia d.o.o. Koper	7.75%	Oil trading	31	31
Plinara d.o.o. Pula	49.00%	Distribution and oil trading	17	17
BINA-FINCOM d.d. Zagreb	5.00%	Construction of highways and other roads, airfields airports	12	12
HOC Bjelolasica d.o.o. Ogulin	7.17%	Operations of sports facilities	5	5
Total cost			386	386
Fair value adjustment of Jadranski Naftovod d.d.			110	298
Fair value adjustment of Plinara d.o.o. Pula			-	(2)
Fair value adjustment of HOC Bjelolasica d.o.o. Ogulin			(5)	(5)
Fair value adjustment of BINA-FINCOM d.d. Zagreb			(12)	(12)
Total value adjustment			93	279
			479	665

As explained in note 36, a substantial portion of the trading income of JANAF d.d. is derived from INA, d.d.

The value of equity share in JANAF was reported by reference to the market value of a share as quoted on the Zagreb Stock Exchange as of 31 December 2018. The net book value of the equity investment in JANAF decreased by HRK 187.8 million compared to the balance as of 31 December 2017 due to decrease in the market value of the JANAF shares on Zagreb Stock Exchange. The market value of the shares (118,855 shares) as of 31 December 2018 amounted to HRK 3,620 per share (31 December 2017: HRK 5,200 per share).

20. INVENTORIES

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Refined products	907	693	860	646
Work in progress	558	549	556	548
Crude oil	516	580	516	579
Merchandise	246	117	173	66
Raw material	222	152	156	104
Spare parts, materials and supplies	196	173	90	78
	2,645	2,264	2,351	2,021

As of 31 December 2018 and 2017, inventories were measured at the lower of cost or net realizable value.

21. TRADE RECEIVABLES, NET

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Trade receivables	2,332	2,238	1,829	1,791
Impairment of trade receivables	(495)	(845)	(339)	(673)
	1,837	1,393	1,490	1,118

Receivables classified as performing are impaired by using the ECL rate. The effect of impairment losses using ECL for performing receivables of 0,11% is HRK 1 million in 2018 and effect on retain earning for 2017 amount of HRK 2 million (ECL: 0,31%).

The Company and the Group are continuing to assess the recoverability for receivables classified as non-performing according to the accounting policy. The effect of the transition is recognized in retained earnings in amount of HRK 58 million.

21. TRADE RECEIVABLES, NET (CONTINUED)

Impairment of trade receivables:

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Balance at beginning of the year	787	1,085	616	843
Impairment losses recognised on receivables	80	192	77	190
Amounts written off as uncollectible	(64)	(92)	(61)	(39)
Reversal of impairment on amounts recovered	(308)	(340)	(293)	(321)
Balance at end of the year	495	845	339	673

The ageing analysis of impaired trade receivables:

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
less than 180 days	1	60	1	58
181-365 days	63	105	62	105
366+ days	431	680	276	510
	495	845	339	673

Trade receivables, net balance of INA Group above also includes related party receivables of HRK 193 million as of 31 December 2018 (2017: HRK 167 million) with related party entities out of INA Group (see note 36).

22. OTHER RECEIVABLES

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Foreign concessions receivables	52	60	52	60
Tax prepayments	25	115	1	63
Prepayment receivables	11	1	3	1
Employees receivables	5	3	1	2
Other receivables	28	31	16	18
	121	210	73	144

23. OTHER CURRENT ASSET

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Positive fair value of derivatives	113	62	113	62
Prepayments for customs, duties and other charges	48	46	31	31
Short-term loans and deposits	5	6	3	3
Accrued income	1	5	1	5
Current portion of long terms loans	-	-	15	598
Loan impairment	-	-	-	(223)
Other	7	20	2	18
	174	139	165	494

24. CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Demand deposits are placed within financial institutions that can be withdrawn on demand, without prior notice being required or a penalty being charged.

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Demand deposit	382	312	304	257
Deposits until three months	4	60	-	59
Cash on hand	36	56	31	48
Cash and cash equivalents in statement of financial position	422	428	335	364
Cash and cash equivalents in statement of cash flows	422	428	335	364

25. BANK LOANS AND CURRENT PORTION OF LONG-TERM LOANS

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bank loans	1,962	1,581	1,767	1,359
Current portion of long-term loans	125	122	125	122
	2,087	1,703	1,892	1,481

25. BANK LOANS AND CURRENT PORTION OF LONG-TERM LOANS (CONTINUED)

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Unsecured bank loans in EUR	1,119	923	1,079	882
Unsecured bank loans in USD	600	489	588	477
Unsecured bank loans in HRK	243	143	100	-
Unsecured bank loans in HUF	-	26	-	-
	1,962	1,581	1,767	1,359

The most significant short-term loans as at 31 December 2018 are credit facilities with the first class banks with the purpose of financing purchases of crude oil and petroleum products ("trade finance"), framework agreements concluded with domestic banks for granting loans, issuing bank guarantees and opening letters of credits, as well as short-term credit lines with foreign creditors.

Short-term loans are contracted as multicurrency lines with variable interest rates. INA, d.d. loans are unsecured and majority of them do not contain financial covenants.

In order to secure INA Group subsidiaries short-term credit facilities, INA, d.d. issued corporate guarantees.

26. TRADE PAYABLES, TAXES AND CONTRIBUTIONS AND OTHER CURRENT LIABILITIES

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Trade payables	1,720	1,171	1,242	787
Production and sales and other taxes payable	556	573	485	499
Payroll payables	149	131	95	83
Accrued bonuses	120	114	73	70
Negative fair value of derivatives	92	65	92	65
Payroll taxes and contributions	56	53	29	28
Advance payments	55	66	38	62
Accrued unused holiday	47	44	23	24
Mining fee	35	43	35	43
Contract liabilities	28	26	-	-
Accrued expenses	5	3	-	-
Accrued interest for long-term loans	3	5	3	4
Other	56	43	36	23
	2,922	2,337	2,151	1,688

The management considers that the carrying amount of trade payables approximates their fair values.

Trade payables, net balance also includes payables of HRK 164 million as of 31 December 2018 (2017: HRK 149 million) with related party entities out of INA Group (see note 36).

26. TRADE PAYABLES, TAXES AND CONTRIBUTIONS AND OTHER CURRENT LIABILITIES (CONTINUED)

Accruals for unused holiday is determined based on actual data (number of employees, unused days, payroll) taken into calculation.

27. LONG-TERM LOANS

Long-term loans are denominated in different foreign currencies and are subject to different interest rates. Long-term loans of INA, d.d. are unsecured and the majority of these loans contain financial covenants which are fulfilled.

The outstanding loans of the Group are analysed as follows:

Purpose of the loan	Loan currency	31 December 2018	31 December 2017
Project financing	USD, EUR	125	244
		125	244
Due within one year		(125)	(122)
Total long-term loans INA, d.d.		-	122
Obligation under finance lease		4	-
Other long-term loans INA Group	EUR, USD, HUF, HRK	-	-
		4	-
Due within one year		-	-
Total long-term loans INA Group		4	122

INA Group	Weighted	Weighted	31 December 2018	31 December 2017
	average interest rate	average interest rate		
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	%	%		
Bank loans in USD	4.01	2.95	98	190
Bank loans in EUR	1.23	1.23	27	54
Obligation under finance lease			4	-
Total			129	244
Payable within one year			(125)	(122)
Total long-term loans			4	122

27. LONG-TERM LOANS (CONTINUED)

INA, d.d.	Weighted	Weighted	31 December 2018	31 December 2017
	average interest rate	average interest rate		
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	%	%		
Bank loans in USD	4.01	2.95	98	190
Bank loans in EUR	1.23	1.23	27	54
Total			125	244
Payable within one year			(125)	(122)
Total long-term loans			-	122

The maturity of the loans may be summarised as follows:

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Current portion of long-term debt	125	122	125	122
Payable within one to two years	4	122	-	122
Total	129	244	125	244

The movement in long-term loans during the year is summarized as follows:

	INA Group	INA, d.d.
Balance at 1 January 2017	406	406
New borrowings	-	-
Amounts repaid	(129)	(129)
Foreign exchange losses	(33)	(33)
Balance at 31 December 2017	244	244
Payable within one year (included within bank loans – note 25)	122	122
Payable after more than one year	122	122
Balance at 1 January 2018	244	244
New borrowings	-	-
Finance lease	4	-
Amounts repaid	(122)	(122)
Foreign exchange losses	3	3
Balance at 31 December 2018	129	125
Payable within one year (included within bank loans – note 25)	125	125
Payable after more than one year	4	-

27. LONG-TERM LOANS (CONTINUED)

The principal long-term loans outstanding at 31 December 2018 and loans agreements in 2018 were as follows:

EBRD

In 2010, INA, d.d. signed a long-term loan agreement with EBRD in the amount of EUR 160 million with alternative withdrawal in USD. The purpose of the loan is finalization of the first phase of the modernization of Sisak and Rijeka Refineries. In 2014 an amendment agreement was signed by which terms for the remaining outstanding amount are more favourable and maturity was prolonged until 2019. In 2018 an amendment agreement was signed by which terms are more favourable for the remaining outstanding amount.

ING BANK N.V., LONDON BRANCH

In 2018 INA, d.d. signed a long-term multi-currency revolving credit facility agreement for general corporate purposes in the amount of USD 300 million. Lenders are banking groups represented by both international and domestic banks. The Agent is ING Bank N.V., London Branch. Maturity of the credit facility is 3 years with an option for 1+1 year extension.

MOL Group

In 2018 INA, d.d. signed an amendment to the intragroup long-term multi-currency revolving loan agreement for general corporate purposes provided from MOL Group in the amount of USD 100 million and with loan agreement maturity of 3 years.

Reconciliation of liabilities arising from financing activities

The table below details changes in the liabilities arising from financial activities, including both cash and noncash changes, and for which the INA Group and INA, d.d. assess to be materially significant. Liabilities arising from financial activities are those for which cash flows were, or future cash flows will be, classified in the consolidated and standalone statements of cash flows as cash flows from financial activities.

INA Group

	1 January 2018	Cash flow	Foreign exchange movement	Changes in fair values	Other	31 December 2018
Short-term loans	1,703	387	(3)	-	-	2,087
Long-term loans	122	(122)	-	-	4	4
Dividend payable	-	(812)	-	-	812	-
Derivatives	65	62	-	(36)	-	91
Total liabilities	1,890	(485)	(3)	(36)	816	2,182

INA, d.d.

	1 January 2018	Cash flow	Foreign exchange movement	Changes in fair values	Other	31 December 2018
Short-term loans	1,481	408	4	-	-	1,893
Loans from related parties	184	10	-	-	-	194
Long-term loans	122	(122)	-	-	-	-
Dividend payable	-	(812)	-	-	812	-
Derivatives	65	62	-	(36)	-	91
Total liabilities	1,852	(454)	4	(36)	812	2,178

27. LONG-TERM LOANS (CONTINUED)

INA Group

	1 January 2017	Cash flow	Foreign exchange movement	Changes in fair values	Other	31 December 2017
Short-term loans	2,841	(1,002)	(136)	-	-	1,703
Long-term loans	271	(129)	(20)	-	-	122
Dividend payable	-	(152)	-	-	152	-
Derivatives	64	(19)	-	20	-	65
Total liabilities	3,176	(1,302)	(156)	20	152	1,890

INA, d.d.

	1 January 2017	Cash flow	Foreign exchange movement	Changes in fair values	Other	31 December 2017
Short-term loans	2,618	(1,004)	(133)	-	-	1,481
Loans from related parties	250	64	-	-	(130)	184
Long-term loans	271	(129)	(20)	-	-	122
Dividend payable	-	(152)	-	-	152	-
Derivatives	64	(19)	-	20	-	65
Total liabilities	3,203	(1,240)	(153)	20	22	1,852

Compliance with loan agreements

During 2018 INA Group members and INA, d.d repaid all of their liabilities in respect of loans (principal, interest and fees) on a timely basis, and there were no instances of default or delinquency.

28. OTHER NON-CURRENT LIABILITIES

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Liabilities to Government for sold apartments	26	33	26	33
Deferred income for sold apartments	3	4	3	4
Other long-term liabilities	16	15	15	14
	45	52	44	51

The long-term payable to the government relates to obligation arising on the sale of housing units to employees under the government program (see note 18). According to the law, 65% of the proceeds from the sale of apartments to employees were payable to the state when the proceeds were collected by the Company and the Group. According to the law, INA, d.d. has no liability to remit the funds unless and until they are collected from the employee.

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

29. PROVISIONS

INA Group	Decommissioning charges	Environmental provision	Legal claims	Renewable energy provision	Redundancy costs	Provision for Angolan tax	Other	Total
Balance at 1 January 2017	2,328	308	159	-	19	275	329	3,418
Charge for the year	-	42	41	115	11	-	5	214
Effect of change in estimates	199	24	-	-	-	(26)	(33)	164
Interest	11	4	-	-	-	-	5	20
Provision utilised/reversed during the year	-	(43)	(63)	-	(13)	(249)	(17)	(385)
Balance at 31 December 2017	2,538	335	137	115	17	-	289	3,431
Increase related to acquisition of subsidiary	311	-	-	-	-	-	-	311
Charge for the year	-	151	42	32	11	-	18	254
Effect of change in estimates	(63)	4	-	-	-	-	-	(59)
Interest	53	8	-	-	-	-	-	61
Provision utilised/reversed during the year	-	(86)	(38)	(72)	(17)	-	(20)	(233)
Balance at 31 December 2018	2,839	412	141	75	11	-	287	3,765

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

29. PROVISIONS (CONTINUED)

INA, d.d.	Decommissioning charges	Environmental provision	Legal claims	Renewable energy provision	Redundancy costs	Provision for Angolan tax	Other	Total
Balance at 1 January 2017	2,475	296	66	-	16	275	303	3,431
Charge for the year	-	41	20	115	-	-	5	181
Effect of change in estimates	210	24	-	-	-	(26)	(33)	175
Interest	16	4	-	-	-	-	5	25
Provision utilised/reversed during the year	-	(42)	(49)	-	(10)	(249)	-	(350)
Balance at 31 December 2017	2,701	323	37	115	6	-	280	3,462
Increase related to acquisition of subsidiary	333	-	-	-	-	-	-	333
Charge for the year	-	151	18	32	-	-	11	212
Effect of change in estimates	(61)	8	-	-	-	-	-	(53)
Interest	56	8	-	-	-	-	5	69
Provision utilised/reversed during the year	-	(82)	(25)	(72)	(4)	-	(12)	(195)
Balance at 31 December 2018	3,029	408	30	75	2	-	284	3,828

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Analysed as:				
Current liabilities	303	312	229	221
Non-current liabilities	3,462	3,119	3,599	3,241
	3,765	3,431	3,828	3,462

29. PROVISIONS (CONTINUED)

Decommissioning charges

The Company and the Group record provisions at present value of estimated future costs of abandoning oil and gas production facilities estimated at the end of production. The estimate of provisions is based on the applicable legal regulations, technology and price levels. Decommission assets are created in an amount equal to the estimated provision, which is also amortized as part of the capital asset costs. Any change to the present value of the estimated costs is reflected as an adjustment of the provisions and the decommission assets.

As of 31 December 2018, INA, d.d. recognised a decommissioning provision for 45 oil and gas production fields, 6 non-production fields, 10 positive non-production fields and 357 dry non-production wells. As of 31 December 2017, INA, d.d. recognised a decommissioning provision for 45 oil and gas production fields, 7 non-production fields, 10 positive non-production fields and 357 dry non-production wells.

Environmental provision

The environmental provision recorded by INA Group is HRK 412 million as of 31 December 2018 (31 December 2017: HRK 335 million). The environmental provision covers treatment of accumulated waste generated by former activity, soil excavation and replacement during the reconstruction of service stations and comprehensive investigation to determine the extent of the soil and groundwater contaminations.

Emission allowances

Under European Union Emission Trading Scheme, INA, d.d. plants receive a certain amount of emission allowances for free. The allowances are received on an annual basis, and in return, INA, d.d. is required to submit allowances equal to its actual verified emissions. The number of emission allowances allocated for free is calculated by the European Commission filled in by installations, and submitted to Ministry of Environmental and Nature protection by 31 December of the current year for that year.

INA, d.d. has adopted the net liability approach to the emission allowances granted. Therefore, a provision is recognised only when actual emissions exceed the allocated emission allowances. Provision recorded for exceeding amount of emission rights granted should be charged with purchased rights. The emission costs are recognised as other material costs. Detail explanation on the accounting and provision calculation is regulated by internal Regulation on greenhouse gas and emission allowances management in INA, d.d.

Free Emission allowances are granted with respect to one year period and are distributed by competent authority.

Legal claims

Provisions for legal claims are based on the legal counsel and management estimate, taking into consideration claim value and probability that outflow of resources will be required to settle the obligation

Renewable energy provision

Renewable energy provision relates to the potential compliance cost which can arise from the Act on bio fuels for transports and further regulated by Regulation on special environmental fee.

29. PROVISIONS (CONTINUED)

Provision for Angolan tax

At the beginning of 2017 INA, d.d. representatives attended a meeting in Angola with representatives of the Angolan Ministry of Finance regarding the negotiations of additional tax and profit oil debt amount. As a result of negotiation, debt for the period 2002 - 2009 was reduced to the amount of USD 6.6 million and debt for the period 2010 - 2015 was annulled. After signing a Global Agreement with the Angolan Ministry of Finance in July 2017, INA, d.d. posted the reversal of provision in the amount of HRK 249 million.

Other provisions

Other provisions of INA, d.d. in amount of HRK 283 million relate to provision for contractual liability for investments in Iran of HRK 247 million initially recognized in 2012. INA, d.d. is committed to spending certain resources by Production Agreement. Since Iran activities have been discontinued, the difference between contractual liability and actual funds spent was recognized as provisions. Moreover, remaining amount mainly relates to provision for sediment and non-pumpable inventories in the amount of HRK 33 million.

30. RETIREMENT AND OTHER EMPLOYEE BENEFITS

According to the Collective Agreement, the Group bears the obligation to pay jubilee awards, retirement and other benefits to employees. The Group operates defined benefit schemes for qualifying employees. Under the schemes, the employees are entitled to an early retirement benefit in the net amount of HRK 20,000 of which HRK 12,000 represent taxable portion. No other post-retirement benefits are provided. Jubilee awards are paid out according to Collective Agreement in the following fixed amounts and anniversary dates for continuous service in the Company and the Group:

Anniversary of continuous services - years	10	15	20	25	30	35	40 and every 5 more years
Fixed amounts - HRK	1,500	2,000	2,500	3,000	3,500	4,000	5,000

The net amounts specified above, in terms of tax regulations are non-taxable. Defined amounts of jubilee awards are effective for Collective Agreement signed in 2018.

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2018 and 2017 by independent actuarial expert. In 2018, the Company made a provision of HRK 14 million in respect of jubilee awards and HRK 22 million for regular retirement allowance, whereas in 2017 Company made provision in respect of jubilee awards in amount of HRK 15 million and for regular retirement HRK 20 million.

30. RETIREMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

The present values of the defined benefit obligation, the related current service cost and past service cost were determined using the projection method based on the total number of employees.

Actuarial estimates were derived based on the following key assumptions:

	Valuation at	
	31 December 2018	31 December 2017
Discount rate	2.5%	2.6%
Average longevity at retirement age for current pensioners (years)		
males	14.9	14.1
females	18.3	18.3
Average longevity at retirement age for current employees (future pensioners) (years)		
males	14.9	14.1
females	18.3	18.3
Mortality	HR 2010-2012	Statistical Yearbook

The amounts recognised in other comprehensive income related to retirement and other employee benefits are as follows:

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Service cost:				
Cost of current period	5	6	1	2
Interest	2	2	1	1
Past service cost, including losses/(gains) on curtailments	(7)	(8)	-	-
Components of defined benefit costs recognized in profit and loss:	-	-	2	3
Remeasurement of the net defined benefit liability:				
Actuarial gains and losses arising from changes in demographic assumptions	1	(19)	-	(17)
Actuarial gains and losses arising from changes in financial assumptions	3	1	2	-
Actuarial gains and losses arising from experience adjustments	-	2	-	1
Components of defined benefit costs recognised in profit and loss account and other comprehensive income:	4	(16)	2	(16)
Total	4	(16)	4	(13)

30. RETIREMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

The change of the present value of defined benefit obligation may be analysed as follows:

	INA Group		INA, d.d.	
	2018	2017	2018	2017
At 1 January	78	95	34	48
Acquisition of subsidiary	-	-	-	-
Cost of current period	5	6	2	2
Interest	2	2	1	1
<i>Actuarial (gains) or losses</i>				
Actuarial gains and losses arising from changes in demographic assumptions	1	(19)	-	(17)
Actuarial gains and losses arising from changes in financial assumptions	3	-	2	-
Actuarial gains and losses arising from experience adjustments	-	2	-	1
Past service cost, including losses/(gains) on curtailments	(7)	(8)	-	-
Benefit paid	-	-	(3)	(1)
Closing defined benefit obligation	82	78	36	34

31. SHARE CAPITAL

INA Group and INA, d.d.

	31 December 2018	31 December 2017
Issued and fully paid:		
10 million shares (HRK 900 each)	9,000	9,000

The Company's share capital consists of 10 million authorised and issued shares of par value HRK 900 each. Each share carries one vote and is entitled to dividends.

32. FAIR VALUE RESERVES

INA Group and INA, d.d.

	31 December 2018	31 December 2017
Balance at the beginning of the year	289	299
Decrease arising on revaluation of long-term financial asset (Janaf)	(188)	(11)
Deferred tax effect	34	1
Balance at the end of the year	135	289

In 2018 and 2017, decrease on fair value reserves was recorded due to decrease of JANAF shares, therefore a decrease on fair value reserves was recorded.

33. OTHER RESERVES

The amount of combined reserves of the Company and the Group includes amounts in respect of accumulated surpluses and deficits, revaluations of property, plant and equipment and foreign exchange gains and losses which have arisen over many years prior to 1993. For several years, the Croatian economy was subject to hyperinflation and, prior to 31 December 1993, neither the Company nor the Group had been subject to audit. For these reasons, it was not practicable to analyse the composition of the reserves of the Company or the Group as at 31 December 1993 into their constituent parts.

Movements on reserves during the year were as follows:

INA Group	Combined reserves at 31 December 1993	Foreign currency translation reserves	Reserve of defined benefit obligation	Other reserves	Total
Balance at 1 January 2017	492	680	28	447	1,647
Movements during 2017	-	(143)	12	-	(131)
Balance at 31 December 2017	492	537	40	447	1,516
Movements during 2018	-	29	(1)	-	28
Balance at 31 December 2018	492	566	39	447	1,544

INA, d.d.	Combined reserves at 31 December 1993	Foreign currency translation reserves	Reserve of defined benefit obligation	Other reserves	Total
Balance at 1 January 2017	27	955	21	285	1,288
Movements during 2017	-	(161)	11	-	(150)
Balance at 31 December 2017	27	794	32	285	1,138
Movements during 2018	-	47	(1)	-	46
Balance at 31 December 2018	27	841	31	285	1,184

34. RETAINED EARNINGS

	INA Group	INA, d.d.
	<u>Retained earnings</u>	<u>Retained earnings</u>
Balance at 1 January 2017	(233)	160
Transfer to legal reserves from retained earnings	(8)	(8)
Profit for the year	1,220	1,426
Dividend paid	(152)	(152)
Balance at 31 December 2017	827	1,426
Opening changes due to effect of IFRS standard changes	58	57
Transfer to legal reserves from retained earnings	(71)	(71)
Profit for the year	1,178	1,334
Acquiring of non-controlling interest	(144)	-
Dividend paid	(812)	(812)
Balance at 31 December 2018	1,036	1,934

On the regular general shareholders' meeting of INA, d.d. held on 27 June 2018 profit for the year 2017 in amount of HRK 1,426 million is distributed to legal reserves in the amount of HRK 71 million and dividend payment in the amount of HRK 812 million (i.e. HRK 81.20 per share).

On the regular general shareholders' meeting of INA, d.d. held on 14 June 2017 profit for the year 2016 in amount of HRK 160 million is distributed to legal reserves in the amount of HRK 8 million and dividend payment in the amount of HRK 152 million (i.e. HRK 15.20 per share).

35. NON-CONTROLLING INTEREST

	INA Group	
	31 December 2018	31 December 2017
Balance at the beginning of the year	(134)	(136)
Share of profit for the year	(1)	2
Acquisition of non-controlling interest	144	-
Balance at the end of the year	9	(134)

At 18 April 2018 Commercial Court in Sarajevo, registered the increase of share capital in Energopetrol d.d. in the amount of HRK 496.4 million by cash contribution. By this transaction, INA share in Energopetrol d.d. increased from 67.02% to 88.66%.

35. NON-CONTROLLING INTEREST (CONTINUED)

Proportion of equity interest of Energopetrol d.d. held by non-controlling interests:

Name	Country of incorporation and operation	2018	2017
Government of the Federation of Bosnia and Herzegovina	Federation of Bosnia and Herzegovina	7.61%	22.12%
Small shareholders		3.73%	11.86%

The table below is presenting financial information for subsidiary Energopetrol d.d. that has non-controlling interests that are material to INA Group. The amounts disclosed for Energopetrol d.d. are before intercompany eliminations.

	31 December 2018	31 December 2017
	Energopetrol d.d.	Energopetrol d.d.
Current assets	47	41
Current liabilities	149	740
Non-current assets	226	237
Non-current liabilities	105	9
Operating income after the acquisition date	507	484
Loss for the period after the acquisition date	13	5
Total comprehensive loss for the period after the acquisition date	13	5

36. 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 performed with the Croatian Government, its departments and agencies, and the companies with the Republic of Croatia being their majority shareholder.

Transactions between INA, d.d and its subsidiaries, which are related parties of the Company, have been eliminated on Group level consolidation. Details of transactions between INA, d.d. and the Group companies and other related parties are disclosed below.

36. RELATED PARTY TRANSACTIONS (CONTINUED)

During the year, INA Group entered into the following trade transactions with related parties:

INA Group

	Sales of goods and services		Purchase of goods and services	
	2018	2017	2018	2017
Share in company as non-current financial assets				
JANAF d.d. Zagreb	5	3	54	52
Governing company				
MOL Nyrt.	304	217	662	701
Companies controlled by governing company				
Tifon d.o.o.	613	536	7	8
MOL Petrochemicals Co Ltd	111	65	5	4
MOL Slovenia d.o.o.	70	94	68	63
Slovnaft, a.s.	23	3	188	226
MOL Serbia d.o.o.	20	57	-	-
Geoinform Kft.	7	1	3	-
MOL-LUB Kft.	6	5	5	4
MOL Norge AS	-	2	-	-
MOL Commodity Trading Kft.	-	-	62	25
MOL Germany GMBH	-	-	6	-
IES Italiana Energia e Servizi S.p.A	-	-	5	3
FGSZ Zrt.	-	-	1	-
Petrolszolg Kft.	-	1	-	-

As of statement of financial position date, INA Group had the following outstanding balances with related parties:

INA Group	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Share in company as non-current financial assets				
JANAF d.d. Zagreb	1	1	2	14
Governing company				
MOL Nyrt.	33	27	77	53
Companies controlled by governing company				
Tifon d.o.o.	70	70	1	1
MOL Commodity Trading Kft.	63	59	71	59
MOL Petrochemicals Co Ltd	10	-	-	-
Slovnaft, a.s.	7	-	7	11
MOL Slovenia d.o.o.	6	4	5	9
MOL Serbia d.o.o.	1	4	-	-
Geoinform Kft.	1	-	-	-
MOL-LUB Kft.	1	-	1	1
MOL Norge AS	-	2	-	-
IES Italiana Energia e Servizi S.p.A	-	-	-	1

36. RELATED PARTY TRANSACTIONS (CONTINUED)

INA, d.d. has provided loans at rates comparable to those that prevail in arm's length transactions. The loans from the ultimate controlling party are unsecured.

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

INA, d.d.

	Sales of goods and services		Purchase of goods and services	
	2018	2017	2018	2017
Related companies				
Holdina d.o.o. Sarajevo	2,463	1,795	1	-
INA Crna Gora d.o.o. Podgorica	337	175	-	-
INA Slovenija d.o.o. Ljubljana	91	11	-	-
Energopetrol d.d.	31	36	-	-
STSI, Integrirani tehnički servisi d.o.o.	26	23	722	607
CROSCO, naftni servisi d.o.o.	14	11	341	359
Plavi tim d.o.o.	9	10	55	52
INA MAZIVA d.o.o.	7	9	57	53
INA Maloprodajni servisi d.o.o.	6	6	273	256
Top Računovodstvo Servisi d.o.o.	3	4	55	51
INA Jadran d.o.o.*	3	-	12	-
Hostin d.o.o.	1	455	30	1
INA Adria B.V.*	1	-	27	-
Adrigas S.r.l. Milano	-	-	-	-
INA d.o.o. Banja Luka	-	-	1	1
INA Kosovo d.o.o.	-	-	1	1
Share in company as non-current financial assets				
JANAF d.d. Zagreb	5	3	54	52
Governing company				
MOL Nyrt.	79	42	549	612
Companies controlled by governing company				
Tifon d.o.o.	611	535	7	8
MOL Petrochemicals Co Ltd	111	65	5	2
MOL Slovenia d.o.o.	67	91	-	-
Slovnaft a.s.	23	3	187	226
MOL Serbia d.o.o.	20	57	-	-
Geoinform Kft.	1	-	-	-
MOL Norge AS	-	2	-	-
MOL Commodity Trading Kft.	-	-	62	25
MOL Germany GmbH	-	-	6	-
IES Italiana Energia e Servizi S.p.A	-	-	5	3
FGSZ ZRT	-	-	1	-

*Until 15 November 2018, transactions with INA Jadran d.o.o. and INA Adria B.V. were recorded as transactions with third parties. After the acquisition, the transactions between INA, d.d. and INA Adria B.V. / INA Jadran d.o.o. were recorded as transactions with related companies (from 15 November 2018 until the year end).

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Notes to the financial statements (continued)
For the year ended 31 December 2018
(all amounts are presented in HRK millions)

36. RELATED PARTY TRANSACTIONS (CONTINUED)

As of statement of financial position date, INA, d.d. had the following outstanding balances with related parties:

INA, d.d.	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Related companies				
Holdina d.o.o. Sarajevo	192	171	1	-
INA Crna Gora d.o.o. Podgorica	33	27	-	-
CROSCO, naftni servisi d.o.o.	12	11	49	57
INA Slovenija d.o.o. Ljubljana	8	2	-	-
STSI, Integrirani tehnički servisi d.o.o.	7	6	232	201
INA MAZIVA d.o.o.	5	2	7	6
INA Jadran d.o.o.*	4	-	16	-
Plavi tim d.o.o.	3	3	12	12
INA Adria B.V.*	2	-	32	-
Top Računovodstvo Servisi d.o.o.	1	-	4	4
INA Maloprodajni servisi d.o.o.	-	-	35	30
Share in company as non-current financial assets				
JANAF d.d. Zagreb	1	1	2	14
Governing company				
MOL Nyrt.	1	2	68	45
Companies controlled by governing company				
Tifon d.o.o.	69	70	1	1
MOL Commodity Trading Kft.	63	59	71	59
MOL Petrochemicals Co Ltd	10	-	-	-
Slovnaft a.s.	7	-	7	11
MOL Slovenia d.o.o.	6	4	3	2
MOL Serbia d.o.o.	1	3	-	-
Geoinform Kft.	1	-	-	-
MOL Norge AS	-	2	-	-
IES Italiana Energia e Servizi S.p.A	-	-	-	1

*Until 15 November 2018, transactions with INA Jadran d.o.o. and INA Adria B.V. were recorded as transactions with third parties. After the acquisition, the transactions between INA, d.d. and INA Adria B.V. / INA Jadran d.o.o. were recorded as transactions with related companies (from 15 November 2018 until the year end).

Receivables of INA, d.d. are presented net of impairment of bad and doubtful receivables.

In 2018 INA, d.d. recognised impairment on receivables from related parties in the amount of HRK 0.4 million (2017: HRK 0.1 million).

36. RELATED PARTY TRANSACTIONS (CONTINUED)

Loan to and from related parties:

INA, d.d.	Amounts of loans owed by related parties		Amounts of loans owed to related parties	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Related companies				
Hostin d.o.o.	439	453	9	3
CROSCO, naftni servisi d.o.o.	94	143	-	-
INA Crna Gora d.o.o. Podgorica	80	26	-	-
Energopetrol d.d.	79	598	-	-
Holdina d.o.o. Sarajevo	45	30	-	-
INA Slovenija d.o.o. Ljubljana	18	19	-	-
INA BH d.d., Sarajevo	2	2	-	-
INA Adria B.V.*	-	-	111	-
INA MAZIVA d.o.o.	-	-	30	49
INA Maloprodajni servisi d.o.o.	-	-	16	22
Adrigas S.r.l. Milano	-	-	12	12
Top Računovodstvo Servisi d.o.o.	-	-	7	11
STSI, Integrirani tehnički servisi d.o.o.	-	-	5	80
Croplin d.o.o.	-	-	4	4
Plavi tim d.o.o.	-	-	-	3

*Until 15 November 2018, transactions with INA Jadran d.o.o. and INA Adria B.V. were recorded as transactions with third parties. After the acquisition, the transactions between INA, d.d. and INA Adria B.V. / INA Jadran d.o.o. were recorded as transactions with related companies (from 15 November 2018 until the year end).

Hedge transactions with related parties:

INA Group and INA, d.d.	Expense from hedge transactions -net effect	Expense from hedge transactions -net effect
	2018	2017
Companies controlled by governing company		
MOL Commodity Trading Kft.	92	12

Product sales and purchases between related parties were made at the usual prices of the Group, reduced by discounts and rebates depending on each particular relationship.

For oil products sales to related parties, INA, d.d. does not require payment security instruments, except in case of sales on foreign markets, in order to be compliant with the Foreign Exchange Act.

36. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	INA, d.d.	
	31 December 2018	31 December 2017
Short-term employee benefits	39	36
Termination bonuses	5	4
Total	44	40

The amount included above refers to the remuneration of the Management Board Members and directors of second and third level organizational units.

A number of key management in INA, d.d. or their related parties, hold positions in other companies of INA Group that result in them having control or significant influence over these companies.

Other related party transactions

In 2018 INA, d.d. sold five service stations to the company Holdina Sarajevo. Net book value of service stations was HRK 4 million and they were sold under market price in the amount of HRK 13 million.

In 2017 INA, d.d. sold 5 office buildings to company Hostin d.o.o. The transaction was carried out at market price in the amount of HRK 455 million as a part of INA's strategy regarding Real estate management. After the transaction occurred, Hostin d.o.o. entered into a ten year agreement for lease of asset to several INA Group companies and third parties located in Zagreb.

37. COMMITMENTS

The Company and the Group have a number of continuing operational and financial commitments in the normal course of their businesses including:

- exploration and development commitments arising under production sharing agreements,
- exploratory drilling and well commitments abroad,
- take or pay contract, gas transportation contract and gas selling contract,
- guarantees, performance bonds and letters of credit with Croatian and foreign banks,
- completion of the construction of certain assets.

37. COMMITMENTS (CONTINUED)

Gas Transportation contracts

At 31 December 2018 the future gas transportation contracted commitments with Mol Nyrt, Met Budapest Ltd., PPD Vukovar, FGSZ Mađarska, until 31 December 2019 amount to approximately HRK 55.28 million in total (2017: HRK 51.29 million).

Gas purchase contract obligations (Take or pay)

INA, d.d concluded a Gas Purchase Obligation (*Take or pay*). The obligation refers to one-year natural gas import contract signed for gas year. Through this contract INA, d.d. will procure the quantities of gas needed to cover the gap in the sales. At 31 December 2018, the future contractual obligations for natural gas concluded with Mol Nyrt., until 1 October 2019 amount to HRK 153.32 million (2017: HRK 442.85 million).

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Minimum lease payments under non-cancellable operating leases outside INA Group are as follows:

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
within 1 year	49	56	43	47
between 2 - 5 years	58	63	45	47
beyond 5 years	17	17	17	17
	124	136	105	111

Out of the outstanding operating lease liabilities as of 31 December 2018 HRK 105 million were contracted by INA, d.d., HRK 14 million were contracted by Plavi tim d.o.o. and HRK 3 million were contracted by Crosco d.o.o., while for 31 December 2017 HRK 111 million were contracted by INA, d.d., HRK 11 million were contracted by Plavi tim d.o.o. and HRK 8 million were contracted by STSI d.o.o.

38. CONTINGENT LIABILITIES

Environmental matters

The principal activities of the Company and the Group, comprising oil and gas exploration, production, transportation, refining and distribution, can have inherent effects on the environment in terms of emissions into soil, water and air. Both, the Company and the Group regularly record, monitor and report on environmental emissions in accordance with their obligations specified in applicable laws. For all the stated release into the environment, the Company and the Group, in accordance with the principle of "polluter pays" bear the costs caused by pollution. The costs include costs connected with environmental pollution, costs of environmental monitoring and the application of established measures and costs of taking measures to prevent environmental pollution, regardless of whether these costs are incurred as a result of the prescribed liability for environmental pollution, the release of emissions into the environment, as a fee established under appropriate financial instruments or as an obligation prescribed by regulation.

INA Group regularly publishes its sustainability reports on annual basis, in accordance with Guidelines of the Global Reporting initiative. The report covers a full range of economic, environmental and social impacts of INA Group companies on their stakeholders.

Harmonization of INA's operations with the Industrial Emission Directive (IED)

The Directive 2010/75/EU of the European Parliament and the Council on industrial emissions (IED) lays down rules on integrated prevention and control of pollution arising from industrial activities, rules designed to prevent or, where that is not practicable, to reduce emissions into air, water and land and to prevent the generation of waste, in order to achieve a high level of protection of the environment taken as a whole. The Directive regulates the question of environmental permits by which plant working conditions are determined and requires the application of best available techniques (BAT). During 2014 INA, d.d. obtained Decisions on integrated environmental protection requirements (environmental permits) for its four plants: Fractionation Facilities Ivanić Grad, Gas Processing Facilities Molve, Sisak Refinery and Rijeka Refinery.

On 9 October 2014, Commission Implementing Decision establishing best available techniques (BAT) for the refining of mineral oil and gas was published, in accordance with the Directive 2010/75/EU of the European Parliament and the Council on industrial emissions. Deadline for compliance with emission limit values was 9 October 2018 except in case of derogation acceptance in line with Article 15(4) of IED. In BAT Conclusions, "bubble concept" is recognized as one of the best available techniques for integrated emission management of SO_x and/or NO_x. Bubble is especially suitable for oil refining sites because it allows refineries to treat all their stacks as they are enclosed by a giant bubble, which provides flexibility in choosing which unit shall be upgraded based on the lowest cost, so long as overall resulting emissions are equal to or lower than emissions that would be achieved through a unit-by-unit application of the individual BAT-AELs. Due to lack of experience in application of the bubble concept in Croatia, Sustainable Development and Health, Safety and Environment organized meetings in Rijeka Refinery (RR) and Sisak Refinery (SR) during 2018 with representatives of the Ministry of Environmental Protection and Energy (Ministry) and authorized the Company for permit revision to inform them in more detail with the bubble concept and method of alignment with the upper limits of the emission range.

During 2016 INA, d.d. signed the contract for refineries environmental permit revision which is necessary because of new BAT Conclusions issuance, change of selected technology (FCC) for particulate matter reduction, expired deadlines for some projects and intention to use a bubble concept. In 2017, an application for an amendment to the RR and SR environmental permit was submitted to the Ministry of Environmental Protection and Energy.

38. CONTINGENT LIABILITIES (CONTINUED)

Environmental matters (continued)

In order to align the existing technology with the best available techniques, during 2018 all projects in Rijeka Refinery (RR) are ongoing and are in different stages of implementation. Planned completion of all measures prescribed in existing RR environmental permit is during turnaround, in Q1 2019.

For some of the improvement measures prescribed in existing SR environmental permit, which are on hold, a cost-benefit analysis (investments vs benefits for environment) has been made in accordance with Article 15 (4) of the IED.

It was suggested to the Ministry that the implementation of measures will depend on the results of the analysis, which will show the justification of the application of each individual measure.

Complete (8 phases) baseline reports for Rijeka and Sisak Refineries were also submitted to the authorities for approval, as a precondition for initiating environmental permit revision. Completion of baseline reports is not a precondition for issuing a new environmental permit. During 2018, the Ministry concluded that the baseline reports need to be updated in a way to be developed in phases, which was further contracted during 2018.

Harmonization of INA's operations with the greenhouse gas emission (GHG) legislation

European Union Emissions Trading Scheme, EU ETS, is one of the fundamental mechanisms of the European Union in the fight against climate change with a view to meeting the commitments made under the Kyoto Protocol. Inside the Scheme, a part of the emission allowances (one allowance = 1 tonne of CO₂) are allocated to installations for free and they are used to "cover" the emissions from the previous year. If the installation has a shortage of allowances in respect to verified emissions, the rest must be bought on the market through auctioning.

From 2013 Rijeka Refinery, Sisak Refinery, Fractionation Facilities Ivanić Grad and Gas Processing Facilities Molve are a part of the ETS. All four INA's ETS installations have open Operator Holding Account in the Union Registry. Verified Annual Greenhouse Gas Report had been submitted to Croatian Environment and Nature Agency on time, until 1 March 2018. Verifier has confirmed the emissions entered into the Registry and emission allowances have been submitted in the amount equal to verified emissions until 30 April 2018. Due to increase in prices of emission allowances (increase more than 100% compared to 2017) significantly higher costs were realized in 2018. In order to reduce costs, dynamics of CO₂ trading has changed. Instead of the current trading (purchase of 10% of the total shortage each month after 20th in the month), an active trading option will be implemented (purchase of 20% of the total shortage through multiple transactions per month with the aim of achieving the best market price).

38. CONTINGENT LIABILITIES (CONTINUED)

Environmental matters (continued)

Harmonization of INA's operations with the air protection legislation

From 1 January 2016 existing plants have to comply with more stringent emission limit values (ELV), as stipulated by Industrial Emissions Directive (IED). The provisions of IED have been transposed into Croatian legislation through Regulation on limit values for pollutant emissions from stationary sources into the air (OG 87/17). To achieve the prescribed emission limit values, IED provides a possibility to use the exemption for existing plants and one of them is the inclusion in the Transitional National Plan (TNP), in addition to meeting certain conditions. Sisak and Rijeka Refineries have submitted an application for inclusion of its existing large combustion plants in the TNP, which was approved by the European Commission during 2014.

By inclusion in the TNP, refineries are given the possibility of gradual emission reduction of nitrogen oxides, sulphur dioxide and particulate matter through the period of 1 January 2016 to 30 June 2020 for the realization of investments and measures for emission reduction which ensure compliance with more stringent ELVs. Given that refineries intend to use the bubble concept in which existing large combustion plants should be included, these plants will be withdrawn from the Transitional National Plan during the environmental permit revision and incorporated into the bubble.

With the legal requirements for harmonization with the technical environmental standards for Volatile Organic Compound (VOC) emissions resulting from the storage and distribution of petrol, the entire INA's retail network tank truck loading station and rail tank car (RTC) loading station for white products in Sisak Refinery as well as tank truck loading station in RR have been harmonized. In 2018 INA, d.d. continued with modernization of the RTC loading and unloading station in RR, modernization of port Bakar and with improvement of storage tanks in both refineries, in order to achieve full compliance with the technical environmental standards for VOC's. Vapour Recovery Units (VRU) were installed on 7 loading stations.

Environmental provisions

Environmental obligations are the obligations of a company to recover pollutions caused by the company's operations. They can be divided into two categories: environmental provisions and contingencies. Typical provision based actions are soil and groundwater pollution assessment, remediation, monitoring actions in order to control the long-term compliance and re-cultivation of old waste storage depots. Provision based environmental liabilities are audited in every quarter using internal resources. During 2018, 2 capital reconstruction, 4 tank replacement, 2 demolition and 14 preliminary site investigation related to soil and groundwater contamination were conducted at retail fuel stations. Also, landfill Šoići remediation within Rijeka Refinery area was completed.

At 31 December 2018, INA, d.d. made environmental provisions in the amount of HRK 408 million, whereas the provisions at the Group level amounted to HRK 412 million, while at 31 December 2017, INA, d.d. made environmental provisions in the amount of HRK 323 million, whereas the provisions at the Group level amounted to HRK 335 million. At 31 December 2018, contingencies at INA, d.d. was estimated at HRK 411 million and for INA Group level was estimated at HRK 620 million, while at 31 December 2017 contingencies at INA, d.d. was estimated at HRK 427 million and for INA Group level was estimated at HRK 636 million. The estimates were not recognised because the timing of the event is uncertain and there is no evidence of pollution.

38. CONTINGENT LIABILITIES (CONTINUED)

Litigation

The Group is exposed to various legal claims. The following claims are considered as contingencies and no provision is recognised in the financial statements in their respect.

GWDF

In the dispute initiated by GWDF Partnership Gesellschaft Bürgerlicher Rechts and GWDF Limited, Cyprus against INA-Industrija nafte, d.d. and INA-Naftaplin International Exploration, Channel Islands, before the Commercial Court in Zagreb, the plaintiffs claim compensation for damage in the amount of app HRK 60 million incurred due to ungrounded termination of negotiations. On 10 March 2016 the judgment was rendered and the plaintiff's claim was dismissed in its entirety. On 18 March 2016 the plaintiff filed an appeal against the judgment of the court of first instance. In its judgment rendered on 7 November 2018, the High Commercial Court of the Republic of Croatia rejected the plaintiff's appeal and confirmed the judgement of the court of first instance. Therefore, the proceedings are concluded with a judgment that is final and binding. To this day, no revision against the judgment of the High Commercial Court of the Republic of Croatia has been received.

EKO MEDIA d.o.o.

In September 2012 INA, d.d. entered into an agreement with company EKO MEDIA d.o.o. EKO MEDIA failed to regularly comply with its obligations. INA, d.d. terminated the agreement with EKO MEDIA d.o.o. at the beginning of 2014. On 19 December 2014 EKO MEDIA d.o.o. filed a lawsuit against INA, d.d. in which EKO MEDIA d.o.o. specified its claim in amount of HRK 106 million. INA, d.d. filed its official reply to such EKO MEDIA's lawsuit and filed a counterclaim for the return of unjust enrichment and asked for the issuance of interim measure for prohibition of use of advertising boards. The first instance procedure is in progress and the court expert for finances delivered his opinion in which he determined the amount of the claim towards EKO MEDIA in the moment of termination of the contract. Due to the departure of a retired judge, the case will be transferred to another judge, following why the next hearing has not been scheduled and no further dynamic of the proceedings is known.

ĐURO ĐAKOVIĆ

ĐURO ĐAKOVIĆ - ZAVARENE POSUDE d.d. (hereinafter: ĐĐ) submitted a claim against INA, d.d. for damages based on statement that INA acted contrary to principles of good faith while executing its obligations under signed Gas bottles SPA, i.e. deliberately prevented the realization of the conditions for increased order of bottles thus causing the overall damage to the plaintiff amounted to around HRK 29 million. This contract was tied to Settlement Agreement signed on the same date between INA, d.d. OSIMPEX (ĐĐ's mother company), FEROMPEX (ĐĐ's daughter company) and ĐĐ by which it was agreed that ĐĐ will join the debt OSIMPEX and FEROMPEX have towards INA, d.d. (based on cession between INA OSIJEK PETROL whose buyers were aforementioned companies and INA, d.d.) and that such debt will be set off with gas bottles purchases under Gas bottles SPA under certain conditions; first 20,000 bottles are not to be taken into account, yet all further orders should be set off with debt. ĐĐ is claiming that INA, d.d. deliberately prevented the occurrence of conditions for such subsequent orders, in spite the fact that from previously established business cooperation with PROPLIN (INA's former daughter company, merged with INA, d.d. in 2011 year) it could be reasonably expected that such subsequent order should take place. INA, d.d. prepared and submitted a statement of defence.

38. CONTINGENT LIABILITIES (CONTINUED)

Litigation (continued)

ĐURO ĐAKOVIĆ (continued)

The preparatory hearing was held on 26 February 2018. On this hearing the court concluded the preliminary part of the proceedings. The main hearing was held on 8 November 2018 and the plaintiff's first two witnesses have been heard. The next hearing should continue with the hearing of the witnesses proposed by the plaintiff, while the hearing date has not yet been set.

LJUBLJANSKA BANKA

The claims of plaintiff Ljubljanska banka, Ljubljana, Slovenia against INA, d.d. in amount of HRK 60 million have arisen from two contracts of 1982 on the use of short-term foreign currency loan abroad which were concluded between INA, d.d. - Rafinerija nafte Rijeka and Ljubljanska banka - Osnovna banka Zagreb. The outcome of the procedure is still uncertain due to the complexity of the legal matter (claims for altered default interest). The Supreme Court has not decided on review to this date, so no legal actions were taken in 2018.

CONCESSIONS

In the period from November 2014 - February 2015, the Ministry of Economy, Labour and Entrepreneurship (hereinafter: the Ministry) rendered three Decisions depriving INA of the license to explore hydrocarbons in exploration areas "Sava", "Drava" and "North-West Croatia".

INA, d.d. filed administrative lawsuits against all said Ministry's Decisions.

In the "Drava" case, during September 2017 the High Administrative Court of the Republic of Croatia rejected INA's appeal against the first-instance verdict in the "Drava" case. Thus, the Decision on seizure of hydrocarbon exploration approvals in the "Drava" research area, issued by the competent Ministry, became final. Against said judgment of the High Administrative Court of the Republic of Croatia, and Ministry Decision, INA, d.d. filed a Constitutional lawsuit. The Constitutional Court of the Republic of Croatia didn't bring any judgment, till now.

In the "Sava" case, during July 2018 the High Administrative Court of the Republic of Croatia accepted INA's appeal against earlier first-instance verdict in the "Sava" case and annulled the same verdict brought by the Administrative Court and also annulled Resolution of the Ministry by which the Ministry deprived INA's license for exploration hydrocarbons in exploration area "Sava". In September 2018 the Ministry of Environmental Protection and Energetics (as now competent) adopted new Decision by which INA, d.d. is again, for the third time, deprived from the license to explore hydrocarbons in exploration area "Sava". The administrative lawsuit against said Ministry Decision is underway.

In the "North-West Croatia" case, the Administrative Court rejected INA's administrative lawsuit, against which judgment INA, d.d. filled appeal. Until now, the High Administrative Court of the Republic of Croatia didn't bring any decision and judgment.

38. CONTINGENT LIABILITIES (CONTINUED)

Litigation (continued)

R.I.G.-TEHNIČKI SERVISI GRUPA d.o.o. c/a CROSCO

R.I.G.-TEHNIČKI SERVISI GRUPA d.o.o. initiated lawsuit against CROSCO, naftni servisi, d.o.o. (member of the INA Group, INA, d.d. is a 100% shareholder) over a value equaling HRK 82 million (approximately EUR 11 million) with the interest running from 10 March 2010, for damages caused by non-payment of extra and unforeseen works and, to a minor extent, for damages due to loss of computer equipment. It is still in preparation phase, the Court is collecting valid data and each Party is proposing evidence and actions.

At the hearing held on 19 October 2017 a legally binding indictment versus the representatives/members of the company R.I.G.-TEHNIČKI SERVISI GRUPA d.o.o. and the company R.I.G.-TEHNIČKI SERVISI GRUPA d.o.o. itself was submitted into the court file. The Court invited parties to deliver additional documentation.

At the hearing held on 5 June 2018 Plaintiff submitted to the court file Expertise that were conducted in criminal cases which were conducted in front of County Attorney's Office and State Attorney's Office in Vukovar. On stated Expertise Defendant shall lodge to the competent court its observations/manifestations. During November 2018, hearings were held on which witnesses were examined.

BELVEDERE cases (CLEOSTONE claim included)

In 2005 INA, d.d. and Belvedere d.d. concluded the Loan agreement on notarial insurance of the claim by establishing lien over the real estate of Belvedere d.d. for the purpose of ensuring loan repayment. Since the loan was not repaid, INA, d.d. initiated the procedure of real estate sale, and the real estate was sold to company Vila Larus d.o.o., whereby INA, d.d. collected HRK 24 million on behalf of principle amount and contractual interest rate.

Consequently, the plaintiff initiated the proceeding to proclaim the real estate sale and purchase agreement as null and void, as well as the proceeding to cancel the enforceability clause on the Fiduciary Agreement.

The first instance proceeding for the annulment of the agreement on the sale and purchase of real estate has been finalized in favour of INA, d.d. and upon an appeal filed by the plaintiff, the first instance decision became legally binding after the High Commercial Court of the Republic of Croatia rejected the appeal and confirmed the judgment.

The proceeding for the cancellation of the enforceability clause has been finalized in the first instance in favour of INA, d.d., and the decision of the higher court, after the submission of the plaintiff's appeal, is still pending.

Belvedere – HRK 24 million, 018-11/17

The plaintiff has filed a claim with the Commercial Court in Zagreb, seeking reimbursement of funds received for the sale of "Hotel Belvedere", claiming that the sale of the real estate, encumbered by INA's liens – fiduciary, is illegal. The plaintiff alleges that INA, d.d. had no right to collect its claims by selling the real estate, because the plaintiff was in crisis at the moment of loan placement, so the loan was actually a loan substituting the capital which is settled in a bankruptcy proceeding as a lower payment priority claim. It is also stated that the notary public violated other legal regulations. The response to the claim has been submitted, in which the plaintiff's allegations have been contested, i.e. that the loan was not actually a loan substituting the capital. Only the preparatory hearing was held in this case and one hearing where one witness gave his testimony.

38. CONTINGENT LIABILITIES (CONTINUED)

Litigation (continued)

Belvedere – HRK 220 million, 018-14/17

The plaintiff has filed a claim with the Commercial Court in Zagreb, seeking reimbursement of damages, claiming that INA, d.d. has caused damage to the plaintiff by selling its real estate encumbered by INA's liens – fiduciary, whereby the plaintiff was prevented from continuing its business operations.

The plaintiff claims that the damage is evident from the fact that the loan was actually a loan substituting the capital which is settled in a bankruptcy proceeding as a lower payment priority claim. INA, d.d. submitted its response to the lawsuit in which it contested all the plaintiff's allegations, both in relation to the grounds and the amount and stated that the collection of the concerned claims was in any case insured by a separate satisfaction right, granting the creditor in bankruptcy the right to a separate settlement.

Labour procedure against Energopetrol d.d.

At Municipal Court in Sarajevo the labour procedure against Energopetrol d.d. is conducted with 381 plaintiffs. The total amount of principal amounts to HRK 58 million. The lawsuit was filed on 11 May 2018 with a claim to compensation of salary difference for the period 11 May 2015 until 11 May 2018.

The Group expects the plaintiff's attorney to specify the claims in the course of the procedure, in accordance with the findings of the expert in the financial profession.

In the meantime, and since the plaintiffs' attorney did not regulate the claim referred to the lawsuit, at the court's request, the court issued the Decision on 4 December 2018, by which the one part of claim from the lawsuit is considered withdrawn.

The response to the complaint was given on 7 January 2019. The preparatory hearing is expected to be scheduled.

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Gearing ratio

The primary objective of INA Group in managing its capital is to ensure good capital ratios in order to support all business activities and maximize the value to all shareholders through optimization of the ratio between the debt and equity.

The capital structure of INA Group consists of debt part which includes borrowings as detailed in notes 25 and 27 offset by cash and bank balances (so-called net debt) and shareholder equity comprising of issued capital, reserves, retained earnings and non-controlling interests as detailed in notes 34 and 35.

Capital structure of the INA Group is reviewed quarterly. As a part of the review, the cost of capital is considered and risks are associated with each class of capital. Internally, maximum gearing ratio of INA Group is determined.

The gearing ratio at the end of the reporting period was as follows:

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Debt:	2,091	1,825	1,892	1,603
Long term loans	4	122	-	122
Short term loans	1,962	1,581	1,767	1,359
Current portion of long-term borrowings	125	122	125	122
Cash and cash equivalents	(422)	(428)	(335)	(364)
Net debt	1,669	1,397	1,557	1,239
Equity	11,823	11,526	12,352	11,881
Equity and net debt	13,492	12,923	13,909	13,120
Gearing ratio	12%	11%	11%	9%

Debt is defined as long-term and short-term borrowings and credit lines (excluding derivatives and financial guarantee contracts), as described in notes 25 and 27.

Total equity includes capital, reserves, retained earnings or transferred loss and non-controlling interests of the Group that are managed as capital.

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Categories of financial instruments

	Carrying amount			
	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Financial assets				
Cash and cash equivalents	422	428	335	364
Loans and receivables	2,846	1,613	5,459	3,664
Non-current financial assets	479	665	479	665
Positive fair value of derivatives	113	62	113	62
Financial assets designated as at fair value through profit and loss	9	6	7	6
Financial liabilities				
Loans and borrowings	2,091	1,825	2,086	1,787
Trade payables	1,720	1,171	1,826	1,098
Negative fair value of derivatives	92	65	92	65

Financial risk management objectives

INA Group continuously monitors and manages financial risks. *INA Group Treasury Guideline* and *Financial risk management procedure at INA, d.d.* provides framework under which INA, d.d. and its consolidated subsidiaries manage and maintain commodity, foreign exchange and interest rate risk at an acceptable level, allowing to achieve its strategic objectives while protecting the future financial stability and flexibility of INA Group. INA, d.d. integrates and measures financial risks on INA Group level in the financial risk model using Monte Carlo simulation, while senior management reviews regularly the financial risk reports.

By taking this general approach, INA, d.d. assumes the business activities as a well-balanced integrated portfolio and does not hedge individual elements of its exposure to financial risks in a normal course of business. Therefore, INA, d.d. actively manages its financial risk exposure for the following purposes:

- corporate level – maintaining financial ratios, covering exposure to significant monetary transactions, etc.;
- business operations level – decreasing the exposure to market prices fluctuation in case of deviations from the normal course of business (e.g. planned regular shutdown of refinery units for the purpose of overhaul).

INA, d.d. Treasury carries out finance activities of INA, d.d., coordinates finance operations of INA Group on domestic and international financial markets, monitors and manages the financial risks related to the operations of INA Group. The most significant risks, together with methods used for management of these risks are described below.

INA Group used derivative financial instruments to a very limited extent in order to manage financial risks. Derivative financial instruments are regulated by signing an ISDA (International Swaps and Derivatives Association) Agreement with counterparties. INA Group does not use derivative financial instruments for speculative purposes.

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk

Commodity price risk management

The volatility of crude oil and gas prices is the prevailing element in the business environment of INA Group. INA Group buys crude oil mostly through short-term arrangements in USD at the current spot market price. Necessary natural gas quantities in 2018 INA Group imported in EUR based on spot price.

In addition to exploration and production, and refinery operations, one of the main core activities of INA, d.d. are marketing and sale of refinery products and natural gas. Prices of crude products were determined weekly based on market principles, which enables quicker responses to market prices fluctuations.

In accordance with *INA Group Treasury Guideline* and *Financial risk management procedure at INA, d.d.*, for the purpose of hedging financial risk exposure on corporate and business operations level, INA, d.d. may use forward (swap) and option instruments. INA, d.d. entered into short-term forward swap transactions to hedge its exposure on changes in inventory levels and changes in pricing periods. The transactions were initiated to reduce exposures to potential fluctuations in prices over the period of decreasing inventories at the refineries, as well as to match the pricing period of purchased crude oil and crude products with the crude oil processing and refinery product retail pricing periods.

At 31 December 2018 and 31 December 2017, there is no fair value based on hedged transaction related to the price of the goods.

Foreign currency risk management

As INA Group operates both in Croatia and abroad, many of its transactions are denominated and executed in foreign currencies, hence INA, d.d. is exposed to exchange rate risks.

INA Group has a net long USD and EUR, and a net short HRK operating cash flow position. Generally, INA Group manages its currency risk using natural hedging, which is based on the principle that the combination of currencies in the debt portfolio should reflect the currency position of INA Group's free cash flow. Furthermore, in order to avoid excessive exposures to fluctuations in the foreign exchange rate with respect to a single currency (i.e. USD), INA, d.d. applies a portfolio-based approach while selecting the currency mix for its debt portfolio.

INA, d.d. may use a cross-currency swap to adjust its currency mix in the debt portfolio. At 31 December 2018 and 31 December 2017 there were no outstanding cross-currency transactions.

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The carrying amounts of INA Group and INA, d.d. foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

INA Group

	Liabilities		Assets	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Currency EUR	1,630	1,185	375	208
Currency USD	1,044	867	786	931
	2,674	2,052	1,161	1,139

INA, d.d.

	Liabilities		Assets	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Currency EUR	1,410	1,078	728	938
Currency USD	994	832	739	1,011
	2,404	1,910	1,467	1,949

Foreign currency sensitivity analysis

INA Group is mainly exposed to currency risk related to change of HRK exchange rate against USD and EUR, due to the fact that crude oil and natural gas trading on international markets and INA Group's debt portfolio are denominated in the mentioned currencies.

The following table details INA Group's and INA, d.d.'s sensitivity to a 10% weakening of HRK at 31 December 2018 (in 2017: 10%) against the relevant foreign currencies. The sensitivity rates used represent management's assessment of the usual change in foreign exchange rates. The sensitivity analysis includes monetary assets and liabilities in foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a change in foreign currency rates expressed as percentage. A negative number below indicates a decrease in profit where HRK changes against the relevant currency by the percentage specified above. For the same change of HRK versus the relevant currency in the opposite direction, there would be an equal and opposite impact on the profit.

INA Group

	Currency USD Impact		Currency EUR Impact	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Profit/(loss)	(26)	6	(126)	(98)
	(26)	6	(126)	(98)

INA, d.d.

	Currency USD Impact		Currency EUR Impact	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Profit/(loss)	(26)	18	(68)	(14)
	(26)	18	(68)	(14)

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign currency sensitivity analysis (continued)

The exposure on the 10% fluctuation in the exchange rates for the currencies presented above is mostly attributable to the outstanding liabilities towards suppliers and borrowings denominated in USD and EUR.

Interest rate risk management

INA Group is exposed to interest rate risk, since entities in INA Group generally borrow funds at floating interest rates.

INA Group does not speculate on fluctuations in interest rates, and therefore primarily chooses floating interest rates. However, in certain instruments and certain macro environment, there is a possibility of selecting the fixed interest rate for longer interest periods.

INA, d.d. in accordance with Financial risk management procedure at INA, d.d., can use interest rate swap transactions in order to manage the relative level of exposure to interest rate risk on cash flows related to borrowings with floating interest rates. As of 31 December 2018 there were no outstanding interest rate swap transactions.

Interest rate risk analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the statement of financial position date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 or 200 basis point increase or decrease is used when reporting interest rate risk internally, and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates would be 200 basis points higher/lower and all other variables were held constant, the changes in interest expense of INA Group and INA, d.d. would be as presented below.

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Short-term interest expense change	43	32	39	27
Long-term interest expense change	3	5	3	5
Total change:	46	37	42	32

If interest rates would be 200 basis points higher, INA Group's interest expenses in 2018 would be increased by HRK 46 million, while with a change of 50 basis points the increase would be HRK 11 million (2017: increase by HRK 37 million had the interest rate been 200 basis points higher, and by HRK 9 million had the interest rates been 50 basis points higher).

At the same time INA, d.d.'s interest expenses in 2018 would be increased by HRK 42 million if interest rates had been 200 basis points higher, while the increase would be HRK 10 million with a change of 50 basis points (2017: increase by HRK 32 million had the interest rates been 200 basis points higher, and by HRK 8 million had the interest rates been 50 basis points higher). Equivalent decrease of interest rates would result in decreased interest expenses by equal amounts.

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Other price risks

INA Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 10% higher:

- net profit for the year ended at 31 December 2018 would have been unaffected as the equity investments are classified as non-current financial assets; and
- other equity reserves of INA, d.d. would increase by HRK 43 million as a result of the changes in fair value of non-current financial assets.

If equity prices had been 10% lower, there would be an equal and opposite impact on equity.

Credit risk management

Sales of products and services with deferred payment gives rise to credit risk, risk of default or non-performance of contractual obligations by INA Group customers. Overdue receivables have an adverse effect on the liquidity of INA Group, whereas impaired overdue receivables have a negative impact on the financial results of INA Group as well. Under currently valid Customer *Credit Management Procedure*, measures are taken as a precaution against the risk of default. Customers are classified into risk groups by reference to their financial indicators and the trading records with INA Group, and appropriate measures to provide protection against credit risk are taken for each group. The information used to classify the customers into risk groups is derived from the official financial statements and is obtained from independent rating agencies. The exposure and the credit ratings of customers are continuously monitored and credit exposure is controlled by credit limits that are reviewed at least on an annual basis. Whenever possible, INA Group collects collaterals (payment security instruments) from customers in order to minimize risk of collection of payments arising from contractual liabilities of customers.

The exposure of INA Group and the credit ratings of its customers are continuously monitored to mitigate the risk of default (see note 21).

INA Group transacts with a large number of customers from various industries and of various size. A portion of goods sold with deferred payment includes government institutions and customers owned by the state and local self-governments that do not provide any payment security instruments. Regarding other customers, provided collaterals are mainly debentures, being the most frequently used payment security instrument on the Croatian market, and bank guarantees and insurance of receivables is used as well, whereas from foreign customers are mostly obtained letters of credit, and to a lesser extent bank and corporate guarantees and exceptionally bills of exchange.

There is no significant credit risk exposure of INA Group that is not covered with collateral, other than those to the above-mentioned institutions and entities controlled by the state, local self-government, and those arising from certain foreign concession agreements.

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk management

Responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of INA Group's short, medium and long-term funding and liquidity management requirements. INA Group manages liquidity risk by maintaining adequate reserves and credit facilities, by continuously monitoring of forecasted and actual cash flows and due dates of account receivables and payables.

The policy of INA Group is to ensure sufficient external funding sources in order to achieve the sufficient level of available frame credit lines ensuring the liquidity of INA Group as well as investment needs.

As of 31 December 2018, INA Group had contracted and available short-term credit lines amounting to HRK 2,332 million (CNB middle rate), 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 2,713 million (CNB middle rate).

Based on business needs and industry practice, INA, d.d. has contracted short-term credit facilities ("trade finance") with first class banking groups for financing crude oil and oil products purchase. As of 31 December 2018, INA Group had contracted and available short-term credit facilities for financing crude oil and oil products purchase amounting to USD 1,135 million.

For details of the main external sources of funding for INA Group see note 25 and 27.

With the purpose of diversification of funding sources and in order to ensure sufficient liquidity and financial stability level, INA, d.d. is continuously considering different funding opportunities with other creditors as well.

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk management (continued)

Liquidity and interest risk tables

The following tables detail the remaining contractual maturity for financial liabilities of INA Group and INA, d.d. and at the period end. Analyses have been drawn up based on the undiscounted cash flows based on the earliest date on which the payment can be required. The tables include both principal and interest cash flows.

INA Group

	Less than 1 month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2018					
Non-interest bearing	1,718	598	36	3	2,355
Interest bearing	1,340	755	4	-	2,099
	3,058	1,353	40	3	4,454
31 December 2017					
Non-interest bearing	1,277	436	50	-	1,763
Interest bearing	1,133	578	125	-	1,836
	2,410	1,014	175	-	3,599

INA, d.d.

	Less than 1 month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2018					
Non-interest bearing	1,500	533	36	3	2,072
Interest bearing	1,339	753	-	-	2,092
	2,839	1,286	36	3	4,164
31 December 2017					
Non-interest bearing	1,052	426	44	-	1,522
Interest bearing	1,132	540	125	-	1,797
	2,184	966	169	-	3,319

Non-interest bearing liabilities of INA, d.d. due in a period of less than one month consist mainly of trade accounts payable in the amount of HRK 1,242 million in 2018 (2017: HRK 787million).

Included in non-interest bearing liabilities of INA, d.d. due in a period of over five years are, liabilities to Government for sold flats and deferred income for sold flats.

Interest bearing liabilities include short-term and long-term borrowings.

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

Fair value measurements recognized in the statement of financial position

INA GROUP and INA, d.d.

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Non-current financial assets*	430	-	-	430
Marketable securities	27	-	-	27
Positive fair value of derivatives	-	113	-	113
Financial liabilities at fair value				
Negative fair value of derivatives	-	92	-	92
31 December 2017				
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Non-current financial assets*	618	-	-	618
Positive fair value of derivatives	-	62	-	62
Financial liabilities at fair value				
Negative fair value of derivatives	-	65	-	65

* only non-current financial assets at fair value are presented in tables above, the remaining equity instruments classified as non-current financial assets in total amount of HRK 49 million are measured at cost (2017: HRK 47 million) and therefore not included in tables above.

There were no transfers between levels 1 and 2 during the year.

(a) Financial instruments in level 1

The fair value of financial instruments included in Level 1 comprise JANAF shares equity investments classified as non-current financial assets and marketable securities that are based on quoted market prices. A market is considered as active if quoted prices are current and regularly available.

(b) Financial instruments in level 2 and level 3

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

Specific valuation techniques used to value financial instruments include:

- The fair value of hedge commodity transactions is calculated based on actual historic quotations from Platts and market forward quotations of the underlying commodities.
- The fair value of forward foreign exchange contracts has been determined based on exchange rates effective at the statement of financial position date and an embedded derivative has been determined as the difference between the cumulative inflation index of the contracted inflation escalation index and the inflation rate in the country of contract execution.

These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

40. ACQUISITION OF ENI CROATIA B.V.

INA Adria B.V.	Headquarters	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Consideration transferred
	Amsterdam, Netherlands	Support activities for petroleum and natural gas extraction	15 November 2018	100.0%	-

On 15 November 2018, by executing the Share Transfer Deed, INA-Industrija nafte d.d. became the sole shareholder of ENI Croatia B.V. and subsequently the 100% owner of Croatia's offshore areas Northern Adriatic and Marica. As a result, the Group recognized gain on acquisition in amount of HRK 291 million as other operating income which mainly relates to decommissioning liability taken over in the acquisition and which will be mainly offset by the unwinding of discount impact of such liability through time.

The fair values of the identifiable assets and liabilities of ENI Croatia B.V. as the date of acquisition were as follows:

Total identifiable net assets acquired	556
Gain on acquisition	(291)
Total consideration	265

41. SUBSEQUENT EVENTS

Organisation changes

Following organizational changes, which are effective as of 1 February 2019 and 1 March 2019, with aim of efficiency and productivity increase, some work positions will be terminated and subsequently there will be decrease in number of operational employees, but also new positions will be formed. Mentioned changes will result in decrease in number of approximately 200 employees.

Currently INA, d.d. is in process of consultations with Works Council, after which final proposal on changes will be forwarded to Management Board for approval.

42. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 13 March 2019.

Signed on behalf of the Company and the Group on 13 March 2019 by:



Sándor Fasimon, President of the Management Board of INA, d.d.


Niko Dalić, member of the Management Board


Ivan Krešić, member of the Management Board


Zsolt Pethő, member of the Management Board


Ákos Székely, member of the Management Board


Davor Mayer, member of the Management Board





INDUSTRIJA NAFTE, d.d.

FINANCE

REPORT ON COMPANY AND INA GROUP STATUS FOR JANUARY-DECEMBER 2018

Zagreb, February, 2019

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INA Group and INA, d.d. financial results (IFRS) Q1-Q4 2018

This report contains parts of unaudited financial statements and is based on unaudited numbers for the period ending 31 December 2018 as prepared by the management in accordance with the International Financial Reporting Standards.

INA Group financial results (IFRS)	INA, d.d.						INA GROUP					
	2017		2018		Change %		2017		2018		Change %	
	HRK mn	USD mn	HRK mn	USD mn	HRK	USD	HRK mn	USD mn	HRK	USD	HRK	USD
Net sales revenues	17,578	2,654	21,070	3,356	20	26	18,582	2,806	22,349	3,560	20	27
EBITDA ⁽¹⁾	3,481	526	3,041	484	(13)	(8)	3,373	509	3,489	556	3	9
EBITDA excl. special items ⁽²⁾	3,342	505	2,821	449	(16)	(11)	3,234	488	3,291	524	2	7
CCS EBITDA excl. special items							3,053	461	3,116	496	2	8
Profit/(loss) from operations	1,700	257	1,353	216	(20)	(16)	1,418	214	1,687	269	19	26
Operating profit excl. special items ⁽²⁾	1,561	236	1,134	181	(27)	(23)	1,379	208	1,489	237	8	14
CCS Operating profit excl. special items							1,198	181	1,314	209	10	15
Net financial result	74	11	304	48	311	336	146	22	(167)	(27)	n.a.	n.a.
Net profit/loss attributable to equity holder	1,426	215	1,334	213	(6)	(1)	1,220	184	1,178	188	(3)	2
Net profit/loss for the period excl. special items ⁽²⁾	1,287	194	1,114	178	(13)	(8)	1,181	178	980	156	(17)	(12)
Simplified Free Cash Flow ⁽³⁾							1,660	251	1,299	207	(22)	(18)
Operating cash flow	2,651	400	2,410	384	(9)	(4)	2,484	375	2,729	435	10	16
Earnings per share												
Basic and diluted/(loss) earnings per share (kunas per share)	142.6	21.5	133.4	21.3	(6)	(1)	122.0	18.4	117.8	18.8	(3)	2
Net debt	1,239	198	1,557	241	26	22	1,397	223	1,642	254	18	14
Net gearing (%)	9.4		11.2				10.8		12.2			
CAPEX total	1,352	204	1,675	267	24	31	1,393	210	1,817	289	30	38
Domestic							1,262	191	1,587	253	26	32
International							131	20	230	37	75	85

* 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⁾ 2018 result negatively impacted by HRK (93) mln of net impact of severance payments and related provisions together with positive impact of HRK 291 mln of gain on INAgip acquisition

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

⁽⁴⁾ In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for Q4 2017 – 6.3958 HRK/USD; Q4 2018 – 6.4968 HRK/USD; for 2017 – 6.6224 HRK/USD; for 2018 – 6.2784 HRK/USD; as at 31 December 2017 – 6.2697 HRK/USD; as at 31 December 2018 – 6.469192 HRK/USD

INA Group revenues increased by 20% during 2018 driven by growth in all segments, utilizing higher hydrocarbon price and sales. At the same time, EBITDA remained at the last year level with CCS EBITDA excluding special items of HRK 3,116 million in 2018, 2% higher year-on-year. Net profit excl. special items decreased by 17% to HRK 980 million, primarily due to higher financial expenses.

Exploration and Production EBITDA excluding special items grew by 23% to HRK 3,014 million, with significantly higher realized hydrocarbon price (+33% year-on-year in USD terms) which compensated the mature structure of assets and 7% decrease in hydrocarbon production. CCS EBITDA of Refining and Marketing including Retail excluding special items was at HRK 286 million in 2018, HRK 581 million lower compared to 2017, with negative simplified free cash flow of the segment amounting to HRK (784) million, underlining the need for the execution of the INA Downstream 2023 New Course program.

Compared to 2017, CAPEX increased by 30% to the level of HRK 1,817 million. Net gearing remained low at 12.2% with year-end net debt at HRK 1,642 million.

Management discussion

Exploration and Production*

Segment IFRS results	in millions
Net sales revenues	
EBITDA **	
EBITDA excl. special items ***	
Operating profit	
Operating profit excl. special items ***	
CAPEX	

INA, d.d.						
2017		2018		Change %		
HRK mn	USD mn	HRK mn	USD mn	HRK	USD	
3,744	565	4,158	662	11	17	
2,700	408	3,076	490	14	20	
2,447	369	2,803	446	15	21	
1,539	232	2,013	321	31	38	
1,286	194	1,740	277	35	43	
618	93	644	103	4	10	

Segment IFRS results	in millions
Net sales revenues	
EBITDA **	
EBITDA excl. special items ***	
Operating profit	
Operating profit excl. special items ***	
Simplified Free Cash Flow ****	
CAPEX	

INA GROUP						
2017		2018		Change %		
HRK mn	USD mn	HRK mn	USD mn	HRK	USD	
3,760	568	4,187	667	11	17	
2,702	408	3,287	524	22	28	
2,449	370	3,014	480	23	30	
1,586	239	2,256	359	42	50	
1,333	201	1,983	316	49	57	
1,831	276	2,365	377	29	36	
618	93	649	103	5	11	

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

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

*** In 2018 EBITDA and Operating profit were positively impacted by HRK 291 mln of special items related to revenues from gain on INAgip acquisition and HRK (18) mln of severance payment and related provision

**** Simplified free cash flow = EBITDA excluding special items – CAPEX

Hydrocarbon production
Crude oil production (boe/d)
Croatia
Egypt
Angola
Natural gas production (boe/d)
Croatia - offshore
Croatia - onshore
Condensate (boe/d)
Total hydrocarbon production (boe/d)

	2017	2018	Ch. %
14,515	14,550	0	
12,165	12,443	2	
1,536	1,496	(3)	
815	611	(25)	
21,287	18,926	(11)	
7,723	6,507	(16)	
13,564	12,419	(8)	
1,786	1,441	(19)	
37,588	34,917	(7)	

Average realised hydrocarbon price
Total hydrocarbon price (USD/boe)*

	2017	2018	Ch. %
40	53	33	

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

2018 vs. 2017

KEY DRIVERS

- Brent price higher by 32% having a positive effect on crude oil and condensate sales revenues amounting to HRK 626 million
- Domestic crude oil production slightly higher as a result of:
 - Additional development projects and the EOR project
 - Full year production from two new wells on Hrastilnica field
- International crude oil production lower by 0.2 mboepd due to:
 - Natural production decline in Egypt
 - Natural production decline and various technical limitations in Angola
- Natural gas production 11% lower, driven by:
 - Lower offshore production by 16% in line with the expected production curve
 - Lower onshore production by 8% mainly as a result of lower Deep Podravina fields performance as well as planned general overhaul of facilities at Molve and Ivanić Grad locations
- Completed purchase of Eni's share in INAgip and Northern Adriatic offshore gas fields in November 2018
- Decrease of Egyptian overdue receivables

CAPITAL EXPENDITURES

2018 (HRK million)	Croatia	Egypt	Angola
Exploration	85	1	-
Development	324	78	9
Other	152	-	-
Total	561	79	9

- Higher investment level compared to 2017 mainly as a result of Drava-02 exploration drilling activities and activities in Egypt
- Total of 91 well workovers performed onshore Croatia with additional seven workovers in the EOR activities
- Egypt drilling activities and production wells put in production: North Bahariya concession - eight production and two injection wells; West Abu Gharadig concession – one production well; Ras Qattara concession - five production wells

Refining and Marketing, including Retail*

Segment IFRS results	in millions
Revenues	
EBITDA **	
EBITDA excl. special items ***	
Operating profit/(loss)	
Operating profit/(loss) excl. special items ***	
CAPEX	

INA, d.d.					
2017		2018		Change %	
HRK mn	USD mn	HRK mn	USD mn	HRK	USD
17,246	2,604	20,696	3,296	20	27
838	127	331	53	(61)	(58)
953	144	375	60	(61)	(58)
295	45	(223)	(36)	n.a.	n.a.
410	62	(179)	(28)	n.a.	n.a.
628	95	982	156	56	65

Segment IFRS results	in millions
Revenues	
EBITDA **	
EBITDA excl. special items ***	
CCS-based DS EBITDA excl. special items ***	
Operating profit/(loss)	
Operating profit/(loss) excl. special items ***	
CCS-based DS operating profit (loss)	
Simplified Free Cash Flow ****	
CAPEX	

INA GROUP					
2017		2018		Change %	
HRK mn	USD mn	HRK mn	USD mn	HRK	USD
17,999	2,718	21,420	3,412	19	26
934	141	419	67	(55)	(53)
1,049	158	461	73	(56)	(54)
867	131	286	46	(67)	(65)
366	55	(158)	(25)	n.a.	n.a.
481	73	(116)	(18)	n.a.	n.a.
299	45	(291)	(46)	n.a.	n.a.
154	23	(784)	(125)	n.a.	n.a.
713	108	1,070	170	50	58

* Refers to Refining & Marketing including Retail INA, d.d. and the 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 MALOPRODAJNI SERVISI d.o.o.

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

*** In 2018 Operating profit and EBITDA were negatively impacted by HRK 42 mln of special items related to severance payment and related provision

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

Refinery processing (kt)
Domestic crude oil
Imported crude oil
Condensate
Other feedstock
Total refinery throughput

	2017	2018	Ch. %
	587	552	(6)
	2,803	2,965	6
	80	59	(26)
	622	613	(1)
Total	4,092	4,189	2.4

Refinery production (kt)
LPG
Naphtha
Gasoline
Kerosene
Diesel
Heating oil
Fuel oil
Other products*
Total
Refinery loss
Own consumption
Total refinery production

	2017	2018	Ch. %
	242	215	(11)
	52	39	(25)
	1,058	979	(7)
	133	192	44
	1,355	1,406	4
	143	144	1
	512	622	21
	141	137	(2)
Total	3,635	3,734	3
	43	55	28
	415	400	(3)
Total	4,092	4,189	2

* 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.

Refined product sales by country (kt)
Croatia
B&H
Slovenia
Other markets
Total

	2017	2018	Ch. %
	1,814	1,839	1
	616	701	14
	70	77	10
	1,727	1,714	(1)
Total	4,227	4,331	2

Refined product sales by product (kt)
LPG
Naphtha
Gasoline
Kerosene
Diesel
Heating oil
Fuel oil
Bitumen
Other products*
Total
o/w Retail segment sales

	2017	2018	Ch. %
	291	267	(8)
	50	40	(20)
	1,044	862	(17)
	175	201	15
	1,755	1,926	10
	163	159	(2)
	536	579	8
	51	60	18
	162	237	46
Total	4,227	4,331	2
o/w Retail segment sales	1,056	1,082	2

Total natural gas sales (cmc)
Total number of Service stations

	2017	2018	Ch. %
	1,416	1,360	(4)
	494	500	1

*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

2018 vs. 2017

KEY DRIVERS

- Negative impact of higher Brent price (increase from 54 USD/bbl to 71 USD/bbl), lower gasoline (-15 USD/t) and fuel oil (-34 USD/t) crack spreads, partially mitigated by higher diesel (+17 USD/t) crack spread
- Increased total wholesale volumes on the back of higher sales on the domestic market (+25 kt) and the B&H markets (+85 kt) supported by stable sales margins, together with increased jet fuel sales driven by strong demand supported by increased production while lowering the import need
- Full extent of the new operating mode of both refineries was implemented resulting in a higher processing level (+97 kt) supporting increased sales, with continued utilisation of an extended crude basket
- Total retail sales volumes at 1,082 kt moderately improved (+2%), with a significant contribution of the network in Bosnia and Herzegovina (+7 kt) and due to network expansion in Montenegro from one to five service stations (+4 kt)
- Non-fuel margin increased by 11% and contributed 55% of the total Retail margin growth compared to last year period due to the continuous expansion in goods and development of new non-fuel related services

CAPITAL EXPENDITURES

- Refining and Marketing CAPEX amounted to HRK 857 million compared to HRK 550 million in 2017
 - Engineering Procurement and Construction tender for Residue Upgrade Project was finalized. Preparation of Front-End engineering design for all units has been completed. Main design prepared for all units and submitted to the Ministry for issuing Construction permits
 - Activities on the Propane-Propylene Splitter project on-going and civil works on the site are in progress
 - Preparation for the Rijeka Refinery Turnaround to be executed during Q1 2019
 - Continued investment activities in logistics and refining development projects with focus on environmental related projects
- Retail CAPEX amounted to HRK 213 million compared to HRK 163 million in 2017
 - Over 70 investments projects finished in INA Group Retail including greenfield constructions, acquisitions, service station reconstructions, modernizations, new auto LPG POS, new car washes and double-wall tanks
 - From the total investments, 33 projects aimed at expanding and improving the non-fuel offer in line with the "Fresh corner" concept
- Inorganic growth in Montenegro on top of CAPEX

Corporate and other

Segment IFRS results in millions	INA, d.d.					
	2017		2018		Change %	
	HRK mn	USD mn	HRK mn	USD mn	HRK	USD
Revenues	122	18	137	22	12	18
EBITDA	(75)	(11)	(298)	(47)	297	319
EBITDA excl. special items	(75)	(11)	(289)	(46)	285	306
Operating profit/(loss) reported	(152)	(23)	(369)	(59)	143	156
Operating profit/(loss) excl. special items	(152)	(23)	(360)	(57)	137	150
CAPEX and investments (w/o acquisition)	106	16	49	8	(54)	(51)

Segment IFRS results in millions	INA GROUP					
	2017		2018		Change %	
	HRK mn	USD mn	HRK mn	USD mn	HRK	USD
Revenues	1,451	219	1,829	291	26	33
EBITDA	(157)	(24)	(88)	(14)	(44)	(41)
EBITDA excl. special items	(157)	(24)	(55)	(9)	(65)	(63)
Operating profit/(loss) reported	(428)	(65)	(282)	(45)	(34)	(31)
Operating profit/(loss) excl. special items	(328)	(50)	(249)	(40)	(24)	(20)
CAPEX and investments (w/o acquisition)	43	6	57	9	33	40

Main external parameters

Crude oil prices	2017	2018	Ch. %
Brent dtd (USD/bbl)	54.0	71.0	31.5
Brent-Ural spread (USD/bbl)	0.92	1.09	18.5
FOB MED Products prices and crack spreads			
Gasoline - premium unleaded 10 ppm (USD/t)	490	638	30.2
Diesel - ULSD 10 ppm (USD/t)	298	394	32.2
Fuel oil 3.5% (USD/t)	512	552	7.8
LPG (USD/t)	138	123	(10.9)
Crack spread - gasoline (USD/t)	81	98	21.0
Crack spread - diesel (USD/t)	(112)	(146)	30.4
Crack spread - fuel oil 3.5% (USD/t)	102	13	(87.3)
Indicative refining margins (USD/bbl)*	1.80	(0.03)	n.a.
Foreign exchange			
HRK/USD average	6.27	6.28	(5.1)
HRK/USD closing	6.27	6.47	3.2
HRK/EUR average	7.46	7.41	(0.7)
HRK/EUR closing	7.51	7.42	(1.2)
3m USD LIBOR (%)	1.26	2.31	82.7
3m EURIBOR (%)	(0.33)	(0.32)	(2.1)

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

Financial overview

Statement of Profit or Loss – INA Group

Revenues from contract with customers in 2018 amounted to HRK 22,349 million and were 20% above the 2017 level, triggered mainly by higher crude oil and product prices and increased total sales volume on domestic and B&H market.

Costs of raw materials and consumables were 33% above the 2017 level at HRK 12,033 million, resulting mainly from higher processing and higher crude prices.

Costs of other goods sold in 2018 recorded an increase of 23% compared to 2017, and amounted to HRK 3,605 million resulting from different sales structure.

Other **operating costs** realized in 2018 include:

- Other material costs were higher by 17% and amounted to HRK 2,188 million related to increasing oil prices and higher Croscos engagement abroad.
- Service costs in the amount of HRK 569 million were 22% higher than 2017 level mainly due to emission charge
- Depreciation, amortisation and impairment (net) in the amount of HRK 1,802 million was 8% lower compared to 2017
- Adjustments and provisions had a positive effect in the amount of HRK 152 million mainly related to collection of previously value adjusted EGPC receivables

Staff costs in the amount HRK 1,927 million were 7% higher compared to 2017.

Income tax expense in 2018 amounted to HRK 343 million compared to HRK 342 million income tax expense in 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 December 2017 and 31 December 2018.

Net result from financial activities is negative in 2018 compared to positive 2017 impact mainly as a result of:

- Net foreign exchange loss reached HRK 38 million in 2018, while in 2017 net foreign exchange gain reached HRK 223 million.
- Interest payable amounted to HRK 68 million and interest received to HRK 3 million in 2018, while in 2017 interest payable amounted to HRK 57 million and interest received to HRK 4 million.
- Other financial net expenses amounted to HRK 64 million and are higher compared to HRK 40 million financial expenses in 2017.

Statement of Profit or Loss – INA, d.d.

Total sales revenues in 2018 amounted HRK 21,070 million, 20% higher compared to 2017 level, primarily triggered by higher refined products sales combined with higher crude oil price.

Costs of raw materials and consumables were 34% higher and amounted to HRK 11,819 million, resulting mainly from higher processing and higher crude prices.

Costs of goods sold recorded an increase of 19%, and amounted HRK 3,169 million, resulting from different sales structure.

Within the **other operating costs** realized in 2018:

- Other material costs amounted to HRK 2,162 million, a 15% increase compared to 2017.
- Service costs in the amount of HRK 787 million raised 12% above the last year's level.
- Depreciation, amortisation and impairment (net) was 5% lower compared to 2017 and amounted to HRK 1,688 million.
- Adjustments and provisions had a positive effect of HRK 145 million but were mainly related to collection of previously value adjusted EGPC receivables.

Staff costs in the amount HRK 950 million were 5% higher than 2017.

Net financial profit in the amount of HRK 304 million was recorded in 2018, compared to HRK 74 million of net financial profit in 2017.

Consolidated Statement of financial position – INA Group

As at 31 December 2018 INA Group **total assets** amounted to HRK 20,742 million, 8% higher compared to 31 December 2017.

In the period ended 31 December 2018, INA Group invested HRK 121 million in intangible assets. The effect of depreciation equals HRK 48 million. Acquisition of INA Adria entity increased NBV of intangible assets in amount of HRK 47 million.

In the period ended 31 December 2018, INA Group invested HRK 1,696 million in property, plant and equipment. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 1,632 million.

Share capital as at 31 December 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.

Inventories amounted to HRK 2,645 million, and have increased by 17% compared to 31 December 2017 as a result of higher crude oil volume together with higher price.

Trade receivables net amounted to HRK 1,837 million which is 32% higher than 31 December 2017 and in line with the sales revenues dynamic.

As at 31 December 2018 **total liabilities** amounted to HRK 8,919 million which is 15% or HRK 1,182 million higher compared to 31 December 2017. INA Group **net debt** amounted to HRK 1,642 million and increased by 18% compared to 31 December 2017.

Net gearing¹ increased from 10.8% as at 31 December 2017, to 12.2% as at 31 December 2018.

Trade payables increased by 47% to HRK 1,720 million, as a result of INAgip acquisition.

Statement of financial position – INA, d.d.

Total assets of INA, d.d., as at 31 December 2018 amounted to HRK 20,887 million and was 9% higher than 31 December 2017.

Property, plant and equipment amounted to HRK 10,586 million and were in line with 31 December 2017.

Trade receivables outside of INA Group amounted to HRK 1,490 million and were 33% higher compared to 31 December 2017.

Total liabilities amounted to HRK 8,535 million and were 16% higher compared to 31 December 2017.

Net indebtedness of INA, d.d., amounted to HRK 1,557 million as at 31 December 2018 which is 26% higher compared to 31 December 2017. **Gearing ratio**² increased from 9.4% as at 31 December 2017 to 11.2% as at 31 December 2018.

As at 31 December 2018 **trade payables** outside of INA-Group amounted HRK 1,242 million, which is an increase of 58% compared to the 31 December 2017 as a result of INAgip acquisition.

Cash flow – INA Group

The **operating cash flow before changes in working capital** amounted to HRK 3,131 million in 2018 representing a decrease of HRK 121 million compared to 2017, which is in line with the change in EBITDA performance excluding non-cash items compared to the previous year.

Movements in working capital affected the operating cash flow negatively by HRK 341 million, due to:

- Increased value of inventories in the amount of HRK 725 million mainly related to higher prices and domestic crude inventory volume change
- Increase in receivables in the amount of HRK 319 million as a result of higher sales revenues in 2018 compared to 2017
- Increase in trade and other payables in the amount of HRK 703 million affected by INAgip acquisition.

Net cash used for investing activities amounted to HRK 2,242 million of outflows, compared to HRK 1,300 million outflows in 2017.

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

Cash flow – INA, d.d.

The operating cash-flow before changes in working capital amounted to HRK 2,949 million in 2018, which is a decrease of 5% compared to the same period last year.

Changes in working capital affected the operating cash flow negatively by HRK 504 million, primarily due to:

- Increased value of inventories by HRK 645 million,
- Increase in receivables by HRK 881 million,
- Payables increase by HRK 1,022 million.

In 2018, taxes paid influenced the operating cash flow negatively by HRK 35 million, while in 2017 taxes paid influenced the operating cash flow negatively by HRK 13 million. All the above factors resulted in HRK 2,410 million net inflows from operating activities generated by INA d.d. in 2018.

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). Additionally, gas trading operations have been moved from the Exploration and Production to Refining and Marketing incl. Retail and the comparable periods restated.

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 December 2018 INA had:

- Opened short-term forward commodity swap transactions to hedge its exposure to changes in pricing periods, inventory levels and refining margins
- Contracted and available short-term credit lines amounting to HRK 2,232 million excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products
- Contracted and available long-term credit lines amounting to HRK 2,713 million.

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 profit eliminations

Intersegment elimination indicates unrealised profit/loss on domestic crude oil being transferred from Exploration and Production to Refining and Marketing but still being kept on INA inventory as crude oil or finished / semi-finished product. Intersegment EBITDA effect on results in 2018 is HRK (129) million which is lower compared to HRK 106 million in 2017 due to different schedule of domestic crude processing.

Investments in INA portfolio companies

The Company has the following principal subsidiaries (*subsidiary owned directly by the Company):

Name of company	Activity	Shareholding	
		31 Dec 2017	31 Dec 2018
Oil field services			
*Crosco Naftni Servisi d.o.o. Zagreb	Oilfield services	100%	100%
Crosco B.V. Amsterdam, Netherlands	Oilfield services	100%	100%
Nordic Shipping Ltd, Marshall Islands	Platform leasing	100%	100%
Sea Horse Shipping Inc, Marshall Islands	Platform leasing	100%	100%
Rotary Zrt., Hungary	Oilfield services	100%	100%
Crosco S.A. DE C.V. Monterrey, Mexico	Oilfield services	99.90%	99.90%
Crosco International d.o.o. Tuzla, BiH	Oilfield services	100%	100%
Crosco Ukraine LLC	Oilfield services	100%	100%
Oil exploration and production			
*INA Naftaplin International Exploration and Production Ltd, Guernsey	Oil exploration and production	100%	100%
INA Adria B.V.	Oil exploration and production	-	100%
INA Jadran, d.o.o.	Oil exploration and production	50%	100%
Tourism			
*Hostin d.o.o. Zagreb	Tourism	100%	100%
Auxillary services			
*STSI integrirani tehnički servisi d.o.o. Zagreb	Technical services	100%	100%
*TRS Top računovodstvo servisi d.o.o. za računovodstvene usluge	Accounting, book-keeping, auditing, tax consulting	100%	100%
* Plavi tim d.o.o., Zagreb	IT services	100%	100%
Production and trading			
*INA Maziva d.o.o., Zagreb	Production and lubricants trading	100%	100%
Trading and finance			
*IINA Slovenija, d.o.o. , Ljubljana, Slovenia	Trading	100%	100%
*INA BH d.d. Sarajevo, Bosnia and Herzegovina	Trading	100%	100%
*Holdina d.o.o. Sarajevo, B&H	Trading	100%	100%
*Energopetrol d.d. Sarajevo, BiH	Trading	67%	88,66%
*INA d.o.o. Beograd, Serbia	Trading	100%	100%
*INA Kosovo d.o.o. Priština	Trading	100%	100%
*Adriagas S.r.l. Milan, Italy	Pipeline project company	100%	100%
*Croplin d.o.o. Zagreb	Pipeline project company	100%	100%
*INA Crna Gora d.o.o. Podgorica, Montenegro	Trading	100%	100%
*INA BL d.o.o. Banja Luka	Trading	100%	100%
*Petrol d.d. Jurdani	Trading	100%	100%
*INA Maloprodajni servisi d.o.o.	Trading	100%	100%

Related party transactions – INA Group

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 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 December 2018	31 December 2018
Companies available for sale		
JANAF d.d. Zagreb	5	54
Strategic partner		
MOL Nyrt	304	662
Companies controlled by strategic partner		
Tifon d.o.o.	613	7
MOL Petrochemical	111	5
MOL SLOVENIJA d.o.o.	70	68
Slovnaft, a.s.	23	187
MOL Srbija	20	-
Geoinform Kft	7	3
Mélyfürési Zrt	6	4
MOL-LUB Kft	-	62
MOL Commodity Trading Kft	-	6
MOL Germany GMBH	-	5
FGSZ Zrt	-	1

INA Group	Amounts owed from related parties	Amounts owed to related parties
HRK mln	31 December 2018	31 December 2018
Companies available for sale		
JANAF d.d. Zagreb	1	7
Strategic partner		
MOL Nyrt	33	77
Companies controlled by strategic partner		
Tifon d.o.o.	70	1
MOL Commodity Trading Kft	-	8
MOL Petrochemicals	10	-
Slovnaft, a.s.	7	7
MOL SLOVENIJA d.o.o.	6	5
MOL Srbija	1	-
Geoinform Kft	1	-
MOL-LUB Kft	1	1
MOL Commodity Trading Kft	-	8

Related party transactions – INA, d.d.

INA, d.d. 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, d.d. strategic position within the Croatian economy, a substantial portion of its business is transacted with the Croatian Government, its departments and agencies, and the companies with the Republic of Croatia being their majority shareholder.

Details of transactions between INA, d.d. and the INA d.d. companies and other related parties during 2018 are disclosed below:

INA, d.d. HRK mln	Sales of goods	Purchase of goods
	31 December 2018	31 December 2018
Related companies		
Holdina d.o.o. Sarajevo	2,463	1
Hostin d.o.o.	1	30
INA Crna Gora d.o.o. Podgorica	337	-
STSI, Integrirani tehnički servisi d.o.o.	26	722
CROSCO, naftni servisi d.o.o.	14	341
INA Adria B.V.	1	27
INA Jadran d.o.o.	3	12
INA Slovenija d.o.o. Ljubljana	91	-
Plavi tim d.o.o.	9	55
INA MAZIVA d.o.o.	7	57
INA Maloprodajni servisi d.o.o.	6	273
Top Računovodstvo Servisi d.o.o.	3	55
INA d.o.o. Banja Luka	-	1
INA Kosovo d.o.o.	-	1
Energopetrol d.d.	31	-
Companies available for sale		
JANAF d.d. Zagreb	5	54
Strategic partner		
MOL Nyrt	79	549
Companies controlled by strategic partner		
Tifon d.o.o.	611	7
MOL Slovenia d.o.o.	67	-
MOL Petrochemicals Co Ltd	111	5
MOL Serbia d.o.o.	20	-
Slovnaft a.s.	23	187
MOL Commodity Trading Kft.	-	62
IES Italiana Energia e Servizi S.p.A	-	5
Geoinform Kft.	1	-
MOL Germany GmbH	-	6
FGSZ Zrt.	-	1

INA, d.d. HRK mln	Amounts owed from related parties	Amounts owed to related parties
	31 December 2018	31 December 2018
Subsidiaries		
Holdina d.o.o. Sarajevo	192	1
INA Crna Gora d.o.o. Podgorica	33	-
CROSCO, naftni servisi d.o.o.	12	49
STSI, Integrirani tehnički servisi d.o.o.	7	232
INA Adria B.V.	2	32
INA Jadran d.o.o.	4	16
Plavi tim d.o.o.	3	12
INA MAZIVA d.o.o.	5	7
INA Slovenija d.o.o. Ljubljana	8	-
Top Računovodstvo Servisi d.o.o.	1	4
INA Maloprodajni servisi d.o.o.	-	35
Companies available for sale		
JANAF d.d. Zagreb	1	2
Strategic partner		
MOL Nyrt	1	68
Companies controlled by strategic partner		
Tifon d.o.o.	69	1
MOL Commodity Trading Kft.	63	71
MOL Slovenia d.o.o.	6	3
MOL Serbia d.o.o.	1	-
MOL Petrochemicals Co Ltd	10	-
Slovnaft a.s.	7	7
Geoinform Kft.	1	-

INA Group and INA, d.d. Summary Segmental Results of Operations

	INA, d.d.			INA GROUP		
	2017	2018	Ch. %	2017	2018	Ch. %
	HRK mn	HRK mn		HRK mn	HRK mn	
Sales						
Exploration & Production	3,744	4,158	11	3,760	4,187	11
Refining & Marketing including Retail	17,246	20,696	20	17,999	21,420	19
Corporate and Other	122	137	12	1,451	1,829	26
Inter-segment revenue eliminations	(3,534)	(3,921)	11	(4,628)	(5,087)	10
Sales	17,578	21,070	20	18,582	22,349	20
EBITDA*						
Exploration & Production	2,700	3,076	14	2,702	3,287	22
Refining & Marketing including Retail	838	331	(61)	934	419	(55)
Corporate and Other	(75)	(298)	297	(157)	(88)	(44)
Inter-segment profit eliminations	18	(68)	n.a.	(106)	(129)	22
Total	3,481	3,041	(13)	3,373	3,489	3
EBITDA Excluding Special Items						
Exploration & Production	2,447	2,803	15	2,449	3,014	23
Refining & Marketing including Retail	953	375	(61)	1,049	461	(56)
Corporate and Other	(75)	(289)	285	(157)	(55)	(65)
Inter-segment profit eliminations	18	(68)	n.a.	(106)	(129)	22
Total	3,342	2,822	(16)	3,234	3,291	2
Operating Profit/Loss						
Exploration & Production	1,539	2,013	31	1,586	2,256	42
Refining & Marketing including Retail	295	(223)	n.a.	366	(158)	n.a.
Corporate and Other	(152)	(369)	143	(428)	(282)	(34)
Inter-segment profit eliminations	18	(68)	n.a.	(106)	(129)	22
Total	1,700	1,353	(20)	1,418	1,687	19
Operating Profit/Loss Excluding Special Items						
Exploration & Production	1,286	1,740	35	1,333	1,983	49
Refining & Marketing including Retail	410	(179)	n.a.	481	(116)	n.a.
Corporate and Other	(152)	(360)	137	(328)	(249)	(24)
Inter-segment profit eliminations	18	(68)	n.a.	(106)	(129)	22
Total	1,561	1,134	(27)	1,379	1,489	8
Property, plant and equipment						
Exploration & Production	5,406	5,076	(6)	5,329	5,228	(2)
Refining & Marketing including Retail	4,938	4,943	0	5,582	6,069	9
Corporate and Other	360	254	(29)	1,418	1,385	(2)
Inter-segment assets eliminations	-	-	n.a.	(313)	(398)	27
Total	10,704	10,273	(4)	12,016	12,284	2

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

Condensed Consolidated and Unconsolidated Statement of Profit or Loss
INA Group and INA, d.d. for the period ended 31 December 2017 and 2018
 (in HRK millions)

	INA, d.d.			INA GROUP		
	2017	2018	Ch. %	2017	2018	Ch. %
	HRK mn	HRK mn		HRK mn	HRK mn	
Revenue from contracts with customers	17,578	21,070	20	18,582	22,349	20
Capitalised value of own performance	10	14	40	327	416	27
Other operating income	413	335	(19)	174	529	204
Total operating income	18,001	21,419	19	19,083	23,294	22
Changes in inventories of finished products and work in progress	288	364	26	274	365	33
Cost of raw materials and consumables	(8,816)	(11,819)	34	(9,061)	(12,033)	33
Depreciation, amortization and impairment (net)*	(1,781)	(1,688)	(5)	(1,955)	(1,802)	(8)
Other material costs	(1,881)	(2,162)	15	(1,871)	(2,188)	17
Service costs	(700)	(787)	12	(466)	(569)	22
Staff costs	(909)	(950)	5	(1,803)	(1,927)	7
Cost of other goods sold	(2,666)	(3,169)	19	(2,942)	(3,605)	23
Impairment and charges (net)*	18	162	800	8	165	1,963
Provisions for charges and risks (net)	146	(17)	n.a.	151	(13)	n.a.
Operating expenses	(16,301)	(20,066)	23	(17,665)	(21,607)	22
Profit/(loss) from operations	1,700	1,353	(20)	1,418	1,687	19
Share in the profit of associated companies						
Finance income	384	505	32	452	54	(88)
Finance costs	(310)	(201)	(35)	(306)	(221)	(28)
Net result from financial activities	74	304	311	146	(167)	n.a.
Profit/(loss) before tax	1,774	1,657	(7)	1,564	1,520	(3)
Income tax expense	(348)	(323)	(7)	(342)	(343)	0
Profit/(loss) for the year	1,426	1,334	(6)	1,222	1,177	(4)
Attributable to						
Owners of the Company	1,426	1,334	(6)	1,220	1,178	(3)
Non-controlling interests	-	-	n.a.	2	(1)	n.a.
	1,426	1,334	(6)	1,222	1,177	(4)
Earnings per share						
Basic and diluted earnings/(loss) per share (kunas per share)	142.6	133.4	(6)	122.0	117.8	(3)

* Restatement of comparable previous periods was made – see on page 2

Condensed Consolidated and Unconsolidated Statement of Financial Position INA Group and INA, d.d. at 31 December 2018 (in HRK millions)

	INA, d.d.			INA GROUP		
	31 Dec 2017	31 Dec 2018	Ch. %	31 Dec 2017	31 Dec 2018	Ch. %
	HRK mn	HRK mn		HRK mn	HRK mn	
Assets						
Non-current assets						
Intangible assets	408	431	6	570	644	13
Property, plant and equipment	10,578	10,586	0	12,016	12,284	2
Investments in subsidiaries	1,079	1,960	82	-	-	n.a.
Investments in associates and joint ventures	-	150	n.a.	-	150	n.a.
Other investments	669	752	12	13	16	23
Long-term receivables and other assets	105	743	608	96	732	663
Deferred tax	1,343	1,089	(19)	1,451	1,199	(17)
Non-current financial assets	665	479	(28)	665	479	(28)
Total non-current assets	14,847	16,190	9	14,811	15,504	5
Current assets						
Inventories	2,021	2,351	16	2,264	2,645	17
Trade receivables net	1,118	1,490	33	1,393	1,837	32
Intercompany receivables	225	256	14	-	-	n.a.
Other receivables	144	73	(49)	210	121	(42)
Corporative income tax receivables	1	-	n.a.	10	8	(20)
Marketable securities	-	27	n.a.	-	27	n.a.
Other current assets	494	165	(67)	139	174	25
Cash and cash equivalents	364	335	(8)	428	422	(1)
Current assets	4,367	4,697	8	4,444	5,234	18
Assets classified as held for sale	-	-	n.a.	8	4	(50)
Total current assets	4,367	4,697	8	4,452	5,238	18
Total assets	19,214	20,887	9	19,263	20,742	8
Equity and liabilities						
Capital and reserves						
Share capital	9,000	9,000	0	9,000	9,000	0
Legal reserves	28	99	254	28	99	254
Revaluation reserve	289	135	(53)	289	135	(53)
Other reserves	1,138	1,184	4	1,516	1,544	2
Retained earnings	1,426	1,934	36	827	1,036	25
Equity attributable to equity holder of the parent	11,881	12,352	4	11,660	11,814	1
Non-controlling interests	-	-	n.a.	(134)	9	n.a.
Total equity	11,881	12,352	4	11,526	11,823	3
Non-current liabilities						
Long-term loans	122	-	n.a.	122	4	(97)
Other non-current liabilities	51	44	(14)	52	45	(13)
Employee benefits obligation	31	33	6	73	77	5
Provisions	3,241	3,599	11	3,119	3,462	11
Deferred tax liability	-	-	n.a.	14	14	(0)
Total non-current liabilities	3,445	3,676	7	3,380	3,602	7
Current liabilities						
Bank loans and overdrafts	1,359	1,767	30	1,581	1,962	24
Current portion of long-term debt	122	125	2	122	125	2
Intercompany payables	495	584	18	-	-	n.a.
Trade payables	787	1,242	58	1,171	1,720	47
Taxes and contributions	527	514	(2)	626	612	(2)
Other current liabilities	374	395	6	540	590	9
Employee benefits obligation	3	3	0	5	5	0
Provisions	221	229	4	312	303	(3)
Total current liabilities	3,888	4,859	25	4,357	5,317	22
Total liabilities	7,333	8,535	16	7,737	8,919	15
Total equity and liabilities	19,214	20,887	9	19,263	20,742	8

Condensed Consolidated and Unconsolidated Cash Flow Statement INA Group and INA, d.d. for the period ended 31 December 2017 and 2018 (in HRK millions)

	INA, d.d.			INA GROUP		
	2017	2018	Ch. %	2017	2018	Ch. %
Profit for the year	1,426	1,334	(6)	1,222	1,177	(4)
Adjustments for:						
Depreciation, amortisation and impairment (net)	1,781	1,688	(5)	1,955	1,802	(8)
Tax expense recognised in statement of profit or loss	348	323	(7)	342	343	0
Impairment charges (net)	(18)	(162)	800	(8)	(165)	1,963
Gain on sale of property, plant and equipment	(268)	(7)	(97)	(16)	3	n.a.
Gain on sale investments and shares	-	-	n.a.	-	(291)	n.a.
Foreign exchange loss/(gain)	(159)	49	n.a.	(223)	45	n.a.
Interest expense (net)	(3)	6	n.a.	45	26	(42)
Other financial expense recognised in profit	67	(429)	n.a.	11	58	427
Decrease in provisions	(150)	(20)	(87)	(155)	(23)	(85)
Decommissioning interests	21	56	167	21	62	195
Net gain/loss on derivative financial instruments and hedge transactions	48	96	100	48	96	100
Other non-cash items	-	15	n.a.	10	(2)	n.a.
Operating cash flow before working capital changes	3,093	2,949	(5)	3,252	3,131	(4)
Movements in working capital						
(Increase)/decrease in inventories	(314)	(645)	105	(327)	(725)	122
(Increase)/decrease in receivables and prepayments	(121)	(881)	628	(76)	(319)	320
(Decrease)/increase in trade and other payables	6	1,022	16,933	(333)	703	n.a.
Cash generated from operations	2,664	2,445	(8)	2,516	2,790	11
Taxes paid	(13)	(35)	169	(32)	(61)	91
Net cash inflow from operating activities	2,651	2,410	(9)	2,484	2,729	10
Cash flows used in investing activities						
Capital expenditures, exploration and development costs	(1,241)	(1,279)	3	(1,277)	(1,842)	44
Payment for intangible assets	(107)	(125)	17	(114)	(125)	10
Proceeds from sale of non-current assets	14	8	(43)	26	9	(65)
Payments related to sale of subsidiary	23	-	n.a.	23	(297)	n.a.
Acquisition of investments in associates and joint ventures and other companies	-	(415)	n.a.	-	-	n.a.
Dividends received from companies classified as available for sale and from other companies	20	-	n.a.	20	1	(95)
Payments related to sale of subsidiary	-	121	n.a.	-	-	n.a.
Interest received and other financial income	13	51	292	11	11	0
Investments and loans to third parties, net	(186)	(250)	34	11	1	(91)
Net cash used for investing activities	(1,464)	(1,889)	29	(1,300)	(2,242)	72
Cash flows from financing activities						
Repayment of long-term borrowings	(129)	(122)	(5)	(129)	(122)	(5)
Additional short-term borrowings	10,389	14,998	44	10,103	14,634	45
Repayment of short term borrowings	(11,328)	(14,582)	29	(11,103)	(14,258)	28
Dividends paid	(152)	(812)	434	(152)	(812)	434
Interest paid on long-term loans	(8)	(5)	(38)	(8)	(5)	(38)
Interest paid on short term loans and other financing charges	(75)	(50)	(33)	(78)	46	n.a.
Net cash from financing activities	(1,303)	(573)	(56)	(1,367)	(517)	(62)
Net (decrease)/increase in cash and cash equivalents	(116)	(52)	(55)	(183)	(30)	(84)
At 1 January	500	364	(27)	611	428	(30)
Effect of foreign exchange rate changes	(20)	23	n.a.	-	24	n.a.
At the end of period	364	335	(8)	428	422	(1)

Management representation

INA Group's and INA, d.d. financial statements for Q1-Q4 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:

Sándor Fasimon	President
Niko Dalić	Member
Ivan Krešić	Member
Davor Mayer	Member
Zsolt Pethő	Member
Ákos Székely	Member