



**INA GROUP
Q2 & H1 2020
FINANCIAL REPORT**

Zagreb, July, 2020

INA Group (ZB: INA-R-A; www.ina.hr) announced its Q2 and H1 2020 results. This report contains unaudited consolidated financial statements for the period ending 30 June 2020 as prepared by the Management in accordance with the International Financial Reporting Standards.

INA Group financial results (IFRS)

Q2 2019	Q2 2020	HRK mln	H1 2019	H1 2020	%
5,543	3,132	Net sales revenues*	9,794	7,080	(28)
583	444	EBITDA ⁽¹⁾	1,122	(54)	n.a.
583	444	EBITDA excl. special items ⁽²⁾	1,122	(54)	n.a.
673	383	CCS EBITDA excl. special items	1,175	813	(31)
157	(83)	Profit/(loss) from operations	287	(983)	n.a.
157	(83)	Profit/(loss) from operations excl. special items ⁽²⁾	287	(983)	n.a.
247	(144)	CCS Profit/(loss) from operations excl. special items	340	(116)	n.a.
(1)	(2)	Net (loss)/income from financial activities	(37)	(82)	122
130	(167)	Profit/(loss) for the period attributable to Owners of the Company	188	(965)	n.a.
130	(167)	Profit/(loss) for the period excl. special items ⁽²⁾	188	(965)	n.a.
108	60	Simplified Free Cash Flow ⁽³⁾	(8)	295	n.a.
(488)	645	Net operating cash flow	1,008	602	(40)
Earnings per share					
13.0	(16.7)	Basic and diluted earnings/(loss) per share (HRK per share)	18.8	(96.5)	n.a.
1,763	2,543	Net debt	1,763	2,543	44
14.0	20.0	Net gearing (%)	14.0	20.0	
565	323	CAPEX total	1,183	518	(56)
511	299	Domestic	992	457	(54)
54	24	International	191	61	(68)
Q2 2019	Q2 2020	USD mln ⁽⁴⁾	H1 2019	H1 2020	%
840	455	Net sales revenues*	1,493	1,035	(31)
88	64	EBITDA ⁽¹⁾	171	(8)	n.a.
88	64	EBITDA excl. special items ⁽²⁾	171	(8)	n.a.
102	56	CCS EBITDA excl. special items	179	119	(34)
24	(12)	Profit/(loss) from operations	44	(144)	n.a.
24	(12)	Profit/(loss) from operations excl. special items ⁽²⁾	44	(144)	n.a.
37	(21)	CCS Profit/(loss) from operations excl. special items	52	(17)	n.a.
(0)	(0)	Net (loss)/income from financial activities	(6)	(12)	100
20	(24)	Profit/(loss) for the period attributable to Owners of the Company	29	(141)	n.a.
20	(24)	Profit/(loss) for the period excl. special items ⁽²⁾	29	(141)	n.a.
16	9	Simplified Free Cash Flow ⁽³⁾	(1)	43	n.a.
(74)	94	Net operating cash flow	154	88	(43)
Earnings per share					
2.0	(2.4)	Basic and diluted earnings/(loss) per share (HRK per share)	2.9	(14.1)	n.a.
271	379	Net debt	271	379	40
85	47	CAPEX total	180	76	(58)
77	43	Domestic	151	67	(56)
8	4	International	29	9	(69)

* Related to Revenue from contracts with customers

(1) EBITDA = EBIT + Depreciation, amortization and impairment (net)

(2) In reporting period the result was not impacted by special items

(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 Q2 2019 – 6.60 HRK/USD; Q2 2020 – 6.89 HRK/USD; for H1 2019 – 6.56 HRK/USD; H1 2020 – 6.84 HRK/USD; as at 30 June 2019 – 6.50 HRK/USD; as at 30 June 2020 – 6.71 HRK/USD; as at 31 December 2019 – 6.65 HRK/USD

As a result of the unforeseen and unprecedented market turmoil during the first half of 2020, INA results dropped when compared to the 2019 results. With the easing of the restrictive measures connected to COVID-19 pandemic, the global oil market have started to stabilize, but the oil & gas industry is far from a full recovery. CCS EBITDA of INA Group amounted to HRK 813 million in H1 2020, declining by 31% compared to the same period of 2019, however the Q2 2020 result is at the similar level to Q1 2020, reflecting the recent recovery of hydrocarbon prices and stable internal operations. The reported result is still negative, but significantly less than that in Q1 2020, with EBITDA of HRK (54) million in H1 2020, driven by the external environment impact.

Exploration and Production result has been impacted by the combination of 12% lower production due to natural decline and 36% lower realized hydrocarbon prices, halving the EBITDA to HRK 554 million compared to H1 2019. Refining and Marketing including Consumer Services and Retail CCS EBITDA excluding special items is positive at HRK 185 million in H1 2020, driven by healthy Retail performance. Still the reported EBITDA shows a negative trend with HRK (682) million in line with the unfavourable price environment. The pandemic and the decline in tourism resulted in a 16% drop of Retail sales volumes, while the non-fuel revenues continue to increase.

While the strategic transformation of INA Downstream continues, CAPEX was significantly lower compared to H1 2019 due to the high base effect, as a major turnaround in the Rijeka refinery in 2019 boosted investments last year. Also the CAPEX was reduced following the necessary measures made in light of the economic crisis driven by COVID-19 pandemic.



Commenting on the results, Mr. Sándor Fasimon, President of the Management Board said:

“2020 continues to prove itself as one of the most challenging years for oil & gas industry. Following the outbreak of COVID-19 pandemic many countries implemented gradual easing of restrictive measures which helped move the economy from a standstill. But for oil & gas industry recovery is still not near, since demand returned only partially and the price levels, especially of gas, remain too low for many assets to operate profitably.

In such unforeseen conditions INA took swift operative and financial measures to adapt its operations, most significant being further streamlining of operations, reducing OPEX and postponing non-critical investments. Only with such strong reaction can we maintain our stability and ensure sufficient cash flow for strategic investments in the coming years. Most of these strategic investments, which are continuing regardless of crises are focused in our refining segment as part of INA Downstream New Course 2023.

In regards of the H1 2020 operations, we can say they are stable on operational level, with CCS EBITDA of HRK 813 million, but the challenging market conditions and external factors drove reported EBITDA to negative HRK (54) million. Although negative, when comparing the results with Q1 2020, result of somewhat improved price environment and our internal efforts is visible. Exploration and Production remains pressured by expected natural production decline, further pushed down by the low hydrocarbon prices. Refining on the other hand, despite lower Brent price as an upside has to deal with large demand drop caused by lower economic activity and negative margins. Retail also witnessed its share of demand decrease, but company continues its expansion of non-fuel segment and quickly reacts to market movements.

In a market this volatile any predictions on the future would be hard to make, but with the continuation of strategic development projects, while keeping an eye on internal efficiency I am confident INA will come out of the crisis as a stronger company, more adapt to the future trends.”

Management discussion

Exploration and Production*

Q2 2019	Q2 2020	Segment IFRS results (HRK mln)	H1 2019	H1 2020	%
1,016	360	Net sales revenues	1,985	1,180	(41)
669	130	EBITDA	1,238	554	(55)
669	130	EBITDA excl. special items **	1,238	554	(55)
444	(168)	Profit from operations	798	92	(88)
444	(168)	Profit from operation excl. special items **	798	92	(88)
511	53	Simplified Free Cash Flow***	932	370	(60)
158	77	CAPEX	306	184	(40)

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

** In reporting period the result was not impacted by special items

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

Q2 2019	Q2 2020	Hydrocarbon production (boe/d)	H1 2019	H1 2020	%
14,732	13,313	Crude oil production (boe/d)	14,748	13,409	(9)
12,285	10,987	Croatia	12,349	11,059	(10)
1,845	1,802	Egypt	1,794	1,810	1
602	524	Angola	605	540	(11)
18,365	16,022	Natural gas production (boe/d)	19,018	16,427	(14)
6,248	4,898	Croatia - offshore	6,612	5,057	(24)
12,117	11,124	Croatia - onshore	12,406	11,370	(8)
1,296	1,115	Condensate (boe/d)	1,342	1,154	(14)
34,393	30,450	Total hydrocarbon production (boe/d)	35,108	30,990	(12)

Q2 2019	Q2 2020	Average realised hydrocarbon price	H1 2019	H1 2020	%
50	20	Total hydrocarbon price (USD/boe)*	50	32	(36)

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

H1 2020 vs. H1 2019

Key drivers

- 36% lower realised hydrocarbon price impacted the sales revenues negatively by HRK 581 million, with the main effects on crude oil and condensate sales revenues of HRK 321 million and additional HRK 236 million negative effect on gas sales
- Domestic crude oil production lowered as a result of natural decline and increased water cut mainly on Đeletovci and Stružec fields
- International crude oil production:
 - Egypt: Slightly higher production supported by drilling activities on North Bahariya
 - Angola: Lower volumes reflecting weaker wells performance on Block 3/05 and unplanned production shutdown events
- Natural gas production decreased as a result of:
 - Decreased offshore production driven by natural decline and increased water cut
 - Lower onshore production mainly due to high natural decline on the main gas fields (driven by Kalinovac and Vučkovec)
- Condensate production was lower in accordance with decreasing production on main gas fields

Capital expenditures

H1 2020 (HRK mln)	Croatia	Egypt	Angola
Exploration	15	2	-
Development	60	48	5
Other	54	-	-
TOTAL	129	50	5

Lower investment level compared to H1 2019 as result of projects rescheduling due to low Brent price and COVID-19 pandemic:

- Drava-02: Jankovac-1 well testing program preparation finalized, well testing to be performed in July
- 2nd and 3rd Croatia Onshore Bid Rounds: PSAs for three awarded exploration areas signed on 26 March, preparatory activities for Drava-03 seismic underway
- Total of 12 well workovers performed on onshore Croatia
- EOR project, Ivanić and Žutica: CO₂ injection ongoing with six well workovers performed
- Egypt, North Bahariya concession: six development wells were drilled out of which five were completed and put into production



Refining and Marketing, including Consumer Services and Retail*

Q2 2019	Q2 2020	Segment IFRS results (HRK mln)	H1 2019	H1 2020	%
5,242	3,024	Net sales revenues	9,286	6,812	(27)
(113)	264	EBITDA	(63)	(682)	983
(113)	264	EBITDA excl. special items**	(63)	(682)	983
(23)	203	CCS EBITDA excl. special items**	(10)	185	n.a.
(271)	80	Profit/(loss) from operations	(373)	(1,060)	184
(271)	80	Profit/(loss) from operations excl. special items**	(373)	(1,060)	184
(181)	19	CCS Profit/(loss) from operations	(320)	(193)	(40)
(404)	(24)	Simplified Free Cash Flow***	(855)	(118)	(86)
381	227	CAPEX	845	303	(64)

*Refers to Refining and Marketing including Consumer Services and Retail INA, d.d. and the following subsidiaries: INA Maziva d.o.o., INA Slovenija d.o.o., HoldINA d.o.o. Sarajevo, 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., Croplin d.o.o.

** In reporting period the result was not impacted by special items

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

Q2 2019	Q2 2020	Refining processing (kt)	H1 2019	H1 2020	%
178	31	Domestic crude oil	367	41	(89)
440	674	Imported crude oil	440	985	124
13	-	Condensate	34	-	n.a.
(56)	209	Other feedstock	(42)	288	n.a.
575	914	Total refining throughput	799	1,314	64
		Refining production (kt)			
25	49	LPG	32	66	106
4	33	Naphtha	4	49	1,125
115	203	Gasoline	196	289	47
35	14	Kerosene	35	32	(9)
173	393	Diesel	220	542	146
17	30	Heating oil	31	54	74
107	90	Fuel oil	124	114	(8)
21	20	Other products*	35	35	0
497	832	Total	677	1,181	74
12	6	Refining loss	18	13	(28)
66	76	Own consumption	104	120	15
575	914	Total refining production	799	1,314	64
		Refined product sales by country (kt)			
544	409	Croatia	950	837	(12)
209	144	B&H	366	290	(21)
12	14	Slovenia	29	27	(7)
88	32	Italy	159	57	(64)
155	525	Other markets	241	759	215
1,008	1,124	Total	1,745	1,970	13
		Refined product sales by product (kt)			
53	60	LPG	102	104	2
4	23	Naphtha	5	27	440
194	248	Gasoline	337	383	14
67	5	Kerosene	87	23	(74)
542	489	Diesel	954	886	(7)
23	41	Heating oil	64	81	27
57	97	Fuel oil	74	106	43
25	17	Bitumen	34	26	(24)
43	144	Other products**	88	334	280
1,008	1,124	Total	1,745	1,970	13
279	204	o/w Consumer services and Retail segment sales	502	420	(16)
294	217	Total natural gas sales (mln m³)	657	486	(26)
507	508	Total number of service stations	507	508	0

*Other products = Benzene concentrate, liquid sulphur, coke, motor oils, industrial lubricants, other intermediates

**Other products = Benzene concentrate, heavy naphtha, vacuum gas oil, liquid sulphur, coke, crude oil, motor oils, industrial lubricants

H1 2020 vs. H1 2019

Key drivers

- Negative reported result reflects sharp drop in Brent price and product quotations causing significant negative change in inventory value
- Clean CCS result was HRK +195 mln above the previous year mainly driven by higher share of own product sales, strong sales margins on core markets and disciplined cost saving measures, offsetting decreasing economic activity and lower demand for refined products
- Refinery margin remained under pressure due to less favourable diesel and gasoline crack spreads, while lower crude oil prices and lower energy costs had a positive impact
- Processing was higher by 515 kt versus last year when large turnaround in Rijeka refinery was executed, but was adjusted to decreased demand following COVID-19 pandemic
- Total Retail sales volumes were (420 kt) 16% below the H1 2019 level due to:
 - lower demand starting from the second half of March after the nationwide lockdown
 - drop in tourist consumption and arrivals
- Non-fuel margin increased by 15%, reflecting continuous expansion in consumer goods and services

Capital expenditures

- Refining and Marketing CAPEX amounted to HRK 250 million:
 - Rijeka Refinery Upgrade Project - issuing of engineering detailed designs are ongoing. Site preparation activities and underground installations relocation started
 - Biorefinery project: project applied for strategic investment project status in the Republic of Croatia. Basic design for ISBL is being finalized. Biomass supply chain business model was finalized
 - Propane-Propylene Splitter project successfully continued following start-up procedure from end of May with propylene purity of 99%
- Capital investments in Consumer Services and Retail amounted to HRK 53 million in H1 2020 compared to HRK 123 million in H1 2019 - Montenegro growth project accounted for significant part of H1 2019 investments, excluding it, H1 2020 capital investments are on last year level, with focus on reconstructions and Fresh corner modernisations

Main external parameters

Q2 2019	Q2 2020	Crude oil and gas prices	H1 2019	H1 2020	%
69	29	Brent dtd (USD/bbl)	66	40	(39.4)
0.04	(0.30)	Brent-Ural spread (USD/bbl)	(0.13)	0.87	n.a.
17	7	CEGH gas price (EUR/MWh)	19	10	(47.4)
FOB MED Products prices and crack spreads					
644	263	Gasoline - premium unleaded 10 ppm (USD/t)	596	367	(38.4)
603	266	Diesel – ULSD 10 ppm (USD/t)	594	365	(38.6)
382	145	Fuel oil 3.5% (USD/t)	377	186	(50.7)
456	294	LPG (USD/t)	478	377	(21.1)
123	43	Crack spread – gasoline (USD/t)	97	63	(35.1)
82	45	Crack spread – diesel (USD/t)	95	62	(34.7)
(139)	(76)	Crack spread – fuel oil 3.5% (USD/t)	(122)	(117)	(4.1)
(65)	73	Crack spread – LPG (USD/t)	(21)	74	n.a.
(1.10)	(4.05)	Indicative refining margins (USD/bbl)*	(1.02)	(1.77)	73.5
Foreign exchange					
6.60	6.89	HRK/USD average	6.56	6.84	4.3
6.50	6.71	HRK/USD closing	6.50	6.71	3.2
7.42	7.58	HRK/EUR average	7.42	7.53	1.5
7.39	7.56	HRK/EUR closing	7.39	7.56	2.3
2.51	0.73	3m USD LIBOR (%)	2.60	1.07	(58.8)
(0.32)	(0.30)	3m EURIBOR (%)	(0.31)	(0.36)	16.1

* Indicative refining margins based on 2018 Solomon yields, dated Ural price used for all feedstock

Condensed Consolidated Statement of Profit or Loss

For the period ended 30 June 2019 and 2020 (in HRK millions)

Q2 2019	Q2 2020	Note	H1 2019	H1 2020	%
5,543	3,132	Revenue from contracts with customers	9,794	7,080	(28)
86	46	Capitalised value of own performance	201	119	(41)
90	35	Other operating income	156	79	(49)
5,719	3,213	Total operating income	10,151	7,278	(28)
771	164	Changes in inventories of finished products and work in progress	254	(392)	n.a.
(1,897)	(1,511)	Costs of raw materials and consumables	(2,159)	(2,757)	28
(426)	(527)	Depreciation, amortisation and impairment (net)	(835)	(929)	11
(608)	(547)	Other material costs	(1,050)	(982)	(6)
(223)	(124)	Service costs	(367)	(249)	(32)
(480)	(385)	Staff costs	(926)	(815)	(12)
(2,908)	(484)	Costs of other goods sold	(4,899)	(2,099)	(57)
(30)	93	Impairment charges (net)	(84)	(60)	(29)
239	25	Provision for charges and risks (net)	202	22	(89)
(5,562)	(3,296)	Operating expenses	(9,864)	(8,261)	(16)
157	(83)	Profit/(Loss) from operations	287	(983)	n.a.
34	4	Finance income	67	77	15
(35)	(6)	Finance costs	(104)	(159)	53
(1)	(2)	Net (loss)/income from financial activities	(37)	(82)	122
5	40	Share of net gain/(loss) of joint ventures accounted for using the equity method	(18)	45	n.a.
161	(45)	Profit/(Loss) before tax	232	(1,020)	n.a.
(30)	(123)	Income tax benefit/(expense)	(44)	55	n.a.
131	(168)	Profit/(Loss) for the period	188	(965)	n.a.
Attributable to:					
130	(167)	Owners of the Company	188	(965)	n.a.
1	(1)	Non-controlling interests	-	-	n.a.
131	(168)		188	(965)	n.a.
Earnings per share					
13.0	(16.7)	Basic and diluted earnings/(loss) per share (HRK per share)	18.8	(96.5)	n.a.

Condensed Consolidated Statement of Financial Position

At 31 December 2019 and 30 June 2020 (in HRK millions)

	Note	31 December 2019	30 June 2020	%
Assets				
Non-current assets				
Intangible assets	9	635	584	(8)
Property, plant and equipment	10	12,567	12,213	(3)
Right-of-use assets	10	342	334	(2)
Investments in associates and joint venture		160	206	29
Other Investments		17	17	(0)
Long-term receivables		898	881	(2)
Deferred tax assets		1,035	1,121	8
Marketable securities		39	21	(46)
Non-current financial assets		607	526	(13)
Total non-current assets		16,300	15,903	(2)
Current assets				
Inventories	12	2,299	2,530	10
Trade receivables, net	13	2,026	1,347	(34)
Other receivables		143	189	32
Corporative Income tax receivables		16	13	(19)
Marketable securities		-	64	n.a.
Other current assets		136	278	104
Cash and cash equivalents		606	324	(47)
Current assets		5,226	4,745	(9)
Assets held for sale		6	6	0
Total current assets		5,232	4,751	(9)
Total assets	8	21,532	20,654	(4)
Equity and liabilities				
Capital and reserves				
Share capital	11	9,000	9,000	-
Legal reserves		166	166	-
Fair value reserves		241	174	(28)
Other reserves		1,590	1,598	1
Retained earnings		207	(760)	n.a.
Equity attributable to the owners of the company		11,204	10,178	(9)
Non-controlling interests		12	12	0
Total equity		11,216	10,190	(9)
Non-current liabilities				
Long-term lease liabilities		276	266	(4)
Other non-current liabilities		40	37	(8)
Employee benefits obligation		70	70	-
Provisions		3,716	3,725	0
Deferred tax liability		15	15	0
Total non-current liabilities		4,117	4,113	(0)
Current liabilities				
Bank loans		3,160	2,931	(7)
Current portion of long-term lease liabilities		68	73	7
Trade payables	15	1,511	1,568	4
Taxes and contributions		650	927	43
Other current liabilities		624	669	7
Employee benefits obligation		7	5	(29)
Provisions		179	178	(1)
Total current liabilities		6,199	6,351	2
Total liabilities	14	10,316	10,464	1
Total equity and liabilities		21,532	20,654	(4)

Condensed Consolidated Cash Flow Statement (Indirect method)

For the period ended 30 June 2019 and 2020 (in HRK millions)

Q2 2019	Q2 2020		Note	H1 2019	H1 2020	%
131	(168)	Profit/(loss) for the period:		188	(965)	n.a.
		Adjustments for:				
426	527	Depreciation, amortisation and impairment of property, plant and equipment and ROU asset (net)		835	929	11
30	123	Income tax (benefit)/expense recognised in profit and loss		44	(55)	n.a.
30	(93)	Impairment charges (net)		84	60	(29)
(2)	-	Loss/(Gain) on sale of property, plant and equipment		(4)	(2)	(50)
13	(39)	Foreign exchange (gain)/loss		(9)	31	n.a.
3	2	Interest expense (net)		8	9	13
(5)	(40)	Share of (gain)/loss of joint ventures accounted for using the equity method		18	(45)	n.a.
(28)	8	Other finance (income)/expense recognised in profit		(6)	16	n.a.
(239)	(26)	Increase/(decrease) in provision		(202)	(22)	(89)
24	13	Decommissioning interests and other provision		44	26	(41)
(26)	180	Net (gain)/loss on derivative financial instruments and hedge transactions		(34)	171	n.a.
(7)	(2)	Other non-cash items		(1)	(1)	0
350	485	Operating cash flow before working capital changes	16	965	152	(84)
		Movements in working capital	17			
(865)	(656)	Decrease/(Increase) in inventories		(375)	(331)	(12)
(237)	214	(Increase)/Decrease in receivables and prepayments		(342)	426	n.a.
275	607	(Decrease)/Increase in trade and other payables		774	366	(53)
(477)	650	Cash generated from operations		1,022	613	(40)
(11)	(5)	Taxes paid		(14)	(11)	(21)
(488)	645	Net cash inflow/(outflow) from operating activities		1,008	602	(40)
		Cash flows used in investing activities				
(499)	(287)	Capital expenditures, exploration and development costs		(1,207)	(523)	(57)
(35)	(12)	Payment for intangible assets		(66)	(12)	(82)
6	4	Proceeds from sale of non-current assets		7	5	(29)
4	-	Investment in securities		-	18	n.a.
11	12	Interest received and other financial income		21	15	(29)
-	(5)	Loans and other investments (net)		2	2	0
(513)	(288)	Net cash used for investing activities	18	(1,243)	(495)	(60)
		Cash flows from financing activities				
-	(635)	Change in long-term borrowings (net)		(126)	(326)	159
1,184	(353)	Change in short-term borrowings (net)		546	90	(84)
83	(19)	Change of principal portion of lease liabilities		197	(5)	n.a.
-	-	Interest paid on long-term loans		(1)	-	n.a.
(21)	(116)	Interest paid on short-term loans and other financing charges		(94)	(132)	40
1,246	(1,123)	Net cash from financing activities		522	(373)	n.a.
245	(766)	Net increase/(decrease) in cash and cash equivalents		287	(266)	n.a.
473	1,118	At 1 January		422	606	44
(5)	(9)	Effect of foreign exchange rate changes		1	(12)	n.a.
713	343	At the end of period		710	328	(54)
-	(19)	Overdrafts		3	(4)	n.a.
713	324	Cash and cash equivalents in statement of financial position		713	324	(55)

INA Group Summary Segmental Results of Operations

Q2 2019	Q2 2020	HRK mln	H1 2019	H1 2020	%
Net sales revenues					
1,016	360	Exploration & Production	1,985	1,180	(41)
5,242	3,024	Refining & Marketing including Consumer services and Retail	9,286	6,812	(27)
508	314	Corporate and Other	996	690	(31)
(1,223)	(566)	Intersegment transfers and consolidation adjustments	(2,473)	(1,602)	(35)
5,543	3,132	Total	9,794	7,080	(28)
EBITDA*					
669	130	Exploration & Production	1,238	554	(55)
(113)	264	Refining & Marketing including Consumer services and Retail	(63)	(682)	983
19	(84)	Corporate and Other	11	(116)	n.a.
8	134	Intersegment transfers and consolidation adjustments	(64)	190	n.a.
583	444	Total	1,122	(54)	n.a.
EBITDA Excluding Special Items					
669	130	Exploration & Production	1,238	554	(55)
(113)	264	Refining & Marketing including Consumer services and Retail	(63)	(682)	983
19	(84)	Corporate and Other	11	(116)	n.a.
8	134	Intersegment transfers and consolidation adjustments	(64)	190	n.a.
583	444	Total	1,122	(54)	n.a.
Profit/(Loss) from operations					
444	(168)	Exploration & Production	798	92	(88)
(271)	80	Refining & Marketing including Consumer services and Retail	(373)	(1,060)	184
(24)	(130)	Corporate and Other	(74)	(206)	178
8	135	Intersegment transfers and consolidation adjustments	(64)	191	n.a.
157	(83)	Total	287	(983)	n.a.
Profit/(Loss) from operations Excluding Special Items					
444	(168)	Exploration & Production	798	92	(88)
(271)	80	Refining & Marketing including Consumer services and Retail	(373)	(1,060)	184
(24)	(130)	Corporate and Other	(74)	(206)	178
8	135	Intersegment transfers and consolidation adjustments	(64)	191	n.a.
157	(83)	Total	287	(983)	n.a.
Property, plant and equipment					
5,038	4,664	Exploration & Production	5,038	4,664	(7)
6,594	6,598	Refining & Marketing including Consumer services and Retail	6,594	6,598	0
1,402	1,421	Corporate and Other	1,402	1,421	1
(430)	(470)	Intersegment transfers and consolidation adjustments	(430)	(470)	9
12,604	12,213	Total	12,604	12,213	(3)

* EBITDA = EBIT + Depreciation, amortization and impairment (net)

Intersegment transfers and consolidation adjustments

Intersegment transfers and consolidation adjustments 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 H1 2020 is HRK 190 million compared to HRK (64) million in H1 2019.

Financial overview and notes

Condensed Consolidated Statement of Profit or Loss

Notes

- 1 **Revenue from contracts with customers** in H1 2020 amounted to HRK 7,080 million and is below the H1 2019 level, triggered mainly by Refining and Marketing lower sales on core market (Croatia and B&H) as a result of COVID-19 pandemic related market demand drop coupled with sharp drop in hydrocarbon prices
- 2 **Costs of raw materials and consumables** were 28% higher than H1 2019 level at HRK (2,757) million, reflecting different processing dynamic, Rijeka Refinery full start up in May 2019 after turnaround
- 3 **Costs of other goods sold** in H1 2020 decreased 57% compared to H1 2019 and amounted to HRK (2,099) million resulting from lower sales
- 4 Other **operating costs** realized in H1 2020 include:
- Other material costs in the amount of HRK (982) million were lower by 6% mainly driven by costs dependent on oil prices and lower scope of work
 - Service costs in the amount of HRK (249) million were 32% lower than on H1 2019 level mainly regarding lower intellectual services in 2020
 - Depreciation, amortisation and impairment (net) in the amount of HRK (929) million was 11% higher compared to H1 2019
 - Impairment and provisions had a negative effect in the amount of HRK (38) million as opposed to positive effect in 2019 in the amount of HRK 118 million
- 5 **Staff costs** in the amount HRK (815) million were 12% lower compared to H1 2019
- 6 **Income tax benefit** in H1 2020 amounted to HRK 55 million compared to HRK (44) million income tax expense in H1 2019. 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 30 June 2020 and 30 June 2019
- 7 **Net result from financial activities** is negative in H1 2020 mainly as a result of:
- Net foreign exchange loss reached HRK (42) million in H1 2020, while in H1 2019 net foreign exchange gain reached HRK 15 million
 - Interest expense amounted to HRK (37) million and interest income to HRK 3 million in H1 2020, while in H1 2019 interest expense amounted to HRK (56) million and interest income to HRK 2 million
 - Other financial net loss amounted to HRK (6) million and are lower compared to HRK 2 million financial gain in H1 2019

Condensed Consolidated Statement of Financial Position

Notes

- 8 As at 30 June INA Group **total assets** amounted to HRK 20,654 million, 4% lower compared to 31 December 2019
- 9 In the period ended 30 June 2020, INA Group invested HRK 9 million in intangible assets. The effect of depreciation equals HRK 21 million
- 10 In the period ended 30 June 2020, INA Group invested HRK 507 million in property, plant and equipment. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 764 million.
- 11 **Share capital** as at 30 June 2020 amounted to HRK 9,000 million. There was no movements in the issued capital of the Company in either the current or the prior financial reporting
- 12 **Inventories** amounted to HRK 2,530 million, and have increased by 10% compared to 31 December 2019, mostly imported and domestic crude oil
- 13 **Trade receivables, net** amounted to HRK 1,347 million which is 34% lower than 31 December 2019 mainly due to lower sales revenues
- 14 As at 30 June 2020 **total liabilities** amounted to HRK 10,464 million, 1% higher compared to 31 December 2019. INA Group **net debt** amounted to HRK 2,543 million and increased compared to 31 December 2019. **Net gearing** increased from 18.5% as at 31 December 2019, to 20% as at 30 June 2020
- 15 **Trade payables** increased compared to 31 December 2019 by 4% to HRK 1,568 million related to crude oil import

Condensed Consolidated Cash Flow Statement (Indirect method)

Notes

- 16 The **operating cash flow before working capital changes** amounted to HRK 152 million in H1 2020 representing a decrease compared to H1 2019, which is in line with the change in EBITDA performance excluding non-cash items
- 17 **Movements in working capital** affected the operating cash flow positively by HRK 461 million, due to:
- Increase value of inventories in the amount of HRK (331) million mainly related to higher domestic and imported crude oil
 - Decrease in receivables in the amount of HRK 426 million mainly related to lower sales revenues
 - Increase in trade and other payables amounted to 366 HRK million related to crude oil import
- 18 **Net cash used for investing activities** amounted to HRK (495) million of outflows, compared to HRK (1,243) million outflows in H1 2019 mainly due to lower business activities



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

In addition to international accounting standards, international reporting standards and regulatory requests the company discloses special items to achieve a higher level of transparency and to provide better understanding of the usual business operations. Business events not occurring regularly and having significant effect on operations and results are considered as special items. INA has adopted the materiality level for the special items in the amount of USD 10 million or above. If special items reaches materiality level on cumulative basis, previous quarters are restated. Furthermore, in accordance with the adopted accounting policies and IFRS 36 – Impairment of Assets, INA performs impairment testing at the end of each reporting period if impairment indicators are assessed to be significant. In H1 2020, the result was not impacted by special items.

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 2019.

As of 30 June 2020 INA Group had:

- Opened short-term forward commodity swap transactions to hedge its exposure to changes in pricing periods and inventory levels
- Contracted and available short-term credit lines amounting to HRK 2,450 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 2,683 million

Related party transactions

INA Group has dominant positions in Croatia in oil and gas exploration and production, oil refining and the sale of gas and petroleum products. As a result of the INA Group strategic position within the Croatian economy, a substantial portion of its business and the business of its subsidiaries is transacted with the Croatian Government, its departments and agencies, and the companies with the Republic of Croatia being their majority shareholder.

Transactions between INA, d.d. and its subsidiaries, which are related parties of the Company, have been eliminated on Group level consolidation.

During H1 2020, INA Group entered into the following trading transactions with the following related parties:

INA Group	Sales of goods	Purchase of goods
HRK mln	30 June 2020	30 June 2020
Companies available for sale		
JANAF d.d. Zagreb	2	27
Strategic partner		
MOL Nyrt.	689	578
Companies controlled by strategic partner		
Tifon d.o.o.	177	4
MOL Petrochemical	39	4
MOL Commodity Trading Kft.	23	61
MOL Slovenia d.o.o.	21	-
MOL Serbia d.o.o.	2	-
MOL Azerbaijan LTD.	-	142
Slovnaft, a.s.	-	80
IES S.p.A	-	2
MOL-LUB Kft.	-	1

INA Group	Amounts owed from related parties	Amounts owed to related parties
HRK mln	30 June 2020	30 June 2020
Companies available for sale		
JANAF d.d. Zagreb	1	5
Strategic partner		
MOL Nyrt.	71	35
Companies controlled by strategic partner		
MOL Commodity Trading Kft.	129	136
Tifon d.o.o.	62	2
MOL Petrochemicals	10	1
MOL Slovenia d.o.o.	2	1
MOL Serbia d.o.o.	2	-
Slovnaft, a.s.	-	(23)
MOL-LUB Kft.	-	1
IES S.p.A	-	1

Management representation

INA Group's consolidated financial statements for H1 2020 and Q2 2020 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.

A meeting of INA Supervisory Board was held on 31 March 2020 to appoint new members of the company's Management Board at the proposal of the Government of the Republic of Croatia. New members of the INA Management Board are Barbara Dorić, Darko Markotić and Niko Dalić. They were appointed for a term of five years, starting from April 1st 2020.

Management Board:

- Sándor Fasimon – President of the Management Board
- Niko Dalić – Member of the Management Board
- Barbara Dorić – Member of the Management Board
- Darko Markotić – Member of the Management Board
- Zsolt Pethő – Member of the Management Board
- Ákos Székely – Member of the Management Board