

Annual Report

2017



**ECONOMIC,
SOCIAL AND
ENVIRONMENTAL
PERFORMANCE**

INA GROUP AT A GLANCE

INA Group is a medium-sized European oil and gas company. With 10,782 employees and Group EBITDA of HRK 3,215 million, INA Group has the leading role in the Croatian oil and gas business, including exploration and production, oil processing and oil products distribution activities, and a strong position in the regional motor fuel market. At the end of 2017, INA Group had 150 million boe of proven and probable hydrocarbon reserves and hydrocarbon production of 37.6 Mboe/day on a yearly average. Its refineries in Rijeka and Sisak produced a total of 4.1 Mt of refined products in 2017. As at 31 December 2017, Consumer Services and Retail operated a network of 502 retail locations*.

OUR CORE ACTIVITIES IN A SNAPSHOT

Exploration and Production is engaged in exploration, development and production of oil and natural gas in Croatia and abroad. Since its establishment, INA Group has been involved in oilfield operations in 20 foreign countries and is currently operating in Angola and Egypt. In more than 60 years of onshore exploration and production activities, 45 oil and 30 gas fields were equipped and put into operation and around 4,500 exploration and development wells with the total depth of about seven million meters, about 1,200 producing oil wells with more than 4,000 km of pipelines and more than 200 production gas wells and oil facilities and installations were built. The Group has been faced with constant natural decline of mature and highly depleted fields, which is why great efforts have been made to increase production of domestic oil,

with the aim of exploiting the maximum potential of our mature fields.

Refining and Marketing is focused on the processing of crude oil as well as production, distribution and sales of oil products on domestic and international markets. INA Group operates Croatia's two refineries located in Rijeka and Sisak. Over the past ten years, INA Group invested more than HRK 6 billion in the development of its refinery systems, which resulted in the production of top quality EURO V fuels. Nevertheless, due to trends of declining market demands and pressures placed on the European refining business, adjusting refinery capacities to market demand is the key to future sustainable development and success.

Consumer services and Retail operates a regional network of 502 retail locations*, of which 392 are located in Croatia, while 110 are situated in the neighbouring countries: Bosnia and Herzegovina, Slovenia and Montenegro. In Croatia, 60 retail sites have been included in the Partnership System of Operation. In addition to stable fuel results achieved in 2017, Consumer Services and Retail placed the main emphasis on further improvement of non-fuel segment and margin increase through Fresh Corner model introduction at service stations, introduction of a gastro concept and further upgrade of consumer goods assortment.

*Retail locations implies: 494 service stations / retail sites and other retail locations (auto bar / restaurants, carwash, shop, Heating Oil sales point, LPG sales point)

“ INA Group has the leading role in the Croatian oil and gas business, including exploration and production, oil processing and oil products distribution activities, and a strong position in the regional motor fuel market

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INA IN THE COMMUNITY

In more than five decades of its business operations, INA Group has a proven track record of being a reliable partner to local communities in areas of its business operations and to the society as a whole. Every year, the company supports more than 100 development projects, events and initiatives focusing on children, youth, culture, sport and environmental protection, and helps to improve the quality of life in local communities. INA Group continuously strives to further enhance its role as a desirable and trusted partner and shares its success with the community. Last year alone, INA Group donated more than two million kuna and several thousand of volunteer hours to people in need, thus creating conditions for a better life.

We are proud of our 7 donations to different hospitals in Croatia totalling HRK 750,000 in 2017. The beneficiaries were Children's Hospital Zagreb, Clinical Hospital Centre Osijek, Clinical Hospital Centre Rijeka, Special Hospital for Children with Chronic Diseases in Gornja Bistra, General Hospital Sisak, Clinical Hospital Centre Zagreb and General Hospital Slavonski Brod.

In Primorje-Gorski Kotar County, Sisak-Moslavina County and in the parts of Croatia where INA's Upstream operates, INA Group supports educational projects and institutions (kindergarten, elementary school, secondary school, faculty), local municipal institutions (supporting children's facilities and important events for the local community), sports clubs, cultural institutions and heritage conservation associations, ecology actions and projects related to renewable energy sources.

In 2017, INA, d.d. continued to support SOS Children's Village Croatia through various projects and initiatives (associated with the celebration of the 20th anniversary of the SOS Children's Village Croatia) and annual donations.

With the aim of raising awareness about the importance of environmental protection, INA, d.d. has continued the "Green Belt" program which started in 2014. We

received 99 applications for the Green Belt competition in 2017, and supported 17 winning projects with a total of HRK 369,000.

During the first two years of spajaLICA project realisation, INA, d.d. has positioned itself as a pioneer in the field of creative and socially responsible management in using real estate for the benefit of the wider community. This partnership model of cooperation between INA Group and the non-profit sector continued in 2017 with spajaLICA HUB – a platform through which INA, d.d., 6 NGOs and other partners share different types of knowledge with other NGOs and educational institutions.

As a socially responsible company focused on sustainable development, INA, d.d. offered its customers a new "green" service - the possibility to collect used cooking oil. The pilot project was launched in 30 selected retail locations in Central Croatia. Everyone who already recycles used cooking oil or plans to start recycling can come to INA's selected locations and get a free INA funnel, which facilitates the procedure in households.

By the end of 2017, INA Volunteers Club put in a total of 22,984 hours of corporate volunteering in almost all areas of Croatia, featuring 2,873 volunteers – INA Group employees. Through joint actions, they carried out 180 actions which included seabed cleaning, afforestation, landscaping and recovery of deteriorated areas, helping children, senior citizens, disabled and socially vulnerable people and everyone in need of assistance.

In 2017 alone, INA Volunteers Club organised 50 actions featuring 867 members with 6,936 volunteer hours. Volunteers covered the distance of 7,625 km. The Club currently has 1,316 members, which is 26.2% more than in 2016, and the number of members is increasing every year. Volunteer Centre Osijek awarded INA Volunteers Club a "Special award for contribution of the business sector to the development of volunteering" in Slavonia and Baranja in 2012, 2014, 2015, 2016 and 2017.

BEST *of the* YEAR

EMPLOYER PARTNER CERTIFICATE

For the seventh successive year, INA, d.d. was presented with the Employer Partner Certificate, an award for excellence in human resources management. The certificate aims to draw attention and offer recognition to companies that have high-quality human resources management and that implement standards proven to advance business results and quality of labour.

INA - A FIRST CHOICE EMPLOYER

The job search portal MojPosao carried out the First Choice Employer survey in 2017, drawing more than 15,000 responses. INA, d.d. was placed within Top 10 employers in Croatia. Survey participants laid a special emphasis on job security, harmonic workplace atmosphere and career opportunities as their top reasons for naming these employers.

MAMFORCE FULL STANDARD CERTIFICATE

INA, d.d. received the Mamforce Grow Full Standard Certificate indicating that INA, d.d. is a company that has reached specific goals aimed at key areas of family-friendly policies and gender equality. The award is given to companies based on the results of an audit performed on human resources and other company policies, interviews and survey.

SPECIAL AWARD FOR CONTRIBUTION OF THE BUSINESS SECTOR TO THE DEVELOPMENT OF VOLUNTEERING

Volunteer Centre Osijek awarded INA Volunteers Club a Special Award for Contribution of the Business Sector to the Development of Volunteering as a confirmation of the values INA and its volunteers have been promoting through their activities, but also as a responsibility to continually improve its position as an esteemed and recognised partner of the local community.

GREEN FROG AWARD

INA Group won the Green Frog Award 2017 for the Best Sustainable Development Report in Croatia, organised by Deloitte. The Green Frog Award is an opportunity for compa-

nies to present their sustainable practices and ways of conscious and active management of economic, social and environmental impact.

GOLDEN BARREL AWARD

The INA Academy Project won first place and the Golden Barrel Award in the Engagement category in 2017 due to its contribution to employees' continuous development by knowledge sharing, inclusion increase and added value. The Golden Barrel Award is MOL Group's first corporate award for important corporate achievements in the promotion of best practices to which the company owes its success.

SJAJ AWARD

GOOD CROATIA - a business initiative for affirming corporate social responsibility and sustainable development at M.E.P. Ltd. in partnership with the Croatian Employers' Association (as a representative of the Global Compact Network Croatia - UN Initiatives for CSR and Sustainable Development) conducted a national survey of 203 companies in July and August 2017. The aim of the survey was to see how many Croatian companies, and with which quality, communicate their CSR practices and sustainability through their own official websites, and how much they invest in the growth of their digital CSR visibility.

Based on the results of the survey, INA, d.d. received the SJAJ 2017 award for visibility and affirmation of CSR and sustainability in the company's digital media.

Ten (10) equivalent prizes were awarded and the selected companies are listed in alphabetical order:

- ▶ Dukat d.d.
- ▶ Ericsson Nikola Tesla d.d.
- ▶ Heineken Hrvatska d.o.o.
- ▶ HEP d.d.
- ▶ Hrvatski telekom d.d.
- ▶ INA, d.d.
- ▶ OTP banka Hrvatska d.d.
- ▶ Podravka d.d.
- ▶ Valamar Riviera d.d.
- ▶ Vetropack Straža d.d.

KEY FINANCIAL AND OPERATING DATA

	2016	2017	2017/2016
HRK mln	HRK MLN	HRK MLN	%
Net sales revenues	15,535	18,582	20
EBITDA	2,112	3,215	52
EBITDA excl. special items	2,428	3,211	32
o/w Exploration and Production	2,166	2,470	14
o/w Refining and Marketing incl. Retail	558	987	77
CCS EBITDA excl. special items	2,219	3,030	37
Operating profit	607	1,418	134
Operating profit excl. special items	842	1,379	64
CCS Operating profit excl. special items	626	1,198	92
Net gain/(loss) from financial activities	(146)	146	N.A.
Net profit for the period	101	1,220	1,108
Net profit for the period excl. special items	336	1,181	252
Operating cash flow	2,201	2,484	13
Capital expenditures with one-off	1,385	1,393	1
o/w Exploration and Production	714	618	(14)
o/w Refining and Marketing incl. Retail	608	713	17
Earnings per share			
Basic and diluted earnings per share (kuna per share)	10.1	122.0	1,108
Net gearing %	19.09	10.81	
KEY EXPLORATION AND PRODUCTION DATA			
Gross crude oil reserves (MM bbl) 2P	86	76	(11)
Gross natural gas reserves (MM boe) 2P	98	67	(32)
Total gross hydrocarbon reserves (MM boe) 2P	198	150	(24)
Average crude oil production (M bbl/day)	15.0	14.5	(3)
Average condensate production (M boe/day)	1.9	1.8	(5)
Average natural gas production (M boe/day)	22.4	21.3	(5)
Total hydrocarbon production (M boe/day)	39.4	37.6	(5)
KEY REFINING AND MARKETING DATA			
Total refinery throughput (kt)	3,856	4,092	6
Total crude oil product sales (kt)	3,854	4,227	10
KEY RETAIL SERVICES DATA			
Total number of Service stations	495	494	(0.2)
Total sales (000 t)	1,014	1,056	4

NET SALES REVENUES (HRK MLN)

2017	18,582
2016	15,535
2015	18,861
2014	23,759
2013	27,444

OPERATING RESULTS (HRK MLN)

2017	1,418
2016	607
2015	(1,338)
2014	(1,722)
2013	(1,505)

EBITDA (HRK MLN)

2017	3,215
2016	2,112
2015	2,665
2014	2,570
2013	3,726

NET PROFIT/LOSS (HRK MLN)

2017	1,220
2016	101
2015	(1,418)
2014	(1,897)
2013	(1,505)

NUMBER OF EMPLOYEES

2017	10,782
2016	10,861
2015	11,256
2014	12,503
2013	13,460

Group EBITDA (HRK mln)

3,215

Total refinery throughput

6%

Service stations 2017

494

Production 2017

37.6
mboe/d



2P Reserves

150
MMboe



LETTER FROM THE PRESIDENT OF INA MANAGEMENT BOARD

In 2017 INA Group posted one of the strongest results in the last several years. We demonstrated our ability to capture the benefit of higher prices, delivering strong EBITDA of over HRK 3.2 billion, a 52% increase compared to 2016. We identified two main pillars of our operations: the first being focus on growth and the second including operational excellence and top efficiency performance. We delivered in both areas and further positioned INA as a leading player on all our key markets. Our investments amounted to HRK 1.4 billion, in line with the previous year and with an increase of investments in Croatia.

Our Upstream business benefited from the positive external environment, together with a moderate increase in domestic crude oil production. Although we are faced with natural decline, we made significant efforts in increasing production on our mature domestic oil fields, exploiting potential to the maximum by implementing the Full Field Optimization concept and performing various well activities. This resulted with an increase of domestic crude oil production back to levels seen 10 years ago. In the last ten years, INA invested a total of HRK 13 billion in E&P and will continue making significant investments. In 2018, we are planning to continue exploration activities on the Drava-2 Exploration Area and we are investing in 3D seismic explora-

tion projects. We are also planning new EOR projects with the aim of increasing production in old wells and we are intensively monitoring events on foreign markets in search for profitable business opportunities.

Downstream business generated strong EBITDA with positive cash flow, the strongest result in a decade. Our activities resulted in an introduction of two new fuels, a strong position on the Croatian market, increased sales on all markets, record volumes in Rijeka logistics, with strong focus on safety and environment. However, Sisak refinery continues to burden INA's Refining and Marketing performance with a negative operating result of HRK (207) million in 2017, so one of the major challenges in front of us is pursuing options which will make this business sustainable and profitable in the long run. The DCU project in Rijeka, worth HRK 3 billion, is the future of INA's refining business and the concentration of refining activities into that location will contribute to the project's profitability. The procurement procedure for engineering, procurement and construction is ongoing and we expect to make the final investment decision in H1 2018.

INA founds its business operations and success on the principles of sustainability. As a signatory of the UN Global Compact since 2007, INA is committed to promoting



ZOLTÁN SÁNDOR ÁLDOTT
President of the
Management Board

and supporting the 10 principles of UNGC in the areas of human rights, labour, environment protection and anticorruption. INA is also a signatory of the Diversity Charter, committed to implementing a diversity and non-discrimination policy in our work and business environments. Croatia was the 19th EU country in which the Charter has been adopted with Croatian Business Council for Sustainable Development as the project holder.

The company adheres to a clear set of values: we put people first and strive to satisfy our **customers** through **ownership** of all activities we implement with **agility**. INA is an integral part of the communities in which it does business in: our donation and sponsorship activities remain strong, as do efforts devoted by INA volunteers' club, which continues to grow in terms of number of members, actions implemented and hours invested. With more than 600 graduates hired in eight years of Growww program, INA is a leading company in attracting young talents who recognized the initiatives aimed to INA employees. Our Collective Agreement is one of the best in Croatia and we implement the most modern global HR practices, striving to offer a wide range of additional benefits to our employees. Advanced practices related to environmental management represent an integral part of INA's business policy,

and health and safety of our employees, contractors and suppliers are our priority.

The market and the environment are constantly changing and INA is adapting with success. We have implemented comprehensive organizational changes in order to focus even more on the customer, development of new services, but also on new businesses. Given the fact that global oil and gas industry is going through a period of intensive transformation, we recognized the need to adjust by expanding the company's area of operation. The new operating and organizational model puts emphasis on business innovation, thus decreasing potential risks.

We believe that having a quality refining portfolio together with high quality services within our retail network is the core to our **vertically integrated business model**, as it provides optimization opportunities in this highly competitive market. This is why we continually invest in introduction of new services at our service stations, tailored to our customers' needs. In 2017, we significantly improved our financial position, but we continue to invest a lot of effort to be continually prepared for quick adjustments and to be able to successfully manage all the businesses in the environment of uncertainty, complexity and volatility.





CORPORATE GOVERNANCE

ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

INA's management structure is based on a two-tier board system, comprising a Supervisory Board and a Management Board. With the General Assembly, these constitute the three mandatory internal bodies of INA, d.d. in accordance with INA's Articles of Association and the Companies Act.

The Supervisory Board is responsible for the appointment and recall of the Management Board members and supervises the conduct of the Company's business operations. Pursuant to INA's Articles of Association, the Supervisory Board consists of nine members, one member being the employees' representative. Based on the Shareholders' Agreement signed between MOL and the Croatian Government, five members are appointed by MOL and three by the Croatian Government. The Management Board consists of six members. Based on the Shareholders' Agreement, three members are appointed by MOL, including the President, and three by the Croatian Government.

MANAGEMENT BOARD

The list below contains the names of current members of the Management Board and their respective positions as at 31 December 2017. The business address for all members of the Management Board is Avenija V. Holjevca 10, 10020 Zagreb, Croatia.

Zoltán Sándor Áldott, President of the Management Board

Niko Dalić, member of the Management Board

Gábor Horváth, member of the Management Board

Ivan Krešić, member of the Management Board

Davor Mayer, member of the Management Board

Péter Ratatics, member of the Management Board

COUNCIL OF DIRECTORS

Members of Council of Directors are appointed based on a Management Board's decision. They are authorised and responsible for management of operations of INA's individual business divisions (Exploration and Production, Refining and Marketing, Consumer Services and Retail, Finance and Corporate Affairs).

List of Operating Directors as at 31 December 2017:

Gábor Horváth, Chief Financial Officer (replacing Dr Ákos Székely as Chief Financial Officer since 1 November 2017)

Darko Markotić, Operating Director in charge of Consumer Services and Retail

Bengt Oldsberg, Operating Director in charge of Refining and Marketing

Tvrtko Perković, Operating Director in charge of Exploration and Production

Tomislav Thür, Operating Director in charge of Corporate Affairs

SUPERVISORY BOARD

The list below contains the names of current members of the Supervisory Board and their respective positions (on 31 December 2017). The business address for all members of the Supervisory Board is Avenija V. Holjevca 10, 10002 Zagreb, Croatia.

Damir Vandelić, President of the Supervisory Board

József Molnár, Vice President of the Supervisory Board

Luka Burilović, member

Szabolcs I. Ferencz, member

Ferenc Horváth, member

Damir Mikuljan, member (replacing Dario Čehić since 14 June 2017)

Jasna Pipunić, representative of employees in the Supervisory Board

József Simola, member

László Uzsoki, member

ISSUER'S AUDIT COMMITTEE

The Audit Committee is a body appointed by the Supervisory Board with the purpose of assisting the Supervisory and Management

Board in the performance of their corporate management tasks, financial reporting and control of company operations. However, the Audit Committee is solely an auxiliary body and cannot relinquish the Supervisory Board or the Management Board of their responsibilities. The Supervisory Board discusses the Report on the Audit Committee's activities once a year.

The Audit Committee's responsibilities are related to:

1. Accounting segment;
2. External auditor segment;
3. Financial segment;
4. Risk-management segment.

In performing its tasks, the Audit Committee is authorised to oversee the internal processes in INA, d.d., request additional information from the company or its auditors and conduct interviews with employees. Furthermore, the Committee is authorised to engage independent consultants at the expense of the company.

Members of the INA, d.d. Audit Committee as at 31 December 2017 are:

Judit Szilágyi, Chairman (appointed at the SB meeting held on 17 May 2017, replacing Željko Perić)

József Simola, member

Damir Vandelić, member

József Molnár, member (resigned at the SB meeting held on 17 May 2017)

Given the fact that INA's shares are listed on a regulated market, INA – Industrija nafte, d.d. applies the Corporate Governance Code effective from 1 January 2011, which was jointly prepared by the Croatian Financial Services Supervisory Agency (hereinafter: Agency) and the Zagreb Stock Exchange (Zagrebačka burza d.d. Zagreb) and is published on the Zagreb Stock Exchange website (www.zse.hr). In addition to the Corporate Governance Code, INA Group also applies its own Code of Ethics, which defines the basic values and principles of conduct of INA Group management and employees regarding their attitude towards work, associates, business partners and the public. The Code also sets forth the obligations of INA Group to secure appropriate work conditions and professional development to employees and ensure avoidance of unacceptable forms of behaviour. The Code covers a broad area of business relationships and processes and has to be observed by all persons acting in the name and on behalf of INA Group, including natural persons and legal entities who are in a contractual relationship with INA Group (business partners, consultants, suppliers, sellers etc.). The Code can be accessed at INA, d.d. website (www.ina.hr). INA, d.d. generally abides by the provisions of the Corporate Governance Code, with the exceptions stated in the Annual Corporate Governance Questionnaire published on INA's website.

Some of the exceptions are as follows:

- ▶ INA, d.d. does not publish or update the list of shareholders. The ownership structure is available on the Company's website, whereas a detailed list of shareholders is kept by the Central Depository and Clearing Company Inc., which publishes a list of the ten largest shareholders on its website in accordance with the law.
- ▶ INA, d.d. does not publish data on the Company's shares held by the Management Board or Supervisory Board members on its website. Instead, all announcements in reference to the securities held by the Management Board or Supervisory Board members can be found on the Company's website.
- ▶ INA, d.d. does not provide proxies to the Company's shareholders who are not able to vote at the General Assembly, for any reason, without additional costs. The shareholders who are not able to vote themselves should, at their own discretion, appoint appropriate proxies who are obliged to vote in accordance with their instructions. The Company has not received any requests from shareholders in this respect.
- ▶ The Company sets the terms and formal conditions for participation of the shareholder in the General Assembly in accordance with the Companies Act and the Company's Articles of Association in order to protect the shareholders' rights in conditions of a large number of shareholders.
- ▶ The Supervisory Board is not composed of a majority of independent members. It is composed of major shareholders' representatives and a workers' representative in accordance with the Companies Act.
- ▶ The long-term succession plan has not been published; however, the existing systems of electing members to the Supervisory Board, Management Board and upper management take account of the continuity in performing supervisory, management and administrative functions.
- ▶ The Company's bonus policy is part of the internal rules published on the Company's website. Data on remunerations to the Management Board and Supervisory Board members are published in the annual report in their full amount. The current internal regulations do not envisage the possibility of public announcement of these data.
- ▶ The amounts of remunerations paid to independent auditors for rendered services are not published and constitute a business secret.



Zoltán Sándor Áldott

**President of the
Management Board**

Zoltán Áldott, President of INA Management Board since 1 April 2010, started his career in 1990 as an associate in Creditum Financial Consulting. From 1992 to 1995, he held various positions in Eurocorp Financial Consulting. He joined MOL in 1995 as head of the Privatization Department. From 1997 to 1999, he was Director of the Capital Markets Department, and from 1999 to 2000, Mr Áldott served as Director of the Strategy & Business Development department. From November 2000 to June 2001, he was the Chief Strategy Officer and then from June 2001, Group Chief Strategy Officer. From September 2004 to June 2011, he was the Executive Vice President of Exploration & Production Division of MOL Group. From October 2003 to April 2010, he was a member of the Supervisory Board of INA. He holds a university degree from the Budapest University of Economics.



Niko Dalić

**Member of the
Management Board**

Niko Dalić was appointed member of INA Management Board in February 2011. He started his career in 1986 as a geologist working on upstream projects in Croatia. In 1996, he was appointed Head of the business unit responsible for Eastern Slavonia and Podravina. From 2005 to 2008, he was Assistant Executive Director of Naftaplín, where he was in charge of running international projects. Apart from that, he was also the Head of the strategy team in Naftaplín and the team for Energy Strategy of the Republic of Croatia, as well as the IPO team. After that, from 2008 to 2009, he was the Head of the Exploration Sector. As of June 2009, he has been serving as a member of the Management Board of Edina, a joint venture of INA and Italian company Edison, where he has focused on the activities in the Izabela field in Northern Adriatic. He graduated from the Faculty of Science at Zagreb University where he later acquired his master's degree. He passed his state licence exam at the Ministry of Science in 1996. Mr Dalić attended a number of seminars and professional trainings in Croatia and abroad. He is a member of numerous professional associations and has published several papers. From 2005 to 2009, he was the President of the Croatian Geological Society. As of December 2014, Mr Dalić has been serving as Vice President for Geology in HUNIG (Croatian Association of Petroleum Engineers and Geologists).



Gábor Horváth

**Member of the
Management Board**

Gábor Horváth was appointed member of INA Management Board on 22 May 2014. He studied legal sciences at Eötvös Loránd University (ELTE) in Budapest. During his long career, he worked at the Hungarian National Development Bank and practised law in the fields of corporate finance, treasury and corporate governance. Since 1995, among other positions held, he was the Chairman of the Audit Committee, Supervisory Board member and Deputy Chairman of the Supervisory Board at OTP Bank. From 1999 to 2014, he acted as a member of the Board of Directors at MOL.



Ivan Krešić

**Member of the
Management Board**

Ivan Krešić was appointed member of INA Management Board in February 2011, after serving as Rijeka Refinery Director since 2006. He started his career as a process engineer in INA, in Rijeka-based refinery Maziva. He was the head of production from 2000 to 2004, when he was appointed Director of INA Maziva Rijeka. In August 2006, he was appointed Director of Rijeka Refinery. From 2009 to 2011, he was a member of the Supervisory Boards of INA Group members Maziva Zagreb and STSI. He graduated from the Faculty of Chemical Engineering and Technology in Zagreb, where he won a Rector's Award for best student paper. He acquired his Master's degree at the Rochester Institute of Technology, USA, in 2001. He holds an MBA certificate gained at Bled School of Management in 2003. Additionally, he attended executive education programs in the fields of finance, change management, mergers and acquisitions at London Business School, and effective risk management oversight for Board member, as well. He is a member of the Alumni Club of Bled School of Management and executive education alumni of London Business School.



Davor Mayer

**Member of the
Management Board**

Davor Mayer was appointed member of INA Management Board in February 2011. He started his career as an intern in INA Refinery Zagreb (today Maziva Zagreb) and Sisak Oil Refinery, after which he worked on INA refinery processing optimisation and then in international trade. He served as the Petroleum Products Wholesale Manager in OMV from 1998 to 2002, when he took up a position in Tifon, becoming the head of the representative office of Gulf Oil International. From 2005 to 2008, he was the Industrial Manager for SEE in ExxonMobil. He started working in Tifon again in 2008 as a member of the Management Board and wholesales, procurement, logistics and card business manager, and in June 2009, he assumed the position of Fleet Card Management Sector Director in INA, alongside his seat in Tifon Management Board. He graduated from the Faculty of Chemical Engineering and Technology, and later on attended professional seminars and courses. He attended a postgraduate course on management systems at the Achieve Global international school in Brussels, Belgium, from 2005 to 2008.



Péter Ratatics

**Member of the
Management Board**

Péter Ratatics currently holds the position of COO of Consumer Services of MOL Hungarian Oil and Gas Plc. He graduated from the Faculty of Finance at Corvinus University of Budapest, where he specialised in capital markets. Mr Ratatics started his career as Gas Trading and Business Development expert in MOL Plc, after which he was appointed Head of Executive Board Advisory team in 2009. Between 2009 and 2010 he also acted as Head of Organizational Development and Process Management and in the period from 2010 to 2011 as Head of Management Services. Since May 2011, he has been serving as VP of Corporate Centre responsible for the HR domain. He was appointed member of INA Management Board in June 2011, Vice-Chairman of the Supervisory Board of FGSZ (Natural Gas Transmission) in 2012 and CEO of MOL Fleet Holding Kft in May 2017. From 2015 to 30 November 2016, he was responsible for MOL Group procurement, investment and communication activities as SVP of Corporate Centre (Group Corporate Human Resources, Group Corporate Services and Group Corporate Communication).



Gábor Horváth

Chief Financial Officer
(replacing Dr Ákos Székely as
Chief Financial Officer since
1 November 2017)

Gábor Horváth was appointed Chief Financial Officer on 1 November 2017. Before that, Mr Horváth held the position of Director of Controlling. Mr Horváth studied at Budapest University of Economic Sciences and Public Administration where he earned his Master's Degree in Economics. Additionally, he completed ACCA (Association of Chartered Certified Accountants) education. He began his career at Ernst & Young auditing company in Budapest, and in 2006, he started working in MOL. In January 2010, he became the Advisor to the Executive Director of Finance BF in INA, where he stayed until 2011. In May 2011, Mr Horváth became Head of MOL Group Risk Management, and from March 2015, he became Director of INA Controlling Sector.



Darko Markotić

**Operating Director in
charge of Consumer
Services and Retail**

Darko Markotić graduated from the Faculty of Law at Zagreb University in 1998. He joined INA in 2000 and held various positions in different organisational units within the company. At the very beginning of his career in INA, he worked in the Legal Sector. In June 2002, he assumed the position of Business Secretary in the Office of the Management Board member for coordination of the privatisation of INA, and in 2005 he was appointed Company Secretary and held that position for three years. In 2008, he was elected a new member of INA Management Board and, after serving one year at the position, he was appointed Executive Director of Corporate Services BF in 2009. From October 2010, he served as Executive Director of Retail Business Division, and in July 2017, he was appointed to the position of Operating Director of Consumer Services and Retail.



Bengt Oldsberg

Operating Director in charge of Refining and Marketing

Bengt Oldsberg has more than 30 years of experience in the refining industry. While working for Shell Group from 1982 to 2005, Mr Oldsberg led projects in Sweden, the Netherlands and Australia and held several managerial positions. His professional experience also includes management positions at Preem Petroleum AB and Nynas AB. From 1 August 2013, Mr Oldsberg held the position of Director of INA's Production Centre where he was tasked with strengthening of the production process and the company's position in international refining markets, management of health, safety and environment protection and capital investments in the Refining and Marketing business segment. Mr Oldsberg holds a Master of Science degree in Chemical Engineering. He has attended executive management training programmes within the Shell Group and at IFL Sweden.



Tvrtko Perković

Operating Director in charge of Exploration and Production

Tvrtko Perković was appointed to this position in July 2017 after serving as Corporate Centre Operating Director since September 2012. Mr Perković graduated from the Faculty of Mining, Geology and Petroleum Engineering at the University of Zagreb in 1985. He completed a number of courses and attended additional education at the international postgraduate study of Business Management – MBA at the Faculty of Economics and Business in Zagreb in 1993. He began his career as an intern in INA in 1986 in the Exploration & Production BD, Workover and Well Services Facility, after which he worked as an operating engineer and went on to become the head of the Special Services Sector in 1990. From 1995 to 1997, he was Assistant Director of the Technical Services Sector, after which he transferred to CROSCO, d.o.o. to the position of Director of the Strategy and Development Sector. In 1999 and 2000, he managed the SAP system implementation project in INA, after which he was appointed to the position of Director of the Strategy, Human Resources and IT Sector at CROSCO, d.o.o. In July 2009, he returned to INA to serve as Director of the Upstream Support Sector and was appointed to the position of president of the Management Board of STSI d.o.o. in 2010, which he held until July 2012.



Tomislav Thür

**Operating Director in
charge of Corporate
Affairs**

Tomislav Thür graduated from the Faculty of Law at the University of Zagreb in 1991 and gained his Master's degree at the Harvard Law School in 1998. Mr Thür joined INA as a member of the Management Board and Director for Corporate Processes. In 2012, he was appointed Executive Director for Corporate Affairs and as of 2017, Mr Thür holds the position of Operating Director for Corporate Affairs. Before joining INA, he was General Secretary of Atlantic Grupa. From 1992 to 2001, he was employed at the Croatian Embassies in Bern and Washington and the Croatian mission at the UN office in Geneva. Mr Thür also served as Head of the National Coordinator's Office for the Stability Pact. He studied executive management at London Business School, Harvard Business School and INSEAD. Mr Thür is a member of the Supervisory Board of the Croatian Employers' Association (HUP), prior to which he was a member of the HUP Executive Board and President of the Executive Board of the Energy Association within HUP.

CORPORATE AND SHAREHOLDERS INFORMATION

INA was founded on 1 January 1964 when the operations of Naftaplin (oil and gas exploration and production) were merged with those of Rijeka and Sisak refineries. In 1990, INA became a state-owned enterprise and in 1993, a joint stock company (“d.d.”). The share capital is divided into 10,000,000 ordinary shares with every share carrying one vote, dividend right and a nominal value of HRK 900.00.

In 2003, MOL Rt (MOL) acquired 25% plus one share of INA, d.d. By acquiring 25% plus one share, MOL became INA’s strategic partner and INA, d.d. became a part of an integrated regional partnership in the oil and gas industry consisting of MOL, INA, d.d., Sloznaft and MOL Petrochemicals (TVK).

Two years later, in 2005, 7% of INA, d.d. shares were transferred to the Croatian Homeland War Veterans and their Family Members’ Fund.

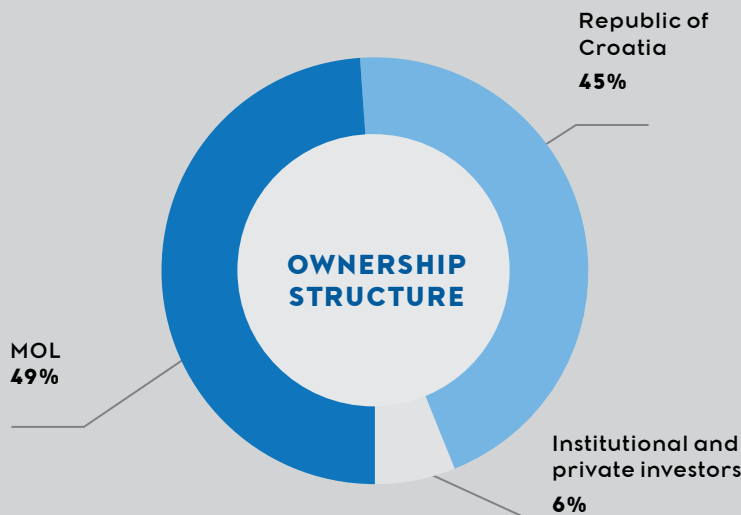
INA - Industrija nafte, d.d. was officially listed on the Zagreb Stock Exchange on 30 November 2006 with ticker symbol INA-R-A. INA’s global depository receipts (“GDR”) were also listed on the London Stock Exchange until September 2014.

In 2007, the Croatian Government decided to sell 7% of INA, d.d. shares (700,000 shares) to the current and former INA employees.

In September 2008, the Croatian Financial Services Supervisory Agency approved the publication of MOL’s voluntary takeover offer, following which MOL’s share in INA, d.d. raised to 47.16% of the total share capital. Another offer was made at the end of 2010, raising MOL’s stake to 47.26% of the Company’s share capital.

As at 31 December 2017, INA’s shareholder structure is as follows:

- ▶ MOL 4,908,207 shares – 49.08%,
- ▶ Republic of Croatia 4,483,552 shares – 44.84%,
- ▶ Institutional and private investors – 608,241 shares – 6.08%.





QUALITY MANAGEMENT

INNOVATION AND AWARDS

Since the 1960s, INA, d.d. has been maintaining a tradition of caring for innovative work. INA, d.d. workers continuously apply their innovation proposals categorised as patent (invention), industrial design, technical improvement, business rationalisation or useful idea, for which they have received numerous awards at innovation exhibitions in the country and abroad. INA Group workers' innovation proposals are processed by the INA Group Innovation Proposal Evaluation Committee. The work of the Committee is supported by Eiffel coordinators (creativity coordinators) for Consumer Services and Retail and Refining and Marketing, who encourage workers of their organisational units to be creative. In 2017, INA Group Innovation Proposal Evaluation Committee accepted the "SMS Project", a new model for informing tank truck drivers about fuel delivery plan (solution consisting of Excel SMS generator and VIP application Profi SMS). Procedure for processing / decision making for 4 innovation proposals is ongoing. The Committee also gave its expert opinion on the innovation proposal sent by Croscos d.o.o.

QUALITY

In all business areas, INA Group companies are focused on harmonisation of the management systems and development of technologies, processes, products and services, the quality of which is being continuously developed. Today, ISO 9001 standard is applied through the integrated company system and is implemented in major INA Group companies. Today, INA, d.d. has a total of 10 certificates according to ISO 9001, ISO 14001, ISO 50001, OHSAS 18001 standards and EU-ISCC certificate on biofuels sustainability which is a required condition for the sale of biofuels on the EU market. On INA, d.d. level, three certificates have been obtained: quality management according to ISO 9001 since 2005, EU-ISCC Standard certifies sustainable biofuels since 2013, and energy management system in accordance with international Standard ISO 50001 since 2015. In 2017, INA Group companies were successfully recertified, which ensured

transfer to new editions of ISO 9001:2015 and ISO 14001:2015 and proved compliance with even more comprehensive requirements. Monitoring of the entire system is implemented with external monitoring management system (MS) audits, MS internal audits and supplier audits. Through the cooperation with health and safety audits, internal audits, compliance with the regulations audits and with security audits, a better control of processes is accomplished.

INA, d.d. experts actively participate in the work of the Croatian Society for Quality (CCS), Croatian Standards Institute (Technical Committee: 574), and through membership in the CCS Supervisory Board they contribute to the development of good relations with stakeholders and build the reputation of our company. At the 17th annual Croatian Conference on Quality 2017, i.e. 8th CCS scientific congress, one lecture and paper was presented and published: "The future and quality – and what is the future of our quality management?" We actively participated in the work of the Organisational and Program Committee, where INA, d.d. was silver sponsor.

STANDARDISATION

INA standards define and specify the quality of our products and raw materials, as well as the elements of the company's visual identity, and prescribe rules and standards in the field of business communication. In 2017, new edition of Standardisation procedure management at INA, d.d. was announced. Furthermore, this year, new specification standard for Ethanol was created, and 7 existing standards were revised: Diesel fuels and Unleaded petrol (each twice), Aviation gasoline, Marine fuels, Petroleum coke. INA, d.d. experts actively participate in the work of more than 34 technical committees and numerous subcommittees and working groups at CSI where they help improve the process of sustainable development of our company.

REACH

INA Group companies adhere to the Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH





Regulation) and the Regulation on the Classification, Labelling and Packaging of Substances and Mixtures (CLP Regulation). INA REACH team continuously supports all company processes affected by the REACH Regulation (production, procurement, sales, registration dossier maintenance and update). INA experts actively participate in working groups of European associations of refining industry CONCAWE: Petroleum Products Management Group (PPMG), REACH Delivery Management Group (RDMG), Air Quality Management Group (AQM), Toxicology Subgroup (TSG), Substance Identification Group (SIG) and IUCLID Policy Team (IPT). In 2016, INA experts joined the Fuels Europe REACH Advocacy Issue Group (RAIG) and Lower Olefins and Aromatics Consortium Classification and labelling working group (CLPWG). In 2017, dossiers for 25 substances of INA, d.d. were updated and submitted to ECHA according to ConcaWE and ECHA requirements. Audit of business processes and alignment with REACH Regulation was conducted in certain INA Group / MOL Group companies: INA, d.d., Sloznaft, MOL, MOL LUB and MOL Petrochemicals.

INTELLECTUAL PROPERTY

Basic principles and business rules for intellectual property management system have been defined on INA Group level since 2008. Protection of intellectual property rights includes the protection of inventions (patents), trade and service mark (trademark) and the protection of the external appearance, i.e. product appearance (industrial design). Great attention is given to the protection of all marks recognisable on the market: logo (the names of INA Group companies), lubricant product range and visual identity of INA's service stations. According to business interests, INA, d.d. protects: INA's name through international registration, which ensures protection of INA's name in 23 countries, 50 trademarks in Croatia, 20 trademarks in Slovenia, 18 in Macedonia, 22 in Bosnia and Herzegovina, 13 in Serbia, 11 in Albania, 13 in Kosovo, 13 in Montenegro, 9 in Hungary, 7 industrial designs in Croatia, 5 industrial designs in Bosnia and Herze-

govina and Slovenia, 4 industrial designs in Serbia, Macedonia, Montenegro and Kosovo, as well as INA web domain in Macedonia and Bosnia and Herzegovina.

In 2017, 5 new trademarks were registered in Croatia, while protection for 5 industrial designs was extended, and application for registration of figurative trademark of EURODIESEL BS ARKTIK was submitted.

In Macedonia and Bosnia and Herzegovina, protection for the Internet domain was extended, and 8 new trademarks and new 6 industrial designs were protected. Applications for registration of three new trademarks (INA LIS, INA 2T, INA ULTRA) in Serbia and Montenegro were submitted, while in Bosnia and Herzegovina, applications for one trademark (LANCOL) and two CLASS PLUS trademarks were submitted.

INA, d.d. intellectual property infringement in Croatia was recognised through the publication of trademark LANCOL, and required actions to prevent it were taken.

The other part of INA, d.d. intellectual property are employees and all their knowledge, ideas and skills applied in their work. The Company Knowledge Base, in which one can find all information related to the creative work of INA, d.d. employees, is continuously maintained.

PROTECTION OF PERSONAL DATA

Protection of personal data is actively conducted in INA Group companies, according to the legislation in force. In 2017, INA Group guideline which applies to companies abroad was made, as well as an INA Group operative regulation which applies to companies within the Republic of Croatia. This regulation includes the provisions of EU Regulation 2016/679 of the European Parliament and of the Council, which will be applied in the Republic of Croatia from 25 May 2018.

OVERVIEW OF THE ENVIRONMENT

The Global Economy: The cyclical recovery of the global economy continues to go further

The global economy has entered the cyclical recovery, reflecting the rise in investment and production activities as well as trade. Improvements are the result of acceptable global policies, favourable financing conditions, increased confidence and price stability. The World Bank estimates that global GDP will grow to around 3.0% in 2017, above the 2.4% growth rate in 2016, as a result of faster growth in more than half of global economies. Recovery of global investment growth is fuelled by favourable financing costs, improved business expectations and results in both developed and emerging economies. In the US, growth in 2017 has increased to about 2.3%, driven by strong private sector investment. Recovery is a reflection of matching supply and demand in the energy sector, rising profits, weakening of the dollar and strong external demand. In the Eurozone, due to stimulating policies and strengthening global demand, in 2017, the unemployment rate reached the lowest level since 2009. Wage growth was slower than expected, the appreciation of the euro in 2017 is likely to further slow down inflation growth in 2018, creating additional pressure on import prices. Since inflation was lower than the one forecasted by the European Central Bank, interest rates are expected to remain unchanged during 2018. It is estimated that China's growth reached 6.8% in 2017, as a result of continued fiscal support, reform effects and stronger than expected recovery of export. Global financing conditions remain favourable, thanks to the encouraging predictions of global growth and historically low interest rates, despite the expected further normalisation of the monetary policy of the world's largest economies. Given the continued positive macroeconomic

indicators in 2018, global growth is expected to remain at around 3.1%.

Global Oil Demand and Supply: Strong demand combined with the OPEC cuts rebalanced oil markets

In oil markets, 2017 will be remembered as the year that OPEC and Russia followed through on a historic agreement to restrain production. Amount of crude production cut by the main member OPEC countries and Russia between end of 2016 and the end of 2017 was 1.2 million barrels per day (MMbpd). The agreement, agreed in the final weeks of 2016, has been a success in that it has reduced the global supply glut and boosted oil prices above the 60 USD/bbl levels by 2017 year-end. Brent averaged 54.2 USD/barrel in 2017 while WTI traded at an average price of 50.9 USD/barrel. On the Mediterranean market Urals averaged 53.6 USD/barrel compared to 42.5 USD/barrel in 2016. Global economy expansion was supportive for strong oil demand growth at almost 2.0 MMbpd and was another factor driving stock decline. In 2017, global liquids supply grew almost 1.0 MMbpd, mostly from non-OPEC sources and driven by US shale, which rebounded as a result of higher oil prices. Oil at 60 USD/bbl and above may trigger very strong US production growth in 2018. The US shale system has proven to be an opportunistic producer because the system can provide significant production growth within 6-12 months given the right price signals. Due to that, possible fast-rising US output may moderate upward price pressure from continued robust world liquids demand growth. World refinery distillation capability grew by about 1.3 MMbpd in 2017, slightly more than the five-year average but below the 2016 level. OECD (excluding US) capability continued to decline,





while China accounted for more than 50% of the net gains. US refining continued to expand, largely to support the growing export market, with much of the rest of the increase occurring in Asia and the Middle East. Refinery margins were very strong in 2017. This was due to robust demand growth for refined products globally, combined with limited refinery capacity availability such as poor performance in Latin America and outages in US caused by Hurricane Harvey. In 2017, gas prices remained stable. The bearish cycle, which began in 2013, clearly ended in 2017, as European gas prices found support from robust coal pricing, low storage stocks, further reduced Groningen production, and strong Asian gas demand keeping LNG cargoes away from Northwest Europe. In US weather provided little support to heating demand in Q1 2017, which helped keep a lid on natural gas prices, despite declining supply and growing export demand. Geopolitical risks became increasingly supportive for oil prices in the second half of 2017, due to the reduction in surplus inventories and OPEC spare capacity near historical lows. OPEC supply disruptions quietly diminished as prices rose, driven by improvements in Libya and Nigeria. In the Middle East there are no signs of stabilising and Venezuela is also flashing warning signs. Intensifying rivalry between Saudi Arabia and Iran headlines the danger of military miscalculation, while Iran's strengthening regional presence risks destabilising consequences for Iraq, Israel, and Jordan. Looking into 2018, except geopolitical situation key questions facing oil markets will be the extent that the OPEC will stick with output cuts and the responsiveness of US production to prices.

The Croatian economy in 2017: Economy recovery continued

The Croatian economy continued to recover during 2017, driven

by increased exports of goods, services and personal consumption, and is expected to grow by about 2.8%, in line with growth dynamics over the first three quarters and monthly indicators from the last quarter. The mentioned growth in exports of goods, services and personal spending, which was above expectations, partly neutralised the slowdown in investment activities that are likely to be restrained by the crisis in Agrokor as well as the lower public sector investment activity, which showed a modest withdrawal from EU funds than expected. The overall economy was very positive, effected by successful tourist season. Although Croatia was among the countries with the highest annual fall in unemployment almost every month in 2017, the unemployment rate according to seasonally adjusted Eurostat figures is still above the European average. The greatest decline in unemployment was shown during the summer months, and the rate was historically low 10.8%. Thanks to the recovery of domestic and foreign demand, the state budget filled up better than expected. The expense was kept within the limits of the desirable, and for the first time there was a surplus at the level of the general state. During the year, the average exchange rate dropped to the lowest level in the last few years at the level of 7.4601 Kuna for Euro, which only confirmed that, in the period of growth of the Kuna, economy was exposed to appreciation pressures against Euro. It is important to note that, for more than two decades, Kuna has remained one of the most stable currencies in the region of Central and Eastern Europe. At the end of the year, there was a slight increase of the EUR/HRK exchange rate supported by the measures of the Central bank. In 2018, the biggest uncertainty will be the further outcome of the situation related to Agrokor, which would - in case of a positive outlook and the expected positive effects of this year's tourist season - increase the annual GDP growth, approaching to the level of 3.0%, the third year in a row.

OUR BUSINESSES





EXPLORATION AND PRODUCTION



KEY MESSAGE FROM THE OPERATING DIRECTOR

“Building on our success and mitigating future natural decline as well as maintaining a steady reserve replacement ratio is necessary in order for us to remain a stable business. To achieve this, we have moved our focus onto enabling organic and inorganic growth both in Croatia and abroad which will allow us to start a new cycle of reserve replacement and production increase. In light of this, our business development activities and efforts have been intensified with a clear purpose for the future.”

Tvrtko Perković, Operating Director
of Exploration and Production

HIGHLIGHTS

- ▶ **HSE KPIs:** 0 fatalities, 1,185 FTEs with 1.0 LTIFs
- ▶ **EBITDA:** HRK 2,474 mln
- ▶ **CAPEX:** HRK 618 mln
- ▶ **SPE 2P Reserves:** 150 MMboe
- ▶ **Total Production:** 37.6 Mboe/day



Exploration and Production is engaged in the exploration, development and production of oil and natural gas in Croatia and abroad. Since it was founded, it has been involved in oilfield operations in 20 foreign countries and currently operates in Egypt and Angola. At the end of 2017, INA Group had 150 million boe of proven and probable (2P) hydrocarbon reserves with an average hydrocarbon production of 37.6 Mboe/day.

INA's total hydrocarbon production in 2017 was 5% lower than in 2016. The domestic onshore oil production 17-year natural decline trend was finally halted in 2014 and production has been on the rise ever since, showing a 41% compared to 2013 and slightly surpassing the level from 10 years ago. Last year's onshore gas production increase trend has continued with a 3%

increase from 2016. Offshore gas production continues to sharply decline, albeit less than in 2016, with a 17% drop, as a result of natural decline and increasing water cut.

Exploration drilling programme planned for 2017 which included drilling of two Drava-02 wells, could not have been realised as originally planned due to permitting delays which occurred as a consequence of new administrative procedures introduced at the start of the year. Consequently, drilling of the first well started as late as in December, thus postponing the drilling completion dates of both wells until 2018.

Two (2) development wells were drilled in Croatia on Kozarice and Letičani fields. Putting on stream two new Hrastilnica wells, which had been severely delayed due

to permitting issues, was finally performed in the second half of the year.

Implementation of the Full Field Optimization concept, originally introduced on one field in 2016, has continued in 2017. So far, the concept has been implemented on 5 fields in total – Đeletovci, Jamarice, Kloštar, Lipovljani and Žutica.

In order to optimize INA Croatia production, new technologies were introduced in 2017, with Linear Rod Pumps and Well-head Compressors being installed on several onshore fields.

INA's natural gas sales on the domestic market increased by 8% in 2017 compared to 2016, and INA Group remains a leader in the Croatian gas market, meeting over 50% of the market's demand.

KEY ACHIEVEMENTS IN 2017

PRODUCTION

Total hydrocarbon production in 2017 was 37.6 Mboe/day, which is 4.5% lower than in 2016. Despite continuing with the FFO concept and performing an intense workover and stimulation campaign on our onshore fields, as well as putting into production new wells on Hrastilnica field, total production has declined. Main reasons for this were the effects of continuing natural production decline on our offshore fields and large onshore gas fields of Deep Podravina, coupled with the decline on international assets.

-5%

TOTAL

Domestic onshore oil production has increased by 2% since 2016. The decline trend which lasted for 17 years, was finally reversed in 2014, where the positive trend continued throughout 2017, reaching 12.2 Mboe/day, which is an increase of 36% compared to 2014 and 41% compared to 2013. Furthermore, production has now slightly surpassed the level from 10 years ago.

+2%

**DOMESTIC
ONSHORE OIL**

Domestic onshore gas production increase trend has continued from last year and production has now reached 13.6 Mboe/day, which is 3% higher than in 2016, resulting mostly from the new fields, Vučkovec and Zebanec, which have been producing since mid-2016.

+3%

**DOMESTIC
ONSHORE GAS**

Domestic offshore gas production decline trend has somewhat slowed down this year (as it was 24% last year), but still dropped significantly to 7.7 Mboe/day, which is a 17% decline compared to 2016. This is mostly the result of natural production decline and increasing water cut, but was mitigated slightly by an increase of 2% in INA, d.d. net share.





-17%

**DOMESTIC
OFFSHORE GAS**

INA's share of production in Angola was 0.8 Mboe/day, which is 23% lower than in the previous year. This was a result of postponement of well start-up and lack of development activities throughout the year, which was decided by the Contractor Group in which INA, d.d. has a minor share.

-25%

INTERNATIONAL

INA's share of production in Egypt was 1.5 Mboe/day, which is 25% lower than in the previous year. This was a result of lack of development activities throughout the year, and INA, d.d. had no influence on such decisions due to its minor share in the Contractor Group. Delayed payments from EGPC had a negative influence on the development activities in Egypt.

CROATIA ONSHORE

INA, d.d. started the Croatian onshore exploration and production activities more than 60 years ago. This accumulated knowledge on the geological structures and operating experience make INA, d.d. the most competent company to exploit the remaining sizeable hydrocarbon potential of the continental part of Croatia. Production of oil and gas onshore is carried out in 3 (three) Production Regions (northern, central and eastern

Croatia) with 38 oil fields, 18 gas fields and more than 3,000 kilometres of pipelines being managed. Average age of onshore oil fields is 42 years, while onshore gas fields are 32 years old on average.

Central gas processing station Molve had the main role in the treatment and purification of gas with an extremely high content of CO₂ (more than 50% in some fields) which was a real challenge for its aMDEA process. Total volume of raw gas was 1.1 billion m³ with an average CO₂ content of 33%. Continuous improvement of the process and regular maintenance was crucial for ensuring continuous gas supply of customers and CO₂ injection for EOR project.

Overall maintenance activities of very complex and aging production systems were professionally performed, resulting in minimal down time and acceptable maintenance unit cost.

- ▶ **Reserves (SPE 2P, 2017 Y/E): 136 MMboe**
- ▶ **Production (2017): 27.5 Mboe/day**

Exploration

As a priority in the year 2017, INA, d.d. implemented the obligatory work program for the exploration area Drava-O2 covering the area of 2,506 km², awarded to INA, d.d. as a result of the First Croatian Onshore Bid Round conducted in 2014/2015. INA, d.d. signed the Production Sharing Agreement (PSA) with the Croatian Government on 10 June 2016. The Works program for the year 2017, which was approved by the Croatian Hydrocarbon Agency (CHA), included drilling two exploratory wells Severovci-1 (Sev-1) & Mala Jasenovača-1 (MJ1-1) and undertaking G&G (geological & geophysical) studies and analysis. However, since the new legislative framework was introduced in January 2017 in terms of introducing the new Directive which imposed an Environmental impact assessment study requirement for every exploration well, realisation of drilling

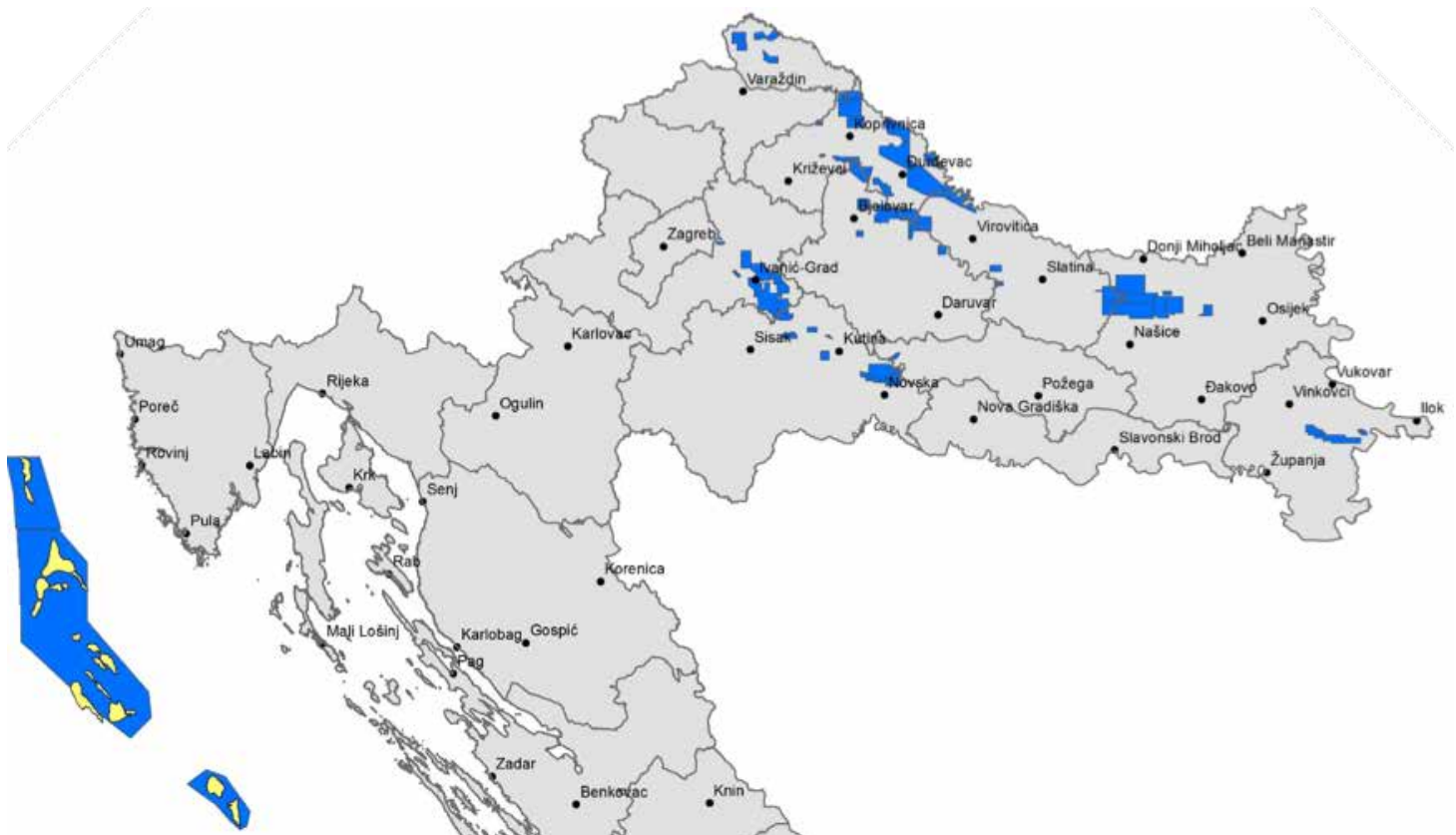
activities was jeopardised. The consequence of the introduced legislative changes was a prolonged permitting procedure and rescheduled drilling program, due to which drilling of Sev-1 well started at the very end of 2017 and drilling of MJa-1 was postponed until 2018. Specifically, on 2 December 2017 the drilling of the Severovci-1 well was started. Until the year-end, depth of 1750 m was accomplished, where reaching the planned Targeted Depth of 3400m \pm 100m is expected in February 2018. Planned activities on well site preparation for the second exploration well MJa-1 will start immediately upon Location Permit issuance by the competent Ministry.

In addition to drilling activities and in accordance with the work program for Drava-O2, INA, d.d. prepared several regional and semi regional G&G studies, all based on seismic re-interpretation with the goal of comprehensive hydrocarbon potential evaluation and outlining potential prospects for future exploration activities.

During 2017, INA, d.d. performed well testing activities for several wells drilled in the previous years: Bunjani-1 South, Bunjani-2 South, Đeletovci-2 West, for the purpose of estimating reservoir characteristics and productivity. These activities resulted in establishing minor oil productivity with low reservoir energy on Bunjani 1 South well within the range of 20-30 bbl/day and somewhat better productivity for relatively

limited Đeletovci-2 West pool where 130 bbl/day have been tested. Plans for development/production of these minor oil discoveries will be proposed in the near future.

In the context of preparatory activities for the next Croatia onshore Bid Round, INA Exploration made the Pannonian Basin Study in 2017 comprised of technical re-evaluation of Drava, Mura and Sava sub-basins, based on the new "Play Based Exploration" methodology recently introduced in the exploration process. Special focus was put on the play and prospect analysis. The Study resulted in better definition of the remaining hydrocarbon potential in the areas of interest which will serve as a technical basis for INA, d.d. application on the next bid round, expected to be launched in 2018. In addition, INA Exploration conducted several expert geological studies with eminent international experts such as "Dinarides, Thrust Belt potential assessment" in co-operation with GEPlan company, in order to re-evaluate potential of the complex and relatively unexplored Dinarides area. Furthermore, "Study of the Unconventional Potential / Low Permeability Reservoirs" was contracted with SGS consultants aiming to evaluate low permeability reservoirs potential of the selected areas of interest in Sava and Drava basins. Cooperation with external experts resulted in knowledge transfer and new geological and technological concepts to be introduced in the next INA Exploration cycle.





In 2017, INA, d.d. and MOL Norge entered into a cooperation agreement in terms of conducting three regional studies with specific geological and geophysical work performed by INA's experts. First project was seismic data reprocessing of 440 km² (PSTM&PSDM) where INA's team achieved significant improvements in seismic imaging in comparison to previous processing attempts by reputable seismic companies. Further two projects were regional studies of the significant portion of the Central Graben area by using new play based approach on Norwegian Continental Shelf (NCS). INA exploration team successfully finalised all three regional projects and finally, as a result of quality studies, MOL Norge was awarded with the exploration license on the Bid Round APA2017.

During 2017, INA, d.d. recognised necessity for more intensive reserve replacement which resulted in focused evaluations of targeted countries and specific projects potential. In that respect, a number of international opportunities evaluations were performed in countries such as Iran, Canada, Tunisia, Italy, Egypt, The Netherlands, Ukraine etc. The most comprehensive study issued by INA Exploration in that respect was "Egypt Country Assessment Study" which was done for the purpose of recognising further business opportunities in Egypt.

Development

The year was marked by production start-up of new wells on Hrastilnica field which had persisting years-long issues with obtaining permits necessary for production start-up

and was finally put into production in the second half of 2017. Hrastilnica-3 was drilled in 2012 and Hrastilnica-4 in 2014 and both wells were put on hold until the permits were obtained.

The EOR project injection continued throughout 2017 and CO₂ is being injected into wells on Ivanić and Žutica North fields. Over 220 million m³ of CO₂ was injected in 2017 into both fields, which is 43 million more than in 2016. During the year, almost 300 well activities were performed on Ivanić and Žutica wells as part of the project. Activities included well workovers and relining on injection and production wells, well measurements, corrosion inhibition, installation of surface equipment for CO₂ injection measurement and control, etc. During the year, production on Ivanić remained on the same level and has been steadily increasing on Žutica north. Total capital expenditure in 2017 amounted to more than HRK 50 mln.

220 MMm³
CO₂ INJECTED

Implementation of the Full Field Optimization concept, originally introduced on one field in 2016, continued in 2017. So far, the concept has been implemented on 5 fields in total – Đeletovci, Jamarice, Kloštar, Lipovljani and Žutica.

The FFO concept is planned to continue and will be intensified even further in the years to come implementing it across new prospective mature onshore fields as well as continuing the implementation on the fields where it has already started. All the necessary preparatory works are in progress and already finished for certain fields. The Full Field Optimization concept includes improvements across the entire production system. It involves improvements in reservoir performance, well performance, pipeline network performance, facility performance which are all made possible using integrated production system computer models.

In 2017, INA Group performed a large number of capital well workovers and stimulations on our onshore oil and gas fields. Furthermore, a new project was introduced which aims to produce additional hydrocarbon quantities by performing workover operations on idle wells with very limited data about hydrocarbons saturation and reservoir parameters required to estimate reservoir and production capacity.”

Two (2) development wells were successfully drilled in 2017; Kozarice-42 and Letičani-9. The two wells are expected to be put into production in 2019 once well testing and permitting are completed.

In 2017, INA, d.d. led a development seismic acquisition campaign on onshore areas Letičani-Bilogora-Šandrovac and Bokšić-Klokočevci which together cover around 350 km².

CROATIA OFFSHORE

Major offshore field development started after signing the North Adriatic Production Sharing Agreement (1996), Aiza-Laura Production Sharing Agreement (1997) and Izabela, Iris/Iva Production Sharing Agreement (2002).

Extensive exploration and development activities in the North Adriatic were carried out in cooperation of INA, d.d. and its Italian partners (ENI and EDISON Gas) within the Mining Plot areas. Until now, in the contract areas North Adriatic, Aiza-Laura and Izabela, INA, d.d. has invested more than HRK 5.2 billion (USD 0.9 billion) in capital construction of plants and facilities, while of the total produced gas INA's share was around 63%.

- ▶ **Reserves (SPE 2P, 2017 Y/E): 9.4 MMboe**
- ▶ **Production (2017): 7.7 Mboe/day**

FFO CONCEPT
IMPLEMENTED
ON 5 FIELDS

CAPITAL WORKOVERS
& STIMULATIONS
ON 65 WELLS

2
DEVELOPMENT
WELLS DRILLED

SEISMIC DATA
ACQUIRED
~350 KM²

Exploration

Since the signing of the production sharing agreements for the new licenses in the Adriatic offshore was postponed by the Croatian Government decision, where INA, d.d. was awarded 2 deep offshore licenses (SA25 & SA26) as a result of the 2014 offshore tender, INA, d.d. remained committed to the exploration activities within the existing Mining Plots. In that respect, preparation activities were initiated for drilling Irena-2 shallow offshore well in partnership with Edison Gas and through joint venture company Edina. The well is planned to be drilled in the year 2018, however, after the new EU offshore regulation has been adopted by Croatia, permitting and administration for this and future exploration wells will get even more complex and will require timely preparation.

Development

Workovers and maintenance activities, required for the production to continue and to help partially offset production decreases, were performed on the existing gas fields.

INTERNATIONAL CONCESSIONS

A) ANGOLA

- ▶ **Reserves (SPE 2P, 2017 Y/E): 1.9 MMboe**
- ▶ **Production (2017): 0.8 Mboe/day**

INA, d.d. entered Angola in 1981 by becoming a party to the Block 3 Production Sharing Agreement with a 5% participating interest. Block 3 was one of the biggest oil discoveries in the early 1980s and it included three contract areas: Block 3/80 (6 fields), Block 3/85 (2 fields) and Block 3/91 (1 field) at sea depths in the range from 40 to 105 m. Production in this area started in 1985, peaked in 1998, and is now in decline. As production licenses on Block 3/80 expired in 2001, INA, d.d. and other partners accepted the National Concessionaire's offer to continue production under a new contract as Block 3/05, and exploration activities in the remaining area of Block 3 continued under contract for Block 3/05A. Blocks 3/85 and 3/91 were operated by Total E&P Angola S.A. until operatorship was transferred to Sonangol Pesquisa & Producao S.A. on 31 December 2010. INA's participating interest in Block 3/05 and Block 3/05A is 4%.

Block 3/05

Block's Operator is Sonangol P&P with a 50% participating interest. Other partners are: AJOCO (20%), ENI (12%), Somoil (10%) and NIS (4%), while INA's participating interest is 4%. This is former Block 3/80 with license extended in 2005. There are eight (8) production oil fields in the Block: Palanca, Pacassa, Bufalo, Impala SE, Impala, Cobo, Pambi and Oombo. The Block's license expires on 30 June 2025.

The 2017 work programme included facilities maintenance and well workovers across the Block, and there were no other development activities as per decision of the Contractor Group

in which INA, d.d. has a minor share. This resulted in a sharp production decline throughout the year.

Block 3/05a

Block's Operator is Sonangol P&P with 25% of participating interest. Other partners are: China Sonangol (25%), AJOCO (20%), ENI (12%), Somoil (10%) and NIS (4%). INA's participating interest is 4%. Field Development Plans (FDPs) for Caco-Gazela and Punja development areas (DAs) were approved by the Ministry of Petroleum on 26 April 2012. The Block's license expires on 29 October 2030, which is 20 years after declaration of a commercial discovery. According to the approved FDPs, production license on Punja DA is expected to expire in 2038 and on Caco-Gazela DA in 2035, which is 20 years after the start of commercial production.

In 2017, there were no development or maintenance activities as per decision of the Contractor Group in which INA, d.d. is has a minor share. This resulted in a sharp production decline throughout the year.

B) EGYPT

- ▶ **Reserves (SPE 2P, 2017 Y/E): 2.7 MMboe**
- ▶ **Production (2017): 1.5 Mboe/day**

INA Group has been involved in exploration and production activities in Egypt since 1989.

East Yidma Concession: INA, d.d. is a 100% operator of the Concession after exercising its pre-emption rights to 50% of RWE Dea participating interest. The Sales and Purchase Agreement (SPA) was signed in 2012, while the Deed of Assignment was signed in 2013. The concession consists of two Development Leases - Sidi Rahman and Rizk.

- ▶ **Sidi Rahman Development Lease** is operated by JV - Marina Petroleum Company (MPC) established in 2007. INA's share of production is 58%. The production licence expires in 2026 and has an optional 5-year extension period.
- ▶ **Rizk Development Lease** is operated by JV - Marina Petroleum Company (MPC). Production started in 2012. INA's share of production is 58%. The production licence expires in 2029 and has an optional 5-year extension period.

Ras Qattara Concession is operated by IEOC, whose stake is 75%, while INA, d.d. is the sole partner with a stake of 25%. The concession consists of two (2) oil fields: Zarif and El Faras. Production started in May 1994 on Zarif field and in November 1996 on El Faras field. INA's share of production is 10.8%. The production licence expires in 2018, including a 5-year extension period. However, INA, d.d. and IEOC started the process of an additional 5-year extension.

West Abu Gharadig Concession is operated by IEOC, whose stake is 45%, while Dana Petroleum and INA, d.d. are the two partners, with stakes of 30% and 25% respectively. There are two (2) oil fields in production: Raml and Raml SW. Production started in 1996 on Raml field and 1999 on Raml SW field. INA's share of production is 14.5%. The production licence for the Raml Lease expires in 2021 including a 5-year extension period, while for the Raml SW Lease it expires in 2019, with an optional 5-year extension period.

North Bahariya Concession is operated by Sahara North Bahariya, whose stake is 50%, while IPR and INA, d.d. are the two partners, with stakes of 30% and 20% respectively. Currently there are six (6) fields in production: Abrar, Sidra, Ferdaus, Ganna, Rayan and Rawda. INA's share of production ranges from 8.95% to 9.015%, depending on the total produced amount. The production licences expire in 2024, with an optional 5-year extension period.

Development Activities in 2017

Issues with delayed receivables payments have negatively affected INA's business in Egypt throughout the year, forcing INA, d.d. to refrain from investing to the full extent planned, which has resulted in a production decline.

INA, d.d. is hoping to resolve the payment issues in order to continue with investments and to increase production in the next year.

**5 WELLS DRILLED
IN EGYPT**



C) SYRIA

INA Group has been active in Syrian Arab Republic since 1998 based on the signed Production Sharing Agreements (PSA). First PSA was signed for Hayan block Concession in 1998, and following the successful exploration and appraisal, INA, d.d. announced six commercial discoveries on the Hayan block with significant oil, condensate and gas reserves. Joint venture Company HPC (Hayan Petroleum Company) was established between INA, d.d. (Contractor) and General Petroleum Company, GPC (Company) in order to carry out petroleum operations on the Hayan block.

The second PSA covers the Aphia block Concession and became effective in June 2004.

INA, d.d. announced "force majeure" on 26 February 2012, in line with EU/UN sanctions, and temporarily suspended all its business activities in Syria until the "force majeure" circumstances cease to exist.

In 2017, a decision was made to shift Syrian reserves in the books from reserves into contingent resources. 22.5 MMboe of proved reserves (1P) were shifted to 1C category, while 35.8 MMboe of proved and probable (2P) reserves were shifted to 2C category.

The shift is supported by the fact that Syrian assets are under "force majeure" and INA, d.d. has had no control over them in almost 6 years. This re-classification is not related to INA's right or its potential return to the asset, for which probability and potential economic benefit have been assessed unchanged compared to previous periods.

The stated shift of reserves was made in accordance with the SPE Petroleum Resources Management System (PRMS), which is a set of standards defining Reserves and Resources. It has no regulatory authority, but is widely recognised internationally and accepted by many Stock Exchanges.



GAS TRADING

In 2017, INA's natural gas sales on the domestic market (without internal consumption of 0.214 bcm) amounted to 1.201 bcm, which is 8% higher, compared to 2016. In addition to sales volumes increase, price increase on the market and cancellation of the price regulation (effective from 1 April 2017) under which INA, d.d. was obliged to sell natural gas to HEP for households purposes, resulted in a 9% revenue increase compared to 2016.

47% (0.566 bcm) of total natural gas sold on the domestic market (without internal consumption) was delivered to HEP for households supply purposes. According to the Government's decision, INA, d.d. delivered natural gas to HEP at a regulated price until 31 March 2017. After the regulation was cancelled on 1 April 2017, INA, d.d. continued to deliver natural gas to HEP for households supply purposes at the market price, based on the HEP's tender in which INA, d.d. was chosen as the most favourable bidder.

The remaining part of the delivered natural gas was sold to Petrokemija (0.228 bcm), HEP for electricity production (0.121 bcm) and to local suppliers, traders and other industrial customers (0.286 bcm). All contractual obligations towards customers in 2017 are being fulfilled.

Until July 2017, INA, d.d. managed to contract the entire planned volumes of natural gas for the gas year 2017/2018 (1.5 bcm), which represents 9% market share increase compared

to the gas year 2016/2017. Natural gas sales volumes will be covered with natural gas from own production and additional volumes purchased from third parties in order to secure safe supply of natural gas to all customers in INA's portfolio.

+8%

DOMESTIC GAS SALES

+9%

REVENUE

The main objective in 2018 is to retain the strategic position by holding our present market position in all customer segments and provide a competitive, reliable and flexible supply of natural gas to all customers, while maintaining a sustainable level of margins and returns from all operations.

STRATEGY AND OUTLOOK

INA's main strategic priority is to replace its reserve base to enable sustainable growth in the future and maintain a stable production rate. This can be achieved through developing a diversified asset base as a collection of both organic and inorganic projects. Current opportunities in Croatia are limited, since INA, d.d. is allowed to explore only on the areas covering the existing exploitation fields and Drava-O2 block. Other areas will require public tenders as a prerequisite for the extended acreage base. Even in the most optimistic case, Croatian potentials are not sufficient to meet the strategic priorities. Therefore, a step abroad is also needed to achieve sustainable growth for the company.

INA, d.d. plans to remain focused on intensifying implementation of its Full Field Optimization concept by expanding it onto an even larger number of onshore fields, and continue the Drava-O2 exploration programme, as well as the EOR project, focusing on Žutica field.

Well workovers, stimulations and optimisations are planned to continue in order to maintain a steady increase in the production level.

Preparatory works and studies will start on several fields in order to perform pilot EOR projects and the third phase of the EOR project. The latter is an immensely complex project which heavily depends on the external environment in order to be viable. Studies are in progress.

New tenders in Croatia are expected to be launched in the near future, and INA, d.d. has already performed quality preparatory activities to be able to bid for the areas identified as the most prolific ones. Tenders are expected for the blocks in the Pannonian region and the Dinarides.

In addition to that, in the upcoming years, INA, d.d. will participate in international tenders with the goal of acquiring both discovered reserves and new exploration licenses to be able to ensure stable reserve replacement. The outcome of such ventures will largely depend on the crude oil price trend on the market.

RESERVES BREAKDOWN

MMBOE	1P			2P		
	2015	2016	2017	2015	2016	2017
By country						
Croatia onshore	127	117	108	158	146	136
Croatia offshore	9	6	5	14	10	9
Syria	22	22	0	36	36	0
Egypt	1	1	2	2	3	3
Angola	1	2	1	4	3	2
Total	161	148	116	213	198	150
By product						
Oil	66	62	56	92	86	76
Gas	84	76	54	107	98	67
Condensate	11	10	6	15	14	7
Total	161	148	116	213	198	150

HYDROCARBON PRODUCTION BY REGION

Hydrocarbon production (Mboe/day)	2015	2016	2017	2017/2016
				%
Croatia	37.6	36.3	35.2	(3)
Angola	1.2	1.1	0.8	(27)
Egypt	2.1	2.1	1.5	(29)
Total	40.9	39.4	37.6	(5)

HYDROCARBON PRODUCTION BY PRODUCTS

Hydrocarbon production (Mboe/day)	2015	2016	2017	2017/2016
				%
Crude oil	14.0	15.0	14.5	(3)
Natural gas	25.0	22.4	21.3	(5)
Condensate	1.9	1.9	1.8	(5)
Total	40.9	39.4	37.6	(5)

EXPLORATION AND PRODUCTION SUSTAINABILITY ACHIEVEMENTS

Health, safety and environmental protection are the basic priorities that lie at the beginning of every exploration and production activity. Our orientation towards achieving zero levels of incidence is reflected through various programs we continued to implement in 2017. The year ended without fatalities in the work process and with no significant process incidents or high-potential incidents (HiPOs).

The rate of recorded injuries is continuously reduced and in 2017, we recorded 3 lost-time injuries and three (3) pipeline leakages with an amount greater than 1m³, which were successfully remediated in accordance with the legal regulations and internal rules set in order to minimize environmental pollution.

Rupture prevention and detection of illegal connections is a continuous task. There is a noticeable downward trend on the annual level that indicates good cooperation with local communities. Oil and gas exploration and production has achieved a high degree of realisation of HSE Action Plans - 98%.

In 2017, we participated in the “Green Fund 2017” contest, a program that was established at MOL Group level in order to support/finance environmental projects, and we won with the project “Replacing old spotlights with LED lighting in production fields (Žutica, Lipovljani, Števkovica, Jagnjedovac)”.

We continued to conduct environmental impact assessment procedures for all exploration and exploitation projects; three (3) environmental impact assessment studies and eight (8) environ-

mental impact assessment surveys were carried out: EIA studies Stružec, Žutica and Šumećani and EIA surveys for: exploration well Severovci-1 (environmentally acceptable operation); Mala Jasenovača-1 (environmentally acceptable operation); EF “Đeletovci” is in EIA process; EF “Northern Adriatic, gas fields Anamarija and Ivana and EF Marica, gas fields Katarina and Marica are being prepared, as well as EIA study Dravica.

As part of the INA Group Remediation Strategy in which we actively participate, in May 2017, a Royal Haskoning DHV consultant conducted a site visit to the Exploration and Production locations to collect the necessary information for initial risk assessment. The IRA (initial risk assessment) was completed in June and allows us to determine the relative risk that certain sites represent in terms of soil and groundwater contamination.

Compliance with environmental protection regulations at IPPC sites / revision of existing environmental permits continued in 2017 by implementing a project to reduce NOx emissions on two gas turbines at Molve Gas Treatment Plants and on one gas turbine at Ivanić Grad fractionation facilities by injecting demineralised water in gas turbine combustion chambers of cogeneration plants. The measurements carried out in December 2017 in Ivanić Grad fractionation facilities showed that NOx emissions were below limits. This confirmed the project's good results, so the project will be continued on the remaining gas turbines.

We have begun the implementation of the “Zero Routine Flaring Initiative until 2030”, initiated by the UN and World Bank in 2015 and signed by MOL Group. The aim of the initiative is cessation of routine incineration at oil and production





sites by 2030, as incineration contributes to climate change and environmental pollution and wastes valuable energy that could be used to improve the sustainable development of producing countries. In Exploration and Production, we have recognised two investment projects to reduce incineration - "Reconstruction of GS Mramor Brdo" and "Measuring and dispatching station Đeletovci – gas processing and distribution" and will apply them to the World Bank for financing in 2018.

Our activities within the European Emission Trading System (EU ETS) were carried out in accordance with legal requirements and deadlines; verification was successfully completed in 2017. A total of 18,565 free emission units were allocated to Fractionation facilities Ivanić Grad and another 28,192 emission units were purchased. Gas processing plant Molve received 50,892 free emission units and 33,948 emission units were purchased on the market. Regarding emissions that do not fall under the ETS system, a significant reduction in CO₂ emissions has been achieved by the EOR project, which is underway on oil fields Ivanić and Žutica.

Exploration and Production is actively involved in the activities of various organisations. Through the nominated representatives, we actively participate in the activities of the Sea and Environment subcommittee of the International Association of Oil and Gas Producers (IOGP) on topics such as marine protected areas, sea area planning, Sea Strategy Framework, good environmental condition, etc. Our appointed representative (representative of INA's Exploration and Production is also the appointed representative of the Republic of Croatia) participated in the work of two Technical Working Groups at the European Commission - General administration for environment in the development of the HC BREF document, a reference document for determining the best available techniques in the hydrocarbons exploration and production, with special emphasis on the potential impact of all onshore and offshore activities on the environment, and in the Technical Working Group of the European Commission on the development of a document identifying the best available waste management techniques.

REFINING AND MARKETING



KEY MESSAGE FROM THE OPERATING DIRECTOR

“The attention of INA Refining and Marketing team to continuous improvement produced tangible achievements once again in 2017. In combination with a favourable economic environment, this allowed us to deliver the best result seen in many years.”

Bengt Oldsberg, Operating Director of Refining and Marketing

HIGHLIGHTS

- ▶ A strong focus on zero accident operations. HSE efforts aimed at process safety management and behavioural safety continued in 2017.
- ▶ INA Group kept its strong market position on the Croatian motor fuels market, while market shares increased in the market of Bosnia and Herzegovina.
- ▶ Increased total sales (domestic and export) made possible by increased processing, as a result of capturing market opportunities and a favourable external environment.
- ▶ Introduction of new fuels: Class Plus performance fuels, gasoline with a higher octane number (Eurosuper 100), and a high-quality diesel for severe winter conditions (Eurodiesel Arktik).





- ▶ Block and on-demand operation mode in Sisak Refinery.
- ▶ A new operating mode of both refineries was developed and tested, utilising increased synergies between both sites.
- ▶ A new logistics infrastructure in Rijeka generated the highest volumes in history of INA.
- ▶ Modernisation of the Bakar Port continued.

Refining and Marketing manages two crude oil refineries, lubricants production, a commercial wholesale network, and a logistics network for storing and distributing petroleum products on the market. The refined products are transported by road, rail, and sea, utilising owned and rented product depots. The main refinery products include EURO V quality gasoline and diesel, jet fuel, virgin naphtha, benzene concentrate, heating oils, several grades of fuel oil, sulphur, and green (regular) petroleum coke. INA's core markets are Croatia and Bosnia and Herzegovina, with other export markets involving sales to Slovenia, Serbia, Albania, Hungary, Italy, and the Mediterranean.

RIJEKA REFINERY

The refinery is located on the Mediterranean Sea with a connection to Adria (JANAF) crude oil pipeline system. This location enables Rijeka Refinery to purchase crude oil, feedstock, and finished products from the world market and to export finished products to the liquid Mediterranean market. The refinery is also connected to other depots located on the Adriatic coastline via rented vessels, while an extensive rail network connects it to inland depots.

During a modernisation programme, which was completed in 2011, three facilities were completed within the hydrocracking complex: Hydrocracker Unit, Hydrogen Unit, and Sulphur Recovery Unit

(Claus), as well as numerous supporting facilities and installations. The hydrocracking complex significantly increased conversion and the complexity of the refinery (9.1 Nelson Complexity Index, "NCI"). After the development programme, Rijeka Refinery produces only EURO V quality gasoline and diesel fuels, and complies with high European environmental standards. Besides gasoline and diesel fuels, Rijeka Refinery produces jet fuel, virgin naphtha for the petrochemical industry, benzene concentrate, heating oils, and several grades of fuel oils. Further development of the refinery is planned and on-going through the Residue Upgrade Program, which is aimed at increasing profitability and conversion capacity. This will allow the refinery to process heavy residue and eliminate fuel oil production, while converting it into higher value products. In addition to the residue upgrade plant, a new harbour will also have to be built, with a closed coke storage, as well as a new power station and a power line, while a number of existing plants will be reconstructed or revamped.

SISAK REFINERY

Sisak Refinery is located in central Croatia, in close vicinity of Zagreb, placing it near the main centre of Croatian motor fuel consumption. The connection to the JANAF crude oil pipeline system enables the transport of continental and sea purchased crude to the refinery, while the local oil pipeline is used to transport crude oil and condensate from domestic oil fields in Moslavina and the Sava River is used to transport crude oil from the Slavonian fields. Infrastructural improvements, including the Isomerisation Unit, were completed in 2011. The Refinery is able to produce EURO V diesel and gasoline, high sulphur gas oils, virgin naphtha, benzene concen-

trate, heating oils, several grades of fuel oils and petroleum coke. A new, recently developed operating mode of both refineries will allow for a better utilisation of the conversion units at both sites, through an increased transfer of semi-finished products, planned in 2018.

KEY ACHIEVEMENTS IN 2017

Refining and Marketing managed to improve its position on the core markets, resulting in higher domestic sales (wholesale) and increased exports. Relatively stable operations captured the favourable external environment and improved the refining margins. The sales margins improved and lower transportation unit costs were made possible by fleet optimisation. The external environment in 2017 improved in comparison to 2016 in terms of refining margins, while a yearly average Brent price compared to the previous year increased from 44 USD/barrel to 54 USD/barrel. Proven management efforts in capturing favourable market opportunities and an improved external environment, on-demand and block operation of the Sisak Refinery, extending the crude basket, feedstock selection, energy efficiency and inventory management, contributed to the positive results.

Key achievements for the year include:

HSE PERFORMANCE

- ▶ A strong focus on safe and secure operations. HSE efforts aimed at process safety towards safety prevention and addressing human factors (as the main cause of incidents), continued. HSE performance was at similar levels as in the previous years.





COMMERCIAL ACTIVITIES

- ▶ INA Group kept its strong market position on the Croatian motor fuel market, while market shares increased in the market of Bosnia and Herzegovina.
- ▶ Higher sales of motor fuels on the domestic market were primary in connection with improved wholesale performance. Higher sales of diesel were driven by sales to HANDA.
- ▶ Improved performance in terms of higher sales spreads on the domestic market were supported by optimised own fleet and generally lower transportation unit cost.
- ▶ Introduction of new fuels: Class Plus additives fuels, gasoline with a higher octane number (Eurosuper 100) and a high-quality diesel for severe winter conditions (Eurodiesel Arktik).
- ▶ Higher jet fuel sales in connection with new end-user customers, supported with strong demand during the tourist season.
- ▶ In terms of export markets, opportunities were captured in Bosnia and Herzegovina in diesel sales and more volumes sold in Montenegro as a result of increased commercial activities. Increased LPG sales volumes were in connection with opportunities on the markets of Bosnia and Herzegovina, Slovenia, and Montenegro. Higher sales of heating oil on the Slovenian market.
- ▶ INA Group entered the Italian market and achieved higher sales on the Mediterranean market, driven by higher production and higher inventory level together, while supported by a favourable external environment.

- ▶ The partner concept was further developed in Bosnia and Herzegovina.
- ▶ Preparation undertaken to enter southern markets.
- ▶ Strategic cooperation with Croatian Hydrocarbon Agency continued and extended in 2017.

REFINING OPERATIONS

- ▶ Block and on-demand operation mode in Sisak Refinery successfully continued in 2017, with a processing level comparable to the previous year. Start-ups of the refinery throughout the year proved to be successful, while maintaining an improving trend.
- ▶ A new operating mode of both refineries was developed and tested, utilising increased synergies between both sites (i.e. increased transfer of semi-finished products to better utilise the conversion units at both refineries).
- ▶ Rijeka Refinery operations during the year were stable, with a considerable improvement in operational availability.
- ▶ The refinery operation was stable and continuously adjusted to the external market environment to capture favourable refinery margins and market opportunities.
- ▶ Diversified crude supply continued in 2017 by processing new grades and cooperation with new suppliers. A total of 14 crude grades were processed in 2017, while increasing the share of alternative crude grades processed in Rijeka Refinery.
- ▶ A long-term crude oil transportation contract was concluded with JANAF, ensuring security of the crude oil supply.

LOGISTICS AND DISTRIBUTION OPERATIONS

- ▶ A new logistics infrastructure in Rijeka generated the highest volumes in INA's history (record throughput achieved by rail at Rijeka site during summer months).
- ▶ The tank truck terminal in Rijeka dispatched over 1 million tons of products to the local and export markets marking an increase of 25% compared to the previous year.
- ▶ Modernisation of the Bakar Port continued. Construction works are on-going and set to continue in 2018. The Bakar Port operated at the same volume compared to 2016 while half of its capacity was undergoing reconstruction.
- ▶ Reduction of operating expenses and lower transportation unit cost.

RESIDUE UPGRADE PROJECT

- ▶ INA Group continued with preparation activities for the investment in the Delayed Coker Unit in Rijeka Refinery, worth around HRK 3 billion and initiated a tendering procedure, which encompasses a construction of the DCU, port and coke storage and a facility for product processing, as well as related pipelines and services.
- ▶ The total value of this very complex and time consuming tender amounts to HRK 2.5 billion and INA Group has invited experienced international companies with references for leading this type of projects to bid.
- ▶ Along with the main partner, it is expected that Croatian companies will largely participate in realisation of the project through design, material and equipment delivery, as well as construction, engineering and other works. Selection of contractors is planned for mid-2018 and expected construction duration is three years.
- ▶ The DCU project in Rijeka is the future of INA's refining business and the concentration of refining activities into that location will contribute to profitability of the project, thus making it an important part in assuring a long-term refining business sustainability. The final investment decision should be made in H1 2018.

STRATEGY AND OUTLOOK

INA Group is continually focused on maintaining a high supply security of its core markets (Croatia and Bosnia & Herzegovina), while further strengthening its market presence by serving those markets with high quality fuels at lowest possible cost and by maintaining the highest level of service and customer oriented operations. A continuous emphasis is put on safe and reliable operations, in addition to improvement in overall performance and cost efficiency. Investments in increasing the refining conversion capacity and entrance into the biofuel segment are key for future sustainable development and success.

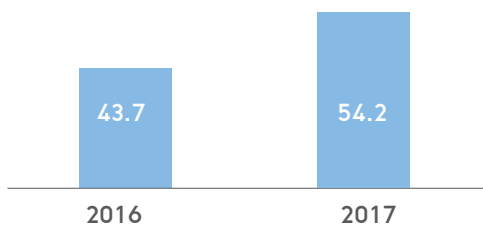
Refining operations are aimed at increasing white product yields through increased utilisation of main conversion units and by increasing synergies between the two refineries, aimed at better utilisation of the existing conversion assets, while minimising operation of loss generating assets. The on-going Residue Upgrade Project at Rijeka Refinery will increase conversion of black products to lighter, more valuable products. Optimisation of the process unit operation will be further developed, as well as debottlenecking units within the refineries. Initiatives that focus on lowering energy cost and improving operational reliability are to continue. Improvement in refining processes will be further supported by continued development of operator competencies and organisational competitiveness.

Commercial activities will be focused towards becoming the customers' first choice and reliable partner through a developed sales force and the market leader position. This will be supported by a modernised logistics infrastructure (for which investments are continuing) and utilisation of INA fleet for a top quality customer interaction. As in production, sales flexibility is to be maintained by continuous monitoring of the external environment, which can support fast-decision making and adequate daily planning, in order to achieve the highest value for the company. Optimising a mix of term and spot contracts for buying raw materials will ensure a flexible supply. Market share on the core markets is to remain stable, while the aim is to increase the share in the region by using the market maker position advantages, such as refinery location, warehouse coverage, efficient distribution, modernised retail stations and high quality fuels.

EXTERNAL ENVIRONMENT

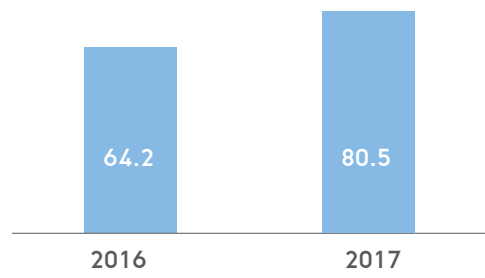
CRUDE OIL PRICES

USD/bbl



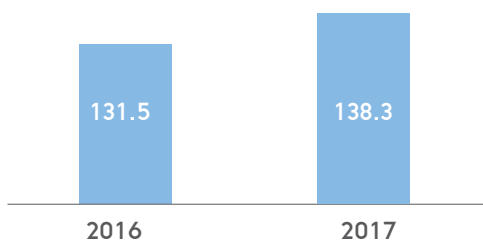
DIESEL CRACK SPREAD AVERAGE

USD/t

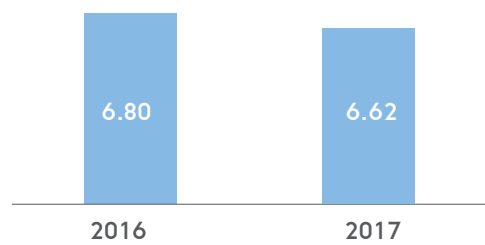


GASOLINE CRACK SPREAD AVERAGE

USD/t



USD/HRK EXCHANGE RATE AVERAGE



REFINING AND MARKETING SUSTAINABILITY

Ensuring an excellent relationship and full trust of all internal and external stakeholders is the key of success in any local community where we are present, it is showing the intention to ensure that our facilities operate in a socially responsible way and continuously minimise the negative impact of our operation.

All Refining and Marketing sites and facilities operate with the aim of preventing any incidents that may harm our employees, contracted staff, neighbours or assets. Our ultimate long-term goal is to achieve zero incident across the Refining and Marketing division and only a systematic and disciplined approach to safety has produced significant improvements. Any remaining identified risks are seriously investigated and all necessary adjustments of safety management system are promptly implemented.

INA Group continues to strengthen its safety culture and leadership among our managers and employees. Following the Group Behaviour safety program, we have set a clear action

plan in order to engage all relevant managers and shift leaders, with the aim to improve our safety culture and communication practices with a stronger orientation to implementation of preventive measures.

A number of serious process incidents (TIER1) and hazardous transport road accidents have reduced significantly. The total number of injuries remained at last year's levels, as well as the number of total road incidents, which still represents a challenging issue. Introduction of the Unconscious Behaviour Programme, launched at the end of the year, should prevent the major cause of these accidents.

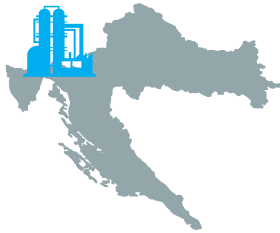
In 2017, all locations finalised the procedure to obtain safety reports, where refineries started negotiations with authorities regarding the next validity period for their environmental permits.

A safety management system integrated into the company's overall management system is used to monitor and develop safety-related areas of operation. The system actions are fulfilled as planned. Several external audits show significant improvement of the PSM system.



RESIDUE UPGRADE PROGRAM

RIJEKA REFINERY



Construction of the residue upgrade plant is planned for the Rijeka Refinery.

It is an investment worth over

400 mil. \$



The aim of the Residue Upgrade Program is to increase refinery profitability by increasing conversion capacity (i.e. improved yields) via processing of heavy residue and converting it into white, high valuable marketable products in result eliminating fuel oil production.



In addition to the residue upgrade plant, a new harbor will also have to be built, with a closed coke storage, as well as a new power station and a power line, while a number of existing plants will also have to be reconstructed or re-vamped.

With the proposed project and foreseen increased processing level in Rijeka Refinery, white products production level is estimated to increase. Total processing with the DCU unit will be at 4.5 Mtpa



4.5 mil. t

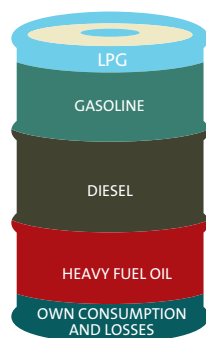
Preparation activities for the project continued in 2017 (i.e. completion of FEED). Tendering procedure the next phase of the project has been started (i.e. EPC) and contractor selection is planned for mid-2018. Expected duration of construction is three years.



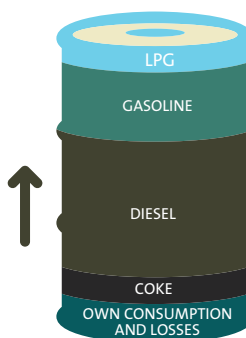
RR will transit into 1st quartile according to Solomon benchmarking (when looking to complexity of refineries in this part of Europe). Currently RR is in the 4th quartile)



BEFORE DCU



AFTER DCU



[1] Solomon benchmarking methodology shows refineries where their operations stand against their competition. It identifies the areas of reliability, equipment utilization, operating expenses, gross margin, and overall performance range- from 1st to 4th quartile.

CONSUMER SERVICES AND RETAIL



KEY MESSAGE FROM THE OPERATING DIRECTOR

“In 2017, Retail reported strong growth in all business areas. All business activities we had taken were still directed at improving the quality of our products and services, as well as introduction of new and additional services at our services stations, tailored to actual needs and requirements of our customers.

In order to provide premium quality fuel to our customers, we have improved our fuel offer by introduction of new, top quality Class Plus fuels, as our response to ever stricter technical requirements prescribed by European directives, automobile industry and environmental protection.”

Darko Markotić, Operating director
of Consumer Services and Retail

HIGHLIGHTS

- ▶ A special emphasis is still on the non-fuel segment and margin increase, through improvement of the Fresh Corner model at service stations (restaurants, shop, independent point-of-sale)
- ▶ Marketing campaigns supported a successful implementation of new premium fuels (Class Plus, Eurosuper BS 100 Class Plus and winter diesel fuel Arktik)
- ▶ Continued retail network restructuring and modernisation, with a special emphasis on projects in Bosnia and Herzegovina and Montenegro, through implementation of the Fresh Corner concept





On 31 December 2017, INA Group operated a network of 502 retail locations – 392 in Croatia, 103 in Bosnia and Herzegovina (48 in Holdina and 55 in Energopetrol), 6 in Slovenia and 1 in Montenegro, where 60 service stations in Croatia were included in the Partnership System of Operation.

KEY ACHIEVEMENTS IN 2017

The total sales in Retail was 1,056 kt, which was 4% increase compared to 2016, significantly driven by the retail network expansion in Bosnia and Herzegovina (on 1 July 2016, Energopetrol was consolidated into INA Group Retail BD). Correlating with increased demand and market dieselisation, the sales of diesel and gas oils grew by 7% (46 kt), while the gasoline sales dropped by 2% (5 kt).

Revenue from non-fuel margin increased by 11%, as a result of a continuous expansion of consumer goods offer, implementation of the Fresh Corner concept and development of new additional services at service stations, including car wash services.

Fuel sales remained stable, as a result of KDR and modernisation programs, including implementation of additional LPG units. A fuel sales campaign launched in June 2017, had a positive impact on the fuel sales results, triggering customer satisfaction with implementation of premium fuel Class Plus and Eurosuper BS 100 Class Plus at INA service stations. Furthermore, cooperation between Retail and Refining and Marketing produced a new Eurodiesel Arktik fuel, specially designed for winter conditions and the first of this type on the Croatian market.

Accordingly, the main emphasis in 2017 was on further implementation of the Fresh Corner concept, with improvement of 4P (price, product, place, promotion) model, as well as implementation of other services at service stations (AIR cash, DPD postal services, payment in instalments, payment of utility bills, mobile payment, etc.). The non-fuel strategy continued through application of a new service station layout, introduction of a gastro concept, further improvement of consumer goods assortment, as well as implementation of a new car wash concept, activities related to lubes and LPG, different new offers and loyalty programs.

Following the initiative on the importance of corporate culture, at the MOL Group level, the Company launched SMILE

project, organised as an educational program for all employees at INA service stations. The skills acquired within the program serve to all employees at service stations as necessary tools in daily work with customers. The first training sessions were officially held in mid April 2017, starting a training cycle within the entire retail network. Up to this day, 70 service station managers have passed the training, as well as 363 employees from all parts of Croatia.

STRATEGY AND OUTLOOK

It is planned to continue restructuring and modernisation of INA retail network in the Republic of Croatia, through a program of major investments into KDR, modernisation and visual identity replacement. The major part of growth projects (construction of new and/or purchase of existing service stations) is also planned in the upcoming period. All growth, KDR and modernisation projects will include an offer and visual identity in line with the new Fresh Corner non-fuel concept.

Minor capital maintenance and HSE projects mainly include installations or replacements, for the purpose of regular business operation and ensuring safety of the employees and customers, as well as compliance of legal requirements.

INA Bosnia and Herzegovina (Holdina and Energopetrol) continues with a KDR/modernisation cycle at 3 service stations (including Doboje location – entering the market of the Republic of Srpska). Energopetrol Centar location is planned for a transformation into a Fresh Corner restaurant (a completely new concept on the market and on the Group level).

During the upcoming period, INA Montenegro project will be focused on opening of 5 new service stations, while the retail network expansion will be followed by continuous efforts to improve the service quality, as well as building a good relationship with customers and partners, to create a positive perception and a firm position of INA on the Montenegrin market.

SUSTAINABLE DEVELOPMENT

INA's efforts to contribute to sustainability in Retail are visible through execution of many projects and programs. Retail continued with some projects from previous years, like selling fruits from small family farmers (OPG), but also implemented some new ones, such as collecting waste cooking oil.





BIODIVERSITY

After designing leaflets for raising awareness about the importance of biodiversity in 2016, for five service stations close to protected areas, the leaflets were translated to English in 2017. The aim was to provide information to foreign tourists, since these locations are close to popular tourist centres. The leaflets contain information about what INA, d.d. is doing to protect the environment in general, as well as information about the protected areas.

ENERGY EFFICIENCY

In 2017, the second surveillance of INA Retail energy management system according to ISO 50001 was carried out. We had 1 minor non-conformity, which was successfully resolved.

During 2017, energy reviews according to ISO 50001 were performed on 100 SeS.

INA, d.d. also continued with replacement of equipment and devices according to the energy efficiency requirements.

REMEDIATION

In 2017, INA Retail continued with remediation activities, which included a preliminary assessment activities on selected locations, preparation of recovery programs and approvals of the prepared programs by the Ministry of Environment and Energy.

Last year, we performed remediation activities on locations where capital reconstructions, tank replacements and demolition of service stations were performed. During the remediation activities, all works and excavation were supervised by ecological supervisors from an authorised company. After completion of the remediation, an ecological supervision report was prepared and sent to the Ministry of Environment and Energy, which delivered a feedback that all remediation works were carried out successfully.

GREEN FUND

In 2017, INA Retail project “**Improved waste management practices and LED efficiency**”, which was approved by the Green Fund, was successfully implemented.

The aim of this project was to improve waste management on 1 SeS by buying 2 press containers for municipal and packaging waste. This SeS was selected for its good business indicators in non-fuel sales, high bills for municipal waste collection and disposal and because of the size of the plot, which is sufficient to accommodate the press containers.

The aim of the project is installation of energy-efficient LED lighting at four highway SeS. Activities include replacement of the existing obsolete classic lighting with LED lighting and repair/installation of electrical wiring for LED lighting power supply. Significant environmental benefits of the energy-efficient LED lighting project are better illuminance and savings on consumption of electricity and maintenance, as well as reducing light contamination of the environment.

Environmental results of the Green Fund project so far are:

- ▶ by installing the press devices on the location, we reduced the number of municipal and packaging waste containers, as well as the waste management cost, by 15%
- ▶ having installed LED lighting on 4 SeS, we saved 27.4 t of CO₂; achieved better illuminance of the location, focused light, less light pollution, an easy-to-use system, achieving full illuminance in a second, without any radiation; according to the power utility payments before and after the LED lighting installation, the savings were 30% of the total electricity consumption.

Information about Green Fund and our results will be published in MOL Group GP.

Furthermore, INA Retail won the Green Fund funding for its project “**Energy Efficient Thermal Insulation, LED Lighting and Steora - Smart Street Benches**” in 2017.

ENVIRONMENTAL PROTECTION AWARENESS

In cooperation with company Autoceste Rijeka Zagreb, INA Retail set up an info portal on SeS Vukova Gorica in relation with project "Population level management and conservation of brown bears in northern Dinaric Mountains and the Alps", in order to educate the customers.

WASTE

As a socially responsible company focused on sustainable development, INA, d.d has offered its customers a new "green" service - collection of waste cooking oil from customers at 30 selected service stations. This is a pilot project for the collection of waste cooking oil and in the next year INA, d.d. will examine how the market responds to such a possibility and make a final decision on the continuation of the project.

Refined product retail sales (kt) (by product)	2015	2016	2017	2017/2016 %
Motor gasoline	294	290	286	(1.4)
Gas and heating oils	674	694	741	6.8
LPG	27	27	27	0.0
Other products	2	2	2	0.0
TOTAL	996	1,014	1,056	4.1

Refined product retail sales (kt) (by country)	2015	2016	2017	2017/2016 %
Croatia	948	928	933	0.5
B&H	37	75	112	49.3
Other markets	11	11	11	0.0
TOTAL	996	1,014	1,056	4.1

Number of service stations	2015	2016	2017
Croatia	388	387	384
B&H	45	101	103
Other markets	7	7	7
Total	440	495	494



FRESH CORNER





FINANCIAL AND OPERATING PERFORMANCE

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF 2017 RESULTS

INA Group realised an increase in revenues across all segments, with a 20% growth compared to 2016 levels. This increase, together with results of optimisation measures from the past periods, led to HRK 3,215 million EBITDA, representing a substantial 52% increase from 2016. Such a robust operating performance was also reflected in the net profit surging to HRK 1,220 million in 2017, compared to HRK 101 million in 2016.

Exploration and Production benefited from a positive external environment with 24% higher Brent price, which, together with higher realised gas prices and a slight increase in domestic on-shore production, contributed to a 42% uplift in operating

profit to HRK 1,666 million. The total hydrocarbon production declined by 5% in 2017, driven mainly by a natural decline in off-shore volumes.

Refining and Marketing, including Retail, reported better financial performance, as INA Group was able to capture a positive external environment of higher crack spreads and increased the total sales volumes with CCS EBITDA, excluding special items, amounting to HRK 806 million, compared to HRK 350 million in 2016. Retail sales volumes increased on the back of the network expansion in Bosnia and Herzegovina and a slight economic rebound, together with a positive development in premium fuels and non-fuel sales.

CAPEX performance remained strong at HRK 1,393 million, at the 2016 level, with increased spending in Croatia. At the same time, the net debt decreased to HRK 1,397 million and the net gearing to 10.81%.

INA Group financial results (IFRS)	2016		2017		2017/2016	
	HRK mln	USD mln	HRK mln	USD mln	HRK %	USD %
Net sales revenues	15,535	2,283	18,582	2,806	20	23
EBITDA ⁽¹⁾	2,112	310	3,215	485	52	56
EBITDA excl. special items⁽²⁾	2,427	357	3,211	485	32	36
CCS EBITDA excl. special items	2,219	326	3,030	457	37	40
Profit from operations	607	89	1,418	214	134	140
Operating profit excl. special items⁽²⁾	842	124	1,379	208	64	68
CCS Operating profit excl. special items	625	92	1,198	181	92	97
Net gain/(loss) from financial activities	(146)	(21)	146	22	N.A.	N.A.
Net profit attributable to owners of the Company	101	15	1,220	184	1,108	1,127
Net profit for the period excl. special items⁽²⁾	336	49	1,181	178	251	263
Simplified Free Cash Flow ⁽³⁾	834	123	1,637	247	96	101
Operating cash flow	2,201	324	2,484	375	12	15
Earnings per share						
Basic and diluted earnings per share (kuna per share)	10.1	1.5	122.0	18.4	1,108	1,127
Net debt	2,501	349	1,397	223	(44)	(36)
Net gearing	19.09		10.81			
CAPEX total	1,385	204	1,393	210	1	3
Domestic	1,215	179	1,262	191	4	7
International	170	25	131	20	(23)	(20)

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

(2) In 2017, EBITDA was positively impacted by HRK 4 mln related to reversal of provision in Angola, while EBIT was positively influenced by HRK 39 million net effect of reversal of provision in Angola, Croscos assets impairment and renewable energy provision; 2016 EBITDA was negatively influenced by HRK 315 million for special items related to severance payments

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

(4) In converting HRK figures into USD, the following average CNB (HNB) rates were used: for Q4 2016 – 6.9614 HRK/USD; Q4 2017 – 6.3958 HRK/USD; 2016 – 6.8037 HRK/USD; 2017 – 6.6224 HRK/USD; as at 31 Dec 2016 – 7.1685 HRK/USD; as at 31 Dec 2017 – 6.2657 HRK/USD

EXPLORATION AND PRODUCTION OVERVIEW

In 2017, EBITDA reached HRK 2,474 million, 16% more than in 2016. The 24% higher Brent price had a positive effect on oil and condensate sales revenues in the amount of HRK 419 million, while higher realised gas prices resulted in a HRK 14 million increase in revenues. Domestic crude oil production improved as a result of additional development projects and the EOR project, as well as a start-up of two new wells in Hrastilnica. Natural gas production drop was partially offset by 3% higher onshore natural gas production, mainly as a result of a full year production from Međimurje fields, a positive impact of the EOR project and additional development projects. CAPEX amounted to HRK 618 million, out of which HRK 598 million in Croatia.

The EOR project injection continued throughout 2017 and CO₂ is being injected into 5 wells on the Ivanić field and 8 wells on Žutica North field. Over 220 million m³ of CO₂ was injected in 2017 into both fields, which is 43 million more than in 2016.

The Full Field Optimization continued with implementation in 2017, on 5 fields in total – Đeletovci, Jamarice, Kloštar, Lipovljani and Žutica. Also, a large number of capital well workovers and stimulations on onshore oil and gas fields was performed (Well Stimulation Campaign Phase II, Well General Workovers...). In addition, two development wells, Kozarice-42 and Letičani-9, were successfully drilled.

EXPLORATION AND PRODUCTION

Segment IFRS results	2016		2017		2017/2016	
	HRK mln	USD mln	HRK mln	USD mln	HRK %	USD %
Net sales revenues	3,890	572	4,448	672	14	17
EBITDA	2,141	315	2,474	374	16	19
EBITDA excl. special items**	2,166	318	2,470	373	14	17
Operating profit	1,172	172	1,666	252	42	47
Operating profit excl. special items**	1,186	174	1,413	213	19	22
Simplified Free Cash Flow***	1,452	213	1,852	280	28	31
CAPEX ****	714	105	618	93	(14)	(11)

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

** In 2017, EBITDA was positively impacted by HRK 4 mln related to reversal of provision in Angola, while EBIT was positively influenced by HRK 253 million special items related to the same cause; 2016 EBITDA was negatively influenced by HRK 25 million special items related to Severance payments

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

**** Starting from January 2017 Exploration One-Off OPEX is no longer reported as CAPEX therefore data for 2016 was restated

REFINING AND MARKETING (INCLUDING RETAIL) OVERVIEW

CCS EBITDA, excl. special items, amounted to HRK 806 million in 2017, which was HRK 456 million more than the previous year. This significantly better result was influenced primarily by a more favourable external environment, with higher diesel (+16 USD/t) and gasoline (+7 USD/t) crack spreads, as well as a less negative fuel oil spread (+14 USD/t), which resulted in improved refining margins, while Brent prices averaged 54 USD/bbl (+10 USD/bbl higher compared to 2016). Internal efforts brought additional boost to improved results by capturing market opportunities and utilising favourable external environment, which enabled increased processing (+236kt) in order to support an increased market demand.

Compared to the previous year, the sales volumes increased both on captive markets (+55kt) and other export markets (+318kt) as a result of efforts taken to expand to new markets (mainly Italy). In order to meet customers' needs, the product offer was extended by introduction of new fuels: Class PLUS fuels, gasoline with a higher octane number (Eurosuper 100), and a high-quality diesel for severe winter conditions (Eurodiesel Arktik).

The total retail sales volumes reached 1,056 kt (+4% compared to 2016), with a significant contribution of network expansion in Bosnia and Herzegovina (Energopetrol integration started on 1 July 2016), supported by introduction of new fuels. Non-

fuel margin increased by 11%, based on a continuous expansion of the product line, with the Fresh Corner implementation and development of new non-fuel related services, contributing to the growth of total Retail margin by 24%.

Despite the improved Refining and Marketing including Retail result, it remained burdened with a negative effect of Sisak Refinery operations. The financial effect of Sisak Refinery on operating result amounted to HRK (207) million loss in 2017 and HRK (264) million loss in the previous year. Also, during 2017, Sisak Refinery generated a negative free cash flow in amount of HRK (125) million, compared to HRK (194) million in 2016.

Refining and Marketing capital expenditures amounted to HRK 550 million, mainly relating to Residue upgrade project FEED (Front End Engineering Design) on-going with the preparation of the next phase, Propane-propylene splitter project FEED documentation and the main design finalised, as well as continued investment activities in logistics and refinery development projects.

Retail capital expenditures in 2017 amounted to HRK 163 million, including Greenfield constructions, service station reconstructions, modernisations and other improvement projects (LPG installation, tank replacement, etc.). Multiple projects on expanding the non-fuel offer in line with the Fresh Corner concept were implemented, including cafe bar, car wash or shop modernisation.

REFINING AND MARKETING (INCLUDING RETAIL)

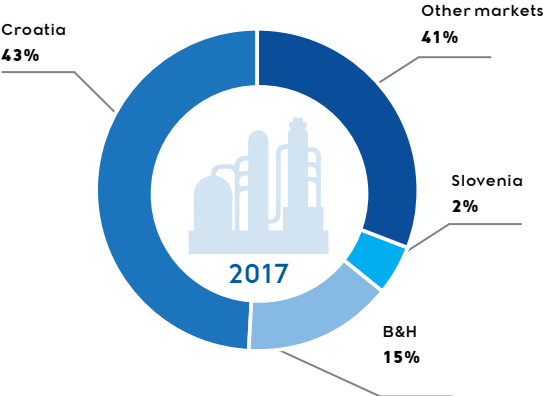
Segment IFRS results	2016		2017		2017/2016	
	HRK mln	USD mln	HRK mln	USD mln	HRK %	USD %
Revenues	13,054	1,919	16,138	2,437	24	27
EBITDA reported	339	50	987	149	191	198
EBITDA excl. special items**	558	82	987	149	77	82
CCS-based DS EBITDA	350	51	806	122	130	139
Operating profit reported	74	11	263	40	255	264
Operating profit/(loss) excl. special items**	94	14	378	57	302	307
CCS-based DS operating profit/(loss)	(122)	(18)	196	30	n.a.	n.a.
Simplified Free Cash Flow***	(258)	(38)	93	14	n.a.	n.a.
CAPEX and investments (w/o acquisition)	608	89	713	108	17	21

* Refers to Refining and Marketing including Retail INA. d.d. and following subsidiaries: INA-Maziva, INA Slovenija, INA BH Sarajevo, HoldINA Sarajevo, INA Crna Gora, INA Beograd, INA Kosovo, Petrol Rijeka, Energopetrol

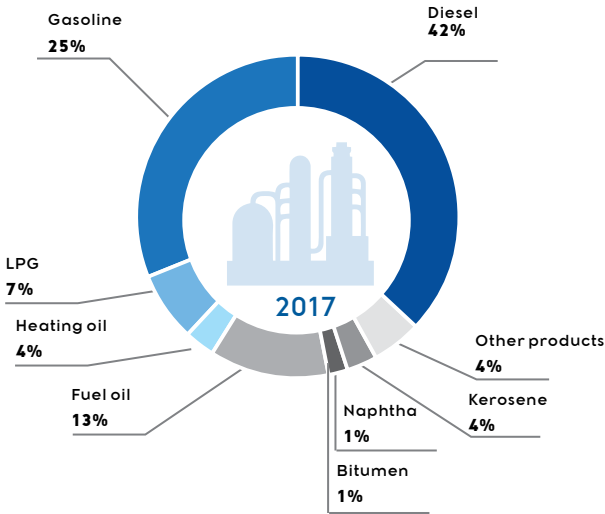
** In 2017, EBIT was negatively impacted by HRK 115 mln of Environment related provision, while 2016 EBITDA was negatively influenced by HRK 219 million special items related to Severance payments

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

REFINED PRODUCT SALES BY COUNTRY



REFINED PRODUCT SALES BY PRODUCT



INA GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016 and 2017 (in HRK million)

	31 DECEMBER 2016	31 DECEMBER 2017	2017/2016
	HRK MLN	HRK MLN	%
ASSETS			
Non-current assets			
Intangible assets	536	570	6
Property, plant and equipment	12,573	12,016	(4)
Investments in associates	22	-	N.A.
Other investments	13	13	0
Long-term receivables	128	96	(25)
Deferred tax assets	1,769	1,451	(18)
Available-for-sale assets	676	665	(2)
Total non-current assets	15,717	14,811	(6)
Current assets			
Inventories	2,050	2,264	10
Trade receivables, net	1,591	1,393	(12)
Other receivables	184	210	14
Corporative Income tax receivables	11	10	(9)
Other current assets	120	139	16
Cash and cash equivalents	611	428	(30)
	4,567	4,444	(3)
Held -for-sale assets	8	8	0
Total current assets	4,575	4,452	(3)
TOTAL ASSETS	20,292	19,263	(5)
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	9,000	9,000	0
Legal reserves	20	28	40
Fair value reserves	299	289	(3)
Other reserves	1,647	1,516	(8)
Retained earnings/(accumulated loss)	(233)	827	N.A.
Equity attributable to owners of the Company	10,733	11,660	9
Non-controlling interests	(136)	(134)	(1)
Total equity	10,597	11,526	9
Non-current liabilities			
Long-term loans	271	122	(55)
Other non-current liabilities	60	52	(13)
Employee benefits obligation	85	73	(14)
Provisions	3,224	3,119	(3)
Deferred tax liabilities	13	14	8
Total non-current liabilities	3,653	3,380	(7)
Current liabilities			
Bank loans	2,706	1,581	(42)
Current portion of long-term loans	135	122	(10)
Trade payables	1,857	1,171	(37)
Taxes and contributions	637	626	(2)
Other current liabilities	503	540	7
Employee benefits obligation	10	5	(50)
Provisions	194	312	61
Total current liabilities	6,042	4,357	(28)
Total liabilities	9,695	7,737	(20)
TOTAL EQUITY AND LIABILITIES	20,292	19,263	(5)

In the period ended 31 December 2017, INA Group invested HRK 90 million in intangible assets. The effect of depreciation equals HRK 46 million.

In the period ended 31 December 2017, INA Group invested HRK 1,303 million in property, plant and equipment. The effect of depreciation reduced net book value of property, plant and equipment in the amount of HRK 1,753 million.

Inventories amounted to HRK 2,264 million, and have increased by 10% compared to 31 December 2016 as a result of different processing dynamics in both refineries together with higher average prices.

Trade receivables decreased to HRK 1,393 million and are 12% lower compared to the opening balance resulting mainly from higher receivables' collection and settlements.

As at 31 December 2017, INA Group total assets amounted to HRK 19,263 million and were 5% lower compared to 31 December 2016.

Issued capital as at 31 December 2017 amounted to HRK 9,000 million. There were no movements in the issued capital of the Company in either the current or the prior financial reporting.

Trade payables decreased by 37% to HRK 1,171 million, as a result of lower liabilities for imported crude oil and raw materials.

As at 31 December 2017, total liabilities amounted to HRK 7,737 which is 20% or HRK 1,958 million lower compared to 31 December 2016. INA Group net debt decreased by 44% compared to 31 December 2016 and amounted to HRK 1,397 million. Gearing ratio decreased from 19.1% as at 31 December 2016, to 10.8% as at 31 December 2017.



INA GROUP CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the period ended 31 December 2016 and 2017 (in HRK millions)

	2016	2017	2017/2016
	HRK MLN	HRK MLN	%
Sales revenue	15,535	18,582	20
Capitalised value of own performance	365	327	(10)
Other operating income	186	126	(32)
Total operating income	16,086	19,035	18
Changes in inventories of finished products and work in progress	264	274	4
Cost of raw materials and consumables	(7,448)	(9,061)	22
Depreciation and amortization	(1,677)	(1,804)	8
Other material costs	(2,000)	(1,823)	(9)
Service costs	(623)	(466)	(25)
Staff costs	(2,083)	(1,803)	(13)
Cost of other goods sold	(2,084)	(2,942)	41
Impairment and charges (net)	(272)	(143)	(47)
Provisions for charges and risks (net)	444	151	(66)
Operating expenses	(15,479)	(17,617)	14
Profit from operations	607	1,418	134
Finance income	106	452	326
Finance costs	(252)	(306)	21
Net gain/(loss) from financial activities	(146)	146	N.A.
Profit before tax	461	1,564	239
Income tax expense	(366)	(342)	(7)
Profit for the year	95	1,222	1,186
Attributable to			
Owners of the Company	101	1,220	1,108
Non-controlling interests	(6)	2	N.A.
	95	1,222	1,186
Earnings per share			
Basic and diluted earnings per share (kunas per share)	10.1	122.0	1,108

Total sales revenues in 2017 amounted to HRK 18,582 million and were 20% above 2016 level, triggered by both Exploration and Production and Refining and Marketing including Retail sales revenue increase as a result of the improved price environment together with higher processing level, retail market expansion and introduction of new fuels in 2017.

Costs of raw materials and consumables were 22% above 2016 level at HRK 9,061 million, resulting from higher crude prices and higher processing in both refineries.

Other operating costs realised in 2017 include:

- ▶ Other material costs were lower by 9% and amounted to HRK 1,823 million resulting from lower subcontractors costs related to STSI project in Belarus.
- ▶ Service costs in the amount of HRK 466 million recorded a decrease of 25% mainly due to absence of additional profit oil tax in Angola paid in 2016 and lower VAT related expenses.
- ▶ Depreciation and amortisation in the amount of HRK 1,804 million was 8% higher compared to 2016.
- ▶ Value adjustments and provisions had a positive effect in the amount of HRK 8 million as a result of positive impact of reversal of provisions related to Angola which were partly offset by Croscoco assets impairment and Environment related provisions, and were HRK 164 million lower compared to 2016 when the result was impacted by HRK 172 million caused mainly by release of employee related provisions related to establishment of INA Maloprodajni servisi, released litigation provisions in Holdina and assets impairment in Croscoco.

Staff costs in the amount HRK 1,803 million were 13% lower compared to 2016, mainly due to lower severance payments and efficiency improvements.

Cost of other goods sold in 2017 recorded an increase of 41% compared to 2016, and amounted to HRK 2,942 million resulting from different sales structure and higher prices.

Income tax expense in 2017 amounted to HRK 342 million and was HRK 24 million lower than in 2016. Tax costs and deferred taxes during the interim period are calculated on the basis of actual results and the profit tax rate, 20% for the periods ended 31 December 2016 and the profit tax rate, 18% for the periods ended 31 December 2017.

Net financial result is positive in 2017 and significantly higher compared to 2016 mainly as a result of:

- ▶ Net foreign exchange profit reached HRK 223 million in 2017, while in 2016 Net foreign exchange loss reached HRK 44 million.
- ▶ Interest payable amounted to HRK 57 million and interests received to HRK 4 million in 2017, while in 2016 interest payables amounted to HRK 79 million and interests received to HRK 15 million.
- ▶ Other financial net expenses amounted to HRK 24 million and are lower compared to HRK 38 million in 2016.

INA GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 31 December 2016 and 2017 (in HRK millions)

HRK mln	2016	2017	2017/2016 %
Net cash inflow from operating activities	2,201	2,484	13
Net cash used for investing activities	(1,498)	(1,300)	(13)
Net cash used in financing activities	(350)	(1,367)	291
Net (decrease)/increase in cash and cash equivalents	353	(183)	N.A.

The operating cash flow before changes in working capital amounted to HRK 3,253 million in 2017, representing an increase of HRK 1,131 million compared to 2016, which is in line with change in EBITDA performance compared to the previous year.

Changes in working capital affected the operating cash flow negatively by HRK 736 million, due to:

- ▶ Increased value of inventories by HRK 327 million mainly related to different processing dynamics in both refineries together with higher average prices,
- ▶ Decrease in trade and other payables by HRK 333 million related to imported crude oil,
- ▶ Increase in receivables by HRK 76 million mainly as a result of higher sales revenues.

Net outflows in investing activities amounted to HRK 1,300 million, in comparison with HRK 1,498 million outflows in 2016.

FINANCIAL RISK MANAGEMENT

INA Group continuously monitors and manages financial risks. Financial risk management procedure at INA, d.d. together with INA Group Treasury Guideline 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 INA Group to achieve its strategic objectives while protecting the future financial stability and flexibility of INA Group.

In addition to financial (market) risks, the most important risks include credit risk and liquidity risk.

A) MARKET RISK

Commodity price risk

INA, d.d. purchases crude oil and oil products on a spot market in USD, mostly using short-term credit facility arrangements. The required quantities of natural gas were purchased in EUR based on spot prices. INA, d.d. may use derivative instruments in managing its commodity exposure. As at 31 December 2017, INA, d.d. had opened short-term forward commodity swap transactions to hedge its exposure to changes in pricing periods.

Foreign currency risk

Many INA Group's transactions are priced and denominated in a foreign currency. Thus, INA Group is exposed to foreign currency risk. INA Group has net long USD and EUR and net short HRK exposure of operative cash flow position. INA, d.d. may use cross currency swaps to adjust the currency mix of its debt portfolio. As at 31 December 2017, there were no open cross currency swap transactions.

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 interest rate developments. INA, d.d. may use interest rate swap to manage the interest rate risk.

As at 31 December 2017, there were no open interest rate swap transactions.

Other price risks

INA, d.d. is exposed to equity price risks arising from equity investments held for strategic reasons and not for trading.

B) CREDIT RISK

When selling goods and services on deferred payment term, credit risk is present. Credit risk means a risk that the counterparty will default on its contractual obligations i.e. risk of non-payment. According to "Customer Credit Management Procedure", customer credit risk is estimated by internal credit assessment model as well as by external creditworthiness assessment agencies. Depending on their creditworthiness, customers provide payment security instruments. There is no significant credit risk exposure of INA Group that is not covered by payment security instruments, other than the exposure toward the institutions and entities controlled by the state and the local government, and customers under certain concession agreements abroad. Besides the above stated, in order to minimize credit risk, INA Group also uses credit risk insurance services, services of agencies and attorneys-at-law offices for "out-of-court" collection of receivables.

C) LIQUIDITY RISK

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

As at 31 December 2017, INA Group's contracted and available short-term credit lines amounted to HRK 2,235 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, while the contracted and available long-term credit lines amounted to HRK 2,754 million (CNB middle rate).

APPENDIX I

Impact of special items on operating profit and EBITDA of INA Group
(in HRK million)

HRK mln	2016	2017
INA GROUP		
Total impact of special items on operating profit	(235)	39
Total impact of special items on EBITDA	(315)	4
Exploration and Production		
Total impact of special items on operating profit	(13)	253
Total impact of special items on EBITDA	(25)	4
Severance payment	(25)	-
Retranslation related to Angola	-	4
Net Provisions for incentives	(12)	-
Reversal of provisions for additional tax Angola	-	249
Refining and Marketing including Retail		
Total impact of special items on operating profit	(20)	(115)
Total impact of special items on EBITDA	(219)	-
Renewable energy provision	-	(115)
Severance payment	(219)	-
Net Provisions for incentives	(199)	-
Corporate functions		
Total impact of special items on operating profit	(201)	(100)
Total impact of special items on EBITDA	(71)	-
Severance payment	(71)	-
Impairment of assets	(139)	(100)
Net Provisions for incentives	(9)	-

APPENDIX II

Branch and representative offices on 31 December 2017

INA d.d.

- ▶ Branch office Damascus, Syria (temporarily not active due to existing economic sanctions and suspension of activities in Syria)
- ▶ Branch office Cairo, Egypt
- ▶ Representative office Luanda, Angola
- ▶ Representative Office Moscow, Russia

CROSCO d.o.o.

- ▶ Branch office Zadar, Croatia
- ▶ Branch office Tirana, Albania
- ▶ Branch office Tripoli, Libya
- ▶ Branch office Damascus, Syria (temporarily not active due to existing economic sanctions and suspension of activities in Syria)
- ▶ Branch office Cairo, Egypt
- ▶ Branch office Nagykanizsa, Hungary
- ▶ Branch office Tunisia (in the reactivation process)
- ▶ Branch office Baku, Azerbaijan (in the reactivation process)
- ▶ CROSCO Integrated drilling & well service Co. Ltd. - Italian Branch Office

Rotary Zrt.

- ▶ Branch office Erbil, Iraq
- ▶ Branch Office Tirana, Albania

STSI d.o.o.

- ▶ Branch office Damascus, Syria (temporarily not active due to existing economic sanctions and suspension of activities in Syria)
- ▶ Representative office Novopolotsk, Belarus

INA-NAFTAPLIN IE&PL

- ▶ Branch Office Tripoli, Libya

HOLDINA d.o.o.

- ▶ Branch Office Čitluk
- ▶ Branch Office Prozor
- ▶ Branch Office Široki Brijeg
- ▶ Branch Office Posušje
- ▶ Branch Office Sutina-Mostar
- ▶ Branch Office Počitelj
- ▶ Branch Office Sanski most
- ▶ Branch Office Cazin
- ▶ Branch Office Tuzla-centar
- ▶ Branch Office Podlugovi warehouse
- ▶ Branch Office Kravice lijevo
- ▶ Branch Office Kravice desno
- ▶ Branch Office Lepenica istok
- ▶ Branch Office Lepenica zapad
- ▶ Branch Office Brod
- ▶ Branch Office Grbavica
- ▶ Branch Office Srebrenik

KRAJINAPETROL a.d.

- ▶ 19 service stations registered as Branch Offices

KEY GROUP OPERATING DATA

EXPLORATION AND PRODUCTION

	2016	2017	2017/2016
	HRK MLN	HRK MLN	%
Hydrocarbon production			
Crude oil production (boe/d)	15,044	14,515	(4)
Croatia	11,929	12,165	2
Egypt	2,057	1,536	(25)
Angola	1,057	815	(23)
Natural gas production (boe/d)	22,446	21,287	(5)
Croatia - offshore	9,324	7,723	(17)
Croatia - onshore	13,122	13,564	3
Condensate (boe/d)	1,887	1,786	(5)
Croatia	1,887	1,786	(5)
Total hydrocarbon production (boe/d)	39,377	37,588	(5)
Average realised hydrocarbon price			
Crude oil and condensate price (USD/bbl)	40	50	25
Average realised gas price (USD/boe)	34	36	6
Total hydrocarbon price (USD/boe)	37	42	14
Natural gas trading - mln cm			
Natural gas imports	160	377	136
Total natural gas sales - domestic market	1,115	1,201	8

RESERVES BREAKDOWN

MMboe	1P			2P		
	2015	2016	2017	2015	2016	2017
By country						
Croatia onshore	127	117	108	158	146	136
Croatia offshore	9	6	5	14	10	9
Syria	22	22	0	36	36	0
Egypt	1	1	2	2	3	3
Angola	1	2	1	4	3	2
Total	161	148	116	213	198	150
By product						
Oil	66	62	56	92	86	76
Gas	84	76	54	107	98	67
Condensate	11	10	6	15	14	7
Total	161	148	116	213	198	150

REFINING AND MARKETING INCLUDING RETAIL

	2016	2017	2017/2016%
Refinery processing (kt)			
Domestic crude oil	599	587	(2)
Imported crude oil	2,530	2,803	11
Condensate	84	80	(5)
Other feedstock	643	622	(3)
Total refinery throughput	3,856	4,092	6
Refinery production (kt)			
LPG	211	242	15
Naphtha	64	52	(19)
Gasoline	989	1,058	7
Kerosene	112	133	19
Diesel	1,288	1,355	5
Heating oil	144	143	(1)
Fuel oil	500	512	2
Other products*	119	140	0
Total	3,428	3,635	6
Refinery loss	47	43	(9)
Own consumption	381	415	9
Total refinery production	3,856	4,092	6
Refined product sales by country (kt)			
Croatia	1,847	1,814	(2)
B&H	528	616	17
Slovenia	233	70	(70)
Other markets	1,246	1,727	39
Total	3,854	4,227	10
Refined product sales by product (kt)			
LPG	265	291	10
Naphtha	67	50	(25)
Gasoline	925	1,044	13
Kerosene	137	175	28
Diesel	1,529	1,755	15
Heating oil	179	163	(9)
Fuel oil	460	536	17
Bitumen	41	51	24
Other products*	251	162	(35)
Total	3,854	4,227	10
o/w Retail segment sales	1,014	1,056	4

* 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



SUSTAINABILITY

In INA Group



ABOUT THIS REPORT

Annual Report 2017 is the first INA Group report prepared in accordance with new Global Reporting Initiative (GRI) Standards, and, as in previous years, Oil & Gas Sector Supplement, core option. The report focuses on the material economic, environmental and social impacts of INA Group companies on their key stakeholders groups, and information presented refers to business activities of INA, d.d., major INA Group companies and two major joint ventures throughout the period from 1 January to 31 December 2017.

INA, d.d. has been a United Nations Global Compact (UN GC) signatory since 2007. That is why this Report also covers the requirements of the Communication on Progress related to UN GC 10 principles (more details in the Table of Contents According to GRI Standards Performance Indicators). INA Group publishes reports on an annual basis, and the last report was published at the end of April 2017.

All topics have been prioritised, and those describing significant impacts on economy, environment and society, as well as those that could have an impact on the company and/or its stakeholders are treated as material topics. When identifying the material topics, in addition to internal regulations, sustainability objectives and financial impact to the Group, we have also taken into account the GRI Standards, additional indicators from Oil and Gas Sector supplement, results of customer satisfaction research, recommendations from an independent assessment of the sustainability reports in previous years, CSR

Index, results of internal and external audits, comments and suggestions from employee survey, peers benchmarks, etc. Preference was given to those areas where INA Group companies had a significant impact and where they could improve their performance.

In the preparation of this report, same as in the previous year, an independent assurance company has been engaged to perform a limited assurance engagement, where six sustainability indicators were in the scope. The conclusion of the independent assurance can be found on page 158. These indicators were: Energy consumption within the organisation (Disclosure 302-1), Water withdrawal by source (Disclosure 303-1), Direct greenhouse gas (GHG) emissions (Scope 1) (Disclosure 305-1), Energy indirect greenhouse gas (GHG) emissions (Scope 2) (Disclosure 305-2), Generation and disposal of hazardous and non-hazardous waste (Disclosure 306-2), Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities, by region and by gender (Disclosure 403-2).

The final structure of the sustainability part of this report is related to six key sustainability areas, defined by internal document Sustainable Development in INA Group.

We would appreciate it if you could contact us and send us your feedback on this Report via e-mail address: Odrzivi_Razvoj@ina.hr, investitori@ina.hr or PR@ina.hr.

INA GROUP HEALTH, SAFETY, ENVIRONMENT AND SOCIAL IMPACT POLICY

In 2017, INA Group issued an updated Health, Safety, Environment and Social Impact Policy that applies to all of its operations in Croatia and internationally. The updated policy is shown below.

INA GROUP HEALTH, SAFETY, ENVIRONMENT AND SOCIAL IMPACT POLICY

INA Group is committed to:

- acting and developing our goals and actions responsibly in relation to the health, safety, environmental (HSE) and social impact as integrative part of all our daily operations
- preventing incidents of every type, assuring asset integrity and immediate response in emergency and crisis situations
- reducing our environmental footprint and supporting global climate change efforts
- impacting positively the communities where we operate and society in general
- promoting proactive health, safety, environment protection and social responsibility corporate culture, distinctive to all our employees and contractors



To achieve this, INA Group will assure:

- leadership accountability for health, safety and environmental (HSE) timely risks mitigation
- full compliance with all legal requirements and INA Group standards that reflect the industry best practice and energy efficiency
- prevention and control of all health, safety, environment risks and adverse social impacts of our operations, products and services
- high health protection standards and safety of our employees, contractors and customers
- that contractors are properly qualified and educated in line with our standards at all our sites
- evaluation and awarding the best health, safety and environment performances and socially responsible activities of our employees and contractors
- rising safety culture and awareness of our employees and contractors supported by training in area of sustainable development, environment, health and safety
- continuous measurement, evaluation and improvement of our health, safety, environment and social performance and open communication with all stakeholders.

In order to be able to keep both people and the environment safe and healthy, all our employees and contractors have the responsibility to maintain high health, safety and environment standards, while the management must lead in it by the personal example.

INA Group Health, Safety, Environment and Social Impact Policy is valid for all INA Group companies.

Zagreb, September 2017

Zoltán Áldott

President of the Management Board of INA



“Aware of our responsibilities as one of the largest Croatian companies, we believe that only a sustainable way of business is the path to create values for both the company and our stakeholders. Transparent reporting is therefore the right way to present the company to internal and external stakeholders, as evidenced by Deloitte's Green Frog Award for Best Sustainability Report in Croatia, which INA Group received for the 2016 Annual Report.

In 2017, we continued to disseminate company knowledge through the INA Academy education platform, for which we received the MOL Group GOLDEN BARREL AWARD in the employee engagement category. Recognizing diversity as the fundamental value of modern society and key to the long-term success of each organisation, in October 2017, we supported the initiative of the European Commission and signed the Diversity Charter. This year again, we proved to be a reliable partner to the local community through successful continuation of projects such as "spajaLICA", Green Belt, various donations and sponsorships, as well as volunteer actions. With the aim of increasing employees' motivation and satisfaction, as well as improving business efficiency and productivity, the "FORa - Flexible forms of work" project (flexible working hours and flexible workplace) has been successfully implemented.

In order to achieve the highest standards in health, safety and environmental protection, we implemented the INA Group SD&HSE 2017-2020 Key Objectives and Programme.

We believe that the responsibility for a continuous long-term sustainable and socially responsible business lies with us and we will strive for it in the future as well.”

Tomislav Thür, Operating Director of Corporate Affairs



APPROACH TO STAKEHOLDERS

INA Group companies have been using a variety of formal and informal methods in their stakeholders' engagement process. Feedbacks received are used in establishing strategically important issues and focusing on the most relevant sustainability topics related to the company's impact on economy, environment and society. These inputs are the basis for defining material topics, and consequently, sustainable development activities planning, as well as sustainability reporting.

The following groups are recognised as INA Group companies' primary stakeholders: employees, customers, shareholders, government authorities and regulators, contractors, local communities, non-profit organisations (NPOs) and the media. Other important secondary stakeholder groups include Trade unions (TU), financial analysts, academic community and the general public. All stakeholders can communicate with INA Group companies through different communication channels, including our free toll phone and e-mail addresses listed on the corporate website, depending on the subject of their interest (e.g. PR@ina.hr, pitaj.suljr@ina.hr, eticko.povjerenstvo@ina.hr, lijecnici@ina.hr, Odrzivi_Razvoj@ina.hr, donacije@ina.hr, sponzorstva@ina.hr, investitori@ina.hr etc.). Primary stakeholder groups are prioritised based on

their ability to influence INA, as well as the level of the company's impact on them.

INA Group companies also hold an important responsibility to passively monitor secondary stakeholder groups with regards to their possible significance outside the company and in order to be able to engage in productive collaborations when appropriate.

As a part of the ongoing stakeholder engagement program that formed a direct input to the preparation of this GRI Standards report, the company applied the GRI principle of 'stakeholder inclusiveness' for defining the report content, reviewed its stakeholder engagement program and undertook specific additional engagement where it required further information to ensure that it fully understood the priorities of its most important stakeholders based on their interest in, and influence over the company's activities. So, for example, Rijeka Refinery organises regular quarterly meetings on environmental topics with the representatives of Kostrena Municipality.

The picture on page 80 shows the list of stakeholders, engagement methods and stakeholder expectations, which is the key information used in the sustainability materiality assessment.

APPROACH TO STAKEHOLDERS

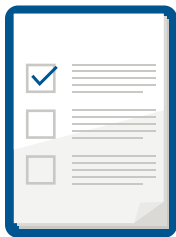


- Primary stakeholders
- Secondary stakeholders

SUSTAINABLE DEVELOPMENT SURVEY FOR INA GROUP EMPLOYEES

At the end of 2017, second sustainable development survey for INA Group companies' employees was conducted with the aim of gathering information on the level of employee acquaintance with sustainable development, so that future activities can be better targeted. The last such survey was conducted in 2015. The majority of respondents were highly educated employees with 11-20 years of service in the company.

SUSTAINABLE DEVELOPMENT SURVEY RESULTS



Feedback:

2015	2017
405	720
90% from INA, d.d.	59% from INA, d.d.
10% from INA Group members.	41% from INA Group members.

Acquaintance with SD:

2015	2017
48%	50%
medium	excellent
17%	26%



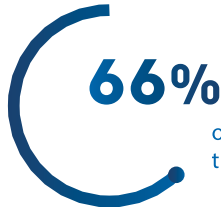
97% of the respondents considers the SD important for company's success.

30% of respondents are familiar with Annual report content.

*Buying eco products.
Recycling.
Waste sorting.*

*Volunteering, recycling,
Cycling. Buying Croatian
products. Using public
transport or car-sharing.*

*Using products from
local manufacturers.
Saving electricity.*



66% of the respondents are doing something in their private life as contribution to SD.

APPROACH TO MATERIALITY

Interests and expectations of INA Group companies' key stakeholder groups are prioritised in the process of identifying sustainability risks and determining their materiality. Key stakeholder groups include employees, investors, customers, government entities and non-profit organisations.

The Principle of Sustainability Context was applied by taking into consideration general trends in sustainability in our sector, and the Principle of Stakeholder Inclusiveness by reviewing the feedback received from our main stakeholder groups, ensuring that the main topics raised were aligned with the topics prioritised in this report.

During the reporting period, we conducted workshops on stakeholders' expectations and materiality assessment with SD working group members and continued with series of SD trainings for middle level managers in order to identify and prioritise the topics that should be covered in this report. During the workshops, experts and managers from different business areas completed an exercise on defining material topics. The results were subsequently calibrated against the results of the main stakeholder feedback and the updated document was reviewed and approved by experts from relevant organisational units and top management. The final list of material items was the framework for defining the sustainability content of this report. The list of material topics is shown below.

As noted in the previous section on stakeholders, INA undertook detailed analysis of our most material issues across our

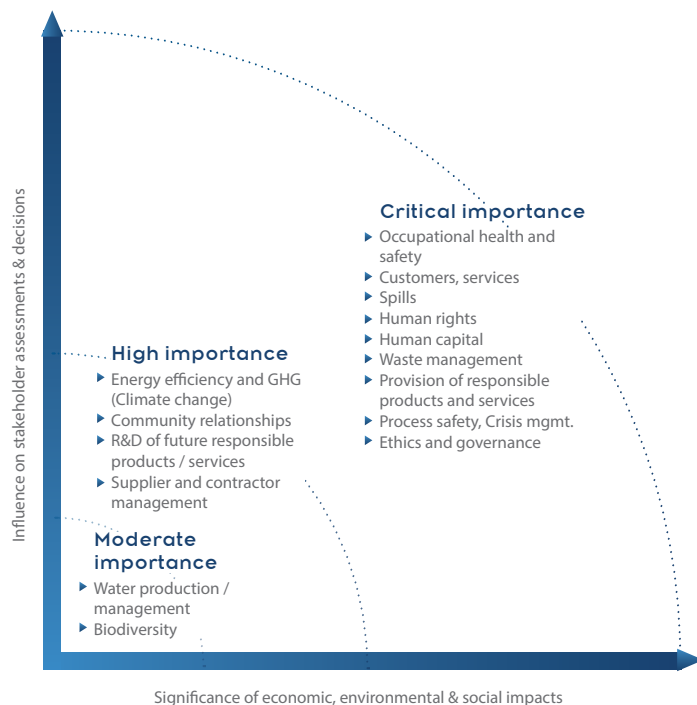
businesses, linked these issues to the corresponding GRI Standards' disclosures reported in this report and listed in the GRI Standards and Oil and Gas Sector Supplement (O&GSS) Index on pages 160-163.

GRI Principles for Defining Report Content and Quality, as well as the Principle of Materiality, were applied in carrying out the materiality assessment for this Sustainability Report. The principles were applied in order to identify the information to be disclosed and prioritise the issues recognised as the most important to key stakeholder groups.

Material topics were linked to the corresponding GRI Disclosures. Topics were prioritised based on their significance of impact inside or outside of the company or both, by their potential influence on INA's ability to deliver its strategic objectives and influence on its stakeholder's assessments and decisions. Their significance of impact was determined based on INA Group SD focus areas and programmes, potential financial gain or loss, severity of occurrence and scale of the risks and opportunities, level of stakeholder interest and relevance to oil and gas sector on the global market.





The results of this prioritisation were reviewed by INA, d.d. management. Material topics were divided into three categories: critical, high and moderate importance. Even though some material topics are characterised as moderate importance, they are still managed.

MATERIALITY MATRIX



INA GROUP VALUE CHAIN

Understanding that only companies with sustainable value chain can create, protect and grow long-term environmental, social and economic value for all stakeholders, the most important material topics for core company activities are recognised across the INA Group value chain, as well as the potential for value creation within each of them.

	MOST IMPORTANT MATERIAL TOPICS	VALUE CREATION
 <p>Exploration and Production</p>	<ul style="list-style-type: none"> ▶ Spills and leakages ▶ Occupational health and safety ▶ Energy efficiency and GHG (Climate Change) 	Sustainable exploration and production of oil&gas
 <p>Refining</p>	<ul style="list-style-type: none"> ▶ Occupational health and safety ▶ Process safety, Crisis management ▶ Energy efficiency and GHG (Climate Change) ▶ Spills and leakages ▶ Community relationships 	Sustainable, energy efficient and low environmental footprint refining
 <p>Logistics</p>	<ul style="list-style-type: none"> ▶ Human Capital (employment and development) ▶ Spills and leakages ▶ Customers, services 	Sustainable supply chain management
 <p>Retail</p>	<ul style="list-style-type: none"> ▶ Occupational health and safety ▶ Waste management ▶ Research & Development of future responsible products / services 	Sustainable products and services

REPORT BOUNDARIES

The scope of this report and sustainability material topics boundaries are determined by considering their relevance to business, availability of the information and operation performances, covering sites and locations directly under operating control of INA Group companies. Stakeholders present both the primary and the secondary group of stakeholders, depending on the importance of the material topic for them.

MATERIAL ASPECTS AND REPORT BOUNDARY										
SUSTAINABILITY MATERIAL ASPECTS	GROUP'S BUSINESSES									Stakeholders
	DIRECT SUBSIDIARY									
	INA, d.d.	Croscoc d.o.o.	STSI d.o.o.	INA Maziva d.o.o.	HOSTIN d.o.o.	TRS d.o.o.	INA Slovenija d.o.o.	Holdina d.o.o. and Energopetrol, d.d. Sarajevo	INA Crna Gora d.o.o.	
Occupational health and safety	✓	✓	✓	✓	✓	✓	✓	✓	✓	Employees Customers Communities Contractors Authorities
Customers, services	✓	✓	✓	✓	✓	✓	✓	✓	✓	Customers Communities Shareholders Authorities Employees
Spills	✓	✓	✓	✓			✓	✓	✓	Communities Shareholders Authorities Employees NPOs
Human rights	✓	✓	✓	✓	✓	✓	✓	✓	✓	Employees Contractors Communities Customers NPOs
Human capital	✓	✓	✓	✓	✓	✓	✓	✓	✓	Communities Employees Trade Unions
Waste management	✓	✓	✓	✓	✓	✓	✓	✓	✓	Authorities Communities NPOs
Provision of responsible products and services	✓	✓	✓	✓	✓	✓	✓	✓	✓	Customers Communities Shareholders Employees
Process safety, Crisis management	✓	✓	✓	✓			✓	✓	✓	Employees Customers Communities Contractors Authorities
Ethics and governance	✓	✓	✓	✓	✓	✓	✓	✓	✓	Employees Contractor Customers Shareholders Communities

MATERIAL ASPECTS AND REPORT BOUNDARY										
SUSTAINABILITY MATERIAL ASPECTS	INA, d.d.	GROUP'S BUSINESSES							INA Crna Gora d.o.o.	Stakeholders
		DIRECT SUBSIDIARY								
		Crosco d.o.o.	STSI d.o.o.	INA Maziva d.o.o.	HOSTIN d.o.o.	TRS d.o.o.	INA Slovenija d.o.o.	Holdina d.o.o. and Energopetrol, d.d. Sarajevo		
Energy efficiency and GHG (Climate change)	√	√	√	√	√	√	√	√	√	Authorities Employees Communities NPOs
Community relationships	√	√	√	√	√	√	√	√	√	Communities Employees NPOs
Research & Development of future responsible products / services	√	√	√	√	√	√	√	√	√	Customers Communities Shareholders
Supplier and contractor management	√	√	√	√	√	√	√	√	√	Contractors Communities
Water management	√	√	√	√	√	√	√	√	√	Authorities Communities Employees
Biodiversity	√									Communities NPOs

SUSTAINABLE DEVELOPMENT MANAGEMENT IN INA GROUP

ACHIEVEMENTS

- ▶ INA Group won Deloitte’s Green Frog Award 2017 for best 2016 sustainability report in Croatia;
- ▶ Sustainable development workshops for INA Group middle managers continued – 83% of all middle level managers have participated since 2016;
- ▶ 94% realisation of Sustainable Development Action plan 2017.

CHALLENGES

- ▶ Key external stakeholders survey;
- ▶ Align reporting with Integrated Reporting Framework.

Sustainable development (SD) in INA Group presents a permanent commitment to a balanced integration of economic, environmental and social factors into everyday business operations aimed at increasing long-term value for stakeholders, as well as recognition, prevention and avoidance of potential negative impacts in order to safeguard company’s licence to operate. In 2016, implementation of INA Group Sustainable development key objectives and programs 2020 started. Six focus areas of SD were defined (Climate Change, Environment, Health and Safety, Communities, Human Capital and Ethics and Governance). Each of the focus areas has specific programmes (24 in total) that represent the basis for defining SD action plans in major INA, d.d. business organisations and INA Group companies. SD action plans are developed on a yearly basis and monitored quarterly (a total of 76 SD actions were completed in 2017). INA Group SD Focus areas and programmes include sustainability targets, which are not related to legal requirements, but go far beyond them and thus directly contribute to 10 of 17 United Nations Sustainable Development Goals (UN SDGs).

INA Group Sustainable development key objectives and programs 2020

6
Focus areas

24
Programs

10
Sustainable development goals supported by our initiatives



INA Group major principles and development concepts in SD area are also clearly determined in **INA Group SD&HSE 2017 – 2020 Key objectives and programs**, where Corporate Social Responsibility (CSR) index positioning in TOP 15% large companies is targeted and approved by the management.

Besides SD area, **SD&HSE 2017-2020 Key objectives and programs** provide an overall long-term SD&HSE development concept towards achieving the highest HSE standards to be guided by 5 major principles, which reflect HSE service orientation and support to the Business Plan and Outlook. Key SD&HSE development scheme is defined by 18 key objectives, while their achievement is elaborated by realisation of 30 prioritised programs through yearly action plans.

Further focus in sustainable development management will be on better and more effective integration of the Annual report, as we believe that there is room for additional improvement in this area. Also, our focus in 2018 will be on reaching out to our key external stakeholders in order to get feedback on their expectations and material topics they consider most important.

INA GROUP SD&HSE 2017-2020 KEY OBJECTIVES AND PROGRAMS

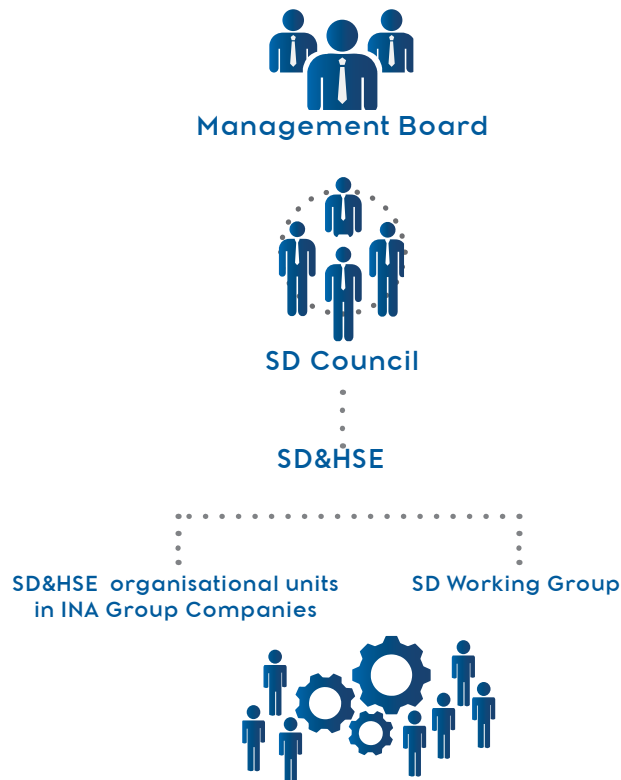


INTERNAL EDUCATIONS ON SUSTAINABLE DEVELOPMENT

In 2017, sustainable development workshops for middle level managers were continued and 83% of all INA Group middle level managers participated. This includes INA, d.d. managers and managers of the following INA Group companies: INA Maziva d.o.o., STSI d.o.o., Croscos d.o.o., Holdina d.o.o. Sarajevo, Energopetrol d.d. Sarajevo, INA Slovenija d.o.o. and Plavi tim d.o.o. Also, educations on SD for all interested employees have become a part of the INA Academy educational platform.

SUSTAINABLE DEVELOPMENT GOVERNANCE

Sustainable development governance in INA Group, as a strategic issue and corporate responsibility, is managed on the highest managerial level.



OVERVIEW OF IMPACTS AND PERFORMANCE

INA Group sustainability impact and performance is monitored with reference to six sustainability focus areas.

Our impact in 2017	Focus area	SDGs	Risks / Concerns	Our performance in 2017	Affected stakeholders
Total of 1.91 million tonnes of GHG emitted	Climate Change	13	Increase of CO ₂ emission quota price and CO ₂ fee for non-ETS plants. Reduction of free allocation of emission quotas.	12 major energy saving projects resulted in 126,485 tonnes of CO ₂ less emitted. Significant CO ₂ emissions avoided through ongoing EOR project - 220,027,503 m ³ of CO ₂ injected	<ul style="list-style-type: none"> ▶ Government, authorities and regulators ▶ Shareholders ▶ Local communities ▶ NPOs ▶ Employees ▶ General public
3 HC spills above 1m ³	Environment	6,12,15	Environmental pollution.	Investigation of all spills and implementation of corrective and preventive measures resulting from the investigation	<ul style="list-style-type: none"> ▶ Local communities ▶ NPOs ▶ Media ▶ Government, authorities and regulators ▶ General public
HRK 147.5 mln invested in compliance with best available techniques (BAT) for the refining of mineral oil and gas			Ban of the plant operation or its part. Penalty. Reputational risk.	Within the process of environmental permit revision, forms on planned change in Rijeka and Sisak refinery operation submitted to the authorities.	<ul style="list-style-type: none"> ▶ Government, authorities and regulators ▶ Shareholders ▶ Local communities ▶ Employees
45% of work related injuries are related to slip, trip and fall type of injuries	Health & Safety	3,4,8	Risk of severe injuries and continuation of lost time injuries.	In 2017, INA started with the 2-year Slip, Trip and Fall prevention program	<ul style="list-style-type: none"> ▶ Employees ▶ Contractors ▶ General public ▶ Shareholders
Increase of physical preparedness of INA fire fighters			Unsatisfactory level of physical preparedness of INA firefighters	Testing of physical preparedness was conducted and program for physical preparedness of firefighters in INA Fire Brigades is in progress.	<ul style="list-style-type: none"> ▶ Employees ▶ Contractors
Preparedness and response in emergency situations			Preparation of additional Fire Hazard Analysis (FHA) for 4 locations.	Fire Hazard Analysis for 10 selected locations was prepared according to high requirements.	<ul style="list-style-type: none"> ▶ Employees ▶ Communities ▶ Government, authorities and regulators ▶ Shareholders
Process Safety management (PSM)			Risk of uncontrolled energy release or leakage during process operation	Full implementation of Lock-out Tag-out (LOTO) procedure was finished. Management of Change (MoC) and Pre Start up Safety Review (PSSR) for all changes in process are in use. Integrity Operating Window (IOW) and Flange Protocol for critical positions are in implementation phase 20 Self-assessments audits were accomplished as a part of PSM action plan.	<ul style="list-style-type: none"> ▶ Employees ▶ Communities ▶ Government, authorities and regulators ▶ Shareholders

Our impact in 2017	Focus area	SDGs	Risks / Concerns	Our performance in 2017	Affected stakeholders
Significant benefit platform growth & active promotion of focus on overall employee wellbeing	Human Capital	3, 4, 5, 8	Employee dissatisfaction Lack of employee interest Employees not being informed on the provided benefits	200 benefits in 20 categories; implemented benefit card & 9 info locations; flexible working arrangements (FORa) roll-out to rest of INA Group (Plavi tim, TRS, Crosco, STSI, INA Maziva, INAgip); recognised as CSR practice by Croatian Business Council for SD	▶ Employees
Golden barrel award for INA Academy			Loosing opportunity of knowledge sharing Risk of decreasing employee retention Lack of employee interest	Improving internal knowledge platforms through INA Academy	▶ Employees
Diversity & Inclusion (D&I) implementation			Breach of human rights	Implementation of D&I clause in all HR policies, Bias stop awareness campaign, D&I policy created, Diversity charter signing, Mamforce recertification	▶ Employees ▶ Contractors ▶ Customers ▶ NPOs
More than HRK 2 million donation for community investment and charitable gifts	Communities	3, 4, 8, 11, 17	Reputational risk Communities relationship	Donation to hospitals, SOS Children's village, Victoria Foundation for children with malignant diseases, children's facilities, health care institutions, schools, faculties, local municipal institutions.	▶ Local communities ▶ General public ▶ Media ▶ NPOs
Green Belt Projects successfully carried out			Reputational risk Communities relationship	Co-financing of Green Belt Projects and active participation of INA Volunteers Club	▶ Local communities ▶ General public ▶ Media ▶ NPOs ▶ Employees
Active participation of INA Volunteers Club members in community			Reputational risk Communities relationship	INA Volunteers Club – 50 actions, participation of 867 members, total of 6,936 volunteers' hours.	▶ Local communities ▶ General public ▶ Media ▶ NPOs ▶ Employees
Transparent sustainability reporting	Ethics & Governance	8, 12, 17	Reputational risk in case of no transparent sustainability reporting.	2017 Green Frog Award for Best 2016 sustainability report in Croatia	▶ Customers ▶ Shareholders ▶ Government, authorities and regulators ▶ Contractors ▶ Local communities ▶ NPOs ▶ Media ▶ Financial analysts ▶ General public
Ethical business			Violation of Code of Ethics. Reputational risk.	Ethical training for 53 newcomers (Growwvers) Testing of the understanding of business ethics for employees'	▶ Employees ▶ Contractors ▶ Customers

EOR – Enhanced Oil Recovery
 HC - Hydrocarbon
 NPOs- Non-profit organisations
 FHA - Fire hazard Analysis
 IOW – Integrity Operating Windows
 LOTO - Lock-out Tag-out procedure
 D&I - Diversity & Inclusion

 **SUSTAINABLE DEVELOPMENT GOALS**



“After successful publication of Sustainable Development Strategy of INA Group in 2016, in 2017, we moved further with implementation of “INA Group SD&HSE 2017 – 2020 Key Objectives and Programmes”. Our intention is to achieve the highest SD&HSE standards guided by five major principles that will be implemented through eighteen key HSE objectives and thirty prioritised programmes. One of the key objectives is to remain in the TOP 15% of companies graded by the Croatian Social Responsibility (CSR) Index.

The private sector plays a critical role in the achievement of global Sustainable development goals (SDGs). Although we have connected our six INA Group SD Focus areas and programs directly to 10 Sustainable development goals, we will continue to promote the way in which the oil and gas industry can most effectively support and contribute to SDGs through the roles and responsibilities of key stakeholders, and by providing examples of good practices and existing sustainable development knowledge and resources available in the industry.

Our upcoming challenges include preparation for high risk investment projects related to BAT Conclusions for refining of mineral oil and gas compliance, Delayed Coker Unit project, as well as major turnaround in Rijeka refinery, in a safe way. Considering the number of works classified as high risk, the number of contractors we expect, additional benefits from the Process Safety Management System and safe start of our installation, SCCp certification of our single service company STSI d.o.o. and our contractors, as well as the implemented Electronic Permit to Work system (e-PTW) in 2017, all these factors will contribute to excellence in this area.

This year, we have witnessed that climate change has reflected on the spread of fires across Europe and there is a need to further improve readiness at the state level and at the company level. Therefore, we are further focused on improving the physical readiness of our fire brigades, as well as further developing their skills through trainings. This is why we are developing a training centre project that will enhance the development of the necessary skills for both our employees and firefighters, as well as our contractors that we consider our own employees. “

Angelika Brnada, Director of Sustainable Development & HSE



REALISATION OF SD&HSE TARGETS OF INA GROUP FOR 2017

INDICATOR	PLAN	REALISATION
Fatalities INA Group (own and contractors)	0	0
Lost Time Injury Frequency (LTIF) INA Group (Own and Contractors)	1.40	2.19
Total Recordable Injuries Rate (TRIR) INA Group (Own and Contractors)	2.22	2.59
High Consequence and High Potential Incident Inquiry Rate – INA Group and Contractors	100%	100%
Completion of SD&HSE action plans	85%	98%
PSE Tier 1*	4	2
Leadership Engagement – "Top 1500" workshops	30%	32%

*PSE Tier 1 – Process safety event with highest impact

In 2017, there were no fatalities, but INA Group recorded a minor increase in LTIs for own staff (43 compared to 2016 LTIs number of 37), hence the LTIF figure increased from 1.9 in 2016 to 2.4 in 2017. Considering the large number of contractors within INA Group, in 2017, we had 10 LTIs in regards to our contractors while performing major investment projects and maintenance works. Unfortunately, our TRIR overall figure has shown a similar trend as LTIF, especially in Retail operations where the most common type of injuries revealed that the underlying root cause of all of them is mostly linked to slips and trips (at the same height).

HSE COSTS AND ENVIRONMENTAL PROTECTION INVESTMENTS

Slight increase of total INA Group HSE costs in 2017 is mainly driven by fire protection costs increase due to higher unit prices of hired firefighting services and increased occupational safety costs due to procurement of personal protection equipment (PPE) in accordance with improved PPE quality standards. All other cost fluctuations reflect HSE cost changes that support changes in business activities.

HSE COSTS IN HRK MLN	2015	2016	2017
Health protection	7.2	3.4	3.9
Occupational safety	17.4	14.0	21.7
Fire protection	21.9	29.1	36.1
Surface waters protection	8.2	11.4	10.8
Hazardous waste treatment	10.0	8.9	11.3
Non-hazardous waste treatment	3.0	2.5	2.7
Soil and groundwater protection	19.4	16.4	11.6
Air protection	3.9	3.4	3.6
Non material HSE services	4.4	3.4	4.7
REACH and Product Safety	0	0.4	0
Fees and charges	37.6	30.7	22.4
Total	133.0	123.6	128.8

INA Group HSE project investments in 2017 were realised in the amount of HRK 256 million. Majority of investments were related to environmental type of projects (HRK 200 mln, or 78%).

The most intensive investments in environment protection were performed in Refining and Marketing (HRK 145 mln, or 57%), out of which the most intensive HSE investments in 2017 were realised in Rijeka Refinery for revitalisation of the waste water treatment plant, firefighting equipment on LPG and crude oil storage tanks and in Logistics for modernisation of port Bakar.

ETHICS AND GOVERNANCE

“Focus on responsible operations and long-term economic development”

The INA Group Code of Ethics (CoE) defines the basic values and principles of conduct of INA Group management and employees in terms of their attitude towards work, associates, business partners and the public. The Code also sets forth the obligations of INA Group to secure appropriate work conditions and professional development for employees and ensure avoidance of unacceptable forms of behaviour. The Code covers a broad area of business relationships and processes and has to be observed by all persons acting in the name and on the behalf of INA Group, including natural persons or legal entities who are in a contractual relationship with INA Group (business partners, consultants, suppliers, sellers etc.).

INA Group companies neither endanger the rights of indigenous communities with their business operations, nor use children or forced labour, and require the same behaviour from their suppliers. In addition, they do not provide financial or any other kind of assistance to political parties, politicians and related institutions.

ETHICS

INA Group CoE was introduced at the end of 2010. The Management Board of INA, d.d. appointed an Ethics Council with the task to monitor the implementation of INA Group CoE and its application in case of Code breaches.

Permanent members of the EC are high and medium level managers and an employee representative. The chairperson is an external expert responsible for fairness of procedures. When it comes to the procedures related to the protection of dignity, ad hoc Council members will also partake, i.e. a Trade Union (TU) or Works Council (WC) representative, in addition to the permanent Ethics Council members.

A Preparatory Council - core Ethics Council team - is composed of the President of INA Group's Ethics Council and two Operating Directors. Its main tasks are:

- ▶ to examine whether the reported case falls within the competence of the INA Group's Ethics Council,
- ▶ to decide whether the information and evidence described in the report constitute grounds for initiation of ethical procedures.

In procedures related to the protection of dignity, an ad hoc Council member partakes, i.e. TU's or WC's representative, in addition to permanent Ethics Council members.

Operational work of the Ethics Council (e.g. operating grievance mechanism, investigation, and consequence management) is assisted by Local Ethics Officers. Local Ethics Officers are appointed in INA Group companies having 20+ employees.

INA CoE aims to provide all internal and external stakeholders with an overview of the ethical norms which INA Group companies consider to be essential to their successful operations, both within and outside INA Group companies.

Internal and external stakeholders have the possibility to report ethical misconduct or seek advice in writing (by post, via e-mail or the Internet) and through a 24/7 phone message recording system. Anonymous complaints and questions can be submitted, with ensured confidentiality. When reporting unethical conduct, the reporting person must respect the rights of the person that they reported. Thus, it is forbidden to disclose or forward personal data of the person being reported to any INA Group member companies or to third parties not concerned with the ethical compliance issue in question.

In the event of any ethical concerns, employees can first contact their line manager. Help or advice can also be sought from HR or Legal, or competent organisational units/persons performing such tasks in the relevant INA Group company. Should an employee ever feel uncomfortable to use these channels, they may, at any time, contact INA Group's EC or the ethics officer in the relevant INA Group member company.

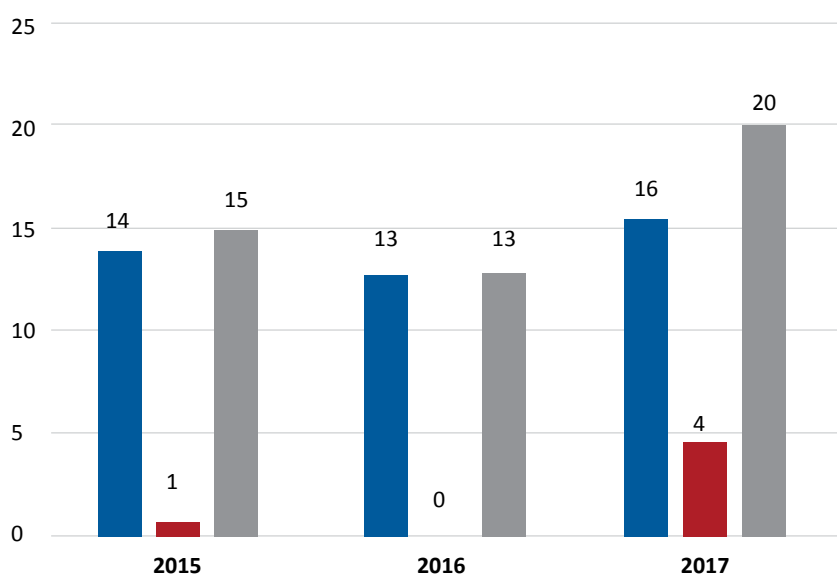
The INA Group Code of Ethics is available on the intranet and INA's website, and is translated into local languages of the countries in which INA Group companies operate.

Ethical procedures

In 2017, 20 ethical reports (16 internal and 4 external) were submitted to the INA Group Ethics Council. Investigation procedures were undertaken for 8 of the reports, resulting in 2 established CoE breaches. For one of them, the Ethics Council determined violations of the following CoE provisions: prohibition of discrimination by using social networks and public media to speak about

INA employees of other nationalities in a discriminatory manner and protection of dignity by using social networks and public media to make hostile, threatening, degrading and offensive statements against certain groups of INA workers. In addition to that, the Ethics Council's recommendation was given to the superior manager of the employee who violated the CoE provisions. For the second breach, customer provision violation (inappropriate communication while performing work tasks), the Ethics Council issued a recommendation to the reported employee advising them to follow the highest standards of conduct in written and verbal communication, with the aim of building and achieving successful co-operation and long-term business relationships.

Overview of ethical internal and external reports in INA Group in the period from 2015 to 2017



	2015	2016	2017
Internal ethics reports	14	13	16
External ethics reports	1	0	4
Total	15	13	20

Education on Code of Ethics

The President of the INA Group Ethics Council held an ethical training for 53 newcomers, i.e. Growww population. In 2017, an educational brochure (manual) was created with recommendations on how to communicate and conduct business activities of negotiating and contracting business cooperation with suppliers, with the aim of raising awareness of INA and INA Group workers, participants in these activities, in terms of respecting the principles of the INA Group Code of Ethics and elimination of circumstances that could potentially lead to submission of inappropriate and illegal bids by suppliers.

Preparation of the brochure was supported by HR, Legal, Procurement, Commercial and Corporate Communications. The Manual was distributed to all INA Group employees, specifically to Commercial, Procurement and New Businesses. The brochure is available to all employees and business partners.

At the end of 2017, testing of employees' understanding of business ethics was initiated. The testing is systematically conducted in INA Group every three years with the aim of promoting sustainable development, commitment to responsible business operations and long-term economic development. For this purpose, a guide has been prepared as a summary of the INA Group Code of Ethics.

COMPLIANCE

As a part of the largest industrial company in Croatia, INA Group companies adhere to all laws of the Republic of Croatia and monitor risks associated with changes in the legislation, which may or will have a significant impact on their business.

In 2017, no procedures were initiated against INA Group companies for anti-competitive practices, criminal procedures or due to unlawful discrimination. However, 23 misdemeanour cases were initiated in total against INA Group companies (16 against INA, d.d., 4 against STSI d.o.o., 1 against INA Maziva d.o.o., 1 against Energopetrol d.d. Sarajevo and 1 against Croscos d.o.o.) for which a total of HRK 148,450 worth of fines were imposed. The procedures were most often initiated due to failure to comply with the provisions of the Act on Flammable Liquids and Gases, Fire Protection Act, Hospitality and Catering Industry Act, Water Act, Dangerous Goods Transportation Act, Act on Working Time, Compulsory Rest Periods for Mobile Workers and Recording Equipment in Road Transport, and Road Traffic Safety Act, Act on Safety at Work.

Regarding disputes related to health, safety and environment and quality of products/services, altogether 15 disputes were initiated against INA, d.d., of which 6 disputes were initiated by employees, mostly related to compensations due to injury at work. There were six disputes initiated by customers (3 related to compensation claims related to injury caused by slip on ice and grease and 3 for damage compensation claims related to fuel quality). Two disputes were initiated by concession holders of hunting areas for damages due to seismic testing which banished animals from the area. One dispute was initiated by the gas transmission system operator (PLINACRO) for damages due to rupture of gas pipelines, caused by damaged water-pipe on facilities owned by INA.

All of the above mentioned disputes are still in progress.

In Energopetrol d.d. Sarajevo, one dispute was initiated by Energopetrol's employees, for damage compensation caused by injury at work. The claim was admitted and final verdict was issued. Also, misdemeanour sentence of KM 2,750 due to releases of waste-water into surface waters from a service station whose parameters do not meet the prescribed limit value.

Also, one litigation was initiated against STSI for indemnification to the Croatian Institute for Health Insurance for medical costs incurred to treat an employee's work-related injury. The dispute is still in progress.

Regarding incidents of non-compliance concerning marketing communications, there were no incidents recorded in 2017. In 2017, there were no complaints concerning breaches of customer privacy and losses of customer data.

During 2017, INA toll free phone 0800-1112 received a total of 22,644 reports, which is 36% more than the previous year. From the received calls, there were 21,675 pieces of information including notifications related to LPG, 494 complaints (387 related to Retail), 458 compliments and 17 proposals.

TRANSPARENCY

20 years of non-financial reporting in INA

The concept of sustainable development was first introduced in the late 1980s. Simultaneously, the need for disclosure of non-financial impact of companies (social, economic, environmental) was recognised. Nonfinancial reporting was an optional term of company conscience and responsibility, and as of 1 January 2017, it became obligatory for large companies in Europe in accordance with Directive 2014/95/EU which was transposed into the Croatian legislation by the Accounting Act (OG 78/15, 134/15, 120/16).

In INA, d.d., importance of disclosing non-financial impacts was recognised 20 years ago, when first non-financial report on environmental protection in INA was published with an overview of environmental impact in 1996 and 1997. After that, the Environmental protection, Health and Safety Report was issued in 2002, and in 2004, with just a few other Croatian companies, INA

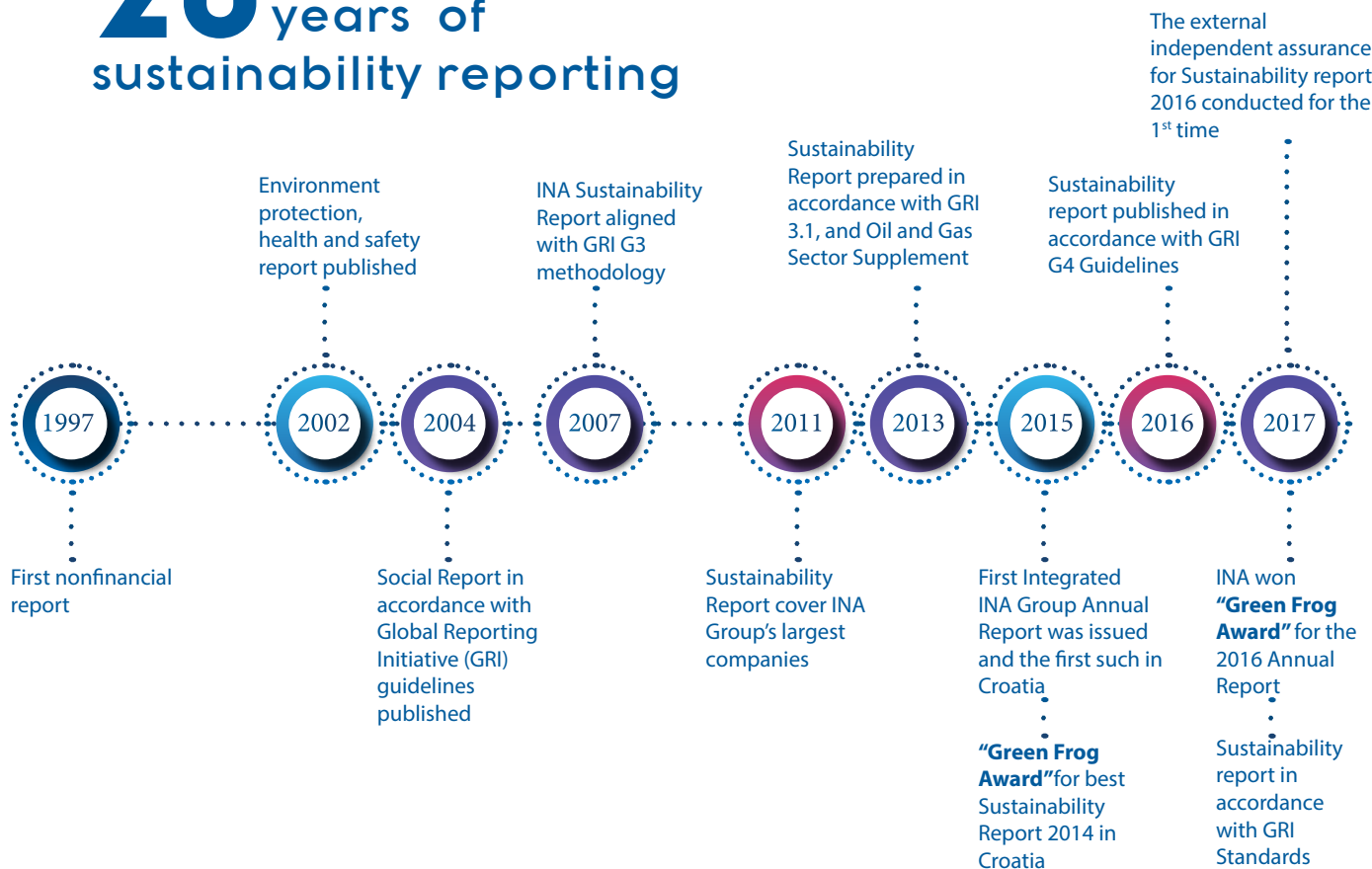
Group published the Social Report in accordance with the Global Reporting Initiative (GRI) guidelines. In 2007, the Sustainable Development Report was developed according to the GRI G3 methodology, which includes social and environmental reporting. In 2015, first integrated report was published. It was the first such report published in Croatia.

Recognition of achievements in non-financial reporting

Every year we strive to continuously incorporate feedbacks from our stakeholders and independent reviewers in our non-financial reports, in order to make improvements, so that the information in the reports is clear, concise and transparent, and also presented in a way that readers can easily and clearly interpret them. We are glad that this was recognised by the expert committee at this year's Deloitte's Green Frog Award competition, where the INA Group Annual Report for 2016 was presented with the **Green Frog Award for the Best sustainability report in Croatia**, at the award ceremony in November 2017. This was the second award for the Best sustainability report in Croatia that INA Group received since Deloitte introduced the Green Frog award in Croatia. INA Group was first awarded the Green Frog Award in 2015 for the 2014 Sustainability report.

Also, in 2017 INA Group received a special recognition, Distinction, in the Deloitte Central European Sustainability Report Award for the 2015 Annual Report for its maturity in respect of accuracy and importance of the presented contents. The jury's opinion was that the report stands out of other publications due to the narration on significance in a value chain and also for progress made in reporting, especially in the field of data description, which is reported transparently.

20 years of sustainability reporting





Cooperation with other organisations

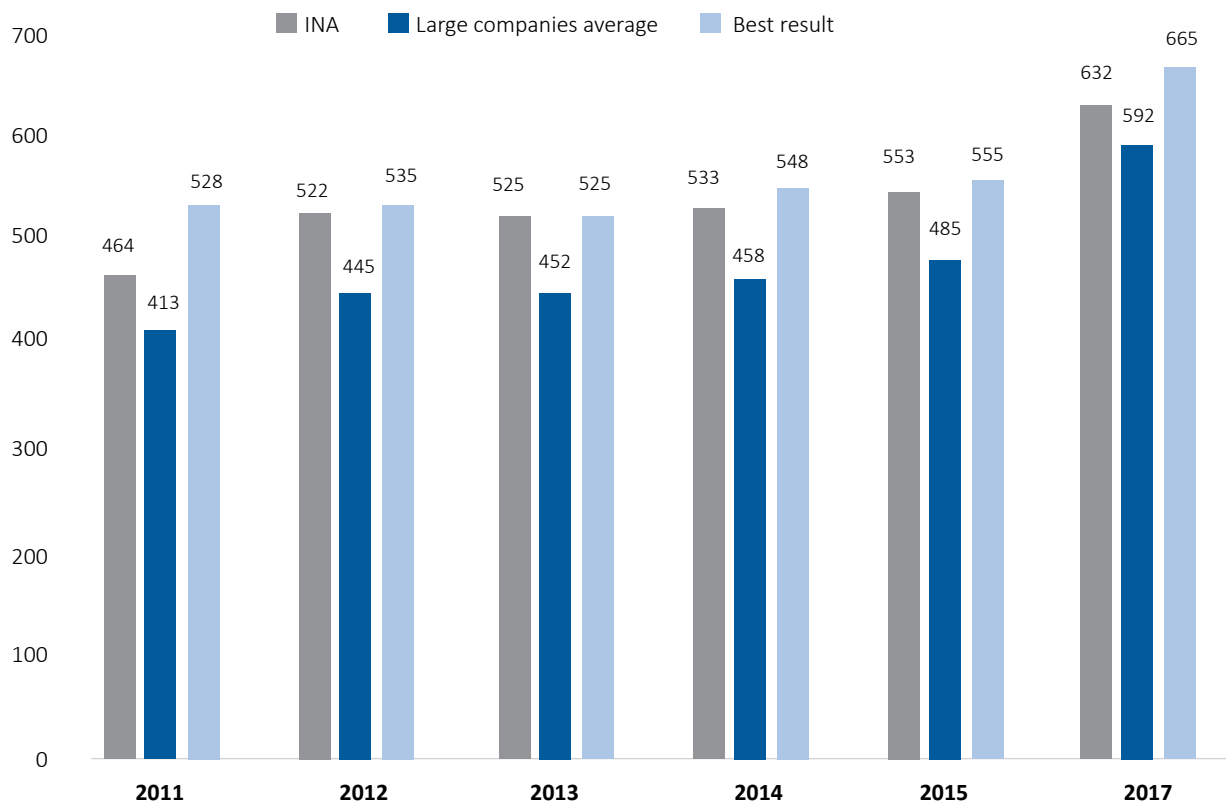
Bearing in mind that INA Group companies have a leading role in oil and gas business in Croatia and plays a significant role in the regional market, we are aware that participation and membership in various organisations which promote sustainability and corporate social responsibility represent both our commitment and obligation in order to share the best practices in the field of sustainability. That is why we always gladly participate in workshops to present our best practices, as well as to learn how other companies incorporate sustainability principles into their everyday business. In that sense, INA experts actively participate in working groups of various associations (full list of memberships, external initiatives and public policies that INA Group supports can be found in Appendices of this report on page 144).

At the ninth Altius Controlling Conference held in May 2017, non-financial reporting in INA Group was presented as an example of best practice. Articles on 20 years of non-financial reporting in INA were published in the Economy and Sustainability journal of the Croatian Business Council for Sustainable Development (CBCSD) and on odgovorno.hr portal which contributes to the faster and wider development of socially responsible business in Croatia.

Also, at the ninth Corporate Social Responsibility (CSR) Conference, INA's representatives presented the best CSR practices in the company in the field of Technology and technical changes management at INA Group, Fire protection at INA facilities, Development of Safety culture in INA Group, Medically and Health Programmed Active Vacation, and beneFIT – overall wellbeing strategy for INA Group employees.

Since 2011, INA, d.d. has been participating in the Croatian CSR Index, an annual comparative assessment of the most successful Croatian companies, considering their responsibility and the sustainable business principles application. For the sixth consecutive year (with the exception of 2016 due to not meeting the business performance criteria), INA's results are among the best score in the large enterprises category.

CSR Index results 2011 to 2017



SUSTAINABLE PRODUCTS AND SERVICES

“As a part of a socially and environmentally responsible company focused on sustainable development, INA Consumer Services and Retail continued with a series of SD actions, with objective to initiate protection of our environment and influence the awareness of employees, customers and partners in their relation to the environment and social impact.

In addition to the projects mentioned before, our traditional action is the sale of domestic products at service stations in cooperation with local family farms and it has been carried out for six years now. In 2017, INA Retail continued with series of events and benefits for customers (active sales, promotional zones, loyalty programs, prize winning game, etc.), as well as implementing new services such as Air Cash (customers use mobile application for sending and receiving money and cash withdrawal, available on all retail locations) and DPD (package delivery – receiving packages on all retail locations). Gastro concept Fresh Corner was extended to five new locations. INA Class Plus fuels were implemented as a response to the increasingly stringent technical requirements of European directives, the automotive industry and the environment, the quality of which - as it has been so far - is checked constantly, at all points of the manufacturing and sales chain. INA Eurodiesel Arctic Fuel was developed at the end of the year, specially developed for winter driving and the first of its kind on the Croatian market.”

Darko Markotić, Operational Director of Consumer Services and Retail



Renewables and products with a bio component

The European Union (EU) targets are increasingly demanding when it comes to the use of renewable energy. For example, the Renewable Energy Directive 2009/28/EC (RED) has established an overall policy that all EU countries must ensure that at least 10% of their transport fuels come from renewable sources by 2020 and this target can be met by blending biofuels. After 2020, the priority is to move away from the food based biofuels and Member States shall require fuel suppliers to include a minimum share of energy from advanced biofuels, biogas, renewable fuels of non-bio origin, waste based fossil fuels and renewable electricity. In order to be ready for all targets put before the fuel suppliers, INA, d.d. completed the unit for bioethanol storage and blending in Rijeka Refinery in 2017 and initiated a couple of new research and development projects. These new projects aim to evaluate a potential for production of advanced biofuels in INA's refineries.

At the end of 2017, a feasibility study for Rijeka Refinery was completed, with a focus on the use of solar energy. The study results will be evaluated in 2018 and a decision on further steps will be made.

Local producers at Service stations

In 2017, "Local producers at Service stations" program continued and increased by 40%. Contracts for sale of domestic products were signed with local small family farmers for 32 Service Stations (in 2016 for 13 SeSs), offering various types of fruit, vegetables, cheese, honey, honey products, Christmas trees and hazelnuts. This program provides support to local farmers and at the same time an opportunity for the customers to enjoy domestic products.

Biodiversity leaflets

Organisational unit Exploration and Production has issued Biodiversity Action Plans (BAP) for own sites (exploitation fields Gola, Kalinovac and Stružec), which are situated in or near environmentally sensitive areas (Natura 2000 sites, protected areas, etc.). A sensitive area may be an environmentally protected area (defined by the law), a water basin reservoir/source, an area containing protected species or an area with a landscape value.

INA Retail recognised five of its locations as locations in sensitive areas: Service Station (SeS) Jablanac and SeS Karlobag-grad in Nature Park Velebit, SeS Lastovo in Nature Park Lastovo, SeS Učka in Nature Park Učka and SeS Ston in Special Reserve Malostonski zaljev. Leaflets were designed for these five locations, with information about what INA, d.d. is doing to protect the environment, in general, and information on each of these protected areas individually. The purpose of the leaflets was to inform the customers about INA's policy and commitment to the systematic management of occupational health, safety and environment. In 2017, leaflets were translated into English, in order to provide information to foreign tourists, since these locations are close to major tourist attractions, with a large number of visitors.

Customer satisfaction survey

In accordance with values and long-term strategy of our company, INA d.d. has been regularly conducting annual customer satisfaction surveys on the domestic market, since 2007. The aim of the survey is to measure and monitor a trend of satisfaction of the wholesale customers, identify improvement areas, take corrective actions in order to improve relations and communication with the customers, increase the quality of products and services and ultimately, strengthen INA's market position.

Pursuant to the Competition Law, the survey was expanded in 2014. Internal and external surveys are alternately conducted every other year, using different methodologies. An internal customer satisfaction survey was conducted in 2017, involving the wholesale customers of fuels, heating oil, fuel oils, bitumen, liquefied petroleum gas and INA Card. In the survey 2017, a new and improved methodology was used.

Survey results

<p>935 Surveys sent</p>	<p>20 % Response rate</p>	<p>INA vs competition 73 % Consider INA quite/significantly better than competition</p>
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Overall satisfaction

82 %
Quite/exceptionally satisfied

Quite/exceptional satisfaction with

89 % sales representatives	88 % operators
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92 % Shall recommend INA to their partners and/or acquaintances

Loyalty rate increase
96% ▶ 99%

As INA's greatest advantages recognized are:

- **Reliability,**
- **Customers relations,**
- **Quality of services and products.**

Improvement opportunities

Increased customer satisfaction mostly can be achieved through:

- **better payment terms**
- **upgrade of delivery (speed and promptness)**

Derivatives and card users

DERIVATIVES

OVERALL SATISFACTION OF OIL DERIVATIVES CUSTOMERS

89 %
Quite/exceptionally satisfied

Customers are most satisfied:

- **89%** with orders processing
- **88%** with accurate delivery volume
- **87%** with sales representatives
- **86%** with reliability and speed of processing in case of advanced payment

Improvement opportunities:

- Brand image
- Online availability of product relevant info
- Quality of product brochures and other info materials

CARD USERS

OVERALL SATISFACTION WITH ADDITIONAL INA CARD SERVICE

87 %
Quite/exceptionally satisfied

Customers are most satisfied:

- **88%** with sales representatives
- **86%** with online availability of relevant info on INA card
- **84%** with invoicing and ease to use and track costs

Improvement opportunities:

- Payment terms
- Brand image
- Assortment of products at petrol stations, complaint handling and contracting process.

According to the customer response, the area recognised as a subject for improvement is INA's brand image, which shall be a subject of continuous systematic development, together with all other elements of the overall INA's image.

Image and reputation research

In December 2017, an independent agency conducted an image and reputation research.



Compared with other companies, INA has the most significant level of spontaneous memory.


Three quarters of respondents say they saw INA's commercials (**76%**).



In comparison to other oil companies, INA is most often associated with claims on a wide network of service stations, oil and gas production and processing petroleum products.


A larger share of respondents believes that INA has favorable product prices at service stations.

97% of all respondents used INA's services at least once



Two thirds of respondents (67%) reported that they like INA and the average grade of liking is 4 - "I like it".

77% of respondents saw INA's promotional actions.



When asked "indicate an oil company" **97%** of respondents spontaneously state INA, and **84%** of respondents mentioned INA in the first place.



97%
INA



84%
INA ON
THE FIRST
PLACE

Half of the respondents (**51%**) consider INA to be the most active Croatian oil company in implementation of sponsorship activities.



51%
RESPONDENTS

Source: Henda agency, Research of Image and Reputation, December 2017.

PRODUCT STEWARDSHIP

For raising further awareness about chemicals, to create and maintain a safe business environment through responsible management of chemicals, promotion and implementation of high safety standards in transport, storage and handling of chemicals, as well as to promote application of the most efficient technologies and best practices in the refining, INA, d.d. joined Responsible Care® initiative in September 2017. Responsible Care® is a global initiative of the chemical industry, unifying the commitment to safe management of chemicals throughout their life cycle, while promoting their role in improving the quality of life and contributing to sustainable development. By signing Responsible Care® Global Charter, INA, d.d. confirmed its commitment to sustainable development.

INA REACH team has continuously supported all company processes affected by REACH Regulation, i.e. production (safe production and use of chemicals), procurement and sales (buying and selling of REACH compliant products, preparing safety data sheet (SDS) for own products and checking of SDS for procured products), communication within the supply chain, maintenance and update of REACH registration dossiers. INA, d.d. updated 25 registration dossiers in 2017.



SUPPLIERS

85% Of local suppliers

91% Of local suppliers in total value

99% Of suppliers are post- evaluated as HSE relevant

INA Group introduced sourcing procedure extended with Supplier Management functions (pre-screening, pre-qualification and Audit) supported by eBidding system. Pre-screening and pre-qualification (in case of Health, safety and environment (HSE) critical activities) is performed to minimise legal, financial, HSE and code of ethics specific risks and activities associated with the bidders. Preferably, both evaluations will be performed before and during the early stage of the sourcing process but in all cases prior to point where decision on supplier selection has started. Contracts are concluded solely with properly pre-screened suppliers.

When performing pre-screening, the following HSE requirements are checked: possession of relevant certificates (ISO 14000, OHSAS 18 000, Safety Contractor Certification - SCC), procedure for carrying out dangerous work, transport of hazardous substances, whether pre-screened company’s activities have caused an incident with a financial loss, possession of permits, licenses, authorisations and qualifications.

By making a statement as part of the Bid, i.e. by signing the Contract, the supplier declares that it has been made familiar with the content of the INA Group Code of Ethics, that it finds the provisions of the Code clear and understandable and that it fully accepts it. INA Group companies manage the procurement process by giving priority to suppliers that meet health, safety and environment protection requirements when conducting procurement procedures, as well as ensuring that the procurement process is based on compliance with applicable laws, where hazards are identified and risks to health, safety and the environment are reduced to an acceptable level. Furthermore, implementation of these principles are ensured by means of internal verification, along with application of practices based on sustainable development principles.

In case of procurement subjects which have or could have a significant impact on energy use, based on pre-defined specifications, it is noted that significant effect will be given to energy performance of energy services, products and equipment during the evaluation process.

If all other evaluation criteria are identical, the more favourable energy performance solution during the entire life cycle of the product shall be preferred. Also, if all other evaluation criteria are identical, and if the environmentally-friendlier / environmentally safer solution is preferred, then product or service available from a shorter distance shall be favoured.

Post evaluation of suppliers in terms of the requirements stipulated in the contracts are carried on a yearly basis with respect to overall contract and HSE requirements. In case any non-compliances with HSE requirements are found during on-site audits, the financial sanctioning in question shall be proposed. Post evaluation was performed for 107 companies from HSE aspect. 97 companies had met expectations, eight companies were below expectations, and for two companies an unacceptable level of performance was determined.

CLIMATE CHANGE

“Manage risks and opportunities related to climate change”

12 Major energy saving projects

1.76 mln GJ
Saved energy

126,485 tCO₂
Less emitted

ACHIEVEMENTS

- ▶ More than 70 energy efficiency initiatives conducted in the period 2015 - 2017 with significant energy savings and emission reductions;
- ▶ Until today, two Energy management system supervisory audits successfully conducted by Bureau Veritas;
- ▶ Significant CO₂ emissions avoided on annual basis through ongoing Enhanced Oil Recovery (EOR) project - 220,027,503 m³ of CO₂ injected.

CHALLENGES

- ▶ Significant exposures of business operations to climate change policies and regulations;
- ▶ Increase in the price of emission quota and reduction of free allocation of emission allowances.

The oil and gas sector is in the centre of changes that already are and will be required in the future to reduce the carbon intensity of the global economy. GHG regulations significantly affect oil and gas companies, which make great efforts to reduce their contribution to the climate change. Some of the steps taken in INA, d.d. include enhancement of energy efficiency, higher gas consumption for own needs, projects for reductions in flaring and venting.

ENERGY EFFICIENCY AND GREENHOUSE GAS EMISSIONS

Energy management

INA Group implemented energy management system in compliance with ISO 50001, i.e. has been certified since November 2015. ISO 50001 is based on the Plan-Do-Check-Act (PDCA) continual improvement framework and incorporates energy management into everyday practices. INA Group has introduced better, continuous data updates and analysis of energy consumers in each organisational unit and set out action plans by which it defines the level of ensured energy saving within the given deadline. Evaluation of the energy management system performance has been provided by the energy management system review, which lays out the basis for data on energy management system regulation in INA Group. Till today, two supervisory audits for ISO 50001 Energy management system were conducted successfully by “Bureau Veritas” certification company.

Energy Observation Tours

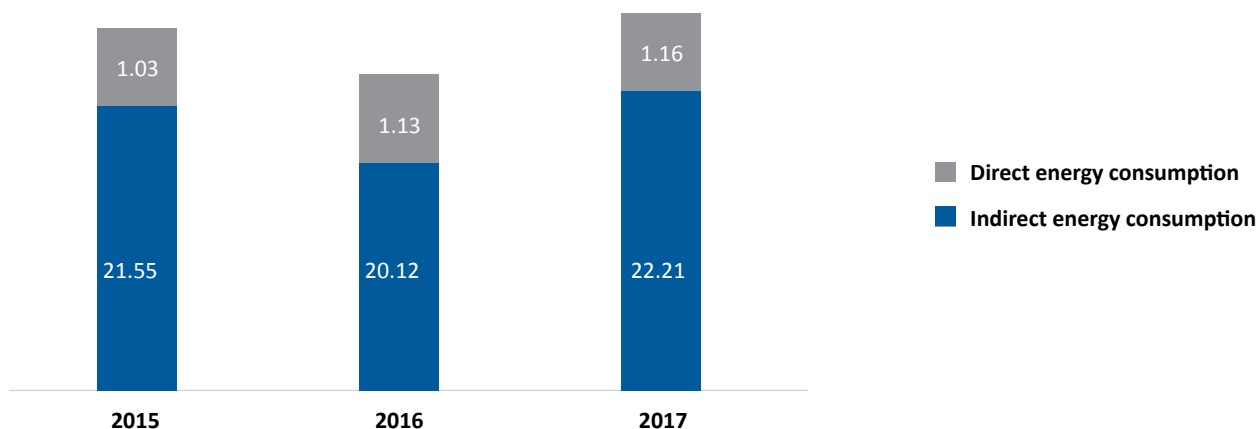
In 2017, Energy Department decided to take a new way of raising awareness of energy relevant performance in INA Group. In March 2017, Energy Observation Tours were initiated and performed in different locations in INA Group (Refining and Marketing, Upstream and INA Maziva). Three main goals were monitored and audited: decreasing of energy cost, energy consumption optimisation and introduction of best available techniques in procurement of new equipment or services in the energy field.

This is the second year of conducting Energy Observation Tours in INA Group, as a part of Energy Management System improvement program. Starting this year, an official form of tours was launched and is available for use in the whole INA Group. There are more than 30 tours planned by Energy in 2017, 20 Energy Observation Tours were successfully completed. Energy Observation Tours were conducted in a very positive and professional atmosphere on each location, which showed this was a very good initiative for raising the energy awareness.

Energy consumption

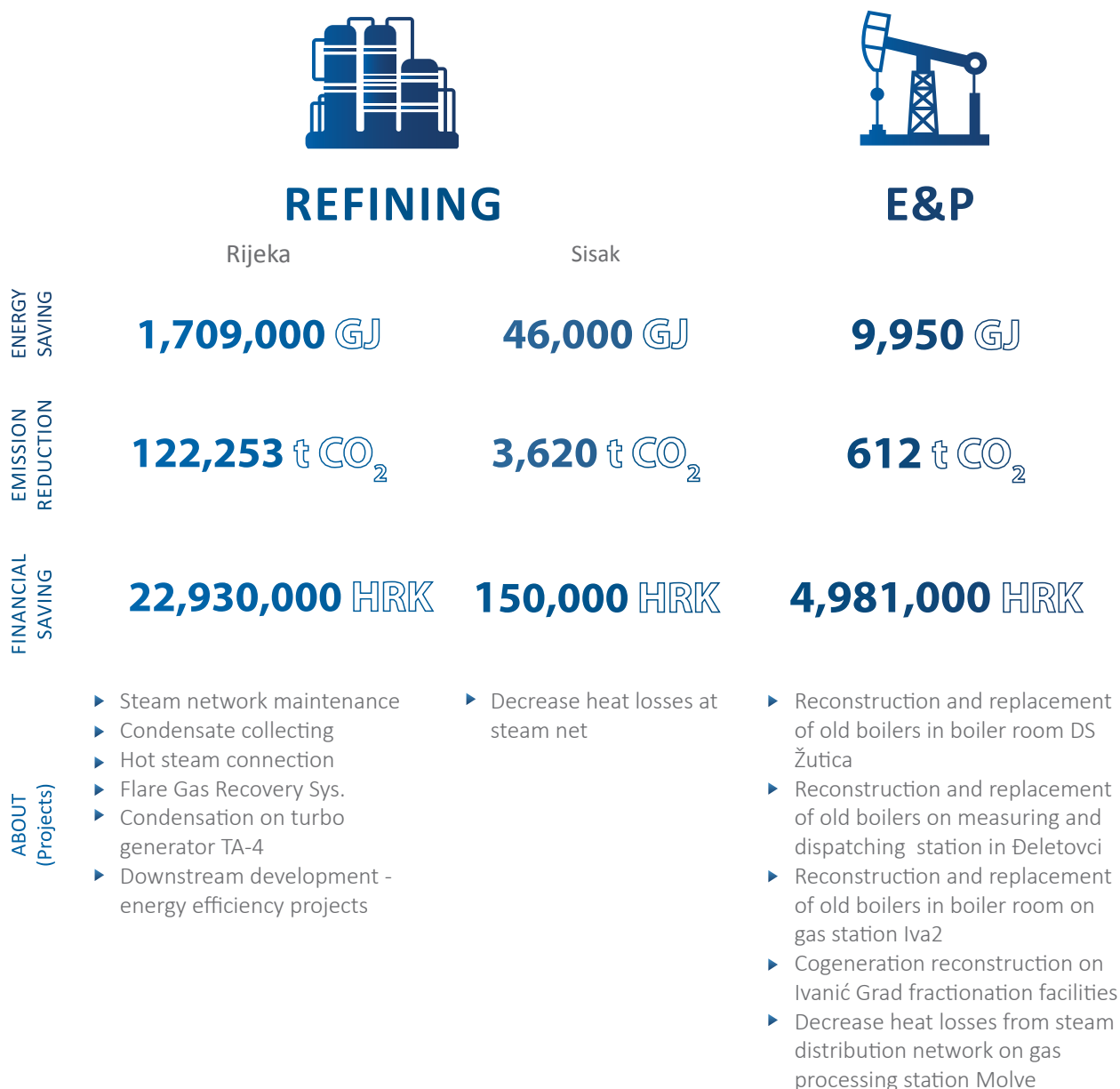
In 2017, direct energy consumption in INA Group increased by 10% in comparison to 2016, primarily due to increased consumption of natural gas for electricity generation, used on Fractionation Facilities Ivanić Grad (FFIG) and increased gas consumption due to bringing of new fields in production (Međimurje project). In addition, more natural gas was consumed in Rijeka Refinery, due to increased production in 2017. Regarding indirect energy consumption (heat, steam and electricity), there was a smaller increase (only 2%) compared to 2017.

Total INA Group direct and indirect energy consumption (million GJ)



ENERGY-SAVING AND EMISSION REDUCTION PROJECTS

Since the implementation of energy management system in 2015 and based on more than 70 initiatives with different status of realisation, significant energy savings and emission reductions were accomplished by the end of 2017 across INA Group. As a result of implementation of twelve major projects, which were carried out from 2015 until 2017 (6 in Rijeka Refinery, 1 in Sisak Refinery and 5 in Exploration and Production) a total of 1,764,950 GJ of energy was saved and 126,485 tonnes of CO₂ less emitted in 2017.



Other energy saving and emission reduction projects in INA Group

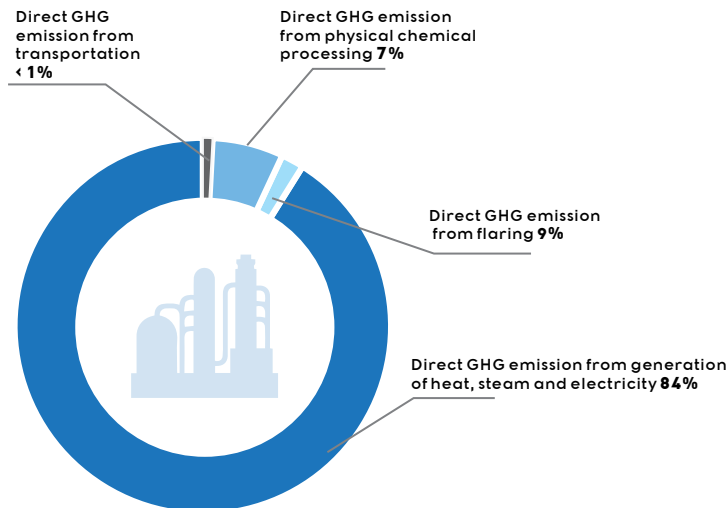
Significant CO₂ emission reduction was achieved by the EOR (Enhanced Oil Recovery) project at Ivanić and Žutica locations, which started in 2014. In 2017, a total of 220,027,503 m³ of CO₂ was injected in line with planned activities.

Greenhouse gas (GHG) emissions

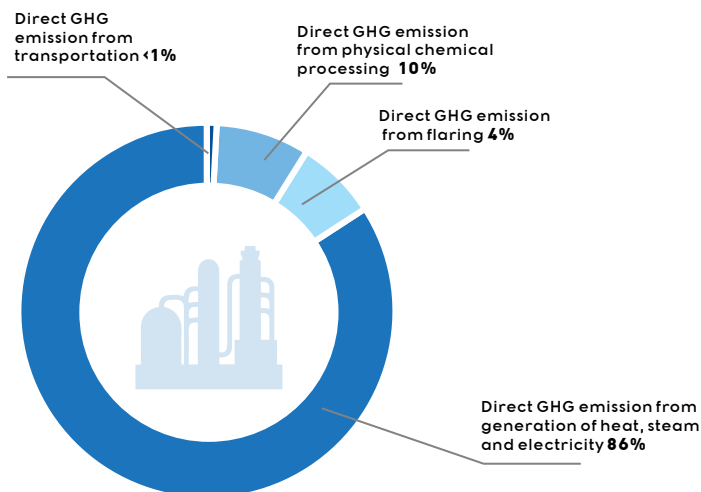
CO₂ emissions

The largest contribution to the total CO₂ emissions comes from exploration and production of oil and gas, as shown in the diagrams below. Total direct GHG emissions for Rijeka Refinery amounted to 983,318 tonnes CO₂eq, 360,764 tonnes CO₂eq for Sisak Refinery and 456,566 tonnes CO₂eq for Exploration and Production. Indirect CO₂ emissions from transport of INA Group employees by airplane were also monitored and in 2017 they amounted to 545 tonnes of CO₂eq (575 tonnes of CO₂eq in 2016).

SISAK REFINERY

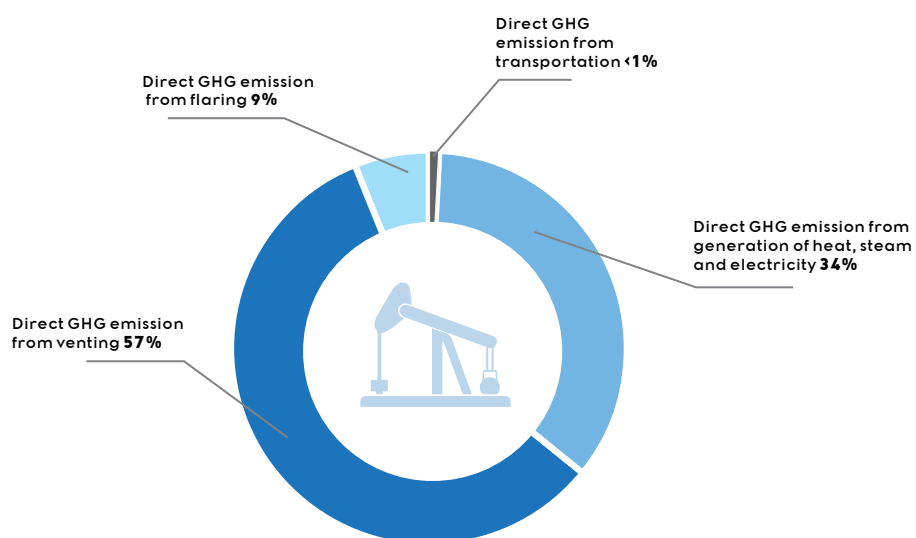


RIJEKA REFINERY





EXPLORATION AND PRODUCTION



EUROPEAN UNION EMISSIONS TRADING SYSTEM (EU ETS) EMISSIONS

The Emissions Trading System is the cornerstone of the European Union (EU) strategy for reducing greenhouse gas emissions from the industry and energy sector. It significantly contributes to achieving the EU goal to reduce greenhouse gas emissions by 20% until 2020 compared to the 1990 levels. Although the EU is on track to achieve this goal, it is necessary to ensure continuous reduction of greenhouse gas emissions by at least 40% until 2030, as agreed under the 2030 climate and energy framework and the Paris Agreement.

In order to enable the EU ETS to achieve this goal, the European Commission submitted in July 2015 a legislative proposal to revise the EU ETS for the fourth trading period (2021-2030). After extensive proceedings, a political agreement on the proposal was reached at the beginning of November 2017.

INA, d.d. constantly monitors all legal developments and new legislation proposals and actively participates in commenting on the legislation that could have impact on the company. INA Greenhouse gas emissions reporting and monitoring has been continuously improving by implementing recommendations given from verifiers and competent authorities.

In 2017, total verified emissions of INA ETS facilities were 4% higher than in 2016. Overall refineries results show a slight increase of CO₂ emissions and CO₂ intensity (77.72 tCO₂/kt CWT in 2016 compared to 80.44 t CO₂ /kt CWT in 2017) in Sisak Refinery, due to increased production in secondary facilities. Emission for Rijeka Refinery stayed at the same level as in 2016, while CO₂ intensity records a slight decrease (42.14 t CO₂/kt CWT in 2016 compared to 40.47 t CO₂ /kt CWT in 2017).

In Upstream, emissions increased by 17% due to additional quantities of electricity produced for the gas field Medimurje and EOR compressor station operation. In Fractionation Facilities Ivanić Grad, emissions increased by 28%. The reason for that was continuous production without turnaround and production of electricity for production fields Ivanić and Žutica after implementation of cogeneration project.

All CO₂ emissions under EU ETS were verified by an accredited company, in line with the relevant European and national legislation.

Verified CO₂ emissions under EU ETS (t/year)

	2015	2016	2017
Rijeka Refinery	991,903	983,431	983,183
Sisak Refinery	328,064	318,271	360,703
Gas Processing Facilities Molve	74,772	76,583	84,840
Fractionation facilities Ivanić Grad	31,626	36,383	46,757
Total	1,426,365	1,414,668	1,475,483

GAS LEAKAGES

Flaring

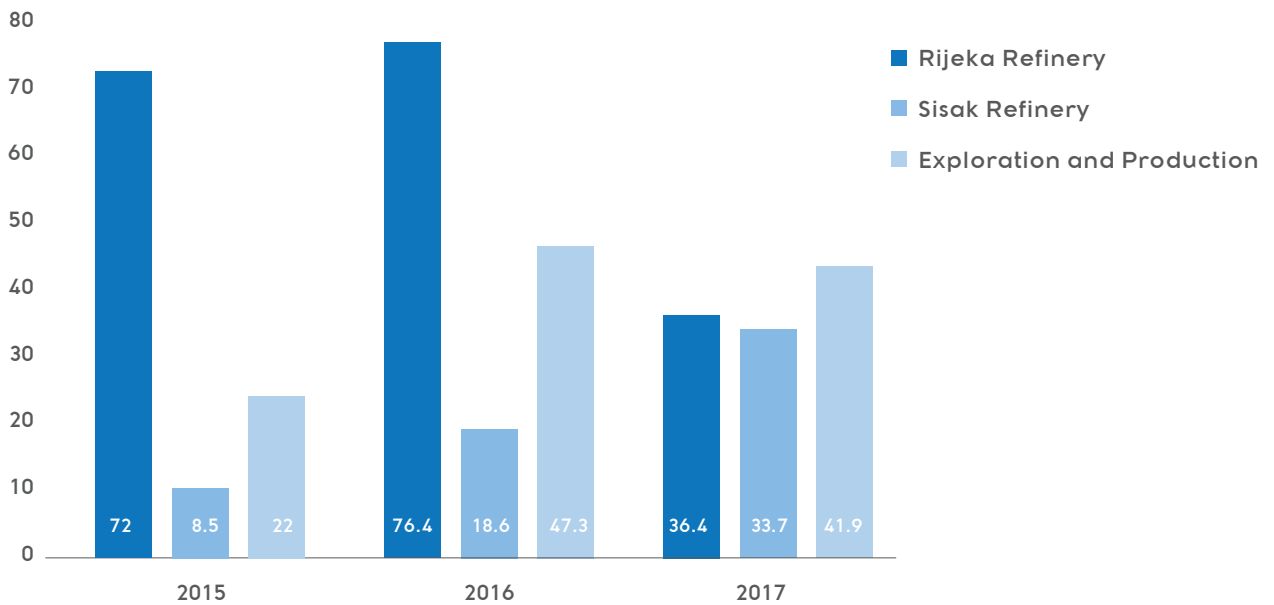
Flaring in refining represents a safety element in refining process. Direct GHG emission from flaring in Rijeka Refinery decreased by 52% compared to last year. The reason for the reduction is application of the more precise method for calculation of CO₂ emissions on flare.

Flaring in INA Exploration and Production is connected with activities, such as exploration, initial well flow-back, well servicing, process upset, safety or emergency situations, equipment or gas handling infrastructure malfunction or de-pressuring equipment for maintenance etc. In 2017, 42 thousand tonnes of CO₂ was emitted as a result of flaring in Exploration and Production. However, flaring does not represent a sustainable solution for the company, therefore its decreasing is under constant consideration, what resulted in projects by which the gas used to be flared due to different technical reasons, is now successfully returned to the process and used.

In 2017, we started with two “Zero Routine Flaring” projects and submitted proposals to World Bank for possible financing. The “Zero Routine Flaring by 2030” initiative was launched in 2015 by the UN and World Bank together, with 25 early endorsers (governments, investors and oil companies). The objective is to end routine flaring at oil production sites by 2030.

The aim of the nominated projects is elimination of gas flaring at Mramor Brdo Gathering Station (GS) and Measurement and gathering station (MGS) Đeletovci. At Mramor Brdo GS compressor plant with a rotary screw compressor (capacity of 15,000 m³/day) driven by an electric motor will be installed. The compressor plant will be used to collect produced associated gas, compress it to 45 bar and send to the process, instead of burning on the flares. Part of the compressed gas will be used for oil production by gas lift artificial method. The rest of the compressed gas will be dispatched for processing to Fractionation Facility Ivanić Grad.

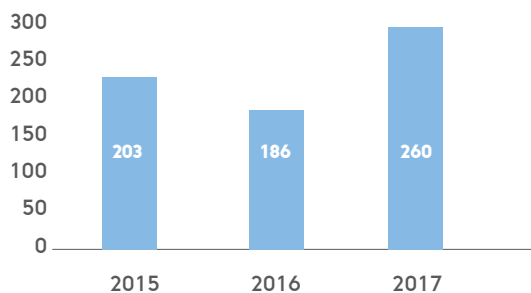
Direct GHG emissions from flaring in INA, d.d. organisational units (in thousand tCO₂eq)



Venting

In 2017, increase of Direct GHG emissions from venting in Exploration and Production occurred due to higher production on exploitation gas fields in Međimurje, by 28%.

Direct GHG emissions from venting in Exploration and Production (in thousand t CO₂eq)



ENVIRONMENTAL PROTECTION

“Reduce environmental footprint”

200 mln HRK

invested in environmental type of projects

30 SeSs collection of used cooking oil

Total of **154** boreholes for preliminary site investigation

25 INA substances dossiers updated

“In a changing regulatory environment, the impact on the business must be continuously assessed in order to identify the most cost effective measures that must be implemented in order to comply with increasingly stringent legal requirements. By implementing the best available techniques in production and processing, we reduce our impact on the environment. At the same time, taking all actions to avoid incidents or negative impacts on communities is a must for obtaining good relations with the stakeholders.”

Lidija Korošec - Director of Environmental Protection, SD & REACH



ACHIEVEMENTS

- ▶ INA, d.d. Contaminated Land Management Strategy proposal prepared;
- ▶ Finished several projects with the aim of air emission reduction;
- ▶ Launched a pilot project – collection of used cooking oil at 30 selected retail locations in Central Croatia.

CHALLENGES

- ▶ Significant exposure to a wide range of environmental regulation that may change significantly over time;
- ▶ Refineries Environmental permit revision;
- ▶ Contaminated Land Management Strategy implementation.

AIR EMISSIONS

INA Group continuously monitors and report on emissions into air in accordance with legal requirements and undertakes measures for their reduction. However, in 2017, emissions of SO_x and NO_x on INA Group level increased compared to 2016 (SO_x increased by 15% and NO_x by 22%), mainly due to a higher production at Međimurje gas fields and higher production in Rijeka Refinery.

Nevertheless, various projects for air emission reduction are continually being implemented and will continue in 2018 as well. In 2017, HRK 147.5 mln was invested in projects for compliance, with the best available techniques for air emission reduction.

In Rijeka Refinery, Low NO_x burners with a low level of NO_x emissions were installed on the steam boiler G-004, while works on boiler G-005 are planned for the beginning of 2018. As crude distillation furnace is one of the major sources of SO_x emissions, a new LPG recovery system was installed in order to recover liquefied petroleum gas from off-gas and send uncondensed H₂S rich off-gas to amine plant in order to separate H₂S from dry gas, from where after amine washing H₂S is sent to sulphur recovery unit for sulphur production and off gas back to refinery fuel gas system.

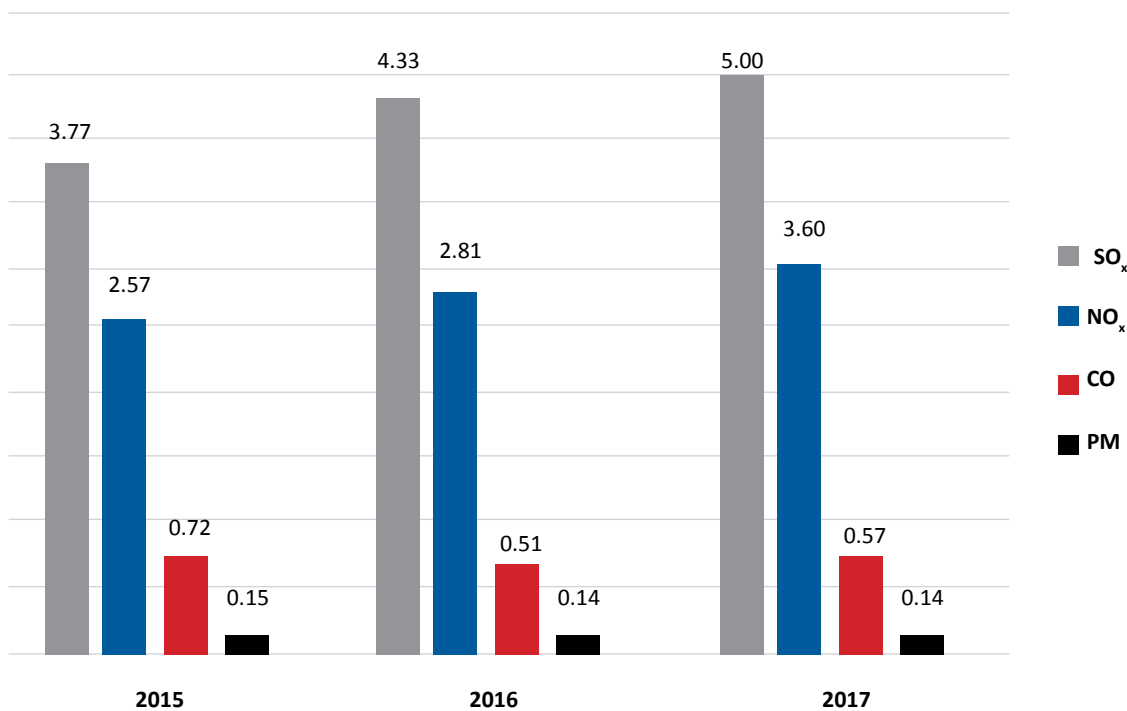
INA Maziva d.o.o. transferred to the external source of water steam supply and shut down own water steam production at the steam boilers, which were the most significant natural gas consumers and source of NO_x emissions. In Exploration and Production activities were focused on gas turbines enhancement. Two turbines at Gas Processing Facilities Molve and one at Fractionation Facilities Ivanić Grad (FFIG) were replaced in 2017, resulting in 70% decrease of NO_x emissions at FFIG.

For the control of volatile organic compound (VOC) emissions resulting from the storage of petrol and its distribution from terminals to service stations on logistic sites Solin Ship and Solin Truck, vapour recovery units (VRU) were installed and during 2017 a utilisation permit obtained, so now a total of 8 VRU units are installed on the logistic loading/unloading sites. During 2017, fixed roof tanks were also connected with VRU in Sisak Refinery.

In INA retail networks, both in Croatia and Bosnia and Herzegovina, installation of tanks and fuel dispensers with ones with vapour recovery units (VRU II) continued. VRU II was installed on 100% of stations for which there was a legal obligation, i.e. on 205 stations in Croatia. In Bosnia and Herzegovina, VRU II was installed on 75 stations (72%).

In Rijeka and Sisak Refinery, implementation of LDAR (Leak Detection and Repair) program was successfully continued, in order to detect and repair fugitive emissions leakage, by using a thermographic camera. In Sisak Refinery, the number of leakages decreased by 15% in 2017, compared to 2016.

INA Group air emissions (in thousand tonnes)



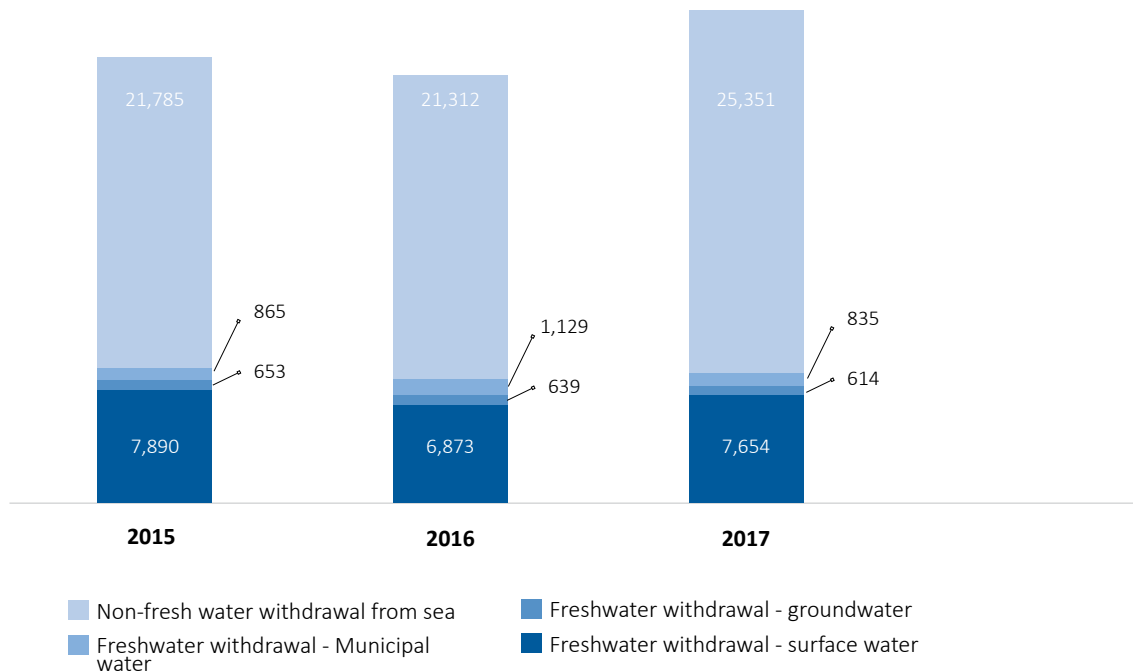
WATER

In 2017, total water withdrawal and total water discharge increased on INA Group level compared to 2016. In Rijeka Refinery, increase of withdrawn and discharged water occurred due to higher crude oil processing. In order to enhance the environmental protection, improve discharged wastewater quality, reduce emissions into air and establish a reduction of operation costs, a revitalisation of Waste Water Treatment Plant project in Rijeka Refinery is in progress. In 2017, the works were completed on construction of an equalising basin and covering two API separators according to applicable technical solutions for this type of wastewater treatment, in order to decrease emissions and unpleasant odours, which have a harmful effect on the workers' health and environment. A reconstruction of retention basins is ongoing and planned to be finished at the beginning of 2018.

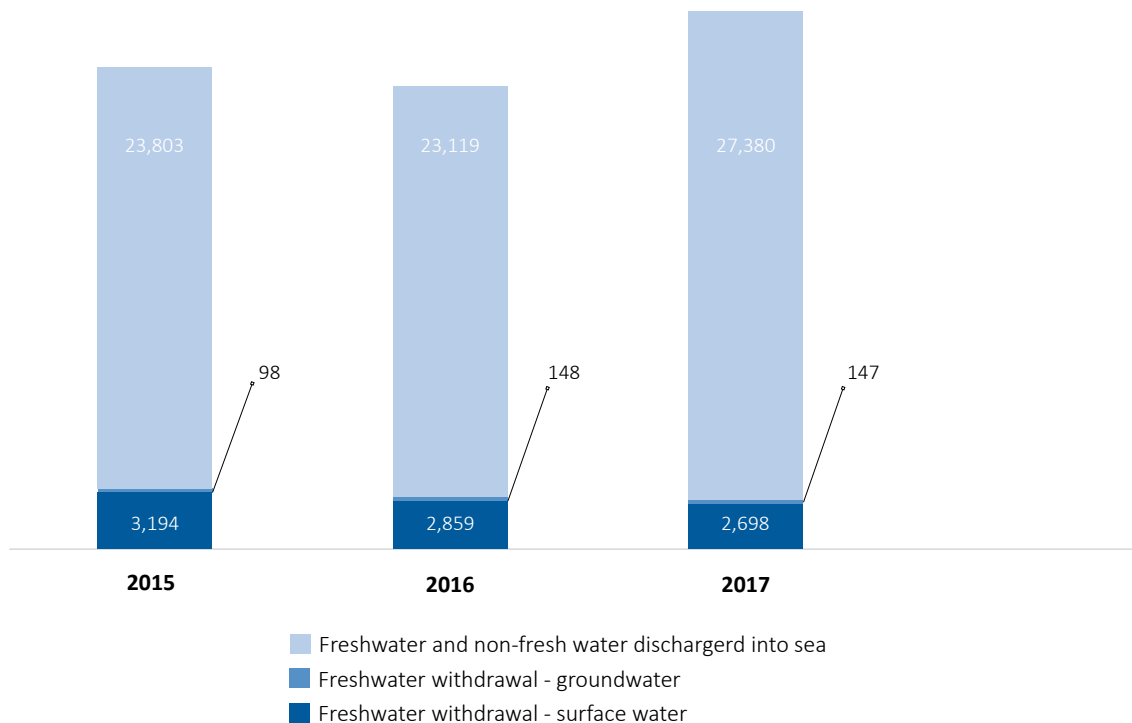
Institute of Public Health of Primorsko - Goranska County continuously examines the quality of the sea and marine sediments in the vicinity of Rijeka Refinery. The results of sea quality testing are excellent on all beaches of the Municipality of Kostrena. Exploration and Production, along its core business of oil and gas exploration and production, produces also high quality technological water and geothermal water. Amount of produced water in 2017 was 1,555,334 m³ (including water produced from water stations, wells and geothermal water), which is 34% less than in 2016, because there was no production of water from water station Dubrovčak Prerovec. Water withdrawn quantities for own consumption in recent years recorded a negative trend, because now, formation water produced by the EOR project is used in order to maintain the reservoir pressure. Furthermore, formation water is also used for the well workovers, thus avoiding fresh water usage. At the Fractionation Facilities Ivanić Grad, there is an ongoing project of water towers reconstruction, which will also contribute to reduction of water losses.

In line with issued Resolutions on Environmental Acceptability, offshore activities are performed by observing prescribed environmental protection measures and performing an environmental monitoring program by engaging external certified companies. Contracted services, beside physical and chemical characteristics of the water column and quality of purified formation water and sewage water, include sea floor sediments monitoring, with regards to eco-toxicity, analysis of fouling of platform piles and biological and toxicological analyses of mussel samples and of sea water samples.

Water withdrawal in INA Group by withdrawal source (thousands m³)



Water discharge in INA Group by discharge source (thousands m³)



WASTE

In 2017, the focus in the waste management was on an improvement of separate waste collection, education of employees about sustainable waste management and waste management audits of contractors. In order to enhance INA Group waste management monitoring and reporting system, we started with implementation of an IT solution for waste management.

According to obligations from the Environmental Permit in Rijeka Refinery, implementation of project “Closing and recovery of non-hazardous waste landfill Šoići” is in progress and it is planned to be finished early in 2018.

The total amount of waste generated in INA Group in 2017 was 23,853 tonnes. Out of this quantity, 6,972 tonnes were recycled and 2,700 tonnes of hazardous waste were handed over to an authorised company and exported in line with legal requirements. The most common types of waste generated during 2017 were drilling muds and other drilling wastes containing hazardous substances, oily sludge from maintenance operations of plants or equipment and iron and steel. Hazardous and non-hazardous waste from drilling activities, well completion and workover activities in 2017 amounted 3,630 tonnes. The amount of disposed hazardous waste increased in E&P, due to a large spill at Dapci location in 2016, caused by an illegal connection. Also, almost 2,000 tonnes of contaminated soil was excavated in Retail during 3 knock down and rebuild and 2 demolition projects. The contaminated soil was handed over to authorised company STSI for further processing, i.e. bioremediation. According to requests and needs for oily soil management at INA Group, STSI d.o.o. has been extending the existing waste management capacities at Moslavačka Gračenica and the project is in the final phase. Obtaining the Environmental permit for expansion of the capacity for waste treatment by bioremediation method to additional 10,000 tonnes of oily soil per year is in progress and expected by the end of Q2 2018. During 2017, INA Maziva collected approximately 110 tonnes of waste oils.

In 2018, the focus will be on development of new 2018 - 2021 waste management key objectives and programs, as well as municipal waste management, where there clearly is room for improvement.

Amount of hazardous and non-hazardous waste produced in INA, d.d. and INA Group (without municipal waste)**

	2015		2016		2017	
	Hazardous waste (t)	Non-hazardous waste (t)	Hazardous waste (t)	Non-hazardous waste (t)	Hazardous waste (t)	Non-hazardous waste (t)
Rijeka Refinery	875	3,452	2,019	7,491	2,583	1,456
Sisak Refinery	2,510	1,212	2,603	755	3,097	942
Exploration and Production	1,391	4,596	3,487	6,197	5,412	5,288
Retail	10,969	2,854	1,682	479	2,177	185
Logistics	300	551	462	212	187	110
Corporate Facilities*	614	1,327	116	386	23	176
Total INA, d.d. (t)	16,660	13,993	10,369	15,520	13,479	8,157
Crosco	411	1,233	298	1,622	190	991
Rotary	77	436	40	158	22	170
INA Maziva	194	733	170	63	106	88
Holdina	1,003	213	1,147	106	139	101
Energopetrol	1,184	313	5	117	2.83	116
INA Slovenija	0	35	0,7	39	0.04	46
STSI	15	198	16	301	41	209
Total INA Group (t)	19,555	17,155	12,045	17,926	13,979	9,878

* Previously Corporate Centre

** The amounts of municipal waste, which are considered a minor component of total waste, are not reported because the data are available in different measuring units due to different methods of calculation in certain Croatian counties.

REMEDIATION

Understanding the risks and liability involved and how to manage these is one of the important steps in creating efficient and sustainable remediation. On a Group level, we continued with remediation consultancy project in order to develop Contaminated Land Management Strategy and implement risk-based approach in dealing with potentially contaminated sites. INA contaminated land management approach is in accordance with the best industry practice and follows a risk based approach, aimed at mitigation of risk to human health and environment, as a result of former site operations. In order to decide on the sequence of investigation, an Initial Risk Assessment tool has been developed with an objective to generate a comprehensive list of all site-specific scores, in order to provide prioritisation for sites, based on potential risk for humans or the environment.

Soil and groundwater contamination are obstructing sustainable re-development of previously industrialised urban land, so in 2017 a significant effort was put on Mlaka site (closed lube refinery), since plans for redevelopment of the site were considered. Given the size, complexity and potential risks related to industrial sites such as Mlaka location, a Road Map Report, with objective to identify future actions that result in Mlaka site being safe for intended future use, was prepared. Also, an additional site assessment and investigation was conducted to gather sufficient data to allow for an adequate assessment of potential risks and subsequent remediation design. During preliminary site investigation, 140 monitoring wells were drilled and installed, and in additional investigation phase, 14 monitoring wells were installed. INA, d.d. regularly communicated with the legislator regarding preparation of different types of documentation in the field of contaminated land management.

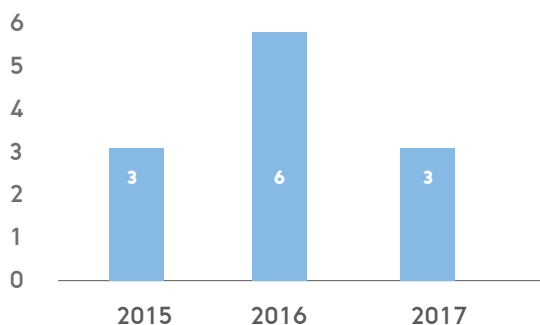
Underground remediation in Rijeka Refinery represents a long-term process of multidisciplinary activities that have been carried out continuously since 1993. Remediation costs in 2017 were decreased by 16% compared to 2016, and were HRK 4,653,262. A total of 907 m³ hydrocarbons were pumped from underground and returned for processing, which represents a decrease by 22% compared to 2016.

INA Retail continued with Soil Remediation Project in 2017 and during the remediation activities all works and excavation were supervised by an authorised environmental supervisor. All contaminated soil was delivered to authorised company STSI or its subcontractors for further processing (bioremediation). STSI's bioremediation treatment facility is currently undergoing activities to increase its capacity for further contaminated soil treatment. Because of the type of contaminated soil, the best process used for treating the soil is bioremediation. Bioremediation is a complex process that depends on many factors, including existence of a microbial population, type of contaminants and environmental conditions. As such, it is a part of the so-called green technology – technology of the future, since it corresponds with the sustainable development concept.

SPILLS

Aware of the importance of spill response, in INA Group we continuously put efforts in monitoring and reporting about spills, in accordance with the best industry practices. Prescribed corrective activities and preventive measures resulted in 2017 with significant decrease of remediation costs and hydrocarbon volume of spills, compared to 2016. In 2017, the total number of spills in INA Group was 21, with a total hydrocarbon volume of 112.3 m³, three of which were hydrocarbon spills with volume exceeding 1 m³. All three spills were recorded in Exploration and Production locations (Ivanić, Stružec and Žutica). Quantity of 101.1 m³ refers to a spill in Rijeka Refinery that happened at the end of 2016 and was still active at the beginning of 2017. Hydrocarbons occurred and were collected within the area of protective booms and returned to the slop system.

Spills of hydrocarbons above 1m³ in INA Group



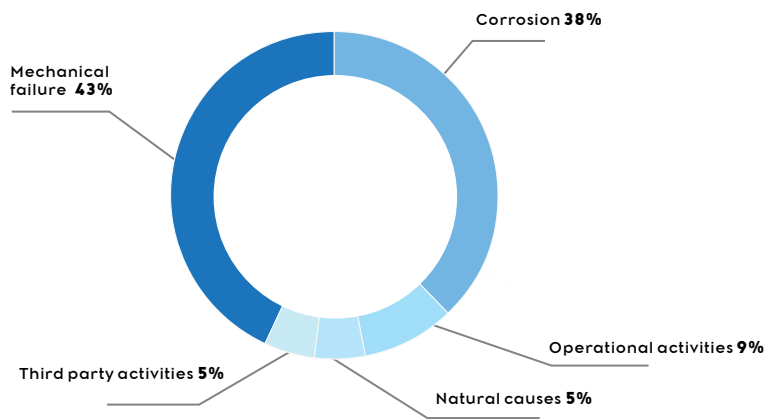
In January 2017, due to corrosion, 5m³ of fluid (2 m³ of formation water and 3 m³ of hydrocarbons) polluted 200 m of storm water channel in Stružec. The collecting oil pipeline was closed and remediation activities started immediately by authorised companies. The success of rehabilitation was confirmed in agro-ecological studies, for which an authorised company was engaged.

In February 2017, due to equipment failure, 4m³ of fluid (2.8 m³ of formation water and 1.2 m³ of hydrocarbons) polluted 1500 m² of soil in Žutica. The watercourses were not threatened. Production was stopped and remediation activities started immediately by authorised companies, resulting in a remediation cost of HRK 1,383,352.

In 2017, the total cost of all 21 spills was HRK 2.6 million. Unlike the previous years when the most common causes of spills were illegal connections and corrosion, in 2017 the main causes were mechanical failures and corrosion.

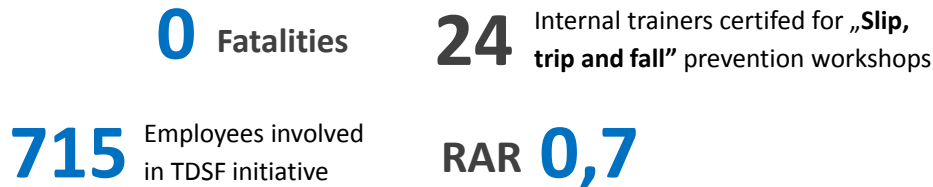
Implemented projects of rehabilitation and replacement of critical pipelines sections resulted in a multi-year trend of reduction in the total number of environmental pollution incidents, which is a confirmation for existence of a continuous and secure operating system.

Distribution of spills by cause



HEALTH AND SAFETY

“Ensure operational HSE excellence”



“Even though our results have shown an increased number of injuries, we continually work to minimise the likelihood of injuries by launching programs to tackle the most common types of injuries, such as Slip, Trip and Fall prevention programme. Needless to say, our long term goal remains to ensure our employees return to their homes safe and unharmed.”

Rikardo Ključarić – Director of Occupational Health and Safety



ACHIEVEMENTS

- ▶ No fatalities in 2017;
- ▶ Launch of Slip, Trip and Fall programme and a continuing focus on safety leadership through Leadership Engagement workshops;
- ▶ Implementation of Electronic Permit to Work (e-PTW) project for all INA Group entities.

CHALLENGES

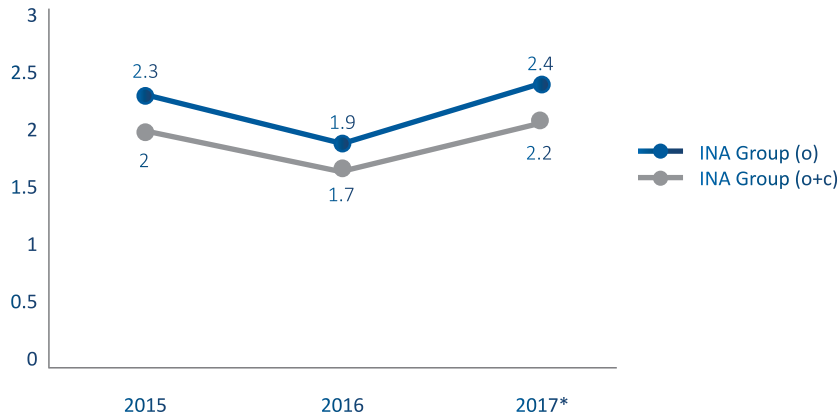
- ▶ A high number of total recordable injuries (TRIs) and minor increase of TRIR result;
- ▶ “Slip, trip and fall” prevention programme roll-out within all business entities in INA Group;
- ▶ Upcoming turnaround in Sisak and Rijeka Refinery.

PERSONAL SAFETY (OCCUPATIONAL SAFETY)

INA's long term goal to ensure all our employees return to their homes safe and unharmed is embedded into our SD&HSE strategy covered with SD&HSE Key objectives and programs, however, due to scale of our operations and number of employees, near misses and incidents do still occur. We continue our efforts in raising the reporting culture by ensuring all near misses and incidents are recorded, investigated and consequently that all lessons learnt are shared with INA Group contractor and own employee network. In this respect, INA, d.d. follows the highest legal and international reporting standards and best practices, whereas all data are monitored and reported in accordance with International Labour Organisation directives and the Croatian legislation, International Association of Oil & Gas Producers (IOGP), and according to the methodology for monitoring injuries, prescribed by the EU association of oil companies - CONCAWE.

In 2017, INA Group recorded a minor increase in LTIs for own staff (43 compared to 2016 LTIs number of 37), hence the LTIF figure has increased from 1.9 in 2016 to 2.4 in 2017. Considering a large number of contractors within INA Group, we had 10 LTIs in 2017 related to our contractors while performing major investment projects and maintenance works.

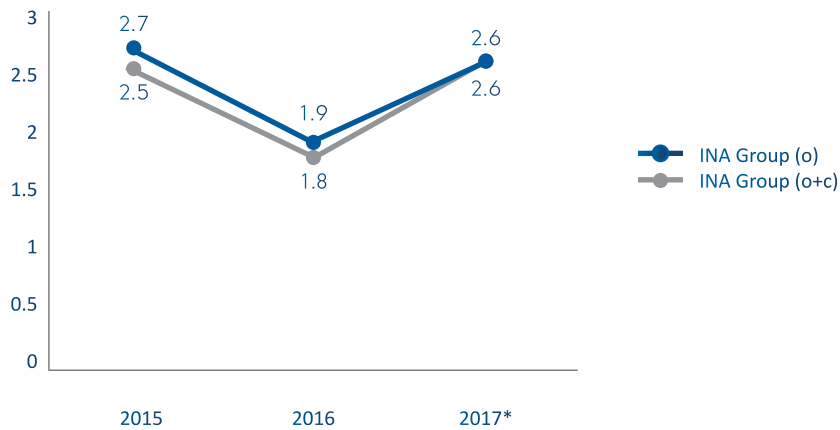
LTIF in INA Group



LTIF - Lost Time Injuries per million worked hours
 o - own employees; o + c - own employees and contractors.
 * from 2017 not own FS staff included in contractor statistic

Unfortunately, our TRIR overall figure showed a similar trend as LTIF, especially in Retail operations, where the most common type of injuries revealed the underlying root cause of all of them was mostly linked to slips and trips (at the same height).

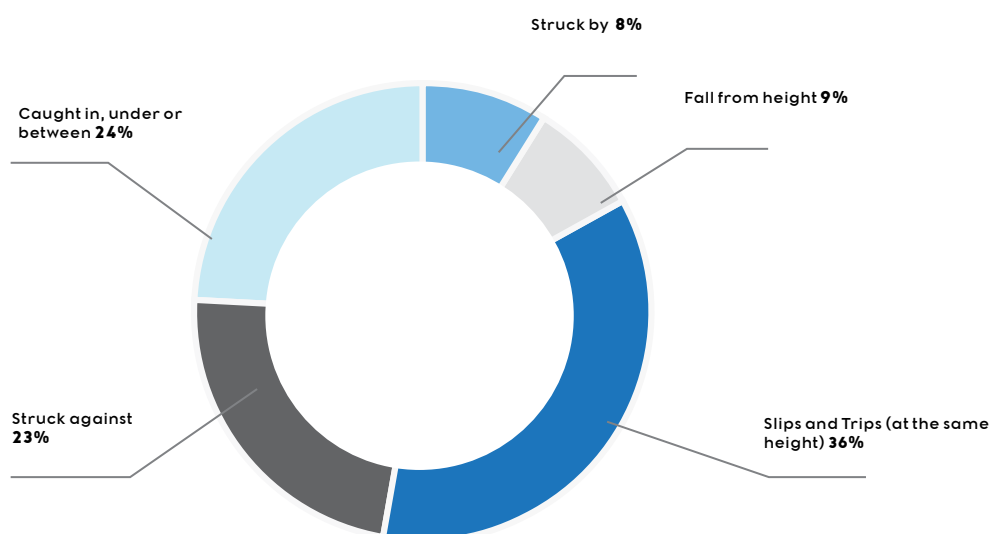
TRIR in INA Group



TRIR- Total recordable Injuries per million worked hours
 o - own employees; o + c - own employees and contractors.
 *from 2017 not own FS staff included in contractor statistic

In order to tackle such types of injuries at the end of 2017, INA Group, launched “Slip, trip and fall” prevention programme. The project itself is directly linked to the realisation of the SD&HSE Key objectives and programs for 2017 - 2020, and its main purpose is to raise the level of SD&HSE culture, by raising awareness of the importance of occupational safety and safety at work, focusing on the most common causes of injuries at work.

Five main causes of Total Recordable Injuries (TRI) in 2017 for own and contractor employees:



The “**Slip, trip and fall**” prevention programme (also called “Unconscious Behaviour” programme) represents a continuation of successful “Leadership Engagement” program, where the focus of the workshop was to raise the management awareness as a critical force in shaping and strengthening the SD&HSE culture. With “Slip, trip and fall” prevention workshops, the main goal was to reduce the number of slip, trip and fall type of injuries in INA Group and through sponsorship raise safety awareness and emphasise the importance of safe behaviour. A total of 24 internal trainer successfully underwent “Train-the-Trainer” workshops and are now certified to provide 1-day workshops for blue collar workers within INA Group. One more additional group of internal trainers will be certified at the beginning of 2018, after which educational workshops for workers will start. Our ambitious goal is to train more than 3000 INA Group workers over a 2-year period and to establish a solid base in raising safety awareness among our workforce.

Within INA Group, we assess and communicate all occupational health and safety risks related to our workforce through employee representative bodies. Therefore, on quarterly basis we continued to organise HSE Operational Committees and OHS committees lead by INA’s operating directors. Through these meetings, the labour representatives, occupational medical specialists and OHS experts present their programs, concerns and ideas for improvement to our top management.

For the third consecutive year, **INA Group Leadership Engagement Program** has continued with its primer goal by continuously rising importance of safety in everyday activities and overall safety culture. Having previously delivered a series of 2-day workshops during 2015 and 2016, which were tailored for the top and middle management, in 2017 a new program of safety workshops was developed for the lowest level of management. Also, a new group of internal trainers, who were appointed to provide these workshops, were trained.

Train-the-Trainer program delivered 12 internal trainers, who were certified to provide 1-day workshops to the lowest level of management. Together with previously trained internal trainers for a wider scope of 2-day workshops in 2016, who also participate in refresher trainings in 2017, a respectable internal resource of 18 internal trainers were empowered to assure long-term sustainability of the program.

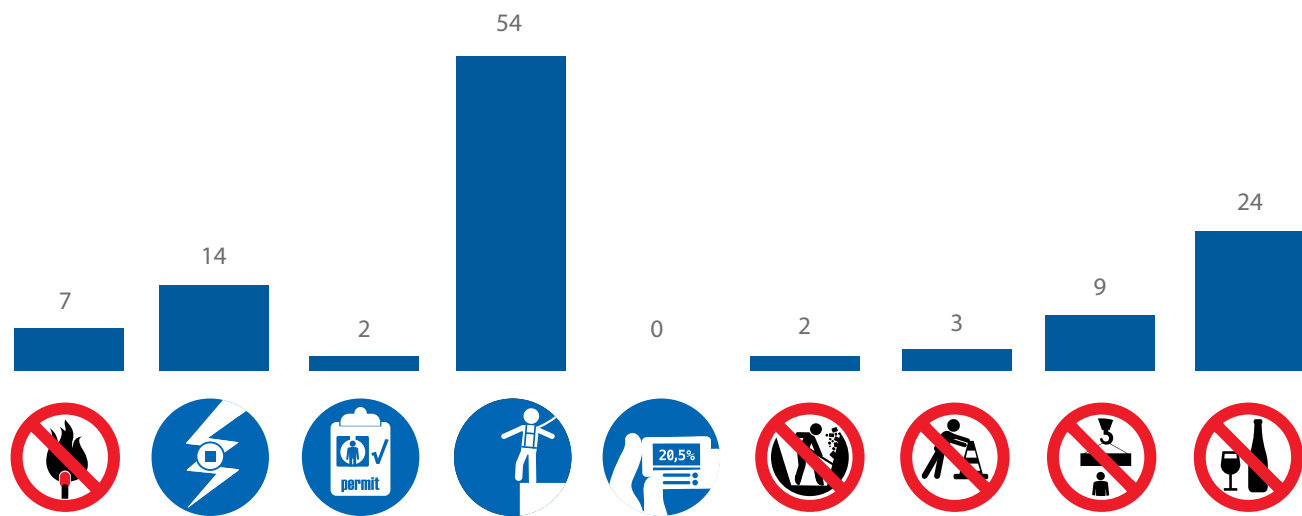
A new set of 1-day safety workshops for the lowest level of management started in Q4 2017 and scheduled to be continued in 2018, with a total scope of approx. 380 participants, out of which 30% were trained in 2017 (121 participants in 12 delivered workshops), while the rest of the program is scheduled for 2018.

In order to assure sustainability of previously delivered programs, all newly appointed top and middle managers are considered to repeat the 2-day workshop schedule, which will start early in 2018. In addition, according to INA Group SD&HSE Key objectives and programs for period 2017-2020, where INA Group orientation is to raise awareness and safety culture of its contractors, representatives of major INA Group contractors are invited to join 2-day safety workshops in 2018.

In 2017, one of our biggest challenges was implementation of Electronic Permit to Work (e-PTW). After a successful unification and standardisation of Permit to Work (PTW) system, as well as e-PTW pilot project finalisation in Rijeka Refinery, Logistics, Exploration and Production and Retail in 2016, INA, d.d. decided to roll out e-PTW in Exploration and Production, INA Refining and Marketing and our largest single service company STSI, in 2017. Therefore, standard SAP Work Clearance Management was implemented with a great accomplishment, both regarding the budget and planning. Finally, all INA Group companies started using e-PTW by the end of 2017. Apart from standardisation and unification of e-PTW system, we managed to set a contractor database, which is supplementary to PTW system, whereas each contractor undergoes a specific training prior to PTW issuance.

We continuously track Life Saving Rules (LSR) violations for own and contractor employees. In 2017, we had 115 LSR violations, whereas this figure was much higher in 2016 – 176. The most common LSR violation is related to work carried out without lifesaving PPE.

2017 Life-saving Rules violations per type - own and contractor employees



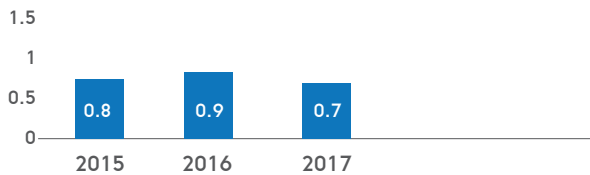
The lower result for LSR violations can be attributed to implementation of various support programs, which have been on-going for several years now. These programs include fall protection, where we continuously procure fall protection equipment and install safety systems, as well as Lock-out Tag-out (LOTO) system, where LOTO Procedure is fully implemented.

ROAD SAFETY

On global scene, road accidents account for more than 1.25 million deaths each year, according to the World Health Organisation. For this reason, the UN has set an ambitious target of halving the global number of deaths and injuries from road traffic crashes by 2020 within its 2030 Agenda for Sustainable Development.

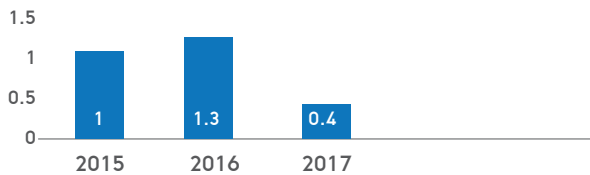
In INA, d.d., a well-recognised and successful **INA Safe Driving Program** was established for the purpose of training and improving the skills of all our drivers. INA safe driving programme entered its 7th consecutive year and ended 2017 with a total of 490 employees trained. Aside from the trainings, the programme encompassed various activities and educational campaigns that consequently had an overall effect on INA Group RAR (Road Accident Rate) results. INA Group RAR decreased from 0.9 in 2016 to 0.7 in 2017, showing the best results since we had started tracking the RAR indicator.

Road Accident Rate (RAR) in INA Group



Additionally, INA Group continued to educate employees whose daily work included driving long distances, by aiming to raise safe driving awareness within **“Truck drivers’ safety fundamentals” (TDSF) programme**. Together in 2016 and 2017, a total of 715 employees of INA Group were involved in TDSF initiative. The biggest positive impact of TDSF initiative was a decreasing number of HAZMAT (Hazardous material) road accidents within INA Group, where compared to a total of 8 in 2016, in 2017 we had 3 HAZMAT road accidents.

HAZMAT Road Accident Rate in INA Group



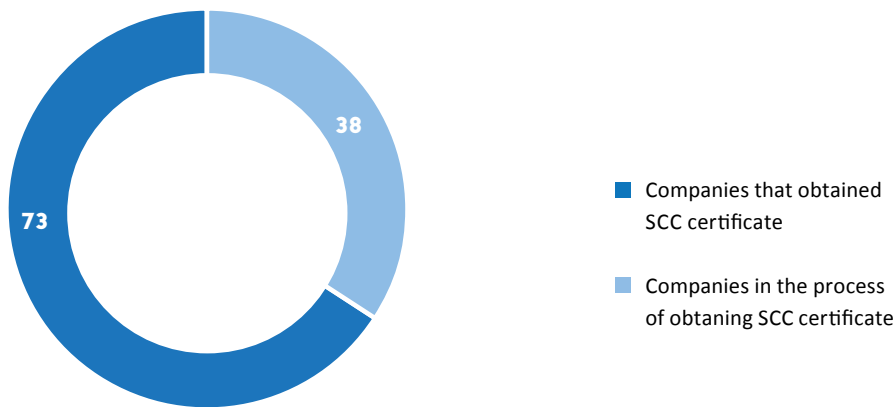
In 2017, we reached our goal to enforce **“Reverse parking”** as a mandatory obligation for all drivers at high-risk operational sites, to enable safe and fast evacuation from the marked locations.

CONTRACTOR SAFETY

Members of INA Group are focused on continuous improvement of safety standards in order to ensure a safe environment for all their employees and contractors. Considering that the oil and gas business is characterised a high-risk industry, as of 1 July 2017, Safety Checklist Contractors (SCC) certification became mandatory for all high-risk work contractors related to INA Group, as a proof of an effective HSE management system.

A total of 73 companies that operating in INA Group obtained an SCC certificate and 38 companies were in the process of introducing this certification.

INA Group SCC certification status

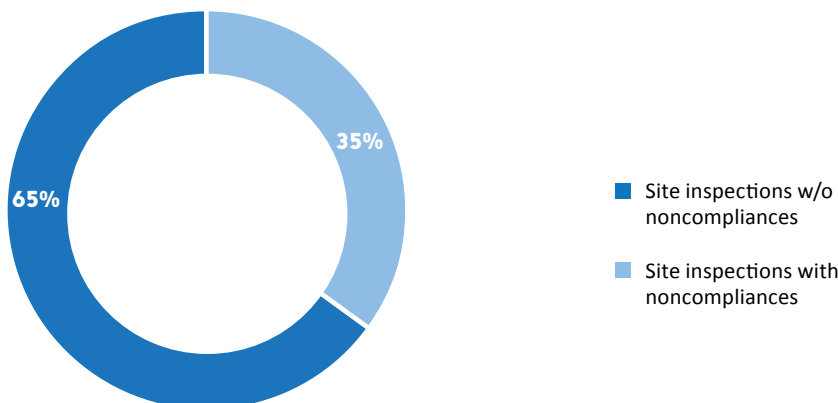


For 15 companies in INA Group, performing work categorised with a medium risk, a pre-qualification audit was carried out in order to audit the HSE requirements.

In 2017, seven forums with suppliers (one in INA, d.d., four in STSI, one in CROSCO and one in Holdina & Energopetrol) were organised to assist them in becoming even more familiar with INA Group HSE requirements.

INA Group significantly increased its number of on-site HSE inspections, up to 7116 inspections in 2017, compared to 2016, where 2,352 on-site inspection were held. In 2017, 65% of all on-site inspections were found without non-compliance and 35% with non-compliance, which demonstrated an overall improvement of the contractor audit culture.

INA Group HSE on site inspections





In 2017, proposed penalties for non-compliance amounted to 30,519 USD (which was lower compared to 2016 – 40,004 USD). A total number of applied measures were 211, where 16 workers were banned from the site, 7 permits to work cancelled and 188 letters of reprimand issued. In order to continue improving the contractor safety, INA Group major single service company – STSI, introduced **Safety Passport for Contractors** at the end of 2017. About 1500 passports were distributed to the contractors and sub-contractors. All safety data related to necessary trainings, certificates and HSE rules violations are kept and made easily available to all interested parties. A complete implementation of the safety passports is expected in the first quarter of 2018.

On 26 May 2017, two workers suffered serious injuries in Sisak Refinery. An incident happened due to a leakage of heavy gas oil on a pump. Both workers were immediately transported to the hospital, while the fire brigade secured the area by applying firefighting foam on the pumps. Subsequently, one worker was released to home care, while the other remained in the hospital with severe burn injuries and is currently on sick leave. The coker unit was in a shut-down for seven days and pumps were removed for repair and investigation of media leakage.

After a detailed investigation, it was found that the seal on the casing cover, where the leakage occurred, was damaged and therefore the main cause was seal cracking on the pump housing. Taking into account all available statements, the pump start-up was conducted correctly and both workers wore adequate protective equipment. The pump itself was overhauled and was within the interval scheduled for pump overhaul.

The main conclusion of the investigation was that new pump needed to be acquired in order to increase the process safety and to prevent future leakage of the media. Lastly, a total of 8 corrective actions were prescribed in order to prevent such accidents in the future.

This type of incidents always remind us of how the area where we operate and equipment which we manipulate must be safe, well-maintained and regularly inspected.

HEALTH PROTECTION AND PROMOTION

Occupational Health

Occupational health efforts are focused towards improving the workforce health through our own initiatives and activities of project **ZDRAVLJE+** that go beyond legal compliance in the field of occupational health.

Since 2013, INA, d.d. has been conducting the Medically Programmed Active Vacation (MPAV) in the duration of ten days, which is aimed to activate employees with dissatisfactory health status with the purpose of rehabilitation and health improvement care. Since 2016, most INA Group companies have implemented the programme. In addition, a new version in the form of a five-day Health Programmed Active Vacation (HPAV) was introduced in the same year and is intended for all active employees with minor health issues, in order to introduce physical and mental relaxation to maintain overall fitness.

Furthermore, occupational medicine plays an important role in prevention and improvement of the health status of our employees. A large team of six contractual occupational medical specialists are personally available to all INA Group employees through internal application named: "Ask Our Doctors", for all types of medical consultation. Likewise, they actively participate in the screening of leading illnesses, health examinations (especially for employees working on jobs with special working conditions (SWC), work-place visiting, participation in the investigation of work related injuries, planning of interactive workshops and health educations of employees, whilst reporting to the employer about the undertaken activities.

Positive impact

MPAV/ZPAV has positive impact on the wider social community and family of employees.

Effectiveness

By performing the MPAV/ZPAV health and well-being of the employees are effectively managed.



Reduced of employees morbidity

As a preventive, curative and rehabilitation tool, MPAV/ZPAV directly affects the reduction of employees morbidity.

Reduction of financial burden

Reducing of employees' morbidity and sick leave directly affects the reduction of the employers and employees financial burden.



Workplace Health Promotion

Health and wellbeing in the workplace can be viewed as INA's broad concept based on a two-year campaign "Healthy workplaces for all ages" launched by **European Agency for Safety and Health at Work (EU OSHA), which continued the official partnership with INA, d.d. in 2017**, as well. The INA Health Protection and Promotion Programme, established for the period 2016/2017, according to the thematic areas of EU OSHA campaign "Healthy workplaces for all ages" that is a basis of ZDRAVLJE+ program, contributing to overall health and wellbeing of employees.

We would like to highlight two EU OSHA thematic areas.

Firstly, "PROMOTION OF SUSTAINABLE WORK AND HEALTHY AGING FROM THE BEGINNING OF WORKING LIFE" represents a link from workshops and educations contracted by the occupational medicine specialists and other experts, with topics such as: Stress and thyroid disease campaign for preventing stress and its negative consequences and "Healthy Food Week" campaign, which offered a series of professional lectures and included a creative contest for the best healthy recipes. Moreover, 1,000 kg of apples were distributed freely to all INA's employees during this campaign, on the occasion of the World Apple Day. With the goal of promoting health initiatives, INA's employees have been actively participating in the Festival of Sport and Recreation in Rijeka and B2B races in Zagreb.

Secondly, "PREVENTING HEALTH ISSUES DURING THE WORKING LIFE" presents a direct link with two campaigns, "MOVEMENTS THAT MAKE THE CHANGE" (in collaboration with Josipa Nakić, Ph.D. from the Faculty of Kinesiology at the University of Zagreb that INA, Group continued in 2017 by shooting video clips to inform and educate our employees on adequate posture and proper movement) and correction of the movements in general. Aim of these campaigns was to create a habit of daily implementation of exercises, both in the workplace and in everyday life. Additionally, we launched a new campaign called: "A minute for health - workout at work" to further emphasise the importance of physical health. In order to avoid computer eye strain and encourage employees to take brakes during work time, we launched campaign "One hour without a computer", together with a vision test and special healthy food offer, during this one-hour break.

FIRE PROTECTION AND PROCES SAFETY MANAGEMENT

“Fire protection, Firefighting and Process Safety Management (PSM) system is an integral part of every technological process, including all technological processes in INA, d.d., especially bearing in mind that all products, semi-products and raw materials that we use are flammable substances. With unreserved compliance with legal requirements, additional analysis and implementation of the best industry practices in the field of fire protection are carried out.”

Josip Vrabc, Director of Fire and Process Safety



ACHIEVEMENTS

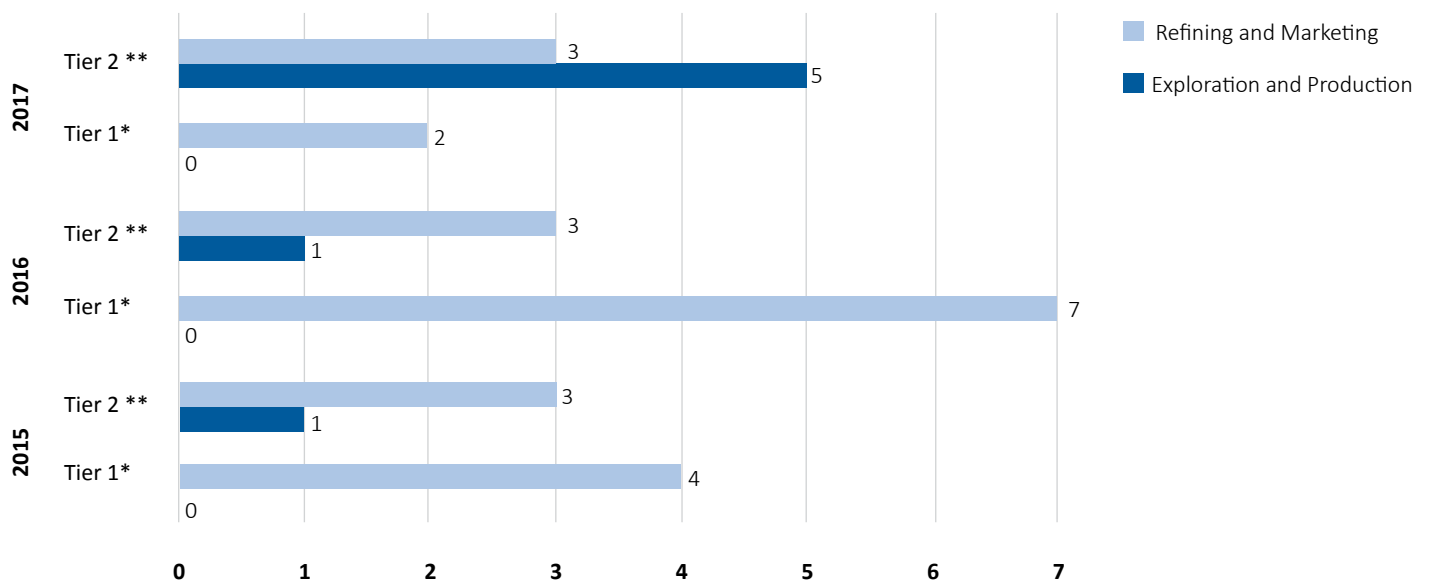
- ▶ Full implementation of Lock-out Tag-out (LOTO) procedure;
- ▶ Initiated implementation of Integrity Operating Windows (IOW) and Flange Protocol for critical positions;
- ▶ 20 self-assessment audits conducted with plan for solving identified gaps;
- ▶ Pre Start up Safety Reviews (PSSR) for 13 projects conducted;
- ▶ Preventive maintenance plan for selected critical equipment developed.

CHALLENGES

- ▶ Reduction of TIER 1 incidents;
- ▶ PSM implementation in INA Maziva Zagreb;
- ▶ Rising awareness on importance of PSM system implementation;
- ▶ Quality Assurance (QA) implementation;
- ▶ PSM elements education for all process related employees.

INA Group is focused on implementation of the Process Safety Management (PSM) aiming to prevent serious process-related incidents that could affect employees, communities and the environment and result in significant losses of property, business continuity and reputation. This includes application of process and control systems related to the substance or product hazards and hazardous activities, which are systematically recognised, identified, understood and controlled in order to prevent related incidents, such as major fires, explosions and release of toxic substances.

Process Safety Events in INA Group



* Process Safety Event with the greatest consequence (TIER 1)

** Process Safety Event with lesser consequence (TIER 2)

EMERGENCY PREPAREDNESS AND RESPONSE

Fire Protection and Firefighting

INA, d.d. has 6 Professional Fire Brigades (PFB), formed for facilities categorised in 1st fire risk category, with up to 400 professional firefighters engaged, with a part of own workers and a part of contracted external professional firefighters.

Month of fire protection

Traditionally in May, the month of fire protection and celebration of St. Florian's Day – the protector of firefighters, special events and activities are organised. Activities include checking of the capability of the entire system (internally and externally) to respond to emergency situations before summer, when there is an increased risk of fire and its propagation. Every year, after completion of these activities, their success is analysed, improvement actions are being determined and additional activities defined.

In 2017, the final firefighting exercise was held in E&P, on Fractionation Facilities Ivanić Grad. "Open days in INA PFB" were held in all INA PFB in Sisak, Rijeka, Molve, Solin and Zagreb.

130 Fire drill exercises

178 evacuation exercises

716 participants (own and contracted firefighters)

1,414 of trained contractors for fire protection and initial firefighting

Fire Hazard Analysis (FHA)

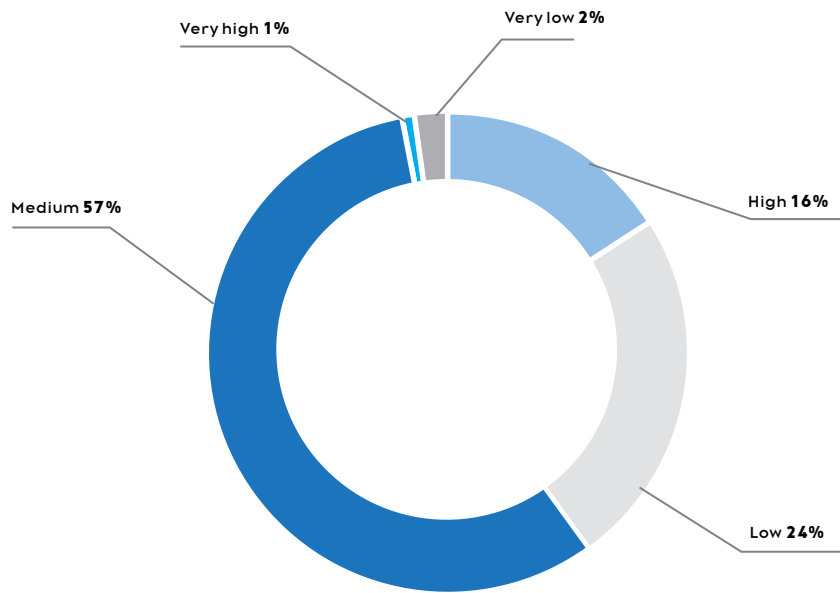
Within INA Group, we continuously perform Fire Hazard Analysis (FHA) in order to ensure all safeguards are in place and that existing prevention measures identifying all fire hazards are sufficient, always following oil and gas best practices. Performing the FHA analysis in accordance with the INA Group Best Practice exceeds the minimum requirements of the Croatian legislation.

During 2016 and 2017, 10 locations were analysed and 183 recommendations were prepared. However, during 2017, we identified additional 4 locations within INA Group companies where FHA needed to be conducted. With new FHAs, we expect to further minimise all risks connected to fire hazards and ensure that quality measures are in place.

RISK AND CHANGE MANAGEMENT IN HEALTH, SAFETY AND ENVIRONMENT PROTECTION

The risk management system in INA Group companies is defined by INA Group SD&HSE 2017 – 2020 Key objectives and programs. The main objective is to enable identification of HSE hazards and risks related to company activities, in order to prevent or reduce likelihood of incidents and their consequences. A total of 1287 risks from HSE area were identified and classified into 5 categories (very low, low, medium, high and very high), out of which majority of risks were identified in Logistics due to a large number of locations.

**INA Group
Identified risks from the HSE area**



Civil protection system activities

INA, d.d. with its resources and experience, represents a legal person of interest to the operational forces of the civil protection system. The fire brigade units in the areas where the fire risk rating was established and included in the County/City of Zagreb External Plan participate in interventions at the call of the competent protection and rescue services. INA, d.d. regularly carries out educational campaigns and exercises in the area of protection and rescue and cooperates with National Protection and Rescue Directorate (NPARD).

In 2017, education in case of earthquake was conducted through internal communication channels and hand-outs.

Fire case in Port of Bakar

In 2017, the most significant Process Safety Event (PSE) was a fire case in Port of Bakar, which occurred on 11 May. During the reconstruction work on pipelines P-501 and P-371, hydrocarbons were discharged into an open drainage channel, which led to initial ignition and fire spreading through the channel between terminal 2 and 3. The fire caught wooden scaffolding elements, electro-installations and technological equipment (pipelines, valves), which resulted in a minor material damage. Fire was initially extinguished by the contractor workers, thus further spreading of the fire to an open separator was successfully prevented. Rijeka Refinery Fire Brigade came to the site and extinguished the fire in the shortest possible time. Luckily, there were no injuries and impact on the environment. A direct financial loss amounted to HRK 18,508. After an investigation, a number of failures in procedures were detected and 17 measures (11 corrective and 8 preventive) were determined and implemented. Lessons learnt were communicated among colleagues in order to prevent this kind of incidents in the future.

Most important lessons learnt were: nomination of a coordinator on the site, responsible for coordination of all parties involved in reconstruction works (for all phases), conducting gas testing whenever needed, replacement of flammable material (wooden planks, scaffolding elements) with non-flammable scaffolding elements.

HUMAN CAPITAL

“Capitalise on human resources”

Male vs female ratio
74% 26%

12,473
Total number of development activities hours INA employees received in reporting period

Executors vs Non- Executors
62% 38%

“In line with modern world practices, INA Group has been highly dedicated to the incorporation of sustainable business principles into all its human resource management and development practices and other relevant business areas.

We are very proud that we are one of the leading companies in the business community in terms of sustainability, promotion of diversity and inclusion, and we work hard to educate and provide the best balance between business and private life for our employees and their families and also the community we work with. Being a good corporate citizen and neighbour is one of our strategic goals and something we really believe in and what we live every day. In recent years, we have made great steps in this direction. Our employees are involved in the business of our company and together we create value for our business community, customers and owners - we consider this inclusion to be a key factor, because without our employees we would have no results. That is why we always invest in our employees and their overall well-being, with a firm conviction that highest value is a satisfied and involved employee.”



Vladimira Senčar Perkov, Director of Human resources Management & Development

ACHIEVEMENTS

- ▶ GOLDEN BARREL AWARD for INA Academy in the people engagement category;
- ▶ Sales academy implementation;
- ▶ Recruitment & Selection - Continuous digitalisation of selection procedure - E-recruitment Taleo is supporting and covering the whole recruitment and selection procedure in INA, d.d.;
- ▶ 54 Growwwers employed;
- ▶ Diversity & Inclusion (D&I) strategy created and D&I clause in all HR GOR policies implemented;
- ▶ Employee Engagement successfully conducted with 73% response rate on INA Group level.

CHALLENGES

- ▶ Diversity & Inclusion action planning;
- ▶ Employee engagement survey results distribution & action planning;
- ▶ TCL wider range of internal trainings in line with the new corporate culture;
- ▶ FORa design and full implementation in Holdina and Energopetrol;
- ▶ Exploration and Production Growwwers rotation within their workstream, through a tailored training program and attendance of e-learning courses.

EMPLOYEE ENGAGEMENT

In 2015, Employee Engagement Survey (EES) was conducted, after which a network of employee engagement champions was established and development program called “Leading positive change” was created in order to increase the champions’ capabilities. Based on results, 135 action plans were created and champions had a key role in their implementation and reinforcement of the engagement. Out of a total of 135 actions, 87% were realised.

At the beginning of 2017, an intranet microsite “Roundtable” was launched with purpose is to inform, educate, motivate and inspire employees to take an active role in increasing their own level of engagement. A general content of the microsite, among other, contains:

- ▶ Information about the process, results and methodology,
- ▶ Action plans,
- ▶ The champions’ profiles,
- ▶ Engagement Guidelines for checking the champions’ engagement scores and tips and tricks for increasing the engagement level,
- ▶ A place for employee ideas,
- ▶ A list of useful sources on this topic.

At the end of 2017, a new Employee Engagement Survey was conducted. The results will be communicated at the beginning of 2018.

ATTRACTING EMPLOYEES

Talent attraction programs

For the last 7 years, INA Group has been strategically planning, attracting and employing white-collar young talents due to the anticipated future business need caused by aging of the top oil & gas experts. Attraction & recruitment programs for young graduates are continuously implemented:

- ▶ Growww internship program - Strategic employment of fresh graduates,
- ▶ FRESHHH – student online competition game in which students manage an oil & gas company,
- ▶ Junior Freshhh – an online high-school competition in natural sciences,
- ▶ Female Engineers MOL ProgramMe – created to support young STEM (Science, technology, engineering, and mathematics) female students by providing them with an opportunity to acquire a scholarship.

Employer branding

INA, d.d. received **Employer Partner Certificate** for 2016/2017 – the certificate is awarded based on a comprehensive audit of all HR systems & processes. The certificate has a strong brand on the Croatian market, representing quality of HR and employers in general. INA, d.d. has been continuously improving its score in all audited areas (92/100).

Successful project branding campaigns (Freshhh – 87 teams applied, Junior Freshhh – 590 teams applied – 20% increase, Best Professor – 160 nominations) were carried out in 2017.

In 2017, INA Group companies are attracting talents across all targeted groups, also through social media and networks as an essential communication channel:

- ▶ LinkedIn – INA’s number of followers is increased by 18.5% in comparison with 2016,
- ▶ Facebook – INA’s number of followers is increased by 10% in comparison with 2016,
- ▶ Instagram – INA’s number of followers is increased by 1,006% in comparison with 2016.

Competitive compensation

AVERAGE GROSS SALARY IN HRK	2015	2016	2017
Republic of Croatia*	7,610	7,752	8,023
Sectors according to national classification			
Mining and quarrying	10,402	10,544	10,277
Manufacturing	6,735	6,940	7,203
Electricity, gas and water distribution	10,507	10,651	10,697
Civil engineering	7,677	7,795	8,059
INA, d.d.	10,546	11,547	11,903
Ratio INA’s pay vs Country	28%	33%	33%

* Source: Central Bureau of Statistics

INVESTING IN EDUCATION

Implemented development programs were shaped to increase the overall level of competencies within INA Group in the area of technical, professional or general business knowledge and skills. The majority of development programs combined various development methods such as; self-learning, classroom workshop, online learning, on-the-job training and professional practice, each representing an integrated platform known as the “blended learning approach”.

Leadership-related development programs aimed to develop leadership competencies and prepare leaders for future challenges. This year, 111 managers were included in the programs.

Leadership and technical competency development programs:

- ▶ LEAD – Leadership program for current leaders and top talents; 6 INA Group employees in 2017 continue the program as the 3rd generation of LEAD participants,
- ▶ Intensity – Modular managerial development program with a curriculum based on development in 4 leadership competency areas.

Technical competencies development programs - aimed to upgrade technical expertise following the best industry practices, in order to ensure the top player position in the regional oil & gas market:

- ▶ Petroskills – Upstream, Downstream, HSE and Logistic professional competencies evaluation and related development,
- ▶ Energy awareness trainings,
- ▶ HSE related trainings.

General business knowledge related trainings aimed to develop capability and skills, in order to build competencies and skills within a specific general business area:

- ▶ Project management,
- ▶ IT education,
- ▶ Foreign languages,
- ▶ Finance for non-finance,
- ▶ Intercultural trainings,
- ▶ Business communication,
- ▶ HSE Leadership,
- ▶ Talent development.

Furthermore, INA, d.d. continued to improve internal knowledge platforms through INA Academy, Train the trainer training, Training for mentors, Business Education, program for Growww employees/interns in the field of soft and professional skills. Following HR worldwide best practices, INA continued to build on HR capabilities through participation in International education certification programs (Chartered Institute of Personnel and Development (CIPD), CLC, Chartered Institute of Procurement & Supply (CIPS)) and other professional trainings and conferences.

Partnerships with educational institutions

In the field of strategic talent attraction and workforce planning, INA, d.d. continued to focus on strategic cooperation with student associations: eSTUDENT, AIESEC Croatia, BEST and portal Srednja.hr & studentski.hr, through:

- ▶ Presence at local Job and career fairs in order to build INA's image as a desirable employer and to present its programs to the student population: BEST Company Day, INA Spring Course, Career Day on the Faculty of Mining, Geology and Petroleum Engineering, Career Days - Zagreb RIT, Scholarships Fair etc.,
- ▶ Regular projects with student associations: AIESEC YouthSpeak conference, Case Study Competition (eSTUDENT) etc.,
- ▶ Collaboration workshops: INA's employees were holding workshops for students, in order to create a knowledge sharing platform. INA supported new projects with student associations (i.e.: Mozgalo is an educational competition that includes a deep analysis of large amounts of data and the creation of a Big Data solution, various statistical methods, machine learning techniques etc.),
- ▶ New cooperation with Croatian establishments: Croatian Employer's Association (HUP), three universities: Faculty of Economics and Business, Faculty of Chemical Engineering and Technology and Faculty of Mining, Geology and Petroleum Engineering, in order to achieve a long-term cooperation.

Programs for the newly employed

For interns (Growwwers), there was a formal on-boarding program. The program consisted of:

- ▶ “Welcome day” on the first working day – creative company introduction through different forms of presentations,
- ▶ On-boarding days organised by MOL HQ – a set of lectures with the aim to provide a general perspective about MOL Group,
- ▶ Business education program (BEP) – lasted the whole year and consisted of different topics. As a form of learning and motivation, BEP had a team task competition where Growwwers had to come up with an innovative idea and present it. After the local competition, the top three teams had an opportunity to compete and present their ideas on the MOL Group level,
- ▶ Professional introduction – each Growwwer had his/her own mentor, whose task was to transfer professional knowledge to them and build their professional competencies. Mentors underwent a selection procedure and got a formal mentorship skills training.
- ▶ The process of job introduction for new workers and minimal on-boarding standards implied the following steps:
 - ▶ Pre-employment activities
 - ▶ Welcome pack (Job Description, Important Contact Card, Frequently Asked Questions, INA Group ID Card and / or its members and other useful documents)
 - ▶ Activities during the first working week – month - three months & six months period
 - ▶ Final activities for introduction of a new employee into the work

RETAINING AND MOTIVATING EMPLOYEES

Technical Career Ladder (TCL) in Exploration and Production (Upstream) and in Refining and Marketing (Downstream)

TCL provides the employees with an opportunity to see the technical part of their career path and objective conditions they have to fulfil for their promotion. Knowledge and other technical competencies are assessed for every petrol-technical professional (PTP) and Individual Development Plans are prepared accordingly. Assessments provide an insight into knowledge gaps and improvement opportunities. Such clear and objective career path and promotion system provides higher motivation for employees and keeps them in the company. TCL is implemented for Upstream and Downstream professionals and is constantly improving; in 2017, technical assessments in two new job families (Laboratory and Data management) were conducted.

Two-year Exploration and Production Graduate rotation program started in Upstream. In the following two years, Growwwers will receive knowledge of E&P operations through rotations within their stream and through a tailored training program.

Performance management (APC, EPMS, sales incentive systems)

Performance management represents one of the key processes in HR management, which enhances the performance-based culture among the total employee population. There are three types of Performance Management Systems:

- ▶ Annual People Cycle (APC) for managerial population;
- ▶ Employee Performance Management System (EPMS) for employees;
- ▶ Quarterly Sales Incentive Systems tailored for specific employee groups (Wholesale employees in INA, d.d., Energopetrol and Holdina; retail employees in IMS; IT employees in Plavi Tim).

APC and EPMS are based on three key principles:

- ▶ target setting and evaluation (WHAT);
- ▶ defining competencies which support achieving the targets (HOW);
- ▶ assessment of individual's potential and talent category (HOW FAR).

APC is supported by SuccessFactors application, while EPMS is operationally handled via internally developed IT application. Both systems provide a comprehensive insight which ensures transparency, fairness and consistency of HR decisions related to rewarding and talent development activities.

In order to increase employee experience, the APC and EPMS processes were reviewed in 2017, based on feedback received from included stakeholders. Local workshops were held for all APC and EPMS evaluators, in order to refresh their knowledge on key assessment elements, preparation of individual development plans and their connection with other HR tools and processes.

In addition to APC and EPMS, quarterly performance management systems track business indicators in real time, in order to give an immediate feedback aiming to boost employee motivation and business results.

Bonuses are paid out yearly or quarterly, depending on performance management system applied for a certain employee group. In the compensation structure, they represent Short Term Incentive (STI) and are considered to be a strong part of the total remuneration model.



EMPLOYEE WELLBEING

BeneFIT platform

In order to promote importance of a work-life balance and care for overall employee wellbeing, we have enabled a series of benefits that support and contribute to the wellbeing of INA Group employees. Employees' wellbeing is more than just physical health; it also applies to emotional, social, financial and career aspect of an employee's life. Therefore, beneFIT platform addresses all these aspects of the employees' wellbeing by offering more than 200 benefits on the intranet site.

In addition to an array of benefits deriving from the Collective Agreement (CA) (Christmas bonus, Easter gift, Christmas gifts for children, annual leave contribution, transportation contribution, additional health insurance, jubilee award, etc.), employees can find a series of other services on beneFIT platform, such as benefits in sport and fitness, shopping, travel, gastronomy, personal care, pets and other categories. These benefits are considered a significant part of the employee total remuneration package and they also ensure the company's market competitiveness and attraction, motivation and retaining of the current and future employees.

Besides providing insight into all available benefits, beneFIT platform actively promotes a culture of overall wellbeing, which in turn results in better engagement, performance and loyalty.

As a unique means of identification of all INA Group employees when using benefits, beneFIT card was introduced in 2017. In addition, beneFIT info stations were implemented on 9 locations, to provide the intranet access to employees who do not use computers in daily work activities.

In 2017, a strong focus was on health and family (medical check-up campaign, preparation for certification of INA, d.d. as a bike-friendly company, Healthy Food Week, Family Day, etc.), followed by introduction of new benefit .

BeneFIT platform was recognised a socially responsible practice by Croatian Business Council for Sustainable Development.

Flexible work arrangements (FORa)

As a part of a wellbeing and diversity strategy, INA, d.d. offered to its employees an opportunity to use the following flexible work arrangements (FORa):

- ▶ **Flexitime** – implies working in a work schedule with variable daily starting and ending times, set within general limits and agreed with the employer.
- ▶ **Flexiplace** – implies a working arrangement in which employees can occasionally complete their work tasks at home or at any other alternative site, when circumstances and the type of tasks are compliant with Flexiplace working.

The aforementioned flexible working arrangements were implemented with the following aims:

- ▶ Achieving a better work-life balance and reducing stress of the employees;
- ▶ Increasing employee satisfaction and motivation;
- ▶ Encouraging diversity: e.g. mothers returning from maternity leave, an increasing number of opportunities for disabled employees, etc.;
- ▶ Improving business effectiveness and leverage creativity, productivity and innovations of our employees;
- ▶ Increasing commitment and entrepreneurship of employees.

Based on feedback received from the employees and managers, FORa increased the employee satisfaction, reduced absences and late arrivals to work, reduced sick leave and overtime work, ensured a positive company culture and made our company more attractive to potential employees.

During 2017, FORa was implemented in other INA Group companies (Plavi tim, TRS, Crosco, STSI, INA Maziva, INAgip) and the number of users of these benefits has been continuously increasing.

As a part of Flexitime, a new benefit for employees is to be introduced - using a day off, based on surplus hours, for certain important private events (children's first day at school, first day at kindergarten, etc.). Such convenience will further increase the work-life balance of employees.

DEVELOPMENT OF HUMAN RESOURCES

Inputs for preparation of individual development plans come from various sources. Employees on management positions are assessed based on two parameters each year- their performance and their competencies. The competencies that are rated lower and need to be improved are addressed in Individual Development Plans, which specify the things employees need to ameliorate, the skills they should develop (training, coaching, on-the-job training, rotation, conference...) and the time-frame for the recommended improvements.

Non-managerial employees are also included in the development through various programs (such as Petroskills program, Technical Career Ladder, Intensity and LEAD program) or education plans, which are individualised in a way that each organisational unit needs to plan its education needs for employees within the unit for the following year.

Potential of all employees in the EPMS system was assessed in 2017, as enabled by the 2016 system upgrade. Individual development plans were also created in the aim to improve future employee development.

COMMITMENT TO FAIR EMPLOYMENT

Employee relations

INA Group companies pay certain allowances and financial supports established by the CA or special agreements arranged over the course of negotiations between the Employer and the Trade Unions (TU), i.e. Company Labour Relations By-Laws or other regulations of the Employer.

The social dialogue in INA Group has continuously improved through cooperation with the Works Council (WC) and TU, which is essentially practised via regular meetings between HR representatives and the social partners. During 2017, 21 regular meetings with the social partners (WC & TU's). Specific topics were discussed in more than five meetings between INA's top management and TU's.

In line with the CA, the Employer delivers quarterly reports to TU representatives, which deal with overtime work, number and type of employees employed by the Employer, structure of employment, etc.

Collective agreements (CA) in INA Group

Five companies have concluded CAs for an indefinite term (INA, STSI, INA Maziva, TRS and Hostin), while two companies (IMS and CROSCO) have signed CAs for definite term. Company Plavi tim does not have one, but material and other employment rights are regulated by the Labour by-laws.

Works Council (WC) in INA Group

The Employer is required to inform the WC about the following: business results and state of affairs, as well as the organisation of work, expected development of business activities and their impact on the economic and social position of workers, the extent and changes in salaries, number of employees and labour costs, extent and reasons for the introduction of overtime, number and type of workers employed, structure of employment (part-time and dislocated employees, employees employed via temporary employment agencies, etc.), protection of health and safety at work and measures to improve working conditions, results of the conducted inspections in the field of labour and safety at work, and other issues particularly important for the economic and social position of workers.

Safety at work commissioners

The Labour Act redefined the procedure for election of safety-at-work commissioners and based on new stipulations, TU's initiated and conducted elections of safety-at-work commissioners in INA Group companies.

INA Group Company	INA, d.d.	CROSCO	TRS	STSI	INA MAZIVA	IMS	PLAVI TIM	TOTAL HSE COMMISSIONERS
No. HSE commissioners	47	11	5	9	3	13	1	89

Employee assemblies

Purpose of an assembly is to improve the relationship and direct communication between employees and the management and to inform employees of the company strategy and strategy for specific organisational units, as well as the tasks and targets set before them.

Exchange of information between the management and employees is carried out through: internal newsletter "Glasnik", intranet, news, internal regulations, decisions, instructions, business meetings, employee forums/assemblies, individual meetings between directors and employees, manuals and catalogues for employees, meetings with particular interest groups of employees, meetings with members of the Management Board and Council of Directors, meetings with L3 directors, "Ask Human Resources" service and meetings between management and the TU's.

In 2017 WC in INA Group companies held a total of 10 employees assemblies (INA, d.d. - 2; CROSCO - 2; STSI - 1; TRS - 1; INA MAZIVA - 1; PLAVI TIM - 1; IMS - 2).

Committee for amicable dispute settlement

The committee for amicable dispute settlement is prescribed by the CA. The committee consists of two Employer's representatives and three TU representatives.

EQUAL OPPORTUNITIES AND DIVERSITY

One of the key drivers of INA's employee engagement is Diversity and Inclusion (D&I). INA, d.d. successfully implemented projects like Femme, D&I champions, Lean in Circles participation etc., but also developed local D&I initiatives.

Diversity and Inclusion activities as a part of the D&I policy

HR Regulations

- ▶ All INA Group's HR Global Operating Documents have D&I clause, which empower D&I as a part of all HR processes;
- ▶ INA, d.d., created D&I Policy, which will be fully implemented at the beginning of 2018.

Bias Stop Awareness Campaign – INA, d.d. has been regularly conducting workshops that promote D&I:

- ▶ **Strength Deployment Inventory (SDI)** used for understanding motives and values that drive behaviours, with the aim to improve and encourage collaboration and team work among employees. SDI plays off people's basic need to understand themselves and others better, to lead with clarity and empathy, build stronger teams and more effectively govern any conflict;
- ▶ ***svismook workshops** – specially designed for raising awareness about mutual differences and their acceptance (age, gender, personality differences, etc.).

D&I metrics – INA, d.d. has local D&I metrics, reported quarterly.

#svismook (D&I DAY) - In March 2017, the first open day for all employees was organised, with the aim of raising awareness about this topic among majority of employees and to start a constructive dialog on D&I. The total attendance was 500 participants attended. The event consisted of several parts, including:

- ▶ **THE MAIN CEREMONY: MAMFORCE CERTIFICATION**, D&I panel (live streaming);
- ▶ **GLOBAL VILLAGE GATHERING**: Presentation of various countries and cultures by our employees;
- ▶ **6 THINKING HATS WORKSHOP**: Participants discovered their different perspectives on complex situations or challenges;
- ▶ **SDI WORKSHOP**: Participants discovered their different motivational drivers and their strength;
- ▶ **BOOTHs**: presenting different programs demonstrating diversity and inclusion in our company.

Mamforce re-certification

INA, d.d. was re-certified as a "Mamforce Company" in 2017 and received Grow Full Standard Certificate, indicating INA, d.d. as a company that has reached specific goals aimed at key areas of family-friendly policies and gender equality.

Specific programs targeting at raising awareness of family-friendly initiatives (Flexible working arrangements, other family benefits) were developed.

This valued recognition confirms a dedication to "family friendly" HR management based on an employee survey on flexible working hours, working conditions of parents with young children, promotion and equal gender representation in top management positions, etc.

INA, d.d. signed the **Diversity Charter** in October 2017. Signing the Charter, a document individually designed in each country, numerous big, small and medium enterprises, NPO's, public institutions, business associations, academic institutions and similar, pledge themselves to support, protect and develop diversity in their organisation's values.

Selection process

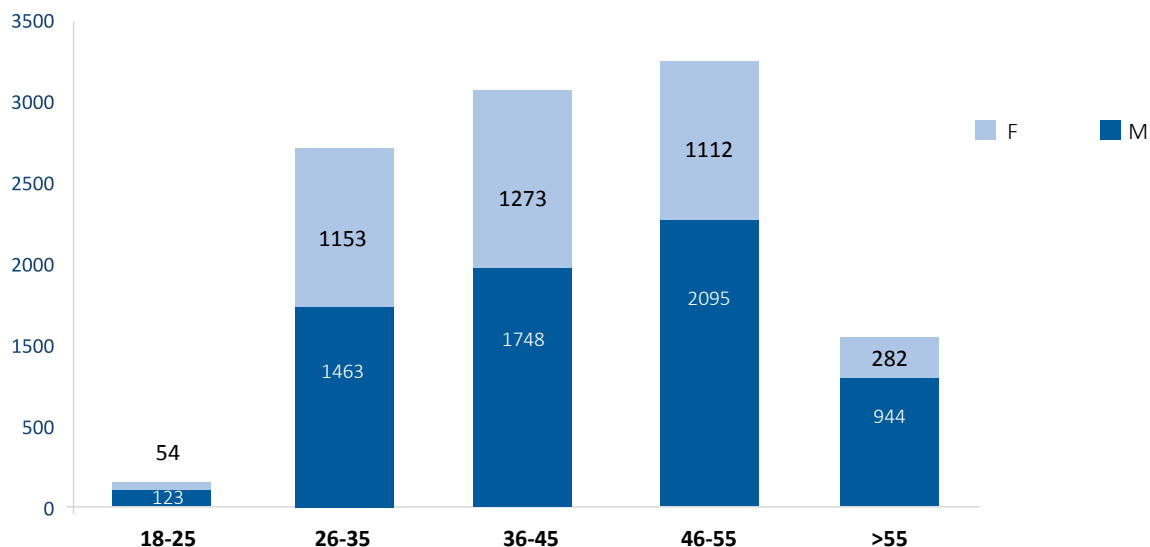
INA, d.d. made an effort through implementing D&I clauses in Recruitment & Selection policy, showing that equality starts at the very beginning of one's employment. We implemented superb effort in our strategic project Growww and achieved great results in gender diversity.

INA Growww 2017 boosts workforce gender balance

Through 2017 Growww program, INA Group achieved an increase in the number of female employees (which is the result of focus on equal gender opportunities in the selection process, thus increasing the active white collar female workforce in the O&G industry)- 56% M, 44% F



Data on the number of trainings by gender and age of the employees on INA Group level



In 2017, 286 employees from Holdina and Energopetrol were educated (337 days of education, relatively 2,694 hours, in the amount of HRK 250,000).

Freedom of association

Trade unions (TUs) active in INA Group

At INA, d.d. five TUs are active (table below). ~ 67% INA Group employees are members in TU, while ~ 11 % of them are members of two, three or four TUs.

Number of INA Group employees in TU on 31 December 2017

SING	INAŠ	EKN	SNS	SHV	TOTAL
3,936	2,305	511	225	10	6,987

Employee incentives

Help for employees and their families in case of serious illnesses

The Committee for establishing eligibility of INA, d.d. employees for aid in case of an illness is a working body of Human Resources Management and Development. The Committee reviews individual requests of employees, acquires expert opinions from a contracted primary health physician on merits of the request and the amount of necessary funds, and prepares proposals for a decision on allocation of aid within the framework of planned costs.

During 2017, 12 requests for aid due to serious illnesses were processed and the Committee established that a financial aid was justified in those cases and awarded approximately HRK 200,000 in total.

Other forms of support to employees

INA, d.d. and other INA Group companies support the work of INA's employees associations, associations of employees with the war veteran status and pensioners' association, by donating certain amounts for their activities. Supports for employees associations with the status of war veterans are regulated under a special agreement. Among the more important ones are programmed active vacations, medically programmed active vacations, organisation of events of importance for veteran associations, and various forms of education of veterans and children of veterans. A special attention is paid to promotion and encouragement of volunteering, humanitarian work, culture and sports, on account of which INA Group companies' employees are entitled up to three days of paid leave a year.

INA Group offers various sets of benefits and awards for its employees. Some of the benefits are defined by the CA and include benefits for pregnant women and mothers, travel insurance, paid leave for different purposes, such as education or important life events, financial aids in different unfavourable situations, etc.

In addition to the predefined payroll and benefits system, INA Group established a comprehensive recognition system associated with the corporate culture. Recognition and reward systems were implemented with a purpose of promoting and rewarding desired values and behaviours, achievements, as well as improving team work. Some of the recognition and reward programs are:

- ▶ Presidential Award;
- ▶ Lifetime Achievement Award;
- ▶ Eiffel Program;
- ▶ Best INA Academy Trainer;
- ▶ Award your colleague (Best Colleague, Best Mentor, Best Manager, Think Green, Big Heart, Heartfelt Smile);
- ▶ Recognition Program for Extraordinary SD&HSE Contribution (SMART Employee, SMART Constructor, SMART Project Collaboration);
- ▶ Recognition for Projects.

Holdina and Energopetrol also have the same Rewarding system, but with an additional award for the employee of the quarter.



COMMUNITIES

“Enhance trust and credibility among stakeholders”

17 Green belt projects

82 projects in upstream's operating areas supported

INA Volunteers Club

50 Actions **867** Members participated

100 projects in downstream's operating areas supported

ACHIEVEMENTS

- ▶ 17 project selected within Green Belt public tender;
- ▶ “With parents at work” project organised at 7 locations;
- ▶ Internal donation contest and concert for Victoria Foundation;
- ▶ Launching of spajaLICA HUB;
- ▶ 613 collected presents for children without adequate parental care.

CHALLENGES

- ▶ Projects for including employees and local community needs;
- ▶ Ability to share knowledge within spajaLICA HUB.

Relations with local communities are defined in the Manual for Management of Social Engagement Activities. Local community members (individuals, local leaders, non-profit organisations, municipalities, associations, etc.) are involved in business activities that impact communities in which they takes place.

INA, d.d. continued to support projects in areas in which the company operates, particularly in the vicinity of Sisak and Rijeka refineries and in Pannonia Basin. The focus was on helping and supporting health care institutions, kindergartens, schools, faculties, local municipal institutions, children's facilities, associations for persons with disabilities, sports clubs, cultural institutions, heritage conservation associations, educational projects, eco projects related to renewable energy sources, whatever we can contribute to the quality of life of the local communities. In 2017, INA, d.d. supported 82 projects in Upstream operating areas and 100 projects in Downstream operating areas.

SOCIAL INVESTMENT

Green Belt Project

Once again, INA, d.d. published a tender for civil society organisations and public educational institutions to develop ideas and projects for preservation of the environment and nature, and implement ideas with INA's financial support and assistance of INA Volunteers Club.

Within the Green Belt project, INA, d.d. supported projects such as reforestation, education about ecology, landscaping, under-water cleaning, cleaning of coastal areas, lakes and rivers, and other similar activities.

In 2017, the project had several improvements: implementation of an online application form, collaboration with the Secondary School for Applied Arts in Zagreb, organisation of a media event with the aim of presenting the Green Belt tender for 2017 and rewarding the best Green Belt projects from previous years. A total of 99 applications were received and the expert committee selected 16 best projects, including one additional project chosen by INA's Facebook fans.

SpajaLICA project

During the first two years of SpajaLICA project, INA, d.d. positioned itself in the Croatian business and general public as a pioneer in the field of creative and socially responsible management of real estate for the benefit of a wider community. This partnership model of cooperation between INA, d.d. and the non-profit sector (6 NPO organizations which moved in on two INA's location) created a unique platform, which successfully launched and implemented projects for the wellbeing of the community. In 2017, spajaLICA HUB was launched as a free knowledge sharing platform, providing access to different types of expert knowledge to all other interested NPO's.

INA, d.d. continued to support SOS Children's Village Croatia through various donors' projects and initiatives (associated with a celebration of the 20th anniversary of the SOS Children's Village Croatia) and annual donations.

Donations to hospitals

INA, d.d. donated over HRK 750,000 to Croatian hospitals in: Gornja Bistra, Osijek, Rijeka, Sisak, Slavonski Brod and Zagreb. In order to encourage employees to participate in humanitarian action, INA donated HRK 15 for each completed Employee Engagement Survey to paediatric hospital departments in Osijek and Slavonski Brod.

Let's put a gift under the tree for every child

Thanks to an enormous interest of INA employees, the Christmas action for children without adequate parental care continued in 2017. The employees bought 613 presents (wished by children) for various Children's homes throughout Croatia.

Humanitarian Christmas Fair

For the first time, a Humanitarian Christmas Fair for employees was organised and it included a Gifts Fair, a creative workshop and an exhibition of donors' Christmas decorations. The Fair was organised in cooperation with Ozana Association, which cares about people with disabilities.

#MismoINA

An internal campaign was launched in 2017 to raise motivation of INA's employees. The campaign included:

- ▶ With Parents at Work – for the first time, INA's employees could bring their children to work. The event took place on seven INA's locations. Employees could bring their children to work, where a special program was organised.
- ▶ Mini football - internal tournament - with participation of 25 teams from INA Group and 250 participants.
- ▶ Internal donation contest – 885 employees voted for 83 applications and chose Victoria Foundation for children with malignant diseases.
- ▶ Gibonni's Concert was organised and the money raised from the ticket sales, together with a donation, was donated to the Victoria Foundation (a total amount of over HRK 300,000).

CORPORATE VOLUNTEERING

- ▶ INA Volunteer Club focuses on ecological, humanitarian projects and projects for children and youth. In 2017, INA Volunteer Club organised 50 actions with participation of 867 members and a total of 6,936 volunteering hours.
- ▶ The Club currently counts 1,316 members (an increase of 26% compared to 2016).
- ▶ Volunteering Centre Osijek awarded INA Volunteer Club with "Recognition for contribution of business sectors to the development of volunteering" in Slavonia and Baranja in 2012, 2014, 2015, 2016 and 2017.
- ▶ In 2017, the Club developed a cooperation with the Volunteer Centre Zagreb and in cooperation with several other companies, established the Corporate Volunteer Development Network with the aim to promote corporate volunteering in organisations.

Green belt project in numbers

	Planted trees, plants, flowers (pcs)	Number of volunteers/ project participants	INA's investments (in HRK)	Total number of Green belt projects
TOTAL	5,722	1,231	1,365,558	65

*final number we will have when all project from Green Belt 2017 will be finished (30/6/2018)

INA, d.d. was a **general sponsor of the First Conference on Corporate Volunteering and the Volunteer Fair** (2017, in Zagreb) as a company with the highest number of volunteering actions and presented as an example of good practice in the corporate volunteering segment.

DOBRA HRVATSKA, a business initiative for recognition of corporate social responsibility and sustainable development, in partnership with the Croatian Employers Association, conducted a national survey on 203 companies in July and August 2017, with the aim of examining how many Croatian companies communicate their CSR practices and sustainability through own official web sites and how much they invest in growth of their digital visibility and perception of CSR. Based on the research results, INA, d.d. received award **SJAJ 2017** - for the visibility and affirmation of CSR and sustainability in the digital media of the company (among 10 other companies in Croatia).



APPENDICIES

MEMBERSHIPS, EXTERNAL INITIATIVES AND PUBLIC POLICIES

Association	Participation status
European Petroleum Refiners Association (joined INA-MOL membership)	member of the Scientific Council
European Economic Senate	Economic Senator
UN Global Compact	member
Project Management Institute	member
European Association of Communication Directors	member
International Organisation for Industrial Hazard Management	member
Society of Petroleum Engineers (Croatian Branch)	member of the Presidency
Lower Olefins and Aromatics Consortium (LOA)	member
Croatian Chamber of Economy	member of the Executive Board, General Assembly and the Commission
Croatian Employers' Association	member of the General Assembly and the Executive Board, member of the Economic and Social Council (GSV), INA's representative is the President of the Energy Branch Association
Croatian Gas Association	the main sponsor, member of the MB, INA's representative is the Vice-President
Croatian Association of Petroleum Engineers and Geologists	the principal founder
Croatian National Committee of World Petroleum Council	Member of the Presidency
Croatian Energy Association	member of the Managing Board
Croatian Business Council for Sustainable Development	member of Governing Council
Croatian Standards Institute	member
Croatian Exporters	member
Croatian Geological Association	INA's representative is the President of the MB, member of the SB
Academy of Technical Sciences	member
Croatian Society for Quality	member
Croatian Metrology Society	member
Croatia Green Building Council	member
Laboratoria Croatica	member
Croatian Association of Corporate Treasurers	member
International Chamber of Commerce (ICC)	member
Croatian Managers' & Entrepreneurs' Association	member
CIGRE - Comité Croate Conseil International des Grands Réseaux Électriques	member
Croatian Journalists' Association	member
Croatian Information Technology Society – Society of SAP users	member
Croatian Public Relations Association	member

Association	Participation status
Electro-technical Society Zagreb	member
Croatian Water Pollution Control Society	member
Croatian Society for a Healthy Work Place	member
Croatian Institute for Health Protection & Safety at Work	member
Association for the Advancement of Human Safety	member
Croatian Association for Professional Fire-fighters	member
Croatian Academy of Sciences and Arts	member
Croatian Institute of Internal Auditors	member
Croatian Maintenance Society	member
Croatian Fire-fighting Association	member
Croatian Society for Fuels and Lubricants	member
Responsible Care Group	Member

SUSTAINABILITY IN NUMBERS

Economic sustainability data

Direct economic value generated and distributed

Indicator / mln HRK	2015	2016	2017
Realised revenues	18,861	15,575	18,582
Financial assistance received from government	0	0	0
Operating costs	21,113	15,519	17,617
Cash added value (company cash)	275	611	428
Employee wages and benefits	2,422	2,083	1,803
Capital investors	150	0	152
Payments to governments	8,542	8,132	0
Economic value retained	(602)	(233)	827

INA Group realized revenue by region mln HRK	2015	2016	2017
Croatia	11,116	9,355	10,352
Bosnia and Herzegovina	2,098	1,784	2,238
European countries	4,544	3,894	4,755
Other countries	1,103	542	1,237
TOTAL	18,861	15,575	18,582

Costs of purchased materials, goods and services in INA Group mln HRK		
2015	2016	2017
14,451	12,193	14,291
INA Group profit earned (EBIT) mln HRK		
2015	2016	2017
(1,338)	607	1,418

INA GROUP Return on Assets Profitability indicator (ROA) in 2017

$$\text{ROA (\%)} = \frac{\text{Profit}}{\text{Total Assets}} \times 100 = \frac{1,220}{19,263} \times 100 = 6.33\%$$

INA Group 2015-2017 Payroll costs (mln HRK)	2015	2016	2017
Net	1,191	1,012	956
Taxes and contributions	824	771	615
Other salary expenses	407	362	223
TOTAL	2,422	2,085	1,802

INA, d.d. total taxes paid (mln HRK)	2015	2016	2017
Croatia	8,519	8,105	8,406
Angola	23	27	55
TOTAL	8,542	8,132	8,461

Note: Taxes paid in Croatia include income tax and surtax, VAT, special tax on petroleum products, petroleum products highway fees and petroleum products road fees.

Paid VAT, excise duties, biofuels fee, profit tax, income tax and surtax and Croatian Compulsory Oil Stocks Agency (HANDA)	2015	2016	2017
Value added tax	1,602	1,237	947
Value added tax - IMPORT	1,769	1,568	2,075
Corporate income tax (PROFIT TAX)	17,40	7,80	0,83
Excise duties	4,983	5,305	5,382
TOTAL (mil HRK)	8,537	8,177	8,404

Proportion of senior management hired from the local* community at significant locations of operation 202-2

Company	LOCAL/EXTERNAL
Crosco d.o.o.	100%
ED-INA d.o.o.	50%
Holdina Sarajevo d.o.o.	0%
Energopetrol d.d. Sarajevo	0%
Hostin d.o.o.	100%
INA Crna Gora d.o.o.	100%
INA Kosovo d.o.o.	0%
INA Maziva	100%
INA, d.d.	66%
INAgip d.o.o.	100%
INA Slovenija d.o.o. Ljubljana	100%
Plavi tim d.o.o.	100%
Rotary Drilling Co. Ltd	100%
STSI d.o.o.	100%
TRS d.o.o.	100%
Total	74%

*Local means from the country in which the company is located

Social investment data

Category	AMOUNT/PEOPLE/HOURS
Cash (HRK)	267,579
Time (hours)	61,370
In-kind giving (HRK)	45,220
Charitable gift (HRK)	353,702 (94.5%)
Community investment (HRK)	17,933 (4.8%)

Environmental data

	2015	2016	2017
Total INA Group direct GHG emissions (Scope 1+Scope 2 – location based) (million tonnes)	1.72	1.79	1.91
Flaring emissions (thousand tons CO ₂ equivalent) INA Group	102.83	142.30	112.02
Total direct energy consumption ⁽¹⁾ (million GJ) INA Group	21.55	20.14	22.2
Total indirect energy consumption ⁽²⁾ (million GJ) INA Group	1.04	1.13	1.16
Energy intensity (total energy consumption (GJ) / production (t)) Rijeka Refinery	4.72	4.08	4.17
Energy intensity (total energy consumption (GJ) / production (t)) Sisak Refinery	7.08	6.64	7.29
Energy intensity (total energy consumption (GJ) / production (tOE)) Exploration and Production	1.45	1.71	1.96
Total direct GHG emissions - Scope 1 (million tonnes) INA Group	1.33	1.68	1.83
Total INA Group GHG emissions - Scope 2 (million tonnes) ⁽³⁾ location based	0.09	0.11	0.08
Total INA Group GHG emissions - Scope 2 (million tonnes) ⁽⁴⁾ market based	N.A.	N.A.	0.14
Emission intensity E&P (t CO ₂ eq / mboe)	24	30	38
Emission intensity Rijeka Refinery (t CO ₂ / kt CWT) ⁽⁵⁾	48	42.14	40.47
Emission intensity Sisak Refinery (t CO ₂ / kt CWT)	79.15	77.72	80.44
Sulphur oxides (SOx) (thousand tons) INA Group	3.77	4.28	5.00
Nitrogen oxides (NOx) (thousand tons) INA Group	2.53	2.81	3.60
Total water withdrawal (million m ³) INA Group	31.20	29.9	34.4
Total water discharge (million m ³) INA Group	27.10	26.03	30.2
Chemical oxygen consumption (COD) (tons) INA Group	333.40	278.86	232.56
Biological oxygen consumption (BOD5) (tons) INA Group	54.21	59.25	48.24
Total suspended solids (tons) INA Group	106.44	85.5	81.44
Total petroleum hydrocarbons (tons) INA Group	9.41	11.17	10.17
Total hazardous waste (thousand tons) INA Group	13.91	12.05	13.97
Total non-hazardous waste (thousand tons) INA Group	19.82	17.93	9.87
Waste exported (thousand tons) INA Group	N.A.	1.08	2.66
Recycled waste (thousand tons) INA Group	10.36	15.32	6.96
Disposed waste (thousand tons) INA Group ⁽⁶⁾	23.38	14.88	16.95
Spills above 1m ³ INA Group	3	6	3

(1) Total direct energy consumption = Total natural gas consumption (as energy source) + Total consumption of other HC energy sources

(2) Total indirect energy consumption = Total electricity consumption + Total consumption of other indirect sources (steam, heat...)

(3) Conversion factors for electricity source - International Energy Agency "CO₂ Emissions from Fuel Combustion 2017 publication"

(4) Source for conversion factor - Defra Decc Conversion factors, Annex 3 Electricity, Heat, Steam

(5) CWT - Complexity Weighted Tonne, a benchmark for oil refineries under EU ETS, defining the basis on which free allowances are allocated to refineries between 2013 and 2020 (third trading period)

(6) Disposed waste amounts included hazardous and non-hazardous waste disposed with treatment methods with code 'D', based on the EU Waste Directive (and national law).

Energy consumption data

The total direct and indirect energy consumption of INA, d.d. organisational units and INA Group companies

	2015		2016		2017	
	Total direct energy consumption (GJ)	Total indirect energy consumption (GJ)	Total direct energy consumption (GJ)	Total indirect energy consumption (GJ)	Total direct energy consumption (GJ)	Total indirect energy consumption (GJ)
Rijeka Refinery	13,243,367	316,115	12,408,234	322,306	13,680,357	361,157
Sisak Refinery	4,843,555	290,738	4,466,501	332,402	4,882,143	339,349
Exploration and Production	2,681,013	214,418	2,797,525	271,509	3,155,562	244,356
Retail	4,178	76,352	3,767	78,240	3,300	71,550
Logistics	84,943	16,450	83,231	15,317	92,621	22,846
Corporate Facilities*	44,396	65,999	56,802	69,474	52,315	61,683
Total INA, d.d.	20,901,452	980,072	19,816,060	1,089,248	21,866,298	1,100,941
Crosco	392,775	7,564	130,909	7,625	144,554	7,594
Rotary	95,602	2,025	41,578	1,918	45,302	2,188
INA Maziva	54,823	7,472	58,335	7,583	49,411	19,852
Holdina Sarajevo	13,108	20,805	2,338	8,935	2,032	11,623
Energopetrol	11,538	12,681	4,729	12,482	4,430	12,337
INA Slovenija	4,376	1,596	4,711	1,495	4,777	1,837
STSI	79,561	7,420	86,005	7,414	91,315	9,560
Hostin	-**	-**	1,097	1,720	1,132	1,595
Total INA Group	21,553,235	1,039,635	20,145,762	1,138,420	22,209,251	1,167,527

* Previously Corporate Centre

** Reported within Corporate Centre

Health and safety data in INA Group

	2015	2016	2017
Lost time injury (LTI) (No.)	50	37	43
Lost time injury frequency (LTIF)	2.30	1.87	2.4
Total reportable occupational illnesses frequency (TROIF)	0	0	0
Absence rate (AR) (%)	4.53*	4.48	4.15
Lost day rate (LDR) (%)	0.12**	0.11	0.14
Fatalities amongst employees (No.)	1	0	0
Fatalities amongst contractors (No.)	0	0	0
Fatalities amongst 3 rd parties (No.)***	2	0	2
Process safety events (Tier 1+Tier 2)	4+4	7+4	2+8

LTI and LTIF are calculated for own staff

* different calculation methodology

** different calculation methodology - LDR = total days lost / total number of scheduled work days

*** 3rd party has no contractual obligation to INA, d.d., INA Group Company or its contractors. In the case of this report, 2 fatalities of 3rd parties were connected to road accidents where INA Group or our contractors were involved with other participants in the traffic (3rd parties)

Human resources data

	2015	2016	2017
No. of workers	11,127	10,861	10,884
No. of workers w. shortened working hours	131	207	47
No. of newly employed employees	354	1,514*	771
No. of departed employees	1,449	1,126	822
No. of employees working abroad	287	117	107
% of women in total workforce	30	21	24
% of disabled people in total work force	3	2.8	2.5

* includes employees from INA Maloprodajni servisi



Human Resources Data, INA Group companies in 2017

	INA, D.D.	CROSCO	ROTARY	STSI	INA MAZIVA	HOSTIN
No. of workers	4,303	968	347	859	161	14
No. of workers w. shortened working hours	22	4	7	1	2	0
No. of newly employed employees	84	59	8	58	6	41
No. of departed employees	263	54	57	41	12	36
No. of employees working abroad	11	63	20	12	0	0
% of women in total workforce	26	4	7	9	31	7
% of woman in managerial positions	35	17	30	33	38	100
% of disabled persons in total work force	2	2.6	1.7	2.5	3.7	0
Education level						
No. of Unskilled workers	28	4	0	6	0	0
No. of Semi-skilled workers	11	0	0	13	0	0
No. of Primary school degree workers	14	11	3	6	15	0
No. of Skilled workers	211	119	142	91	11	0
No. of High school degree workers	2,129	615	18	353	70	10
No. of Highly skilled workers	200	24	107	133	1	0
No. of Assoc. degr./bacc. workers	326	27	45	74	12	2
No. of Univ. degr. /mag. workers	1,188	160	20	171	45	2
No. of MA / univ. spec. workers	92	8	12	6	6	0
No. of PhD workers	104	0	0	6	1	0
Age structure of workers						
Under the age of 30	276	66	14	54	3	1
31-40 years	899	315	103	170	21	4
41-50 years	1,348	224	92	237	49	4
51-60 years	1,668	348	128	354	86	5
over 61 years	112	15	10	44	2	0
Education						
Average training time per employee (hours)	26	19,3	35,54	9,89	15,11	0
Average cost of training per employee (HRK)	1,980	284	1,874	796	1,048	0
Freedom of association						
% of employees in trade unions	65	65	79	48	74	80
% of employees covered by the Collective agreement	100	100	98	99	100	95
Data related to parental leave in INA Group, by gender						
	F/M	F/M	F/M	F/M	F/M	F/M
Number of employees entitled to parental leave	25/52	2/36	3/0	0	0	0
Number of employees by gender that took parental leave	74/1	2/0	3/0	2/0	0	0
Number of employees who returned to work after their parental leave ended	31/1	2/1	2/0	3/0	1/0	0
Number of employees who returned to work after their parental leave ended who are still employed twelve months after their return to work	35/0	1/1	2/0	3/0	0	0
The return to work and retention rates of employees who returned to work after leave ended (%)	100%	50%	100%	100%	100%	0

* Joint ventures

* Data in the table refer only to the entities over which the INA, d.d. has complete control

** Number of employees who returned to work after their parental leave ended also includes prior period

INA MS	INA PLAVI TIM	TRS	ED INA*	INAGIP*	INA SLOVENIJA	HOLDINA SARAJEVO	INA CRNA GORA	ENERGOPETROL
2,451	148	334	13	42	79	530	33	602
3	1	4	0	0	3	0	0	0
341	12	15	0	3	5	87	0	52
328	4	18	0	3	6	0	0	0
0	0	0	0	0	0	1	0	0
24	32	91	54	36	34	26	30	18
0	30	86	25	0	25	17	0	23
1	1	1	0	2	6	2	0	5
2	0	0	0	0	0	0		4
2	0	0	0	0	0	1		0
2	0	1	0	0	0	0		0
84	0	1	0	0	31	172		239
2,179	54	187	5	10	31	234	13	254
18	1	0	0	3	4	5	1	7
122	12	50	0	3	12	23	3	18
37	64	84	6	26	1	86	15	65
4	10	7	2	0	0	0	1	0
1	7	4		1	0	0		5
649	18	17	0	0	4	112	8	92
826	31	68	5	14	20	185	16	161
648	43	63	5	15	30	141	6	196
320	52	181	3	13	22	83	3	141
8	4	5	0	0	3	7		17
16.9	21	13	26	27	7	13	0	3
602	2,707	567	2,113	7,209	63	1,270	0	118
36	65	47	53	23	0	29	49	0
93	100	100	100	0	0	99	100	0
F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M
36/12	1/4	15/0	0	1/0	0	2/0	1/0	5/0
25/8	1/0	15/0	0	1/0	0	2/0	1/0	5/0
11/4	0/0	4/0	0	1/0	0	1/0	0	0
5/2	1/0	3/0	0	1/0	0	1/0	0	0
100%	100%	47%	0	0	0	100%	0	100%

Joint ventures data**Selected performance indicators**

Indicator	2015		2016		2017	
	EDINA	INAGIP	EDINA	INAGIP	EDINA	INAGIP
Total Direct GHG (scope-1) (tonnes of CO ₂ equivalent)	342	56,681	352	41,673	323	30,296
Total Water Withdrawal (m ³)	35	0	30	0	32	0
Number of Spills (>1m ³)	0	0	0	0	0	0
Fatalities – own employees	0	0	0	0	0	0
Lost Time Injury Frequency (LTIF) – employees	0	0	0	0	0	0
Total Workforce	16+14*	619	16+14*	601	16+14*	580
Donations	0	0	0	0	0	0

* 13 employed, 3 expatriates from EDISON, 14 assignees from INA, d.d.

Corrections in 2016 Sustainability Report

Emissions from INA Group employees traveling by airplane in 2016 amounted to 575 tonnes of CO₂ eq, not 358,000 tonnes of CO₂ eq, as it was stated in 2016 Sustainability report.

Additional explanation on total workforce from Joint venture Company EDIna presented in Table Joint ventures data.

Corrections were made in 2016 data for Paid VAT, excise duties, biofuels fee, profit tax, income tax and surtax and Croatian Compulsory Oil Stocks Agency (HANDA).



INDEPENDENT REVIEW I

OPINION OF THE COMMISSION OF THE ADMINISTRATIVE COUNCIL OF THE CROATIAN BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT ON THE INA GROUP SUSTAINABILITY FOR 2017

After reviewing the structure and content of the report, the Administrative Council of CBCSD concluded that it is a very complex integrated report prepared by INA, which also includes a section on the non-financial impacts of the company, which is based on the GRI Sustainability Reporting Standards. The Council confirms that the sustainability report contains all necessary elements of the GRI core sustainability reporting option. Furthermore, the Council concluded that both the financial and business information contained in the second part of the report is very useful for understanding the sustainability of INA's overall business and impact. Therefore the Council acknowledges INA's efforts made to develop integrated reports which provide a comprehensive and quality representation of the company's business and impact, as well as its strategic commitment.

First of all, the Council applauds the Group's excellent business results for the past year. We believe that successful business results are a prerequisite for responsible business, integration of sustainability issues into business strategy and investing in innovation and development of advanced solutions important for sustainability and the environment.

The report is full of representations of good practice associated with selected material topics of the company. Above all, these are the topics related to benefits for INA employees. A great deal of care for occupational health and safety was exhibited and numerous programs designed to develop employee competencies, increase employee satisfaction, as well as an active program for retaining and attracting quality workforce, were presented. A program for newcomers, flexible working hours and various training and education opportunities for enhancing competencies, as well as sharing knowledge, were presented. Average salary in INA is significantly higher than the Croatian average for the same business activity, which also contributes to employee satisfaction and motivation.

INA is among the first companies in Croatia to sign a Diversity Charter. Since it is a relatively new initiative, the vast majority of signatories are in the initial phase of preparing the systems for measuring, analyzing and implementing projects in order to develop diversity policy. INA is a leader in the field since it implements education on unconscious bias, which is an advanced practice in the Republic of Croatia.

INA also invests in the community, with the Green Belt grant program being prominent, which rewards the efforts of local initiatives, associations and public institutions in environmental protection activities across Croatia. The geographical distribution of projects supported by INA is the most valuable part of the project, which expresses the understanding of the responsibility for the regional development of the Republic of Croatia. We should also mention the SpajaLICA project, with which a building in the center of Zagreb was donated for use to a large number of associations, and it is also important to stress the INA volunteer club, which has grown into a significant driving force that can be proud of a large number of donated hours in various initiatives and projects throughout Croatia. Community support is also provided through the sale of fruit produced by small family farms at petrol stations, which strengthens the rural development and promotes the continuity of family life on the land and in agriculture, which is one of the key development topics in Croatia.

When it comes to environmental protection, last year INA has started collecting waste cooking oil at petrol stations as part of a pilot project which is used for the purpose of contributing to the separate collection of hazardous waste and changing the current poor statistics of waste management in the Republic of Croatia, which is also one of the important contributions to the local community. It would be useful if the report contained more about the management strategy for topics significant for environment, such as managing the impacts related to INA's core business. Within that context, positive information is the one on the preparation of the infrastructure required to introduce the share of bio component in fossil fuels produced in Rijeka Refinery, which is also a legal obligation with respect to the standards introduced by the European Union.

The Council would like to see a more clearly presented procedure of involving stakeholders as it is not clear from the described procedure how and which groups of stakeholders participated in the creation of the report content, which topics were thus addressed and which material topics were included in the report content as a result of these consultations.

We recommend that, pursuant to the GRI Standards and through disclosures, the management approach and the management results for each topic are systematically shown. Presentation of disclosures related to a particular material topic at different points in the report makes it difficult to understand the impact on each topic and the management approach associated therewith. We also recommend publishing disclosures only for selected material topics which are then associated with management approach as a complete presentation of influence and influence management. Disclosures on non-material topics do not provide important information and burden the report. In conclusion, this is the first INA Group report published according to the new GRI Standards. Although we expect to see progress in the implementation of the Standards in the forthcoming reports, the information published in the report gives us a great deal of data on the positive contribution of INA to the community and the society in which they operate, and we hereby express our satisfaction with the reviewed material.

INDEPENDENT REVIEW II

The concept of non-financial is still rather wide and has a multitude of forms, scopes and manners of implementation. From its beginning to its end it is clear why INA d.d. has a longstanding tradition of reporting about the non-financial influences of their business processes that goes way back to 1997 when they issued their first environmental impact report. Celebrating 20 years of non-financial reporting, this year Report is the first INA d.d. report prepared in accordance with new, consolidated GRI standards, Oil & Gas Sector Supplement, core option. Report is better balanced between financial and non-financial information, meaning that it has the right level of detail to understand what is happening within every section. It also means that report is not based only on collection and analysis of historical data but provides more forward holistic thinking in order to understand the strategic actions that INA's management needs in place to remain globally competitive. The report focuses on the material environmental, social and economic, impacts of INA Group companies on their key stakeholders, and information presented refers to business activities of INA, d.d. throughout the period from January 1st to December 31st 2017.

Nonfinancial information in this report involves issues related to: constructive role of business in society; INA's corporate responsibility; its environmental, social and governance (ESG) issues; business ethics; human and intellectual capital; company performance and environment, health and safety (EH&S). Covering that four basic directions of corporate responsibility assessment are characterized: (1) Advanced approach to materiality and strong orientation to its stakeholders where various sustainable initiatives are perceived as a response to the specific needs and wants of the key stakeholders. As stated in report, feedback received is used for creating strategic platform related to the company's impact on economy, environment and society. These inputs are perceived by management as the basis for defining material topics, and consequently, sustainable development activities planning. (2) Orientation towards impact by assessing intrinsic justification for the improvement of certain terms of INA's obligations and responsibilities. It is clear that INA has leading role as a one of largest Croatian companies so it should create its business model at the intersection of competitive advantage and sustainable development, combining economic, ethical, social and environmental expectations of the business context. In this report INA showed clear link between external expectations of its stakeholders and sustainable activities of the company, with a determination on measuring the effectiveness of such activities in future. (3) It is important that management itself perceived alignment of reporting with integrated reporting framework as one of key challenges. I can see space for improvement in moving stronger to on-line solutions especially regarding presentation and information collection. The real advantage with an online system is that it makes analysing the data and identifying areas of improvement becomes much easier to manage. On one hand that could mean that organisation can react more quickly and make necessary changes to prevent risky events and allocate their resources where they are needed most. On the other hand, it will allow all key stakeholders to have easy access to information, which will ensure greater transparency of INA's CSR initiatives. (4) Nonfinancial reporting used to be an optional term of company's management conscience and its perception of responsibility, until as of last year it became obligatory for large companies in EU in accordance with Directive 2014/95/EU. In INA non-financial reporting is perceived as a continuous process where it is necessary to invest great effort to improve activities. As sustainability issues moved in last 20 years from an innovative trend to a core competency, it is encouraging that INA's management understands and exploits report effects throughout all aspects of their businesses. Continues improvement and learning are at the core of the Report, so information provided is sufficient, clear, concise and transparent, and also presented in a way that readers can easily and clearly interpret them.

Employee engagement is one of the biggest issues in modern management and therefore it is encouraging that 83 % of middle management has participated in sustainable development workshops since 2016. Middle managers are often perceived as the abrasive linking organisational strategy to its culture as they are much more attuned to what the workforce as a whole will embrace, or resist.

This year report is showing all relevant aspects of INA's business model and again it is improved compared to last year's report. That confirms belief that in INA they are looking for serious and systematic improvement of their non-financial impacts where they can prioritize, focus and sequence information provided. Each important topic is embellished with supporting information and evidence. The way topics are presented in straightforward manner, their logic and fact that they are covered in detail suggest development, dedication and commitment of people that were working on it. Content is accurate, clear, comparable with small space for improvement regarding its balance. I can conclude that Report contains the latest available information, and therefore it is reliable. The quality and quantity of information is such that it enables stakeholders to evaluate given results, sustainability and take appropriate measures while dealing with the company.



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Independent practitioner's assurance report - limited assurance on underlying subject matter and the applicable criteria

To the management of the company INA-INDUSTRIJA NAFTE, d.d.:

This report is intended solely for the management of INA-INDUSTRIJA NAFTE, d.d. (hereinafter "the Company") for the purpose of reporting on 6 Indicators (302-1, 303-1, 305-1, 305-2, 306-2 and 403-2) within the Sustainability in INA Group section of the Annual report ("the Sustainability Report") prepared by the Company for the year ended 31 December 2017 in accordance with GRI Sustainability Reporting Standards ("the Standards").

Underlying Subject Matter and Applicable Criteria

The assurance engagement relates to the following subject matters on which the following applicable criteria are applied:

- 6 Indicators (302-1, 303-1, 305-1, 305-2, 306-2 and 403-2) within Sustainability Report prepared by the Company for the year ended 31 December 2017 in accordance with GRI Sustainability Reporting Standards ("the Standards")

The 6 indicators are:

- Energy consumption within the organization (302-1)
- Water withdrawal by source (303-1)
- Direct (Scope 1) GHG emissions (305-1)
- Energy indirect (Scope 2) GHG emissions (305-2)
- Generation and disposal of hazardous and non-hazardous waste (306-2)
- Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities (403-2)

Specific Purpose

This report is intended solely for the purposes specified in the first paragraph above and for your information and must not be used for other needs. The report refers exclusively to the Sustainability Report and must not be associated with any Company's financial statements as a whole.

Responsible Party's Responsibilities

The Company's management is responsible for the preparation of the Sustainability Report in accordance with the Standards. In particular, the Company's management is responsible for internal controls being designed and implemented to prevent the Sustainability Report from being materially misstated.

In addition, the Company's management is responsible for ensuring that the documentation provided to the practitioner is complete and accurate. The Company's management is also responsible for maintaining the internal control system that reasonably ensures that the documentation described above is free from material misstatements, whether due to fraud or error.

Practitioner's Responsibilities

We conducted our assurance engagement in accordance with International Assurance Standards, particularly ISAE 3000 (revised). These regulations require that we comply with ethical standards and plan and perform our assurance engagement to obtain limited assurance about the Sustainability Report.

We apply International Standard on Quality Control 1 (ISQC 1), and accordingly, we maintain a robust system of quality control, including policies and procedures documenting compliance with relevant ethical and professional standards and requirements in law or regulation.

We comply with the independence and other ethical requirements of the IESBA Code of Ethics for Professional Accountants, which establishes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The procedures selected depend on the practitioner's judgment. The procedures include, in particular, inquiry of the personnel responsible for financial reporting and risk management and additional procedures aimed at obtaining evidence about the Sustainability Report. The assurance engagement performed represents a limited assurance engagement. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is lower.

In respect of the subject matter mentioned above we have performed mainly the following procedures:

1. Understanding of the Company's internal controls, processes and systems set up for the preparation of the Sustainability Report
2. Reconciliation of sample of input data for 6 Indicators provided by the Company with the supporting documentation provided by the Company
3. Perform visit of two sites, INA Maziva d.o.o. and INA d.d., location Molve, in order to understand how input data for Sustainability Report is collected
4. Read the Sustainability Report and confirm presentation of 6 indicators in accordance with the Standards

Practitioner's conclusion

Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that 6 Indicators (302-1, 303-1, 305-1, 305-2, 306-2 and 403-2) within Sustainability Report were not prepared, in all material respects, in accordance with the Standards.

Slaven Đuroković

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

30 April 2018

Attachment

1. Sustainability Report

GRI CONTENT INDEX

This report was prepared in accordance with the GRI Standards: Core option.
The report successfully completed the Materiality Disclosures Service check from GRI.



GRI and O&GSS Content Index and the relation to UN Global Compact Principles

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GRI 102 General Standard Disclosures				
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102-4	Location of operations	4		
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Disclosure No.	Disclosure Title	Page number	UN GC Principle	Assured
GRI 201 Economic Performance 2016				
GRI 103 Management Approach 2016				
103-1	Explanation of the material topic and its Boundary	82, 84-85		
103-2	The management approach and its components	64-67, 270-273		
103-3	Evaluation of the management approach	64-67, 270-273		
201-1	Direct economic value generated and distributed	64, 66, 93,146, 148, 270		
201-2	Financial implications and other risks and opportunities due to climate change	93, 105		
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GRI 202 Market presence 2016				
202-1	Ratios of standard entry level wage by gender compared to the local minimum wage	132, 146	6	
202-2	Proportion of senior management hired from the local community	147	6	
GRI 203 Indirect economic impacts 2016				
203-1	Infrastructure investments and services supported	6, 148		
203-2	Significant indirect economic impacts	141, 148		
OG1	Volume and type of estimated proved reserves and production	4		
GRI 204 Procurement practices 2016				
204-1	Proportion of spending on local suppliers	104		
GRI 205 Anti-corruption 2016				
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205-3	Confirmed incidents of corruption and actions taken	94	10	
GRI 206: Anti-competitive behaviour 2016				
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	96		
GRI 301: Materials 2016				
301-3	Reclaimed products and their packaging materials	115		
OG8	Benzene, lead and sulphur content in fuels	4		
GRI 302: Energy 2016				
GRI 103 Management Approach 2016				
103-1	Explanation of the material topic and its Boundary	82, 84-85		
103-2	The management approach and its components	89-90, 105,110, 112, 115-117		
103-3	Evaluation of the management approach	89-90, 105,110, 112, 115-117		
302-1	Energy consumption within the organisation	106, 148-149	7,8	YES
302-3	Energy intensity	148	8	
302-4	Reduction of energy consumption	107-108	8,9	
GRI 303: Water 2016				
303-1	Water withdrawal by source	114,148	7,8	YES
GRI 304 Biodiversity 2016				
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	55,101		

Disclosure No.	Disclosure Title	Page number	UN GC Principle	Assured
OG4	Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored	55,101		
GRI 305: Emissions 2016				
305-1	Direct (Scope 1) GHG emissions	108-110, 148	7,8	YES
305-2	Energy indirect (Scope 2) GHG emissions	148	7,8	YES
305-4	GHG emissions intensity	148	8	
305-5	Reduction of GHG emissions	105,107-108		
305-7	Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions	112-113, 148	7	
OG6	Volume of flared and vented hydrocarbon.	110-111, 148		
GRI 306: Effluents and waste 2016				
306-1	Water discharge by quality and destination	114-115, 148	8	
OG5	Volume of formation or produced water.	114		
306-2	Waste by type and disposal method	115-116, 148	8	YES
OG7	Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal.	115		
306-3	Significant spills	117-118, 148	8	
306-4	Transport of hazardous waste	148		
GRI 307: Environmental compliance 2016				
307-1	Non-compliance with environmental laws and regulations	96		
GRI 308 Supplier Environmental assessment 2016				
308-1	New suppliers that were screened using environmental criteria	104		
GRI 401: Employment 2016				
GRI 103 Management Approach 2016				
103-1	Explanation of the material topic and its Boundary	82,84-85		
103-2	The management approach and its components	89-90,96, 119,121, 124-125, 132-140		
103-3	Evaluation of the management approach	89-90,96, 119,121, 124-125, 132-140		
401-1	New employee hires and employee turnover	150	6	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	139-140		
401-3	Parental leave	152-153	6	
GRI 402: Labour/management relations 2016				
402-1	Minimum notice periods regarding operational changes	137	3	
GRI 403: Occupational health and safety 2016				
403-1	Workers representation in formal joint management-worker health and safety committees	137		
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	119-122, 150	1	YES

Disclosure No.	Disclosure Title	Page number	UN GC Principle	Assured
403-4	Health and safety topics covered in formal agreements with trade unions	137		
OG13	Number of process safety events, by business activity.	128		
GRI 404: Training and Education 2016				
404-1	Average hours of training per year per employee	139,152-153	6	
404-2	Programs for upgrading employee skills and transition assistance programs	133-134		
404-3	Percentage of employees receiving regular performance and career development reviews	134	6	
GRI 406: Non-discrimination 2016				
406-1	Incidents of discrimination and corrective actions taken	94-96		
GRI 407: Freedom of Association and Collective Bargaining 2016				
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	94	1,2,3	
GRI 408: Child labour 2016				
408-1	Operations and suppliers at significant risk for incidents of child labour	94		
GRI 409 Forced or compulsory labour 2016				
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	94		
GRI 411: Rights Of Indigenous Peoples 2016				
411-1	Incidents of violations involving rights of indigenous peoples	94		
GRI 412: Human rights assessment 2016				
412-2	Employee training on human rights policies or procedures	95,138		
GRI 413: Local Communities 2016				
413-1	Operations with local community engagement, impact assessments, and development programs	6, 79-80, 101, 137, 141	1	
GRI 415: Public policy 2016				
415-1	Political contributions	146		
GRI 416: Customer Health and Safety 2016				
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	96		
GRI 417: Marketing and labelling 2016				
417-1	Requirements for product and service information and labelling	104		
417-2	Incidents of non-compliance concerning product and service information and labelling	96		
417-3	Incidents of non-compliance concerning marketing communications	96		
GRI 418: Customer privacy 2016				
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	96		
GRI 419 Socioeconomic Compliance 2016				
419-1	Non-compliance with laws and regulations in the social and economic area	96		

GLOSSARY OF TERMS AND ACRONYMS

FINANCIAL

CAPEX

Capital Expenditures

Clean-CCS EBITDA / Operating profit

CCS methodology eliminates from EBITDA / operating profit inventory holding gain / loss (i.e.: reflecting actual cost of supply of crude oil and other major raw materials); impairment on inventories; FX gains / losses on debtors and creditors; furthermore adjusts EBITDA / operating profit by capturing the results of underlying hedge transactions. Clean CCS figures of the base periods were modified as well according to the improved methodology.

EBITDA (Earnings before interest, tax, depreciation and amortisation)

Operating profit plus depreciation and amortisation

EPS

Earnings per Share is based on the profit attributable to ordinary shareholders using the weighted average number of shares outstanding during the year after deduction of the average number of treasury shares held over the period.

Financial Covenant

The rate calculated from specific terms of P&L, Balance Sheet and Cash-Flow. (E.g.: Net Debt per EBITDA, EBITDA per Total Interest Expense). Financial Covenants are primarily applied in loan facility agreements to limit lenders' credit risk.

Gearing

Ratio of net debt to net debt plus equity

IFRS

International Financial Reporting Standards, formerly International Accounting Standards (IAS)

Net debt

Net debt = Long-term debt, net of current portion + short-term debt + current portion of long-term debt – short term investments – cash and cash equivalents

Net income

Attributable to equity holders of the parent Profit after taxation after the Groups share of associated companies and the deduction of profits due to minority interest.

Operating cash flow

Net cash provided by operating activities to be used for investment activities, interest payments and dividend payments to shareholders.

Retail locations

Service stations/ retail sites and other retail locations (auto bar/ restaurants, carwash, shop, Heating Oil sales point, LPG sales point)

ROACE (Return on average capital employed)

Operating profit after taxation / average capital employed

Operating profit after taxation = operating profit x (100% - calculated corporate tax ratio)

Average capital employed = opening capital employed/2 + closing capital employed/2

Capital employed = total assets – long term financial investments – work in progress – cash and cash equivalents – short term liabilities + short term loans and credits

ROE (Return on Equity)

Net income divided by shareholders equity

SeS

Service station

SUSTAINABILITY**BAT**

Best available technology

BREF

Best available techniques Reference document

CGS

Central gas station

CLP

Classification, labelling and packaging of substances and mixtures

COMPASS

Comprehensive risk assessment

CSR

Corporate social responsibility

d.d.

PLC (public limited company)

DJSI

Dow Jones Sustainability Index

DS Prod

Downstream production

EL

Environmental liability

EU ETS

European Union Emission Trading System

ER

Emergency response (Intervention system during emergency situations - ERS)

E&P

Exploration and Production

GRI

Global reporting initiative

OGSS

Oil & Gas Sector Supplement

GHG

Greenhouse gases

HiPo

High Potential

HW

Hazardous waste

HR (M)

Human resources (management)

HSE

Health, safety and environment

IRIS

Incident Reporting and Investigation System

IPPC

Integrated pollution prevention control

IIR

Incident inquiry rate

LV

Limit value

LTI

Lost time injury

LTIF

Lost time injury frequency

LDR

Lost day rate

SDS

Safety data sheet

OH&S

Occupational health and safety

PPE

Personal protective equipment

PSM

Process safety management

REACH

Registration, evaluation, authorisation and restriction of chemicals

RNS

Sisak Refinery

RNR

Rijeka Refinery

R&M

Refining and Marketing

RAR

Road accident rate (number of road accidents per 1 million km driven)

SD

Sustainable development

SD&HSE

Sustainable development & health, safety and environment

TROIF

Total reportable occupational illnesses frequency

UNGC

UN Global Compact

VOC

Volatile organic compounds

SHAREHOLDERS INFORMATION

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Zagreb Stock Exchange

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Announcements

The company publishes its announcements at INA's website: www.ina.hr, at Zagreb Stock Exchange's website: <http://www.zse.hr> and at Croatian news agency's website: www.hina.hr

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**CONSOLIDATED AND SEPARATE
FINANCIAL STATEMENTS FOR
THE YEAR ENDED
DECEMBER 2017
TOGETHER WITH INDEPENDENT
AUDITORS' REPORT**

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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, unless it is inappropriate to presume that the Company will continue in business.

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 Group:



Zoltán Sándor Áldott,
President of the Management Board of INA, d.d.



Niko Dalić, member of the Management Board



Gábor Horváth, member of the Management Board



Ivan Krešić, member of the Management Board



Davor Mayer, member of the Management Board



Péter Ratatics, member of the Management Board

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7 March 2018



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Independent auditor's report

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

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the accompanying financial statements of INA - Industrija Nafta, d.d. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated and separate statement of financial position as at 31 December 2017, consolidated and separate income statement, consolidated and separate statement of other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of its consolidated and separate financial performance and its consolidated and separate 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 consolidated and separate financial statements section of our report. We are independent of the Group and of the Company 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 consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 in the consolidated and separate 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 Group's and the Company's share of reportable volumes. Hydrocarbon reserves are also a fundamental indicator of the future potential of the Group's and the Company's performance and these estimates affect significant amounts in the statement of financial position and income statement. 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 and 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 consolidated and separate financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>
<p>Impairments of the Group's and Company's long lived assets</p> <p>Impairments of the Group's and the Company's long lived assets are disclosed in Note 8 and in respective notes disclosing the underlying assets in the consolidated and separate financial statements; a description of the accounting policy and key judgements and estimates are included in Note 2 and Note 3 respectively.</p> <p>Movements in oil and gas prices can have a significant effect on the carrying value of the Group's and the Company'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 Group's and the Company's operations and cash flows.</p>	<p>We performed understanding of the process and walked through the controls designed and operated by the Group and the Company 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 Group and the Company 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 Group's and Company's long lived assets (continued)</p> <p>We assessed the principal risk arising in relation to the consolidated and separate financial statements to be associated with the carrying value of long lived assets, many of which are supported by an assessment of future cash flows. The assessment of recoverability of the asset carrying values is a complex and judgmental process as external market evidence, such as market transactions, become less reliable in a period of significant changes to the price of oil as these may have significant effect on the future cash flows generated from the long lived assets. Therefore, due to complexity and judgement used in the assessment of impairment indicators and impairment models, impairment of Group's and Company'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 current year as well as current development in the industry as well as the Group's and the Company's expectations for the key inputs to impairment models.</p> <p>In respect of performed impairment tests, we used external data in assessing and corroborating the revised assumptions used in 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 procedures to assess the completeness of the impairment charges.</p> <p>We also assessed on the adequacy of the disclosures in the consolidated and separate 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 to the consolidated and separate financial statements; a description of the accounting policy and key judgements and estimates are included in Note 2 and Note 3 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 Group and the Company 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 Group's and the Company's experts who produced the cost estimates.</p> <p>We also assessed on the adequacy of the disclosures in Consolidated and Separate Financial Statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>

Other information included in The Group's and Company's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Annual Report other than the consolidated and separate financial statements and our auditor's report thereon. The Group's and Company's 2017 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and Company'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 Group and the Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate 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 Group's and Company'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 Group's and the Company'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 consolidated and separate 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 Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 consolidated and separate 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.

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 appointed as the statutory auditor by the General Meeting of Shareholders for the first time on 24 June 2014 and our uninterrupted engagement has lasted for 4 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated and separate financial statements expressed herein is consistent with the additional report to the Audit Committee, which we issued on 7 March 2018 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, to its parent undertaking and controlled undertakings within the 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 consolidated and separate financial statements.

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

Slaven Đuroković, Member of the Board and Certified auditor

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

7 March 2018

INA GROUP CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017 (all amounts are presented in HRK millions)

	NOTE	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2016
Sales revenue	4	18,582	15,535
Capitalised value of own performance		327	365
Other operating income	5	126	186
Total operating income		19,035	16,086
Changes in inventories of finished products and work in progress		274	264
Cost of raw materials and consumables		(9,061)	(7,448)
Depreciation and amortisation	6	(1,804)	(1,677)
Other material costs		(1,823)	(2,000)
Service costs		(466)	(623)
Staff costs	7	(1,803)	(2,083)
Cost of other goods sold		(2,942)	(2,084)
Impairment and charges (net)	8	(143)	(272)
Provision for charges and risks (net)	9	151	444
Operating expenses		(17,617)	(15,479)
Profit from operations		1,418	607
Finance income	10	452	106
Finance costs	10	(306)	(252)
Net gain/(loss) from financial activities		146	(146)
Profit before tax		1,564	461
Income tax expense	11	(342)	(366)
Profit for the year		1,222	95
Attributable to:			
Owners of the Company		1,220	101
Non-controlling interests		2	(6)
		1,222	95
Earnings per share			
Basic and diluted earnings per share (kunas per share)	12	121.99	10.08

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

INA GROUP CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017 (all amounts are presented in HRK millions)

	NOTE	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2016
Profit for the year		1,222	95
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	33	12	3
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	33	(143)	3
(Loss)/gain on available-for-sale financial assets	32	(10)	83
Other comprehensive (loss)/gain, net of income tax		(141)	89
Total comprehensive gain for the year		1,081	184
Attributable to:			
Owners of the Company		1,079	190
Non-controlling interests		2	(6)

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

INA, D.D. SEPARATE STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017 (all amounts are presented in HRK millions)

	NOTE	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2016
Sales revenue	4	17,578	14,602
Capitalised value of own performance		10	6
Other operating income	5	365	296
Total operating income		17,953	14,904
Changes in inventories of finished products and work in progress		288	256
Cost of raw materials and consumables		(8,816)	(7,230)
Depreciation and amortisation	6	(1,733)	(1,600)
Other material costs		(1,833)	(1,833)
Service costs		(700)	(764)
Staff costs	7	(909)	(1,175)
Cost of other goods sold		(2,666)	(1,889)
Impairment and charges (net)	8	(30)	(108)
Provision for charges and risks (net)	9	146	346
Operating expenses		(16,253)	(13,997)
Profit from operations		1,700	907
Finance income	10	384	155
Finance costs	10	(310)	(560)
Net gain/(loss) from financial activities		74	(405)
Profit before tax		1,774	502
Income tax expense	11	(348)	(342)
Profit for the year		1,426	160

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

INA, D.D. SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017 (all amounts are presented in HRK millions)

	NOTE	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2016
Profit for the year		1,426	160
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	33	11	1
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	33	(161)	14
(Loss)/gain on available-for-sale financial assets	32	(10)	83
Other comprehensive (loss)/gain, net of income tax		(160)	98
Total comprehensive gain for the year		1,266	258

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

INA GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017 (all amounts are presented in HRK millions)

ASSETS	NOTE	31 DECEMBER 2017	31 DECEMBER 2016
Non-current assets			
Intangible assets	13	570	536
Property, plant and equipment	14	12,016	12,573
Investments in associates	16	-	22
Other investments	17	13	13
Long-term receivables	18	96	128
Deferred tax assets	11	1,451	1,769
Available-for-sale assets	19	665	676
Total non-current assets		14,811	15,717
Current assets			
Inventories	20	2,264	2,050
Trade receivables, net	21,36	1,393	1,591
Other receivables	22	210	184
Corporate Income tax receivables		10	11
Other current assets	23	139	120
Cash and cash equivalents	24	428	611
		4,444	4,567
Held-for-sale assets		8	8
Total current assets		4,452	4,575
TOTAL ASSETS		19,263	20,292

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

INA GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2017 (all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	NOTE	31 DECEMBER 2017	31 DECEMBER 2016
Capital and reserves			
Share capital	31	9,000	9,000
Legal reserves		28	20
Fair value reserves	32	289	299
Other reserves	33	1,516	1,647
Retained earnings/(accumulated loss)	34	827	(233)
Equity attributable to owners of the Company		11,660	10,733
Non-controlling interest	35	(134)	(136)
TOTAL EQUITY		11,526	10,597
Non – current liabilities			
Long-term loans	27	122	271
Other non-current liabilities	28	52	60
Employee benefit obligation	30	73	85
Provisions	29	3,119	3,224
Deferred tax liabilities	11	14	13
Total non-current liabilities		3,380	3,653
Current liabilities			
Bank loans	25	1,581	2,706
Current portion of long-term loans	25	122	135
Trade payables	26,36	1,171	1,857
Taxes and contributions	26	626	637
Other current liabilities	26	540	503
Employee benefit obligation	30	5	10
Provisions	29	312	194
Total current liabilities		4,357	6,042
Total liabilities		7,737	9,695
TOTAL EQUITY AND LIABILITIES		19,263	20,292

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

INA, D.D. SEPARATE STATEMENT OF FINANCIAL POSITION

At 31 December 2017 (all amounts are presented in HRK millions)

ASSETS	NOTE	31 DECEMBER 2017	31 DECEMBER 2016
Non-current assets			
Intangible assets	13	408	380
Property, plant and equipment	14	10,578	11,169
Investment in subsidiaries	15	1,079	805
Investments in associates	16	-	22
Other investments	17	669	809
Long-term receivables	18	105	137
Deferred tax assets	11	1,343	1,684
Available-for-sale assets	19	665	676
Total non-current assets		14,847	15,682
Current assets			
Inventories	20	2,021	1,802
Intercompany receivables	36	225	258
Trade receivables, net	21,36	1,118	1,315
Other receivables	22	144	153
Corporate Income tax receivables		1	1
Other current assets	23	494	434
Cash and cash equivalents	24	364	500
Total current assets		4,367	4,463
TOTAL ASSETS		19,214	20,145

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

INA , D.D. SEPARATE STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2017 (all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	NOTE	31 DECEMBER 2017	31 DECEMBER 2016
Capital and reserves			
Share capital	31	9,000	9,000
Legal reserves		28	20
Fair value reserves	32	289	299
Other reserves	33	1,138	1,288
Retained earnings	34	1,426	160
TOTAL EQUITY		11,881	10,767
Non-current liabilities			
Long term loans	27	122	271
Other non-current liabilities	28	51	60
Employee benefit obligation	30	31	46
Provisions	29	3,241	3,314
Total non-current liabilities		3,445	3,691
Current liabilities			
Bank loans	25	1,359	2,482
Current portion of long-term loans	25	122	135
Intercompany payables	36	495	560
Trade payables	26,36	787	1,498
Taxes and contributions	26	527	552
Other current liabilities	26	374	341
Employee benefit obligation	30	3	2
Provisions	29	221	117
Total current liabilities		3,888	5,687
Total liabilities		7,333	9,378
TOTAL EQUITY AND LIABILITIES		19,214	20,145

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

INA GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017 (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 2016	9,000	330	216	1,641	(602)	10,585	-	10,585
Transfer from legal reserves to retained earnings	-	(310)	-	-	310	-	-	-
Purchase of subsidiary	-	-	-	-	(42)	(42)	(130)	(172)
Subtotal	9,000	20	216	1,641	(334)	10,543	(130)	10,413
Profit for the year	-	-	-	-	101	101	(6)	95
Other comprehensive gain, net	-	-	83	6	-	89	-	89
Total comprehensive income/ (loss) for the year	-	-	83	6	101	190	(6)	184
Balance at 31 December 2016	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

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

INA, D.D. SEPARATE STATEMENT OF CHANGES IN EQUITY
 For the year ended 31 December 2017 (all amounts are presented in HRK millions)

	SHARE CAPITAL	LEGAL RESERVES	FAIR VALUE RESERVES	OTHER RESERVES	RETAINED EARNINGS	TOTAL
Balance at 1 January 2016	9,000	330	216	1,273	(310)	10,509
Transfer from legal reserves to retained earnings	-	(310)	-	-	310	-
Subtotal	9,000	20	216	1,273	-	10,509
Profit for the year	-	-	-	-	160	160
Other comprehensive gain, net	-	-	83	15	-	98
Total comprehensive income for the year	-	-	83	15	160	258
Balance at 31 December 2016	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 gain, 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

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

INA GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017 (all amounts are presented in HRK millions)

	NOTE	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2016
Profit for the year		1,222	95
Adjustments for:			
Depreciation and amortisation		1,804	1,677
Income tax expense recognised in profit and loss		342	366
Impairment and charges (net)		143	272
Gain on sale of property, plant and equipment		(16)	(17)
Loss on sale of investments and shares		-	2
Foreign exchange (gain)/loss		(223)	49
Interest expense (net)		45	38
Other finance costs recognised in profit and loss		11	10
Decrease in provisions		(155)	(469)
Decommissioning interests and other provision		21	50
Net loss on derivative financial instruments and hedge transactions		48	44
Other non-cash items		11	5
		3,253	2,122
Movements in working capital			
Increase in inventories		(327)	(248)
(Increase)/decrease in receivables and prepayments		(76)	37
Increase/(decrease) in trade and other payables		(333)	333
Cash generated from operations		2,517	2,244
Taxes paid		(33)	(43)
Net cash inflow from operating activities		2,484	2,201
Cash flows used in investing activities			
Capital expenditures, exploration and development costs		(1,277)	(1,337)
Payments for intangible assets		(114)	(38)
Proceeds from sale of non-current assets		26	30
Amount related to sale of subsidiary and associates (net)		23	1
Dividends received from companies classified as available-for-sale and from other companies		20	18
Interest received and other financial income		11	13
Investments and loans to third parties (net)		11	(185)
Net cash used for investing activities		(1,300)	(1,498)

INA GROUP CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2017 (all amounts are presented in HRK millions)

	NOTE	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2016
Cash flows from financing activities			
Additional long-term borrowings		-	1,192
Repayment of long-term borrowings		(129)	(1,316)
Additional short-term borrowings		10,103	10,416
Repayment of short-term borrowings		(11,103)	(10,506)
Dividends paid		(152)	-
Interest paid on long-term loans		(8)	(12)
Interest paid on short-term loans and other interest charges		(78)	(124)
Net cash used in financing activities		(1,367)	(350)
Net (decrease)/increase in cash and cash equivalents			
		(183)	353
At 1 January		611	275
Effect of foreign exchange rate changes		-	(17)
At 31 December	24	428	611

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

INA, D.D. SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2017 (all amounts are presented in HRK millions)

	NOTE	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2016
Profit for the year		1,426	160
Adjustments for:			
Depreciation and amortisation		1,733	1,600
Income tax expense recognised in profit and loss		348	342
Impairment and charges (net)		30	108
Gain on sale of property plant and equipment		(268)	(21)
Income from capital increase of subsidiary		-	(135)
Foreign exchange (gain)/loss		(159)	23
Interest expense (net)		(3)	(11)
Other finance costs recognised in profit and loss		67	342
Decrease in provisions		(150)	(366)
Decommissioning interests		21	51
Net loss on derivative financial instruments and hedge transactions		48	44
Other non-cash items		-	(1)
		3,093	2,136
Movements in working capital			
Increase in inventories		(314)	(227)
Increase in receivables and prepayments		(121)	(256)
Increase in trade and other payables		6	441
Cash generated from operations		2,664	2,094
Taxes paid		(13)	(37)
Net cash inflow from operating activities		2,651	2,057
Cash flows used in investing activities			
Capital expenditures, exploration and development costs		(1,241)	(1,260)
Payment for intangible assets		(107)	(34)
Proceeds from sale of non-current assets		14	37
Amount related to sale of subsidiary and associates (net)		23	1
Dividends received from companies classified as available- for-sale and from other companies		20	16
Payments received from subsidiaries		-	15
Interest received and other financial income		13	8
Investments and loans (net)		(186)	(260)
Net cash used in investing activities		(1,464)	(1,477)

INA, D.D. SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2017 (all amounts are presented in HRK millions)

	NOTE	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2016
Cash flows from financing activities			
Additional long-term borrowings		-	1,192
Repayment of long-term borrowings		(129)	(1,309)
Additional short-term borrowings		10,389	10,538
Repayment of short-term borrowings		(11,328)	(10,557)
Dividends paid		(152)	-
Interest paid on long-term loans		(8)	(12)
Interest paid on short-term loans and other interest charge		(75)	(120)
Net cash used in financing activities		(1,303)	(268)
Net (decrease)/increase in cash and cash equivalents			
		(116)	312
At 1 January		500	195
Effect of foreign exchange rate changes		(20)	(7)
At 31 December	24	364	500

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (ALL AMOUNTS ARE PRESENTED IN HRK MILLIONS)

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 2017 and 2016:

	31 DECEMBER 2017		31 DECEMBER 2016	
	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; other than INA, d.d. has concessions held in 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 494 retail sites in operation as of 31 December 2017 (of which 384 in Croatia and 110 outside Croatia);
- (v) trading in petroleum products through a network of foreign subsidiaries and representative offices, principally in Ljubljana and Sarajevo; and
- (vi) service activities incidental to onshore and offshore oil extraction through its drilling and oilfield services subsidiary Crosco d.o.o.

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.

The headquarter of the Group is located in Zagreb, Avenija V. Holjevca 10, Croatia. As at 31 December 2017 there were 10,782 persons employed at the Group (10,861 as at 31 December 2016). As at 31 December 2017 there were 4,292 persons employed at INA, d.d. (4,387 as at 31 December 2016).

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 which generally act as distributors of INA Group products and as representative offices within their local markets.

DIRECTORS, MANAGEMENT AND SUPERVISORY BOARD

SUPERVISORY BOARD

Supervisory Board since 14 June 2017 until 18 December 2020

Damir Vandelić	Chairman
József Molnár	Deputy chairman
Szabolcs I. Ferencz	Member of the Supervisory Board
Luka Burilović	Member of the Supervisory Board
Damir Mikuljan	Member of the Supervisory Board
Dr. László Uzsoki	Member of the Supervisory Board
József Simola	Member of the Supervisory Board
Ferenc Horváth	Member of the Supervisory Board
Jasna Pipunić	Representative of employees in the Supervisory Board

MANAGEMENT BOARD

Management Board since 1 April 2017 until 31 March 2018

Zoltán Sándor Áldott	President of the Management Board
Gábor Horváth	Member of the Management Board
Péter Ratatics	Member of the Management Board
Niko Dalić	Member of the Management Board
Davor Mayer	Member of the Management Board
Ivan Krešić	Member of the Management Board

COUNCIL OF DIRECTORS

Council of Directors appointed by the decision of the Management Board since 1 December 2017 for an unlimited period of time

Gábor Horváth	Chief Financial Officer
Darko Markotić	Operating Director of Consumer Services and Retail
Bengt Viktor Oldsberg	Operating Director of Refining and Marketing
Tvrtko Perković	Operating Director of Exploration and Production
Tomislav Thür	Operating Director of Corporate Affairs

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 and 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 take those characteristics into account 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:

- ▶ **Annual Improvements to IFRS Standards 2014-2016 cycle**, issued in December 2016 and adopted in EU 7 February 2018.
- ▶ **Amendments to IAS 7: Disclosure initiative**, issued in January 2016 and adopted in EU 6 November 2017.
- ▶ **Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses**, issued in January 2016 and adopted in EU 6 November 2017.

The adoption of these Standards and Interpretations had no material impact on the financial statements of the Company and the Group.

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:

- ▶ **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). These amendments are not applicable to the Group since the Group does not issue any insurance contract.
- ▶ **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 new standards IFRS 15 Revenue from Contracts with Customers is expected to have an impact on revenue recognition of the Group and the Company. IFRS 15 will replace IAS 18 that covers contracts for goods and services and IAS 11 that covers constructions contracts. The standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The Group has performed preliminary assessed the effects of applying the IFRS 15. Apart from providing more extensive disclosure on the Group's revenue transactions, the Group does not anticipate that the IFRS 15 will have a significant impact on the financial performance of the Group.

- ▶ **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 group's operating leases. The Group has not yet assessed the impact of IFRS 16. In 2018, the Group will assess the potential effect of IFRS 16 on its financial statements.
- ▶ **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). During 2017, the Group has performed a preliminary assessment of IFRS 9 based on the available information, which may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the adoption of IFRS 9 will take place. No material impact in allowances for doubtful accounts is expected on Group level in relation to transition to IFRS 9.
- ▶ **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). These amendments are not applicable to the Group since the Group does not have share-based payment transactions.

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 2018.

- ▶ **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).
- ▶ **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).
- ▶ **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 IAS 40:** Transfers of investment property, issued on 8 December 2016 (effective date for annual reporting periods beginning on or after 1 January 2018).
- ▶ **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).
- ▶ **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).
- ▶ **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).

INVESTMENTS IN SUBSIDIARIES IN PARENT COMPANY FINANCIAL STATEMENT (INA, D.D.)

In the Company's financial statements investments in subsidiaries are stated at cost less 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. 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 IAS 39 Financial Instruments: Recognition and Measurement 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 IAS 39 Financial Instruments: Recognition and Measurement, 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.

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 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.

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 to be commercially viable, such costs are transferred to oil and gas properties. The status of such prospects is reviewed regularly by Management Board.

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.

INTANGIBLE ASSETS

Intangible assets acquired separately are capitalized at cost and 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
Retail sites	30 years
Telecommunication and office equipment	2 - 10 years

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

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.

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 accounting policies adopted by the Company, defining and recording impairment of short-term receivables for which there is uncertainty that receivables will be collected in accordance with the original contractual terms, is based on the following procedures:

- ▶ estimate of recoverability of accounts receivable with individual approach to the Company's strategic customers;
- ▶ impairment of other short-term receivables that exceed 60 days from the maturity date.

According to the impairment policy, all receivables from the strategic customers of INA, d.d. are assessed on individual basis. All other outstanding receivables due beyond 60 days are impaired.

Company records impairment on doubtful debt based on the estimate of recoverability of receivable with individual approach to the Company's strategic customers and impairment of all short-term receivables which are not included in the individual estimate, regardless of their financial amount but in amount of due doubtful debt that exceeds 60 days from the maturity date.

Adequate impairment for estimated non-refundable amount is recognized in profit or loss when there is objective evidence that the assets should be reduced.

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 96.4% of future average sales price, which approximates the net recoverable amount.
- ▶ 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 2017 was 1.41% and for 2016 it was 1.87%. 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.

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. meets 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 equity.

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. 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 at the earlier of when the entity can no longer withdraw the offer of the termination benefit and 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.

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 comprehen-

sive 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

All financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract. The contract terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into available-for-sale (AFS) financial assets, financial assets at fair value through profit and loss and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instruments and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instruments, or a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

AFS financial assets

Listed shares held by the Company and the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 39. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments fair value reserves directly except for interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments fair value reserves is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive payments is established. The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the statement of financial position date. The foreign exchange gains and losses that are recognized in profit and loss are determined based on the amortized cost of the monetary assets. Other foreign exchange gains and losses are recognized in other comprehensive income.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments fair value reserves.

Investments

Investments in immaterial non-consolidated companies are generally recorded at cost less provision for any impairment.

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' (Fair value through profit and loss) or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Other financial liabilities

Other financial liabilities (including borrowings and trade payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into a variety of derivative financial instruments in order to manage with exposure change in changing of commodity prices.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately

unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

HEDGING

The Group designates certain hedging instruments as fair value hedges.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk.

Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk that could affect the statement of profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the statement of profit or loss.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to the statement of profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognized in the statement of profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

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 Group has 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 esti-

mates 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.

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 RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- ▶ the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- ▶ the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- ▶ the amount of revenue can be measured reliably;
- ▶ it is probable that the economic benefits associated with the transaction will flow to the entity; and
- ▶ the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- ▶ installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the statement of financial position date;
- ▶ servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold; and
- ▶ revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Dividend and interest revenue

- ▶ Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.
- ▶ Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.
- ▶ Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Construction contracts

The Group applies IAS 11 Construction Contracts meeting the following criteria:

- ▶ individual contract value is in excess of HRK 0,5 million,
- ▶ the contract period is over three months.

The Company accounts for its construction contracts using the percentage of completion method, which is determined based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

Determining the accounting treatment for construction contract revenue and costs:

- ▶ project costs are reported as costs incurred,
- ▶ revenue is recognised based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs,
- ▶ estimated losses are presented in full whenever loss is estimated as outcome and can be measured reliably.

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 and estimated decommissioning costs as well as environmental provision and provision for legal cases. 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

INA Group members are 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 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 145 million in 2017 (2016: HRK 28 million).

Carrying value of goodwill

In 2017 and 2016 there was no goodwill impairment (see note 13). The carrying amount of goodwill amounted to HRK 152 million as of 31 December 2017 and 2016 (see note 13).

Carrying value of intangible exploration and appraisal assets

The carrying amount of intangible exploration and appraisal assets amounted to HRK 201 million as of 31 December 2017 and HRK 197 million as of 31 December 2016 (see note 13). In 2017 and 2016 in INA Group there was no impairment of intangible exploration and appraisal assets (see note 13).

Carrying value of production oil and gas assets

The carrying amount of production oil and gas assets amounted to HRK 3,794 million as of 31 December 2017 and HRK 4,069 million as of 31 December 2016 (see note 14). In 2017 in INA Group financial statements the impairment is recognized in the amount of HRK 45 million (2016: HRK 26 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 significantly improved compared to the reporting period last year, which coupled with the fact that there have not been any considerable revisions related to INA's hydrocarbon reserves or cost profile, led to the conclusion, that generally there is no need for an impairment test for any of INA's upstream asset groups.

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 2016. 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 2017.

Nevertheless, 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 6 years, the reserves are shifted from 2P to 2C category.

Political developments in Egypt

With regards to the INA, d.d. operations in Egypt the key uncertainty of business is the timing of receivables collection. At 31 December 2017 gross book value of Egyptian General Petroleum Corporation receivables amounted to HRK 393 million out of which HRK 371 million was value adjusted. During 2017, INA, d.d. impaired HRK 187 million of receivables and managed to collect previously value adjusted receivables in the amount of HRK 264 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.

Management makes estimates of future expenditure in connection with decommissioning obligations using prices by reference to prior similar activities, as well as other assumptions. 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 2,701 million as at 31 December 2017 (31 December 2016: HRK 2,475 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) 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.

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 2017 INA Group recognized environmental provision in the amount of HRK 335 million (2016: HRK 308 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 retail sites. It does not cover the cost of remediation in lack of detailed National regulations.

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 2017 the carrying amount of deferred tax assets of the INA Group amounted to HRK 1,451 million (2016: HRK 1,769 million) and deferred tax liabilities amounted to HRK 14 million (2016: HRK 13 million). At 31 December 2017 the carrying amount of deferred tax assets of INA, d.d. amounted to HRK 1,343 million, (31 December 2016: HRK 1,684 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 62 million at 31 December 2017, (31 December 2016: HRK 97 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 78 million as at 31 December 2017 (31 December 2016: HRK 95 million), and INA, d.d. amounted to HRK 34 million as at 31 December 2017 (31 December 2016: HRK 48 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 2017 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 INA 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.

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. 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 impact 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.

RECLASSIFICATION POSITION OF STATEMENT OF FINANCIAL POSITION

In 2017 in order to ensure consistence of presentation with current year the Company and the Group reclassified accounts of liabilities for received deposits from bank loans to other current liabilities. The effect of reclassification of account of statement of financial position are as follows:

INA GROUP

	2016 BEFORE RECLASSIFICATION	LIABILITIES, DESPOSITS AND SURETIES	2016 RECLASSIFIED
Bank loans	2,711	(5)	2,706
Other current liabilities	498	5	503
Total	3,209	-	3,209

INA, d.d.

	2016 BEFORE RECLASSIFICATION	LIABILITIES, DESPOSITS AND SURETIES	2016 RECLASSIFIED
Bank loans	2,487	(5)	2,482
Other current liabilities	336	5	341
Total	2,823	-	2,823

RECLASSIFICATION POSITION OF PROFIT AND LOSS

In 2017 in order to ensure consistence of presentation with current year the Company and the Group reclassified accounts of additionally approved discounts and rebates from service cost to sales revenue. The effect of reclassification of account of profit and loss are as follows:

INA GROUP

	2016 BEFORE RECLASSIFICATION	ADDITIONALLY APPROVED DISCOUNTS AND REBATES	2016 RECLASSIFIED
Service Costs	(663)	40	(623)
Sales revenue	15,575	(40)	15,535
Total	14,912	-	14,912

INA, d.d.

	2016 BEFORE RECLASSIFICATION	ADDITIONALLY APPROVED DISCOUNTS AND REBATES	2016 RECLASSIFIED
Service Costs	(804)	40	(764)
Sales revenue	14,642	(40)	14,602
Total	13,838	-	13,838



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 and natural gas;
 - ▶ Refining and Marketing - crude oil processing, wholesale of refinery products, 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.

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

2017	EXPLORATION AND PRODUCTION	REFINING AND MARKETING	CORPORATE AND OTHER	INTERSEGMENT TRANSFERS AND CONSOLIDATION ADJUSTMENTS	TOTAL
Sales to external customers	2,169	16,027	386	-	18,582
Intersegment sales	2,279	111	1,065	(3,455)	-
Total revenue	4,448	16,138	1,451	(3,455)	18,582
Operating expenses, net of other operating income	(2,782)	(15,875)	(1,879)	3,372	(17,164)
Profit/(loss) from operations	1,666	263	(428)	(83)	1,418
Net finance gain					146
Profit before tax					1,564
Income tax expense					(342)
Profit for the year					1,222

The following table presents information on revenues and expenditures of INA Group operations for 2016:

2016	EXPLORATION AND PRODUCTION	REFINING AND MARKETING	CORPORATE AND OTHER	INTERSEGMENT TRANSFERS AND CONSOLIDATION ADJUSTMENTS	TOTAL
Sales to external customers	2,023	13,022	490	-	15,535
Intersegment sales	1,867	32	1,120	(3,019)	-
Total revenue	3,890	13,054	1,610	(3,019)	15,535
Operating expenses, net of other operating income	(2,718)	(12,980)	(2,106)	2,876	(14,928)
Profit/(loss) from operations	1,172	74	(496)	(143)	607
Net finance loss					(146)
Profit before tax					461
Income tax expense					(366)
Profit for the year					95

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	5,582	1,418	(313)	12,016
Investments in associates	-	-	-	-	-
Inventories	178	2,118	205	(237)	2,264
Trade receivables, net	253	1,028	375	(263)	1,393
Not allocated assets					3,020
Total assets					19,263
Trade payables	406	659	369	(263)	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 and amortisation	1,072	561	171	-	1,804
Total impairment charges, net *	(20)	51	109	3	143

* see note 8

The following table presents information of financial position of INA Group operations for 2016:

31 DECEMBER 2016	EXPLORATION AND PRODUCTION	REFINING AND MARKETING	CORPORATE AND OTHER	INTERSEGMENT TRANSFERS AND CONSOLIDATION ADJUSTMENTS	TOTAL
Assets and liabilities					
Intangible assets	228	42	266	-	536
Property, plant and equipment	5,787	5,472	1,502	(188)	12,573
Investments in associates	22	-	-	-	22
Inventories	151	1,957	220	(278)	2,050
Trade receivables, net	456	1,006	392	(263)	1,591
Not allocated assets					3,520
Total assets					20,292
Trade payables	410	1,358	351	(262)	1,857
Not allocated liabilities					7,838
Total liabilities					9,695
Other segment information					
Property, plant and equipment	701	603	73	(35)	1,342
Intangible assets	13	5	25	-	43
Capital expenditure:	714	608	98	(35)	1,385
Depreciation and amortisation	972	538	167	-	1,677
Total impairment charges, net *	67	31	167	7	272

* see note 8

BY GEOGRAPHICAL

INA Group						
31 December 2017	Republic of Croatia	Egypt	Angola	Syria	Other countries	Total
Intangible assets	389	-	-	-	181	570
Property, plant and equipment	10,750	94	87	248	837	12,016
Investments in associates	-	-	-	-	-	-
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
INA Group						
31 December 2016	Republic of Croatia	Egypt	Angola	Syria	Other countries	Total
Intangible assets	361	-	-	-	175	536
Property, plant and equipment	11,221	160	117	283	792	12,573
Investments in associates	22	-	-	-	-	22
Inventories	1,909	26	-	-	115	2,050
Trade receivables, net	995	27	-	-	569	1,591
Not allocated assets						3,520
Total assets						20,292
Other segment information						
Property, plant and equipment	1,170	72	33	-	67	1,342
Intangible assets	43	-	-	-	-	43
Capital expenditure:	1,213	72	33	-	67	1,385

INA Group		
	Revenues from external customers	
	2017	2016
Republic of Croatia	10,352	9,315
Bosnia and Hercegovina	2,238	1,784
Great Britain	1,676	108
American Continent	788	35
Switzerland	700	1,497
Other countries	2,828	2,796
	18,582	15,535

INA, d.d.		
	Revenues from external customers	
	2017	2016
Republic of Croatia	10,257	9,140
Bosnia and Hercegovina	1,845	1,557
Great Britain	1,669	100
American Continent	787	35
Switzerland	698	1,496
Other countries	2,322	2,274
	17,578	14,602

Information about major customers

In 2017 and 2016 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.	
	2017	2016	2017	2016
Income from rental activities	40	40	43	52
Profit from sale of assets	21	22	11	26
Surpluses	16	11	19	15
Commission fee and charges	14	12	13	11
Income from tax refund	13	31	13	25
Penalty interest from customers	11	28	10	26
Payment in kind	8	9	8	8
Additional discounts from contracts	7	21	9	8
Income from collected damage claims	3	7	3	3
Non-hedging commodity derivative	(48)	(44)	(48)	(44)
Income from sale of asset to subsidiary	-	-	261	-
Income from contribution of asset to subsidiary	-	-	-	135
Other	41	49	23	31
Total	126	186	365	296

6. DEPRECIATION AND AMORTISATION

	INA Group		INA, d.d.	
	2017	2016	2017	2016
Depreciation of property, plant and equipment (note 14 b)	1,753	1,624	1,683	1,549
Amortisation of intangible assets (note 13)	46	42	45	40
Retranslation of foreign operations	5	11	5	11
	1,804	1,677	1,733	1,600

7. STAFF COSTS

	INA Group		INA, d.d.	
	2017	2016	2017	2016
Net payroll	965	1,012	476	545
Tax and contributions for pensions and health insurance	615	710	334	428
Other payroll related costs	223	361	99	202
	1,803	2,083	909	1,175

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.	
	2017	2016	2017	2016
	Number of employees	Number of employees	Number of employees	Number of employees
Refining and Marketing	6,132	6,090	2,445	2,513
Corporate and other	3,438	3,548	636	652
Exploration and Production	1,212	1,223	1,211	1,222
	10,782	10,861	4,292	4,387

8. IMPAIRMENT CHARGES (NET)

	INA Group		INA, d.d.	
	2017	2016	2017	2016
Impairment of tangible assets, net*	145	26	45	24
Impairment of inventory, net	60	52	52	38
Write-off PP&E, net	6	24	3	23
Impairment of trade receivables, net	(77)	33	(77)	18
Impairment on sale of assets held for sale, net	-	139	-	-
Other impairment, net	9	(2)	7	5
	143	272	30	108

* See note 14

9. PROVISIONS FOR CHARGES AND RISKS (NET)

	INA Group		INA, d.d.	
	2017	2016	2017	2016
Provision for renewable energy	115	-	115	-
Provision/(utilisation) for environmental liabilities	13	(23)	12	(21)
Provision/(utilisation) for emission rights	11	(8)	11	(8)
Utilisation of provision for incentives	(2)	(236)	(10)	(221)
Utilisation of provision for retirement and jubilee benefits	(5)	(17)	(2)	(23)
Utilisation of provision for legal claims	(22)	(45)	(29)	(29)
Reversal of provision for Angolan taxes	(249)	(28)	(249)	(28)
Utilisation of provision for contractual liabilities for taxation	-	(51)	-	-
Other provisions	(12)	(36)	6	(16)
	(151)	(444)	(146)	(346)

10. FINANCE INCOME AND FINANCE COST

	INA Group		INA, d.d.	
	2017	2016	2017	2016
Foreign exchange gains from loans and cash	247	49	160	42
Foreign exchange gains from trade receivables and payables	179	23	130	13
Dividends received	20	16	20	16
Interest received and other financial income	6	16	54	68
Profit allocation received from subsidiaries	-	-	20	16
Other financial income	-	2	-	-
Finance income	452	106	384	155
Foreign exchange losses from loans and cash	115	87	113	54
Foreign exchange losses from trade receivables and payables	88	29	18	23
Interest expense	46	93	46	93
Fees on bank loans	25	20	24	19
Interest expense regarding tax resolutions	21	9	21	9
Interest for long-term loans	8	12	8	17
Foreign exchange losses from provisions	4	11	5	6
Capitalized borrowing costs	(3)	(12)	(3)	(12)
Impairment of investment in subsidiaries and interest from subsidiaries	-	-	77	348
Other financial costs	2	3	1	3
Finance costs	306	252	310	560
Total finance income/(costs), net	146	(146)	74	(405)

11. TAXATION

	INA Group		INA, d.d.	
	2017	2016	2017	2016
Deferred tax charge related to origination and reversal of temporary differences	319	297	341	299
Current tax expense	23	69	7	43
Income tax expense	342	366	348	342

Tax on profit generated in Croatia is determined by applying the rate of 18 percent in 2017 and 20 percent in 2016, 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.	
	2017	2016	2017	2016
Profit before tax	1,564	461	1,774	502
Expense tax calculated at 18% (20% in 2016)	281	92	319	101
Tax loss previously not recognized and recognition of deferred tax assets previously not recognised	32	(4)	15	7
Effect on deferred tax balances due to the change in income tax rate from 20% to 18% (effective from 1 Jan 2017)	-	204	-	194
Effect of different tax rates of entities operating in other jurisdictions	13	7	13	15
Tax effect of permanent differences	22	39	7	(3)
Tax effect of previous years	(6)	28	(6)	28
Income tax expense	342	366	348	342

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.

Reducing the corporate income tax rate from 20% to 18% (effective from 1 January 2017) had effect on reduction of deferred tax assets due to the need of adjustments of deferred tax according to the tax rate to be implemented in the period of realization of deferred tax assets. The negative effect of the decrease of deferred tax assets on the income statement as a result of reduced rates on INA Group level amounted to HRK 204 million, and for INA, d.d. HRK 194 million in 2016.

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

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 2016	78	1,368	(348)	200	125	649	-	2,072
Charge directly to equity	-	-	-	-	(19)	-	-	(19)
Reversal of temporary differences	(24)	(4)	(143)	(66)	-	(8)	-	(245)
Origination of temporary differences	3	13	-	59	76	1	-	152
Effect from changes in tax rate	(5)	(139)	50	(19)	(18)	(65)	-	(196)
Deferred tax liability on fair value of acquired subsidiary at acquisition date	-	-	-	-	-	-	(8)	(8)
Balance at 31 December 2016	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

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 2016	63	1,363	(349)	199	75	644	1,995
Charge directly to equity	-	-	-	-	(19)	-	(19)
Reversal of temporary differences	(19)	(2)	(143)	(66)	-	(7)	(237)
Origination of temporary differences	3	6	-	47	76	1	133
Effect from changes in tax rate	(5)	(137)	50	(18)	(14)	(64)	(188)
Balance at 31 December 2016	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

12. EARNINGS PER SHARE

	INA Group	
	31 December 2017	31 December 2016
Basic and diluted earnings per share (HRK per share)	121.99	10.08
Earnings	INA Group	
	31 December 2017	31 December 2016
Earnings used in the calculation of total basic earnings per share	1,220	101
	1,220	101
Number of shares	INA Group	
	31 December 2017	31 December 2016
	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 14 June 2017 Regular Shareholders' Assembly of INA, d.d. was held and decision on dividend pay-out in amount of HRK 152 million was voted (HRK 15.20 per share).

In 2016, there was no dividend approved.

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 2016	196	128	36	28	152	540
Additions	2	-	-	41	-	43
Amortisation	-	(37)	(5)	-	-	(42)
Foreign exchange translation of foreign operations	4	-	-	-	-	4
Acquisition of subsidiary	-	1	-	-	-	1
Emission allowances (net)	-	-	(2)	-	-	(2)
Transfer	(5)	35	1	(31)	-	-
Transfer to property, plant and equipment	-	1	2	(11)	-	(8)
Balance at 31 December 2016	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	-	42	-	(42)	-	-
Transfer to property, plant and equipment	-	3	-	(3)	-	-
Balance at 31 December 2017	201	131	36	50	152	570

INA, d.d.	Oil and gas properties	Software	Patents, Licences and other rights	Intangible assets under construction	Total
Balance at 1 January 2016	196	128	33	28	385
Additions	2	-	-	38	40
Amortisation	-	(36)	(4)	-	(40)
Foreign exchange translation of foreign operations	4	-	-	-	4
Transfer	(5)	33	2	(30)	-
Transfer to property, plant and equipment	-	1	2	(10)	(7)
Emission allowances (net)	-	-	(2)	-	(2)
Balance at 31 December 2016	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

At 31 December 2017 and 2016 INA Group did not record impairment of intangible assets.

Goodwill

Investment of Crosco, d.o.o. in Rotary Zrt. Hungary	INA Group	
	2017	2016
Cost	296	296
Accumulated impairment losses	(144)	(144)
Net book value	152	152

During 2017 and 2016 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 2017, 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 weighted average cost of capital applied to cash flow projections is 7.6% (2016: 9.5%) 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.

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 2016				
Cost	38,684	21,405	6,160	66,249
Accumulated depreciation	33,042	15,971	4,663	53,676
Net book value	5,642	5,434	1,497	12,573
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
INA, d.d.				
INA, d.d.	Exploration and Production	Refining and Marketing	Corporate and other	Total
Balance at 31 December 2016				
Cost	38,915	20,338	1,921	61,174
Accumulated depreciation	33,117	15,340	1,548	50,005
Net book value	5,798	4,998	373	11,169
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

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 2016	33,303	12,112	14,698	2,351	38	2,722	65,224
Additions	-	-	-	-	-	1,342	1,342
Change in capitalised decommissioning costs	(1)	-	-	-	-	-	(1)
Foreign exchange translation of foreign operations	7	-	-	-	-	-	7
Assets put in use	1,139	198	485	47	-	(1,869)	-
Transfer	(10)	10	-	-	-	-	-
Transfer from intangible assets	-	7	7	-	-	(3)	11
Surplus	-	17	-	1	-	-	18
Acquisition of subsidiary	-	431	61	29	-	2	523
Disposals	(41)	(289)	(1,131)	(125)	-	-	(1,586)
Correction of prior years	-	(1)	(6)	-	-	-	(7)
Currency translation	-	4	(5)	-	-	(1)	(2)
Other	-	-	(1)	-	-	-	(1)
Balance at 31 December 2016	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	251	45	5	(1,170)	-
Transfer to intangible assets	-	-	2	-	-	(3)	(1)
Transfer from assets held for sale	-	-	8	-	-	-	8
Surplus	-	-	5	5	-	-	10
Disposals	(23)	(367)	(188)	(61)	-	(62)	(701)
Reclassification between categories	(1)	(40)	(44)	85	4	(4)	-
Currency translation	-	(3)	(5)	(1)	-	-	(9)
Other	-	(1)	-	(1)	-	-	(2)
Balance at 31 December 2017	35,139	12,239	14,137	2,375	47	2,257	66,194

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
Accumulated depreciation							
Balance at 1 January 2016	29,430	8,771	11,754	2,229	25	285	52,494
Charge for the year	934	238	388	75	-	-	1,635
Impairment (net)	24	-	2	-	-	-	26
Impairment of assets under construction	2	-	-	-	-	-	2
Foreign exchange translation of foreign operations	(11)	-	-	-	-	-	(11)
Transfer	(10)	15	75	1	-	(81)	-
Transfer from intangible assets	-	4	-	-	-	-	4
Surplus	-	17	-	1	-	-	18
Acquisition of subsidiary	-	147	36	17	-	2	202
Disposals	(41)	(292)	(950)	(122)	-	-	(1,405)
Correction of prior years	-	-	(6)	-	-	-	(6)
Currency translation	-	3	(5)	-	-	-	(2)
Other	-	-	(1)	(1)	-	-	(2)
Balance at 31 December 2016	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	(8)	-
Transfer to intangible assets	-	-	-	-	-	(1)	(1)
Transfer from assets held for sale	-	-	8	-	-	-	8
Surplus	-	-	5	5	-	-	10
Disposals	(23)	(359)	(184)	(58)	-	(61)	(685)
Reclassification between categories	(5)	57	(126)	(65)	13	126	-
Currency translation	-	(1)	(3)	-	-	(1)	(5)
Other	-	-	(1)	(1)	-	-	(2)
Balance at 31 December 2017	31,345	8,860	11,518	2,151	43	261	54,178
Carrying amount							
Balance at 31 December 2017	3,794	3,379	2,619	224	4	1,996	12,016
Balance at 31 December 2016	4,069	3,586	2,815	103	13	1,987	12,573

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 2016	33,412	10,697	10,931	1,939	38	2,792	59,809
Additions	-	-	-	-	-	1,269	1,269
Change in capitalised decommissioning costs	(7)	-	-	-	-	-	(7)
Foreign exchange translation of foreign operations	7	-	-	-	-	-	7
Transfer from intangible assets	-	4	6	-	-	(3)	7
Capital increase from transfer of assets to subsidiary	-	(119)	(6)	(7)	-	-	(132)
Surplus	-	17	-	1	-	-	18
Assets put in use	1,138	142	382	47	-	(1,709)	-
Transfers	(10)	10	-	-	-	-	-
Disposals	(41)	(217)	(167)	(103)	-	-	(528)
Other	-	-	(3)	2	-	-	(1)
Balance at 31 December 2016	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)
Transfer from intangible assets	-	-	1	-	-	(2)	(1)
Surplus	-	1	4	3	-	-	8
Assets put in use	728	177	210	42	-	(1,157)	-
Transfers	(22)	5	12	-	5	-	-
Disposals	(23)	(530)	(147)	(41)	-	(62)	(803)
Other	-	-	-	(1)	-	-	(1)
Balance at 31 December 2017	35,255	10,187	11,223	1,882	43	2,397	60,987

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Accumulated depreciation							
Balance at 1 January 2016	29,433	7,624	9,082	1,681	34	413	48,267
Charge for the year	949	207	339	65	-	-	1,560
Impairment (net)	24	-	-	-	-	-	24
Impairment of assets under construction	2	-	-	-	-	-	2
Foreign exchange translation of foreign operations	(11)	-	-	-	-	-	(11)
Capital increase from transfer of assets to subsidiary	-	(89)	(3)	(5)	-	-	(97)
Surplus	-	17	-	1	-	-	18
Transfers	(10)	16	75	-	1	(82)	-
Disposals	(41)	(188)	(161)	(100)	-	-	(490)
Other	-	-	(1)	1	-	-	-
Balance at 31 December 2016	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
Transfer to intangible assets	-	-	-	-	-	(1)	(1)
Capital increase from transfer of assets to subsidiary	-	-	-	-	-	-	-
Surplus	-	1	4	3	-	-	8
Transfers	(22)	11	12	2	5	(8)	-
Disposals	(22)	(335)	(141)	(38)	-	(62)	(598)
Other	-	-	-	(1)	-	-	(1)
Balance at 31 December 2017	31,392	7,467	9,581	1,669	40	260	50,409
Carrying amount							
Balance at 31 December 2017	3,863	2,720	1,642	213	3	2,137	10,578
Balance at 31 December 2016	4,153	2,947	1,812	236	3	2,018	11,169

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 b) above) in the future is dependent upon the extent to which commercially recoverable oil and gas reserves are available. During 2017, 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.

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 145 million in 2017 (2016: HRK 28 million).

- ▶ Exploration and Production recorded an impairment of property, plant and equipment in amount of HRK 45 million (dry wells) in 2017, compared to impairment in amount of HRK 26 million in 2016. Assumed hydrocarbon prices are based on stable expectations above 50 USD/bbl in middle-term periods (after 2021). Therefore no year-end impairment test were performed. During 2017 following impairments have been occurred:
 - ▶ Dry wells – impairment in amount of HRK 48 million (Iva Duboka);
 - ▶ Reversal of impairment of decommission assets in amount of HRK 3 million.
- ▶ 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 2017, neither in 2016 were recorded.
- ▶ Corporate and other recorded an impairment of property, plant and equipment in amount of HRK 100 million in 2017, compared to 2016 when impairment was in amount of HRK 139 million. In 2017, the impairment loss recognized in profit and loss statement in amount of HRK 100 million refers to Labin platform. Impairment test of the Labin platform was triggered by low utilization of the asset, and the test was based on planned rig utilization in the coming years. There was no reversal of impairment in 2017 and 2016.

Discount rates used in the current assessment in 2017 and for 2016 are assets specific and are as follows:

Exploration and Production	2017	2016
Croatia	9.1%	9.2%
Syria	17.6%	17.7%
Egypt	13.6%	13.7%
Angola	13.6%	13.7%

Refining and Marketing		
Croatia	9.1%	9.2%
Bosnia and Herzegovina	11.6%	11.7%

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

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 has been adjusted to reflect the economic life of fields.

VI) Held-for-sale assets

In 2016 divestiture process for Zagreb 1 platform has started resulting in classification as held-for-sale assets. During 2016 impairment was recognized in amount of HRK 139 million for Zagreb 1 platform (see note 8), which was finally the amount of loss on sale for part of platform.

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

	INA Group	
	31 December 2017	31 December 2016
Held-for-sale assets		
Property, plant and equipment	8	8
Assets classified held-for-sale	8	8

15. INVESTMENTS IN SUBSIDIARIES (IN SEPARATE FINANCIAL STATEMENT OF INA, D.D.)

	INA, d.d.	
	31 December 2017	31 December 2016
Investments in subsidiaries	1,079	805

	INA, d.d.	
	2017	2016
Investments in subsidiaries at 1 January	805	1,000
CROSCO, naftni servisi d.o.o. - share capital increase	433	-
CROSCO, naftni servisi d.o.o. - impairment	(34)	(347)
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)	-
Holdina d.o.o. Sarajevo - share capital increase	-	170
CROPLIN d.o.o. - share capital decrease	-	(17)
INA Maloprodajni servisi d.o.o. - impairment	-	(1)
Total as of 31 December	1,079	805

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 Croscos d.o.o. in the amount of HRK 34 million based on comparison of shares value and value of net assets of Croscos Group.

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

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

In comparative 2016 portfolio changes were recorded as follows:

At 12 July 2016, INA, d.d. took over 1,840,128 or 33.50% of Energopetrol shares that were owned by MOL. INA, d.d. increased investment in Energopetrol to 67% and became the majority owner of the company whose financial results are consolidated in the result of INA Group (see note 40).

At 28 October 2016 Holdina Sarajevo submitted a request to the Commercial Court for increase of the share capital by registering the ownership over 19 properties. Properties in INA, d.d. books were written off by net book value in the amount of HRK 35 million, while the share capital in Holdina Sarajevo increased by the appraised value in the amount of HRK 170 million. Difference of HRK 135 million was recognized within other operating income.

At 31 December 2016, the Company recognized an impairment of investment in Croscos d.o.o. in the amount of HRK 347 million.

At 26 August 2016 Commercial Court in Zagreb registered the simplified decrease of share capital in Croplin d.o.o. in the amount of HRK 17 million.

In June 2016, Croscos d.o.o. sold its share in CorteCros d.o.o. Before the sale, Croscos d.o.o. held 60% of share capital in CorteCros d.o.o.

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

Composition of the Group				
The name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			31 December 2017	31 December 2016
Oilfield services				
*CROSCO, naftni servisi d.o.o.	Oilfield services	Croatia	100%	100%
Croscos 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%
CROSCO INTERNATIONAL Ltd. (until July 2017)	Oilfield services	Slovenia	-	100%
Rotary Zrt.	Oilfield services	Hungary	100%	100%
CROSCO UKRAINE LLC.	Oilfield services	Ukraine	100%	-
CROSCO International d.o.o.	Oilfield services	Bosnia and Herzegovina	100%	100%
Croscos S.A. DE C.V.	Oilfield services	Mexico	99.90%	99.90%
Oil exploration and production				
*INA Naftaplina International Exploration and Production Ltd	Oil exploration and production	Guernsey	100%	100%
Tourism				
*Hostin d.o.o.	Tourism	Croatia	100%	100%
Ancillary services				
*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.	Informatical service	Croatia	100%	100%
Production and trading				
*INA MAZIVA d.o.o.	Production and lubricants trading	Croatia	100%	100%
Trading				
*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 fuels	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	67%	67%
*INA BL d.o.o. Banja Luka	Trading	Bosnia and Herzegovina	100%	100%

At 31 December 2017 and 2016 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

Name of company	Activity	Proportion of ownership	INA Group		INA, d.d.	
			31 December 2017	31 December 2016	31 December 2017	31 December 2016
SOL-INA d.o.o. (until October 2017)	Industrial gas production	37.21%	-	22	-	22
			-	22	-	22

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 2017	31 December 2016
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%	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%
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%	-

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

At 17 March 2017, INA, d.d. acquired a share of 30.75% in the amount of HRK 8.2 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's share of profit	
	31 December 2017
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

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

	INA Group and INA, d.d.	
	31 December 2017	31 December 2016
Aggregate carrying amount of the interests in these associates	-	22
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	-	-

17. OTHER INVESTMENTS

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deposits	7	7	7	7
Financial assets at fair value through profit or loss	6	6	6	6
Long-term loans	-	-	656	796
	13	13	669	809

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 2017	31 December 2016
Receivables for apartments sold	60	71
Prepayments for intangible assets	21	19
Prepayments for property, plant and equipment	15	38
	96	128

INA, d.d.	31 December 2017	31 December 2016
Receivables for apartments sold	60	71
Prepayments for intangible assets	21	19
Prepayments for property, plant and equipment	13	36
Long-term receivables from related party	11	11
	105	137

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. AVAILABLE-FOR-SALE ASSETS

Equity instruments available-for-sale			INA Group and INA, d.d.	
Name of the Company	% shareholding held by INA, d.d.	Activity	31 December 2017	31 December 2016
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.			298	309
Value adjustment of Plinara d.o.o. Pula			(2)	(2)
Value adjustment of HOC Bjelolasica d.o.o. Ogulin			(5)	(5)
Value adjustment of BINA-FINCOM d.d. Zagreb			(12)	(12)
Total value adjustment			279	290
			665	676

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 2017. The net book value of the equity investment in JANAF decreased by HRK 11 million compared to the balance as of 31 December 2016 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 2017 amounted to HRK 5,200 per share (31 December 2016: HRK 5,300 per share).

20. INVENTORIES

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Refined products	693	625	646	564
Crude oil	580	478	579	478
Work in progress	549	436	548	435
Spare parts, materials and supplies	173	184	78	80
Raw material	152	228	104	178
Merchandise	117	99	66	67
	2,264	2,050	2,021	1,802

As of 31 December 2017 and 2016, inventories were measured at the lower of cost or net realizable value.

21. TRADE RECEIVABLES, NET

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Trade receivables	2,238	2,676	1,791	2,158
Impairment of trade receivables	(845)	(1,085)	(673)	(843)
	1,393	1,591	1,118	1,315

Ageing analysis of trade receivables that are not impaired:

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
not due	1,218	1,267	981	1,035
less than 30 days	77	55	47	35
31 - 60 days	18	22	17	21
61+ days	80	247	73	224
	1,393	1,591	1,118	1,315

Impairment of trade receivables:

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Balance at beginning of the year	1,085	1,040	843	818
Impairment losses recognised on receivables	192	222	190	203
Acquisition of subsidiary	-	7	-	-
Amounts written off as uncollectible	(92)	(9)	(39)	(6)
Reversal of impairment on amounts recovered	(340)	(175)	(321)	(172)
Balance at end of the year	845	1,085	673	843

The ageing analysis of impaired trade receivables:

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
less than 60 days	-	-	-	-
61-120 days	31	35	30	35
121-180 days	29	39	28	39
181-365 days	105	102	105	102
366+ days	680	909	510	667
	845	1,085	673	843

Trade receivables, net balance of INA Group above also includes related party receivables of HRK 167 million as of 31 December 2017 (2016: HRK 154 million) with related party entities out of INA Group (see note 36).

22. OTHER RECEIVABLES

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Tax prepayments	115	109	63	89
Foreign concessions receivables	60	42	60	42
Employees receivables	3	3	2	3
Prepayment receivables	1	3	1	1
Interest receivables	-	5	-	5
Other receivables	31	22	18	13
	210	184	144	153

23. OTHER CURRENT ASSET

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Positive fair value of derivatives	62	38	62	38
Prepayments for customs, duties and other charges	46	28	31	20
Short-term loans and deposits	6	18	3	14
Accrued income	5	-	5	-
Positive fair value of hedge commodity transactions	-	17	-	17
Current portion of long terms loans	-	-	598	553
Loan impairment	-	-	(223)	(224)
Other	20	19	18	16
	139	120	494	434

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 2017	31 December 2016	31 December 2017	31 December 2016
Demand deposit	312	425	257	324
Deposits until three months	60	140	59	136
Cash on hand	56	46	48	40
Cash and cash equivalents in statement of financial position	428	611	364	500
Cash and cash equivalents in statement of cash flows	428	611	364	500

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

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Bank loans	1,581	2,706	1,359	2,482
Current portion of long-term loans	122	135	122	135
	1,703	2,841	1,481	2,617

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Unsecured bank loans in EUR	923	1,701	882	1,662
Unsecured bank loans in USD	489	860	477	820
Unsecured bank loans in HRK	143	145	-	-
Unsecured bank loans in HUF	26	-	-	-
	1,581	2,706	1,359	2,482

The most significant short-term loans as at 31 December 2017 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 2017	31 December 2016	31 December 2017	31 December 2016
Trade payables	1,171	1,857	787	1,498
Production and sales and other taxes payable	573	581	499	523
Payroll payables	131	140	83	92
Accrued bonuses	114	100	70	62
Advance Payments	66	43	62	36
Negative fair value of derivatives	65	45	65	45
Payroll taxes and contributions	53	56	28	29
Accrued unused holiday	44	48	24	26
Mining fee	43	31	43	31
Accrued expenses	29	33	-	-
Accrued interest for long-term loans	5	8	4	9
Negative fair value of hedge commodity transactions	-	19	-	19
Other	43	36	23	21
	2,337	2,997	1,688	2,391

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

Trade payables, net balance also includes payables of HRK 149 million as of 31 December 2017 (2016: HRK 113 million) with related party entities out of INA Group (see note 36).

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 a 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 2017	31 December 2016
Project financing	USD, EUR	244	406
		244	406
Due within one year		(122)	(135)
Total long-term loans INA, d.d.		122	271
Other long term loans INA Group	EUR, USD, HUF, HRK	-	-
		-	-
Due within one year		-	-
Total long-term loans INA Group		122	271

INA Group	Weighted average interest rate 31 December 2017	Weighted average interest rate 31 December 2016	31 December 2017	31 December 2016
	%	%		
Bank loans in USD	2.95	3.15	190	325
Bank loans in EUR	1.23	1.76	54	81
Total			244	406
Payable within one year			(122)	(135)
Total long-term loans			122	271

INA, d.d.	Weighted average interest rate 31 December 2017	Weighted average interest rate 31 December 2016	31 December 2017	31 December 2016
	%	%		
Bank loans in USD	2.95	3.15	190	325
Bank loans in EUR	1.23	1.76	54	81
Total			244	406
Payable within one year			(122)	(135)
Total long-term loans			122	271

The maturity of the loans may be summarised as follows:

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Current portion of long-term debt	122	135	122	135
Payable within one to two years	122	135	122	135
Payable within two to three years	-	136	-	136
Total	244	406	244	406

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

	INA Group	INA, d.d.
Balance at 1 January 2016	539	533
New borrowings	1,192	1,192
Amounts repaid	(1,316)	(1,310)
Foreign exchange losses	(9)	(9)
Balance at 31 December 2016	406	406
Payable within one year (included within bank loans – note 25)	135	135
Payable after more than one year	271	271
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

The principal long-term loans outstanding at 31 December 2017 and loans agreements in 2017 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 2016 an amendment agreement was signed by which terms are more favourable for the remaining outstanding amount.

ING BANK N.V., LONDON BRANCH

In 2015 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. In 2017 an extension option was exercised and maturity was prolonged for an additional year.

MOL GROUP

In 2015 INA, d.d. signed an amendment to the intragroup long-term multi-currency revolving loan agreement for general corporate purposes provided from MOL Group by which intragroup financing has been decreased from USD 300 million to USD 100 million with maturity in 2018.

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 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 2017 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 2017	31 December 2016	31 December 2017	31 December 2016
Liabilities to Government for sold apartments	33	39	33	39
Deferred income for sold apartments	4	5	4	5
Other long-term liabilities	15	16	14	16
	52	60	51	60

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 at such time as the proceeds were collected by the Company. According to the law, INA, d.d. has no liability to remit the funds unless and until they are collected from the employee.

29. PROVISIONS

INA Group	Decommissioning charges	Environmental provision	Provision for Angolan tax	Redundancy costs	Legal claims	Renewable energy provision	Other	Total
Balance at 1 January 2016	2,310	333	303	239	176	-	356	3,717
Acquisition of subsidiary	-	-	-	-	80	-	-	80
Charge for the year	-	33	105	17	18	-	-	173
Effect of change in estimates	(25)	(10)	-	-	1	-	-	(34)
Interest	43	3	-	-	-	-	11	57
Provision utilised during the year	-	(51)	(133)	(237)	(116)	-	(38)	(575)
Balance at 31 December 2016	2,328	308	275	19	159	-	329	3,418
Charge for the year	-	42	-	11	41	115	5	214
Effect of change in estimates	199	24	(26)	-	-	-	(33)	164
Interest	11	4	-	-	-	-	5	20
Provision utilised during the year	-	(43)	(249)	(13)	(63)	-	(17)	(385)
Balance at 31 December 2017	2,538	335	-	17	137	115	289	3,431

INA, d.d.	Decommissioning charges	Environmental provision	Provision for Angolan tax	Redundancy costs	Legal claims	Renewable energy provision	Other	Total
Balance at 1 January 2016	2,457	322	303	236	94	-	309	3,721
Charge for the year	-	30	105	14	16	-	6	171
Effect of change in estimates	(27)	(8)	-	-	-	-	-	(35)
Interest	45	3	-	-	-	-	5	53
Provision utilised during the year	-	(51)	(133)	(234)	(44)	-	(17)	(479)
Balance at 31 December 2016	2,475	296	275	16	66	-	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 during the year	-	(42)	(249)	(10)	(49)	-	-	(350)
Balance at 31 December 2017	2,701	323	-	6	37	115	280	3,462

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Analysed as:				
Current liabilities	312	194	221	117
Non-current liabilities	3,119	3,224	3,241	3,314
	3,431	3,418	3,462	3,431

ENVIRONMENTAL PROVISION

The environmental provision recorded by INA Group is HRK 335 million as of 31 December 2017 (31 December 2016: HRK 308 million). The environmental provision covers treatment of accumulated waste generated by former activity, soil excavation and replacement during the reconstruction of retail sites 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.

DECOMMISSIONING CHARGES

The INA Group records provisions after initial recognition for the present value of estimated future costs of abandoning oil and gas production facilities after 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 2017, INA, d.d. recognised a decommissioning provision for 45 oil and gas production fields, 7 non-production fields, 10 positive non-production wells and 357 dry non-production wells. As of 31 December 2016, INA, d.d. recognised a decommissioning provision for 46 oil and gas production fields, 6 non-production fields, 10 positive non-production wells and 359 dry non-production wells.

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.

LEGAL CASE

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

REDUNDANCY COST

Provisions for redundancy are recorded based on Management Decision on Redundancy for the termination of employment in order to decrease the number of employees due to economic, technical and organizational reasons.

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.

OTHER PROVISIONS

Other provisions of INA, d.d. in amount of HRK 280 million relate to provision for contractual liability for investments in Iran of HRK 235 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 42 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 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 2016.

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2017 and 2016 by independent actuarial expert. In 2017, the Company made a provision of HRK 14.6 million in respect of jubilee awards and HRK 19.8 million for regular retirement allowance, whereas in 2016 Company made provision in respect of jubilee awards in amount of HRK 17 million and for regular retirement HRK 31 million.

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 2017	31 December 2016
Discount rate	2.6%	3.0%
Average longevity at retirement age for current pensioners (years)		
males	14.1	14.9
females	18.3	18.3
Average longevity at retirement age for current employees (future pensioners) (years)		
males	14.1	14.9
females	18.3	18.3
Mortality	HR 2010-2012	HR 2010-2012

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

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Service cost:				
Cost of current period	6	18	2	1
Interest	2	3	1	2
Past service cost, including losses/(gains) on curtailments	(8)	(9)	-	(9)
Components of defined benefit costs recognized in profit and loss:	-	12	3	(6)
Remeasurement of the net defined benefit liability:				
Actuarial gains and losses arising from changes in demographic assumptions	(19)	-	(17)	-
Actuarial gains and losses arising from changes in financial assumptions	1	3	-	(7)
Actuarial gains and losses arising from experience adjustments	2	(22)	1	(6)
Components of defined benefit costs recognised in profit and loss account and other comprehensive income:	(16)	(19)	(16)	(13)
Total	(16)	(7)	(13)	(19)

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

	INA Group		INA, d.d.	
	2017	2016	2017	2016
At 1 January	95	109	48	70
Acquisition of subsidiary	-	2	-	-
Cost of current period	6	18	2	1
Interest	2	3	1	2
Actuarial (gains) or losses				
Actuarial gains and losses arising from changes in demographic assumptions	(19)	-	(17)	-
Actuarial gains and losses arising from changes in financial assumptions	-	3	-	(7)
Actuarial gains and losses arising from experience adjustments	2	(22)	1	(6)
Past service cost, including losses/(gains) on curtailments	(8)	(9)	-	(9)
Benefit paid	-	(9)	(1)	(3)
Closing defined benefit obligation	78	95	34	48

31. SHARE CAPITAL

	INA Group and INA, d.d.	
	31 December 2017	31 December 2016
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 2017	31 December 2016
Balance at the beginning of the year	299	216
Increase/(decrease) arising on revaluation of available-for-sale securities (Janaf)	(11)	95
Deferred tax effect	1	(12)
Balance at the end of the year	289	299

In 2017, decrease on fair value reserves was recorded due to decrease of JANAF shares. In 2016 there was a significant increase in the value of JANAF on the stock market; therefore an increase on fair value reserves was recorded.

33. OTHER RESERVES

The amount of combined reserves of 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 2016	492	677	25	447	1,641
Movements during 2016	-	3	3	-	6
Balance at 31 December 2016	492	680	28	447	1,647
Movements during 2017	-	(143)	12	-	(131)
Balance at 31 December 2017	492	537	40	447	1,516
INA, d.d.					
Balance at 1 January 2016	27	941	20	285	1,273
Movements during 2016	-	14	1	-	15
Balance at 31 December 2016	27	955	21	285	1,288
Movements during 2017	-	(161)	11	-	(150)
Balance at 31 December 2017	27	794	32	285	1,138

34. RETAINED EARNINGS

	INA Group	INA, d.d.
	Retained earnings	Retained earnings
Balance at 1 January 2016	(602)	(310)
Transfer legal reserves to retained earnings	310	310
Profit for the year	101	160
Purchase of subsidiary	(42)	-
Balance at 31 December 2016	(233)	160
Transfer from retained earnings to legal reserves	(8)	(8)
Profit for the year	1,220	1,426
Dividend paid	(152)	(152)
Balance at 31 December 2017	827	1,426

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).

On the regular general shareholders' meeting of INA, d.d. held on 9 June 2016 approval was given for transfer part of legal reserves amounting to HRK 310 million to retained earnings.

35. NON-CONTROLLING INTEREST

	INA Group	
	31 December 2017	31 December 2016
Balance at the beginning of the year	(136)	-
Share of profit/(loss) for the year	2	(6)
Acquisition of non-controlling interest	-	(130)
Balance at the end of the year	(134)	(136)

The Group selected to measure the non-controlling interest as proportionate share of its interest in identifiable net assets.

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

Name	Country of incorporation and operation	2016
Government of the Federation of Bosnia and Herzegovina	Federation of Bosnia and Herzegovina	22%
Small shareholders		11%

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 inter-company eliminations.

	31 December 2017	31 December 2016
	Energopetrol	Energopetrol
Current assets	41	39
Current liabilities	740	742
Non-current assets	237	246
Non-current liabilities	9	22
Operating income after the acquisition date	484	332
Profit/(loss) for the period after the acquisition date	5	(12)
Total comprehensive income/(loss) for the period after the acquisition date	5	(12)

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.

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

INA Group	Sales of goods		Purchase of goods	
	2017	2016	2017	2016
Companies available for sale				
JANAF d.d. Zagreb	3	3	52	52
Strategic partner				
MOL Nyrt.	217	344	701	652
Companies controlled by strategic partner				
Tifon d.o.o.	536	425	8	7
MOL Slovenia d.o.o.	94	119	63	61
MOL Petrochemicals Co Ltd	65	31	4	9
MOL Serbia d.o.o.	57	31	-	1
MOL-LUB Kft.	5	4	4	4
Slovnaft, a.s.	3	7	226	95
MOL Norge AS	2	-	-	-
Petrolszolg Kft.	1	-	-	-
Geoinform Kft.	1	-	-	-
Kalegran Ltd.	-	1	-	-
MOL Commodity Trading Kft.	-	-	25	7
IES Italiana Energia e Servizi S.p.A	-	-	3	3
Energopetrol d.d.*	-	91	-	-

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 2017	31 December 2016	31 December 2017	31 December 2016
Companies available for sale				
JANAF d.d. Zagreb	1	1	14	6
Strategic partner				
MOL Nyrt.	27	44	53	76
Companies controlled by strategic partner				
Tifon d.o.o.	70	69	1	1
MOL Commodity Trading Kft.	59	8	59	14
MOL Slovenia d.o.o.	4	11	9	6
MOL Serbia d.o.o.	4	15	-	-
MOL Norge AS	2	-	-	-
MOL Petrochemicals Co Ltd	-	6	-	3
Slovnaft, a.s.	-	-	11	7
MOL-LUB Kft.	-	-	1	-
IES Italiana Energia e Servizi S.p.A	-	-	1	-

* Until 1 July 2016 transactions with Energopetrol d.d. were presented as transactions with companies controlled by strategic partners. Transactions among Energopetrol d.d. and INA, d.d. after 1 July 2016 were recorded as transaction with related companies (see note 40).

NOTES TO THE FINANCIAL STATEMENTS

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		Purchase of goods	
	2017	2016	2017	2016
Related companies				
Holdina d.o.o. Sarajevo	1,795	1,680	-	2
Hostin d.o.o.	455	-	1	-
INA Crna Gora d.o.o. Podgorica	175	115	-	-
Energopetrol d.d.*	36	23	-	-
STSI, Integrirani tehnički servisi d.o.o.	23	22	607	706
CROSCO, naftni servisi d.o.o.	11	8	359	259
INA Slovenija d.o.o. Ljubljana	11	8	-	-
Plavi tim d.o.o.	10	15	52	51
INA MAZIVA d.o.o.	9	9	53	58
INA Maloprodajni servisi d.o.o.	6	5	256	220
Top Računovodstvo Servisi d.o.o.	4	4	51	47
Adrigas S.r.l. Milano	-	1	-	-
INA d.o.o. Banja Luka	-	-	1	1
INA Kosovo d.o.o.	-	-	1	1
Companies available-for-sale				
JANAF d.d. Zagreb	3	3	52	52
Strategic partner				
MOL Nyrt.	42	167	612	589
Companies controlled by strategic partner				
Tifon d.o.o.	535	423	8	7
MOL Slovenia d.o.o.	91	117	-	-
MOL Petrochemicals Co Ltd	65	31	2	5
MOL Serbia d.o.o.	57	31	-	-
Slovnaft a.s.	3	7	226	95
MOL Norge AS	2	-	-	-
Energopetrol d.d.*	-	11	-	-
MOL Commodity Trading Kft.	-	-	25	7
IES Italiana Energia e Servizi S.p.A	-	-	3	3

* Until 1 July 2016 transactions with Energopetrol d.d. were presented as transactions with companies controlled by strategic partners. Transactions among Energopetrol d.d. and INA, d.d. after 1 July 2016 were recorded as transaction with related companies (see note 40).

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 2017	31 December 2016	31 December 2017	31 December 2016
Related companies				
Holdina d.o.o. Sarajevo	171	167	-	2
INA Crna Gora d.o.o. Podgorica	27	15	-	-
CROSCO, naftni servisi d.o.o.	11	11	57	56
STSI, Integrirani tehnički servisi d.o.o.	6	6	201	199
Plavi tim d.o.o.	3	4	12	11
INA MAZIVA d.o.o.	2	4	6	7
INA Slovenija d.o.o. Ljubljana	2	1	-	-
Top Računovodstvo Servisi d.o.o.	-	-	4	6
INA Maloprodajni servisi d.o.o.	-	-	30	28
Companies available-for-sale				
JANAF d.d. Zagreb	1	1	14	6
Strategic partner				
MOL Nyrt.	2	22	45	66
Companies controlled by strategic partner				
Tifon d.o.o.	70	69	1	1
MOL Commodity Trading Kft.	59	8	59	14
MOL Slovenia d.o.o.	4	11	2	-
MOL Serbia d.o.o.	3	15	-	-
MOL Norge AS	2	-	-	-
MOL Petrochemicals Co Ltd	-	6	-	2
Slovnaft a.s.	-	-	11	8
IES Italiana Energia e Servizi S.p.A	-	-	1	-

* Until 1 July 2016 transactions with Energopetrol d.d. were presented as transactions with companies controlled by strategic partners. Transactions among Energopetrol d.d. and INA, d.d. after 1 July 2016 were recorded as transaction with related companies (see note 40).

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

In 2017 INA, d.d. recognised impairment on receivables from related parties in the amount of HRK 0.1 million, while in 2016 income from collection of impaired receivables from related parties amounted to HRK 0.4 million.

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 2017	31 December 2016	31 December 2017	31 December 2016
Related companies				
Energopetrol d.d.*	598	613	-	-
Hostin d.o.o.	453	-	3	17
CROSCO, naftni servisi d.o.o.	143	727	-	-
Holdina d.o.o. Sarajevo	30	38	-	-
INA Crna Gora d.o.o. Podgorica	26	17	-	-
INA Slovenija d.o.o. Ljubljana	19	16	-	-
INA BH d.d., Sarajevo	2	2	-	-
STSI, Integrirani tehnički servisi d.o.o.	-	-	80	119
INA MAZIVA d.o.o.	-	-	49	100
INA Maloprodajni servisi d.o.o.	-	-	22	-
Adrigas S.r.l. Milano	-	-	12	12
Top Računovodstvo Servisi d.o.o.	-	-	11	2
Croplin d.o.o.	-	-	4	-
Plavi tim d.o.o.	-	-	3	-
Companies controlled by strategic partner				
MOL Group Finance SA	-	-	-	1

* Until 1 July 2016 transactions with Energopetrol d.d. were presented as transactions with companies controlled by strategic partners. Transactions among Energopetrol d.d. and INA, d.d. after 1 July 2016 were recorded as transaction with related companies (see note 40).

Hedge transactions with related parties:

INA Group and INA, d.d.	Expense from hedge transactions - net effect	Expense from hedge transactions - net effect
	2017	2016
Companies controlled by strategic partner		
MOL Commodity Trading Kft.	12	8

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.

INA, d.d. generally seeks collateral for oil product sold to its related parties, depending on risk exposure, except from customers who are state budget beneficiaries or fully owned by the state.

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 2017	31 December 2016
Short-term employee benefits	36.1	34.3
Termination bonuses	3.5	1.4
Total	39.6	35.7

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 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 10 year agreement for lease of asset to several INA Group companies and third parties located in Zagreb.

In 2016 INA, d.d. sold five retail sites to company Holdina Sarajevo. Net book value of the retail sites are HRK 9.8 million while INA, d.d. sold retail sites under market price of HRK 19.7 million.

The Company remains the customer of company JANAF d.d., in which it has a holding of 11.795% (see note 19). During 2017, approximately HRK 52 million of JANAF's sales revenue in the amount of HRK 701 million account for sales revenue in respect of INA, d.d. as user of the pipeline system of JANAF d.d. (2016: HRK 52 million out of HRK 709 million sales revenue).

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.

Investment in contract areas of North Adriatic

Activity of bringing the production of natural gas reserves in the geographic area of North Adriatic, mostly within the epicontinental shelf of Republic of Croatia, is taking place through Production Sharing Agreements (PSA) which INA, d.d. has signed with foreign companies in the so - called contract areas:

- ▶ In 1996 and 1997, INA, d.d. and ENI Croatia B.V. have closed down Production Sharing Agreements in contract areas Aiza-Laura and Ivana, and realization of the partnership takes place through a joint operating company INAgip with interests 50% : 50%;
- ▶ In 2002, INA, d.d. and EDISON INTERNATIONAL S.p.A. have closed down Production Sharing Agreement in the contract area Izabela and Iris / Iva. Partnership with EDISON takes place through a joint operating company ED-INA with shareholding: 50% : 50%.

North Adriatic Area (3 development concession) comprises of 19 production platforms and 1 compressor platform, with a total of 52 production wells.

Until now, in the contract areas North Adriatic and Aiza-Laura, INA, d.d. has invested HRK 4,800 million in capital construction of mining facilities and plants, while of the total gained reserves INA's share is about 63% of the produced gas, which is further placed on the Croatian gas market.

On 31 December 2017 INAgip had 150 active contracts in both contract areas amounting in total to HRK 343 million. On 31 December 2017 the remaining commitments under these contracts amounted to HRK 142 million (2016: HRK 167 million). Until 31 December 2017, total INA, d.d. capital investments on the Izabela contract area amounted to HRK 354 million, which have been invested for construction of production-gathering-transportation system of Izabela gas field. Gas production from Izabela field during 2017 is stable and about 15.6 % higher in comparison to the original production plan. Total INA share of gas, delivered from Izabela field to Ivana K platform, from production start-up to 31 December 2017 is about 44.18% (372.8 million Sm³).

Gas Transportation contracts

At 31 December 2017 the future gas transportation contracted commitments with Gas Connect Austria and Plinovodi until 31 December 2018 amount to approximately HRK 1.13 million in total (2016: HRK 64 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 this gas year. Through this contract INA, d.d. will procure the quantities of gas needed to cover the gap in the sales portfolio. The value of future gas purchase commitments until 1 October 2018 amount to approximately HRK 102 million in total.

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 2017	31 December 2016	31 December 2017	31 December 2016
within 1 year	56	48	47	34
between 2 - 5 years	63	44	47	23
beyond 5 years	17	-	17	-
	136	92	111	57

Out of the outstanding operating lease liabilities as of 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., while for 31 December 2016 HRK 57 million were contracted by INA, d.d., HRK 16 million were contracted by STSI and HRK 14 million were contracted by Rotary Zrt.

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. An independent assurance company, Ernst & Young d.o.o. has been engaged to perform a limited assurance engagement on this report for the year ended 2017.

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) is the main EU instrument regulating pollutant emissions from industrial installations. The Directive regulates the issue of environmental permits by which plant working conditions are determined and requires the application of best available techniques (BAT) by which a high level of environmental protection in general is achieved (prevention and control of emissions to air, water and soil, waste generation, energy efficiency and accident prevention). 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.

In order to align the existing technology with the best available techniques, during 2017 all projects in Rijeka refinery are ongoing and are in various stages of implementation.

On 9 October 2014, Commission Implementing Decision establishing best available techniques (BAT) was published, in accordance with the Directive 2010/75/EU of the European Parliament and the Council on industrial emissions, for the refining of mineral oil and gas, with deadline for compliance Decision until October 2018. 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.

During 2016 INA, d.d. signed the contract for refineries environmental permit revision which is necessary because of new BAT Conclusions, change of selected technology (FCC), expired deadlines for some projects and intention to use a bubble concept. In 2017, an application for an amendment to the Rijeka and Sisak Refinery environmental permit was submitted to the Ministry of Environmental Protection and Energy due to release of new BAT Conclusions for the refining of mineral oil and gas. INA, d.d. has an obligation to be in compliance with BAT Conclusions by October 2018. Baseline reports for Rijeka and Sisak Refinery were also submitted to the authorities for approval, as a precondition for initiating permit revision.

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 1 January 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 2017. 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 2017.

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 Industrial Emissions Directive (IED) have been transposed into Croatian legislation by 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.

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 as well as tank truck loading station in Sisak Refinery have been harmonized. During 2017 INA, d.d. continued with modernization projects of the rail tank car (RTC) loading and unloading stations in Sisak and Rijeka refineries, modernization of existing tank truck loading station and port Bakar in Rijeka refinery (VRU units are installed) and with improvement of storage tanks in both refineries, to achieve full compliance with the technical environmental standards for VOC's.

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.

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, while at 31 December 2016, INA, d.d. made environmental provisions in the amount of HRK 296 million, whereas the provisions at the Group level amounted to HRK 308 million. At 31 December 2017, contingencies at INA Group level was estimated at HRK 636 million and for INA, d.d. was estimated at HRK 427 million, while at 31 December 2016 contingencies at INA Group level was estimated at HRK 636 million and for INA, d.d. was estimated at HRK 427 million. The estimates were not recognised because the timing of the event is uncertain and there is no evidence of pollution.

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 whole. On 18 March 2016 plaintiff filed an appeal and the procedure before the High Commercial Court is still ongoing.

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. The next court hearing is scheduled for 14 February 2018.

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. The court set the first hearing for 5 February 2018.

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 2017.

CONCESSIONS

On 29 July 2011 the Ministry of Economy, Labor and Entrepreneurship (hereinafter: the Ministry) rendered three Decisions depriving INA, d.d. of the license to explore hydrocarbons in exploration areas "Sava", "Drava" and "North-West Croatia". On 29 August 2011, INA, d.d. filed three administrative lawsuits against the Ministry's Decisions. The Administrative Court annulled the Ministry's Decisions. On 10 November 2014, and on 20 February 2015 the Ministry adopted new Decisions in which it again deprived INA, d.d. of the license to explore hydrocarbons in exploration areas "Sava", "North-West Croatia" and "Drava", with the same explanations. INA, d.d. filed lawsuits against new Ministry Decisions regarding exploration areas "Sava", "Drava" and "NW Croatia" and requested the Court to order a temporary measure. During April, 2015, the Administrative Court passed a Resolution in which it rejected INA's request for temporary measure. INA, d.d. filed its Appeal, but in June 2015, High Administrative court rejected such INA's Appeal. In November 2016 the Administrative Court reached a decision and rejected INA's claim in the case regarding exploration area "Drava". INA, d.d. has filed an appeal against that decision in December 2016.

On the 8 September 2017 INA, d.d. received a judgment brought by the High Administrative Court of the Republic of Croatia, rejecting 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. The Administrative court still did not reach decisions regarding INA's lawsuits regarding exploration areas "Sava" and "North-West Croatia".

On 6 October 2017 INA, d.d. filed a Constitutional lawsuit before the Constitutional Court of the Republic of Croatia against judgments brought by the High Administrative Court and Administrative Court of the Republic of Croatia in the "Drava" case, in which INA, d.d. requires from Constitutional Court to annul all those judgments. INA, d.d. is waiting for Constitutional Court's judgment.

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.

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.

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 separate settlement.

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 2017	31 December 2016	31 December 2017	31 December 2016
Debt:	1,825	3,112	1,603	2,888
Long term loans	122	271	122	271
Short term loans	1,581	2,706	1,359	2,482
Current portion of long-term borrowings	122	135	122	135
Cash and cash equivalents	(428)	(611)	(364)	(500)
Net debt	1,397	2,501	1,239	2,388
Equity	11,526	10,597	11,881	10,767
Equity and net debt	12,923	13,098	13,120	13,155
Gearing ratio	11%	19%	9%	18%

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.

Categories of financial instruments

	Carrying amount			
	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Financial assets				
Cash and cash equivalents	428	611	364	500
Loans and receivables	1,613	1,854	4,070	3,758
Available-for-sale financial assets	665	676	665	676
Positive fair value of derivatives	62	38	62	38
Positive fair value of hedge commodity transactions	-	17	-	17
Financial assets designated as at fair value through profit and loss	6	6	6	6
Financial liabilities				
Loans and borrowings	1,825	3,113	1,787	3,139
Trade payables	1,171	1,857	1,098	1,808
Negative fair value of hedge commodity transactions	-	19	-	19
Negative fair value of derivatives	65	45	65	45

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.

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 2017 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. In 2015 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 2016, fair value of hedged items under commodity derivative transaction designated as fair value hedge was a net receivable of HRK 17 million and HRK 19 million net payable (see Note 23 and Note 26).

At 31 December 2017, there is no fair value on the basis of 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 2017 there were no outstanding cross-currency transactions.

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 2017	31 December 2016	31 December 2017	31 December 2016
Currency EUR	1,185	1,936	208	272
Currency USD	867	2,131	931	1,287
	2,052	4,067	1,139	1,559
INA, d.d.				
Currency EUR	1,078	1,814	938	156
Currency USD	832	2,076	1,011	1,077
	1,910	3,890	1,949	1,233

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 2017 (in 2016: 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 2017	31 December 2016	31 December 2017	31 December 2016
	Profit/(loss)	6	(84)	(98)
	6	(84)	(98)	(166)
INA, d.d.				
Profit/(loss)	18	(100)	(14)	(166)
	18	(100)	(14)	(166)

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, the selection of fixed interest rate could be more favourable.

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 2017 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.	
	2017	2016	2017	2016
Short-term interest expense change	32	54	27	50
Long-term interest expense change	5	8	5	8
Total change:	37	62	32	58

If interest rates would be 200 basis points higher, INA Group's interest expenses in 2017 would be increased by HRK 37 million, while with a change of 50 basis points the increase would be HRK 9 million (2016: increase by HRK 62 million had the interest rate been 200 basis points higher, and by HRK 16 million had the interest rates been 50 basis points higher).

At the same time INA, d.d.'s interest expenses in 2017 would be increased by HRK 32 million if interest rates had been 200 basis points higher, while the increase would be HRK 8 million with a change of 50 basis points (2016: increase by HRK 58 million had the interest rates been 200 basis points higher, and by HRK 14 million had the interest rates been 50 basis points higher). Equivalent decrease of interest rates would result in decreased interest expenses by equal amounts.

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 31 December 2017 would have been unaffected as the equity investments are classified as available-for-sale; and
- ▶ other equity reserves of INA, d.d. would increase by HRK 61.8 million as a result of the changes in fair value of available-for-sale shares.

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. 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.

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 2017, INA Group had contracted and available short-term credit lines amounting to HRK 2,235 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 2,754 million (CNB middle rate).

Based on international 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 2017 INA Group had contracted and available short-term credit facilities for financing crude oil and oil products purchase amounting to USD 1,085 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.

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 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
31 December 2016					
Non-interest bearing	1,807	546	53	15	2,421
Interest bearing	1,345	1,512	282	-	3,139
	3,152	2,058	335	15	5,560
INA, d.d.					
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
31 December 2016					
Non-interest bearing	1,645	511	37	14	2,207
Interest bearing	1,345	1,538	282	-	3,165
	2,990	2,049	319	14	5,372

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 787 million in 2017 (2016: HRK 1,498 million).

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.

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).

Fair value measurements recognized in the statement of financial position

INA Group and INA, d.d.				
31 December 2017				
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets available-for-sale*	618	-	-	618
Positive fair value of derivatives	-	62	-	62
Financial liabilities at fair value				
Negative fair value of derivatives	-	65	-	65
31 December 2016				
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets available-for-sale*	630	-	-	630
Positive fair value of hedge commodity transactions	-	17	-	17
Positive fair value of derivatives	-	38	-	38
Financial liabilities at fair value				
Negative fair value of hedge commodity transactions	-	19	-	19
Negative fair value of derivatives	-	45	-	45

* only assets available-for-sale at fair value are presented in tables above, the remaining equity instruments classified as available-for-sale in total amount of HRK 47 million are measured at cost (2016: 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 available for sale and is 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 on the basis of actual historic quotations from Platts and market forward quotations of the underlying commodities.
- ▶ The fair value of forward foreign exchange contracts has been determined on the basis of 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 ENERGOPETROL

Energopetrol d.d.	Headquarters	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Consideration transferred
	Sarajevo, Federation of Bosnia and Herzegovina	Retail of fuels and lubricants	1 July 2016	33.5%	-

Pursuant to Assignment and Option Agreement signed with MOL at 1 July 2016, INA, d.d. acquired control over Energopetrol d.d., Sarajevo, since by the same Agreement, INA acquired Option to buy shares of Energopetrol owned by MOL.

As at 12 July 2016 INA, d.d. realized Option whereby INA, d.d. took 1,840,128 or 33.50% of Energopetrol shares owned by MOL.

With this transaction, INA, d.d. has increased its stake in Energopetrol d.d. to 67% and became the majority owner of the company whose financial results are consolidated into the results of the INA Group.

With the acquisition of Energopetrol, INA, d.d. further positioned itself in the market of Bosnia and Herzegovina and proved that it believes in Energopetrol's long-term perspective. Hereby INA, d.d. became the single largest distributor of petroleum products in the country with a total of 101 active retail sites in the retail network. INA's Management Board made the business decision on the basis of a good knowledge of market opportunities in Bosnia and Herzegovina, with the aim of further building the regional position that can have a positive impact on INA's business operations and placement of other INA's high-quality products in the market of Bosnia and Herzegovina.

INA, d.d. also took over from MOL the loan previously given to Energopetrol d.d. meaning that INA, d.d. is financing Energopetrol d.d. independently.

This transaction between INA, d.d. and MOL is considered as a transaction under common control. The most commonly used method for accounting for business combination under common control is the 'predecessor method' (also known as 'pooling of interest method' which INA, d.d. has used in the past).

Under predecessor method, the acquired assets and liabilities shall be recorded at predecessor (MOL) carrying values. In this approach, the assets and liabilities are not restated to their fair values and no goodwill is recognised. The fair value of acquired assets and liabilities of Energopetrol d.d. are the same as they were at MOL's records.

The deferred tax liabilities acquired is related to fair valuation of Energopetrol d.d. previously recorded in MOL's records.

The difference between the consideration paid and aggregate book value of the acquirer's assets and liabilities is reflected in a component of equity such as retained earnings.

The consideration is the sum of cash paid by INA, d.d. to MOL. Besides the consideration paid, the book value of INA's investment in Energopetrol d.d. and the loan originated by INA, d.d. is also taken into account.

Following the obtaining the control and acquisition of 67% ownership in INA, d.d. financial statements, a total investment amounting to HRK 132 million and impairment of investment in the amount of HRK 132 million is transferred from investment in associates to investment in subsidiaries.

	Carrying value recognized at acquisition
Non-current assets	
Intangible assets	1
Property, plant and equipment	320
Current assets	
Inventories	24
Trade and other receivables	6
Cash and cash equivalents	2
	353
Liabilities	
Provisions for litigations	79
Loan liabilities to related parties	550
Other provisions	20
Trade payables	54
Other liabilities	39
Deferred tax liability	8
	750
Total identifiable net assets acquired	(397)
Non-controlling interest at fair value	(130)
Goodwill arising on acquisition	
Consideration transferred	(267)
Net cash outflow on acquisition of subsidiaries	
Consideration paid in cash	-
Less: cash and cash equivalent balances acquired	(2)

From the date of acquisition, Energopetrol d.d. contributed HRK 85 million of revenue and decreased profit before tax from continuing operations of the Group by HRK 13 million. If the combination had taken place at the beginning of 2016, the Groups revenue from continuing operations would have been increased by HRK 149 million and the profit before tax from continuing operations would have been decreased by HRK 34 million.

41. SUBSEQUENT EVENTS

Organizational changes in Refining

During January 2018, a proposal of organizational changes in Sisak Refinery has been prepared by the management and submitted to the Works Council for consultations. This proposal of organizational changes is in line with the results of the analysis presented to the public in 2017 and implies the operation of Sisak Refinery without the FCC (catalytic cracker) complex enabling better utilization of conversion units in both refineries. These changes do not include any other decision regarding the future of Sisak Refinery: crude oil refining would continue in block mode as it is now, while secondary units would operate continuously, which was not the case so far. This change will lead to the reduction of number of employees by up to 40 during the second half of 2018.

Energopetrol

INA, d.d. participated in and subscribed 100% of new issued shares of Energopetrol d.d. Sarajevo. By issuing new 10,480,000 regular shares with a nominal value of BAM 12.50, share capital was increased by BAM 131 million. After the increase, total Energopetrol share capital amounts to BAM 199.6 million with INA, d.d. share of 88.6%.

42. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 7 March 2018.
Signed on behalf of the Company on 7 March 2018 by:



Zoltán Sándor Áldott,
President of the Management Board of INA, d.d.



Niko Dalić, member of the Management Board



Gábor Horváth, member of the Management Board



Ivan Krešić, member of the Management Board



Davor Mayer, member of the Management Board



Péter Ratatics, member of the Management Board

INA - INDUSTRIJA NAFTE, D.D. REPORT ON PAYMENTS TO GOVERNMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

INTRODUCTION

INA – INDUSTRIJA NAFTE, d.d. has prepared the present Report on Payments to Government in accordance with Accounting Act (Official Gazette 78/15) compliance with Chapter 10 of DIRECTIVE 2013/34/EU (26 June 2013) on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.

The „Reporting Principles“ section below contains information about the content of the Report, the types of payments included and the principles that have been applied in preparing the Report.

REPORTING PRINCIPLES

The Directive requires extractive sector companies listed on a stock exchange to publicly disclose payments made to the governments of those countries where they carry out extractive operations (involving the exploration, prospection, discovery, development and extraction of minerals, oil and natural gas deposits or other materials).

Under the Accounting Act, INA, d.d. is required to prepare a consolidated report on payments made to governments for each financial year in relation to relevant activities of both INA, d.d. and any of its subsidiary undertakings included in the consolidated group accounts.

The Report also provides details on the total amount of such payments by type, specific project and government paid. In light of these requirements INA Group has assessed its reporting obligations to be as follows:

- ▶ Where INA Group has made a payment to a government, such payment is reported in full, whether made in INA Group's sole capacity or in INA Group's capacity as the operator of a joint-arrangement
- ▶ When a national oil company is the operator of a project to whom INA Group makes a reportable payment which is distinguishable in the cash-calls, it is included in this Report.
- ▶ Payments made by an incorporated joint arrangement where INA Group is not the operator are not included within this Report.
- ▶ For some payments it may not be possible to attribute a payment to a single project and therefore such payments may be reported at the country level. Corporate income taxes, which are typically not levied at a project level, are an example of this.

In-kind payments

Production entitlement and Royalties paid in kind owed to Governments pursuant to legal or contractual provisions (not booked in the Extractive Companies' accounts pursuant to the accounting standards) are reported in proportion to the interest held in the Project. Payments in kind are estimated at fair value which corresponds to the contractual price of oil and gas, market price (if available) or an appropriate benchmark price. These prices may be calculated on an averaged basis over a given period.

Cash basis

Payments are reported on a cash basis, meaning that they are reported in the period in which they are paid, as opposed to being reported on an accruals basis (which would mean that they were reported in the period for which the liabilities arise).

Reporting currency

All amounts presented in the Report are stated in Croatian kuna. Payments made to Governments in foreign currencies (currencies other than the Croatian kuna) were translated into the equivalent Croatian kuna amount using a weighted average of the relevant exchange rates during the reporting period.

DEFINITIONS

Payment Types

A single payment or multiple interconnected payments, whether in cash or in kind, for extractives activities.

The payment types included in this Report

Production entitlement: host Government's share of production in the reporting period derived from projects operated by INA Group. This payment is generally paid in kind. The value of these payments is calculated based on the market price at the time of the in-kind payment.

Taxes: taxes and levies paid on income, production or profits, excluding taxes levied on consumption such as value added tax, excises duties, personal income taxes, sales taxes, and property and environmental taxes.

Royalties: payments for the rights to extract oil and gas resources, typically at set percentage of revenue less any deductions that may be taken.

Dividends: dividends, other than dividends paid to a government as an ordinary shareholder unless they are paid in lieu of a production entitlement or royalty.

Bonuses: bonuses paid for and in consideration of signature, discovery, production, awards, grants and transfers of extraction rights; bonuses related to achievement or failure to achieve certain production levels or targets, and the discovery of additional mineral reserves or deposits.

License and other fees: license fees, rental fees, entry fees and other considerations for licenses and/or concessions that are paid for access to the area where the extractive activities will be conducted. Administrative government fees that are not specifically related to the extractive sector, or to access to extractive resources, are excluded. Also excluded are payments made in return for services provided by a government.

Infrastructure improvements: payments for local infrastructure development, including the improvement of infrastructure, except where the infrastructure is exclusively used for operational purposes. Payments which are of a social investment in nature, for example building of a school or hospital, are excluded.

Government

Under the Regulations, a 'government' is defined as any national, regional or local authority of a country, and includes a department, agency or undertaking that is a subsidiary undertaking controlled by such an authority.

Project definition

Operational activities governed by a single contract, license, lease, concession or similar legal agreement that form the basis for payment liabilities with a Government. If multiple such agreements are substantially interconnected (meaning that the agreements are governed by a single overarching agreement, that the agreements have more or less identical terms, and that the agreements are geographically and operationally interconnected), they are considered as a single Project.

SUMMARY REPORT

The table below shows the relevant payments to governments made by INA, d.d. in the year ended 31 December 2017 shown by country and payment type.

In the summary report all amounts are stated in million HRK.

Summary by countries:

Payments by countries	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infra-structure improve-ments	TOTAL
Croatia	-	-	391	-	1	19	-	411
Angola	-	53	-	-	-	-	-	53
Egypt	9	-	-	-	-	-	-	9
TOTAL	9	53	391	-	1	19	-	473

PAYMENTS TO GOVERNMENT BY COUNTRIES

Croatia

Payments by governments	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infra-structure improvements	TOTAL
Local municipalities	-	-	281	-	-	17	-	298
Croatian Ministry of finance	-	-	110	-	1	2	-	113
TOTAL	-	-	391	-	1	19	-	411

Payments by projects	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infra-structure improvements	TOTAL
Croatia onshore	-	-	281	-	-	16	-	297
Croatia offshore	-	-	110	-	-	2	-	112
Drava PSA	-	-	-	-	1	1	-	2
TOTAL	-	-	391	-	1	19	-	411

Angola

Payments by governments	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infra-structure improvements	TOTAL
Angolan Tax Authority	-	53	-	-	-	-	-	53
TOTAL	-	53	-	-	-	-	-	53

Payments by projects	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infra-structure improvements	TOTAL
Block 3/05	-	41	-	-	-	-	-	41
Block 3/91	-	8	-	-	-	-	-	8
Block 3/05A	-	2	-	-	-	-	-	2
Block 3/85	-	2	-	-	-	-	-	2
TOTAL	-	53	-	-	-	-	-	53

Egypt

Payments by govern-ments	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infra-structure improve-ments	TOTAL
Egyptian Government (EGPC)	9	-	-	-	-	-	-	9
TOTAL	9	-	-	-	-	-	-	9

Payments by projects	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infra-structure improve-ments	TOTAL
Egypt operation - East Yidma	9	-	-	-	-	-	-	9
TOTAL	9	-	-	-	-	-	-	9

CONTACT INFORMATION

INA - INDUSTRIJA NAFTE, d.d. Zagreb
 Avenija Većeslava Holjevca 10
 Zagreb

Based on art. 22 of the Accounting Act, the Management Board of INA – INDUSTRIJA NAFTE, d.d. Zagreb makes the following:

STATEMENT ON THE CORPORATE GOVERNANCE CODE

Given the fact that INA's shares are listed on a regulated market, INA – Industrija nafte, d.d. applies the Corporate Governance Code, effective from 1 January 2011, which was jointly prepared by the Croatian Financial Services Supervisory Agency (hereinafter: Agency) and the Zagreb Stock Exchange and is published on the Internet page of the Zagreb Stock Exchange (www.zse.hr). In addition to the Corporate Governance Code, INA Group also applies its own Code of Ethics, which defines the basic values and principles to conduct the management and the employees of INA Group regarding their attitude towards work, associates, business partners and the public. The Code also sets forth the obligations of INA Group to secure appropriate work conditions and professional development of employees and ensure avoidance of unacceptable forms of behaviour. The Code covers a broad area of business relationships and processes and must be observed by all persons acting for and on behalf of INA Group, including natural persons and legal entities who are in a contractual relationship with INA Group (business partners, consultants, suppliers, sellers etc.). The Code can be accessed at INA, d.d. website (www.ina.hr). INA, d.d. generally abides by the provisions of the Corporate Governance Code, with the exceptions stated in the Annual Corporate Governance Questionnaire published on INA's website.

Some of the exceptions are as follows:

- ▶ INA, d.d. does not publish or update a list of shareholders. The ownership structure is available on the Company's website, whereas a detailed list of shareholders is kept by the Central Depository & Clearing Company Inc., which publishes a list of ten largest shareholders on its website in accordance with the law.
- ▶ INA, d.d. does not publish data on Company's shares held by the Management Board or Supervisory Board members on its website. All announcements in reference to the new securities transactions by the Management Board or Supervisory Board members can be found on the Company's website.
- ▶ INA, d.d. does not provide proxies to the Company's shareholders who are not able to vote at the General Assembly, for any reason. The shareholders who are not able to vote themselves should, at their own discretion, appoint appropriate proxies who are obliged to vote in accordance with their instructions. The Company has not received any such requests from any of its shareholders in this respect.
- ▶ The Company sets the terms and formal conditions for participation of the shareholders in the General Assembly in accordance with the Companies Act and the Company's Articles of Association, in order to protect the shareholders' rights in conditions of a large number of shareholders.
- ▶ The Supervisory Board is not composed of a majority of independent members. It is composed of major shareholders' representatives and a workers' representative, in accordance with the Companies Act.
- ▶ The long-term succession plan has not been published; however, the existing systems of electing members to the Supervisory Board, Management Board and top management take into account the continuity in performing supervisory, management and administrative functions.
- ▶ The Company's bonus policy is a part of internal rules published on the Company's website. Data on remunerations to the Management Board and Supervisory Board members are published in the annual report in their full amount. The current internal regulations do not envisage a possibility of public announcement of these data.
- ▶ The amounts of remunerations paid to independent auditors for rendered services have not been published and constitute a business secret.

INTERNAL SUPERVISION AND RISK MANAGEMENT

The main responsibilities of the Audit Committee, as a body founded by the Supervisory Board, are assisting the Supervisory Board and supervision of implementation of its decisions related to controlling, financial reporting and audit within the Company. Audit committee monitors audit processes in the Company (internal and external), discusses certain topics raised by auditors or the management and advises the Supervisory Board. Audit Committee is responsible for ensuring objectivity and credibility of information and reports that are submitted to the Supervisory Board.

Audit Committee is in charge of and has the following responsibilities:

- ▶ passing decisions on approval of flash reports for the stock exchange reporting purposes;
- ▶ giving recommendations to the Supervisory and Management Board on appointment or withdrawal of the appointment of the Company's external auditors responsible for annual audit of financial reports, taking into account independence, objectivity, efficiency and expenses of external auditors;
- ▶ meeting with external auditors to evaluate the scope and contents of annual audit and appraise the results of their work;
- ▶ at least once a year, a discussion of INA, d.d. - auditor relation and other services provided by the audit firm to ensure that none of the non-audit services influences the independence and objectivity of external audit;
- ▶ discussing the results of the annual audit with external auditors, including:
 - ▶ assessment of audited financial reports;
 - ▶ analysis of external and internal auditors' recommendations for improvement of accounting processes and internal control;
 - ▶ assessment of application of internal and external auditors' recommendations;
 - ▶ assessment of accounting processes and policies in INA, d.d. in comparison with other entities in the sector;
- ▶ approval of accounting policies and principles used by INA, d.d.;
- ▶ assessment of completeness and accuracy of data in the overall picture, presented by INA's financial reports to INA's shareholders and creditors;
- ▶ assessment of all important issues connected to legal disputes, contingencies, requests, taxes or penalties and all important accounting issues that have to be included in financial reports, in cooperation with the Management Board and external auditors;
- ▶ assessment of the scope and efficiency of the risk management system;
- ▶ assessment of the work of Internal Audit, including:
 - ▶ competence of Internal Audit;
 - ▶ planned scope of Internal Audit, objectives, authorities and human resources necessary for achieving relevant objectives;
 - ▶ Internal Audit activities in the previous period and a summary of Internal Audit report in written form;
 - ▶ cooperation of Internal Audit and external audit;
- ▶ meeting with the director of Internal Audit upon request of the Audit Committee members or the director of Internal Audit;
- ▶ meeting with the director of Accounting and Tax upon request of the Audit Committee members or the director of Accounting and Tax;
- ▶ submitting a report to the Supervisory Board about the activities and conclusions of the Audit Committee.

Internal Audit enables independent and objective assessment of financial, operative and control activities carried out within the Group on behalf of the Management Board and reports to the management through comprehensive reports on audits carried out. Internal Audit also reports on adequacy of internal controls and level of compliance with internal and external regulation. Charter of Internal Audit is a strategic document that defines the main principles and scope of work used in internal audit sector work in the Group.

The main tasks of Internal Audit include, but are not limited to:

- ▶ testing, analysis, assessment and reporting of data in an objective and independent way, as well as recommending preventive measures, aimed to add value and improve the Company's operations, through the use of professional audit standards and ethical standards determined by The Institute of Internal Auditors (IIA);
- ▶ check of operational and functional activities carried out in the Group and determining, understanding, testing and assessing existing controls with the aim to minimise the operational determined risks to the most favourable cost/benefit level;
- ▶ testing and assessing adequacy and efficiency of internal control mechanisms, assessment of information technology system and related risk areas, as well as assessment of quality in performing assigned duties;
- ▶ assessment of work or program to establish whether the results are in line with the set targets and the work and programs are carried out in a planned manner;
- ▶ assessment of reliability and accuracy of financial and operative reports, as well as the manner of identifying, measuring, sorting and reporting this data;
- ▶ assessment of the system established by the management to ensure compliance with laws, regulations, procedures, politics and plans that might significantly affect the work and reporting;
- ▶ carrying out special checks or investigations as requested by the Management or Supervisory Board of the Company;
- ▶ identification of possible frauds and reporting to Corporate Security for the purpose of further investigations.

Significant shareholders of the Company

On 31 December 2017, significant shareholders of the Company were as follows:

- ▶ MOL Nyrt. 49.08%;
- ▶ Republic of Croatia 44.84%;
- ▶ Institutional and private investors 6.08%.

General Assembly operation

General Assembly shall be held at least once a year (ordinary meeting) and whenever a meeting is required in the interest of the Company (extraordinary meeting). The General Assembly is convened by the Management Board, and may also be convened by the Supervisory Board as well as, under conditions determined by the law, shareholders who hold shares representing at least one-twentieth of the Company share capital. The right to participate in the General Assembly has each shareholder registered within the computer system of the Central Depository and provided that he has sent a prior application for participation in the General Assembly meeting. The notification of his intention to participate in the General Assembly needs to be delivered to the Company by the deadline set in the invitation, six days before the General Assembly.

The President of the Supervisory Board, or any other person as appointed by the Supervisory Board to chair the General Assembly shall preside as the Chairman of the General Assembly. The General Assembly shall be entitled to pass valid resolutions if shareholders representing at least 50% of the total number of votes are present (quorum). Resolutions of the General Assembly are passed by an ordinary majority of the votes, except for cases where a larger majority is required by the law or these Articles (qualified majority).

Composition and operations of management and supervisory bodies

The Company's Management Board shall consist of six members. The Management Board has a President, and it may also have a Vice-President specified by the Rules of Procedure of the Management Board. The President of the Management Board may have assistants and advisers appointed by the President. The President and members of the Management Board shall be appointed and recalled by the Supervisory Board. The Supervisory Board shall decide on the term of office of the members of the Management Board, but their term of office shall not exceed 5 years. Once their term expires, members of the Management Board may be reappointed without limitation as to the number of terms they may serve. The Company is represented by two members of the Management Board acting jointly, or one member of the Management Board acting jointly with one procurator.

Composition of the Management Board of the Company on 31 December 2017:

- ▶ Zoltán Áldott, president of the Management Board;
- ▶ Niko Dalić, member of the Management Board;
- ▶ Gábor Horváth, member of the Management Board;
- ▶ Ivan Krešić, member of the Management Board;
- ▶ Davor Mayer, member of the Management Board;
- ▶ Péter Ratatics, member of the Management Board.

The Supervisory Board consists of nine members. The term of office of the Supervisory Board members is four years. After the expiry of their term the members of the Supervisory Board may be re-elected without any restriction as to the number of terms.

The General Assembly appoints and dismisses eight members of the Supervisory Board. One member of the Supervisory Board is elected and recalled by employees pursuant to the Labour Act. The members of the Supervisory Board to be elected and dismissed by the General Assembly may resign from their position by delivering a letter of resignation to the President or Vice President of the Supervisory Board and to the Management Board of the Company. A member of the Supervisory Board elected and recalled by employees may give resignation to the Supervisory Board pursuant to provisions of the Labour Act. The Supervisory Board elects a President and Vice President of the Supervisory Board from among its members by a simple majority of votes. The President and Vice President of the Supervisory Board are elected for a term not exceeding four years and may be re-elected.

Composition of the Supervisory Board of the Company on 31 December 2017:

- ▶ Damir Vandelić, President of the Supervisory Board;
- ▶ József Molnár, Vice President of the Supervisory Board;
- ▶ József Simola, member;
- ▶ Szabolcs I. Ferencz, member;
- ▶ Ferenc Horváth, member;
- ▶ Jasna Pipunić, member;
- ▶ Damir Mikuljan, member;
- ▶ Luka Burilović, member;
- ▶ László Uzsoki, member.

DIVERSITY POLICY

As a company, INA, d.d. builds a culture of diversity and acceptance of differences in line with its fundamental values and with the aim of attracting, hiring and retaining talents and its employees. In INA, d.d., under diversity management we imply introduction of diversity into the work environment in any form (gender, age, ethnicity, religion, language, sexual orientation, social background, hobbies, styles of learning, political attitudes, etc.), while under diversity acceptance we imply creation of an organisational culture where differences are respected and where everybody has the opportunity to develop their skills and talents.

Procedure of career and succession management for positions in INA, d.d. is carried out for all managerial positions, and since it is an objective and unbiased system, it ensures representation of all important competencies/areas of activities aimed to achieve efficient and professional performance of successors in their future managerial role. Currently, there is a total of 42% female successors prepared to take over managerial positions from the total successor population. Through the use of the mentioned Procedure for Managers, and for the employees of operative companies, "Employee Performance Management System in INA Group", a system for identifying and developing talents, is carried out both for managers and other employees. This is also an objective and unbiased tool, to ensure gender diversity in executive, management and supervisory bodies.

In addition to the above mentioned, a diversity culture is built through specific projects and initiatives such as:

Mamforce certification

INA, d.d. was certified a "Mamforce company" in 2015. This important certification, that confirms commitment to a "family friendly" human resources management, is based on a survey on flexible work hours, working conditions of parents of small children, promotion and equal gender representation on higher management levels, etc., carried out among female employees. In 2017, INA, d.d. was recertified and acquired the full Mamforce standard, following an extensive audit process.

INA Growww 2017 – encouraging gender balance

Through Growww program 2017, a significant number of female employees was hired (43% of the total number of the employed Growwwers), which is a result of attributing greater importance to providing equal opportunities for all employees, as well as a top quality and objective selection process.

One of the more important tools INA, d.d. uses is known as **Strength Deployment Inventory (SDI)**, which improves an understanding of motives and values that drive behaviour, with the aim of improving and encouraging cooperation and teamwork among employees. SDI is based on a basic human need for a better understanding of yourself and others, leading with clarity and empathy, building teams and a more effective conflict resolution. During 2017, 10 workshops were held with almost 200 employees attending.

In March 2017, INA, d.d. organised the first open day for all employees, under the name **#svismoOK (D&I DAY)**, with the aim of raising awareness about this topic among the management and wider population of employees, where 500 participants attended the event. The event consisted of several parts, including:

- ▶ The main ceremony
 - ▶ MAMFORCE Certification
 - ▶ Panel discussion on Diversity and Inclusion (D&I Panel)
- ▶ "Global village" gathering
 - ▶ Presentation of various countries and cultures by our employees
- ▶ "6 thinking hats" workshop
 - ▶ Participants discovered their different perspectives on complex situations or challenges
- ▶ SDI workshop
 - ▶ Participants discovered their different motivational drivers and their strength
- ▶ Projects fair
 - ▶ Presenting different programs for demonstrating diversity and inclusion in our Company

Diversity & Inclusion clause

In 2017, we included D&I clause in each human resources (hereinafter: HR) regulation, which clearly communicates diversity and inclusion guidelines.

In October 2017, INA, d.d. signed and adopted the **Diversity Charter**, with a commitment to prepare and ensure implementation of a diversity strategy and non-discrimination. The Diversity Charter is an initiative launched in 16 European Union countries and funded by the European Commission. The Diversity Charter Croatia was developed within the joint project of the Croatian Business Council for Sustainable Development (HR PSOR), with partners from Slovenia and Romania. During October 2017, the Charter was signed and its decision was adopted by 34 companies and organisations, including INA, d.d.



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To the Shareholders of INA-Industrija Naft e, d.d.:

I. Independent auditor's report on the audit of consolidated and separate financial statements

We have audited financial statements of INA-Industrija Naft e, d.d. ("the Company") and its subsidiaries (together "the Group") as at 31 December 2017 which have been issued on 7 March 2018. We issued the following audit report dated 7 March 2018 on the consolidated and separate financial statements (presented in the Annual report on pages 170 to 267):

Independent auditor's report

To the Shareholders of INA - Industrija Naft e, d.d.

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the accompanying financial statements of INA - Industrija Naft e, d.d. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated and separate statement of financial position as at 31 December 2017, consolidated and separate income statement, consolidated and separate statement of other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of its consolidated and separate financial performance and its consolidated and separate 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 consolidated and separate financial statements section of our report. We are independent of the Group and of the Company 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 consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 in the consolidated and separate 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 Group's and the Company's share of reportable volumes. Hydrocarbon reserves are also a fundamental indicator of the future potential of the Group's and the Company's performance and these estimates affect significant amounts in the statement of financial position and income statement. 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 and 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 consolidated and separate financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>
<p>Impairments of the Group's and Company's long lived assets</p> <p>Impairments of the Group's and the Company's long lived assets are disclosed in Note 8 and in respective notes disclosing the underlying assets in the consolidated and separate financial statements; a description of the accounting policy and key judgements and estimates are included in Note 2 and Note 3 respectively.</p> <p>Movements in oil and gas prices can have a significant effect on the carrying value of the Group's and the Company'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 Group's and the Company's operations and cash flows.</p>	<p>We performed understanding of the process and walked through the controls designed and operated by the Group and the Company 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 Group and the Company 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 Group's and Company's long lived assets (continued)</p> <p>We assessed the principal risk arising in relation to the consolidated and separate financial statements to be associated with the carrying value of long lived assets, many of which are supported by an assessment of future cash flows. The assessment of recoverability of the asset carrying values is a complex and judgmental process as external market evidence, such as market transactions, become less reliable in a period of significant changes to the price of oil as these may have significant effect on the future cash flows generated from the long lived assets. Therefore, due to complexity and judgement used in the assessment of impairment indicators and impairment models, impairment of Group's and Company'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 current year as well as current development in the industry as well as the Group's and the Company's expectations for the key inputs to impairment models.</p> <p>In respect of performed impairment tests, we used external data in assessing and corroborating the revised assumptions used in 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 procedures to assess the completeness of the impairment charges.</p> <p>We also assessed on the adequacy of the disclosures in the consolidated and separate 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 to the consolidated and separate financial statements; a description of the accounting policy and key judgements and estimates are included in Note 2 and Note 3 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 Group and the Company 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 Group's and the Company's experts who produced the cost estimates.</p> <p>We also assessed on the adequacy of the disclosures in Consolidated and Separate Financial Statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>

Other information included in The Group's and Company's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Annual Report other than the consolidated and separate financial statements and our auditor's report thereon. The Group's and Company's 2017 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and Company'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 Group and the Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 Group's and Company'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 Group's and the Company'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 consolidated and separate 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 Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 consolidated and separate 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.

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 appointed as the statutory auditor by the General Meeting of Shareholders for the first time on 24 June 2014 and our uninterrupted engagement has lasted for 4 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated and separate financial statements expressed herein is consistent with the additional report to the Audit Committee, which we issued on 7 March 2018 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, to its parent undertaking and controlled undertakings within the 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 consolidated and separate financial statements.

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

Slaven Đuroković, Member of the Board and Certified auditor

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

7 March 2018

II. Other information included in The Group's and Company's 2017 Annual Report

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 consolidated and separate financial statements and our auditor's report thereon. Our opinion on the consolidated and separate financial statements does not cover the Other information including the Management report, Corporate Governance Statement and Report on payments to governments.

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

With respect to the Management report, Corporate Governance Statement and Report on payments to governments, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management report includes the disclosures required by Article 21 of the Accounting Act, whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act, and whether the Report on the payments to governments includes the information specified in Article 27 of the Accounting Act.



Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management report for the 2017 financial year are consistent, in all material respects, with the enclosed consolidated and separate financial statements;
2. the enclosed Management report for 2017 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;
3. Corporate Governance Statement, included in the Group's and Company's annual report, includes the information referred to in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act;
4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Group's and Company's annual report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed consolidated and separate financial statements; and
5. Report on payments to governments, included in the Group's and Company's annual report, includes the information referred to in Article 27, paragraph 4, items 1, 2 and 3 and paragraph 5 of the Accounting Act.

In addition, in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management report, Corporate Governance Statement, Report on payments to governments and Annual report. We have nothing to report in this respect.

Slaven Đuroković, Member of the Board and Certified auditor

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30 April 2018