INA GROUP and

INA - INDUSTRIJA NAFTE, d.d.

Consolidated and separate
Financial Statements for the year ended
31 December 2016
Together with Independent Auditors' Report

Content

Responsibility for the financial statements

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

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

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

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed and
- the financial statements are prepared on the going concern basis, 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 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 the prevention and detection of fraud and other irregularities.

Signed on behalf of the Group:

Zoltán Sándor Áldott, **the 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

Peter Ratatics, member of the Management Board

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

14 March 2017

EY
Building a better working world

Ernst & Young d.o.o.
Radnička cesta 50
10 000 Zagreb
Hrvatska / Croatia
MBS: 080435407
OIB: 58960122779
PDV br. / VAT no.:
HR58960122779

Tel: +385 1 5800 800
Fax: +385 1 5800 888
www.ey.com/hr

Banka / Bank:
Erste & Steiermärkische Bank d.d.
Jadranski trg 3A, 51000 Rijeka, Hrvatska / Croatia
IBAN: HR3324020061100280716
SWIFT: ESBCHR22

Independent auditor's report

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

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of INA - Industrija Nafte, d.d. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated and separate statement of financial position as at 31 December 2016, 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 2016 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.

Building a better working world

Key Audit Matter	How we addressed Key Audit Matter
Estimation of hydrocarbon reserves 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. 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 income statement and balance sheet amounts. Therefore we believe that estimation of hydrocarbon reserves is key audit matter.	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 assess 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. We have 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. We also assessed on the adequacy of the disclosures in Consolidated and Separate Financial Statements.
Impairments of the Group's long lived assets 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. 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. 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	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 have assessed the Management's competence in respect of impairment assessment by comparing the assumptions used in prior year impairment models to the achieved results in the current year. 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

Building a better working world

asset carrying values is 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 key audit matter.	expectations for the key inputs to impairment models. 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, reserves and resources volumes 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. 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 International Accounting Standard 36 Impairment of Assets.
Estimation of decommissioning provisions 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. 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.	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 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. 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 International Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets.

Building a better working world

Other information included in The Group's and Company's 2016 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 2016 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 IFRSs 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.

EY

Building a better working world

- 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.

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

ERNST & YOUNG d.o.o. Zagreb, Radnička cesta 5

Slaven Đuroković, Member of the Board and Certified auditor
Ernst&Young d.o.o.
Radnička cesta 50, Zagreb

14 March 2017

INA - INDUSTRIJA NAFTE, d.d.

INA Group Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Sales revenue	4	15,575	18,861
Capitalised value of own performance		365	466
Other operating income	5	186	440
Total operating income		**16,126**	**19,767**
Changes in inventories of finished products and work in progress		264	(238)
Cost of raw materials and consumables		(7,448)	(8,364)
Depreciation and amortisation	6	(1,677)	(2,191)
Other material costs		(2,000)	(2,567)
Service costs		(663)	(706)
Staff costs	7	(2,083)	(2,421)
Cost of other goods sold		(2,084)	(2,805)
Impairment charges (net)	8	(272)	(1,546)
Provision for charges and risks (net)	9	444	(267)
Operating expenses		**(15,519)**	**(21,105)**
Profit/(loss) from operations		**607**	**(1,338)**
Finance income	10	106	197
Finance costs	10	(252)	(608)
Net loss from financial activities		**(146)**	**(411)**
Profit/(loss) before tax		**461**	**(1,749)**
Income tax (expense)/benefit	11	(366)	331
Profit/(loss) for the year		**95**	**(1,418)**
Attributable to:			
Owners of the Company		101	(1,418)
Non-controlling interests		(6)	-
		95	**(1,418)**
Earnings per share			
Basic and diluted earnings/(loss) per share (kunas per share)	12	10.08	(141.78)

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 2016

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Profit/(loss) for the year		95	(1,418)
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	33	3	36
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	33	3	358
Gain on available-for-sale financial assets	32	83	95
Other comprehensive gain, net of income tax		89	489
Total comprehensive gain/(loss) for the year		184	(929)
Attributable to:			
Owners of the Company		190	(929)
Non-controlling interests		(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 2016

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Sales revenue	4	14,642	17,161
Capitalised value of own performance		6	9
Other operating income	5	296	299
Total operating income		**14,944**	**17,469**
Changes in inventories of finished products and work in progress		256	(233)
Cost of raw materials and consumables		(7,230)	(8,102)
Depreciation and amortisation	6	(1,600)	(2,078)
Other material costs		(1,833)	(2,086)
Service costs		(804)	(563)
Staff costs	7	(1,175)	(1,618)
Cost of other goods sold		(1,889)	(2,494)
Impairment and charges (net)	8	(108)	(1,213)
Provision for charges and risks (net)	9	346	(248)
Operating expenses		**(14,037)**	**(18,635)**
Profit/(loss) from operations		**907**	**(1,166)**
Finance income	10	155	306
Finance costs	10	(560)	(638)
Net loss from financial activities		**(405)**	**(332)**
Profit/(loss) before tax		**502**	**(1,499)**
Income tax (expense)/benefit	11	(342)	296
Profit/(loss) for the year		**160**	**(1,202)**

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

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Profit/(loss) for the year		160	(1,202)
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	33	1	29
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	33	14	355
Gain on available-for-sale financial assets	32	83	95
Other comprehensive gain, net of income tax		98	479
Total comprehensive gain/(loss) for the year		258	(723)

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

(all amounts are presented in HRK millions)

ASSETS	Note	31 December 2016	31 December 2015
Non-current assets			
Intangible assets	13	536	540
Property, plant and equipment	14	12,573	12,730
Investments in associates	16	22	22
Other investments	17	13	14
Long-term receivables and other assets	18	128	144
Deferred tax assets	11	1,769	2,094
Available-for-sale assets	19	676	581
Total non – current assets		15,717	16,125
Current assets			
Inventories	20	2,050	1,820
Trade receivables, net	21,36	1,591	1,724
Other receivables	22	184	136
Corporate income tax receivables		11	23
Other current assets	23	120	278
Cash and cash equivalents	24	611	275
		4,567	4,256
Held-for-sale assets		8	1
Total current assets		4,575	4,257
TOTAL ASSETS		20,292	20,382

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

(all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	Note	31 December 2016	31 December 2015
Capital and reserves			
Share capital	31	9,000	9,000
Legal reserves		20	330
Fair value reserves	32	299	216
Other reserves	33	1,647	1,641
Accumulated loss	34	(233)	(602)
Equity attributable to owners of the Company		10,733	10,585
Non-controlling interest	35	(136)	-
TOTAL EQUITY		10,597	10,585
Non – current liabilities			
Long-term loans	27	271	400
Other non-current liabilities	28	60	66
Employee benefit obligation	30	85	101
Provisions	29	3,224	3,266
Deferred tax liabilities		13	22
Total non–current liabilities		3,653	3,855
Current liabilities			
Bank loans	25	2,711	2,768
Current portion of long-term loans	25	135	139
Trade payables	26,36	1,857	1,400
Taxes and contributions	26	637	665
Other current liabilities	26	498	511
Employee benefit obligation	30	10	8
Provisions	29	194	451
Total current liabilities		6,042	5,942
Total liabilities		9,695	9,797
TOTAL EQUITY AND LIABILITIES		20,292	20,382

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 2016
(all amounts are presented in HRK millions)

ASSETS	Note	31 December 2016	31 December 2015
Non-current assets			
Intangible assets	13	380	385
Property, plant and equipment	14	11,169	11,542
Investment in subsidiaries	15	805	1,000
Investments in associates	16	22	22
Other investments	17	809	692
Long-term receivables	18	137	149
Deferred tax assets	11	1,684	1,995
Available-for-sale assets	19	676	581
Total non–current assets		15,682	16,366
Current assets			
Inventories	20	1,802	1,597
Intercompany receivables	36	258	140
Trade receivables, net	21,36	1,315	1,176
Other receivables	22	153	84
Corporate income tax receivables		1	8
Other current assets	23	434	250
Cash and cash equivalents	24	500	195
Total current assets		4,463	3,450
TOTAL ASSETS		20,145	19,816

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

(all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	Note	31 December 2016	31 December 2015
Capital and reserves			
Share capital	31	9,000	9,000
Legal reserves		20	330
Fair value reserves	32	299	216
Other reserves	33	1,288	1,273
Retained earnings/(accumulated loss)	34	160	(310)
TOTAL EQUITY		10,767	10,509
Non–current liabilities			
Long term loans	27	271	400
Other non-current liabilities	28	60	65
Employee benefit obligation	30	46	66
Provisions	29	3,314	3,374
Total non–current liabilities		3,691	3,905
Current liabilities			
Bank loans	25	2,487	2,508
Current portion of long-term loans	25	135	133
Intercompany payables	36	560	488
Trade payables	26,36	1,498	967
Taxes and contributions	26	552	606
Other current liabilities	26	336	348
Employee benefit obligation	30	2	4
Provisions	29	117	348
Total current liabilities		5,687	5,402
Total liabilities		9,378	9,307
TOTAL EQUITY AND LIABILITIES		20,145	19,816

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 2016
(all amounts are presented in HRK millions)

	Share capital	Legal reserves	Fair value reserves	Other reserves	Accumulated loss	Attributable to equity holders of the parent	Non controlling interest	Total
Balance at 1 January 2015	9,000	330	121	2,851	(641)	11,661	(1)	11,660
Transfer from other reserves to retained earnings	-	-	-	(1,640)	1,640	-	-	-
Dividend paid	-		-	-	(150)	(150)	-	(150)
Subtotal	9,000	330	121	1,211	849	11,511	(1)	11,510
Loss for the year	-	-	-	-	(1,418)	(1,418)	-	(1,418)
Other comprehensive gain, net	-	-	95	394	-	489	-	489
Total comprehensive income/(loss) for the year	-	-	95	394	(1,418)	(929)	-	(929)
Foreign exchange differences transferred of other reserves and other changes	-	-	-	36	(33)	3	1	4
Balance at 31 December 2015	9,000	330	216	1,641	(602)	10,585	-	10,585
Transfer from legal reserves to retained earnings	-	(310)	-	-	310	-	-	-
Purchase of subsidary	-	-	-	-	(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 income, 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

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 2016

(all amounts are presented in HRK millions)

	Share capital	Legal reserves	Fair value reserves	Other reserves	Retained earnings/ (Accumulated loss)	Total
Balance at 1 January 2015	9,000	330	121	2,529	(504)	11,476
Transfer other reserves to retained earnings	-	-	-	(1,640)	1,640	-
Dividend paid	-	-	-	-	(150)	(150)
Loss brought forward from legal merger	-	-	-	-	(94)	(94)
Subtotal	9,000	330	121	889	892	11,232
Loss for the year	-	-	-	-	(1,202)	(1,202)
Other comprehensive income, net	-	-	95	384	-	479
Total comprehensive income/(loss) for the year	-	-	95	384	(1,202)	(723)
Balance at 31 December 2015	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 income, 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

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

INA - INDUSTRIJA NAFTE, d.d.

INA Group Consolidated Statement of Cash Flows

For the year ended 31 December 2016

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Profit/(loss) for the year		95	(1,418)
Adjustments for:			
Depreciation and amortisation		1,677	2,191
Income tax expense/(benefit) recognised in profit and loss		366	(331)
Impairment charges (net)		272	1,546
Gain on sale of property, plant and equipment		(17)	(19)
Loss/(gain) on sale of investments and shares		2	(32)
Foreign exchange loss		49	205
Interest expense (net)		38	58
Other finance expense recognised in income statement		10	77
(Decrease)/increase in provisions		(469)	201
Decommisioning interests and other provision		50	70
Net loss/(gain) on derivative financial instruments and hedge transactions		44	(19)
Loss from emmission quotas		28	29
Other non-cash items		5	(22)
		2,150	2,536
Movements in working capital			
(Increase)/decrease in inventories		(249)	6
Decrease in receivables and prepayments		37	220
Increase/(decrease) in trade and other payables		333	(651)
Cash generated from operations		2,271	2,111
Taxes paid		(43)	(157)
Net cash inflow from operating activities		2,228	1,954
Cash flows used in investing activities			
Capital expenditures, exploration and development costs		(1,337)	(1,561)
Payments for intangible assets		(65)	(38)
Proceeds from sale of non-current assets		30	33
Amount related to sale of subsidiary (net)		1	(3)
Dividends received from companies classified as available-for-sale and from other companies		18	7
Interest received and other financial income		13	15
Investments and loans to third parties (net)		(185)	39
Net cash used for investing activities		(1,525)	(1,508)

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from financing activities			
Additional long-term borrowings		1,192	1,602
Repayment of long-term borrowings		(1,316)	(1,926)
Additional short-term borrowings		10,416	12,237
Repayment of short-term borrowings		(10,506)	(12,221)
Dividends paid		-	(150)
Interest paid on long-term loans		(12)	(16)
Interest paid on short term loans and other interest charges		(124)	(124)
Net cash used in financing activities		(350)	(598)
Net increase/(decrease) in cash and cash equivalents		353	(152)
At 1 January		275	467
Effect of foreign exchange rate changes		(17)	(40)
At 31 December	24	611	275

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 2016

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Profit/(loss) for the year		**160**	**(1,202)**
Adjustments for:			
Depreciation and amortisation		1,600	2,078
Income tax expense/(benefit) recognised in income statement		342	(296)
Impairment charges (net)		108	1,213
Gain on sale of property plant and equipment		(21)	(10)
Income from capital increase of subsidiary		(135)	-
Foreign exchange loss		23	139
Interest income (net)		(11)	(12)
Other finance expense recognised in income statement		342	171
(Decrease)/increase in provisions		(366)	262
Decommisioning interests		51	75
Net loss/(gain) on derivative financial instruments and hedge transactions		44	(19)
Loss from emmission quotas		28	29
Other non-cash items		(1)	(4)
		2,164	**2,424**
Movements in working capital			
Increase in inventories		(227)	(39)
(Increase)/decrease in receivables and prepayments		(256)	266
Increase/(decrease) in trade and other payables		441	(855)
Cash generated from operations		**2,122**	**1,796**
Taxes paid		(37)	(114)
Net cash inflow from operating activities		**2,085**	**1,682**
Cash flows used in investing activities			
Capital expenditures, exploration and development costs		(1,260)	(1,394)
Payment for intangible assets		(62)	(61)
Proceeds from sale of non-current assets		37	10
Proceeds from sale of financial assets		1	2
Dividends received from companies classified as available- for-sale and from other companies		16	7
Payments received from subsidiaries		15	16
Interest received and other financial income		8	53
Investments and loans, net		(260)	(99)
Net cash used in investing activities		**(1,505)**	**(1,466)**

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from financing activities			
Additional long-term borrowings		1,192	1,602
Repayment of long-term borrowings		(1,309)	(1,913)
Additional short-term borrowings		10,538	12,427
Repayment of short-term borrowings		(10,557)	(12,268)
Dividends paid		-	(150)
Interest paid on long-term loans		(12)	(15)
Other long-term liabilities, net		-	3
Interest paid on short term loans and other interest charges		(120)	(35)
Net cash used in financing activities		**(268)**	**(349)**
Net increase/(decrease) in cash and cash equivalents		**312**	**(133)**
At 1 January		195	327
Effect of foreign exchange rate changes		(7)	1
At 31 December	24	**500**	**195**

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

(all amounts are presented in HRK millions)

1. GENERAL

History and incorporation

INA 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. Zagreb 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.

The ownership structure* of the INA Group as of 31 December 2016 and 2015:

	31 December 2016		31 December 2015	
	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.

(all amounts are presented in HRK millions)

1. GENERAL (CONTINUED)

Principal activities

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

(i) exploration and production of oil and gas deposits, primarily onshore and offshore within Croatia; other licence interests are 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 495 retail outlets in operation as of 31 December 2016 (of which 387 in Croatia and 108 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 on-shore and off-shore 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 marketing 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 headquarters of the Group are located in Zagreb, Avenija V. Holjevca 10, Croatia. As at 31 December 2016 there were 10,861 persons employed at the Group (11,256 as at 31 December 2015). As at 31 December 2016 there were 4,387 persons employed at INA, d.d. (7,352 as at 31 December 2015).

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 10 July 2014 until 9 June 2016

Siniša Petrović	Chairman
György Mosonyi	Deputy chairman
József Molnár	Member of the Supervisory Board
Szabolcs I. Ferencz	Member of the Supervisory Board
Željko Perić	Member of the Supervisory Board
Mladen Proštenik	Member of the Supervisory Board
Oszkár Világi	Member of the Supervisory Board
Ferenc Horváth	Member of the Supervisory Board
Jasna Pipunić*	Representative of employees in the Supervisory Board

*Maja Rilović participated in the Supervisory Board until 12 April 2016 when Jasna Pipunić was elected as the Representative of employees in the Supervisory Board

(all amounts are presented in HRK millions)

1. GENERAL (CONTINUED)

Directors, Management and Supervisory Board (continued)

Supervisory Board (continued)

Supervisory Board since 10 June 2016 until 18 December 2016

Damir Vanđelić	Chairman
György Mosonyi	Deputy chairman
József Molnár	Member of the Supervisory Board
Szabolcs I. Ferencz	Member of the Supervisory Board
Luka Burilović	Member of the Supervisory Board
Dario Čehić	Member of the Supervisory Board
Oszkár Világi	Member of the Supervisory Board
Ferenc Horváth	Member of the Supervisory Board
Jasna Pipunić	Representative of employees in the Supervisory Board

Supervisory Board since 19 December 2016 until 18 December 2020

Damir Vanđelić	Chairman
József Molnár	Deputy chairman
Szabolcs I. Ferencz	Member of the Supervisory Board
Luka Burilović	Member of the Supervisory Board
Dario Čehić	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 2015 until 31 March 2016

Zoltán Sándor Áldott	President of the Management Board
Horváth Gábor	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

Management Board since 1 April 2016 until 31 March 2017

Zoltán Sándor Áldott	President of the Management Board
Horváth Gábor	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

(all amounts are presented in HRK millions)

1. GENERAL (CONTINUED)

Directors, Management and Supervisory Board (continued)

Executive Directors

Executive Board appointed by the decision of the Management Board since 1 September 2014 until 31 January 2016

Želimir Šikonja	Executive Director of Exploration and Production
Bengt Viktor Oldsberg	Executive Director of Refining and Marketing
Darko Markotić	Executive Director of Retail
András Huszár	Executive Director of Finance
Tvrtko Perković	Executive Director of Corporate Centre
Tomislav Thür	Executive Director of Corporate Affairs

Executive Board appointed by the decision of the Management Board since 1 February 2016 for an unlimited period of time

Želimir Šikonja	Executive Director of Exploration and Production
Bengt Viktor Oldsberg	Executive Director of Refining and Marketing
Darko Markotić	Executive Director of Retail
Dr. Ákos Székely	Executive Director of Finance
Tvrtko Perković	Executive Director Corporate Centre
Tomislav Thür	Executive Director Corporate Affairs

On 12 December 2016, The Management Board of INA, d.d., after prior approval of the Supervisory Board, approved changes in terminology of corporate governance model and organizational structure of INA, d.d. as of 1 January 2017.

Council of Directors

Council of Directors appointed by the decision of the Management Board since 1 January 2017 for an unlimited period of time

Dr. Ákos Székely	Chief Financial Officer
Darko Markotić	Operating Director of Retail
Bengt Viktor Oldsberg	Operating Director of Refining and marketing
Tvrtko Perković	Operating Director of Corporate Centre
Želimir Šikonja	Operating Director of Exploration and Production
Tomislav Thür	Operating Director of Corporate Affairs

Company secretary

Acting Company Secretary since 1 June 2015 until 28 February 2016

Duško Margušić	Acting Company Secretary of INA, d.d.

Secretary since 1 March 2016 for an unlimited period of time

Nives Troha	Secretary of INA, d.d.

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 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 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.

2. ACCOUNTING POLICIES (CONTINUED)

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 and interpretations issued by the International Financial Reporting Interpretations Committee and adopted by the European Union (EU) are effective for the current period:

- **Amendments to various standards *Improvements to IFRSs (cycle 2010-2012)*** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording, issued in December 2013 and adopted in EU 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015 in EU).

- **Amendments to IAS 19 *Employee Benefits*** - Defined Benefit Plans: Employee Contributions, adopted in EU 17 December 2014 (effective in EU for annual periods beginning on or after 1 February 2015).

- **Amendments to IFRS 11 *Joint Arrangements*** on accounting for acquisitions of interests in joint operations, as amended in May 2014. The amendments apply prospectively to acquisitions of interests in joint operations in which the activities of the joint operations constitute businesses, as defined in IFRS 3, adopted in EU 24 November 2015 (effective date for annual periods beginning on or after 1 January 2016).

- **Amendments IAS 16 *Property, Plant and Equipment*** and **IAS 38 *Intangible Assets*** issued in May 2014 to clarify of Acceptable Methods of Depreciation and Amortization, adopted in EU 2 December 2015, (effective date for annual periods beginning on or after 1 January 2016).

- **Amendments to IAS 16 and IAS 41 *Bearer Plants,*** issued in June 2014, adopted in EU 24 November 2015, (effective date for annual periods beginning on or after 1 January 2016).

- **Annual Improvements to IFRSs (cycle 2012-2014)** resulting from the amendments on standards IFRS 5, IAS 19, IFRS 7 and IAS 34 issued in September 2014, adopted 15 December 2015, (effective date for annual periods beginning on or after 1 January 2016).

- **Amendments to *IAS 1 Disclosure Initiative***, clarify the requirements for additional subtotals that are presented in statement issued in December 2014 and adopted in EU 18 December 2015 (effective date for annual periods beginning on or after 1 January 2016).

- **Amendments to IAS 27 *Separate Financial Statements*** (as amended in 2011) reinstating the equity method as an accounting option for investments in in subsidiaries, joint ventures and associates in an entity's separate financial statements, issued in August 2014 and adopted in EU 18 December 2015 (effective date for annual periods beginning on or after 1 January 2016).

2. ACCOUNTING POLICIES (CONTINUED)

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

Standards and Interpretations effective in the current period (continued)

- **Amendments to IFRS 10, IFRS 12 and IAS 28,** regarding the application of the consolidation exception, issued in December 2014, adopted in EU 22 September 2016 (effective date for annual periods beginning on or after 1 January 2016).

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:

- **IFRS 9** ***Financial Instruments,*** issued in July 2014 the final version that replaced the IAS 39 *Financial Instruments: Recognition and Measurement,* adopted in EU 22 November 2016 (effective for annual periods beginning on or after 1 January 2018).

Management anticipates that the adoption of IFRS 9 *Financial instruments* will have impact on disclosure of financial instruments and no impact on measurement of financial instruments.

- **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 (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018).

The new standards IFRS 15 *Revenue from Contracts with Customers* will have an impact on revenue recognition. The Company is in the process of assessment of the impact that the adoption of the standard will have on disclosure of the revenue.

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:

- **IFRS 14** ***Regulatory Deferral Accounts,*** issued in January 2014 (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016). The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard. Since the Group is an existing IFRS preparer, this standard would not apply.

- **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 (effective date for annual periods beginning on or after 1 January 2019). The endorsement might be expected in 2017.

- **Clarification to IFRS 15** ***Revenue from Customers,*** issued in April 2016 (effective date for annual periods beginning on or after 1 January 2018). The endorsement might be expected in 2017.

- **Amendments to IFRS 2** ***Share-based Payment,*** issued in June 2016 to clarify the classification and measurement of share-based payment transactions, not adopted in EU, (effective date for annual periods beginning on or after 1 January 2018). The endorsement might be expected in 2017.

2. ACCOUNTING POLICIES (CONTINUED)

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

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

- **Amendments to IFRS 4,** applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts,* issued in September 2016, (effective date for annual periods beginning on or after 1 January 2018).

- **Amendments to IFRS 10 and IAS 28,** regarding the sale or contribution of assets between an investor and its associate or joint venture issued in September 2014 (effective date for annual periods beginning on or after 1 January 2016). The EU postpone the endorsement and decide to wait further IASB developments.

- **Amendments to IAS 12: *Income Tax,*** regarding recognition of deferred tax assets for unrealised losses, issued in January 2016 (effective date for annual periods beginning on or after 1 January 2017). The endorsement might be expected in 2017.

- **Amendments to IAS 7 *Cash flow,*** a new disclosure initiative, issued in January 2016 (effective date for annual periods beginning on or after 1 January 2017). The endorsement might be expected in 2017.

- **Annual Improvements to IFRSs (cycle 2014-2016)** resulting from the amendments on standards IFRS 1, IAS 28 and IFRS 12 issued on 8 December 2016. The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017.

- **IFRIC Interpretation 22 *Foreign currency transaction and advance consideration*** issued on 8 December 2016 (effective for annual reporting periods beginning on or after 1 January 2018).

- **Amendments to IAS 40 *Transfers of investment property*** issued on 8 December 2016 (effective for annual reporting periods beginning on or after 1 January 2018).

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:

- 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.

2. ACCOUNTING POLICIES (CONTINUED)

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

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 (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). 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.

2. ACCOUNTING POLICIES (CONTINUED)

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.

2. ACCOUNTING POLICIES (CONTINUED)

Business combination (continued)

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 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.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

2. ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate and joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with its associate or a joint venture, profits and losses resulting from the transactions with the associate or a joint venture of the Group, are recognised in the Group' consolidated financial statements only to the extent of interests in the associate or a joint venture that are not related to the Group.

2. ACCOUNTING POLICIES (CONTINUED)

Interests in joint operations

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

When a Group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

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 a 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 a 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.

Fields under development

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

2. ACCOUNTING POLICIES (CONTINUED)

Oil and gas properties (continued)

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. 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.

2. ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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
Petrol service stations	30	years
Telecommunication and office equipment	2 - 10	years

The residual values, useful lives and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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.

2. ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets other than goodwill (continued)

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

The determination whether an arrangement contains or is a lease depends on the substance of the arrangement at inception date. If fulfilment of the arrangement depends on the use of a specific asset or conveys the right to use the asset, it is deemed to contain a lease element and are 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. Minimum lease payments are apportioned between the finance charges and reduction of the lease liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are charges directly against income of the period. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Initial direct costs incurred in negotiating a operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as the lease income. 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 statement of profit or 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.

2. ACCOUNTING POLICIES (CONTINUED)

Receivables from customers (continued)

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 96.5% 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 2016 was 1.87% and for 2015 was 2.00%.

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.

2. ACCOUNTING POLICIES (CONTINUED)

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 kunas (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 translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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

Business activities of INA 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 USD except on gas field Isabella where the functional currency is the euro. 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.

2. ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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 (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), 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.

2. ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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 liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax laws that have been enacted or substantively enacted by the statement of financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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 INA, d.d. and the Group intend to settle its current tax assets and liabilities.

Current and deferred tax for the period

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised 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 the accounting for the business combination.

2. ACCOUNTING POLICIES (CONTINUED)

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 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 revaluation reserve 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 revaluation reserve 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 are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Attributable transaction costs are recognised in profit or loss as incurred. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

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.

2. ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

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 revaluation reserve.

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.

2. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (continued)

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.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid and dividends on the financial liability and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

2. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (continued)

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.

2. ACCOUNTING POLICIES (CONTINUED)

Hedging (continued)

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.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

In the ordinary course of business, the Company and Group have entered into certain long-term, foreign currency supply and sales contracts which, under IAS 39, include embedded derivatives. An embedded derivative is a component of a contract which has the effect that the cash flows arising under the contract vary, in part, in a similar way to a standalone derivative. IAS 39 requires that such embedded derivatives are separated from the host contracts and accounted for as derivatives carried at fair value, with changes in fair value being charged or credited to the statement of profit or loss.

The fair value of embedded forward foreign exchange contracts is determined by reference to spot market foreign currency rates at the statement of financial position date, because there is no active forward market in the countries involved in contracts. The fair value of an embedded inflation index swap is determined by the reference to the cumulative inflation index differential between the contracted inflation escalator and inflation in the country where the contract is executed. The long-term effects of these embedded derivatives are discounted using a discount rate similar to the interest rate on government bonds.

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.

2. ACCOUNTING POLICIES (CONTINUED)

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 and real interest rate. When discounting is used, the reversal of such discounting in each year is recognised as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

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

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.

2. ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Sales of goods that result in award credits for customers are accounted for as multiple element revenue transactions. The consideration allocated to the award credits is measured by reference to their fair value, the amount for which the award credits could be sold separately.

The Group has not included extensive disclosure regarding the loyalty programme as the amounts are not significant.

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

According to Accounting policies and procedures the Group applied IAS 11 *Construction Contracts* meeting the following criteria:

- individual contract value is in excess of HRK 3 million
- the contract period is over twelve 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 28 million in 2016 (2015: HRK 1,116 million).

Carrying value of goodwill

In 2016 there was no goodwill impairment, while in 2015 based on impairment testing for goodwill impairment in amount of HRK 31 million was recorded (see note 13). The carrying amount of goodwill amounted to HRK 152 million as of 31 December 2016 and 2015 (see note 13).

Carrying value of intangible exploration and appraisal assets

The carrying amount of intangible exploration and appraisal assets amounted to HRK 197 million as of 31 December 2016 and HRK 196 million 2015 (see note 13). In 2016 in INA Group there was no impairment of intangible exploration and appraisal assets while in 2015 impairment was recognized in amount of HRK 102 million (see note 13).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

Carrying value of production oil and gas assets

The carrying amount of production oil and gas assets amounted to HRK 4,069 million as of 31 December 2016 and HRK 3,873 million in 2015 (see note 14). In 2016 in INA Group financial statements the impairment is recognized in the amount of HRK 26 million (2015: HRK 951 million) (see note 14).

Key assumptions used

Refining and Marketing BD

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 conducted.

Upstream BD

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.

Nevertheless, related to one oil field, Obod, an impairment test was concluded and impairment was booked in the amount of HRK 24 million due to a gas eruption on the field which resulted in the loss of majority of recoverable resources.

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 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.

In January, 2017 there was an attack by ISIS militia on the Hayan gas treatment plant. Based on the available information the majority of the damage from the explosion was caused to the control room. However, the most significant and expensive equipment used in the gas production, such as turbines, remained intact from the explosion.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

Impairment of non-current assets and current assets in Syria

Bearing in mind the attack on the Hayan gas treatment plant, and also following a practice in recent years, INA conducted an impairment test for its Syrian assets.

The Company used an advice of a renowned external consultant on the subject matter which consulted the Company on the current and outlook of political situation in Syria. In accordance with the provided consultation the probabilities of scenarios with more favourable outcome for the Company have increased compared to previous year. These scenarios counter balance the impact of the estimated damages of our Syrian assets. Therefore, based on the results of the impairment test there is no need for the further impairment of the Company's Syrian assets at 31 December 2016.

The most significant variables in determining cash flows are the assumptions and estimates used to determine the future annual production volumes, the amount and timing of cash inflows and outflows, including crude oil and natural gas prices (considering the price formulae set out in the respective Production Sharing Agreement), operating expenses, probabilities relating to different scenarios, discount rates, the period for which cash flow projections are made as well as the incremental rebuilding costs.

While such cash flows reflect the management's best estimate for the future, these estimates are exposed to an increased uncertainty as a result of the political, security and economic conditions in Syria. The possible impacts of multiple probability weighted settlement scenarios on Group's operation in Syria representing:

a) Destruction: the properties are subject to physical damage as a result of targeted or accidental attacks. In case of only partial damage, return to operation is still possible, while in case of full damage of properties, no return is assumed.

b) Return to operation: after crisis settlements and full or partial removals of sanctions the Group expects to return to operations within 2 to 5 years.

c) No return: the Group is disabled returning at all and the assets are lost.

For estimation of future production volumes the proved developed reserves derived from business plans prior to Force Majeure were used. Asset-specific discount rates were derived from the USD-based upstream weighted average cost of capital and are adjusted for project-specific risks, as applicable (see note 14).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

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 2016 overdue receivables amounted to HRK 486 million and are up to two years past due date. The Company impaired total of HRK 462 millions of receivables at 31 December 2016.

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 2,475 million as at 31 December 2016 (31 December 2015: HRK 2,457 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 2016 INA Group recognized environmental provision in amount HRK 308 million (2015: HRK 333 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 filling stations. It does not cover the cost of remediation in lack of detailed National regulations.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

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

A deferred tax asset is recognized for unused tax losses and other temporary tax differences to the extent that it is probable that the related tax benefit will be realised against future taxable profits. 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 2016 the carrying amount of deferred tax assets of the INA Group amounted to HRK 1,769 million (2015: HRK 2,094 million) and deferred tax liabilities amounted HRK 13 million (2015: HRK 22 million). At 31 December 2016 the carrying amount of deferred tax assets of INA, d.d. amounted to HRK 1,684 million, (31 December 2015: HRK 1,995 million respectively) (see note 11). Not recognized deferred tax asset for INA Group amounts to HRK 43 million and relates to tax losses carried forward.

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 95 million as at 31 December 2016 (31 December 2015: HRK 109 million), and INA, d.d. amounted to HRK 48 million as at 31 December 2016 (31 December 2015: HRK 70 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 2016 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:

(all amounts are presented in HRK millions)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Hydrocarbon reserves (continued)

- 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 2016 in order to ensure consistence of presentation with current year the Company and the Group reclassified accounts of unused vacation as well as bonuses from provision to other current liabilities. The effect of reclassification of account of statement of financial position are as follows:

INA Group

	2015 before reclassification	Expense of unused holidays and employees bonuses	2015 reclassified
Other current liabilities	335	176	511
Provisions	627	(176)	451
Total	962	-	962

INA, d.d.

	2015 before reclassification	Expense of unused holidays and employees bonuses	2015 reclassified
Other current liabilities	233	115	348
Provisions	463	(115)	348
Total	696	-	696

4. SEGMENT INFORMATION

The INA Group operates through three core business segments. The strategic business segments offer different products and services.

Reporting segments, which is in INA Group represent business division (BD), have been defined along value chain standard for the oil companies:

- BD Exploration and Production of Oil and Gas – exploration, production and selling of crude oil and natural gas;
- BD Refining and Marketing – crude oil processing, wholesale of refinery products, selling of fuels and commercial goods in retail stations and logistics; and
- Business function - in addition to the core business segments in above, the operations of the INA Group include segment Business function which 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 BD Exploration and Production of Oil and Gas to BD Refining and Marketing. Evaluation of inventories of domestic crude, finished and semi-finished products in BD Refining and Marketing is based on the transfer price from BD Exploration and Production to BD 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.

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

The following table presents information on revenues and expenditures of INA Group division for 2016:

2016	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Sales to external customers	2,023	13,062	490	-	15,575
Intersegment sales	1,867	32	1,120	(3,019)	-
Total revenue	**3,890**	**13,094**	**1,610**	**(3,019)**	**15,575**
Operating expenses, net of other operating income	(2,718)	(13,020)	(2,106)	2,876	(14,968)
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 on revenues and expenditures of INA Group division for 2015:

2015	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Sales to external customers	2,843	14,795	1,223	-	18,861
Intersegment sales	2,127	36	1,125	(3,288)	-
Total revenue	**4,970**	**14,831**	**2,348**	**(3,288)**	**18,861**
Operating expenses, net of other operating income	(4,598)	(16,156)	(2,856)	3,411	(20,199)
Profit/(loss) from operations	**372**	**(1,325)**	**(508)**	**123**	**(1,338)**
Net finance loss					(411)
Loss before tax					(1,749)
Income tax benefit					331
Loss for the year					**(1,418)**

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

The following table presents information of financial position of INA Group division for 2016:

31 December 2016 **Assets and liabilities**	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
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.

The following table presents information of financial position of INA Group division for 2015:

31 December 2015 **Assets and liabilities**	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Intangible assets	224	45	271	-	540
Property, plant and equipment	6,056	5,130	1,692	(148)	12,730
Investments in associates	22	-	-	-	22
Inventories	164	1,604	227	(175)	1,820
Trade receivables, net	582	790	611	(259)	1,724
Not allocated assets					3,546
Total assets					**20,382**
Trade payables	371	837	451	(259)	1,400
Not allocated liabilities					8,397
Total liabilities					**9,797**
Other segment information					
Property, plant and equipment	814	608	208	(37)	1,593
Intangible assets	16	5	26	-	47
Capital expenditure:	**830**	**613**	**234**	**(37)**	**1,640**
Depreciation and amortisation	**1,468**	**533**	**190**	**-**	**2,191**
Total impairment charges, net *	**1,218**	**8**	**301**	**19**	**1,546**

* See note 8.

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

BY GEOGRAPHICAL

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

31 December 2015	**Republic of Croatia**	**Egypt**	**Angola**	**Syria**	**Other countries**	**Total**
Intangible assets	366	-	-	-	174	540
Property, plant and equipment	11,554	153	109	291	623	12,730
Investments in associates	22	-	-	-	-	22
Inventories	1,690	30	-	-	100	1,820
Trade receivables, net	1,034	81	44	-	565	1,724
Not allocated assets						3,546
Total assets						**20,382**
Other segment information						
Property, plant and equipment	1,323	109	56	-	105	1,593
Intangible assets	47	-	-	-	-	47
Capital expenditure:	**1,370**	**109**	**56**	**-**	**105**	**1,640**

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

INA Group

	Revenues from external customers	
	2016	**2015**
Republic of Croatia	9,355	11,116
Bosnia and Hercegovina	1,784	2,098
Switzerland	1,497	1,156
Slovenia	779	773
Other countries	2,160	3,718
	15,575	18,861

INA, d.d.

	Revenues from external customers	
	2016	**2015**
Republic of Croatia	9,180	10,870
Bosnia and Hercegovina	1,557	1,838
Switzerland	1,496	1,156
Slovenia	685	666
Other countries	1,724	2,631
	14,642	17,161

Information about major customers

In 2016 and 2015 there was no single customer which would contribute to the Group's revenue 10% or more.

5. OTHER OPERATING INCOME

	INA Group		INA, d.d.	
	2016	**2015**	**2016**	**2015**
Income from rental activities	40	42	52	62
Income from tax refund	31	2	25	2
Penalty interest from customers	28	12	26	11
Profit from sale of assets	22	57	26	24
Additional discounts from contracts	21	2	8	2
Commission fee	12	12	11	12
Surpluses	11	22	15	20
Income from collected damage claims	7	3	3	12
Income from termination of contracts	-	173	-	66
Income from contribution of asset to subsidiary	-	-	135	-
Non-hedging commodity derivative	(44)	19	(44)	19
Other	58	96	39	69
Total	186	440	296	299

(all amounts are presented in HRK millions)

6. DEPRECIATION AND AMORTISATION

	INA Group		INA, d.d.	
	2016	**2015**	**2016**	**2015**
Depreciation of property, plant and equipment (note 14 b)	1,635	2,156	1,560	2,044
Amortisation of intangible assets (note 13)	42	35	40	34
Depreciation	**1,677**	**2,191**	**1,600**	**2,078**

7. STAFF COSTS

	INA Group		INA, d.d.	
	2016	**2015**	**2016**	**2015**
Net payroll	1,012	1,191	545	780
Tax and contributions for pensions and health insurance	710	824	428	575
Other payroll related costs	361	406	202	263
	2,083	**2,421**	**1,175**	**1,618**

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

	INA Group		INA, d.d.	
	2016	**2015**	**2016**	**2015**
	Number of employees	Number of employees	Number of employees	Number of employees
Refining and marketing	6,090	6,052	2,513	5,301
Corporate function	3,548	3,876	652	724
Exploration and production	1,223	1,328	1,222	1,327
	10,861	**11,256**	**4,387**	**7,352**

(all amounts are presented in HRK millions)

8. IMPAIRMENT CHARGES (NET)

	INA Group		INA, d.d.	
	2016	2015	2016	2015
Impairment and loss on sale of assets held for sale, net	139	-	-	-
Impairment of inventory, net	52	99	38	69
Impairment of trade receivables, net	33	177	18	116
Impairment of tangible and intangible assets, net*	26	1,215	24	1,004
Writte-off PP&E and intangibles, net	24	11	23	11
Impairment of goodwill	-	31	-	-
Other impairment, net	(2)	13	5	13
	272	1,546	108	1,213

* See note 13 and 14

9. PROVISIONS FOR CHARGES AND RISKS (NET)

	INA Grupa		INA, d.d.	
	2016	2015	2016	2015
(Utilisation)/provision for incentives	(236)	166	(221)	160
Provision/(utilisation) for contractual liabilities for taxation	(51)	2	-	-
Utilisation of provision for legal claims	(45)	(21)	(29)	(19)
(Utilisation)/provision for Angolan taxes	(28)	99	(28)	99
Utilisation of provision for enviromental liabilities	(23)	(2)	(21)	(2)
Utilisation of provision for retirement and jubilee benefits	(17)	(36)	(23)	(34)
(Utilisation)/provision for emmision rights	(8)	20	(8)	20
Other provisions	(36)	39	(16)	24
	(444)	267	(346)	248

(all amounts are presented in HRK millions)

10. FINANCE INCOME AND FINANCE EXPENSES

	INA Group		INA, d.d.	
	2016	2015	2016	2015
Foreign exchange gains from loans and cash	49	76	42	69
Foreign exchange gains from trade receivables and payables	23	79	13	34
Interest received and other financial income	16	21	68	166
Dividends received	16	7	16	7
Profit allocation received from subsidiaries	-	-	16	16
Positive fair value changes of embedded derivatives	-	14	-	14
Other financial income	2	-	-	-
Finance income	106	197	155	306
Interest expense	93	117	93	114
Foreign exchange losses from loans and cash	87	212	54	142
Foreign exchange losses from trade receivables and payables	29	74	23	37
Fees on bank loans	20	84	19	82
Interest for long-term loans	12	24	17	24
Foreign exchange losses from provisions	11	65	6	65
Interest expense regarding tax resolutions	9	11	9	10
Capitalized borrowing costs	(12)	(11)	(12)	(11)
Impairment of investment in subsidiaries	-	-	348	145
Other financial costs	3	32	3	30
Finance costs	252	608	560	638
Total finance expense, net	(146)	(411)	(405)	(332)

(all amounts are presented in HRK millions)

11. TAXATION

	INA Group		INA, d.d.	
	2016	2015	2016	2015
Current tax expense	69	43	43	28
Deferred tax (income)/charge related to origination and reversal of temporary differences	297	(374)	299	(324)
Income tax expense/(benefit)	366	(331)	342	(296)

Tax on profit generated in Croatia is determined by applying the rate of 20 percent in 2016 and 2015, 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.	
	2016	2015	2016	2015
Profit/(loss) before tax	461	(1,749)	502	(1,499)
(Benefit)/expense tax calculated at 20%	92	(350)	101	(300)
Tax loss previously not recognized and recognition of deffered tax assets previously not recognised	(4)	(29)	7	(18)
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	7	37	15	23
Tax effect of permanent differences	39	(16)	(3)	(21)
Tax effect of previous years	28	27	28	20
Income tax expense/(benefit)	366	(331)	342	(296)

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.

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

(all amounts are presented in HRK millions)

11. TAXATION (CONTINUED)

INA Group	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Subsequent tax liability from tax inspection	Tax losses	Deferred taxes on fair value	Total
Balance at 1 January 2015	41	1,162	(243)	201	111	45	416	-	1,733
Charge directly to equity	-	-	-	(11)	(24)	-	-	-	(35)
Reversal of temporary differences	(3)	(43)	(105)	(35)	(30)	(45)	-	-	(261)
Origination of temporary differences	40	249	-	45	68	-	233	-	635
Balance at 31 December 2015	78	1,368	(348)	200	125	-	649	-	2,072
Charge directly to equity	-	-	-	-	(19)	-	-	-	(19)
Reversal of temporary differences	(24)	(147)	-	(66)	-	-	(8)	-	(245)
Origination of temporary differences	3	13	-	59	76	-	1	-	152
Effect from changes in tax rate	(5)	(124)	35	(19)	(18)	-	(65)	-	(196)
Deferred tax liability on fair value of acquired subsidiary at acquisition date	-	-	-	-	-	-	-	(8)	(8)
Balance at 31 December 2016	52	1,110	(313)	174	164	-	577	(8)	1,756

(all amounts are presented in HRK millions)

11. TAXATION (CONTINUED)

INA, d.d.	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Subsequent tax liability from tax inspection	Tax losses	Total
Balance at 1 January 2015	**28**	**1,168**	**(243)**	**181**	**97**	**45**	**426**	**1,702**
Charge directly to equity	-	-	-	(7)	(24)	-	-	(31)
Reversal of temporary differences	(3)	(42)	(106)	(30)	(30)	(45)	-	(256)
Origination of temporary differences	38	237	-	55	32	-	218	580
Balance at 31 December 2015	**63**	**1,363**	**(349)**	**199**	**75**	**-**	**644**	**1,995**
Charge directly to equity	-	-	-	-	(19)	-	-	(19)
Reversal of temporary differences	(19)	(146)	-	(66)	-	-	(7)	(238)
Origination of temporary differences	3	7	-	47	76	-	1	134
Effect from changes in tax rate	(5)	(122)	35	(18)	(14)	-	(64)	(188)
Balance at 31 December 2016	**42**	**1,102**	**(314)**	**162**	**118**	**-**	**574**	**1,684**

12. EARNINGS PER SHARE

	INA Group	
	31 December 2016	31 December 2015
Basic and diluted earnings/(loss) per share	10.08	(141.78)

Earnings

	INA Group	
	31 December 2016	31 December 2015
Earnings/(loss) used in the calculation of total basic earnings per share	101	(1,418)
	101	(1,418)

Number of shares

	INA Group	
	31 December 2016	31 December 2015
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share (in millions)	10	10

In 2016, there was no dividend approved.

On 12 June 2015 Regular Shareholders' Assembly of INA, d.d. was held and decision on dividend pay-out in amount of HRK 150 million was voted (HRK 15 per share).

(all amounts are presented in HRK millions)

13. INTANGIBLE ASSETS

INA Group	Oil and gas properties	Software	Patents, Liciences and other rights	Intengible assets under construction	Goodwill	Total
Balance at 1 January 2015	**299**	**119**	**12**	**27**	**183**	**640**
Additions	1	-	-	46	-	47
Amortisation	-	(32)	(3)	-	-	(35)
Foreing exchange translation of foreign operations	(2)	-	-	-	-	(2)
Impairment	(102)	-	3	-	(31)	(130)
Emmission allowances (net)	-	-	23	-	-	23
Transfer	-	40	1	(41)	-	-
Transfer to property, plant and equipment	-	1	-	(4)	-	(3)
Balance at 31 December 2015	**196**	**128**	**36**	**28**	**152**	**540**
Additions	2	-	-	41	-	43
Amortisation	-	(37)	(5)	-	-	(42)
Foreing exchange translation of foreign operations	4	-	-	-	-	4
Acquisition of subsidiary	-	1	-	-	-	1
Emmission allowances (net)	-	-	(2)	-	-	(2)
Transfer	(5)	35	1	(31)	-	-
Transfer to property, plant and equipment	-	1	2	(11)	-	(8)
Other movements	-	-	-	-	-	-
Balance at 31 December 2016	**197**	**128**	**32**	**27**	**152**	**536**

(all amounts are presented in HRK millions)

13. INTANGIBLE ASSETS (CONTINUED)

INA, d.d.	Oil and gas properties	Software	Patents, Liciences and other rights	Intengible assets under construction	Total
Balance at 1 January 2015	299	119	9	28	455
Additions	1	-	-	45	46
Amortisation	-	(32)	(2)	-	(34)
Foreing exchange translation of foreign operations	(2)	-	-	-	(2)
Impairment / Reversal	(102)	-	3	-	(99)
Transfer	-	40	1	(41)	-
Reclassification between categories	-	1	-	(4)	(3)
Transfer to property, plant and equipment	-	-	23	-	23
Other	-	-	(1)	-	(1)
Balance at 31 December 2015	196	128	33	28	385
Additions	2	-	-	38	40
Amortisation	-	(36)	(4)	-	(40)
Foreing exchange translation of foreign operations	4	-	-	-	4
Transfer	(5)	33	2	(30)	-
Transfer to property, plant and equipment	-	1	2	(10)	(7)
Emmission allowances (net)	-	-	(2)	-	(2)
Balance at 31 December 2016	197	126	31	26	380

At 31 December 2016 INA Group did not record impairment of intangible assets. At 31 December 2015 INA Group impairment of intangible assets amounts to HRK 99 million, consisting of impairment of wells in Syria in amount of HRK 102 million, impairment of goodwill in amount of HRK 31 million and reversal of previous years impairment in amount of HRK 3 million in BS Refining and marketing.

(all amounts are presented in HRK millions)

13. INTANGIBLE ASSETS (CONTINUED)

Goodwill

Net book value	31 December 2016	1 January 2016
Investment of Crosco, d.o.o. in Rotary Zrt. Hungary	152	152
Total	152	152

During 2016 and 2015 goodwill relating to the company Rotary Zrt. was tested for impairment and the test showed that the impairment is not required for 2016 while in 31 December 2015 the impaired was recorded in amount of HRK 31 million.

The recoverable amount of Rotary Zrt. business as at 31 December 2016, 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 projected cash flows have been updated to reflect the decreased demand for services.

The weighted average cost of capital applied to cash flow projections is 9.5% (2015: 9.6%) 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 without subsequent growth. Expenses are determined also in relation to the utilization of the assets.

It was concluded that the fair value has reached 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. The discount rates are based on the specific circumstances of the Group and its operating segments and are derived from its WACC, with appropriate adjustments made to reflect the risks specific to the Rotary Zrt.

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT

a) By business segment

INA Group

	Oil and gas exploration and production	Refining and marketing	Other	Total
Balance at 31 December 2015				
Cost	38,159	20,771	7,015	65,945
Accumulated depreciation	32,226	15,665	5,324	53,215
Net book value	5,933	5,106	1,691	12,730
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

INA, d.d.

	Oil and gas exploration and production	Refining and marketing	Other	Total
Balance at 31 December 2015				
Cost	38,365	20,244	1,921	60,530
Accumulated depreciation	32,254	15,208	1,526	48,988
Net book value	6,111	5,036	395	11,542
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

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type

INA Group

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Cost							
Balance at 1 January 2015	**32,239**	**12,005**	**14,392**	**2,357**	**39**	**3,370**	**64,402**
Additions	-	-	-	-	-	1,593	1,593
Change in capitalised decommissioning costs	127	-	-	-	-	-	127
Foreign exchange translation of foreign operations	321	-	-	-	-	-	321
Assets put in use	1,421	206	480	57	-	(2,164)	-
Transfer from intangible assets	-	-	4	-	-	(1)	3
Disposal of subsidiaries	-	-	(9)	(22)	-	-	(31)
Disposals	(84)	(101)	(129)	(42)	(1)	(13)	(370)
Currency translation	-	(1)	(26)	4	-	(2)	(25)
Assets held for sale	-	(1)	(13)	(2)	-	-	(16)
Other movements	-	4	(1)	(1)	-	(61)	(59)
Balance at 31 December 2015	**34,024**	**12,112**	**14,698**	**2,351**	**38**	**2,722**	**65,945**
Additions	-	-	-	-	-	1,342	1,342
Change in capitalised decommissioning costs	(1)	-	-	-	-	-	(1)
Foreign exchange translation of foreign operations	18	-	-	-	-	-	18
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 movements	-	-	(1)	-	-	-	(1)
Balance at 31 December 2016	**35,129**	**12,489**	**14,108**	**2,303**	**38**	**2,193**	**66,260**

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA Group

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Accumulated depreciation							
Balance at 1 January 2015	**27,907**	**8,674**	**11,166**	**2,184**	**26**	**407**	**50,364**
Charge for the year	1,441	215	422	78	-	-	2,156
Impairment (net)	951	(44)	207	1	-	1	1,116
Reclassification between categories	-	8	163	3	-	(174)	-
Assets held for sale	-	(1)	(12)	(2)	-	-	(15)
Sale of subsidiaries	-	-	(9)	(21)	-	-	(30)
Disposals	(84)	(47)	(160)	(17)	(1)	(51)	(360)
Currency translation	-	-	(22)	4	-	-	(18)
Other	(64)	(34)	(1)	(1)	-	102	2
Balance at 31 December 2015	**30,151**	**8,771**	**11,754**	**2,229**	**25**	**285**	**53,215**
Charge for the year	934	238	388	75	-	-	1,635
Impairment (net)	24	-	2	-	-	-	26
Impairment of assets under constraction	2	-	-	-	-	-	2
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	**31,060**	**8,903**	**11,293**	**2,200**	**25**	**206**	**53,687**

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA Group	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Carrying amount							
Balance at 31 December 2016	4,069	3,586	2,815	103	13	1,987	12,573
Balance at 31 December 2015	3,873	3,341	2,944	122	13	2,437	12,730

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Cost							
Balance at 1 January 2015	32,278	10,343	10,731	1,918	28	3,334	58,632
Additions	-	-	-	-	-	1,402	1,402
Change in capitalised decommissioning costs	197	-	-	-	-	-	197
Foreign exchange translation of foreign operations	321	-	-	-	-	-	321
Transfer from intangible assets	-	-	4	-	-	(1)	3
Transfer of assets (mergers/liquidation)	-	75	10	7	-	-	92
Assets put in use	1,485	203	268	38	-	(1,994)	-
Disposals	(84)	(91)	(98)	(55)	(1)	(13)	(342)
Other	(64)	167	16	31	11	64	225
Balance at 31 December 2015	34,133	10,697	10,931	1,939	38	2,792	60,530
Additions	-	-	-	-	-	1,269	1,269
Change in capitalised decommissioning costs	(7)	-	-	-	-	-	(7)
Foreign exchange translation of foreign operations	18	-	-	-	-	-	18
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	35,231	10,534	11,143	1,879	38	2,349	61,174

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Accumulated depreciation							
Balance at 1 January 2015	27,910	7,327	8,644	1,629	23	535	46,068
Charge for the year	1,441	192	346	64	1	-	2,044
Impairment (net)	951	(44)	(3)	1	-	1	906
Transfer of assets (mergers/liquidation)	-	50	10	6	-	-	66
Transfers	-	8	163	3	-	(174)	-
Disposals	(84)	(76)	(95)	(53)	(1)	(13)	(322)
Other	(64)	167	17	31	11	64	226
Balance at 31 December 2015	30,154	7,624	9,082	1,681	34	413	48,988
Charge for the year	949	207	339	65	-	-	1,560
Impairment (net)	24	-	-	-	-	-	24
Impairment of assets under constraction	2	-	-	-	-	-	2
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	31,078	7,587	9,331	1,643	35	331	50,005

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumpti on assets	Assets under construction	Total
Carrying amount							
Balance at 31 December 2016	4,153	2,947	1,812	236	3	2,018	11,169
Balance at 31 December 2015	3,979	3,073	1,849	258	4	2,379	11,542

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 2016 Exploration and Production segment 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 principally comprise domestic residential and holiday accommodation for the workforce of the Company and some of its subsidiaries.

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

IV) Carrying value of property, plant and equipment

The Management Board has identified the impairment indicators in accordance with IAS 36. Impairment test were performed on assets where indicators of impairment has been identified. The total net impairment charge of INA Group is HRK 28 million in 2016 (2015: HRK 1,116 million).

- Exploration and Production BD recorded an impairment of property, plant and equipment in amount of HRK 26 million in 2016, compared to impairment in amount of HRK 951 million in 2015. Assumed hydrocarbon prices applied in the value in use calculations are based on market forward curves, with respect to oil being between 55-60 USD/bbl in mid-term (1-3 years), afterwards continuing as 60 USD/bbl in real terms. Based on the value in use calculation following recoverable amount and impairment by CGU have been determined at 31 December 2016:
  - Croatia onshore - assessed recoverable amount for Obod field of HRK 2 million. Related impairment of HRK 24 million was recognized at 31 December 2016.
  - Negative wells – impairment in amount of HRK 2 million (Hrastilnica 5).
- Refinery and Marketing BD did not record impairment or reversal of impairment of property, plant and equipment in 2016, while in 2015 reversal of impairment in amount of HRK 45 million was recorded (HRK 16 million retail impairment assets and HRK 61 million reversal of retail impairment).
- Business functions BD and others recorded an impairment of property, plant and equipment in amount of HRK 139 million in 2016, compared to 2015 when impairment was in amount of HRK 209 million. In 2016, the impairment loss recognized in profit and loss statement in amount of HRK 139 million represent the write-down of Platform Zagreb-1 to the fair market value.

Discount rates used in the current assessment in 2016 and for 2015 are assets specific and are as follows:

Exploration and Production	**2016**	**2015**
Croatia	9.2%	9.6%
Syria	17.7%	17.1%
Egypt	13.7%	14.1%
Angola	13.7%	13.1%
Refining and Marketing		
Croatia	9.2%	9.6%
Bosnia and Herzegovina	11.7%	13.1%

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.

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

VI) Held-for-sale assets

In 2016 divestiture process for Zagreb 1 platform has started resulting in classification as held-for-sale assets in the value of HRK 7 million at 31 December 2016 and HRK 1 million relating to Hostin asset. 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 2016	31 December 2015
Held-for-sale assets		
Property, plant, equipment	8	1
Assets classified held-for-sale	8	1

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

	INA, d.d.	
	31 December 2016	31 December 2015
Investments in subsidiaries	805	1,000

	INA, d.d.	
	2016	2015
Investments in subsidiaries at 1 January	1,000	1,133
HOLDINA SARAJEVO - share capital increase	170	-
CROSCO d.o.o. - impairment	(347)	(133)
CROPLIN d.o.o. - share capital decrease	(17)	-
INA Maloprodajni servisi d.o.o. - impairment	(1)	-
ITR d.o.o - merger to STSI d.o.o.	-	(42)
INA-Osijek Petrol d.d. - merger to INA d.d.	-	(40)
POLYBIT d.o.o - liquidation	-	(4)
Other subsidiaries - reversal of impairment due to merger and liquidation	-	86
Total as of 31 December	805	1,000

(all amounts are presented in HRK millions)

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

The following portfolio changes were recorded in 2016:

At 12 July 2016, INA, d.d. took over 1,840,128 or 33.50% of Energoptrol 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). In 2015 INA, d.d.' s investment in Energopetrol was recorded as investment in associate (see note 16).

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 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 Crosco d.o.o. in the amount of HRK 347 million.

At 26 August 2016 Commercial Court in Zagreb register the simplified decrease of share capital in Croplin d.o.o. in the amount of HRK 17 million.

In June 2016, Crosco d.o.o. sold its share in CorteCros d.o.o. Before the sale, Crosco 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 2016	31 December 2015
Oilfield services				
*CROSCO Naftni Servisi d.o.o.	Oilfield services	Croatia	100%	100%
Crosco B.V.	Oilfield services	Netherland	100%	100%
NORDIC SHIPPING LIMITED	Lease of drilling platforms	Marshall Islands	100%	100%
SEA HORSE SHIPPING Inc	Lease of drilling platforms	Marshall Islands	100%	100%
CROSCO INTERNATIONAL d.o.o.	Oilfield services	Slovenia	100%	100%
ROTARY Drilling Company Limited	Oilfield services	Hungary	100%	100%
CROSCO International d.o.o.	Oilfield services	Bosnia and Herzegovina	100%	100%
CROSCO International d.o.o. (until June 2016)	Oilfield services	Gurnsey	-	100%
Crosco S.A. DE C.V.	Oilfield services	Mexico	99.90%	99.90%
CorteCros d.o.o. (until June 2016)	Distribution of anti-corrosion products	Croatia	-	60%
Oil exploration and production				
*INA Naftaplin International Exploration and Production Ltd	Oil exploration and production	Guernsey	100%	100%
Tourism				
*Hostin d.o.o. Zagreb	Tourism	Croatia	100%	100%

(all amounts are presented in HRK millions)

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

Composition of the Group (continued)

The name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			31 December 2016	31 December 2015
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.	Foreign trading	Slovenia	100%	100%
*INA BH d.d.	Foreign trading	Bosnia and Herzegovina	100%	100%
*HOLDINA d.o.o.	Foreign trading	Bosnia and Herzegovina	100%	100%
*INA d.o.o.	Foreign trading	Serbia	100%	100%
*INA-KOSOVO d.o.o.	Foreign trading	Kosovo	100%	100%
*Adriagas S.r.l.	Pipeline project company	Italy	100%	100%
*INA - CRNA GORA d.o.o.	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%	33.5%
*INA BL d.o.o.	Trading	Bosnia and Herzegovina	100%	100%

At 31 December 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.

(all amounts are presented in HRK millions)

16. INVESTMENTS IN ASSOCIATES

			INA Group		INA, d.d.	
Name of company	**Activity**	Proportion of ownership	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
SOL-INA d.o.o.	Industrial gas production	37.21%	22	22	22	22

Besides investments stated above, the Company also has interests in other entities as follows:

			INA Group and INA, d.d.	
Name of company	**Activity**	**Place of incorporation and operation**	**31 December 2016**	**31 December 2015**
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 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 operator	Cairo, Egypt	50%	50%
Belvedere d.d.	Hotel trade	Dubrovnik, Croatia	31.80%	31.80%

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

(all amounts are presented in HRK millions)

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

	31 December 2015
	Energopetrol
Place of business	Bosnia and Herzegovina
Percentage of interests	33.5%
Current assets	29
Non-current assets	268
Current liabilities	412
Non-current liabilities	332
Operating income	1,032
Loss for the year	(54)
Total comprehensive loss for the year	(54)
Group' share of loss	-
Group's share of net assets	-
Investments in associates	132
Impairment	(132)
Carrying amount of the interest, net	-

In 2015 INA, d.d.' s investment in Energopetrol was recorded as investment in a associate. After 1 July 2016 INA, d.d. increased investment in Energopetrol, to 67% and Energopetrol d.d. is presented as investment in subsidiaries (see note 40).

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

	INA Group and INA, d.d.	
	31 December 2016	31 December 2015
Aggregate carrying amount of the interests in these associates	22	22
The Group's share of profit from interest in non individually material associates	-	-

(all amounts are presented in HRK millions)

17. OTHER INVESTMENTS

	INA Group		INA, d.d.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Deposits	7	7	7	7
Financial assets at fair value through profit or loss	6	7	6	7
Long-term loans	-	-	796	678
	13	14	809	692

In total 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 2016	31 December 2015
Receivables for apartments sold	71	82
Prepayments for property, plant and equipment	38	17
Prepayments for intangible assets	19	41
Other long-term receivables	-	4
	128	144

INA, d.d.	31 December 2016	31 December 2015
Receivables for apartments sold	71	82
Prepayments for property, plant and equipment	36	15
Prepayments for intangible assets	19	41
Long-term receivables from related party	11	11
	137	149

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.

(all amounts are presented in HRK millions)

19. AVAILABLE-FOR-SALE ASSETS

Equity instruments available-for-sale

Name of the Company	% shareholding held by INA, d.d.	Activity	INA Group and INA, d.d. 31 December 2016	31 December 2015
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
HOC Bjelolasica d.o.o. Ogulin	7.17%	Operations of sports facilities	5	5
BINA-FINCOM d.d. Zagreb	5.00%	Construction of highways and other roads, airfields airports	12	12
Total cost			386	386
Fair value adjustment of Jadranski Naftovod d.d.			309	214
Fair value adjustment of Plinara d.o.o. Pula			(2)	(2)
Fair value adjustment of HOC Bjelolasica d.o.o. Ogulin			(5)	(5)
Fair value adjustment of BINA-FINCOM d.d. Zagreb			(12)	(12)
Total fair value adjustment			290	195
			676	581

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 shares as quoted on the Zagreb Stock Exchange as of 31 December 2016. The net book value of the equity investment in JANAF increased by HRK 95 million compared to the balance as of 31 December 2015 due to increase 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 2016 amounted 5,300.00 per share (31 December 2015: 4,500.00 per share).

(all amounts are presented in HRK millions)

20. INVENTORIES

	INA Group		INA, d.d.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Refined products	625	427	564	374
Crude oil	478	440	478	440
Work in progress	436	405	435	404
Raw material	228	188	178	127
Spare parts, materials and supplies	184	180	80	76
Merchandise	99	180	67	176
	2,050	**1,820**	**1,802**	**1,597**

As of 31 December 2016 and 2015, inventories were measured at the lower of cost or net realizable value.

21. TRADE RECEIVABLES, NET

	INA Group		INA, d.d.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Trade receivables	2,676	2,764	2,158	1,994
Impairment of trade receivables	(1,085)	(1,040)	(843)	(818)
	1,591	**1,724**	**1,315**	**1,176**

Below is an ageing analysis of trade receivables that are not impaired:

	INA Group		INA, d.d.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
not due	1,267	1,404	1,035	921
less 30 days	55	98	35	63
31 - 60 days	22	24	21	17
61+ days	247	198	224	175
	1,591	**1,724**	**1,315**	**1,176**

(all amounts are presented in HRK millions)

21. TRADE RECEIVABLES, NET (CONTINUED)

Impairment of trade receivables:

	INA Group		INA, d.d.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Balance at beginning of the year	1,040	918	818	652
Effect of merger	-	-	-	32
Acquisition of subsidiary	7	-	-	-
Impairment losses recognised on receivables	222	338	203	315
Amounts written off as uncollectible	(9)	(60)	(6)	(33)
Reversal of impairment on amounts recovered	(175)	(156)	(172)	(148)
Balance at end of the year	1,085	1,040	843	818

The ageing analysis of impaired trade receivables:

	INA Group		INA, d.d.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
less than 60 days	-	52	-	52
61-120 days	35	42	35	41
121-180 days	39	49	39	49
181-365 days	102	157	102	150
366+ days	909	740	667	526
	1,085	1,040	843	818

Trade receivables, net balance of INA Group above also includes related party receivables of HRK 146 million as of 31 December 2016 (2015: HRK 237 million) with related party entities out of INA Group (see note 36).

22. OTHER RECEIVABLES

	INA Group		INA, d.d.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Tax prepayments	109	52	89	11
Foreign concessions receivables	42	34	42	34
Interest receivables	5	10	5	10
Prepayment receivables	3	10	1	2
Employees receivables	3	3	3	3
Other receivables	22	27	13	24
	184	136	153	84

(all amounts are presented in HRK millions)

23. OTHER CURRENT ASSET

	INA Group		INA, d.d.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Positive fair value of derivatives	38	12	38	12
Prepayments for customs, duties and other charges	28	35	20	24
Short-term loans and deposits	18	26	14	16
Positive fair value of hedge commodity transactions	17	18	17	18
Current portion of long terms loans	-	279	553	279
Loan impairment	-	(117)	(224)	(117)
Accrued income	-	6	-	6
Other	19	19	16	12
	120	278	434	250

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 with 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 2016	31 December 2015	31 December 2016	31 December 2015
Demand deposit	425	236	324	170
Deposits until three months	140	11	136	-
Cash on hand	46	28	40	25
Cash and cash equivalents in statement of financial position	611	275	500	195
Overdrafts	-	-	-	-
Cash and cash equivalents in statement of cash flows	611	275	500	195

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

	INA Group		INA, d.d.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Current portion of long-term loans	135	139	135	133
Short-term loans	2,711	2,768	2,487	2,508
	2,846	2,907	2,622	2,641

(all amounts are presented in HRK millions)

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

	INA Group		INA, d.d.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Unsecured bank loans in EUR	1,703	1,649	1,664	1,614
Unsecured bank loans in USD	860	967	820	892
Unsecured bank loans in HRK	148	147	3	2
Unsecured bank loans in HUF	-	5	-	-
	2,711	2,768	2,487	2,508

The most significant short-term loans as at 31 December 2016 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 2016	31 December 2015	31 December 2016	31 December 2015
Trade payables	1,857	1,400	1,498	967
Production and sales and other taxes payable	581	598	523	563
Payroll payables	140	165	92	123
Accrued bonuses	100	107	62	75
Payroll taxes and contributions	56	67	29	43
Accrued unused holiday	48	69	26	41
Negative fair value of derivatives	45	24	45	24
Advance Payments	43	27	36	23
Accrued expenses	33	47	-	-
Mining fee	31	39	31	39
Negative fair value of hedge commodity transactions	19	-	19	-
Accrued interest for long-term loans	8	10	9	10
Other	31	23	16	13
	2,992	2,576	2,386	1,921

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

Trade payables, net balance also includes payables of HRK 113 million as of 31 December 2016 (2015: HRK 56 million) with related party entities out of INA Group (see note 36).

(all amounts are presented in HRK millions)

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

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

27. LONG-TERM LOANS

Long-term loans are denominated in 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 2016	31 December 2015
Project financing	USD, EUR	406	533
		406	533
Due within one year		(135)	(133)
Total long-term loans INA, d.d.		271	400
Other long term loans INA Group	EUR, USD, HUF, HRK	-	6
		-	6
Due within one year		-	(6)
Total long-term loans INA Group		271	400

INA Group	Weighted average interest rate	Weighted average interest rate		
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	%	%		
Bank loans in USD	3.15	2.46	325	430
Bank loans in EUR	1.76	1.99	81	109
Total			406	539
Payable within one year			(135)	(139)
Total long-term loans			271	400

(all amounts are presented in HRK millions)

27. LONG-TERM LOANS (CONTINUED)

INA, d.d.

	Weighted average interest rate 31 December 2016	Weighted average interest rate 31 December 2015	31 December 2016	31 December 2015
	%	%		
Bank loans in USD	3.15	2.47	325	424
Bank loans in EUR	1.76	1.99	81	109
Total			406	533
Payable within one year			(135)	(133)
Total long-term loans			271	400

The maturity of the loans may be summarised as follows:

	INA Group		INA, d.d.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Current portion of long-term debt	135	139	135	133
Payable within one to two years	135	133	135	133
Payable within two to three years	136	133	136	133
Payable within three to four years	-	134	-	134
Payable within four to five years	-	-	-	-
Total	406	539	406	533

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

	INA Group	INA, d.d.
Balance at 1 January 2015	827	806
New borrowings raised	1,602	1,602
Amounts repaid	(1,931)	(1,913)
Foreign exchange losses	41	38
Balance at 31 December 2015	539	533
Payable within one year (included within bank loans – note 25)	139	133
Payable after more than one year	400	400
Balance at 1 January 2016	539	533
New borrowings raised	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

(all amounts are presented in HRK millions)

27. LONG-TERM LOANS (CONTINUED)

The principal long-term loans outstanding at 31 December 2016 and loans signed during 2016 were as follows:

EBRD

In 2010, INA, d.d. signed 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 amendment agreement was signed by which for the remaining outstanding amount terms are more favourable and maturity was prolonged until 2019. In 2016 amendment agreement was signed by which for the remaining outstanding amount terms are more favourable.

ING BANK N.V., LONDON BRANCH

In 2015 INA, d.d. signed long-term multi-currency revolving credit facility agreement for general corporate purposes in the amount of USD 300 million. Lenders are banking groups represented by both international and domestic banks. The Agent is ING Bank N.V., London Branch. Maturity of the credit facility is 3 years with an option for 1+1 year extension.

MOL Group

In 2015 INA, d.d. signed amendment to 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.

Compliance with loan agreements

During 2016 INA Group 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 2016	31 December 2015	31 December 2016	31 December 2015
Liabilities to Government for sold apartments	39	45	39	45
Deferred income for sold apartments	5	6	5	6
Other long-term liabilities	16	15	16	14
	60	66	60	65

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 regulating housing sales, 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.

(all amounts are presented in HRK millions)

29. PROVISIONS

INA Group	Environmental provision	Decommissioning charges	Provision for Angolan tax	Legal claims	Redundancy costs	Tax obligation claims	Other	Total
Balance at 1 January 2015	**309**	**2,198**	**164**	**125**	**89**	**71**	**272**	**3,228**
Charge for the year	38	-	140	16	239	-	88	**521**
Effect of change in estimates	18	56	-	-	-	3	-	**77**
Interest	7	56	-	-	-	-	5	**68**
Provision utilised during the year	(39)	-	(1)	(38)	(89)	(1)	(9)	**(177)**
Balance at 31 December 2015	**333**	**2,310**	**303**	**103**	**239**	**73**	**356**	**3,717**
Acquistion of subsidiary	-	-	-	80	-	-	-	**80**
Charge for the year	33	-	105	18	17	-	-	**173**
Effect of change in estimates	(10)	(25)	-	-	-	1	-	**(34)**
Interest	3	43	-	-	-	-	11	**57**
Provision utilised during the year	(51)	-	(133)	(64)	(237)	(52)	(38)	**(575)**
Balance at 31 December 2016	**308**	**2,328**	**275**	**137**	**19**	**22**	**329**	**3,418**

(all amounts are presented in HRK millions)

29. PROVISIONS (CONTINUED)

INA, d.d.	Environmental provision	Decommissioning charges	Provision for Angolan tax	Legal claims	Redundancy costs	Other	Total
Balance at 1 January 2015	**295**	**2,253**	**164**	**113**	**76**	**256**	**3,157**
Charge for the year	40	-	140	15	236	51	482
Effect of change in estimates	18	146	-	-	-	-	164
Interest	7	58	-	-	-	5	70
Provision utilised during the year	(38)	-	(1)	(34)	(76)	(3)	(152)
Balance at 31 December 2015	**322**	**2,457**	**303**	**94**	**236**	**309**	**3,721**
Charge for the year	30	-	105	16	14	6	171
Effect of change in estimates	(8)	(27)	-	-	-	-	(35)
Interest	3	45	-	-	-	5	53
Provision utilised during the year	(51)	-	(133)	(44)	(234)	(17)	(479)
Balance at 31 December 2016	**296**	**2,475**	**275**	**66**	**16**	**303**	**3,431**

	INA Group		INA, d.d.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Analysed as:				
Current liabilities	194	451	117	347
Non-current liabilities	3,224	3,266	3,314	3,374
	3,418	3,717	3,431	3,721

29. PROVISIONS (CONTINUED)

Environmental provision

The environmental provision recorded by INA Group is HRK 308 million on 31 December 2016 (31 December 2015: HRK 333 million). The environmental provision covers treatment of accumulated waste generated by former activity, soil excavation and replacement during the reconstruction of filling stations and comprehensive investigation to determine the extent of the soil and groundwater contaminations.

Emission allowances

Under European Union Emission Trading Scheme, INA' 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 surrender allowances equal to its actual verified emissions. The number of emission allowances allocated for free is calculated by European Commission filled in by installations, and submitted to Ministry of Environmental and Nature protection by31 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 onlywhen actual emissions exceed the allocated emission allowances. Provision recorded for exceeding amountofemission 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 2016, the Company recognised a decommissioning provision for 46 oil and gas production fields, 6 non-production fields, 10 positive non-production wells and 359 negative non-production wells. As of 31 December 2015, the Company recognised a decommissioning provision for 44 oil and gas production fields, 6 non-production fields, 11 positive non-production wells and 359 negative non-production wells.

Provision for Angolan tax

At 24 January 2017 the Company received the document Proposition on the repayment of debt form the Angolan Ministry of finance by which the amount of USD 76 million is defined as a receivable from the Company for all three blocks. The provision of USD 38 million at 31 December 2016 recognized in the financial statements is the best estimate of the outflow of economic benefits relating to the this Proposition on the repayment of debt in respect of total Angolan tax.

(all amounts are presented in HRK millions)

29. PROVISIONS (CONTINUED)

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.

Other provision

Other provisions of INA, d.d. in amount of HRK 303 million relate to provision for contractual liability for investments in Iran of HRK 263 million initially recognized in 2012. INA, d.d. is committed to spend certain resources by Production Agreement. Since Iran activities have been discontinued, the difference between contractual liability and actual spent funds was recognized as provisions. Remaining amount mainly relates to provision for sediment and non-pumpable inventories in amount of HRK 40 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. For jubilee awards are paid out according to Collective Agreement in following fixed amounts and anniversary dates for continues service in 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 Agreements signed in 2016.

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2016 and 2015 by independent actuarial expert. In 2016, the Company made a provision of HRK 17 million in respect of jubilee awards and HRK 31 million for regular retirement allowance, whereas in 2015 Company made provision in respect of jubilee awards in amount of HRK 35 million and for regular retirement HRK 35 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.

(all amounts are presented in HRK millions)

30. RETIREMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

Actuarial estimates were derived based on the following key assumptions:

	Valuation at	
	31 December 2016	31 December 2015
Discount rate	3.0%	3.7%
Average longevity at retirement age for current pensioners (years)		
males	14.9	14.9
females	18.3	18.3
Average longevity at retirement age for current employees (future pensioners) (years)		
males	14.9	14.9
females	18.3	18.3
Mortality	HR 2010-2012	HR 2010-2012

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

	INA Group		INA, d.d.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Service cost:				
Cost of current period	18	12	1	8
Interest	3	6	2	5
Past service cost, including losses/(gains) on curtailments	(9)	(17)	(9)	(17)
Components of defined benefit costs recognized in profit and loss:	12	1	(6)	(4)
Remeasurement of the net defined benefit liability:				
Actuarial gains and losses arising from changes in demographic assumptions	-	(33)	-	(27)
Actuarial gains and losses arising from changes in financial assumptions	3	(4)	(7)	(4)
Actuarial gains and losses arising from experience adjustments	(22)	(27)	(6)	(21)
Components of defined benefit costs recognised in profit and loss account and other comprehensive income:	(19)	(64)	(13)	(52)
Total	(7)	(63)	(19)	(56)

(all amounts are presented in HRK millions)

30. RETIREMENT AND OTHER EMPLOYEE BENEFIT (CONTINUED)

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

	INA Group		INA, d.d.	
	2016	2015	2016	2015
At 1 January	109	184	70	136
Acquisition of subsidiary	2	-	-	-
Cost of current period	18	10	1	8
Interest	3	6	2	5
Actuarial (gains) or losses				
Actuarial gains and losses arising from changes in demographic assumptions	-	(33)	-	(27)
Actuarial gains and losses arising from changes in financial assumptions	3	(4)	(7)	(4)
Actuarial gains and losses arising from experience adjustments	(22)	(27)	(6)	(21)
Past service cost, including losses/(gains) on curtailments	(9)	(17)	(9)	(17)
Benefit paid	(9)	(10)	(3)	(10)
Closing defined benefit obligation	95	109	48	70

31. SHARE CAPITAL

	INA Group and INA, d.d.	
	31 December 2016	31 December 2015
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 2016	31 December 2015
Balance at beginning of year	216	121
Increase/(decrease) arising on revaluation of available-for-sale securities (Janaf)	95	119
Deferred tax effect	(12)	(24)
Balance at the end of year	299	216

In 2016 and 2015 there was a significant increase in the value of JANAF on the stock market; therefore an increase on fair value reserves was recorded.

(all amounts are presented in HRK millions)

33. OTHER RESERVES

On the regular general shareholders' meeting of INA, d.d. held on 12 June 2015 approval was given for transfer part of other reserves relating to profit from the 1993 year amounting to HRK 1,448 million and PSP Okoli gas inventory amounting to HRK 192 million, all in total amount HRK 1,640 million to retained earnings. After transfer of other reserves to retained earnings in INA, d.d. in amount of HRK 1,640 million, same was used for coverage of losses from prior periods. Legal reserves are disclosed as the separate reporting item.

The remaining amount of combined reserves of the Group include 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 2015	2,132	283	(11)	447	2,851
Movements during 2015	(1,640)	358	36	-	(1,246)
Foreign exchange differences transferred of other reserves and other changes	-	36	-	-	36
Balance at 31 December 2015	492	677	25	447	1,641
Movements during 2016	-	-	3	-	3
Foreign exchange differences transferred of other reserves and other changes	-	3	-	-	3
Balance at 31 December 2016	492	680	28	447	1,647

INA, d.d.	Combined reserves at 31 December 1993	Foreign currency translation reserves	Reserve of defined benefit obligation	Other reserves	Total
Balance at 1 January 2015	1,667	586	(9)	285	2,529
Movements during 2015	(1,640)	355	29	-	(1,256)
Balance at 31 December 2015	27	941	20	285	1,273
Movements during 2016	-	14	1	-	15
Balance at 31 December 2016	27	955	21	285	1,288

(all amounts are presented in HRK millions)

34. RETAINED EARNINGS

	INA Group	INA, d.d.
	Retained earnings	Retained earnings
Balance at 1 January 2015	(641)	(504)
Transfer other reserves to retained earnings	1,640	1,640
Transfer exchange curreny translation from foreign operation	(33)	-
Loss for the year	(1,418)	(1,202)
Loss brought forward from merger of INA-Osijek Petrol	-	(94)
Dividends paid	(150)	(150)
Balance at 31 December 2015	(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

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. After transfer part of legal reserves to retained earnings in INA, d.d. same was used for coverage part of loss from 2015.

35. NON-CONTROLLING INTEREST

	INA Group	
	31 December 2016	31 December 2015
Balance at beginnig of year	-	(1)
Share of profit for the year	(6)	1
Acquisition of non-controlling interest	(130)	-
Balance at end of year	(136)	-

The Group elected 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%

(all amounts are presented in HRK millions)

35. NON-CONTROLLING INTEREST (continued)

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 2016
	Energopetrol
Current assets	39
Current liabilities	742
Non-current assets	246
Non-current liabilities	22
Operating income after the acquisition date	332
Loss for the period after the acquisition date	12
Total comprehensive loss for the period after the acquisition date	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 the Company 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.

(all amounts are presented in HRK millions)

36. RELATED PARTY TRANSACTIONS (CONTINUED)

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

INA Group

	Sales of goods		Purchase of goods	
	2016	**2015**	**2016**	**2015**
Companies available for sale				
JANAF d.d. Zagreb	3	3	52	50
Strategic partner				
MOL Nyrt.	344	563	652	777
Companies controlled by strategic partner				
Tifon d.o.o.	425	523	7	17
MOL Slovenia d.o.o.	119	95	61	66
MOL Serbia d.o.o.	31	16	1	-
MOL Petrochemicals Co Ltd	31	27	9	4
Energopetrol d.d.*	91	256	-	-
Slovnaft a.s.	7	22	95	412
MOL-LUB Kft.	4	3	4	5
Kalegran Ltd.	1	53	-	2
Mol Germany GMBH	-	4	-	-
MOL Commodity Trading Kft.	-	-	7	37
Rossi Biofuel ZRT	-	-	-	7
IES-Italiana Energia e Servizi s.p.a.	-	-	3	5
VÚRUP a.s.	-	-	-	1

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

INA Group	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Companies available for sale				
JANAF d.d. Zagreb	1	1	6	2
Strategic partner				
MOL Nyrt.	44	35	76	36
Companies controlled by strategic partner				
Tifon d.o.o.	69	45	1	1
MOL Serbia d.o.o.	15	-	-	-
MOL Slovenia d.o.o.	11	3	6	5
MOL Commodity Trading Kft.	8	-	14	-
MOL Petrochemicals Co Ltd	6	-	3	-
Kalegran Ltd.	-	101	-	-
Slovnaft a.s.	-	1	7	4
Rossi Biofuel Zrt.	-	-	-	7
Energopetrol d.d.*	-	51	-	-
IES-Italiana Energia e Servizi s.p.a	-	-	-	1

* Until 1 July 2016 transactions with Energopetrol d.d. were presented as transaction 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).

(all amounts are presented in HRK millions)

36. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

INA, d.d.

	Sales of goods		Purchase of goods	
	2016	2015	2016	2015
Related companies				
Holdina Sarajevo	1,680	1,867	2	1
INA Crna Gora d.o.o Podgorica	115	97	-	-
Energopetrol d.d.*	23	-	-	-
STSI d.o.o. Zagreb	22	27	706	662
Plavi Tim d.o.o.	15	-	51	5
INA Maziva d.o.o.	9	10	58	54
Crosco d.o.o.	8	20	259	313
INA Slovenija d.o.o.	8	8	-	-
INA Maloprodajni servisi	5	-	220	-
TOP Računovodstvo Servisi d.o.o.	4	7	47	49
Adrigas Milano	1	1	-	-
Hostin	-	1	-	-
Rotary Zrt.	-	1	-	-
INA d.o.o.Banja Luka	-	-	1	1
INA Kosovo	-	-	1	-
Osijek Petrol d.d.	-	46	-	-
Companies available-for-sale				
JANAF d.d. Zagreb	3	3	52	50
Strategic partner				
MOL Nyrt.	167	336	589	619
Companies controlled by strategic partner				
Tifon d.o.o.	423	522	7	17
MOL Slovenia d.o.o.	117	92	-	-
MOL Petrochemicals Co Ltd	31	27	5	-
MOL Serbia d.o.o.	31	16	-	-
Energopetrol d.d.*	11	25	-	-
Slovnaft a.s.	7	22	95	412
Mol Germany GMBH	-	4	-	-
Kalegran Ltd	-	2	-	-
MOL Commodity Trading Kft.	-	-	7	37
Rossi Biofuel Zrt.	-	-	-	7
IES-Italiana Energia e Servizi s.p.a.	-	-	3	5
VÚRUP a.s.	-	-	-	1

* Until 1 July 2016 transactions with Energopetrol d.d. were presented as transaction 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).

(all amounts are presented in HRK millions)

36. RELATED PARTY TRANSACTIONS (CONTINUED)

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

INA, d.d.	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Subsidiaries				
Holdina Sarajevo	167	117	2	5
INA Crna Gora d.o.o. Podgorica	15	-	-	-
Crosco d.o.o.	11	69	56	70
STSI d.o.o. Zagreb	6	10	199	184
INA Maziva d.o.o.	4	5	7	6
Plavi Tim d.o.o.	4	-	11	6
INA Slovenija d.o.o.	1	1	-	-
TOP Računovodstvo Servisi d.o.o.	-	1	6	5
INA Maloprodajni Servisi d.o.o.	-	-	28	-
Energopetrol d.d.*	-	-	-	-
Companies available-for-sale				
JANAF d.d. Zagreb	1	1	6	2
Strategic partner				
MOL Nyrt.	22	9	66	26
Companies controlled by strategic partner				
Tifon d.o.o.	69	45	1	1
MOL Serbia d.o.o.	15	-	-	-
MOL Slovenia d.o.o.	11	3	-	-
MOL Commodity Trading Kft.	8	-	14	-
MOL Petrochemicals Co Ltd	6	-	2	-
Slovnaft a.s.	-	1	8	4
Rossi Biofuel Zrt.	-	-	-	7
IES -Italiana Energia e Servizi s.p.a	-	-	-	1
Energopetrol d.d.*	-	1	-	-

* Until 1 July 2016 transactions with Energopetrol d.d. were presented as transaction 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 2016 INA, d.d. recognised impairment on receivables from related parties in the amount of HRK 0.4 million, while income from collection of impaired receivables from related parties amounted to HRK 1.7 million, while in 2015 INA, d.d. recognised impairment on receivables from related parties in the amount of HRK 2 million, while income from collection of impaired receivables from related parties amounted to HRK 43 million.

(all amounts are presented in HRK millions)

36. RELATED PARTY TRANSACTIONS (CONTINUED)

Loan to and from related parties:

INA, d.d.	Amounts of loans owed by related parties		Amounts of loans owed to related parties	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Related companies				
Crosco d.o.o.	727	642	-	-
Energopetrol d.d.*	613	-	-	-
Holdina Sarajevo	38	-	-	-
INA Crna Gora d.o.o Podgorica	17	20	-	-
INA Slovenija d.o.o.	16	17	-	-
INA BH d.d. Sarajevo	2	36	-	-
STSI d.o.o. Zagreb	-	-	119	119
INA Maziva d.o.o.	-	-	100	60
Hostin d.o.o.	-	-	17	14
Adrigas Milano	-	-	12	12
TOP Računovodstvo Servisi d.o.o.	-	-	2	7
Companies controlled by strategic partner				
MOL Group Finance SA	-	-	1	-
Energopetrol d.d.*	-	286	-	-

* Until 1 July 2016 transactions with Energopetrol d.d. were presented as transaction 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	Income from hedge transactions -net effect
	2016	2015
Companies controlled by strategic partner		
MOL Commodity Trading Kft.	8	42

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

(all amounts are presented in HRK millions)

36. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel

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

	INA, d.d.	
	31 December 2016	31 December 2015
Short-term employee benefits	34.3	41.1
Termination bonuses	1.4	0.2
Total	**35.7**	**41.3**

Included above is the remuneration to the Management Board Members, executive directors of the business segments and functions, sector directors, assistant directors and secretary of INA, d.d.

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 2016 INA, d.d. sold five petrol stations to company Holdina Sarajevo. Net book value of the petrol stations is HRK 9.8 million while INA, d.d. sold petrol stations under market price of HRK 19.7 million. In 2015 INA, d.d. sold four petrol stations to company Holdina Sarajevo. Net book value of the petrol stations is HRK 4.7 million while INA, d.d. sold petrol stations under market price of HRK 16.9 million.

The Company remains the customer of company JANAF d.d., in which it has a holding of 11.795% (see note 19). During 2016, approximately HRK 52 million of JANAF's sales revenue in the amount of HRK 709 million account for sales revenue in respect of INA, d.d. as user of the pipeline system of JANAF d.d. (2015: HRK 50 million out of HRK 683 million sales revenue).

During 2015, Rotary Drilling Co Ltd Hungary incurred revenue in respect of termination of contract with Kalegram Ltd. based on rights for an early termination fee and demobilization fees revenue in amount of USD 13.5 million. Termination of contract occurred due to change of working plan of Kalegran Ltd. in Kurdistan.

37 COMMITMENTS

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

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

37. COMMITMENTS (CONTINUED)

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 has signed with foreign companies in the so - called contract areas:

- INA, d.d. and ENI Croatia B.V. have closed down in 1996 and 1997 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%,
- INA, d.d. and EDISON INTERNATIONAL S.p.A. have closed down in the 2002 Production Sharing Agreement in the contract area Izabela & 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 in capital construction of mining facilities and plants HRK 4.8 billion, while of the total gained reserves INA's share will range about 63% of the produced gas, which is further placed on the Croatian gas market.

On 31 December 2016 INAgip had in both contract areas 137 active contracts amounting in total to HRK 336.44 million. The remaining commitments under these contracts on 31 December 2016 amounted to HRK 167.51 million (2015: HRK 206.7 million).

Until 31 December 2016, total INA, d.d. capital investments on the Izabela contract area amounted to HRK 353 million, which have been invested for construction of production-gathering-transportation system of Izabela gas field. Gas production from Izabela field. Gas production from Izabela field during 2016 is stable and in comparison with original production plan higher about 13.8%. Total INA share of gas, delivered from Izabela field to Ivana K platform, from production start-up to December 31st 2016 is about 44,19% (280.1 million Sm^3).

Gas Transportation Contract

At 31 December 2016 the future gas transportation contracted commitments with Gas Connect Austria, Geoplin Slovenia and MOL until 31 December 2017 amount to approximately HRK 64 million in total (2015: HRK 98 million).

(all amounts are presented in HRK millions)

37. COMMITMENTS (CONTINUED)

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 are as follows:

	INA Group		INA, d.d.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
within 1 year	48	45	34	40
between 2 - 5 years	44	51	23	41
beyond 5 years	-	-	-	-
	92	96	57	81

Out of the outstanding operating lease liabilities as of 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., while for 31 December 2015 HRK 81 million were contracted by INA, d.d. and HRK 13 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. The environmental effects are monitored by local and national environmental authorities. For all the stated release into the environment, the Company and 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.

38. CONTINGENT LIABILITIES (CONTINUED)

Environmental matters (continued)

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

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. 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 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 2016 all projects in Rijeka refinery are ongoing and are in various stages of implementation. Since alignment with BAT requires time and considerable financial investments, INA, d.d. in Croatia pre-accession negotiations with the EU obtained for its refineries in Sisak and Rijeka a transition period to achieve full compliance by 31 December 2017.

On 9 October 2014 Commission Implementing Decision establishing best available techniques (BAT) conclusions for the refining of mineral oil and gas was published with deadline for compliance until October 2018. In BAT Conclusions, "bubble concept" is recognized as one of the best available techniques for integrated emission management of SOx and / or NOx. 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 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.

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 CO_2) 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 31 March 2016, verifier then confirmed verified emissions entered into the Registry and emission allowances have been surrendered in amount equal to verified emissions until 30 April 2016.

38. CONTINGENT LIABILITIES (CONTINUED)

Environmental matters (continued)

Harmonization of INA's operations with the air protection legislation

From 1 January 2016 existing plants have to comply with more stringent emission limit values (ELV), as stipulated by Industrial Emissions Directive (IED). The provisions of this Directive have been transposed into Croatian legislation by Regulation on limit values for pollutant emissions from stationary sources into the air (OG 117/12, OG 90/14). 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.

Regarding compliance with the technical environmental standards for Volatile Organic Compound (VOC) emissions resulting from the storage and distribution of petrol, is the entire INA's retail network as well as tank truck loading station in Sisak Refinery is compliant. During 2016 INA 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 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, while at 31 December 2015, INA, d.d. made environmental provisions in the amount of HRK 322 million, whereas the provisions at the Group level amounted to HRK 333 million. At 31 December 2016, contingencies at INA Group and INA, d.d. levels were estimated at HRK 636 million and HRK 427 million, while at 31 December 2015 contingencies at INA Group and INA, d.d. levels were estimated at HRK 637 million and HRK 427 million respectively. The estimates were not recognised because the timing of the event is uncertain and there is no evidence of pollution.

38. CONTINGENT LIABILITIES (CONTINUED)

Litigation

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

GWDF

In the dispute initiated by GWDF Partnership Gesellschaft Bürgerlicher Rechts and GWDF Limited, Cyprus against INA-INDUSTRIJA NAFTE d.d. and INA-NAFTAPLIN International Exploration, Channel Islands, before the Commercial Court in Zagreb, the plaintiffs claim compensation for damage in the amount of cca 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 entered into an agreement with company EKO MEDIA d.o.o. EKO MEDIA failed to regularly comply with its obligations. INA terminated the agreement with EKO MEDIA at the beginning of 2014. On 19 December 2014 EKO MEDIA filed a lawsuit against INA in which EKO MEDIA specified its claim in amount of HRK 106 million. INA filed its official reply to such EKO MEDIA's lawsuit and filed a counterclaim for the return of unjust enrichment in amount of HRK 380 thousand and asked for the issuance of interim measure for prohibition of use of advertising boards. The proceedings based on the claim and based on the counterclaim have been separated into two proceedings. Until 31 December 2016 no evidence have been presented.

ĐURO ĐAKOVIĆ

ĐURO ĐAKOVIĆ - ZAVARENE POSUDE d.d. (hereinafter: ĐĐ) submitted a claim against INA 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, OSIMPEX (ĐĐ's mother company), FEROIMPEX (ĐĐ's daughter company) and ĐĐ by which it was agreed that ĐĐ will join the debt OSIMPEX and FEROIMPEX have towards INA (based on cession between INA OSIJEK PETROL whose buyers were aforementioned companies and INA) 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 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 in Year 2011) it could be reasonably expected that such subsequent order should take place. INA, d.d. prepared and submitted a statement of defence. Court hasn't still set the date of first hearing.

38. CONTINGENT LIABILITIES (CONTINUED)

Litigation (continued)

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-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 2016.

CONCESSIONS

On 29 July 2011 the Ministry of Economy, Labour and Entrepreneurship (hereinafter: the Ministry) rendered three Decisions depriving INA of the license to explore hydrocarbons in exploration areas "Sava", "Drava" and "North-West Croatia". On 29 August 2011, INA 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 of the license to explore hydrocarbons in exploration areas "Sava" and "North-West Croatia" and "Drava", with the same explanations. INA 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 Resolution in which it rejected INA's request for temporary measure. INA 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 has filed an appeal against that decision in December 2016. The Administrative court did not reach decisions regarding INA's lawsuits regarding exploration areas "Sava" and "North-West Croatia".

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 is a 100% shareholder) over a value equalling 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 (approximately HRK 520.4 thousand with the default interest). The last hearing was held on 27 March 2015. Hearing was postponed, due to the fact that Assembly of creditors (RIG bankruptcy procedure) was scheduled (9 April 2015). It is still in preparation phase, Court is collecting valid data and each Party is proposing evidence and actions.

SALBATRING ENERGIJA

SALBATRING ENERGIJA, Međunarodna trgovina, d.o.o. ("SALBATRING") initiated the arbitration procedure. INA received Salbatring's full Statement of Claim on 20 June 2015 by which Salbatring is claiming the amount of USD 28 million plus the interest and costs. INA submitted its Statement of Defence in November 2015, Salbatring submitted its Statement of Reply in March 2016 and INA submitted its Rejoinder in June 2016. Arbitration is still ongoing, the hearing is scheduled for October 2017.

38. CONTINGENT LIABILITIES (CONTINUED)

Litigation (continued)

BELVEDERE cases (CLEOSTONE claim included)

In 2005 INA, d.d. and Belvedere d.d. signed the Loan agreement on notarial insurance of the claim via real estate title transfer (Fiduciary agreement) in the amount of USD 3 million (paid in HRK) with the agreed 5,5% interest rate. The loan was granted for a one year period. At the time INA, d.d. concluded Fiduciary Agreement, creditor could not become owner of the real-estate (main purpose of fiduciary ownership). Subject change in the Enforcement Act lasted only for a few months and INA, d.d., unfortunately, has concluded Agreement during the validity of this change.

INA, d.d. was forced to execute loan repayment through sale of Belvedere for assets which the procedure was led before notary public and ended with SPA agreement concluded with VILA LARUS as the best bidder. Belvedere assets purchase sum was forwarded to Commercial court in Split for distribution and on 10 September 2015 INA received the payment in the amount of HRK 24 million on behalf of principle amount and contractual interest rate. Since INA claims being entitled to payment of default interest as well procedure is still pending.

Other than the loan repayment, INA is entitled to receive remaining amount from the sale of Belvedere's real-estate for its shares in Belvedere.

In March 2016 two, out of three court proceedings regarding Belvedere, were closed before first instance courts. Both courts decisions are in INA's favour i.e. Court rejected CLEOSTONE Ltd. claim submitted in 2011 for annulment of sale of Belvedere assets to a Russian investor as well as BELVEDERE d.d. claim to declare Fiduciary agreement as null and void.

Court refused the request for the annulment of sale of Belvedere assets by stating that plaintiffs arguments are not in connection with any material breach of law resulting in contract invalidity, yet in connection with procedural mistakes of public notary who carried out the sale, that such procedural mistakes didn`t have influence on the validity of the procedural decisions. Therefore, plaintiff was supposed to challenge public notary activities in different proceeding, within given deadlines, and that failure of him doing so cannot be solved throughout subject court procedure. Court also refused to declare Fiduciary agreement as null and void since, despite plaintiffs' standpoints, all legal prerequisites for its enforceability according to relevant laws were met. Plaintiffs submitted an appeal against both decisions. Second instance decision hasn't been reached so far.

(all amounts are presented in HRK millions)

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 to 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 2016	31 December 2015	31 December 2016	31 December 2015
Debt:	3,117	3,307	2,893	3,041
Long term loans	271	400	271	400
Short term loans	2,711	2,768	2,487	2,508
Current portion of long-term borrowings	135	139	135	133
Cash and cash equivalents	(611)	(275)	(500)	(195)
Net debt	2,506	3,032	2,393	2,846
Equity	10,597	10,585	10,767	10,509
Equity and net debt	13,103	13,617	13,160	13,355
Gearing ratio	19%	22%	18%	21%

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.

(all amounts are presented in HRK millions)

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Categories of financial instruments

	Carrying amount			
	INA Group		**INA, d.d.**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Financial assets				
Cash and cash equivalents	611	275	500	195
Loans and receivables	1,854	2,175	3,758	3,426
Available-for-sale financial assets	676	581	676	581
Positive fair value of derivatives	38	12	38	12
Positive fair value of hedge commodity transactions	17	18	17	18
Financial assets designated as at fair value through profit and loss	6	7	6	7
Financial liabilities				
Loans and borrowings	3,118	3,307	3,143	3,529
Trade payables	1,857	1,400	1,808	1,244
Negative fair value of hedge commodity transactions	19	-	19	-
Negative fair value of derivatives	45	24	45	24

Financial risk management objectives

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

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

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk

Commodity price risk management

The volatility of crude oil and gas prices is the prevailing element in the business environment of INA Group. INA Group buys crude oil mostly through short-term arrangements in USD at the current spot market price. Necessary natural gas quantities in 2016 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 Risk Management and Hedging Policy for INA Group, for the purpose of hedging financial risk exposure on corporate and business segments 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, changes in pricing periods and fixed price contracts. 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. These transactions were hedging transactions and qualify for hedge accounting treatment under IFRS in case of matching the pricing period of purchased crude oil and crude products with the crude oil processing and refinery product sales 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. The corresponding figures at 31 December 2015 were HRK 18 million receivable and no net payable (see Note 23 and Note 26).

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 2016 there were no outstanding cross-currency transactions.

(all amounts are presented in HRK millions)

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

INA Group

	Liabilities		Assets	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Currency EUR	1,936	1,951	272	489
Currency USD	2,131	1,789	1,287	1,149
	4,067	3,740	1,559	1,638

INA, d.d.

	Liabilities		Assets	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Currency EUR	1,814	1,855	156	564
Currency USD	2,076	1,657	1,077	1,520
	3,890	3,512	1,233	2,084

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 2016 (in 2015: 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 2016	31 December 2015	31 December 2016	31 December 2015
Loss	(84)	(64)	(166)	(146)
	(84)	(64)	(166)	(146)

INA, d.d.

	Currency USD Impact		Currency EUR Impact	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Loss	(100)	(14)	(166)	(129)
	(100)	(14)	(166)	(129)

(all amounts are presented in HRK millions)

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign currency sensitivity analysis (continued)

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

Interest rate risk management

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

INA Group does not speculate on fluctuations in interest rates, and therefore primarily chooses floating interest rates. However, in certain instruments and certain macro environment, the selection of fixed interest rate could be more favorable.

INA, d.d. in accordance with Risk Management and Hedging Policy for INA Group, 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 2016 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.	
	2016	2015	2016	2015
Short-term interest expense change	54	55	50	50
Long-term interest expense change	8	11	8	11
Total change:	62	66	58	61

If interest rates would be 200 basis points higher, INA Group's interest expenses in 2016 would be increased by HRK 62 million, while with a change of 50 basis points the increase would be HRK 16 million (2015: increase by HRK 66 million had the interest rated been 200 basis points higher, and by HRK 17 million had the interest rates been 50 basis points higher)

At the same time INA, d.d.'s interest expenses in 2016 would be increased by HRK 58 million if interest rates had been 200 basis points higher, while the increase would be HRK 14 million with a change of 50 basis points (2015: increase by HRK 61 million had the interest rates been 200 basis points higher, and by HRK 15 million had the interest rates been 50 basis points higher). Equivalent decrease of interest rates would result in decreased interest expenses by equal amounts.

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Other price risks

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

Equity price sensitivity analysis

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

If equity prices had been 10% higher:

- net profit for the year ended 31 December 2016 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 62,9 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.

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk management

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

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

As of 31 December 2016, INA Group had contracted and available short-term credit lines amounting to HRK 2.67 billion (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 3.28 billion (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 2016 INA Group had contracted and available short-term credit facilities for financing crude oil and oil products purchase amounting to USD 1.21 billion (2015: USD 1.18 billion).

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 funding opportunities with other creditors as well.

(all amounts are presented in HRK millions)

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk management (continued)

Liquidity and interest risk tables

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

INA Group

	Less than 1 month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2016					
Non-interest bearing	1,807	540	53	15	2,415
Interest bearing	1,345	1,512	282	-	3,139
	3,152	2,052	335	15	5,554
31 December 2015					
Non-interest bearing	1,288	628	47	14	1,977
Interest bearing	2,514	405	419	-	3,338
	3,802	1,033	466	14	5,315

INA, d.d.

	Less than 1 month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2016					
Non-interest bearing	1,645	506	37	14	2,202
Interest bearing	1,345	1,538	282	-	3,165
	2,990	2,044	319	14	5,367
31 December 2015					
Non-interest bearing	1,141	459	44	14	1,658
Interest bearing	2,507	357	418	-	3,282
	3,648	816	462	14	4,940

Non-interest bearing liabilities of INA, d.d. due in a period of less than one month consist mainly of trade accounts payable in the amount of HRK 1,498 million in 2016 (2015: HRK 993 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.

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments

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

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) 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.

Fair value measurements of financial instruments

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).

(all amounts are presented in HRK millions)

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

Fair value measurements recognized in the statement of financial position (continued)

INA GROUP

	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

	31 December 2015			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets available-for-sale*	535	-	-	535
Positive fair value of derivatives	-	18	-	18
Positive fair value of hedge commodity transactions	-	12	-	12
Financial liabilities at fair value				
Negative fair value of derivatives	-	24	-	24

(all amounts are presented in HRK millions)

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

Fair value measurements recognized in the statement of financial position (continued)

INA, d.d.

				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 derivatives	-	19	-	19
Negative fair value of derivatives	-	45	-	45

				31 December 2015
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Financial assets available-for-sale*	535	-	-	535
Positive fair value of hedge commodity transactions	-	18	-	18
Positive fair value of derivatives	-	12	-	12
Financial liabilities at fair value				
Negative fair value of derivatives	-	24	-	24

* 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 (2015: HRK 46 million) and therefore not included in tables above.

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

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

Fair value measurements recognised in the statement of financial position (continued)

(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 at the balance sheet date. A market is regarded as active if quoted prices are readily 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.

(all amounts are presented in HRK millions)

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 Energoletrol 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 the Bosnia and Herzegovina and proved that believes in Energopetrol long-term perspective. Hereby INA, d.d. became the single largest distributor of petroleum products in the country with a total of 101 active filling stations 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 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 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.

(all amounts are presented in HRK millions)

40. ACQUISITION OF ENERGOPETROL (continued)

	Carrying value recognized at acquisition
Non-current assets	
Intangible assets	1
Property, plant and equipment	320
Current assets	
Inventories	24
Trade and other recivables	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 liabilites	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 for HRK 13 million. If the combination had taken place at the beginning of 2016, the Groups revenue from continuing operations would have been increased for HRK 149 million and the profit before tax from continuing operations would have been decreased for HRK 34 million.

41. SUBSEQUENT EVENTS

No events or transactions have occurred since 31 December 2016 or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Company's affairs to require mention in a note to the financial statements in order to make them not misleading regarding the financial position and results of operations of the Company.

42. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 14 March 2017.

Signed on behalf of the Company on 14 March 2017 by:

Zoltán Sándor Aldott, **the 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

Peter Ratatics, member of the Management Board

FINANCE FUNCTION

REPORT
ON COMPANY AND INA GROUP
STATUS FOR JANUARY-DECEMBER 2016

Zagreb, March 2017

CONTENTS

INA Group and INA d.d. financial results (IFRS) 2016

This report contains parts of audited financial statements and is based on audited numbers for the period ending 31 December 2016 as prepared by the management in accordance with the International Financial Reporting Standards.

INA Group financial results (IFRS)	**INA, d.d.**						**INA GROUP**					
	Q1-Q4 2015*		**Q1-Q4 2016**		**Change %**		**Q1-Q4 2015***		**Q1-Q4 2016**		**Change %**	
	HRK mn	**USD mn**	**HRK mn**	**USD mn**	**HRK**	**USD**	**HRK mn**	**USD mn**	**HRK mn**	**USD mn**	**HRK**	**USD**
Net sales revenues	17,161	2,501	14,642	2,152	(14.7)	(13.9)	18,861	2,748	15,575	2,289	(17.4)	(16.7)
EBITDA (1)	2,373	346	2,269	333	(4.4)	(3.6)	2,665	388	2,112	310	(20.7)	(20.1)
EBITDA excl. special items (2)	**2,631**	**383**	**2,522**	**371**	**(4.2)**	**(3.3)**	**2,953**	**430**	**2,428**	**357**	**(17.8)**	**(17.1)**
CCS EBITDA excl. special items							**3,670**	**535**	**2,219**	**326**	**(39.5)**	**(39.0)**
Profit/(loss) from operations	(1,166)	(170)	907	133	n.a.	n.a.	(1,338)	(195)	607	89	n.a.	n.a.
Operating profit excl. special items (2)	**74**	**11**	**939**	**138**	**1,169.2**	**1,180.1**	**138**	**20**	**842**	**124**	**510.1**	**515.4**
CCS Operating profit excl. special items							**843**	**123**	**626**	**92**	**(25.8)**	**(25.1)**
Net financial expenses	(332)	(48)	(405)	(60)	22.0	23.0	(411)	(60)	(146)	(21)	(64.5)	(64.2)
Net profit/loss attributable to equity holder	(1,202)	(175)	160	24	n.a.	n.a.	(1,418)	(207)	101	15	n.a.	n.a.
Net profit/loss for the period excl. special items (2)	**171**	**25**	**192**	**28**	**12.4**	**13.4**	**58**	**8**	**336**	**49**	**477.3**	**482.3**
Operating cash flow	1,682	245	2,085	306	24.0	25.0	1,954	285	2,228	327	14.0	15.0
Earnings per share												
Basic and diluted/(loss) earnings per share (kunas per share)	(120.2)	(17.5)	16.0	2.4	n.a.	n.a.	(141.8)	(20.7)	10.1	1.5	n.a.	n.a.
Net debt	2,846	407	2,393	335	(15.9)	(17.6)	3,032	434	2,506	351	(17)	(19)
Net gearing	21.31		18.18				22.27		19.13			
CAPEX total	1,458	0	1,309	0	(10.2)	n.a.	1,650	240	1,387	204	(15.9)	(15.2)
Domestic							1,387	202	1,217	179	(12.3)	(11.5)
International							263	38	170	25	(35.3)	(34.7)

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

(2) The Q1-Q4 2016 EBITDA was negatively influenced by HRK 315 million special items related to severance payments, while Q1-Q4 2016 EBIT was negatively influenced by HRK 139 mn impairment of Zagreb-1 drilling rig and HRK 96 mn of net impact of provisions for incentives and severance payments

(3) In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for Q4 2016 – 6.9614 HRK/USD; Q3 2016 – 6.7064 HRK/USD; Q4 2015 – 6.9608 HRK/USD; Q1-Q4 2015 – 6.8623 HRK/USD; Q1-Q4 2016 – 6.8037 HRK/USD; as at September 30, 2016 – 6.6962 HRK/USD; as at December 31, 2016 – 7.1365 HRK/USD; as at December 31, 2015 – 6.9918 HRK/USD

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

INA Group made positive results in 2016, with profit from operations reaching HRK 607 million for the period, compared to a HRK 1,338 million loss for 2015. Despite the challenging environment in the form of Brent and crack spreads decrease, affecting both the Exploration and production as well as Refining segment, Company achieved the positive development in results. This was achieved primarily with the ongoing program of operational adjustment to lower commodity prices. Exploration and production remained the main cash generator during 2016. Despite a 32% decrease in EBITDA, operating profit of the segment remained relatively strong, reaching HRK 1,172 million for the period.

Downstream operations achieved a positive result. The introduction of a more competitive operating model in Retail has already resulted in a decrease in fixed OPEX, which supported by an increase in non-fuel revenues has led to an improvement in underlying profitability.

CAPEX amounted to HRK 1,387 million, decrease of 16% compared to 2015. Additionally, INA Group increased its share in Energopetrol from 33% to 67%, further strengthening the regional position. On the back of a disciplined approach to CAPEX spending, the financial position of the Company remained stable during 2016. Net gearing decreased to 19.1%, whilst net debt reached HRK 2,506 million, a 17% decrease compared to 2015.

- **Exploration and Production**: In 2016, EBITDA excl. special items reached HRK 2,166 million, representing a 32% decrease (HRK 1,037 million) compared to the same period last year. The negative impact was primarily driven by lower Brent and natural gas prices, the latter a result of a reduction in regulated gas prices for households and an intensification in market competition. Hydrocarbon production decreased by 1.5 mboepd, mainly as a result of a decline in off-shore production and a scheduled overhaul at Molve.
- **Refining and Marketing (including Retail):** 2016 CCS EBITDA excl. special items amounted to HRK 350 million while EBITDA excl. special items amounted to HRK 558 million. The result was positively impacted by a number of factors, internal efficiency efforts focused on reducing OPEX, the diversification of crude oil portfolio, and an improvement in retail, including the positive results from the non-fuel segment. However, the result was negatively affected by a deterioration of unit sales margins and crack spreads.
- **Corporate and Other[1]:** EBITDA excl. special items amounted to HRK (161) million, a decrease compared to the 2015 period by HRK 192 million. EBITDA was lower mainly due to the negative contribution of Crosco.

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

INDUSTRIJA NAFTE, d.d.

Management discussion

*Exploration and Production**

Segment IFRS results in millions	INA, d.d. Q1-Q4 2015** HRK mn	USD mn	Q1-Q4 2016 HRK mn	USD mn	Change % HRK	USD
Net sales revenues	4,967	724	3,887	571	(21.7)	(21.1)
EBITDA	3,109	453	2,132	313	(31.4)	(30.8)
EBITDA excl. special items * **	3,171	462	2,157	317	(32.0)	(31.4)
Operating profit	312	45	1,128	166	261.5	264.7
Operating profit excl. special items * **	1,316	192	1,141	168	(13.3)	(12.5)
CAPEX with one-off	840	122	714	105	(15.0)	(14.3)

Segment IFRS results in millions	INA GROUP Q1-Q4 2015** HRK mn	USD mn	Q1-Q4 2016 HRK mn	USD mn	Change % HRK	USD
Net sales revenues	4,970	724	3,890	572	(21.7)	(21.1)
EBITDA	3,141	458	2,141	315	(31.8)	(31.2)
EBITDA excl. special items * **	3,203	467	2,166	318	(32.4)	(31.8)
Operating profit	371	54	1,172	172	215.9	218.7
Operating profit excl. special items * **	1,375	200	1,186	174	(13.8)	(13.0)
CAPEX with one-off	840	122	717	105	(14.7)	(13.9)

* Exploration and Production refers to the Upstream of INA, d.d. and following subsidiaries:, Adriagas S.r.l. Milano, Croplin d.o.o.
** Restatement of comparable previous periods was made – see on page 10
*** The Q1-Q4 2016 EBITDA was negatively influenced by HRK 25 million special items related to Severance payments, while Q1-Q4 2016 EBIT was negatively influenced by HRK 13 mn of net impact of provisions for incentives and severance payments.

Hydrocarbon production	**Q1-Q4 2015**	**Q1-Q4 2016**	**Ch. %**
Crude oil production (boe/d)	**13,974**	**15,044**	**7.7**
Croatia	10,674	11,929	11.8
Egypt	2,093	2,057	(1.7)
Angola	1,207	1,057	(12.4)
Natural gas production (boe/d)	**24,967**	**22,446**	**(10.1)**
Croatia - offshore	12,202	9,324	(23.6)
Croatia - onshore	12,765	13,122	2.8
Condensate (boe/d)	**1,916**	**1,887**	**(1.5)**
Total hydrocarbon production (boe/d)	**40,857**	**39,377**	**(3.6)**

Average realised hydrocarbon price	**Q1-Q4 2015**	**Q1-Q4 2016**	**Ch. %**
Total hydrocarbon price (USD/boe)*	48	37	(23.5)

Natural gas trading - mln cm	**Q1-Q4 2015**	**Q1-Q4 2016**	**Ch. %**
Total natural gas sales - domestic market	1,142	1,115	(2.3)

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

2016 vs. 2015

In 2016, Exploration and Production EBITDA excl. special items reached HRK 2,166 million, a decrease of 32% compared to 2015 mainly as a result of lower Brent and natural gas prices. Total hydrocarbon production reached 39.4 mboe per day, a decrease of 1.5 mboe per day compared to 2015 resulting from lower production of natural gas. In addition to lower revenues, operating profit of HRK 1,172 million was negatively impacted by HRK (82) million of Egyptian receivables' impairment due to an inability to regularly collect receivables. The decline was partially mitigated by higher domestic crude oil production following a campaign of well optimisation and workovers.

Compared to 2015, Brent price was 17% lower in 2016 and had a negative impact on crude oil and condensate revenues in the amount of HRK (370) million. Lower realised natural gas prices as a consequence of further reduction in the regulated gas price from April 2016 and an adverse market environment caused additional HRK (660) million negative effect compared to the previous year, of which HRK (157) million related to the reduction in the regulated gas price.

Crude oil production in 2016 increased by 8% compared to last year as a result of:

- Domestic crude oil production increased by 12% on the back of well workovers and optimisations together with production from new wells Selec and Đeletovci Zapad.
- Oil production in Angola was 12% lower as a result of technical issues and natural production decline on Block 3/05, while Egypt was 2% lower as a result of low production rate on Ras Qattara and West Abu Gharadig, although partially offset by improved performance on the North Bahariya and East Yidma concessions.

Natural gas production in 2016 was 10% lower than in 2015 manly coming from:

- Offshore natural gas production decrease of 24% driven by natural decline, water cuts and lower INA share.
- This was partially offset by 3% higher onshore production as a result of performed well workovers and optimisation as well as production from new fields Vučkovec, Zebanec and Stružec. Onshore increase was achieved despite a scheduled general overhaul on the Gas Treatment Plant Molve and Fractionation Facilities Ivanić Grad performed in September 2016.

Domestic **condensate** production was a slightly lower (1%) due to the aforementioned overhaul on Molve and Ivanić Grad in September.

Capital expenditures

Exploration and Production CAPEX in 2016 amounted to HRK 717 million. Capital investments in Croatia amounted to HRK 612 million whereas international capital investments reached HRK 105 million during the same period. Capital investments were lower in total by HRK 124 million or 15% compared to 2015, as a result of lower development in Angola and Egypt and lower Croatia onshore activities.

INDUSTRIJA NAFTE, d.d.

*Refining and Marketing, including Retail**

Segment IFRS results (in millions)	INA, d.d. Q1-Q4 2015** HRK mn	Q1-Q4 2015** USD mn	Q1-Q4 2016 HRK mn	Q1-Q4 2016 USD mn	Change % HRK	Change % USD
Revenues	14,299	2,084	12,602	1,852	(11.9)	(11.1)
EBITDA reported	(591)	(86)	458	67	n.a.	n.a.
EBITDA excl. special items * **	(427)	(62)	672	99	n.a.	n.a.
Operating profit/(loss) reported	(1,298)	(189)	146	21	n.a.	n.a.
Operating profit/(loss) excl. special items * **	(1,074)	(157)	160	23	n.a.	n.a.
CAPEX and investments (w/o acquisition)	578	84	554	81	(4.2)	(3.3)

Segment IFRS results (in millions)	INA GROUP Q1-Q4 2015** HRK mn	Q1-Q4 2015** USD mn	Q1-Q4 2016 HRK mn	Q1-Q4 2016 USD mn	Change % HRK	Change % USD
Revenues	14,831	2,161	13,094	1,925	(11.7)	(11.0)
EBITDA reported	(587)	(86)	339	50	n.a.	n.a.
EBITDA excl. special items * **	(422)	(61)	558	82	n.a.	n.a.
CCS-based DS EBITDA	295	43	350	51	18.8	19.8
Operating profit/(loss) reported	(1,324)	(193)	74	11	n.a.	n.a.
Operating profit/(loss) excl. special items * **	(1,100)	(160)	94	14	n.a.	n.a.
CCS-based DS operating loss	(395)	(58)	(122)	(18)	(69.2)	(68.9)
CAPEX and investments (w/o acquisition)	613	89	608	89	(0.8)	0.0

*Refers to Refining & Marketing including Retail INA. d.d. and following subsidiaries: INA-Maziva), InterINA Ljubljana, INA BH Sarajevo, HoldINA Sarajevo, INA Crna Gora, INA Beograd, INA Kosovo, Osijek Petrol (merged into INA, d.d. in Q4 2015), Petrol Rijeka, Energopetrol Sarajevo
** Restatement of comparable previous periods was made – see on page 10
*** The 2016 EBITDA was negatively influenced by HRK 219 million special items related to Severance payments, while 2016 EBIT was negatively influenced by HRK 20 mn of net impact of provisions for incentives and severance payments.

Refinery processing (kt)	Q1-Q4 2015	Q1-Q4 2016	Ch. %
Domestic crude oil	553	599	8.4
Imported crude oil	2,212	2,530	14.4
Condensate	85	84	(1.4)
Other feedstock	673	643	(4.5)
Total refinery throughput	**3,523**	**3,856**	**9.5**

Refinery production (kt)	Q1-Q4 2015	Q1-Q4 2016	Ch. %
LPG	210	211	0.7
Motor gasoline	946	989	4.5
Diesel	1,130	1,288	14.0
Heating oil	144	144	(0.2)
Kerosene	105	112	7.5
Naphtha	52	64	22.3
Fuel oil	389	500	28.5
Bitumen	-	-	n.a.
Other products*	108	119	10.3
Total	**3,085**	**3,428**	**11.1**
Refinery loss	29	47	60.0
Own consumption	409	381	(6.8)
Total refinery production	**3,523**	**3,856**	**9.5**

*Other products = Benzene-rich cut, liquid sulphur, coke, motor oils. Ind, lubricants, base oils, spindle oil, waxes, blend. gas oil “M”, atmosp. residue, intermediaries and other.

Refined product sales by country (kt)	Q1-Q4 2015	Q1-Q4 2016	Ch. %
Croatia	1,790	1,847	3.2
B&H	523	528	1.0
Slovenia	183	233	27.3
Other markets	1,126	1,246	10.6
Total	**3,622**	**3,854**	**6.4**

Refined product sales by product (kt)	Q1-Q4 2015	Q1-Q4 2016	Ch. %
LPG	238	265	11.3
Motor gasoline	940	925	(1.6)
Diesel	1,465	1,529	4.3
Heating oil	172	179	3.6
Kerosene	127	137	8.3
Naphtha	49	67	35.9
Fuel oil	394	460	16.7
Bitumen	37	41	10.4
Other products*	199	251	25.9
Total	**3,622**	**3,854**	**6.4**
o/w Retail segment sales	996	1,014	1.8

*Other products = Benzene-rich cut, liquid sulphur, coke, motor oils. Ind, lubricants, base oils, spindle oil, waxes, blend. gas oil “M”, atmosp. residue, intermediaries and other

2016 vs.2015

Refining and Marketing (including Retail) CCS-based EBITDA excl. special items amounted to HRK 350 million, a HRK 55 million increase compared to 2015. Reported EBITDA amounted to HRK 339 million, an increase of HRK 926 million compared to the same period of last year. Refining and Marketing segment, including Retail, continues to provide negative free cash flow in the amount of HRK (269) million, burdened by refining operations. In 2016, Sisak Refinery generated negative free cash flow of HRK (194) million, compared to HRK (255) million in 2015. The financial effect of Sisak Refinery on operating result level amounts to HRK (264) million loss in 2016 and HRK (351) million loss in previous year. This situation stresses the need for a revised operational model of INA’s refining business.

Refining & Marketing operations

The considerable improvement in reported EBITDA was mainly driven by the price impact of inventory revaluation, higher sales on captive and export markets, while being additionally supported by lower fixed OPEX as a result of ongoing efficiency efforts and lower energy costs. This was partially decreased by less favourable refining margin environment compared to 2015 and decrease in sales margins on captive markets. Total wholesale volumes were 3.799 kt, higher than the same period in 2015 (+196 kt), while also keeping strong position on motor fuel domestic market sales volumes, with slight decrease in gasoline volumes (-16 kt) and 1.4 % increase in diesel sales volumes (+14 kt). Despite strong supply competition on the B&H market, total sales volumes increased by 1 % (5 kt), primarily driven by heating oil and LPG. Total sales were further supported by higher total fuel oil (+66 kt) and heating oil (+6 kt) sales, mainly focusing on other export markets.

Retail operations

Total retail sales volumes in 2016 (including 34 kt of Energopetrol) were 1,014 kt, a 2% increase compared to 2015. Positive marked demand increased sale of diesel and heating oil by 3% (21kt), while sales of motor gasoline continued its decline, as its sales decreased by 1% (3kt). Compared to 2015, there is a downward trend in the share of motor gasoline as a consequence of the continued dieselization in the market. Non-fuel margin revenue increased on the back of continuous expansion in goods along with the development of new non-fuel related services. On 31 December 2016, INA Group operated a retail network of 495 Retail sites (387 in Croatia, 101 in Bosnia and Herzegovina (45 in Holdina and 56 in Energopetrol), 6 in Slovenia and 1 in Montenegro), of which 60 Retail sites in Croatia were included in the Entrepreneurship model. Starting from the 1st of July 2016, Energopetrol is integrated to INA Group Retail segment.

Capital expenditures

Total capital expenditures were HRK 608 million in 2016, a slight decrease compared to last year. Refining and Marketing capital expenditures reached HRK 481 million, primarily driven by major Rijeka Refinery and logistic projects, including the Rijeka Refinery Turnaround during Q1 2016, new truck loading facility in Rijeka, new rail loading/unloading facilities in Rijeka and Sisak and efficiency type projects. Retail capital expenditures reached HRK 127 million, HRK 35 million decrease compared to 2015. Retail in Croatia and Bosnia and Herzegovina completed two highway Greenfield constructions, seven reconstructions, 14 modernizations, and multiple projects on expanding non-fuel offer in line with ”Fresh corner” concept.

Corporate and other

Segment IFRS results in millions	INA, d.d. Q1-Q4 2015* HRK mn	INA, d.d. Q1-Q4 2015* USD mn	Q1-Q4 2016 HRK mn	Q1-Q4 2016 USD mn	Change % HRK	Change % USD
Revenues	144	21	133	20	(7.6)	(6.8)
EBITDA reported	(325)	(47)	(224)	(33)	(31.1)	(30.5)
EBITDA excl. special items	(293)	(43)	(210)	(31)	(28.2)	(27.6)
Operating profit/(loss) reported	(340)	(50)	(263)	(39)	(22.6)	(22.0)
Operating profit/(loss) excl. special items	(328)	(48)	(258)	(38)	(21.4)	(20.7)
CAPEX and investments (w/o acquisition)	40	6	41	6	2.5	3.4

Segment IFRS results in millions	INA GROUP Q1-Q4 2015* HRK mn	INA GROUP Q1-Q4 2015* USD mn	Q1-Q4 2016 HRK mn	Q1-Q4 2016 USD mn	Change % HRK	Change % USD
Revenues	2,348	342	1,610	237	(31.4)	(30.8)
EBITDA reported	(30)	(4)	(232)	(34)	673.3	680.0
EBITDA excl. special items	31	5	(161)	(24)	n.a.	n.a.
Operating profit/(loss) reported	(508)	(74)	(496)	(73)	(2.4)	(1.5)
Operating profit/(loss) excl. special items	(260)	(38)	(295)	(43)	13.6	14.5
CAPEX and investments (w/o acquisition)	164	24	46	7	(72.0)	(71.7)

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

EBITDA excl. special items of the segment amounted to HRK (161) million, decrease compared to 2015 level by HRK 192 million.

INDUSTRIJA NAFTE, d.d.

Financial overview

Income statement – INA Group

Total sales revenues in 2016 amounted to HRK 15,575 million and were 17% below 2015 level, primarily triggered by lower Brent, lower natural gas prices and lower hydrocarbon production in Exploration and Production Segment.
Costs of raw materials and consumables were 11% below 2015 level at HRK 7,448 million, resulting mainly from lower prices.
Costs of goods sold in 2016 recorded a decrease of 26% compared to 2015, and amounted to HRK 2,084 million resulting mainly from different sales structure.
Other **operating costs** realized in 2016 include:

- Other material costs amounted to HRK 2,000 million and were lower by 22% resulting from lower Brent impacting E&P royalty, production cost and transportation costs, lower engagement in Crosco and lower subcontractors costs related to STSI project in Belarus.
- Service costs in the amount of HRK 663 million recorded a 6% decrease mainly due to lower Crosco engagement and ENI tax not charged in 2016 as a result of agreement with Ministry of Finance, both partly offset by additional profit oil tax in Angola.
- Depreciation in the amount of HRK 1,677 million was 23% lower compared to 2015.
- Adjustments and provisions had a positive effect in the amount of HRK 172 million compared to negative impact of HRK 1,812 million in 2015 and the difference is related mainly to high level of asset impairments in 2015 as opposed to only HRK 139 mn of asset impairment in 2016. Additionally, positive difference between compared periods was further driven by released provisions connected to establishment of INA Maloprodajni servisi, litigation in Holdina together and additional profit oil tax in Angola in 2016.

Staff costs in the amount HRK 2,083 million were 14% lower compared to 2015. Staff cost represents cost of net salaries in the amount of HRK 1,012 million, cost of tax and contributions for pension and health insurance in the amount of HRK 710 million, non-taxable severance payments in net amount of HRK 216 million and other payroll related costs in the amount of HRK 145 million for the period ended 31 December 2016.
For the period ended 31 December 2015 staff cost includes cost of net salaries in the amount of HRK 1,191 million, cost of tax and contributions for pension and health insurance in the amount HRK 825 million, non-taxable severance payments in net amount of HRK 186 million and other payroll related costs in the amount HRK 219 million.
Income tax expense in 2016 amounted to HRK 366 million compared to HRK 331 million of income tax revenues in 2015. Tax costs and deferred taxes during the interim period are calculated on the basis of actual results and the profit tax rate, 20% for the periods ended 31 December 2015 and 18% for the periods ended 31 December 2016.
Net financial loss in 2016 is HRK 146 million lower compared to loss recorded in 2015 mainly as a result of forex differences.

- Net foreign exchange loss reached HRK 44 million in 2016, while in 2015 net foreign exchange loss amounted to HRK 135 million.
- Interest payable amounted to HRK 79 million and interests received to HRK 15 million in 2016, while in 2015 interest payables amounted to HRK 174 million and interests received to HRK 19 million.
- Other financial net expenses amounted to HRK 38 million, and are lower compared to HRK 126 million in 2015.

Income statement – INA d.d.

Total sales revenues in 2016 amounted HRK 14,642 million, 15% lower compared to 2015 level, primarily triggered by lower Brent, lower natural gas prices and lower hydrocarbon production in Exploration and Production Segment.
Costs of raw materials and consumables were 11% lower and amounted to HRK 7,230 million, resulting mainly from lower prices.
Costs of goods sold recorded decrease of 24%, and amounted HRK 1,889 million, resulting from different sales structure.
Within the **other operating costs** realized in 2016:

- Other material costs amounted to HRK 1,833 million, which is 12% lower compared to the same period last year resulting from lower Brent impacting E&P royalty, production cost and transportation costs.
- Service costs in the amount of HRK 804 million recorded an increase of 43% mainly due to mainly due to additional profit oil tax in Angola and higher legal costs.
- Depreciation was 23% lower and amounted to HRK 1,600 million mainly due to lower Exploration and Production depreciation.
- Adjustments and provisions had a positive effect of HRK 238 million and were higher by HRK 1,699 million compared to 2015 resulting from high level of asset impairments in 2015, and partly offset by released employee related provisions related to establishment of INA Maloprodajni servisi and released litigation provisions in Holdina together with release of provision related to additional profit oil tax in Angola in 2016.

Staff costs in the amount HRK 1,175 million were 27% lower than 2015.
Net financial loss in the amount of HRK 405 million was recorded in 2016, compared to the financial loss of HRK 332 million in 2015.

Consolidated Statement of financial position – INA Group

As at 31 December 2016 INA Group **total assets** amounted to HRK 20,292 million and were around the same level compared to 31 December 2015.

In the period ended 31 December 2016, INA Group invested HRK 43 million in intangible assets. The effect of depreciation equals HRK 41 million. Foreign exchange revaluation of oil and gas fields increased net book value in amount of HRK 3 million. Transfer to tangible assets decreased intangible assets in amount of HRK 8 million. Emission quotas decreased NBV in amount of HRK 2 million. By acquiring additional shares of Energopetrol INA, d.d. has gained control over Energopetrol and started fully consolidating it which resulted in increase of INA Group intangible assets by HRK 1 million.

In the period ended 31 December 2016, Group invested HRK 1,342 million in property, plant and equipment. Capitalized decommissioning costs decreased the value of assets by HRK 1 million. Foreign exchange revaluation increased net book value in amount of HRK 16 million. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 1,636 million. Transfer of property, plant and equipment on assets held for sale decreased value of assets in the amount of HRK 154 million. Write-off of negative wells reduced net book value in amount of HRK 2 million. Impairment of assets decreased NBV in amount of HRK 26 million. Transfer to merchandizing goods decreased net book value in amount of HRK 1 million. Disposal of tangible assets equals HRK 26 million. Transfer from intangible assets increased net book value in amount of HRK 8 million. By acquiring additional shares of Energopetrol INA, d.d. has gained control over Energopetrol and statrted fully consolidating it which resulted in increase of INA Group assets by HRK 322 million.

Issued capital as at 31 December 2016 amounted to HRK 9,000 million. There was no movements in the issued capital of the Company in either the current or the prior financial reporting**.**

Inventories amounted to HRK 2,050 million, and have increased by 13% compared to 31 December 2015 as a result of higher product inventories.

Trade receivables decreased to HRK 1,591 million and are 8% lower compared to the opening balance on 31 December 2015 resulting mainly from lower sales revenue.

As at 31 December 2016 **total liabilities** amounted to HRK 9,695 which is 1% or HRK 102 million lower compared to 31 December 2015. INA Group **net debt** amounted to HRK 2,506 million which is 17% lower compared to 31 December 2015. **Gearing ratio**[2] decreased significantly from 22.3% as at 31 December 2015, to 19.1% as at 31 December 2016.

Trade payables increased by 33% to HRK 1,857 million, as a result of higher liabilities for imported crude oil.

Consolidated Statement of financial position – INA d.d.

Total assets of INA, d.d., as at 31 December 2016 amounted to HRK 20,145 million and was 2% higher than 31 December 2015.
Property, plant and equipment amounted to HRK 11,169 million and were lower 3% than at as 31 December 2015.
Trade receivables outside of INA-Group amounted to HRK 1,315 million and were 12% higher compared to 31 December 2015.
Total liabilities amounted to HRK 9,378 million and were 1% higher compared to 31 December 2015.
Net indebtedness of INA, d.d., amounted to HRK 2,393 million as at 31 December 2016 which is 16% lower compared to 31 December 2015. **Gearing ratio**[3] decreased from 21.3% as at 31 December 2015 to 18.8% as at 31 December 2016.
As at 31 December 2016 **trade payables** outside of INA-Group amounted HRK 1,498 million, which is an increase 55% compared to the 31 December 2015.

Cash flow – INA Group

The **operating cash-flow before changes in working capital** amounted to HRK 2,150 million in 2016 representing a decrease of HRK 386 million, or 15%, compared to 2015, which is in line with change in EBITDA performance compared to the previous year.
Changes in working capital affected the operating cash flow positively by HRK 121 million, due to:

- Increase value of inventories by HRK 249 million due to higher volumes of crude inventories.
- Decrease in receivables by HRK 37 million as a result of higher VAT receivables in 2016 compared to 2015.
- Increase in trade and other payables by HRK 333 million as result of higher liabilities for imported crude oil.

Net outflows in investing activities amounted to HRK 1,525 million, in comparison with HRK 1,508 million outflows in 2015.

Cash flow – INA d.d.

The operating cash-flow before changes in working capital amounted to HRK 2,164 million in 2016, which is a decrease of 11% compared to the same period last year.
Changes in working capital affected the operating cash flow negatively by HRK 42 million, primarily due to:

- Increased value of inventories by HRK 227 million
- Increase in receivables by HRK 256 million,
- Payables increased by HRK 441 million.

Taxes paid influenced the operating cash flow in the amount of HRK 37 million. All the above factors resulted in HRK 2,085 million net outflows from operating activities generated by INA d.d. in 2016.

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

INDUSTRIJA NAFTE, d.d.

Financial instruments and risk management

Risk Management and Hedging Policy for INA Group is providing the framework under which INA and its consolidated subsidiaries manage and maintain commodity, foreign exchange and interest rate risk at an acceptable level. Beside financial (market) risks, the most important risks are credit risk and liquidity risk.

a) Market risk

Commodity price risk management (price risk)

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

Foreign currency risk management

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

Interest rate risk management

INA Group companies use borrowed funds with floating interest rates and consequently INA Group is exposed to the interest rate risk. INA Group does not speculate on interest rate developments and generally chooses floating rates. INA Group may use interest rate swap to manage interest rate risk. As of 31 December 2016, there were no open interest rate swap transactions.

Other price risk

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

b) Credit risk

Sales of goods and services with deferred payment create credit risk, a risk of non-payment and risk that the counterparty will default on its contractual obligations. According to "Customer Credit Management Procedure" creditworthiness and risk in dealing with customers is estimated based on internal credit assessment model as well as on the services provided by credit rating agencies. There is no significant credit risk exposure of INA Group that is not covered with payment security instruments, other than those to the institutions and entities controlled by the state and the local government, and exposure toward customers under certain concession agreements abroad. In order to minimize credit risk, INA is using credit risk insurance services. INA, to a limited extent, is also using services of agencies and attorneys-at-law offices for "out-of-court" collection of receivables.

c) Liquidity risk

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

As of 31 December 2016, INA Group had contracted and available short-term credit lines amounting to HRK 2.67 bn excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and contracted and available long-term credit lines amounting to HRK 3.28 bn.

Restatement

*A change has been made in profit and loss statement and statement of financial position in the recording of: "Financial income and expenses": "Realized and unrealized loss of fair value hedge transactions"; "Negative unrealized FV of hedged items"; "Realized and unrealized gain of fair value hedge transactions"; "Positive unrealized FV of hedged items" are now recorded in "Other Income". „Provision": cost and revenue of bonuses and unused holidays are now recorded in „Staff cost"; "Realized additional discount from other operating profit" is now recorded in other material costs or cost of other goods sold." A change has been made in statement of financial position in the recording of: „Short-term provision": Provision for bonuses and unused holiday are now recorded as accrued bonuses and unused holiday in „Other short-term liabilities."

Special items

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

Intersegment eliminations

Intersegment elimination line within the operating results is used to provide segmental results as International Accounting Standards requests, guided with the transparency of presented information which needs to fulfil the highest requests of consistency and reliability. For this purpose and also for the purpose of having the segmental results presenting fair market relations between the segments, which are fully aligned with on demand operations of the Refining and Marketing including Retail segment, parity of internal transfer between Exploration and production and Refining and Marketing including Retail is based on delivered quantities. This line shows the effect of the change on operating profit in the amount of unrealized profit deferred in respect of transfers between segments. Unrealized profits arise where the item transferred is held in inventory by the receiving segment and a third party sale takes place only in a subsequent quarter. For segmental reporting purposes the deliverer segment records a profit immediately at the point of transfer. However, at company level profit is only reported when the related third party sale has taken place. Intersegment EBITDA effect on results in Q1-Q4 2016 is HRK -132 million which is lower compared to HRK 141 million in Q1-Q4 2015 due to different operational mode of Sisak refinery.

INDUSTRIJA NAFTE, d.d.

Investments in INA portfolio companies

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

Name of company	Activity	Shareholding 31 Dec 2015	31 SDec 2016
Oilfield services			
*Crosco Naftni Servisi d.o.o. Zagreb	Oilfield services	100%	100%
Crosco B.V. Amsterdam, Netherlands	Oilfield services	100%	100%
Nordic Shipping Ltd, Marshall Islands	Platform leasing	100%	100%
Sea Horse Shipping Inc, Marshall Islands	Platform leasing	100%	100%
Crosco International d.o.o. Slovenia	Oilfield services	100%	100%
Rotary Zrt., Hungary	Oilfield services	100%	100%
Crosco S.A. DE C.V. Monterrey, Mexico	Oilfield services	99.90%	99.90%
Crosco International d.o.o. Tuzla, BiH	Oilfield services	100%	100%
Oil exploration and production			
*INA Naftaplin International Exploration and Production Ltd, Guernsey	Oil exploration and production	100%	100%
Tourism			
*Hostin d.o.o. Zagreb	Tourism	100%	100%
Auxillary services			
*STSI integrirani tehnički servisi d.o.o. Zagreb	Technical services	100%	100%
*TRS Top računovodstvo servisi d.o.o. za računovodstvene usluge	Accounting, book-keeping, auditing, tax consulting	100%	100%
* Plavi tim d.o.o., Zagreb	IT services	100%	100%
Production and trading			
*INA Maziva d.o.o., Zagreb	Production and lubricants trading	100%	100%
Trading and finance			
*Interina d.o.o. Ljubljana, Slovenia	Trading	100%	100%
*INA BH d.d. Sarajevo, Bosnia and Herzegovina	Trading	100%	100%
*Holdina d.o.o. Sarajevo, B&H	Trading	100%	100%
*Energopetrol d.d. Sarajevo, BiH	Trading	33,5%	67%
*INA d.o.o. Beograd, Serbia	Trading	100%	100%
*INA Kosovo d.o.o. Priština	Trading	100%	100%
*Adriagas S.r.l. Milan, Italy	Pipeline project company	100%	100%
*Croplin d.o.o. Zagreb	Pipeline project company	100%	100%
*INA Crna Gora d.o.o. Podgorica, Montenegro	Trading	100%	100%
*INA BL d.o.o. Banja Luka	Trading	100%	100%
*Petrol d.d. Jurdani	Trading	100%	100%
*INA Maloprodajni servisi d.o.o.	Trading	100%	100%

Related party transactions – INA Group

INA Group has dominant positions in Croatia in oil and gas exploration and production, oil refining and the sale of gas and petroleum products. As a result of the INA Group strategic position within the Croatian economy, a substantial portion of its business and the business of its subsidiaries is transacted with the Croatian Government, its departments and agencies, and the companies with the Republic of Croatia being their majority shareholder.
Transactions between INA, d.d. and its subsidiaries, which are related parties of the Company, have been eliminated on Group level consolidation.
During the 2016, INA Group entered into the following trading transactions with the following related parties:

INA-Group	Sales of goods	Purchase of goods
HRK mln	31 Dec 2016	31 Dec 2016
Companies available for sale		
JANAF d.d. Zagreb	3	52
Strategic partner		
MOL Nyrt.	340	652
Companies controlled by strategic partner		
Tifon d.o.o.	425	7
MOL SLOVENIJA d.o.o.	119	61
MOL Serbia	31	1
MOL Petrochemical	31	9
Slovnaft, a.s.	7	94
MOL Lubricant	4	4
Kalegran Ltd.	1	-

INA-Group	Amounts owed from related parties	Amounts owed to related parties
HRK mln	31 Dec 2016	31 Dec 2016
Companies available for sale		
JANAF d.d. Zagreb	1	-
Strategic partner		
MOL Nyrt.	44	76
Companies controlled by strategic partner		
Tifon d.o.o.	69	1
MOL Serbia	15	-
MOL SLOVENIJA d.o.o.	11	6
MOL Petrochemicals	6	3
Slovnaft, a.s.	-	7

Related party transactions – INA, d.d.

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

Details of transactions between INA, d.d. and the INA d.d. companies and other related parties during the 2016 are disclosed below:

INA, d.d. HRK mln	Sales of goods	Purchase of goods
	31 Dec 2016	31 Dec 2016
Related companies		
Holdina Sarajevo	1,680	2
INA Crna Gora d.o.o Podgorica	115	-
Energopetrol d.d. (related company from the 01 July 2016)	23	-
STSI d.o.o. Zagreb	22	706
Plavi Tim d.o.o.	15	51
INA Maziva d.o.o.	9	58
Crosco d.o.o.	8	259
INA Slovenija d.o.o.	8	-
INA Maloprodajni servisi	5	220
TOP Računovodstvo Servisi d.o.o.	4	47
Adrigas Milano	1	-
INA d.o.o.Banja Luka	-	1
INA Kosovo	-	1
Companies available for sale		
JANAF d.d. Zagreb	3	52
Strategic partner		
MOL Nyrt	167	589
Companies controlled by strategic partner		
Tifon d.o.o.	423	7
MOL Slovenia d.o.o.	117	-
MOL Petrochemicals Co Ltd	31	5
MOL Serbia d.o.o.	31	-
Energopetrol d.d.* (company controlled by strategic partner until 01 July 2016)	11	-
Slovnaft a.s.	7	95
MOL Commodity Trading Kft.	-	7
IES-Italiana Energia e Servizi s.p.a.	-	3

INA, d.d. HRK mln	Amounts owed from related parties 31 Dec 2016	Amounts owed to related parties 31 Dec 2016
Related companies abroad		
Holdina Sarajevo	167	2
INA Crna Gora d.o.o. Podgorica	15	-
Crosco d.o.o.	11	56
STSI d.o.o. Zagreb	6	199
INA Maziva d.o.o.	4	7
Plavi Tim d.o.o.	4	11
INA Slovenija d.o.o.	1	-
TOP Računovodstvo Servisi d.o.o.	-	6
INA Maloprodajni Servisi d.o.o.	-	28
Companies available for sale		
JANAF d.d. Zagreb	1	6
Strategic partner		
MOL Nyrt	22	66
Companies controlled by strategic partner		
Tifon d.o.o.	69	1
MOL Serbia d.o.o.	15	-
MOL Slovenia d.o.o.	11	-
MOL Commodity Trading Kft.	8	14
MOL Petrochemicals Co Ltd	6	2
Slovnaft a.s.	-	8

INDUSTRIJA NAFTE, d.d.

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

	INA, d.d.			INA GROUP		
	Q1-Q4 2015 HRK mn	Q1-Q4 2016 HRK mn	Ch. %	Q1-Q4 2015 HRK mn	Q1-Q4 2016 HRK mn	Ch. %
Sales						
Exploration & Production	4,967	3,887	(22)	4,970	3,890	(22)
Refining & Marketing including Retail	14,299	12,602	(12)	14,831	13,094	(12)
Corporate and Other	144	133	(8)	2,348	1,610	(31)
Inter-segment revenue	(2,249)	(1,980)	(12)	(3,288)	(3,019)	(8)
Sales	**17,161**	**14,642**	**(15)**	**18,861**	**15,575**	**(17)**
Operating expenses, net other income from operating activities						
Exploration & Production	(4,655)	(2,759)	(41)	(4,599)	(2,718)	(41)
Refining & Marketing including Retail	(15,597)	(12,456)	(20)	(16,155)	(13,020)	(19)
Corporate and Other	(484)	(396)	(18)	(2,856)	(2,106)	(26)
Inter-segment eliminations	2,409	1,876	(22)	3,411	2,876	(16)
Expenses	**(18,327)**	**(13,735)**	**(25)**	**(20,199)**	**(14,968)**	**(26)**
Profit/(loss) from operations						
Exploration & Production	312	1,128	262	371	1,172	216
Refining & Marketing including Retail	(1,298)	146	n.a.	(1,324)	74	n.a.
Corporate and Other	(340)	(263)	(23)	(508)	(496)	(2)
Inter-segment eliminations	160	(104)	n.a.	123	(143)	n.a.
Profit from operations	**(1,166)**	**907**	**n.a.**	**(1,338)**	**607**	**n.a.**
Share in the profit of associate companies						
Net loss from financial activities	**(332)**	**(405)**	**22**	**(411)**	**(146)**	**(64)**
Profit before taxation	**(1,498)**	**502**	**n.a.**	**(1,749)**	**461**	**n.a.**
Income tax expense	**296**	**(342)**	**n.a.**	**331**	**(366)**	**n.a.**
Profit for the year	**(1,202)**	**160**	**n.a.**	**(1,418)**	**95**	**n.a.**
Depreciation						
Exploration & Production	1,487	1,008	(32)	1,468	972	(34)
Refining & Marketing including Retail	523	521	(0)	533	538	1
Corporate and Other	68	71	4	190	167	(12)
Total	**2,078**	**1,600**	**(23)**	**2,191**	**1,677**	**(23)**
EBITDA*						
Exploration & Production	3,109	2,132	(31)	3,141	2,141	(32)
Refining & Marketing including Retail	(591)	458	n.a.	(587)	339	n.a.
Corporate and Other	(325)	(224)	(31)	(30)	(232)	673
Inter-segment eliminations	180	(97)	n.a.	141	(136)	n.a.
Total	**2,373**	**2,269**	**(4)**	**2,665**	**2,112**	**(21)**
EBITDA wo special items						
Exploration & Production	3,171	2,157	(32)	3,203	2,166	(32)
Refining & Marketing including Retail	(427)	672	n.a.	(422)	558	n.a.
Corporate and Other	(293)	(210)	(28)	31	(161)	n.a.
Inter-segment eliminations	180	(97)	n.a.	141	(136)	n.a.
Total	**2,631**	**2,522**	**(4)**	**2,953**	**2,428**	**(18)**

** EBITDA = EBIT + Depreciation + Impairment + Provisions*

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

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated and Unconsolidated Income Statement
INA Group and INA d.d. for the period ended 31 December 2015 and 2016
(in HRK millions)

	INA, d.d.			INA GROUP		
	Q1-Q4 2015 HRK mn	Q1-Q4 2016 HRK mn	Ch. %	Q1-Q4 2015 HRK mn	Q1-Q4 2016 HRK mn	Ch. %
Sales revenue						
a) domestic	10,870	9,181	(16)	11,116	9,356	(16)
b) exports	6,291	5,461	(13)	7,745	6,219	(20)
Total sales revenue	**17,161**	**14,642**	**(15)**	**18,861**	**15,575**	**(17)**
Income from own consumption of products and services	9	6	(33)	466	365	(22)
Other operating income	302	296	(2)	440	186	(58)
Total operating income	**17,472**	**14,944**	**(14)**	**19,767**	**16,126**	**(18)**
Changes in inventories of finished products and work in progress	(233)	256	n.a.	(238)	264	n.a.
Cost of raw materials and consumables	(8,102)	(7,230)	(11)	(8,364)	(7,448)	(11)
Depreciation and amortization	(2,078)	(1,600)	(23)	(2,191)	(1,677)	(23)
Other material costs	(2,086)	(1,833)	(12)	(2,568)	(2,000)	(22)
Service costs	(563)	(804)	43	(706)	(663)	(6)
Staff costs	(1,618)	(1,175)	(27)	(2,421)	(2,083)	(14)
Cost of other goods sold	(2,497)	(1,889)	(24)	(2,805)	(2,084)	(26)
Impairment and charges (net)	(1,213)	(108)	(91)	(1,546)	(272)	(82)
Provisions for charges and risks (net)	(248)	346	n.a.	(266)	444	n.a.
Operating expenses	**(18,638)**	**(14,037)**	**(25)**	**(21,105)**	**(15,519)**	**(26)**
Profit/(loss) from operations	**(1,166)**	**907**	**n.a.**	**(1,338)**	**607**	**n.a.**
Share in the profit of associated companies	-	-	0	-	-	0
Finance income	306	155	(49)	197	106	(46)
Finance costs	(638)	(560)	(12)	(608)	(252)	(59)
Net loss from financial activities	**(332)**	**(405)**	**22**	**(411)**	**(146)**	**(64)**
Profit/(loss) before tax	**(1,498)**	**502**	**n.a.**	**(1,749)**	**461**	**n.a.**
Income tax expense	296	(342)	n.a.	331	(366)	n.a.
Profit/(loss) for the year	**-**	**-**	**0**	**(1,418)**	**95**	**n.a.**
Attributable to						
Owners of the Company	(1,202)	160	n.a.	(1,418)	101	n.a.
Non-controlling interests	-	-	n.a.	-	(6)	n.a.
	(1,202)	160	n.a.	(1,418)	95	n.a.
Earnings per share						
Basic and diluted earnings/(loss) per share (kunas per share)	(120.2)	16.0	n.a.	(141.8)	10.1	n.a.

Condensed Consolidated and Unconsolidated Statement of Comprehensive Income INA Group and INA d.d. for the period ended 31 December 2015 and 2016 (in HRK million)

	INA, d.d.			INA GROUP		
	Q1-Q4 2015 HRK mn	Q1-Q4 2016 HRK mn	Ch. %	Q1-Q4 2015 HRK mn	Q1-Q4 2016 HRK mn	Ch. %
Profit/(loss) for the year	**(1,202)**	**160**	**n.a.**	**(1,418)**	**95**	**n.a.**
Remeasurement of defined benefit obligation	29	1	(97)	36	3	(92)
Exchange differences on translating foreign operations	355	14	(96)	358	3	(99)
Net fair value gain/(loss) on available-for-sale financial assets	95	83	(13)	95	83	(13)
Other comprehensive income, net	**479**	**98**	**(80)**	**489**	**89**	**(82)**
Total comprehensive income/(loss) for the year	**(723)**	**258**	**n.a.**	**(929)**	**184**	**n.a.**
Attributable to:						
Owners of the Company				(929)	190	n.a.
Non-controlling interests				-	(6)	n.a.

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated and Unconsolidated Statement of Financial Position INA-Group and INA d.d. at 31 December 2016 (in HRK millions)

	INA, d.d.			INA GROUP		
	31 Dec 2015 HRK mn	31 Dec 2016 HRK mn	Ch. %	31 Dec 2015 HRK mn	31 Dec 2016 HRK mn	Ch. %
Assets						
Non-current assets						
Intangible assets	385	380	(1)	540	536	(1)
Property, plant and equipment	11,542	11,169	(3)	12,730	12,573	(1)
Goodwill	-	-	n.a.	-	-	n.a.
Investments in subsidiaries	1,000	805	(20)	22	22	0
Investments in associates and joint ventures	22	22	0	14	13	0
Other investments	692	809	17	-	-	(7)
Long-term receivables	149	137	(8)	144	128	(11)
Deferred tax	1,995	1,684	(16)	2,094	1,769	(16)
Available for sale assets	581	676	16	581	676	16
Total non-current assets	**16,366**	**15,682**	**(4)**	**16,125**	**15,717**	**(3)**
Current assets						
Inventories	1,597	1,802	13	1,820	2,050	13
Trade receivables net	1,176	1,315	12	1,724	1,591	(8)
Intercompany receivables	140	258	84	-	-	0
Other receivables	84	153	82	136	184	35
Corporative income tax receivables	8	1	(88)	23	11	(52)
Other current assets	208	434	109	278	120	(57)
Prepaid expenses and accrued income	42	-	n.a.	-	-	n.a.
Cash and cash equivalents	195	500	156	275	611	122
Current assets	**3,450**	**4,463**	**29**	**4,256**	**4,567**	**7**
Assets classified as held for sale	-	-	n.a.	1	8	733
Total current assets	**3,450**	**4,463**	**29**	**4,257**	**4,575**	**7**
Total assets	**19,816**	**20,145**	**2**	**20,382**	**20,292**	**(0)**
Equity and liabilities						
Capital and reserves						
Share capital	9,000	9,000	0	9,000	9,000	0
Legal reserves	330	20	(94)	330	20	(94)
Revaluation reserve	216	299	38	216	299	38
Other reserves	1,273	1,288	1	1,641	1,647	0
Retained earnings / (Deficit)	(310)	160	n.a.	(602)	(233)	(61)
Equity attributable to equity holder of the parent	**10,509**	**10,767**	**2**	**10,585**	**10,733**	**1**
Non-controlling interests	-	-	n.a.	0	(136)	n.a.
Total equity	**10,509**	**10,767**	**2**	**10,585**	**10,597**	**0**
Non-current liabilities						
Long-term loans	400	271	(32)	400	271	(32)
Other non-current liabilities	65	60	(8)	66	60	(9)
Employee benefits obligation	66	46	(30)	101	85	(16)
Provisions	3,374	3,314	(2)	3,266	3,224	(1)
Deferred tax liability	-	-	0	22	13	(41)
Total non-current liabilities	**3,905**	**3,691**	**(5)**	**3,855**	**3,653**	**(5)**
Current liabilities						
Bank loans and overdrafts	2,508	2,487	(1)	2,768	2,711	(2)
Current portion of long-term debt	133	135	2	139	135	(3)
Intercompany payables	488	560	15	-	-	0
Trade payables	967	1,498	55	1,400	1,857	33
Taxes and contributions	606	552	(9)	665	637	(4)
Other current liabilities	216	336	56	511	498	(3)
Accruals and deferred income	17	-	n.a.	-	-	n.a.
Employee benefits obligation	4	2	(50)	8	10	25
Provisions	463	117	(75)	451	194	(57)
Total current liabilities	**5,402**	**5,687**	**5**	**5,942**	**6,042**	**2**
Total liabilities	**9,307**	**9,378**	**1**	**9,797**	**9,695**	**(1)**
Total equity and liabilities	**19,816**	**20,145**	**2**	**20,382**	**20,292**	**(0)**

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated and Unconsolidated Cash Flow Statement INA Group and INA d.d. for the period ended 31 December 2015 and 2016 (in HRK millions)

	INA, d.d.			INA GROUP		
	Q1-Q4 2015	Q1-Q4 2016	Ch. %	Q1-Q4 2015	Q1-Q4 2016	Ch. %
Profit/(loss) for the year	**(1,202)**	**160**	**n.a.**	**(1,418)**	**95**	**n.a.**
Adjustments for:						
Depreciation and amortisation	2,078	1,600	(23)	2,191	1,677	(23)
Income tax expense recognised in income statement	(296)	342	n.a.	(331)	366	n.a.
Impairment charges (net)	1,213	108	(91)	1,546	272	(82)
Gain on sale of property, plant and equipment	(10)	(21)	110	(19)	(17)	(11)
Foreign exchange loss/(gain)	139	23	(83)	205	49	(76)
Interest income, net	(12)	(11)	(8)	58	38	(34)
Other financial expense recognised in profit	171	342	100	77	10	(87)
Increase in provisions	262	(366)	n.a.	201	(469)	n.a.
Decommissioning interests	75	51	(32)	70	50	(29)
Net gain/loss on derivative financial instruments and hedge transactions	(19)	44	n.a.	(19)	44	n.a.
(Gain)/loss from emmission quotas	29	28	(3)	29	28	(3)
Other non-cash items	(4)	(1)	(75)	(22)	5	n.a.
Operating cash flow before working capital changes	**2,424**	**2,164**	**(11)**	**2,536**	**2,150**	**(15)**
Movements in working capital						
(Increase)/decrease in inventories	(39)	(227)	482	6	(249)	n.a.
(Increase)/decrease in receivables and prepayments	266	(256)	n.a.	220	37	(83)
(Decrease)/increase in trade and other payables	(855)	441	n.a.	(651)	333	n.a.
Cash generated from operations	**1,796**	**2,122**	**18**	**2,111**	**2,271**	**8**
Taxes paid	(114)	(37)	(68)	(157)	(43)	(73)
Net cash inflow from operating activities	**1,682**	**2,085**	**24**	**1,954**	**2,228**	**14**
Cash flows used in investing activities						
Capital expenditures, exploration and development costs	(1,394)	(1,260)	(10)	(1,561)	(1,337)	(14)
Payment for intangible assets	(61)	(62)	2	(38)	(65)	71
Proceeds from sale of non-current assets	10	37	270	33	30	(9)
Payments related to sale of subsidiary	2	1	(50)	(3)	1	n.a.
Interest received and other financial income	53	8	(85)	15	13	(13)
Investments and loans to third parties, net	(99)	(260)	163	39	(185)	n.a.
Net cash used for investing activities	**(1,466)**	**(1,505)**	**3**	**(1,508)**	**(1,525)**	**1**
Cash flows from financing activities						
Additional long-term borrowings	1,602	1,192	(26)	1,602	1,192	(26)
Repayment of long-term borrowings	(1,913)	(1,309)	(32)	(1,926)	(1,316)	(32)
Additional short-term borrowings	12,427	10,538	(15)	12,237	10,416	(15)
Repayment of short term borrowings	(12,268)	(10,557)	(14)	(12,221)	(10,506)	(14)
Interest paid on long-term loans	(15)	(12)	(20)	(16)	(12)	(25)
Other long-term liabilities, net	3	-	n.a.	-	-	n.a.
Interest paid on short term loans and other financing charges	(35)	(120)	243	(124)	(124)	0
Changes in shareholders equity due to acquisition of subsidiaries	-	-	0	-	(240)	n.a.
Net cash from financing activities	**(349)**	**(268)**	**(23)**	**(598)**	**(590)**	**(1)**
Net (decrease)/increase in cash and cash equivalents	(133)	312	n.a.	(152)	113	n.a.
At 1 January	327	195	(40)	467	275	(41)
Effect of foreign exchange rate changes	1	(7)	n.a.	(40)	(17)	(58)
At the end of period	195	500	156	275	371	35

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated Statement of Changes in Equity INA Group and INA d.d. for the period ended 31 December 2015 and 2016 (in HRK millions)

Attributable to equity holders of the parent

INA, d.d.

INA, d.d.	Share capital	Legal reserves	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total
Balance as at 1 January 2015	**9,000**	**330**	**2,529**	**121**	**(504)**	**11,476**
Profit/(loss) for the year	-	-	-	-	(1,202)	(1,202)
Other comprehensive income/(expense), net	-	-	384	95	-	479
Total comprehensive profit/(loss) for the year	-	-	384	95	(1,202)	(723)
Balance as at 31 Dec 2015	**9,000**	**330**	**1,273**	**216**	**(310)**	**10,509**
Balance as at 1 January 2016	**9,000**	**330**	**1,273**	**216**	**(310)**	**10,509**
Profit/(loss) for the period	-	-	-	-	160	160
Other comprehensive income/(expense), net	-	(310)	15	83	310	98
Total comprehensive income/(loss) for the year	-	(310)	15	83	470	258
Balance as at 31 Dec 2016	**9,000**	**20**	**1,288**	**299**	**160**	**10,767**

INA-Group	Share capital	Legal reserves	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Non controlling interest	Total equity
Balance as at 1 January 2015	**9,000**	**330**	**2,851**	**121**	**(641)**	**11,661**	**(1)**	**11,660**
Profit for the period	-	-	-	-	(1,418)	(1,418)	-	(1,418)
Purchase of non-controlling interest	-	-	-	-	-	-	-	-
Other comprehensive profit net	-	-	394	95	-	489	-	489
Total comprehensive profit, net	-	-	394	95	(1,418)	(929)	-	(929)
Balance as at 31 Dec 2015	9,000	330	1,641	216	(602)	10,585	-	10,585
Balance as at 1 January 2016	**9,000**	**330**	**1,641**	**216**	**(602)**	**10,585**	**-**	**10,585**
Profit for the year	-	-	-	-	101	101	(6)	95
Other comprehensive income, net	-	-	6	83	-	89	-	89
Total comprehensive loss, net	-	-	6	83	101	190	(6)	184
	9,000	**20**	**1,647**	**299**	**(233)**	**10,733**	**(136)**	**10,597**

INDUSTRIJA NAFTE, d.d.

Main external parameters

	Q1-Q4 2015	Q1-Q4 2016	Ch. %
Brent dtd (USD/bbl)	52.4	43.7	(16.5)
Brent-Ural spread	0.5	1.2	136.6
Premium unleaded gasoline 10 ppm (USD/t)*	557.2	462.4	(17.0)
Diesel – ULSD 10 ppm (USD/t)*	493.8	395.0	(20.0)
Fuel oil 3,5% (USD/t)*	254.9	205.6	(19.3)
LPG (USD/t)*	446.5	397.2	(11.0)
Average crack spread	72.8	51.0	(30.0)
Crack spread – premium unleaded (USD/t)*	160.9	131.5	(18.3)
Crack spread – diesel (USD/t)*	97.5	64.2	(34.2)
Crack spread - fuel oil 3,5% (USD/t)*	(141.4)	(125.2)	(11.4)
Crack spread - LPG (USD/t)*	50.2	66.3	32.2
HRK/USD average	6.86	6.80	(0.8)
HRK/USD closing	6.99	7.17	2.6
HRK/EUR average	7.61	7.53	(1.1)
HRK/EUR closing	7.64	7.56	(1.1)
3m USD LIBOR (%)	0.32	0.74	135.7
3m EURIBOR (%)	(0.02)	-0.265	1,211.5

** FOB Mediterranean*

Announcements in 2016

29 December 2016	Announcement on media statements
19 December 2016	General Assembly Decisions
18 November 2016	Amendment of the Invitation to the General Assembly
11 November 2016	Invitation to the General Assembly
10 November 2016	INA prepares detailed design for Residue Upgrade Project
18 October 2016	Report on takeover of Energopetrol d.d. Sarajevo
09 September 2016	Bid on takeover of Energopetrol d.d. Sarajevo
06 September 2016	Decision on approval of Takeover Offer for Energopetrol d.d.
26 August 2016	Disposal of shares
28 July 2016	INA starts production at new gas fields in Međimurje
25 July 2016	Management board meeting announcement
12 July 2016	INA acquired 33.5% share in Energopetrol d.d. Sarajevo
29 June 2016	Supervisory Board meeting held
10 June 2016	Signing of onshore exploration and production sharing agreement
09 June 2016	General Assembly Decisions
25 May 2016	Amendment of the Invitation to the General Assembly
28 April 2016	General Assembly INA Industrija nafte d.d.
27 April 2016	Management board meeting announcement
12 April 2016	Supervisory Board Employee representative
30 March 2016	Code of Corporate Governance Questionnaire for 2015
30 March 2016	Supervisory Board meeting held
25 March 2016	Supervisory Board meeting announcement
23 March 2016	Decrease of regulated gas price for households
25 February 2016	Notification of Home Member State
19 February 2016	Management Board meeting announcement

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

	31 Dec 2006	31 Dec 2007	31 Dec 2008 31 Dec 2009 31 Dec 2010	31 Dec 2011	31 Dec 2012 31 Dec 2013 31 Dec 2014 31 Dec 2015	31 Dec 2016
MOL Plc.	2,500,001	2,500,001	4,715,538	4,725,620	4,908,207	4,908,207
Government of the Rep. of Croatia	5,180,367	4,484,918	4,483,552	4,483,552	4,483,552	4,483,552
Private and institutional investors	2,319,632	3,015,081	800,91	790,828	608,241	608,241
Total	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**

Source: Central Clearing Depositary Company

Changes in organization, Management Board or Supervisory Board

Supervisory Board
On 19 December 2016 the General Shareholders' Assembly of INA, d.d. elected the following members of the Supervisory Board for a mandate of 4 years: Luka Burilović, Dario Čehić, Szabolcs Ferencz I., Ferenc Horváth, József Molnár, József Simola, László Uzsoki and Damir Vanđelić.
Management Board
During the 2016 there was no change in the Management Board.
Board of Executive Directors
Effective from 1 February 2016, Dr. Ákos Székely replaced Mr. András Huszár as Executive Director for Finance.

Management representation

INA Group's and INA, d.d. financial statements for 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS), i.e. they present fairly, in all material aspects, the financial position of the company, results of its operations and cash flows.

Management Board:

Zoltán Áldott	President
Niko Dalić	Member
Gábor Horváth	Member
Ivan Krešić	Member
Davor Mayer	Member
Péter Ratatics	Member