

INA Group (ZB: INA-R-A; www.ina.hr) announced its Q1 2017 results today. This report contains unaudited consolidated financial statements for the period ending 31 March 2017 as prepared by the management in accordance with the International Financial Reporting Standards.

## INA Group financial results (IFRS)

2016	HRK mln	Q1 2016	Q1 2017	%
15,575	Net sales revenues	2,602	3,845	48
2,112	EBITDA <sup>(1)</sup>	102	607	495
2,428	EBITDA excl. special items <sup>(2)</sup>	270	607	125
2,219	CCS EBITDA excl. special items	386	484	26
607	Profit/(loss) from operations	(159)	198	n.a.
842	Operating profit excl. special items <sup>(2)</sup>	(135)	198	n.a.
626	CCS Operating profit excl. special items	(15)	75	n.a.
(146)	Net financial result	84	40	(53)
101	Net profit/loss attributable to equity holder	(66)	199	n.a.
336	Net profit/loss for the period excl. special items <sup>(2)</sup>	(42)	199	n.a.
832	Simplified Free Cash Flow <sup>(3)</sup>	44	275	526
<b>2,212</b>	<b>Operating cash flow</b>	<b>(25)</b>	<b>(186)</b>	<b>643</b>
	<b>Earnings per share</b>			
10.1	Basic and diluted/(loss) earnings per share (kunas per share)	(6.6)	19.9	n.a.
2,506	Net debt	3,352	2,824	(16)
19.1	Net gearing (%)	24.3	20.8	
<b>1,387</b>	<b>CAPEX total</b>	<b>342</b>	<b>209</b>	<b>(39)</b>
1,217	Domestic	292	196	(33)
170	International	50	14	(73)
2016	USD mln <sup>(4)</sup>	Q1 2016	Q1 2017	%
2,289	Net sales revenues	376	548	46
310	EBITDA <sup>(1)</sup>	15	87	487
357	EBITDA excl. special items <sup>(2)</sup>	39	87	122
326	CCS EBITDA excl. special items	56	69	24
89	Profit/(loss) from operations	(23)	28	n.a.
124	Operating profit excl. special items <sup>(2)</sup>	(19)	28	n.a.
92	CCS Operating profit excl. special items	(2)	11	n.a.
(21)	Net financial result	12	6	(53)
15	Net profit/loss attributable to equity holder	(10)	28	n.a.
49	Net profit/loss for the period excl. special items <sup>(2)</sup>	(6)	28	n.a.
122	Simplified Free Cash Flow <sup>(3)</sup>	6	39	517
<b>325</b>	<b>Operating cash flow</b>	<b>(4)</b>	<b>(26)</b>	<b>632</b>
	<b>Earnings per share</b>			
1.5	Basic and diluted/(loss) earnings per share (kunas per share)	(1.0)	2.8	n.a.
351	Net debt	504	408	(19)
<b>204</b>	<b>CAPEX total</b>	<b>49</b>	<b>30</b>	<b>(40)</b>
179	Domestic	42	28	(34)
25	International	7	2	(73)

<sup>(1)</sup> EBITDA = EBIT + Depreciation + Impairment + Provisions

<sup>(2)</sup> No significant one-off items in Q1 2017, while Q1 2016 EBITDA was negatively influenced by HRK 168 million special items related to severance payments

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

<sup>(4)</sup> In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for 2016 – 6.8037 HRK/USD; Q1 2016 – 6.9116 HRK/USD; Q1 2017 – 7.0148 HRK/USD; as at Dec 31, 2016 – 7.1685 HRK/USD; as at Mar 31, 2016 – 6.6481 HRK/USD; as at Mar 31, 2017 – 6.9278 HRK/USD

INA Group achieved strong results in Q1 2017, with EBITDA reaching HRK 607 million, an almost six-fold increase compared to the corresponding period of last year. The external environment, mainly in the form of recovering Brent prices, was the main driver behind the positive change in earnings. Constant efficiency efforts and continuous adjustments to operations given the market dynamics further contributed to the positive results. Consequently, Exploration & Production performance improved significantly with an EBITDA increase of 18%, to the level of HRK 635 million, despite a hydrocarbon production decrease of 3%. On the other hand, mainly on the back of inventory gains, Refining & Marketing incl. Retail crept into positive, with EBITDA reaching HRK 149 million for the quarter, a positive yet moderate result given the favourable refining environment. Nevertheless, the increase in sales volumes on captive markets is a reflection of an overall macroeconomic improvement. Finally, a stable increase in non-fuel revenues contributed to the growth in the segment's profitability.

CAPEX amounted to HRK 209 million, a decrease of 39% compared to Q1 2016. The more intensive investment campaign is expected in the second half of 2017. Revenue growth supported keeping the financial position of the Company stable. Net gearing increased slightly compared to end of 2016, to 20.8%, whilst net debt reached HRK 2,824 million, a 13% increase compared to 2016 closing.

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

For INA, 2017 started strongly, showing optimism driven by actions taken last year to keep our financial position stable and to improve business performance. Additionally, increase in Brent prices gave a boost to INA operations, especially in Upstream. All these factors combined led to almost HRK 200 million net profit in just one quarter, with a safe balance sheet capable to finance significant investments planned for the next few years.

We are on good track with our ongoing projects as well: EOR project is continuing to Žutica field, while the design phase of the Rijeka Residue Upgrade Project is progressing as planned.

Upstream could not avoid the natural decline, stronger in the offshore fields, but this was greatly offset by the production from new Međimurje fields. Also, the natural gas sales show a moderate growth compared to Q1 2016, while the long awaited liberalization started to drive the market on a more sustainable level.

Refining and Marketing including Retail had a quarter of favorable refining margins and no turnovers were performed on main assets, which resulted in almost doubled processing. Sales also grew on all markets, adding to the results, while non-fuel sales continue to grow, backed with continuous expansion of products and services offered at retail sites. Nevertheless, it is no time to relax, having in mind INA's refining operations still require restructuring to make the operations cash positive.

## Management discussion

### Exploration and Production\*

2016	Segment IFRS results (HRK mln)	Q1 2016	Q1 2017	%
3,890	Net sales revenues	933	1,163	25
2,141	EBITDA	539	635	18
<b>2,166</b>	<b>EBITDA excl. special items **</b>	<b>547</b>	<b>635</b>	<b>16</b>
1,172	Operating profit	251	375	49
<b>1,186</b>	<b>Operating profit excl. special items **</b>	<b>252</b>	<b>375</b>	<b>49</b>
<b>1,450</b>	<b>Simplified Free Cash Flow***</b>	<b>382</b>	<b>527</b>	<b>38</b>
717	CAPEX	165	108	(35)

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

\*\* No significant one-off items in Q1 2017, while Q1 2016 EBITDA was negatively influenced by HRK 8 million special items related to Severance payments

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

2016	Hydrocarbon production	Q1 2016*	Q1 2017	%
<b>15,044</b>	<b>Crude oil production (boe/d)</b>	<b>15,110</b>	<b>14,100</b>	<b>(7)</b>
11,929	Croatia	11,749	11,498	(2)
2,057	Egypt	2,235	1,680	(25)
1,057	Angola	1,125	922	(18)
<b>22,446</b>	<b>Natural gas production (boe/d)</b>	<b>23,119</b>	<b>22,871</b>	<b>(1)</b>
9,324	Croatia - offshore	10,461	8,583	(18)
13,122	Croatia - onshore	12,658	14,288	13
<b>1,887</b>	<b>Condensate (boe/d)</b>	<b>1,906</b>	<b>1,896</b>	<b>(1)</b>
<b>39,377</b>	<b>Total hydrocarbon production (boe/d)</b>	<b>40,135</b>	<b>38,867</b>	<b>(3)</b>

  

2016	Average realised hydrocarbon price	Q1 2016*	Q1 2017	%
37	Total hydrocarbon price (USD/boe)*	36	40	12

  

2016	Natural gas trading - mln cm	Q1 2016*	Q1 2017	%
1,115	Total natural gas sales - domestic market	281	327	17

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

### Q1 2017 vs. Q1 2016

#### KEY DRIVERS

- 58% higher Brent price; positive effect on oil and condensate sales revenues in the amount of HRK 188 million
- HRK (85) million lower natural gas revenues caused by lower realised gas prices
- Domestic crude oil production decline arrested – only 2% decline mainly due to:
  - natural decline and problems with pipeline on the Hrastilnica field
  - higher production from new wells Selec and Đeletovci Zapad
  - positive effect of full field optimization and the EOR projects partially offset the decline
- International crude oil production lower by 0.8 mboepd due to:
  - natural production decline in Egypt and technical issues
  - natural production decline on Block 3/05 in Angola
- Natural gas production lower driven by:
  - 18% lower offshore natural gas production due to water cut and natural decline
  - offset by 13% higher onshore natural gas production mainly as a result of production from Medimurje fields

#### CAPITAL EXPENDITURES

Q1 2017 (HRK million)	Croatia	Egypt	Angola
Exploration	0.2	-	-
Development	60.6	4.2	1.5
Other	41.9	-	-
<b>TOTAL</b>	<b>102.7</b>	<b>4.2</b>	<b>1.5</b>

- Lower investment level due to different investment dynamics throughout the year
- Drava-02 exploration program - Preparatory activities for drilling program in 2017 are in progress
- Medimurje Project - Obtained positive notion by Ex Agency for facilities at the field Vukanovec
- EOR project Ivanić and Žutica North - Trial injection of CO<sub>2</sub> into 7 wells at Ivanić field and 8 at Žutica North
- Full Field Optimization Žutica - Well Logging performed on wells and preparations for well workovers in progress
- Well Stimulation Campaign Phase II - performed stimulations on 5 wells

## Refining and Marketing, including Retail\*

2016	Segment IFRS results (HRK mln)	Q1 2016	Q1 2017	%
13,094	Revenues	1,904	3,208	68
339	EBITDA	(347)	149	n.a.
<b>558</b>	<b>EBITDA excl. special items**</b>	<b>(199)</b>	<b>149</b>	<b>n.a.</b>
350	CCS-based DS EBITDA excl. special items**	(83)	26	n.a.
74	Operating profit/(loss)	(302)	34	n.a.
<b>94</b>	<b>Operating profit/(loss) excl. special items**</b>	<b>(288)</b>	<b>34</b>	<b>n.a.</b>
(122)	CCS-based DS operating loss	(168)	(89)	(47)
(258)	Simplified Free Cash Flow***	(255)	(69)	(73)
608	CAPEX and investments (w/o acquisition)	172	95	(45)

\*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, Petrol Rijeka, Energopetrol

\*\* No significant one-off items in Q1 2017, while Q1 2016 EBITDA was negatively influenced by HRK 148 million special items related to Severance payments

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

2016	Refinery processing (kt)	Q1 2016*	Q1 2017	%
599	Domestic crude oil	121	0	(100)
2,530	Imported crude oil	179	453	153
84	Condensate	21	-	n.a.
643	Other feedstock	24	183	661
<b>3,856</b>	<b>Total refinery throughput</b>	<b>345</b>	<b>636</b>	<b>84</b>
2016	Refinery production (kt)	Q1 2016*	Q1 2017	%
211	LPG	14	34	137
64	Naphtha	6	11	97
989	Gasoline	89	152	71
112	Kerosene	8	14	85
1,288	Diesel	96	212	120
144	Heating oil	30	37	23
500	Fuel oil	37	70	88
119	Other products*	11	25	128
<b>3,428</b>	<b>Total</b>	<b>291</b>	<b>555</b>	<b>91</b>
47	Refinery loss	4	7	85
381	Own consumption	51	74	46
<b>3,856</b>	<b>Total refinery production</b>	<b>345</b>	<b>636</b>	<b>84</b>
2016	Refined product sales by country (kt)	Q1 2016*	Q1 2017	%
1,847	Croatia	362	388	7
528	B&H	114	117	3
233	Slovenia	10	16	60
1,246	Other markets	92	273	196
<b>3,854</b>	<b>Total</b>	<b>578</b>	<b>794</b>	<b>37</b>
2016	Refined product sales by product (kt)	Q1 2016*	Q1 2017	%
265	LPG	37	48	30
67	Naphtha	6	11	104
925	Gasoline	130	182	40
137	Kerosene	14	16	10
1,529	Diesel	283	349	24
179	Heating oil	59	52	(12)
460	Fuel oil	15	99	569
41	Bitumen	5	7	31
251	Other products*	29	30	2
<b>3,854</b>	<b>Total</b>	<b>578</b>	<b>794</b>	<b>37</b>
1,014	o/w Retail segment sales	191	207	9
495	Total number of Retail sites	437	495	13

\*Other products = Benzene-rich cut, liquid sulphur, coke, motor oils. Industrial lubricants, base oils, spindle oil, waxes, blended gas oil "M", atmospheric residue, intermediaries and other.

## Q1 2017 vs. Q1 2016

## KEY DRIVERS

- Favourable external environment impacted refining margin positively, being the main CCS EBITDA driver
- Higher DTD Brent price (increase from USD 34 USD/bbl to USD 54/bbl)
- Higher diesel crack spread (+17 USD/t) had a positive impact on overall diesel sales price
- Increased sales on captive markets (+29kt)
- Processing levels were higher (+291 kt) due to the stable operations of the Rijeka Refinery compared to the Q1 2016 turnaround period triggering substantial yield improvement
- Retail sales volumes of 207 kt (+9%), growth mainly resulting from network expansion activities
- Non-fuel margin revenue increased on the back of continuous expansion in goods, contributing 22% to total Retail margin

## CAPITAL EXPENDITURES

- Lower spending level in Q1 2017 due to the Rijeka Refinery turnaround implemented in Q1 2016
- Refining and Marketing (HRK 83 mn)
  - Continued investment activities in logistics and refinery development projects as well as equipment purchase
  - Implementation of the FEED (Front End Engineering Design) for the Residue Upgrade Project in the Rijeka Refinery
- Retail (HRK 12 mn)
  - Various investments projects including highway greenfield constructions, filling stations modernizations and other improvement projects
  - Multiple projects on expanding non-fuel offer in line with "Fresh corner" concept in preparation

## Main external parameters

2016		Q1 2016	Q1 2017	%
43.7	Brent dtd (USD/bbl)	33.9	53.7	58.2
1.21	Brent-Ural spread	1.21	1.17	(3.6)
462.4	Premium unleaded gasoline 10 ppm (USD/t)*	396.5	543.1	37.0
395.0	Diesel – ULSD 10 ppm (USD/t)*	311.3	477.5	53.4
205.6	Fuel oil 3,5% (USD/t)*	134.3	289.3	115.4
397.2	LPG (USD/t)*	376.4	543.1	44.3
131.5	Crack spread – premium unleaded (USD/t)*	139.7	136.9	(2.0)
64.2	Crack spread – diesel (USD/t)*	54.6	71.4	30.8
(125.2)	Crack spread - fuel oil 3,5% (USD/t)*	(122.4)	(116.8)	(4.6)
66.3	Crack spread - LPG (USD/t)*	119.6	136.9	14.5
1.63	Indicative refining margins (USD/bbl)**	1.62	2.05	26.4
6.80	HRK/USD average	6.91	7.01	1.4
7.17	HRK/USD closing	6.65	6.93	4.2
7.53	HRK/EUR average	7.62	7.47	(2.0)
7.56	HRK/EUR closing	7.52	7.44	(1.1)
0.74	3m USD LIBOR (%)	0.62	1.07	71.4
(0.26)	3m EURIBOR (%)	(0.19)	(0.33)	75.6

\* FOB Mediterranean

\*\* Indicative refining margins based on 2014 Solomon yields, dated Ural price used for all feedstock

**Condensed Consolidated Income Statement – INA-GROUP**  
**For the period ended 31 March 2016 and 2017**  
**(In HRK millions)**

2016	Note	Q1 2016	Q1 2017	%
<b>15,575</b>	<b>Total sales revenue</b>	<b>2,602</b>	<b>3,845</b>	<b>48</b>
365	Capitalised value of own performance	103	60	(41)
186	Other operating income	34	52	54
<b>16,126</b>	<b>Total operating income</b>	<b>2,739</b>	<b>3,957</b>	<b>44</b>
264	Changes in inventories of finished products and work in progress	115	169	47
(7,448)	Cost of raw materials and consumables	(624)	(1,758)	182
(1,677)	Depreciation and amortization	(394)	(440)	12
(2,000)	Other material costs	(456)	(413)	(9)
(663)	Service costs	(151)	(125)	(17)
(2,083)	Staff costs	(630)	(411)	(35)
(2,084)	Cost of other goods sold	(891)	(812)	(9)
(272)	Impairment and charges (net)	(85)	(12)	(86)
444	Provisions for charges and risks (net)	218	43	(80)
<b>(15,519)</b>	<b>Operating expenses</b>	<b>(2,898)</b>	<b>(3,759)</b>	<b>30</b>
<b>607</b>	<b>Profit from operations</b>	<b>(159)</b>	<b>198</b>	<b>n.a.</b>
	Share in the profit of associated companies			
106	Finance income	183	185	1
(252)	Finance costs	(99)	(145)	47
<b>(146)</b>	<b>Net result from financial activities</b>	<b>84</b>	<b>40</b>	<b>(53)</b>
<b>461</b>	<b>Profit before tax</b>	<b>(75)</b>	<b>238</b>	<b>n.a.</b>
(366)	Income tax expense	9	(42)	n.a.
<b>95</b>	<b>Profit for the year</b>	<b>(66)</b>	<b>196</b>	<b>n.a.</b>
	Attributable to			
101	Owners of the Company	(66)	199	n.a.
(6)	Non-controlling interests	-	(3)	n.a.
<b>95</b>		<b>(66)</b>	<b>196</b>	<b>n.a.</b>
	<b>Earnings per share</b>			
10.1	Basic and diluted earnings per share (kunas per share)	(6.6)	19.9	n.a.

**Condensed Consolidated Statement of Financial Position – INA-GROUP**  
**At 31 March 2017**  
**(in HRK millions)**

	Note	31 December 2016	31 March 2017	%
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets	9	536	538	0
Property, plant and equipment	10	12,573	12,277	(2)
Investments in associates and joint ventures		22	22	0
Other investments		13	13	0
Long-term receivables		128	122	(5)
Deferred tax		1,769	1,722	(3)
Available for sale assets		676	724	7
<b>Total non-current assets</b>		<b>15,717</b>	<b>15,418</b>	<b>(2)</b>
<b>Current assets</b>				
Inventories	12	2,050	2,284	11
Trade receivables net	13	1,591	1,702	7
Other receivables		184	105	(43)
Corporative income tax receivables		11	9	(18)
Other current assets		120	148	23
Cash and cash equivalents		611	215	(65)
<b>Current assets</b>		<b>4,567</b>	<b>4,463</b>	<b>(2)</b>
Assets classified as held for sale		8	8	(5)
<b>Total current assets</b>		<b>4,575</b>	<b>4,471</b>	<b>(2)</b>
<b>Total assets</b>	<b>8</b>	<b>20,292</b>	<b>19,889</b>	<b>(2)</b>
<b>Equity and liabilities</b>				
<b>Capital and reserves</b>				
Share capital	11	9,000	9,000	0
Legal reserves		20	20	0
Revaluation reserve		299	338	13
Other reserves		1,647	1,598	(3)
Retained earnings / (Deficit)		(233)	(34)	(85)
<b>Equity attributable to equity holder of the parent</b>		<b>10,733</b>	<b>10,922</b>	<b>2</b>
Non-controlling interests		(136)	(139)	2
<b>Total equity</b>		<b>10,597</b>	<b>10,783</b>	<b>2</b>
<b>Non-current liabilities</b>				
Long-term loans		271	197	(27)
Other non-current liabilities		60	58	(4)
Employee benefits obligation		85	85	(0)
Provisions		3,224	3,171	(2)
Deferred tax liability		13	12	(5)
<b>Total non-current liabilities</b>		<b>3,653</b>	<b>3,523</b>	<b>(4)</b>
<b>Current liabilities</b>				
Bank loans and overdrafts		2,711	2,711	(0)
Current portion of long-term debt		135	131	(3)
Trade payables	15	1,857	1,435	(23)
Taxes and contributions		637	559	(12)
Other current liabilities		498	546	10
Employee benefits obligation		10	9	(6)
Provisions		194	192	(1)
<b>Total current liabilities</b>		<b>6,042</b>	<b>5,583</b>	<b>(8)</b>
<b>Total liabilities</b>	<b>14</b>	<b>9,695</b>	<b>9,106</b>	<b>(6)</b>
<b>Total equity and liabilities</b>		<b>20,292</b>	<b>19,889</b>	<b>(2)</b>

**Condensed Consolidated Cash Flow Statement - INA GROUP**  
**For the period ended 31 March 2016 and 2017**  
**(in HRK millions)**

2016	Note	Q1 2016	Q1 2017	%
<b>95 Profit for the year</b>		<b>(66)</b>	<b>196</b>	<b>n.a.</b>
<b>Adjustments for:</b>				
1,677 Depreciation and amortisation		394	440	12
366 Tax expense recognised in income statement		(9)	42	n.a.
272 Impairment charges (net)		85	12	(86)
(17) Gain on sale of property, plant and equipment		(5)	-	n.a.
2 Gain on sale investments and shares		-	-	n.a.
49 Foreign exchange loss/(gain)		(105)	(68)	(35)
38 Interest expense (net)		10	29	190
10 Other finance expense/(income) recognised in profit		(2)	(6)	200
(469) (Decrease)/increase in provisions		(223)	(43)	(81)
50 Decommissioning interests and other provision		13	6	(54)
44 Net (gain)/loss on derivative financial instruments and hedge transactions		9	(25)	n.a.
5 Other non-cash items		(4)	1	n.a.
<b>2,122 Operating cash flow before working capital changes</b>	<b>16</b>	<b>97</b>	<b>584</b>	<b>502</b>
<b>Movements in working capital</b>	<b>17</b>			
(249) Decrease/(increase) in inventories		81	(280)	n.a.
49 Decrease/(increase) in receivables and prepayments		(62)	(154)	148
333 (Decrease)/increase in trade and other payables		(136)	(333)	145
<b>2,255 Cash generated from operations</b>		<b>(20)</b>	<b>(183)</b>	<b>814</b>
(43) Taxes paid		(5)	(3)	(40)
<b>2,212 Net cash inflow from operating activities</b>		<b>(25)</b>	<b>(186)</b>	<b>643</b>
<b>Cash flows used in investing activities</b>				
(1,310) Capital expenditures, exploration and development costs		(325)	(196)	(40)
(65) Payment for intangible assets		(20)	(13)	(35)
30 Proceeds from sale of non-current assets		5	2	(60)
1 Payments related to sale of subsidiary		-	-	n.a.
Dividends received from companies classified as available for sale and from other companies		-	-	n.a.
18 Interest received and other financial income		-	5	n.a.
(196) Investments and loans to third parties, net		(9)	(11)	22
<b>(1,509) Net cash used for investing activities</b>	<b>18</b>	<b>(349)</b>	<b>(213)</b>	<b>(39)</b>
<b>Cash flows from financing activities</b>				
1,192 Additional long-term borrowings		-	-	n.a.
(1,316) Repayment of long-term borrowings		(66)	(67)	2
10,416 Additional short-term borrowings		2,976	2,189	(26)
(10,506) Repayment of short term borrowings		(2,635)	(2,135)	(19)
(12) Interest paid on long-term loans		(3)	(3)	0
(124) Interest paid on short-term loans and other interest charges		(43)	12	n.a.
<b>(350) Net cash used in financing activities</b>		<b>229</b>	<b>(4)</b>	<b>n.a.</b>
353 Net (decrease)/increase in cash and cash equivalents		(145)	(403)	178
275 At 1 January		275	611	122
(17) Effect of foreign exchange rate changes		16	7	(56)
611 At the end of period		146	215	47



## INA Group Summary Segmental Results of Operations

2016	(HRK mln)	Q1 2016	Q1 2017	%
<b>Sales</b>				
3,890	Exploration & Production	933	1,163	25
13,094	Refining & Marketing including Retail	1,904	3,208	68
1,610	Corporate and Other	405	272	(33)
(3,019)	Inter-segment revenue eliminations	(640)	(798)	25
<b>15,575</b>	<b>Sales</b>	<b>2,602</b>	<b>3,845</b>	<b>48</b>
<b>EBITDA*</b>				
2,141	Exploration & Production	539	635	18
339	Refining & Marketing including Retail	(347)	149	n.a.
(232)	Corporate and Other	(57)	(52)	(9)
(136)	Inter-segment profit eliminations	(33)	(125)	278
<b>2,112</b>	<b>Total</b>	<b>102</b>	<b>607</b>	<b>496</b>
<b>EBITDA Excluding Special Items</b>				
2,166	Exploration & Production	547	635	16
558	Refining & Marketing including Retail	(199)	149	n.a.
(161)	Corporate and Other	(45)	(52)	16
(136)	Inter-segment profit eliminations	(33)	(125)	278
<b>2,428</b>	<b>Total</b>	<b>270</b>	<b>607</b>	<b>125</b>
<b>Operating Profit/Loss</b>				
1,172	Exploration & Production	251	375	49
74	Refining & Marketing including Retail	(302)	34	n.a.
(496)	Corporate and Other	(80)	(90)	13
(143)	Inter-segment profit eliminations	(28)	(121)	332
<b>607</b>	<b>Total</b>	<b>(159)</b>	<b>198</b>	<b>n.a.</b>
<b>Operating Profit/Loss Excluding Special Items</b>				
1,186	Exploration & Production	252	375	49
94	Refining & Marketing including Retail	(288)	34	n.a.
(295)	Corporate and Other	(71)	(90)	26
(143)	Inter-segment profit eliminations	(28)	(121)	332
<b>842</b>	<b>Total</b>	<b>(135)</b>	<b>198</b>	<b>n.a.</b>
<b>Property, plant and equipment</b>				
5,787	Exploration & Production	5,923	5,585	(6)
5,472	Refining & Marketing including Retail	5,162	5,492	6
1,502	Corporate and Other	1,661	1,418	(15)
(188)	Inter-segment assets eliminations	(158)	(218)	38
<b>12,573</b>	<b>Total</b>	<b>12,588</b>	<b>12,277</b>	<b>(2)</b>

\* EBITDA = EBIT + Depreciation + Impairment + Provisions

### Intersegment profit eliminations

Intersegment transfer represents the effect of unrealized profit arising in respect of transfers of inventories from Exploration and Production to Refining and Marketing. Through intersegment transfer unrealized profit is eliminated (difference between transfer price and cost of domestic crude). For segmental reporting purposes the transferor segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place. Intersegment EBITDA effect on results in Q1 2017 is HRK -125 million which is lower compared to HRK -33 million in Q1 2016 due to different schedule of domestic crude processing.

*Financial overview and notes***INCOME STATEMENT**

Notes

**Q1 2017 RESULTS**

- 1 **Total sales revenues** in Q1 2017 amounted to HRK 3,845 million and were 48% above Q1 2016 level, triggered by both Exploration and production and Refining & marketing including Retail sales revenue increase as a result of the improved price environment together with higher processing level and retail network expansion activities.
- 2 **Costs of raw materials and consumables** were 182% above Q1 2016 level at HRK 1,758 million, resulting mainly from higher prices and higher processing.
- 3 **Costs of goods sold** in Q1 2017 recorded a decrease of 9% compared to Q1 2016, and amounted to HRK 812 million resulting from different sales structure.
- 4 Other **operating costs** realized in Q1 2017 include:
- Other material costs were lower by 9% and amounted to HRK 413 million resulting from lower engagement of Croscos and lower subcontractors costs related to STSI project in Belarus.
  - Service costs in the amount of HRK 125 million recorded a decrease of 17% mainly due to lower engagement of Croscos and lower VAT related expenses.
  - Depreciation in the amount of HRK 440 million was 12% higher compared to Q1 2016.
  - Adjustments and provisions had a positive effect in the amount of HRK 31 million and were HRK 102 million lower compared to Q1 2016 resulting from released employee related provisions connected with establishment of INA Maloprodajni servisi and released litigation provisions in Holdina.
- 5 **Staff costs** in the amount HRK 411 million were 35% lower compared to Q1 2016.
- 6 **Income tax expense** in Q1 2017 amounted to HRK 42 million compared to HRK 9 million income tax benefit in Q1 2016. Tax costs and deferred taxes during the interim period are calculated on the basis of actual results and the profit tax rate, 20% for the periods ended 31 March 2016 and the profit tax rate, 18% for the periods ended 31 March 2017.
- 7 **Net financial result** is positive in Q1 2017, although 53% lower compared to Q1 2016 mainly as a result of
- Net foreign exchange profit was HRK 81 million in Q1 2017 while in Q1 2016 net foreign exchange profit was HRK 113 million.
  - Interest payable amounted to HRK 35 million and interests received to HRK 0.4 million in Q1 2017 while in Q1 2016 interest payables amounted to HRK 21 million and interests received to HRK 5 million.
  - Other financial net expenses amounted to HRK 7 million, and are lower compared to HRK 12 million in Q1 2016.

**BALANCE SHEET**

Notes

- 8 As at 31 March 2017 INA Group **total assets** amounted to HRK 19,889 million and were 2% lower compared to 31 December 2016.
- 9 In the period ended 31 March 2017, INA Group invested HRK 14 million in **intangible assets**. The effect of depreciation equals HRK 10 million.
- 10 In the period ended 31 March 2017, INA d.d. invested HRK 195 million in **property, plant and equipment**. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 430 million.
- 11 **Issued capital** as at 31 March 2017 amounted to HRK 9,000 million. There was no movements in the issued capital of the Company in either the current or the prior financial reporting.
- 12 **Inventories** amounted to HRK 2,284 million, and have increased by 11% compared to 31 December 2016 as a result of lower domestic crude oil processing.
- 13 **Trade receivables** increased to HRK 1,702 million and are 7% higher compared to the opening balance resulting mainly from higher sales revenue.
- 14 As at 31 March 2017 **total liabilities** amounted to HRK 9,106 which is 6% or HRK 589 million lower compared to 31 December 2016. INA Group **net debt** increased by 13% and amounted to HRK 2,824 million compared to 31 December 2016. **Gearing ratio**<sup>1</sup> increased from 19.1% as at 31 December 2016, to 20.8% as at 31 March 2017.
- 15 **Trade payables** decreased by 23% to HRK 1,435 million, as a result of lower liabilities for imported crude oil.

**CASH FLOW**

Notes

- 16 The **operating cash-flow before changes in working capital** amounted to HRK 584 million in Q1 2017 representing an increase of HRK 487 million compared to Q1 2016, which is in line with change in EBITDA performance compared to the previous year.
- 17 **Changes in working capital** affected the operating cash flow negatively by HRK 767 million, due to:
- Decrease in trade and other payables by HRK 333 million as result of lower liabilities for imported crude oil.
  - Increased value of inventories by HRK 280 million mainly related to higher inventories of domestic crude.
  - Increase in receivables by HRK 154 million as a result of higher sales revenues in Q1 2017 compared to Q1 2016.
- 18 **Net outflows in investing activities** amounted to HRK 213 million, in comparison with HRK 349 million outflows in Q1 2016.

<sup>1</sup> Net debt / net debt plus equity incl. minority interests

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

HRK mn	Q1 2016	Q1 2017
<b>INA GROUP</b>		
Total impact of special items on operating profit/(loss)	24	-
Total impact of special items on EBITDA	168	-
<b>Exploration &amp; Production</b>		
Total impact of special items on operating profit/(loss)	1	-
Total impact of special items on EBITDA	8	-
Severance payment	8	-
Provisions for incentives	1	-
<b>Refining &amp; Marketing including Retail</b>		
Total impact of special items on operating profit/(loss)	14	-
Total impact of special items on EBITDA	148	-
Severance payment	148	-
Provisions for incentives	14	-
<b>Corporate functions</b>		
Total impact of special items on operating profit/(loss)	9	-
Total impact of special items on EBITDA	12	-
Severance payment	12	-
Provisions for incentives	9	-

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

*Financial instruments and risk management*

Risk Management procedures of INA Group are described in detail in INA's Consolidated and separate Financial Statements for the year ended 31 December 2016.

As of 31 March 2017 INA had:

- opened short-term forward commodity swap transactions to hedge its exposure to changes in pricing periods and to changes in inventory levels,
- contracted and available short-term credit lines amounting to HRK 2.61 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 3.10 bn.

## Related party transactions

INA Group has dominant positions in Croatia in oil and gas exploration and production, oil refining and the sale of gas and petroleum products. As a result of the INA Group strategic position within the Croatian economy, a substantial portion of its business and the business of its subsidiaries is transacted with the Croatian Government, its departments and agencies, and the companies with the Republic of Croatia being their majority shareholder. Transactions between INA, d.d. and its subsidiaries, which are related parties of the Company, have been eliminated on Group level consolidation. During the 2017, INA Group entered into the following trading transactions with the following related parties:

INA-Group HRK mln	Sales of goods 31 March 2017	Purchase of goods 31 March 2017
<b>Companies available for sale</b>		
JANAF d.d. Zagreb	1	10
<b>Strategic partner</b>		
MOL Nyrt.	29	265
<b>Companies controlled by strategic partner</b>		
Tifon d.o.o.	110	2
MOL SLOVENIJA d.o.o.	33	14
MOL Serbia	14	-
MOL Lubricant	1	1
MOL Petrochemical	-	3
Slovnaft, a.s.	-	94

INA-Group HRK mln	Amounts owed from related parties 31 March 2017	Amounts owed to related parties 31 March 2017
<b>Companies available for sale</b>		
JANAF d.d. Zagreb	1	7
<b>Strategic partner</b>		
MOL Nyrt.	13	69
<b>Companies controlled by strategic partner</b>		
Tifon d.o.o.	63	1
MOL SLOVENIJA d.o.o.	9	6
MOL Serbia	6	-
MOL Commodity Trading Kft.	-	2
Slovnaft, a.s.	-	7

## Management representation

INA Group's consolidated financial statements for Q1 2017 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:

<b>Zoltán Áldott</b>	<b>President</b>
<b>Niko Dalić</b>	<b>Member</b>
<b>Gábor Horváth</b>	<b>Member</b>
<b>Ivan Krešić</b>	<b>Member</b>
<b>Davor Mayer</b>	<b>Member</b>
<b>Péter Ratatics</b>	<b>Member</b>