INA GROUP and

INA - INDUSTRIJA NAFTE, d.d.

Consolidated and separate

Financial Statements for the year ended

31 December 2017

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 the Group and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

Signed on behalf of the Group:

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

Niko Dalić, member of the Management Board

Gábor Horváth, member of the Management Board

Ivan Krešić, member of the Management Board

Davor Mayer, member of the Management Board

Péter Ratatics, member of the Management Board

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7 March 2018

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Independent auditor's report

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

Report on the audit of the consolidated and separate 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 2017, consolidated and separate income statement, consolidated and separate statement of other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS as adopted by EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report. We are independent of the Group and of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.
We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Key Audit Matter	How we addressed Key Audit Matter
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 amounts in the statement of financial position and income statement. Therefore we believe that estimation of hydrocarbon reserves is a 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 evaluate whether they are appropriately qualified to carry out the hydrocarbon reserve volumes estimation. We performed specific inquiry to the management of the Company and the Group and in respect of consistency of the applied methodology for reserves estimate with previous year. We performed the test of details and for the significant changes in reserve volumes we tested whether the appropriate methodology was applied, the assumptions used are reasonable and adequately supported by underlying information provided by the management. We also performed analytical procedures on movements in hydrocarbon reserves during the year and reviewed that all significant changes were approved by the "Reserves and Resources Committee" and are in line with our expectations. We also assessed on the adequacy of the disclosures in the consolidated and separate financial statements and if these are in line with the requirements of the IFRS as adopted by EU.
Impairments of the Group's and Company'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 performed understanding of the process and walked through the controls designed and operated by the Group and the Company relating to the assessment of the carrying value of respective long lived assets. We examined the methodology used by management to assess the carrying value of respective long lived assets, to determine its compliance with accounting standards and consistency of application. For the upstream, downstream and retail assets where the impairment indicators were not identified by the Group and the Company we assessed the management's competence in respect of impairment assessment by comparing the assumptions used in prior year to the achieved results in the current year.

Key Audit Matter	How we addressed Key Audit Matter
Impairments of the Group's and Company's long lived assets (continued)	
We assessed the principal risk arising in relation to the consolidated and separate financial statements to be associated with the carrying value of long lived assets, many of which are supported by an assessment of future cash flows. The assessment of recoverability of the asset carrying values is a complex and judgmental process as external market evidence, such as market transactions, become less reliable in a period of significant changes to the price of oil as these may have significant effect on the future cash flows generated from the long lived assets. Therefore, due to complexity and judgement used in the assessment of impairment indicators and impairment models, impairment of Group's and Company's long lived assets is a key audit matter.	Furthermore, we evaluated the assumptions used in the current year assessment of impairment indicators and tested whether these assumptions are in line with the results achieved in current year as well as current development in the industry as well as the Group's and the Company's expectations for the key inputs to impairment models. In respect of performed impairment tests, we used external data in assessing and corroborating the revised assumptions used in impairment analysis, the most significant being future market oil prices and discount rates. We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis, tested the appropriateness of discount rates used in the calculation with the assistance of the specialists and procedures to assess the completeness of the impairment charges. We also assessed on the adequacy of the disclosures in the consolidated and separate financial statements and if these are in line with the requirements of the IFRS as adopted by EU.
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 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 IFRS as adopted by EU.

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

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

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

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were appointed as the statutory auditor by the General Meeting of Shareholders for the first time on 24 June 2014 and our uninterrupted engagement has lasted for 4 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated and separate financial statements expressed herein is consistent with the additional report to the Audit Committee, which we issued on 7 March 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

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

Slaven Đuroković, Member of the Board and Certified auditor

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

7 March 2018

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Sales revenue	4	18,582	15,535
Capitalised value of own performance		327	365
Other operating income	5	126	186
Total operating income		**19,035**	**16,086**
Changes in inventories of finished products and work in progress		274	264
Cost of raw materials and consumables		(9,061)	(7,448)
Depreciation and amortisation	6	(1,804)	(1,677)
Other material costs		(1,823)	(2,000)
Service costs		(466)	(623)
Staff costs	7	(1,803)	(2,083)
Cost of other goods sold		(2,942)	(2,084)
Impairment and charges (net)	8	(143)	(272)
Provision for charges and risks (net)	9	151	444
Operating expenses		**(17,617)**	**(15,479)**
Profit from operations		**1,418**	**607**
Finance income	10	452	106
Finance costs	10	(306)	(252)
Net gain/(loss) from financial activities		**146**	**(146)**
Profit before tax		**1,564**	**461**
Income tax expense	11	(342)	(366)
Profit for the year		**1,222**	**95**
Attributable to:			
Owners of the Company		1,220	101
Non-controlling interests		2	(6)
		1,222	**95**
Earnings per share			
Basic and diluted earnings per share (kunas per share)	12	121.99	10.08

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

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Profit for the year		**1,222**	**95**
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	33	12	3
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	33	(143)	3
(Loss)/gain on available-for-sale financial assets	32	(10)	83
Other comprehensive (loss)/gain, net of income tax		**(141)**	**89**
Total comprehensive gain for the year		**1,081**	**184**
Attributable to:			
Owners of the Company		1,079	190
Non-controlling interests		2	(6)

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

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

For the year ended 31 December 2017

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Sales revenue	4	17,578	14,602
Capitalised value of own performance		10	6
Other operating income	5	365	296
Total operating income		**17,953**	**14,904**
Changes in inventories of finished products and work in progress		288	256
Cost of raw materials and consumables		(8,816)	(7,230)
Depreciation and amortisation	6	(1,733)	(1,600)
Other material costs		(1,833)	(1,833)
Service costs		(700)	(764)
Staff costs	7	(909)	(1,175)
Cost of other goods sold		(2,666)	(1,889)
Impairment and charges (net)	8	(30)	(108)
Provision for charges and risks (net)	9	146	346
Operating expenses		**(16,253)**	**(13,997)**
Profit from operations		**1,700**	**907**
Finance income	10	384	155
Finance costs	10	(310)	(560)
Net gain/(loss) from financial activities		**74**	**(405)**
Profit before tax		**1,774**	**502**
Income tax expense	11	(348)	(342)
Profit for the year		**1,426**	**160**

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

INA, d.d. Separate Statement of Other Comprehensive Income

For the year ended 31 December 2017

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Profit for the year		**1,426**	**160**
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	33	11	1
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	33	(161)	14
(Loss)/gain on available-for-sale financial assets	32	(10)	83
Other comprehensive (loss)/gain, net of income tax		**(160)**	**98**
Total comprehensive gain for the year		**1,266**	**258**

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

(all amounts are presented in HRK millions)

ASSETS	Note	31 December 2017	31 December 2016
Non-current assets			
Intangible assets	13	570	536
Property, plant and equipment	14	12,016	12,573
Investments in associates	16	-	22
Other investments	17	13	13
Long-term receivables	18	96	128
Deferred tax assets	11	1,451	1,769
Available-for-sale assets	19	665	676
Total non – current assets		**14,811**	**15,717**
Current assets			
Inventories	20	2,264	2,050
Trade receivables, net	21,36	1,393	1,591
Other receivables	22	210	184
Corporate Income tax receivables		10	11
Other current assets	23	139	120
Cash and cash equivalents	24	428	611
		4,444	**4,567**
Held-for-sale assets		8	8
Total current assets		**4,452**	**4,575**
TOTAL ASSETS		**19,263**	**20,292**

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

(all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	**Note**	**31 December 2017**	**31 December 2016**
Capital and reserves			
Share capital	31	9,000	9,000
Legal reserves		28	20
Fair value reserves	32	289	299
Other reserves	33	1,516	1,647
Retained earnings/(accumulated loss)	34	827	(233)
Equity attributable to owners of the Company		**11,660**	**10,733**
Non-controlling interest	35	(134)	(136)
TOTAL EQUITY		**11,526**	**10,597**
Non – current liabilities			
Long-term loans	27	122	271
Other non-current liabilities	28	52	60
Employee benefit obligation	30	73	85
Provisions	29	3,119	3,224
Deferred tax liabilities	11	14	13
Total non–current liabilities		**3,380**	**3,653**
Current liabilities			
Bank loans	25	1,581	2,706
Current portion of long-term loans	25	122	135
Trade payables	26,36	1,171	1,857
Taxes and contributions	26	626	637
Other current liabilities	26	540	503
Employee benefit obligation	30	5	10
Provisions	29	312	194
Total current liabilities		**4,357**	**6,042**
Total liabilities		**7,737**	**9,695**
TOTAL EQUITY AND LIABILITIES		**19,263**	**20,292**

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

(all amounts are presented in HRK millions)

ASSETS	**Note**	**31 December 2017**	**31 December 2016**
Non-current assets			
Intangible assets	13	408	380
Property, plant and equipment	14	10,578	11,169
Investment in subsidiaries	15	1,079	805
Investments in associates	16	-	22
Other investments	17	669	809
Long-term receivables	18	105	137
Deferred tax assets	11	1,343	1,684
Available-for-sale assets	19	665	676
Total non–current assets		**14,847**	**15,682**
Current assets			
Inventories	20	2,021	1,802
Intercompany receivables	36	225	258
Trade receivables, net	21,36	1,118	1,315
Other receivables	22	144	153
Corporate Income tax receivables		1	1
Other current assets	23	494	434
Cash and cash equivalents	24	364	500
Total current assets		**4,367**	**4,463**
TOTAL ASSETS		**19,214**	**20,145**

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

(all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	**Note**	**31 December 2017**	**31 December 2016**
Capital and reserves			
Share capital	31	9,000	9,000
Legal reserves		28	20
Fair value reserves	32	289	299
Other reserves	33	1,138	1,288
Retained earnings	34	1,426	160
TOTAL EQUITY		**11,881**	**10,767**
Non–current liabilities			
Long term loans	27	122	271
Other non-current liabilities	28	51	60
Employee benefit obligation	30	31	46
Provisions	29	3,241	3,314
Total non–current liabilities		**3,445**	**3,691**
Current liabilities			
Bank loans	25	1,359	2,482
Current portion of long-term loans	25	122	135
Intercompany payables	36	495	560
Trade payables	26,36	787	1,498
Taxes and contributions	26	527	552
Other current liabilities	26	374	341
Employee benefit obligation	30	3	2
Provisions	29	221	117
Total current liabilities		**3,888**	**5,687**
Total liabilities		**7,333**	**9,378**
TOTAL EQUITY AND LIABILITIES		**19,214**	**20,145**

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

(all amounts are presented in HRK millions)

	Share capital	Legal reserves	Fair value reserves	Other reserves	(Accumulated loss)/ Retained earnings	Attributable to equity holders of the parent	Non controlling interest	Total
Balance at 1 January 2016	**9,000**	**330**	**216**	**1,641**	**(602)**	**10,585**	**-**	**10,585**
Transfer from legal reserves to retained earnings	-	(310)	-	-	310	-	-	-
Purchase of subsidiary	-	-	-	-	(42)	(42)	(130)	(172)
Subtotal	**9,000**	**20**	**216**	**1,641**	**(334)**	**10,543**	**(130)**	**10,413**
Profit for the year	-	-	-	-	101	101	(6)	95
Other comprehensive gain, net	-	-	83	6	-	89	-	89
Total comprehensive income/(loss) for the year	**-**	**-**	**83**	**6**	**101**	**190**	**(6)**	**184**
Balance at 31 December 2016	**9,000**	**20**	**299**	**1,647**	**(233)**	**10,733**	**(136)**	**10,597**
Transfer to legal reserves from retained earnings	-	8	-	-	(8)	-	-	-
Dividend paid	-	-	-	-	(152)	(152)	-	(152)
Subtotal	**9,000**	**28**	**299**	**1,647**	**(393)**	**10,581**	**(136)**	**10,445**
Profit for the year	-	-	-	-	1,220	1,220	2	1,222
Other comprehensive loss, net	-	-	(10)	(131)	-	(141)	-	(141)
Total comprehensive (loss)/income for the year	**-**	**-**	**(10)**	**(131)**	**1,220**	**1,079**	**2**	**1,081**
Balance at 31 December 2017	**9,000**	**28**	**289**	**1,516**	**827**	**11,660**	**(134)**	**11,526**

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

(all amounts are presented in HRK millions)

	Share capital	Legal reserves	Fair value reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2016	**9,000**	**330**	**216**	**1,273**	**(310)**	**10,509**
Transfer from legal reserves to retained earnings	-	(310)	-	-	310	-
Subtotal	**9,000**	**20**	**216**	**1,273**	**-**	**10,509**
Profit for the year	-	-	-	-	160	160
Other comprehensive gain, net	-	-	83	15	-	98
Total comprehensive income for the year	**-**	**-**	**83**	**15**	**160**	**258**
Balance at 31 December 2016	**9,000**	**20**	**299**	**1,288**	**160**	**10,767**
Transfer to legal reserves from retained earnings	-	8	-	-	(8)	-
Dividend paid	-	-	-	-	(152)	(152)
Subtotal	**9,000**	**28**	**299**	**1,288**	**-**	**10,615**
Profit for the year	-	-	-	-	1,426	1,426
Other comprehensive gain, net	-	-	(10)	(150)	-	(160)
Total comprehensive (loss)/income for the year	**-**	**-**	**(10)**	**(150)**	**1,426**	**1,266**
Balance at 31 December 2017	**9,000**	**28**	**289**	**1,138**	**1,426**	**11,881**

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

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Profit for the year		**1,222**	**95**
Adjustments for:			
Depreciation and amortisation		1,804	1,677
Income tax expense recognised in profit and loss		342	366
Impairment and charges (net)		143	272
Gain on sale of property, plant and equipment		(16)	(17)
Loss on sale of investments and shares		-	2
Foreign exchange (gain)/loss		(223)	49
Interest expense (net)		45	38
Other finance costs recognised in profit and loss		11	10
Decrease in provisions		(155)	(469)
Decommissioning interests and other provision		21	50
Net loss on derivative financial instruments and hedge transactions		48	44
Other non-cash items		11	5
		3,253	**2,122**
Movements in working capital			
Increase in inventories		(327)	(248)
(Increase)/decrease in receivables and prepayments		(76)	37
Increase/(decrease) in trade and other payables		(333)	333
Cash generated from operations		**2,517**	**2,244**
Taxes paid		(33)	(43)
Net cash inflow from operating activities		**2,484**	**2,201**
Cash flows used in investing activities			
Capital expenditures, exploration and development costs		(1,277)	(1,337)
Payments for intangible assets		(114)	(38)
Proceeds from sale of non-current assets		26	30
Amount related to sale of subsidiary and associates (net)		23	1
Dividends received from companies classified as available-for-sale and from other companies		20	18
Interest received and other financial income		11	13
Investments and loans to third parties (net)		11	(185)
Net cash used for investing activities		**(1,300)**	**(1,498)**

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from financing activities			
Additional long-term borrowings		-	1,192
Repayment of long-term borrowings		(129)	(1,316)
Additional short-term borrowings		10,103	10,416
Repayment of short-term borrowings		(11,103)	(10,506)
Dividends paid		(152)	-
Interest paid on long-term loans		(8)	(12)
Interest paid on short-term loans and other interest charges		(78)	(124)
Net cash used in financing activities		**(1,367)**	**(350)**
Net (decrease)/increase in cash and cash equivalents		**(183)**	**353**
At 1 January		611	275
Effect of foreign exchange rate changes		-	(17)
At 31 December	24	**428**	**611**

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

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Profit for the year		**1,426**	**160**
Adjustments for:			
Depreciation and amortisation		1,733	1,600
Income tax expense recognised in profit and loss		348	342
Impairment and charges (net)		30	108
Gain on sale of property plant and equipment		(268)	(21)
Income from capital increase of subsidiary		-	(135)
Foreign exchange (gain)/loss		(159)	23
Interest expense (net)		(3)	(11)
Other finance costs recognised in profit and loss		67	342
Decrease in provisions		(150)	(366)
Decommissioning interests		21	51
Net loss on derivative financial instruments and hedge transactions		48	44
Other non-cash items		-	(1)
		3,093	**2,136**
Movements in working capital			
Increase in inventories		(314)	(227)
Increase in receivables and prepayments		(121)	(256)
Increase in trade and other payables		6	441
Cash generated from operations		**2,664**	**2,094**
Taxes paid		(13)	(37)
Net cash inflow from operating activities		**2,651**	**2,057**
Cash flows used in investing activities			
Capital expenditures, exploration and development costs		(1,241)	(1,260)
Payment for intangible assets		(107)	(34)
Proceeds from sale of non-current assets		14	37
Amount related to sale of subsidiary and associates (net)		23	1
Dividends received from companies classified as available- for-sale and from other companies		20	16
Payments received from subsidiaries		-	15
Interest received and other financial income		13	8
Investments and loans (net)		(186)	(260)
Net cash used in investing activities		**(1,464)**	**(1,477)**

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from financing activities			
Additional long-term borrowings		-	1,192
Repayment of long-term borrowings		(129)	(1,309)
Additional short-term borrowings		10,389	10,538
Repayment of short-term borrowings		(11,328)	(10,557)
Dividends paid		(152)	-
Interest paid on long-term loans		(8)	(12)
Interest paid on short-term loans and other interest charges		(75)	(120)
Net cash used in financing activities		**(1,303)**	**(268)**
Net (decrease)/increase in cash and cash equivalents		**(116)**	**312**
At 1 January		500	195
Effect of foreign exchange rate changes		(20)	(7)
At 31 December	24	**364**	**500**

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

(all amounts are presented in HRK millions)

1. GENERAL

History and incorporation

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

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

The ownership structure* of the INA Group as of 31 December 2017 and 2016:

	31 December 2017		31 December 2016	
	Number of shares	**Ownership in %**	**Number of shares**	**Ownership in %**
Zagrebačka banka d.d./Unicreditbank Hungary Zrt, for MOL Nyrt, Hungary	4,908,207	49.08	4,908,207	49.08
Government of the Republic of Croatia	4,483,552	44.84	4,483,552	44.84
Institutional and private investors	608,241	6.08	608,241	6.08
	10,000,000	**100**	**10,000,000**	**100**

*Source: Central Depository & Clearing Company Inc.

Principal activities

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

(i) exploration and production of oil and gas deposits, primarily onshore and offshore within Croatia; other than INA, d.d has concessions held in abroad; Angola and Egypt;

(ii) import of natural gas and sale of imported and domestically produced natural gas to industrial consumers and municipal gas distributors;

(iii) refining and production of oil products through refineries located at Rijeka (Urinj) and Sisak, and Zagreb lubricants plants;

(iv) distribution of fuels and associated products through a chain of 494 retail sites in operation as of 31 December 2017 (of which 384 in Croatia and 110 outside Croatia);

(v) trading in petroleum products through a network of foreign subsidiaries and representative offices, principally in Ljubljana and Sarajevo; and

(vi) service activities incidental to onshore and offshore oil extraction through its drilling and oilfield services subsidiary Crosco d.o.o.

(all amounts are presented in HRK millions)

1. GENERAL (CONTINUED)

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

The headquarter of the Group is located in Zagreb, Avenija V. Holjevca 10, Croatia. As at 31 December 2017 there were 10,782 persons employed at the Group (10,861 as at 31 December 2016). As at 31 December 2017 there were 4,292 persons employed at INA, d.d. (4,387 as at 31 December 2016).

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

Directors, Management and Supervisory Board

Supervisory Board

Supervisory Board since 14 June 2017 until 18 December 2020

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

Management Board

Management Board since 1 April 2017 until 31 March 2018

Zoltán Sándor Áldott	President of the Management Board
Gábor Horváth	Member of the Management Board
Péter Ratatics	Member of the Management Board
Niko Dalić	Member of the Management Board
Davor Mayer	Member of the Management Board
Ivan Krešić	Member of the Management Board

Council of Directors

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

Gábor Horváth	Chief Financial Officer
Darko Markotić	Operating Director of Consumer Services and Retail
Bengt Viktor Oldsberg	Operating Director of Refining and Marketing
Tvrtko Perković	Operating Director of Exploration and Production
Tomislav Thür	Operating Director of Corporate Affairs

2. ACCOUNTING POLICIES

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

Presentation of the financial statements

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

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

Basis of accounting

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

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

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

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

Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

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

- **Annual Improvements to IFRS Standards 2014-2016 cycle**, issued in December 2016 and adopted in EU 7 February 2018.
- **Amendments to IAS 7:** *Disclosure initiative***,** issued in January 2016 and adopted in EU 6 November 2017.
- **Amendments to IAS 12:** *Recognition of deferred tax assets for unrealised losses*, issued in January 2016 and adopted in EU 6 November 2017.

2. ACCOUNTING POLICIES (CONTINUED)

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

Standards and Interpretations effective in the current period (continued)

The adoption of these Standards and Interpretations had no material impact on the financial statements of the Company and the Group.

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

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

- ***Amendments to IFRS 4:*** *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts,* issued in September 2016 and adopted in EU 3 November 2017 (effective date for annual periods beginning on or after 1 January 2018). These amendments are not applicable to the Group since the Group does not issue any insurance contract.

- ***IFRS 15 Revenue from Contracts with Customers***, issued in May 2014, including amendment to IFRS 15. Effective dates of IFRS 15, adopted in EU 22 September 2016 and ***Clarifications to IFRS 15 Revenue from Contracts with Customers***, issued in April 2016 and adopted in EU on 31 October 2017 (effective date for annual periods beginning on or after 1 January 2018).
  The new standards IFRS 15 *Revenue from Contracts with Customers* is expected to have an impact on revenue recognition of the Group and the Company. IFRS 15 will replace IAS 18 that covers contracts for goods and services and IAS 11 that covers constructions contracts. The standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The Group has performed preliminary assessed the effects of applying the IFRS 15. Apart from providing more extensive disclosure on the Group’s revenue transactions, the Group does not anticipate that the IFRS 15 will have a significant impact on the financial performance of the Group.

- ***IFRS 16 Leases***, issued in January 2016 replaces accounting treatment for leases and is a major revision of the way in which companies account for leases, adopted in EU on 31 October 2017 (effective date for annual periods beginning on or after 1 January 2019). The standard will affect primarily the accounting for the group’s operating leases. The Group has not yet assessed the impact of IFRS 16. In 2018, the Group will assess the potential effect of IFRS 16 on its financial statements.

- **IFRS 9 *Financial Instruments,*** issued in July 2014 the final version that replaced the IAS 39 *Financial Instruments: Recognition and Measurement,* adopted in EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018).
  During 2017, the Group has performed a preliminary assessment of IFRS 9 based on the available information, which may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the adoption of IFRS 9 will take place. No material impact in allowances for doubtful accounts is expected on Group level in relation to transition to IFRS 9.

2. ACCOUNTING POLICIES (CONTINUED)

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

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

- ***Amendments to IFRS 2:*** *Classification and measurement of share-based payment transactions***,** issued on 20 June 2016 and adopted in EU 26 February 2018 (effective date for annual periods beginning on or after 1 January 2018). These amendments are not applicable to the Group since the Group does not have share-based payment transactions.

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

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue by the International Accounting Standards Board but not yet adopted by the EU. The endorsement might be expected in 2018.

- **IFRS 17:** *Insurance contracts*, issued on 18 May 2017 to achieve the goal of a consistent, principle-based accounting for insurance contracts (effective date for annual periods beginning on or after 1 January 2021).

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

- **IFRIC Interpretation 23:** *Uncertainty over Income Tax Treatments*, issued on 7 June 2017 (effective date for annual reporting periods beginning on or after 1 January 2019).

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

- **Amendments to IFRS 9:** *Prepayment features with negative compensation*, issued on 12 October 2017 (effective date for annual periods beginning on or after 1 January 2019).

- **Amendments to IAS 28:** *Long-term interests in associates and joint ventures*, issued on 12 October 2017 (effective date for annual periods beginning on or after 1 January 2019).

- **Annual Improvements to IFRS Standards 2015-2017 Cycle**, issued on 12 December 2017 (effective date for annual periods beginning on or after 1 January 2019).

- **Amendments to IAS 19:** *Plan Amendment, Curtailment or Settlement*, issued on 7 February 2018 (effective date for annual periods beginning on or after 1 January 2019).

2. ACCOUNTING POLICIES (CONTINUED)

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

In the Company's financial statements investments in subsidiaries are stated at cost less impairment.

Basis of consolidated financial statements (INA Group)

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

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

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

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

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

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

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

A change in the ownership interest of a subsidiary, without a loss of a control, is accounted for as equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

2. ACCOUNTING POLICIES (CONTINUED)

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

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

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate.

Legal merger

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

Business combination

Business combinations are accounted for using the acquisition method.

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Business combination (continued)

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

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

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

Acquisition of entities under common control

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

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

Investments in associates and joint ventures

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

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

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

Interests in joint operations

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Interests in joint operations (continued)

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

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

Oil and gas properties

Exploration and appraisal costs

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

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

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

Fields under development

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

Depreciation

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

Commercial reserves

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

Intangible assets

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

2. ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

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

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

Property, plant and equipment

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

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

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

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

Depreciation, Depletion and Amortisation

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

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

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

Impairment of tangible and intangible assets other than goodwill

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

2. ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

Finance and operating leases

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

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

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

Receivables from customers

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Receivables from customers (continued)

The accounting policies adopted by the Company, defining and recording impairment of short-term receivables for which there is uncertainty that receivables will be collected in accordance with the original contractual terms, is based on the following procedures:

- estimate of recoverability of accounts receivable with individual approach to the Company's strategic customers;
- impairment of other short-term receivables that exceed 60 days from the maturity date.

According to the impairment policy, all receivables from the strategic customers of INA, d.d. are assessed on individual basis. All other outstanding receivables due beyond 60 days are impaired.

Company records impairment on doubtful debt based on the estimate of recoverability of receivable with individual approach to the Company's strategic customers and impairment of all short-term receivables which are not included in the individual estimate, regardless of their financial amount but in amount of due doubtful debt that exceeds 60 days from the maturity date.

Adequate impairment for estimated non-refundable amount is recognized in profit or loss when there is objective evidence that the assets should be reduced.

Inventories

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

- Crude oil is carried at the weighted average cost or the production cost. If finished i.e. refined products are impaired, a calculation is used to reduce the crude oil reserve by an aliquot share to its net recoverable amount.
- Finished products are valued at the lower of cost or approximately 96.4% of future average sales price, which approximates the net recoverable amount.
- Semi-finished products are measured using a calculation method, by which they are impaired to the extent that finished products on the basis of actual inventories at the period-end are impaired i.e. when the calculation shows that their net realisable value may not be recovered, by applying the impairment percentage to each individual semi-finished product on stock at the period-end.
- Imported natural gas held in underground storage is valued at the lower of cost, based on the price of imported gas at year-end including transport costs and weighted average sales price based on year-end prices.
- Domestic natural gas held in underground storage is valued at the lower of weighted average sales price and cost.
- Other inventories, which comprise mainly spare parts, materials and supplies, are valued at the lower of cost or valuation and net realisable value.

Cash and cash equivalents

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

2. ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Used capitalisation rate for 2017 was 1.41% and for 2016 it was 1.87%.

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

Foreign currencies

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

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

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

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

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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

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

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

Retirement Benefit and Jubilee Costs

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

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the period

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

Financial assets

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.

2. ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Financial assets are classified into available-for-sale (AFS) financial assets, financial assets at fair value through profit and loss and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instruments and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instruments, or a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

AFS financial assets

Listed shares held by the Company and the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 39. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments fair value reserves directly except for interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments fair value reserves is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the statement of financial position date. The foreign exchange gains and losses that are recognized in profit and loss are determined based on the amortized cost of the monetary assets. Other foreign exchange gains and losses are recognized in other comprehensive income.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2. ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments fair value reserves.

Investments

Investments in immaterial non-consolidated companies are generally recorded at cost less provision for any impairment.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' (Fair value through profit and loss) or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

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)

Fair value hedges (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.

Segmental information

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

Provisions for decommissioning and other obligations

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

Provision relating to the decommissioning and removal of assets, such as an oil and gas production facility are initially treated as part of the cost of the related property, plant and equipment. Subsequent adjustments to the provision arising from changes in 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.

2. ACCOUNTING POLICIES (CONTINUED)

Provision for emission quotas (continued)

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the statement of financial position date;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Dividend and interest revenue

- Dividend revenue from investments is recognised when the shareholder’s right to receive payment has been established.
- Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.
- Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

2. ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Construction contracts

The Group applies IAS 11 *Construction Contracts* meeting the following criteria:

- individual contract value is in excess of HRK 0,5 million,
- the contract period is over three months.

The Company accounts for its construction contracts using the percentage of completion method, which is determined based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

Determining the accounting treatment for construction contract revenue and costs:

- project costs are reported as costs incurred,
- revenue is recognised based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs,
- estimated losses are presented in full whenever loss is estimated as outcome and can be measured reliably.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements and estimates in applying accounting policies

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

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

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

Consequences of certain legal actions

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

Carrying value of property, plant and equipment

The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are production volumes, operating and capital expenditures, discount rates, period of cash flow projections, as well as assumptions and judgments used in determining cash receipts and payments. The impairment of assets in the consolidated statement of profit or loss amounted to HRK 145 million in 2017 (2016: HRK 28 million).

Carrying value of goodwill

In 2017 and 2016 there was no goodwill impairment (see note 13). The carrying amount of goodwill amounted to HRK 152 million as of 31 December 2017 and 2016 (see note 13).

Carrying value of intangible exploration and appraisal assets

The carrying amount of intangible exploration and appraisal assets amounted to HRK 201 million as of 31 December 2017 and HRK 197 million as of 31 December 2016 (see note 13). In 2017 and 2016 in INA Group there was no impairment of intangible exploration and appraisal assets (see note 13).

Carrying value of production oil and gas assets

The carrying amount of production oil and gas assets amounted to HRK 3,794 million as of 31 December 2017 and HRK 4,069 million as of 31 December 2016 (see note 14). In 2017 in INA Group financial statements the impairment is recognized in the amount of HRK 45 million (2016: HRK 26 million) (see note 14).

Key assumptions used

Refining and Marketing

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

Exploration and Production

Hydrocarbon price outlook, as the key value driver for upstream assets, has significantly improved compared to the reporting period last year, which coupled with the fact that there have not been any considerable revisions related to INA's hydrocarbon reserves or cost profile, led to the conclusion, that generally there is no need for an impairment test for any of INA's upstream asset groups.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

Investments in Syria

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

Current situation

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

Company has assessed situation in Syria and identified no material change compared to 2016. EU sanctions remain in place and the political situation has not changed significantly either for the better of worse from INA's investment perspective. INA, d.d. expects similar costs and benefits in case of return to operation of Syrian fields. Therefore no triggering event for asset impairment was identified in 2017.

Nevertheless, in line with the Petroleum Resources Management System (PRMS) rules, and the fact that Syrian assets are under Force Majeure and INA, d.d. has no control for a period of almost 6 years, the reserves are shifted from 2P to 2C category.

Political developments in Egypt

With regards to the INA, d.d. operations in Egypt the key uncertainty of business is the timing of receivables collection. At 31 December 2017 gross book value of Egyptian General Petroleum Corporation receivables amounted to HRK 393 million out of which HRK 371 million was value adjusted. During 2017, INA, d.d. impaired HRK 187 million of receivables and managed to collect previously value adjusted receivables in the amount of HRK 264 million. Improvement in collection of receivables is due to better market environment in Egypt.

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

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

Management makes estimates of future expenditure in connection with decommissioning obligations using prices by reference to prior similar activities, as well as other assumptions. Furthermore, the time determined for the cash flows reflects the current estimates of priorities, technical equipment requirements and urgency of the obligations. The obligation with respect to the decommissioning provision for oil and gas properties amounted to HRK 2,701 million as at 31 December 2017 (31 December 2016: HRK 2,475 million) for INA, d.d. (see note 29).

The level of provisioning for environmental obligations

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

The level of provisioning for environmental obligations (continued)

Generally, the timing of provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. In determining the level of provisions for environmental obligations, the management relies on prior experience and their own interpretation of the related legislation. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure. At 31 December 2017 INA Group recognized environmental provision in the amount of HRK 335 million (2016: HRK 308 million) (see note 29), which covers investigation to determine the extent of contamination at specific site, treatment of accumulated waste generated by former activity, preliminary site investigation with corresponding laboratory analyses, soil excavation and replacement during the reconstruction of retail sites. It does not cover the cost of remediation in lack of detailed National regulations.

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

A deferred tax asset is recognized for unused tax losses to the extent that is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning savings. Determining the amount of deferred taxes that can be recognised requires a significant level of judgement, which is based on the probable quantification of the time and level of future taxable profits, together with the future tax planning strategy. Management believes that deferred tax asset recognized is recoverable. At 31 December 2017 the carrying amount of deferred tax assets of the INA Group amounted to HRK 1,451 million (2016: HRK 1,769 million) and deferred tax liabilities amounted to HRK 14 million (2016: HRK 13 million). At 31 December 2017 the carrying amount of deferred tax assets of INA, d.d. amounted to HRK 1,343 million, (31 December 2016: HRK 1,684 million respectively) (see note 11).
If the Group was able to recognise all unrecognised deferred tax assets, profit and equity would have increased by HRK 62 million at 31 December 2017, (31 December 2016: HRK 97 million).

Actuarial estimates used determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions of discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. Provisions for retirement bonuses and jubilee awards for INA Group amounted to HRK 78 million as at 31 December 2017 (31 December 2016: HRK 95 million), and INA, d.d. amounted to HRK 34 million as at 31 December 2017 (31 December 2016: HRK 48 million) (see note 30).

Useful life of the assets

The INA Group and INA, d.d. review the estimated useful lives of property, plant and equipment at the end of each reporting period. Estimation of useful life is considered to be a significant accounting estimation that effects on the change in depreciation rates. The new review of asset useful life at the end of 2017 had no significant changes compared to the previous estimate.

(all amounts are presented in HRK millions)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Hydrocarbon reserves

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

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

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:

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

Reclassification position of statement of financial position

In 2017 in order to ensure consistence of presentation with current year the Company and the Group reclassified accounts of liabilities for received deposits from bank loans to other current liabilities. The effect of reclassification of account of statement of financial position are as follows:

INA Group

	2016 before reclassification	Liabilities, deposits and sureties	**2016 reclassified**
Bank loans	**2,711**	(5)	**2,706**
Other current liabilities	**498**	5	**503**
Total	**3,209**	**-**	**3,209**

INA, d.d.

	2016 before reclassification	Liabilities, deposits and sureties	**2016 reclassified**
Bank loans	**2,487**	(5)	**2,482**
Other current liabilities	**336**	5	**341**
Total	**2,823**	**-**	**2,823**

(all amounts are presented in HRK millions)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Reclassification position of profit and loss

In 2017 in order to ensure consistence of presentation with current year the Company and the Group reclassified accounts of additionally approved discounts and rebates from service cost to sales revenue. The effect of reclassification of account of profit and loss are as follows:

INA Group

	2016 before reclassification	Additionally approved discounts and rebates	**2016 reclassified**
Service costs	**(663)**	40	**(623)**
Sales revenue	**15,575**	(40)	**15,535**
Total	**14,912**	**-**	**14,912**

INA, d.d.

	2016 before reclassification	Additionally approved discounts and rebates	**2016 reclassified**
Service costs	**(804)**	40	**(764)**
Sales revenue	**14,642**	(40)	**14,602**
Total	**13,838**	**-**	**13,838**

4. SEGMENT INFORMATION

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

Reporting segments, which in INA Group represent business operations, have been defined along value chain standard for the oil companies:

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

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

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

For segmental reporting purposes, the transferor segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place.

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

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

2017	**Exploration and Production**	**Refining and Marketing**	**Corporate and other**	**Intersegment transfers and consolidation adjustments**	**Total**
Sales to external customers	2,169	16,027	386	-	18,582
Intersegment sales	2,279	111	1,065	(3,455)	-
Total revenue	**4,448**	**16,138**	**1,451**	**(3,455)**	**18,582**
Operating expenses, net of other operating income	(2,782)	(15,875)	(1,879)	3,372	(17,164)
Profit/(loss) from operations	**1,666**	**263**	**(428)**	**(83)**	**1,418**
Net finance gain					146
Profit before tax					1,564
Income tax expense					(342)
Profit for the year					**1,222**

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

2016	**Exploration and Production**	**Refining and Marketing**	**Corporate and other**	**Intersegment transfers and consolidation adjustments**	**Total**
Sales to external customers	2,023	13,022	490	-	15,535
Intersegment sales	1,867	32	1,120	(3,019)	-
Total revenue	**3,890**	**13,054**	**1,610**	**(3,019)**	**15,535**
Operating expenses, net of other operating income	(2,718)	(12,980)	(2,106)	2,876	(14,928)
Profit/(loss) from operations	**1,172**	**74**	**(496)**	**(143)**	**607**
Net finance loss					(146)
Profit before tax					461
Income tax expense					(366)
Profit for the year					**95**

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

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

31 December 2017 **Assets and liabilities**	**Exploration and Production**	**Refining and Marketing**	**Corporate and other**	**Intersegment transfers and consolidation adjustments**	**Total**
Intangible assets	238	59	273	-	570
Property, plant and equipment	5,329	5,582	1,418	(313)	12,016
Investments in associates	-	-	-	-	-
Inventories	178	2,118	205	(237)	2,264
Trade receivables, net	253	1,028	375	(263)	1,393
Not allocated assets					3,020
Total assets					**19,263**
Trade payables	406	659	369	(263)	1,171
Not allocated liabilities					6,566
Total liabilities					**7,737**
Other segment information					
Property, plant and equipment	584	698	68	(47)	1,303
Intangible assets	34	15	41	-	90
Capital expenditure:	**618**	**713**	**109**	**(47)**	**1,393**
Depreciation and amortisation	**1,072**	**561**	**171**	**-**	**1,804**
Total impairment charges, net *	**(20)**	**51**	**109**	**3**	**143**

* See note 8

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

31 December 2016 **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

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

BY GEOGRAPHICAL

INA Group

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

INA Group

31 December 2016	Republic of Croatia	Egypt	Angola	Syria	Other countries	Total
Intangible assets	361	-	-	-	175	536
Property, plant and equipment	11,221	160	117	283	792	12,573
Investments in associates	22	-	-	-	-	22
Inventories	1,909	26	-	-	115	2,050
Trade receivables, net	995	27	-	-	569	1,591
Not allocated assets						3,520
Total assets						**20,292**
Other segment information						
Property, plant and equipment	1,170	72	33	-	67	1,342
Intangible assets	43	-	-	-	-	43
Capital expenditure:	**1,213**	**72**	**33**	**-**	**67**	**1,385**

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

INA Group

	Revenues from external customers	
	2017	**2016**
Republic of Croatia	10,352	9,315
Bosnia and Hercegovina	2,238	1,784
Great Britain	1,676	108
American Continent	788	35
Switzerland	700	1,497
Other countries	2,828	2,796
	18,582	**15,535**

INA, d.d.

	Revenues from external customers	
	2017	**2016**
Republic of Croatia	10,257	9,140
Bosnia and Hercegovina	1,845	1,557
Great Britain	1,669	100
American Continent	787	35
Switzerland	698	1,496
Other countries	2,322	2,274
	17,578	**14,602**

Information about major customers

In 2017 and 2016 there was no single customer which would contribute to 10% or more of Group's revenue.

5. OTHER OPERATING INCOME

	INA Group		INA, d.d.	
	2017	**2016**	**2017**	**2016**
Income from rental activities	40	40	43	52
Profit from sale of assets	21	22	11	26
Surpluses	16	11	19	15
Commission fee and charges	14	12	13	11
Income from tax refund	13	31	13	25
Penalty interest from customers	11	28	10	26
Payment in kind	8	9	8	8
Additional discounts from contracts	7	21	9	8
Income from collected damage claims	3	7	3	3
Non-hedging commodity derivative	(48)	(44)	(48)	(44)
Income from sale of asset to subsidiary	-	-	261	-
Income from contribution of asset to subsidiary	-	-	-	135
Other	41	49	23	31
Total	**126**	**186**	**365**	**296**

(all amounts are presented in HRK millions)

6. DEPRECIATION AND AMORTISATION

	INA Group		INA, d.d.	
	2017	**2016**	**2017**	**2016**
Depreciation of property, plant and equipment (note 14 b)	1,753	1,624	1,683	1,549
Amortisation of intangible assets (note 13)	46	42	45	40
Retranslation of foreign operations	5	11	5	11
	1,804	**1,677**	**1,733**	**1,600**

7. STAFF COSTS

	INA Group		INA, d.d.	
	2017	**2016**	**2017**	**2016**
Net payroll	965	1,012	476	545
Tax and contributions for pensions and health insurance	615	710	334	428
Other payroll related costs	223	361	99	202
	1,803	**2,083**	**909**	**1,175**

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

	INA Group		INA, d.d.	
	2017	**2016**	**2017**	**2016**
	Number of employees	Number of employees	Number of employees	Number of employees
Refining and Marketing	6,132	6,090	2,445	2,513
Corporate and other	3,438	3,548	636	652
Exploration and Production	1,212	1,223	1,211	1,222
	10,782	**10,861**	**4,292**	**4,387**

(all amounts are presented in HRK millions)

8. IMPAIRMENT CHARGES (NET)

	INA Group		INA, d.d.	
	2017	**2016**	**2017**	**2016**
Impairment of tangible assets, net*	145	26	45	24
Impairment of inventory, net	60	52	52	38
Writte-off PP&E, net	6	24	3	23
Impairment of trade receivables, net	(77)	33	(77)	18
Impairment on sale of assets held for sale, net	-	139	-	-
Other impairment, net	9	(2)	7	5
	143	**272**	**30**	**108**

* See note 14

9. PROVISIONS FOR CHARGES AND RISKS (NET)

	INA Group		INA, d.d.	
	2017	**2016**	**2017**	**2016**
Provision for renewable energy	115	-	115	-
Provision/(utilisation) for environmental liabilities	13	(23)	12	(21)
Provision/(utilisation) for emission rights	11	(8)	11	(8)
Utilisation of provision for incentives	(2)	(236)	(10)	(221)
Utilisation of provision for retirement and jubilee benefits	(5)	(17)	(2)	(23)
Utilisation of provision for legal claims	(22)	(45)	(29)	(29)
Reversal of provision for Angolan taxes	(249)	(28)	(249)	(28)
Utilisation of provision for contractual liabilities for taxation	-	(51)	-	-
Other provisions	(12)	(36)	6	(16)
	(151)	**(444)**	**(146)**	**(346)**

(all amounts are presented in HRK millions)

10. FINANCE INCOME AND FINANCE COST

	INA Group		INA, d.d.	
	2017	**2016**	**2017**	**2016**
Foreign exchange gains from loans and cash	247	49	160	42
payables	179	23	130	13
Dividends received	20	16	20	16
Interest received and other financial income	6	16	54	68
Profit allocation received from subsidiaries	-	-	20	16
Other financial income	-	2	-	-
Finance income	**452**	**106**	**384**	**155**
Foreign exchange losses from loans and cash	115	87	113	54
payables	88	29	18	23
Interest expense	46	93	46	93
Fees on bank loans	25	20	24	19
Interest expense regarding tax resolutions	21	9	21	9
Interest for long-term loans	8	12	8	17
Foreign exchange losses from provisions	4	11	5	6
Capitalized borrowing costs	(3)	(12)	(3)	(12)
Impairment of investment in subsidiaries and interest from subsidiaries	-	-	77	348
Other financial costs	2	3	1	3
Finance costs	**306**	**252**	**310**	**560**
Total finance income/(costs), net	**146**	**(146)**	**74**	**(405)**

(all amounts are presented in HRK millions)

11. TAXATION

	INA Group		INA, d.d.	
	2017	**2016**	**2017**	**2016**
Deferred tax charge related to origination and reversal of temporary differences	319	297	341	299
Current tax expense	23	69	7	43
Income tax expense	**342**	**366**	**348**	**342**

Tax on profit generated in Croatia is determined by applying the rate of 18 percent in 2017 and 20 percent in 2016, on pre-tax profit for the year.

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

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

	INA Group		INA, d.d.	
	2017	**2016**	**2017**	**2016**
Profit before tax	1,564	461	1,774	502
Expense tax calculated at 18% (20% in 2016)	281	92	319	101
Tax loss previously not recognized and recognition of deferred tax assets previously not recognised	32	(4)	15	7
Effect on deferred tax balances due to the change in income tax rate from 20% to 18% (effective from 1 Jan 2017)	-	204	-	194
Effect of different tax rates of entities operating in other jurisdictions	13	7	13	15
Tax effect of permanent differences	22	39	7	(3)
Tax effect of previous years	(6)	28	(6)	28
Income tax expense	**342**	**366**	**348**	**342**

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

Reducing the corporate income tax rate from 20% to 18% (effective from 1 January 2017) had effect on reduction of deferred tax assets due to the need of adjustments of deferred tax according to the tax rate to be implemented in the period of realization of deferred tax assets. The negative effect of the decrease of deferred tax assets on the income statement as a result of reduced rates on INA Group level amounted to HRK 204 million, and for INA, d.d. HRK 194 million in 2016.

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

(all amounts are presented in HRK millions)

11. TAXATION (CONTINUED)

INA Group	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Tax losses	Deferred taxes on fair value	Total
Balance at 1 January 2016	**78**	**1,368**	**(348)**	**200**	**125**	**649**	**-**	**2,072**
Charge directly to equity	-	-	-	-	(19)	-	-	(19)
Reversal of temporary differences	(24)	(4)	(143)	(66)	-	(8)	-	(245)
Origination of temporary differences	3	13	-	59	76	1	-	152
Effect from changes in tax rate	(5)	(139)	50	(19)	(18)	(65)	-	(196)
Deferred tax liability on fair value of acquired subsidiary at acquisition date	-	-	-	-	-	-	(8)	(8)
Balance at 31 December 2016	**52**	**1,238**	**(441)**	**174**	**164**	**577**	**(8)**	**1,756**
Charge directly to equity	-	-	-	(3)	2	-	-	(1)
Reversal of temporary differences	(7)	(22)	(97)	(72)	(10)	(245)	-	(453)
Origination of temporary differences	2	31	-	57	26	19	-	135
Balance at 31 December 2017	**47**	**1,247**	**(538)**	**156**	**182**	**351**	**(8)**	**1,437**

(all amounts are presented in HRK millions)

11. TAXATION (CONTINUED)

INA, d.d.	**Impairment of current assets**	**Impairment of tangible and intangible assets**	**Reversal of depreciation for impaired asset**	**Other provisions**	**Impairment of financial investments**	**Tax losses**	**Total**
Balance at 1 January 2016	**63**	**1,363**	**(349)**	**199**	**75**	**644**	**1,995**
Charge directly to equity	-	-	-	-	(19)	-	(19)
Reversal of temporary differences	(19)	(2)	(143)	(66)	-	(7)	(237)
Origination of temporary differences	3	6	-	47	76	1	133
Effect from changes in tax rate	(5)	(137)	50	(18)	(14)	(64)	(188)
Balance at 31 December 2016	**42**	**1,230**	**(442)**	**162**	**118**	**574**	**1,684**
Charge directly to equity	-	-	-	(3)	2	-	(1)
Reversal of temporary differences	(2)	(17)	(96)	(66)	(6)	(245)	(432)
Origination of temporary differences	1	31	-	48	12	-	92
Balance at 31 December 2017	**41**	**1,244**	**(538)**	**141**	**126**	**329**	**1,343**

12. EARNINGS PER SHARE

	INA Group	
	31 December 2017	**31 December 2016**
Basic and diluted earnings per share (HRK per share)	**121.99**	**10.08**

Earnings	INA Group	
	31 December 2017	**31 December 2016**
Earnings used in the calculation of total basic earnings per share	1,220	101
	1,220	**101**

Number of shares	INA Group	
	31 December 2017	**31 December 2016**
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share (in millions)	10	10

On 14 June 2017 Regular Shareholders' Assembly of INA, d.d. was held and decision on dividend pay-out in amount of HRK 152 million was voted (HRK 15.20 per share).

In 2016, there was no dividend approved.

(all amounts are presented in HRK millions)

13. INTANGIBLE ASSETS

INA Group	Oil and gas properties	Software	Patents, Licences and other rights	Intangible assets under construction	Goodwill	Total
Balance at 1 January 2016	**196**	**128**	**36**	**28**	**152**	**540**
Additions	2	-	-	41	-	43
Amortisation	-	(37)	(5)	-	-	(42)
Foreign exchange translation of foreign operations	4	-	-	-	-	4
Acquisition of subsidiary	-	1	-	-	-	1
Emission allowances (net)	-	-	(2)	-	-	(2)
Transfer	(5)	35	1	(31)	-	-
Transfer to property, plant and equipment	-	1	2	(11)	-	(8)
Balance at 31 December 2016	**197**	**128**	**32**	**27**	**152**	**536**
Additions	22	-	-	68	-	90
Amortisation	-	(42)	(4)	-	-	(46)
Foreign exchange translation of foreign operations	(18)	-	-	-	-	(18)
Emission allowances (net)	-	-	8	-	-	8
Transfer	-	42	-	(42)	-	-
Transfer to property, plant and equipment	-	3	-	(3)	-	-
Balance at 31 December 2017	**201**	**131**	**36**	**50**	**152**	**570**

(all amounts are presented in HRK millions)

13. INTANGIBLE ASSETS (CONTINUED)

INA, d.d.	Oil and gas properties	Software	Patents, Licences and other rights	Intangible assets under construction	Total
Balance at 1 January 2016	**196**	**128**	**33**	**28**	**385**
Additions	2	-	-	38	40
Amortisation	-	(36)	(4)	-	(40)
Foreign exchange translation of foreign operations	4	-	-	-	4
Transfer	(5)	33	2	(30)	-
Transfer to property, plant and equipment	-	1	2	(10)	(7)
Emission allowances (net)	-	-	(2)	-	(2)
Balance at 31 December 2016	**197**	**126**	**31**	**26**	**380**
Additions	22	-	-	61	83
Amortisation	-	(42)	(3)	-	(45)
Foreign exchange translation of foreign operations	(18)	-	-	-	(18)
Transfer	-	45	-	(45)	-
Emission allowances (net)	-	-	8	-	8
Balance at 31 December 2017	**201**	**129**	**36**	**42**	**408**

At 31 December 2017 and 2016 INA Group did not record impairment of intangible assets.

(all amounts are presented in HRK millions)

13. INTANGIBLE ASSETS (CONTINUED)

Goodwill

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

	INA Group	
	2017	**2016**
Cost	296	296
Accumulated impairment losses	(144)	(144)
Net book value	**152**	**152**

During 2017 and 2016 goodwill relating to the company Rotary Zrt. was tested for impairment and the test showed that the impairment is not required.

The recoverable amount of Rotary Zrt. business as at 31 December 2017, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by Company management covering a five-year period. The weighted average cost of capital applied to cash flow projections is 7.6% (2016: 9.5%) and cash flows beyond the five-year period are prepared taking into consideration utilization days of Rotary's assets, average daily rates based on past experience and future predictions in the projected period. Expenses are determined also in relation to the utilization of the assets.

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

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

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

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

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

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT

a) By business operations

INA Group

	Exploration and Production	Refining and Marketing	Corporate and other	Total
Balance at 31 December 2016				
Cost	38,684	21,405	6,160	**66,249**
Accumulated depreciation	33,042	15,971	4,663	**53,676**
Net book value	**5,642**	**5,434**	**1,497**	**12,573**
Balance at 31 December 2017				
Cost	38,522	21,775	5,897	**66,194**
Accumulated depreciation	33,371	16,242	4,565	**54,178**
Net book value	**5,151**	**5,533**	**1,332**	**12,016**

INA, d.d.

	Exploration and Production	Refining and Marketing	Corporate and other	Total
Balance at 31 December 2016				
Cost	38,915	20,338	1,921	**61,174**
Accumulated depreciation	33,117	15,340	1,548	**50,005**
Net book value	**5,798**	**4,998**	**373**	**11,169**
Balance at 31 December 2017				
Cost	38,791	20,586	1,610	**60,987**
Accumulated depreciation	33,473	15,578	1,358	**50,409**
Net book value	**5,318**	**5,008**	**252**	**10,578**

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type

INA Group	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
At cost							
Balance at 1 January 2016	**33,303**	**12,112**	**14,698**	**2,351**	**38**	**2,722**	**65,224**
Additions	-	-	-	-	-	1,342	1,342
Change in capitalised decommissioning costs	(1)	-	-	-	-	-	(1)
Foreign exchange translation of foreign operations	7	-	-	-	-	-	7
Assets put in use	1,139	198	485	47	-	(1,869)	-
Transfer	(10)	10	-	-	-	-	-
Transfer from intangible assets	-	7	7	-	-	(3)	11
Surplus	-	17	-	1	-	-	18
Acquisition of subsidiary	-	431	61	29	-	2	523
Disposals	(41)	(289)	(1,131)	(125)	-	-	(1,586)
Correction of prior years	-	(1)	(6)	-	-	-	(7)
Currency translation	-	4	(5)	-	-	(1)	(2)
Other	-	-	(1)	-	-	-	(1)
Balance at 31 December 2016	**34,397**	**12,489**	**14,108**	**2,303**	**38**	**2,193**	**65,528**
Additions	-	-	-	-	-	1,303	1,303
Change in capitalised decommissioning costs	199	-	-	-	-	-	199
Foreign exchange translation of foreign operations	(141)	-	-	-	-	-	(141)
Assets put in use, Transfer	708	161	251	45	5	(1,170)	-
Transfer to intangible assets	-	-	2	-	-	(3)	(1)
Transfer from assets held for sale	-	-	8	-	-	-	8
Surplus	-	-	5	5	-	-	10
Disposals	(23)	(367)	(188)	(61)	-	(62)	(701)
Reclassification between categories	(1)	(40)	(44)	85	4	(4)	-
Currency translation	-	(3)	(5)	(1)	-	-	(9)
Other	-	(1)	-	(1)	-	-	(2)
Balance at 31 December 2017	**35,139**	**12,239**	**14,137**	**2,375**	**47**	**2,257**	**66,194**

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

Accumulated depreciation	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Balance at 1 January 2016	**29,430**	**8,771**	**11,754**	**2,229**	**25**	**285**	**52,494**
Charge for the year	934	238	388	75	-	-	1,635
Impairment (net)	24	-	2	-	-	-	26
Impairment of assets under construction	2	-	-	-	-	-	2
Foreign exchange translation of foreign operations	(11)	-	-	-	-	-	(11)
Transfer	(10)	15	75	1	-	(81)	-
Transfer from intangible assets	-	4	-	-	-	-	4
Surplus	-	17	-	1	-	-	18
Acquisition of subsidiary	-	147	36	17	-	2	202
Disposals	(41)	(292)	(950)	(122)	-	-	(1,405)
Correction of prior years	-	-	(6)	-	-	-	(6)
Currency translation	-	3	(5)	-	-	-	(2)
Other	-	-	(1)	(1)	-	-	(2)
Balance at 31 December 2016	**30,328**	**8,903**	**11,293**	**2,200**	**25**	**206**	**52,955**
Charge for the year	1,022	248	414	69	-	-	1,753
Impairment (net)	(3)	-	98	2	-	-	97
Impairment of assets under construction	48	-	-	-	-	-	48
Transfer	(22)	12	14	(1)	5	(8)	-
Transfer to intangible assets	-	-	-	-	-	(1)	(1)
Transfer from assets held for sale	-	-	8	-	-	-	8
Surplus	-	-	5	5	-	-	10
Disposals	(23)	(359)	(184)	(58)	-	(61)	(685)
Reclassification between categories	(5)	57	(126)	(65)	13	126	-
Currency translation	-	(1)	(3)	-	-	(1)	(5)
Other	-	-	(1)	(1)	-	-	(2)
Balance at 31 December 2017	**31,345**	**8,860**	**11,518**	**2,151**	**43**	**261**	**54,178**

(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 2017	**3,794**	**3,379**	**2,619**	**224**	**4**	**1,996**	**12,016**
Balance at 31 December 2016	**4,069**	**3,586**	**2,815**	**103**	**13**	**1,987**	**12,573**

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	**Oil and gas properties**	**Land and buildings**	**Plant and machinery**	**Vehicles and office equipment**	**Collective Consumption assets**	**Assets under construction**	**Total**
At cost							
Balance at 1 January 2016	**33,412**	**10,697**	**10,931**	**1,939**	**38**	**2,792**	**59,809**
Additions	-	-	-	-	-	1,269	1,269
Change in capitalised decommissioning costs	(7)	-	-	-	-	-	(7)
Foreign exchange translation of foreign operations	7	-	-	-	-	-	7
Transfer from intangible assets	-	4	6	-	-	(3)	7
Capital increase from transfer of assets to subsidiary	-	(119)	(6)	(7)	-	-	(132)
Surplus	-	17	-	1	-	-	18
Assets put in use	1,138	142	382	47	-	(1,709)	-
Transfers	(10)	10	-	-	-	-	-
Disposals	(41)	(217)	(167)	(103)	-	-	(528)
Other	-	-	(3)	2	-	-	(1)
Balance at 31 December 2016	**34,499**	**10,534**	**11,143**	**1,879**	**38**	**2,349**	**60,442**
Additions	-	-	-	-	-	1,269	1,269
Change in capitalised decommissioning costs	214	-	-	-	-	-	214
Foreign exchange translation of foreign operations	(141)	-	-	-	-	-	(141)
Transfer from intangible assets	-	-	1	-	-	(2)	(1)
Surplus	-	1	4	3	-	-	8
Assets put in use	728	177	210	42	-	(1,157)	-
Transfers	(22)	5	12	-	5	-	-
Disposals	(23)	(530)	(147)	(41)	-	(62)	(803)
Other	-	-	-	(1)	-	-	(1)
Balance at 31 December 2017	**35,255**	**10,187**	**11,223**	**1,882**	**43**	**2,397**	**60,987**

(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 2016	**29,433**	**7,624**	**9,082**	**1,681**	**34**	**413**	**48,267**
Charge for the year	949	207	339	65	-	-	1,560
Impairment (net)	24	-	-	-	-	-	24
Impairment of assets under construction	2	-	-	-	-	-	2
Foreign exchange translation of foreign operations	(11)	-	-	-	-	-	(11)
Capital increase from transfer of assets to subsidiary	-	(89)	(3)	(5)	-	-	(97)
Surplus	-	17	-	1	-	-	18
Transfers	(10)	16	75	-	1	(82)	-
Disposals	(41)	(188)	(161)	(100)	-	-	(490)
Other	-	-	(1)	1	-	-	-
Balance at 31 December 2016	**30,346**	**7,587**	**9,331**	**1,643**	**35**	**331**	**49,273**
Charge for the year	1,045	203	375	60	-	-	1,683
Impairment (net)	(3)	-	-	-	-	-	(3)
Impairment of assets under construction	48	-	-	-	-	-	48
Transfer to intangible assets	-	-	-	-	-	(1)	(1)
Capital increase from transfer of assets to subsidiary	-	-	-	-	-	-	-
Surplus	-	1	4	3	-	-	8
Transfers	(22)	11	12	2	5	(8)	-
Disposals	(22)	(335)	(141)	(38)	-	(62)	(598)
Other	-	-	-	(1)	-	-	(1)
Balance at 31 December 2017	**31,392**	**7,467**	**9,581**	**1,669**	**40**	**260**	**50,409**

(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
Carrying amount							
Balance at 31 December 2017	**3,863**	**2,720**	**1,642**	**213**	**3**	**2,137**	**10,578**
Balance at 31 December 2016	**4,153**	**2,947**	**1,812**	**236**	**3**	**2,018**	**11,169**

I) Oil and gas reserves

The ability of INA Group and INA, d.d. to realise the net book value of oil and gas properties (see b) above) in the future is dependent upon the extent to which commercially recoverable oil and gas reserves are available. During 2017, Exploration and Production performed assessment of the quantities of the Company's remaining proved developed oil and gas reserves which were commercially recoverable.

II) Ownership of land and buildings

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

III) Collective consumption assets

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

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

IV) Carrying value of property, plant and equipment

The Management Board performed identification and assessment of indicators in accordance with IAS 36. Impairment test was performed on assets where indicators of impairment have been identified. The total net impairment charge of INA Group is HRK 145 million in 2017 (2016: HRK 28 million).

- Exploration and Production recorded an impairment of property, plant and equipment in amount of HRK 45 million (dry wells) in 2017, compared to impairment in amount of HRK 26 million in 2016. Assumed hydrocarbon prices are based on stable expectations above 50 USD/bbl in middle-term periods (after 2021). Therefore no year-end impairment test were performed. During 2017 following impairments have been occurred:
  - Dry wells – impairment in amount of HRK 48 million (Iva Duboka);
  - Reversal of impairment of decommission assets in amount of HRK 3 million.
- Since no impairment indicators were identified, impairment test for Refining and Marketing was not performed and no impairment or reversal of impairment of property, plant and equipment in 2017, neither in 2016 were recorded.
- Corporate and other recorded an impairment of property, plant and equipment in amount of HRK 100 million in 2017, compared to 2016 when impairment was in amount of HRK 139 million. In 2017, the impairment loss recognized in profit and loss statement in amount of HRK 100 million refers to Labin platform. Impairment test of the Labin platform was triggered by low utilization of the asset, and the test was based on planned rig utilization in the coming years.

  There was no reversal of impairment in 2017 and 2016.

Discount rates used in the current assessment in 2017 and for 2016 are assets specific and are as follows:

	2017	2016
Exploration and Production		
Croatia	9.1%	9.2%
Syria	17.6%	17.7%
Egypt	13.6%	13.7%
Angola	13.6%	13.7%
Refining and Marketing		
Croatia	9.1%	9.2%
Bosnia and Herzegovina	11.6%	11.7%

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

V) *Review of the residual value*

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

(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. During 2016 impairment was recognized in amount of HRK 139 million for Zagreb 1 platform (see note 8), which was finally the amount of loss on sale for part of platform.

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

	INA Group	
	31 December 2017	31 December 2016
Held-for-sale assets		
Property, plant and equipment	8	8
Assets classified held-for-sale	**8**	**8**

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

	INA, d.d.	
	31 December 2017	31 December 2016
Investments in subsidiaries	1,079	805

	INA, d.d.	
	2017	2016
Investments in subsidiaries at 1 January	**805**	**1,000**
CROSCO, naftni servisi d.o.o.- share capital increase	433	-
CROSCO, naftni servisi d.o.o. - impairment	(34)	(347)
STSI, Integrirani tehnički servisi d.o.o. - share capital decrease	(40)	-
Hostin d.o.o. - share capital decrease	(15)	-
INA MAZIVA d.o.o. - share capital decrease	(70)	-
Holdina d.o.o. Sarajevo - share capital increase	-	170
CROPLIN d.o.o. - share capital decrease	-	(17)
INA Maloprodajni servisi d.o.o. - impairment	-	(1)
Total as of 31 December	**1,079**	**805**

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

The following portfolio changes were recorded in 2017:

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

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

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

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

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

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

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

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

In comparative 2016 portfolio changes were recorded as follows:

At 12 July 2016, INA, d.d. took over 1,840,128 or 33.50% of 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).

At 28 October 2016 Holdina Sarajevo submitted a request to the Commercial Court for increase of the share capital by registering the ownership over 19 properties. Properties in INA, d.d. books were written off by net book value in the amount of HRK 35 million, while the share capital in Holdina Sarajevo increased by the appraised value in the amount of HRK 170 million. Difference of HRK 135 million was recognized within other operating income.

At 31 December 2016, the Company recognized an impairment of investment in Crosco d.o.o. in the amount of HRK 347 million.

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

In June 2016, 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):

(all amounts are presented in HRK millions)

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

Composition of the Group

The name of subsidiary	Principal activity	Place of incorporation and operation	**Proportion of ownership interest and voting power held by the Group**	
			31 December 2017	31 December 2016
Oilfield services				
*CROSCO, naftni servisi d.o.o.	Oilfield services	Croatia	100%	100%
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 Ltd. (until July 2017)	Oilfield services	Slovenia	-	100%
Rotary Zrt.	Oilfield services	Hungary	100%	100%
CROSCO UKRAINE LLC.	Oilfield services	Ukraine	100%	-
CROSCO International d.o.o.	Oilfield services	Bosnia and Herzegovina	100%	100%
Crosco S.A. DE C.V.	Oilfield services	Mexico	99.90%	99.90%
Oil exploration and production				
*INA Naftaplin International Exploration and Production Ltd	Oil exploration and production	Guernsey	100%	100%
Tourism				
*Hostin d.o.o.	Tourism	Croatia	100%	100%
Ancillary services				
*STSI Integrirani tehnički servisi d.o.o.	Technical services	Croatia	100%	100%
*Top Računovodstvo Servisi d.o.o.	Accounting services	Croatia	100%	100%
*Plavi tim d.o.o.	Informatical service	Croatia	100%	100%
Production and trading				
*INA MAZIVA d.o.o.	Production and lubricants trading	Croatia	100%	100%
Trading				
*INA Slovenija d.o.o. Ljubljana	Foreign trading	Slovenia	100%	100%
*INA BH d.d. Sarajevo	Foreign trading	Bosnia and Herzegovina	100%	100%
*Holdina d.o.o. Sarajevo	Foreign trading	Bosnia and Herzegovina	100%	100%
*INA d.o.o. Beograd	Foreign trading	Serbia	100%	100%
*INA Kosovo d.o.o.	Foreign trading	Kosovo	100%	100%
*Adrigas S.r.l. Milano	Pipeline project company	Italy	100%	100%
*INA Crna Gora d.o.o. Podgorica	Foreign trading	Montenegro	100%	100%
*PETROL d.d.	Trading	Croatia	100%	100%
*CROPLIN d.o.o.	Production of gas, distribution network of gas fuels	Croatia	100%	100%
*INA Maloprodajni servisi d.o.o.	Trade agency in the domestic and foreign market	Croatia	100%	100%
*ENERGOPETROL d.d.	Retail (oil and lubricant)	Bosnia and Herzegovina	67%	67%
*INA BL d.o.o. Banja Luka	Trading	Bosnia and Herzegovina	100%	100%

(all amounts are presented in HRK millions)

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

At 31 December 2017 and 2016 Croplin d.o.o. had 9.1% ownership in Energo d.o.o. Rijeka and 40% ownership in Plinara Istočne Slavonije d.o.o. Vinkovci.

16. INVESTMENTS IN ASSOCIATES

			INA Group		INA, d.d.	
Name of company	**Activity**	Proportion of ownership	**31 December 2017**	**31 December 2016**	**31 December 2017**	**31 December 2016**
SOL-INA d.o.o. (until October 2017)	Industrial gas production	37.21%	-	22	-	22
			-	**22**	**-**	**22**

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

The Company has interests in other entities as follows:

			INA Group and INA, d.d.	
Name of company	**Activity**	**Place of incorporation and operation**	**31 December 2017**	**31 December 2016**
Hayan Petroleum Company*	Operating company (oil exploration, development and production)	Damascus, Syria	50%	50%
TERME Zagreb d.o.o.	Recreation and medical tourism	Zagreb, Croatia	50%	50%
INAgip d.o.o. Zagreb*	Exploration and production gas operator	Zagreb, Croatia	50%	50%
ED INA d.o.o. Zagreb*	Research, development and hydrocarbon production	Zagreb, Croatia	50%	50%
Marina Petroleum Company *	Exploration and production oil operator	Cairo, Egypt	50%	50%
Belvedere d.d.	Hotel trade	Dubrovnik, Croatia	31.80%	31.80%
ELEKTROMETAL d.d	Installing and mounting works, production of fire-proof elements, gas distribution	Bjelovar, Hrvatska	30.75%	-

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

At 17 March 2017, INA, d.d. acquired a share of 30.75% in the amount of HRK 8.2 million in Elektrometal d.d. based on the pre-bankruptcy settlement. At the same time, shares of Elektrometal were impaired in full amount.

(all amounts are presented in HRK millions)

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

* based on the latest available public information from September 2017

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

	INA Group and INA, d.d.	
	31 December 2017	**31 December 2016**
Aggregate carrying amount of the interests in these associates	-	22
The Group's share of profit from interest in non individually material associates	-	-
The Group's share of other comprehensive income	-	-
The Group's share of total comprehensive income	**-**	**-**

(all amounts are presented in HRK millions)

17. OTHER INVESTMENTS

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deposits	7	7	7	7
Financial assets at fair value through profit or loss	6	6	6	6
Long-term loans	-	-	656	796
	13	**13**	**669**	**809**

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

18. LONG-TERM RECEIVABLES AND OTHER ASSETS

INA Group	31 December 2017	31 December 2016
Receivables for apartments sold	60	71
Prepayments for intangible assets	21	19
Prepayments for property, plant and equipment	15	38
	96	**128**

INA, d.d.	31 December 2017	31 December 2016
Receivables for apartments sold	60	71
Prepayments for intangible assets	21	19
Prepayments for property, plant and equipment	13	36
Long-term receivables from related party	11	11
	105	**137**

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

(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 2017	INA Group and INA, d.d. 31 December 2016
Jadranski Naftovod d.d.	11.795%	Pipeline ownership and operations	321	321
OMV Slovenia d.o.o. Koper	7.75%	Oil trading	31	31
Plinara d.o.o. Pula	49.00%	Distribution and oil trading	17	17
BINA-FINCOM d.d. Zagreb	5.00%	Construction of highways and other roads, airfields airports	12	12
HOC Bjelolasica d.o.o. Ogulin	7.17%	Operations of sports facilities	5	5
Total cost			386	386
Fair value adjustment of Jadranski Naftovod d.d.			298	309
Value adjustment of Plinara d.o.o. Pula			(2)	(2)
Value adjustment of HOC Bjelolasica d.o.o. Ogulin			(5)	(5)
Value adjustment of BINA-FINCOM d.d. Zagreb			(12)	(12)
Total value adjustment			279	290
			665	**676**

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

The value of equity share in JANAF was reported by reference to the market value of a share as quoted on the Zagreb Stock Exchange as of 31 December 2017. The net book value of the equity investment in JANAF decreased by HRK 11 million compared to the balance as of 31 December 2016 due to decrease in the market value of the JANAF shares on Zagreb Stock Exchange. The market value of the shares (118,855 shares) as of 31 December 2017 amounted to HRK 5,200 per share (31 December 2016: HRK 5,300 per share).

(all amounts are presented in HRK millions)

20. INVENTORIES

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Refined products	693	625	646	564
Crude oil	580	478	579	478
Work in progress	549	436	548	435
Spare parts, materials and supplies	173	184	78	80
Raw material	152	228	104	178
Merchandise	117	99	66	67
	2,264	**2,050**	**2,021**	**1,802**

As of 31 December 2017 and 2016, inventories were measured at the lower of cost or net realizable value.

21. TRADE RECEIVABLES, NET

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Trade receivables	2,238	2,676	1,791	2,158
Impairment of trade receivables	(845)	(1,085)	(673)	(843)
	1,393	**1,591**	**1,118**	**1,315**

Ageing analysis of trade receivables that are not impaired:

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
not due	1,218	1,267	981	1,035
less than 30 days	77	55	47	35
31 - 60 days	18	22	17	21
61+ days	80	247	73	224
	1,393	**1,591**	**1,118**	**1,315**

(all amounts are presented in HRK millions)

21. TRADE RECEIVABLES, NET (CONTINUED)

Impairment of trade receivables:

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Balance at beginning of the year	1,085	1,040	843	818
Impairment losses recognised on receivables	192	222	190	203
Acquisition of subsidiary	-	7	-	-
Amounts written off as uncollectible	(92)	(9)	(39)	(6)
Reversal of impairment on amounts recovered	(340)	(175)	(321)	(172)
Balance at end of the year	**845**	**1,085**	**673**	**843**

The ageing analysis of impaired trade receivables:

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
less than 60 days	-	-	-	-
61-120 days	31	35	30	35
121-180 days	29	39	28	39
181-365 days	105	102	105	102
366+ days	680	909	510	667
	845	**1,085**	**673**	**843**

Trade receivables, net balance of INA Group above also includes related party receivables of HRK 167 million as of 31 December 2017 (2016: HRK 154 million) with related party entities out of INA Group (see note 36).

22. OTHER RECEIVABLES

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Tax prepayments	115	109	63	89
Foreign concessions receivables	60	42	60	42
Employees receivables	3	3	2	3
Prepayment receivables	1	3	1	1
Interest receivables	-	5	-	5
Other receivables	31	22	18	13
	210	**184**	**144**	**153**

(all amounts are presented in HRK millions)

23. OTHER CURRENT ASSET

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Positive fair value of derivatives	62	38	62	38
Prepayments for customs, duties and other charges	46	28	31	20
Short-term loans and deposits	6	18	3	14
Accrued income	5	-	5	-
Positive fair value of hedge commodity transactions	-	17	-	17
Current portion of long terms loans	-	-	598	553
Loan impairment	-	-	(223)	(224)
Other	20	19	18	16
	139	**120**	**494**	**434**

24. CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits.

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

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Demand deposit	312	425	257	324
Deposits until three months	60	140	59	136
Cash on hand	56	46	48	40
Cash and cash equivalents in statement of financial position	**428**	**611**	**364**	**500**
Cash and cash equivalents in statement of cash flows	**428**	**611**	**364**	**500**

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

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Bank loans	1,581	2,706	1,359	2,482
Current portion of long-term loans	122	135	122	135
	1,703	**2,841**	**1,481**	**2,617**

(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 2017	31 December 2016	31 December 2017	31 December 2016
Unsecured bank loans in EUR	923	1,701	882	1,662
Unsecured bank loans in USD	489	860	477	820
Unsecured bank loans in HRK	143	145	-	-
Unsecured bank loans in HUF	26	-	-	-
	1,581	**2,706**	**1,359**	**2,482**

The most significant short-term loans as at 31 December 2017 are credit facilities with the first class banks with the purpose of financing purchases of crude oil and petroleum products (''trade finance''), framework agreements concluded with domestic banks for granting loans, issuing bank guarantees and opening letters of credits, as well as short-term credit lines with foreign creditors.

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

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

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

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Trade payables	1,171	1,857	787	1,498
Production and sales and other taxes payable	573	581	499	523
Payroll payables	131	140	83	92
Accrued bonuses	114	100	70	62
Advance Payments	66	43	62	36
Negative fair value of derivatives	65	45	65	45
Payroll taxes and contributions	53	56	28	29
Accrued unused holiday	44	48	24	26
Mining fee	43	31	43	31
Accrued expenses	29	33	-	-
Accrued interest for long-term loans	5	8	4	9
Negative fair value of hedge commodity transactions	-	19	-	19
Other	43	36	23	21
	2,337	**2,997**	**1,688**	**2,391**

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

Trade payables, net balance also includes payables of HRK 149 million as of 31 December 2017 (2016: HRK 113 million) with related party entities out of INA Group (see note 36).

(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 2017	31 December 2016
Project financing	USD, EUR	244	406
		244	**406**
Due within one year		(122)	(135)
Total long-term loans INA, d.d.		**122**	**271**
Other long term loans INA Group	EUR, USD, HUF, HRK	-	-
		-	**-**
Due within one year		-	-
Total long-term loans INA Group		**122**	**271**

INA Group	Weighted average interest rate **31 December 2017**	Weighted average interest rate **31 December 2016**	**31 December 2017**	**31 December 2016**
	%	%		
Bank loans in USD	2.95	3.15	190	325
Bank loans in EUR	1.23	1.76	54	81
Total			**244**	**406**
Payable within one year			(122)	(135)
Total long-term loans			**122**	**271**

(all amounts are presented in HRK millions)

27. LONG-TERM LOANS (CONTINUED)

INA, d.d.	Weighted average interest rate **31 December 2017**	Weighted average interest rate **31 December 2016**	**31 December 2017**	**31 December 2016**
	%	%		
Bank loans in USD	2.95	3.15	190	325
Bank loans in EUR	1.23	1.76	54	81
Total			**244**	**406**
Payable within one year			(122)	(135)
Total long-term loans			**122**	**271**

The maturity of the loans may be summarised as follows:

	INA Group		**INA, d.d.**	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Current portion of long-term debt	122	135	122	135
Payable within one to two years	122	135	122	135
Payable within two to three years	-	136	-	136
Total	**244**	**406**	**244**	**406**

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

	INA Group	**INA, d.d.**
Balance at 1 January 2016	**539**	**533**
New borrowings	1,192	1,192
Amounts repaid	(1,316)	(1,310)
Foreign exchange losses	(9)	(9)
Balance at 31 December 2016	**406**	**406**
Payable within one year (included within bank loans – note 25)	135	135
Payable after more than one year	271	271
Balance at 1 January 2017	**406**	**406**
New borrowings	-	-
Amounts repaid	(129)	(129)
Foreign exchange losses	(33)	(33)
Balance at 31 December 2017	**244**	**244**
Payable within one year (included within bank loans – note 25)	122	122
Payable after more than one year	122	122

(all amounts are presented in HRK millions)

27. LONG-TERM LOANS (CONTINUED)

The principal long-term loans outstanding at 31 December 2017 and loans agreements in 2017 were as follows:

EBRD

In 2010, INA, d.d. signed a long-term loan agreement with EBRD in the amount of EUR 160 million with alternative withdrawal in USD. The purpose of the loan is finalization of the first phase of the modernization of Sisak and Rijeka refineries. In 2014 an amendment agreement was signed by which terms for the remaining outstanding amount are more favourable and maturity was prolonged until 2019. In 2016 an amendment agreement was signed by which terms are more favourable for the remaining outstanding amount.

ING BANK N.V., LONDON BRANCH

In 2015 INA, d.d. signed a long-term multi-currency revolving credit facility agreement for general corporate purposes in the amount of USD 300 million. Lenders are banking groups represented by both international and domestic banks. The Agent is ING Bank N.V., London Branch. Maturity of the credit facility is 3 years with an option for 1+1 year extension. In 2017 an extension option was exercised and maturity was prolonged for an additional year.

MOL Group

In 2015 INA, d.d. signed an amendment to the intragroup long-term multi-currency revolving loan agreement for general corporate purposes provided from MOL Group by which intragroup financing has been decreased from USD 300 million to USD 100 million with maturity in 2018.

Reconciliation of liabilities arising from financing activities

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

INA Group

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

INA, d.d.

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

(all amounts are presented in HRK millions)

27. LONG-TERM LOANS (CONTINUED)

Compliance with loan agreements

During 2017 INA Group members and INA, d.d repaid all of their liabilities in respect of loans (principal, interest and fees) on a timely basis, and there were no instances of default or delinquency.

28. OTHER NON-CURRENT LIABILITIES

	INA Group		INA, d.d.	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Liabilities to Government for sold apartments	33	39	33	39
Deferred income for sold apartments	4	5	4	5
Other long-term liabilities	15	16	14	16
	52	**60**	**51**	**60**

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

(all amounts are presented in HRK millions)

29. PROVISIONS

INA Group	**Decommissioning charges**	**Environmental provision**	**Provision for Angolan tax**	**Redundancy costs**	**Legal claims**	**Renewable energy provision**	**Other**	**Total**
Balance at 1 January 2016	**2,310**	**333**	**303**	**239**	**176**	**-**	**356**	**3,717**
Acquisition of subsidiary	**-**	**-**	**-**	**-**	80	**-**	**-**	**80**
Charge for the year	-	33	105	17	18	**-**	-	**173**
Effect of change in estimates	(25)	(10)	-	-	1	**-**	-	**(34)**
Interest	43	3	-	-	-	**-**	11	**57**
Provision utilised during the year	-	(51)	(133)	(237)	(116)	**-**	(38)	**(575)**
Balance at 31 December 2016	**2,328**	**308**	**275**	**19**	**159**	**-**	**329**	**3,418**
Charge for the year	-	42	-	11	41	115	5	**214**
Effect of change in estimates	199	24	(26)	-	-	-	(33)	**164**
Interest	11	4	-	-	-	-	5	**20**
Provision utilised during the year	-	(43)	(249)	(13)	(63)	-	(17)	**(385)**
Balance at 31 December 2017	**2,538**	**335**	**-**	**17**	**137**	**115**	**289**	**3,431**

(all amounts are presented in HRK millions)

29. PROVISIONS (CONTINUED)

INA, d.d.	Decommissioning charges	Environmental provision	Provision for Angolan tax	Redundancy costs	Legal claims	Renewable energy provision	Other	Total
Balance at 1 January 2016	**2,457**	**322**	**303**	**236**	**94**	**-**	**309**	**3,721**
Charge for the year	-	30	105	14	16	**-**	6	**171**
Effect of change in estimates	(27)	(8)	-	-	-	**-**	-	**(35)**
Interest	45	3	-	-	-	**-**	5	**53**
Provision utilised during the year	-	(51)	(133)	(234)	(44)	**-**	(17)	**(479)**
Balance at 31 December 2016	**2,475**	**296**	**275**	**16**	**66**	**-**	**303**	**3,431**
Charge for the year	-	41	-	-	20	115	5	**181**
Effect of change in estimates	210	24	(26)	-	-	-	(33)	**175**
Interest	16	4	**-**	-	-	-	5	**25**
Provision utilised during the year	-	(42)	(249)	(10)	(49)	-	-	**(350)**
Balance at 31 December 2017	**2,701**	**323**	**-**	**6**	**37**	**115**	**280**	**3,462**

	INA Group		**INA, d.d.**	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Analysed as:				
Current liabilities	312	194	221	117
Non-current liabilities	3,119	3,224	3,241	3,314
	3,431	**3,418**	**3,462**	**3,431**

29. PROVISIONS (CONTINUED)

Environmental provision

The environmental provision recorded by INA Group is HRK 335 million as of 31 December 2017 (31 December 2016: HRK 308 million). The environmental provision covers treatment of accumulated waste generated by former activity, soil excavation and replacement during the reconstruction of retail sites and comprehensive investigation to determine the extent of the soil and groundwater contaminations.

Emission allowances

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

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

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

Decommissioning charges

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

As of 31 December 2017, INA, d.d. recognised a decommissioning provision for 45 oil and gas production fields, 7 non-production fields, 10 positive non-production wells and 357 dry non-production wells. As of 31 December 2016, INA, d.d. recognised a decommissioning provision for 46 oil and gas production fields, 6 non-production fields, 10 positive non-production wells and 359 dry non-production wells.

Provision for Angolan tax

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

(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.

Renewable energy provision

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

Other provisions

Other provisions of INA, d.d. in amount of HRK 280 million relate to provision for contractual liability for investments in Iran of HRK 235 million initially recognized in 2012. INA, d.d. is committed to spending certain resources by Production Agreement. Since Iran activities have been discontinued, the difference between contractual liability and actual funds spent was recognized as provisions. Moreover, remaining amount mainly relates to provision for sediment and non-pumpable inventories in the amount of HRK 42 million.

30. RETIREMENT AND OTHER EMPLOYEE BENEFITS

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

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

The net amounts specified above, in terms of tax regulations are non-taxable. Defined amounts of jubilee awards are effective for Collective Agreement signed in 2016.

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2017 and 2016 by independent actuarial expert. In 2017, the Company made a provision of HRK 14.6 million in respect of jubilee awards and HRK 19.8 million for regular retirement allowance, whereas in 2016 Company made provision in respect of jubilee awards in amount of HRK 17 million and for regular retirement HRK 31 million.

(all amounts are presented in HRK millions)

30. RETIREMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

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

Actuarial estimates were derived based on the following key assumptions:

	Valuation at	
	31 December 2017	**31 December 2016**
Discount rate	2.6%	3.0%
Average longevity at retirement age for current pensioners (years)		
males	14.1	14.9
females	18.3	18.3
Average longevity at retirement age for current employees (future pensioners) (years)		
males	14.1	14.9
females	18.3	18.3
Mortality	HR 2010-2012	HR 2010-2012

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

	INA Group		**INA, d.d.**	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Service cost:				
Cost of current period	6	18	2	1
Interest	2	3	1	2
Past service cost, including losses/(gains) on curtailments	(8)	(9)	-	(9)
Components of defined benefit costs recognized in profit and loss:	**-**	**12**	**3**	**(6)**
Remeasurement of the net defined benefit liability:				
Actuarial gains and losses arising from changes in demographic assumptions	(19)	-	(17)	-
Actuarial gains and losses arising from changes in financial assumptions	1	3	-	(7)
Actuarial gains and losses arising from experience adjustments	2	(22)	1	(6)
Components of defined benefit costs recognised in profit and loss account and other comprehensive income:	(16)	(19)	(16)	(13)
Total	**(16)**	**(7)**	**(13)**	**(19)**

(all amounts are presented in HRK millions)

30. RETIREMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

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

	INA Group		INA, d.d.	
	2017	**2016**	**2017**	**2016**
At 1 January	95	109	48	70
Acquisition of subsidiary	-	2	-	-
Cost of current period	6	18	2	1
Interest	2	3	1	2
Actuarial (gains) or losses				
Actuarial gains and losses arising from changes in demographic assumptions	(19)	-	(17)	-
Actuarial gains and losses arising from changes in financial assumptions	-	3	-	(7)
Actuarial gains and losses arising from experience adjustments	2	(22)	1	(6)
Past service cost, including losses/(gains) on curtailments	(8)	(9)	-	(9)
Benefit paid	-	(9)	(1)	(3)
Closing defined benefit obligation	**78**	**95**	**34**	**48**

31. SHARE CAPITAL

	INA Group and INA, d.d.	
	31 December 2017	**31 December 2016**
Issued and fully paid:		
10 million shares (HRK 900 each)	**9,000**	**9,000**

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

32. FAIR VALUE RESERVES

	INA Group and INA, d.d.	
	31 December 2017	**31 December 2016**
Balance at the beginning of the year	299	216
Increase/(decrease) arising on revaluation of available-for-sale securities (Janaf)	(11)	95
Deferred tax effect	1	(12)
Balance at the end of the year	**289**	**299**

In 2017, decrease on fair value reserves was recorded due to decrease of JANAF shares. In 2016 there was a significant increase in the value of JANAF on the stock market; therefore an increase on fair value reserves was recorded.

(all amounts are presented in HRK millions)

33. OTHER RESERVES

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

Movements on reserves during the year were as follows:

INA Group	**Combined reserves at 31 December 1993**	**Foreign currency translation reserves**	**Reserve of defined benefit obligation**	**Other reserves**	**Total**
Balance at 1 January 2016	**492**	**677**	**25**	**447**	**1,641**
Movements during 2016	**-**	3	3	**-**	6
Balance at 31 December 2016	**492**	**680**	**28**	**447**	**1,647**
Movements during 2017	-	(143)	12	-	(131)
Balance at 31 December 2017	**492**	**537**	**40**	**447**	**1,516**

INA, d.d.	**Combined reserves at 31 December 1993**	**Foreign currency translation reserves**	**Reserve of defined benefit obligation**	**Other reserves**	**Total**
Balance at 1 January 2016	**27**	**941**	**20**	**285**	**1,273**
Movements during 2016	-	14	1	-	15
Balance at 31 December 2016	**27**	**955**	**21**	**285**	**1,288**
Movements during 2017	-	(161)	11	-	(150)
Balance at 31 December 2017	**27**	**794**	**32**	**285**	**1,138**

(all amounts are presented in HRK millions)

34. RETAINED EARNINGS

	INA Group	INA, d.d.
	Retained earnings	**Retained earnings**
Balance at 1 January 2016	**(602)**	**(310)**
Transfer legal reserves to retained earnings	310	310
Profit for the year	101	160
Purchase of subsidiary	(42)	-
Balance at 31 December 2016	**(233)**	**160**
Transfer from retained earnings to legal reserves	(8)	(8)
Profit for the year	1,220	1,426
Dividend paid	(152)	(152)
Balance at 31 December 2017	**827**	**1,426**

On the regular general shareholders' meeting of INA, d.d. held on 14 June 2017 profit for the year 2016 in amount of HRK 160 million is distributed to legal reserves in the amount of HRK 8 million and dividend payment in the amount of HRK 152 million (i.e. HRK 15.20 per share).
On the regular general shareholders' meeting of INA, d.d. held on 9 June 2016 approval was given for transfer part of legal reserves amounting to HRK 310 million to retained earnings.

35. NON-CONTROLLING INTEREST

	INA Group	
	31 December 2017	**31 December 2016**
Balance at the beginning of the year	(136)	-
Share of profit/(loss) for the year	2	(6)
Acquisition of non-controlling interest	-	(130)
Balance at the end of the year	**(134)**	**(136)**

The Group selected to measure the non-controlling interest as proportionate share of its interest in identifiable net assets.

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

Name	**Country of incorporation and operation**	**2016**
Government of the Federation of Bosnia and Herzegovina	Federation of Bosnia and Herzegovina	22%
Small shareholders		11%

(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 2017	31 December 2016
	Energopetrol	**Energopetrol**
Current assets	41	39
Current liabilities	740	742
Non-current assets	237	246
Non-current liabilities	9	22
Operating income after the acquisition date	484	332
Profit/(loss) for the period after the acquisition date	5	(12)
Total comprehensive income/(loss) for the period after the acquisition date	**5**	**(12)**

36. RELATED PARTY TRANSACTIONS

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

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

(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	
	2017	**2016**	**2017**	**2016**
Companies available for sale				
JANAF d.d. Zagreb	3	3	52	52
Strategic partner				
MOL Nyrt.	217	344	701	652
Companies controlled by strategic partner				
Tifon d.o.o.	536	425	8	7
MOL Slovenia d.o.o.	94	119	63	61
MOL Petrochemicals Co Ltd	65	31	4	9
MOL Serbia d.o.o.	57	31	-	1
MOL-LUB Kft.	5	4	4	4
Slovnaft, a.s.	3	7	226	95
MOL Norge AS	2	-	-	-
Petrolszolg Kft.	1	-	-	-
Geoinform Kft.	1	-	-	-
Kalegran Ltd.	-	1	-	-
MOL Commodity Trading Kft.	-	-	25	7
IES Italiana Energia e Servizi S.p.A	-	-	3	3
Energopetrol d.d.*	-	91	-	-

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

INA Group	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Companies available for sale				
JANAF d.d. Zagreb	1	1	14	6
Strategic partner				
MOL Nyrt.	27	44	53	76
Companies controlled by strategic partner				
Tifon d.o.o.	70	69	1	1
MOL Commodity Trading Kft.	59	8	59	14
MOL Slovenia d.o.o.	4	11	9	6
MOL Serbia d.o.o.	4	15	-	-
MOL Norge AS	2	-	-	-
MOL Petrochemicals Co Ltd	-	6	-	3
Slovnaft, a.s.	-	-	11	7
MOL-LUB Kft.	-	-	1	-
IES Italiana Energia e Servizi S.p.A	-	-	1	-

* Until 1 July 2016 transactions with Energopetrol d.d. were presented as transactions with companies controlled by strategic partners. Transactions among Energopetrol d.d. and INA, d.d. after 1 July 2016 were recorded as transaction with related companies (see note 40).

(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	
	2017	**2016**	**2017**	**2016**
Related companies				
Holdina d.o.o. Sarajevo	1,795	1,680	-	2
Hostin d.o.o.	455	-	1	-
INA Crna Gora d.o.o. Podgorica	175	115	-	-
Energopetrol d.d.*	36	23	-	-
STSI, Integrirani tehnički servisi d.o.o.	23	22	607	706
CROSCO, naftni servisi d.o.o.	11	8	359	259
INA Slovenija d.o.o. Ljubljana	11	8	-	-
Plavi tim d.o.o.	10	15	52	51
INA MAZIVA d.o.o.	9	9	53	58
INA Maloprodajni servisi d.o.o.	6	5	256	220
Top Računovodstvo Servisi d.o.o.	4	4	51	47
Adrigas S.r.l. Milano	-	1	-	-
INA d.o.o. Banja Luka	-	-	1	1
INA Kosovo d.o.o.	-	-	1	1
Companies available-for-sale				
JANAF d.d. Zagreb	3	3	52	52
Strategic partner				
MOL Nyrt.	42	167	612	589
Companies controlled by strategic partner				
Tifon d.o.o.	535	423	8	7
MOL Slovenia d.o.o.	91	117	-	-
MOL Petrochemicals Co Ltd	65	31	2	5
MOL Serbia d.o.o.	57	31	-	-
Slovnaft a.s.	3	7	226	95
MOL Norge AS	2	-	-	-
Energopetrol d.d.*	-	11	-	-
MOL Commodity Trading Kft.	-	-	25	7
IES Italiana Energia e Servizi S.p.A	-	-	3	3

* Until 1 July 2016 transactions with Energopetrol d.d. were presented as transactions with companies controlled by strategic partners. Transactions among Energopetrol d.d. and INA, d.d. after 1 July 2016 were recorded as transaction with related companies (see note 40).

(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 2017	31 December 2016	31 December 2017	31 December 2016
Related companies				
Holdina d.o.o. Sarajevo	171	167	-	2
INA Crna Gora d.o.o. Podgorica	27	15	-	-
CROSCO, naftni servisi d.o.o.	11	11	57	56
STSI, Integrirani tehnički servisi d.o.o.	6	6	201	199
Plavi tim d.o.o.	3	4	12	11
INA MAZIVA d.o.o.	2	4	6	7
INA Slovenija d.o.o. Ljubljana	2	1	-	-
Top Računovodstvo Servisi d.o.o.	-	-	4	6
INA Maloprodajni servisi d.o.o.	-	-	30	28
Companies available-for-sale				
JANAF d.d. Zagreb	1	1	14	6
Strategic partner				
MOL Nyrt.	2	22	45	66
Companies controlled by strategic partner				
Tifon d.o.o.	70	69	1	1
MOL Commodity Trading Kft.	59	8	59	14
MOL Slovenia d.o.o.	4	11	2	-
MOL Serbia d.o.o.	3	15	-	-
MOL Norge AS	2	-	-	-
MOL Petrochemicals Co Ltd	-	6	-	2
Slovnaft a.s.	-	-	11	8
IES Italiana Energia e Servizi S.p.A	-	-	1	-

* Until 1 July 2016 transactions with Energopetrol d.d. were presented as transactions with companies controlled by strategic partners. Transactions among Energopetrol d.d. and INA, d.d. after 1 July 2016 were recorded as transaction with related companies (see note 40).

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

In 2017 INA, d.d. recognised impairment on receivables from related parties in the amount of HRK 0.1 million, while in 2016 income from collection of impaired receivables from related parties amounted to HRK 0.4 million.

(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 2017	31 December 2016	31 December 2017	31 December 2016
Related companies				
Energopetrol d.d.*	598	613	-	-
Hostin d.o.o.	453	-	3	17
CROSCO, naftni servisi d.o.o.	143	727	-	-
Holdina d.o.o. Sarajevo	30	38	-	-
INA Crna Gora d.o.o. Podgorica	26	17	-	-
INA Slovenija d.o.o. Ljubljana	19	16	-	-
INA BH d.d., Sarajevo	2	2	-	-
STSI, Integrirani tehnički servisi d.o.o.	-	-	80	119
INA MAZIVA d.o.o.	-	-	49	100
INA Maloprodajni servisi d.o.o.	-	-	22	-
Adrigas S.r.l. Milano	-	-	12	12
Top Računovodstvo Servisi d.o.o.	-	-	11	2
Croplin d.o.o.	-	-	4	-
Plavi tim d.o.o.	-	-	3	-
Companies controlled by strategic partner				
MOL Group Finance SA	-	-	-	1

* Until 1 July 2016 transactions with Energopetrol d.d. were presented as transactions with companies controlled by strategic partners. Transactions among Energopetrol d.d. and INA, d.d. after 1 July 2016 were recorded as transaction with related companies (see note 40).

Hedge transactions with related parties:

INA Group and INA, d.d.	Expense from hedge transactions -net effect	Expense from hedge transactions -net effect
	2017	2016
Companies controlled by strategic partner		
MOL Commodity Trading Kft.	12	8

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

INA, d.d. generally seeks collateral for oil product sold to its related parties, depending on risk exposure, except from customers who are state budget beneficiaries or fully owned by the state.

(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 2017	**31 December 2016**
Short-term employee benefits	36.1	34.3
Termination bonuses	3.5	1.4
Total	**39.6**	**35.7**

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

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

Other related party transactions

In 2017 INA, d.d. sold 5 office buildings to company Hostin d.o.o. The transaction was carried out at market price in the amount of HRK 455 million as a part of INA's strategy regarding Real estate management. After the transaction occurred, Hostin d.o.o. entered into a 10 year agreement for lease of asset to several INA Group companies and third parties located in Zagreb.

In 2016 INA, d.d. sold five retail sites to company Holdina Sarajevo. Net book value of the retail sites are HRK 9.8 million while INA, d.d. sold retail sites under market price of HRK 19.7 million.

The Company remains the customer of company JANAF d.d., in which it has a holding of 11.795% (see note 19). During 2017, approximately HRK 52 million of JANAF's sales revenue in the amount of HRK 701 million account for sales revenue in respect of INA, d.d. as user of the pipeline system of JANAF d.d. (2016: HRK 52 million out of HRK 709 million sales revenue).

37. COMMITMENTS

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

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

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

- In 1996 and 1997, INA, d.d. and ENI Croatia B.V. have closed down Production Sharing Agreements in contract areas Aiza-Laura and Ivana, and realization of the partnership takes place through a joint operating company INAgip with interests 50% : 50%;
- In 2002, INA, d.d. and EDISON INTERNATIONAL S.p.A. have closed down Production Sharing Agreement in the contract area Izabela and Iris / Iva. Partnership with EDISON takes place through a joint operating company ED-INA with shareholding: 50% : 50%.

North Adriatic Area (3 development concession) comprises of 19 production platforms and 1 compressor platform, with a total of 52 production wells.

Until now, in the contract areas North Adriatic and Aiza-Laura, INA, d.d. has invested HRK 4,800 million in capital construction of mining facilities and plants, while of the total gained reserves INA's share is about 63% of the produced gas, which is further placed on the Croatian gas market.

On 31 December 2017 INAgip had 150 active contracts in both contract areas amounting in total to HRK 343 million. On 31 December 2017 the remaining commitments under these contracts amounted to HRK 142 million (2016: HRK 167 million).

Until 31 December 2017, total INA, d.d. capital investments on the Izabela contract area amounted to HRK 354 million, which have been invested for construction of production-gathering-transportation system of Izabela gas field. Gas production from Izabela field during 2017 is stable and about 15.6 % higher in comparison to the original production plan. Total INA share of gas, delivered from Izabela field to Ivana K platform, from production start-up to 31 December 2017 is about 44.18% (372.8 million Sm^3).

Gas Transportation contracts

At 31 December 2017 the future gas transportation contracted commitments with Gas Connect Austria and Plinovodi until 31 December 2018 amount to approximately HRK 1.13 million in total (2016: HRK 64 million).

Gas purchase contract obligations (Take or pay)

INA, d.d concluded a Gas Purchase Obligation (Take or pay). The obligation refers to one year natural gas import contract signed for this gas year. Through this contract INA, d.d. will procure the quantities of gas needed to cover the gap in the sales portfolio. The value of future gas purchase commitments until 1 October 2018 amount to approximately HRK 102 million in total.

(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 outside INA Group are as follows:

	INA Group		INA, d.d.	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
within 1 year	56	48	47	34
between 2 - 5 years	63	44	47	23
beyond 5 years	17	-	17	-
	136	**92**	**111**	**57**

Out of the outstanding operating lease liabilities as of 31 December 2017 HRK 111 million were contracted by INA, d.d., HRK 11 million were contracted by Plavi tim d.o.o. and HRK 8 million were contracted by STSI., while for 31 December 2016 HRK 57 million were contracted by INA, d.d., HRK 16 million were contracted by STSI and HRK 14 million were contracted by Rotary Zrt.

38. CONTINGENT LIABILITIES

Environmental matters

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

INA Group regularly publishes its sustainability reports on annual basis, in accordance with Guidelines of the Global Reporting initiative. The report covers a full range of economic, environmental and social impacts of INA Group companies on their stakeholders. An independent assurance company, Ernst & Young d.o.o. has been engaged to perform a limited assurance engagement on this report for the year ended 2017.

38. CONTINGENT LIABILITIES (CONTINUED)

Environmental matters (continued)

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

The Directive 2010/75/EU of the European Parliament and the Council on industrial emissions (IED) is the main EU instrument regulating pollutant emissions from industrial installations. The Directive regulates the issue of environmental permits by which plant working conditions are determined and requires the application of best available techniques (BAT) by which a high level of environmental protection in general is achieved (prevention and control of emissions to air, water and soil, waste generation, energy efficiency and accident prevention). During 2014 INA, d.d. obtained Decisions on integrated environmental protection requirements (environmental permits) for its four plants: Fractionation Facilities Ivanić Grad, Gas Processing Facilities Molve, Sisak Refinery and Rijeka Refinery.

In order to align the existing technology with the best available techniques, during 2017 all projects in Rijeka refinery are ongoing and are in various stages of implementation.

On 9 October 2014, Commission Implementing Decision establishing best available techniques (BAT) was published, in accordance with the Directive 2010/75/EU of the European Parliament and the Council on industrial emissions, for the refining of mineral oil and gas, with deadline for compliance Decision until October 2018. In BAT Conclusions, "bubble concept" is recognized as one of the best available techniques for integrated emission management of 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, d.d. signed the contract for refineries environmental permit revision which is necessary because of new BAT Conclusions, change of selected technology (FCC), expired deadlines for some projects and intention to use a bubble concept. In 2017, an application for an amendment to the Rijeka and Sisak Refinery environmental permit was submitted to the Ministry of Environmental Protection and Energy due to release of new BAT Conclusions for the refining of mineral oil and gas. INA, d.d. has an obligation to be in compliance with BAT Conclusions by October 2018. Baseline reports for Rijeka and Sisak Refinery were also submitted to the authorities for approval, as a precondition for initiating permit revision.

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

European Union Emissions Trading Scheme, EU ETS, is one of the fundamental mechanisms of the European Union in the fight against climate change with a view to meeting the commitments made under the Kyoto Protocol. Inside the Scheme, a part of the emission allowances (one allowance = 1 tonne of 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 1 March 2017. Verifier has confirmed the emissions entered into the Registry and emission allowances have been submitted in the amount equal to verified emissions until 30 April 2017.

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

By inclusion in the TNP, refineries are given the possibility of gradual emission reduction of nitrogen oxides, sulphur dioxide and particulate matter through the period of 1 January 2016 to 30 June 2020 for the realization of investments and measures for emission reduction which ensure compliance with more stringent ELVs.

With the legal requirements for harmonization with the technical environmental standards for Volatile Organic Compound (VOC) emissions resulting from the storage and distribution of petrol, the entire INA's retail network as well as tank truck loading station in Sisak Refinery have been harmonized. During 2017 INA, d.d. continued with modernization projects of the rail tank car (RTC) loading and unloading stations in Sisak and Rijeka refineries, modernization of existing tank truck loading station and port Bakar in Rijeka refinery (VRU units are installed) and with improvement of storage tanks in both refineries, to achieve full compliance with the technical environmental standards for VOC’s.

Environmental provisions

Environmental obligations are the obligations of a company to recover pollutions caused by the company's operations. They can be divided into two categories: environmental provisions and contingencies. Typical provision based actions are soil and groundwater pollution assessment, remediation, monitoring actions in order to control the long-term compliance and re-cultivation of old waste storage depots. Provision based environmental liabilities are audited in every quarter using internal resources.

At 31 December 2017, INA, d.d. made environmental provisions in the amount of HRK 323 million, whereas the provisions at the Group level amounted to HRK 335 million, while at 31 December 2016, INA, d.d. made environmental provisions in the amount of HRK 296 million, whereas the provisions at the Group level amounted to HRK 308 million. At 31 December 2017, contingencies at INA Group level was estimated at HRK 636 million and for INA, d.d. was estimated at HRK 427 million, while at 31 December 2016 contingencies at INA Group level was estimated at HRK 636 million and for INA, d.d. was estimated at HRK 427 million. The estimates were not recognised because the timing of the event is uncertain and there is no evidence of pollution.

38. CONTINGENT LIABILITIES (CONTINUED)

Litigation

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

GWDF

In the dispute initiated by GWDF Partnership Gesellschaft Bürgerlicher Rechts and GWDF Limited, Cyprus against INA-Industrija nafte, d.d. and INA-Naftaplin International Exploration, Channel Islands, before the Commercial Court in Zagreb, the plaintiffs claim compensation for damage in the amount of app HRK 60 million incurred due to ungrounded termination of negotiations. On 10 March 2016 the judgment was rendered and the plaintiff's claim was dismissed in whole. On 18 March 2016 plaintiff filed an appeal and the procedure before the High Commercial Court is still ongoing.

EKO MEDIA d.o.o.

In September 2012 INA, d.d. entered into an agreement with company EKO MEDIA d.o.o. EKO MEDIA failed to regularly comply with its obligations. INA, d.d. terminated the agreement with EKO MEDIA d.o.o. at the beginning of 2014. On 19 December 2014 EKO MEDIA d.o.o. filed a lawsuit against INA, d.d. in which EKO MEDIA d.o.o. specified its claim in amount of HRK 106 million. INA, d.d. filed its official reply to such EKO MEDIA's lawsuit and filed a counterclaim for the return of unjust enrichment and asked for the issuance of interim measure for prohibition of use of advertising boards. The first instance procedure is in progress and the court expert for finances delivered his opinion in which he determined the amount of the claim towards EKO MEDIA in the moment of termination of the contract. The next court hearing is scheduled for 14 February 2018.

ĐURO ĐAKOVIĆ

ĐURO ĐAKOVIĆ - ZAVARENE POSUDE d.d. (hereinafter: ĐĐ) submitted a claim against INA, d.d. for damages based on statement that INA acted contrary to principles of good faith while executing its obligations under signed Gas bottles SPA, i.e. deliberately prevented the realization of the conditions for increased order of bottles thus causing the overall damage to the plaintiff amounted to around HRK 29 million. This contract was tied to Settlement Agreement signed on the same date between INA, d.d. OSIMPEX (ĐĐ's mother company), FEROIMPEX (ĐĐ's daughter company) and ĐĐ by which it was agreed that ĐĐ will join the debt OSIMPEX and FEROIMPEX have towards INA, d.d. (based on cession between INA OSIJEK PETROL whose buyers were aforementioned companies and INA, d.d.) and that such debt will be set off with gas bottles purchases under Gas bottles SPA under certain conditions; first 20,000 bottles are not to be taken into account, yet all further orders should be set off with debt. ĐĐ is claiming that INA, d.d. deliberately prevented the occurrence of conditions for such subsequent orders, in spite the fact that from previously established business cooperation with PROPLIN (INA's former daughter company, merged with INA, d.d. in 2011 year) it could be reasonably expected that such subsequent order should take place. INA, d.d. prepared and submitted a statement of defence. The court set the first hearing for 5 February 2018.

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, d.d. - Rafinerija nafte Rijeka and Ljubljanska banka - Osnovna banka Zagreb. The outcome of the procedure is still uncertain due to the complexity of the legal matter (claims for altered default interest). The Supreme Court has not decided on review to this date, so no legal actions were taken in 2017.

CONCESSIONS

On 29 July 2011 the Ministry of Economy, Labor and Entrepreneurship (hereinafter: the Ministry) rendered three Decisions depriving INA, d.d. of the license to explore hydrocarbons in exploration areas “Sava”, “Drava” and “North-West Croatia”. On 29 August 2011, INA, d.d. filed three administrative lawsuits against the Ministry’s Decisions. The Administrative Court annulled the Ministry’s Decisions. On 10 November 2014, and on 20 February 2015 the Ministry adopted new Decisions in which it again deprived INA, d.d. of the license to explore hydrocarbons in exploration areas “Sava”, “North-West Croatia” and “Drava”, with the same explanations. INA, d.d. filed lawsuits against new Ministry Decisions regarding exploration areas “Sava”, “Drava” and “NW Croatia” and requested the Court to order a temporary measure. During April, 2015, the Administrative Court passed a Resolution in which it rejected INA’s request for temporary measure. INA, d.d. filed its Appeal, but in June 2015, High Administrative court rejected such INA’s Appeal. In November 2016 the Administrative Court reached a decision and rejected INA’s claim in the case regarding exploration area “Drava”. INA, d.d. has filed an appeal against that decision in December 2016.

On the 8 September 2017 INA, d.d. received a judgment brought by the High Administrative Court of the Republic of Croatia, rejecting INA's appeal against the first-instance verdict in the “Drava” case. Thus, the Decision on seizure of hydrocarbon exploration approvals in the "Drava" research area, issued by the competent Ministry, became final. The Administrative court still did not reach decisions regarding INA’s lawsuits regarding exploration areas “Sava” and “North-West Croatia”.

On 6 October 2017 INA, d.d. filed a Constitutional lawsuit before the Constitutional Court of the Republic of Croatia against judgments brought by the High Administrative Court and Administrative Court of the Republic of Croatia in the “Drava” case, in which INA, d.d. requires from Constitutional Court to annul all those judgments. INA, d.d. is waiting for Constitutional Court’s judgment.

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

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

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

38. CONTINGENT LIABILITIES (CONTINUED)

Litigation (continued)

BELVEDERE cases (CLEOSTONE claim included)

In 2005 INA, d.d. and Belvedere d.d. concluded the Loan agreement on notarial insurance of the claim by establishing lien over the real estate of Belvedere d.d. for the purpose of ensuring loan repayment. Since the loan was not repaid, INA, d.d. initiated the procedure of real estate sale, and the real estate was sold to company Vila Larus d.o.o., whereby INA, d.d. collected HRK 24 million on behalf of principle amount and contractual interest rate. Consequently, the plaintiff initiated the proceeding to proclaim the real estate sale and purchase agreement as null and void, as well as the proceeding to cancel the enforceability clause on the Fiduciary Agreement.

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

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

Belvedere – HRK 24 million, 018-11/17

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

Belvedere – HRK 220 million, 018-14/17

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

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

(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 and 35.

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

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

	INA Group		INA, d.d.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Debt:	**1,825**	**3,112**	**1,603**	**2,888**
Long term loans	122	271	122	271
Short term loans	1,581	2,706	1,359	2,482
Current portion of long-term borrowings	122	135	122	135
Cash and cash equivalents	(428)	(611)	(364)	(500)
Net debt	**1,397**	**2,501**	**1,239**	**2,388**
Equity	11,526	10,597	11,881	10,767
Equity and net debt	12,923	13,098	13,120	13,155
Gearing ratio	**11%**	**19%**	**9%**	**18%**

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

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

(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 2017	31 December 2016	31 December 2017	31 December 2016
Financial assets				
Cash and cash equivalents	428	611	364	500
Loans and receivables	1,613	1,854	4,070	3,758
Available-for-sale financial assets	665	676	665	676
Positive fair value of derivatives	62	38	62	38
Positive fair value of hedge commodity transactions	-	17	-	17
Financial assets designated as at fair value through profit and loss	6	6	6	6
Financial liabilities				
Loans and borrowings	1,825	3,113	1,787	3,139
Trade payables	1,171	1,857	1,098	1,808
Negative fair value of hedge commodity transactions	-	19	-	19
Negative fair value of derivatives	65	45	65	45

Financial risk management objectives

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

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

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

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

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

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 2017 INA Group imported in EUR based on spot price.

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

In accordance with *INA Group Treasury Guideline* and *Financial risk management procedure at INA, d.d.*, for the purpose of hedging financial risk exposure on corporate and business operations level, INA, d.d. may use forward (swap) and option instruments. In 2015 INA, d.d. entered into short-term forward swap transactions to hedge its exposure on changes in inventory levels and changes in pricing periods. The transactions were initiated to reduce exposures to potential fluctuations in prices over the period of decreasing inventories at the refineries, as well as to match the pricing period of purchased crude oil and crude products with the crude oil processing and refinery product retail pricing periods.

At 31 December 2016, fair value of hedged items under commodity derivative transaction designated as fair value hedge was a net receivable of HRK 17 million and HRK 19 million net payable (see Note 23 and Note 26).

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

Foreign currency risk management

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

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

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

(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 2017	31 December 2016	31 December 2017	31 December 2016
Currency EUR	1,185	1,936	208	272
Currency USD	867	2,131	931	1,287
	2,052	**4,067**	**1,139**	**1,559**

INA, d.d.

	Liabilities		Assets	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Currency EUR	1,078	1,814	938	156
Currency USD	832	2,076	1,011	1,077
	1,910	**3,890**	**1,949**	**1,233**

Foreign currency sensitivity analysis

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

The following table details INA Group's and INA, d.d.'s sensitivity to a 10% weakening of HRK at 31 December 2017 (in 2016: 10%) against the relevant foreign currencies. The sensitivity rates used represent management's assessment of the usual change in foreign exchange rates. The sensitivity analysis includes monetary assets and liabilities in foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a change in foreign currency rates expressed as percentage. A negative number below indicates a decrease in profit where HRK changes against the relevant currency by the percentage specified above. For the same change of HRK versus the relevant currency in the opposite direction, there would be an equal and opposite impact on the profit.

INA Group

	Currency USD Impact		Currency EUR Impact	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Profit/(loss)	6	(84)	(98)	(166)
	6	(84)	(98)	(166)

INA, d.d.

	Currency USD Impact		Currency EUR Impact	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Profit/(loss)	18	(100)	(14)	(166)
	18	(100)	(14)	(166)

(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 favourable.

INA, d.d. in accordance with Financial risk management procedure at INA. d.d., can use interest rate swap transactions in order to manage the relative level of exposure to interest rate risk on cash flows related to borrowings with floating interest rates. As of 31 December 2017 there were no outstanding interest rate swap transactions.

Interest rate risk analysis

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

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

	INA Group		**INA, d.d.**	
	2017	**2016**	**2017**	**2016**
Short-term interest expense change	32	54	27	50
Long-term interest expense change	5	8	5	8
Total change:	**37**	**62**	**32**	**58**

If interest rates would be 200 basis points higher, INA Group's interest expenses in 2017 would be increased by HRK 37 million, while with a change of 50 basis points the increase would be HRK 9 million (2016: increase by HRK 62 million had the interest rated been 200 basis points higher, and by HRK 16 million had the interest rates been 50 basis points higher).

At the same time INA, d.d.'s interest expenses in 2017 would be increased by HRK 32 million if interest rates had been 200 basis points higher, while the increase would be HRK 8 million with a change of 50 basis points (2016: increase by HRK 58 million had the interest rates been 200 basis points higher, and by HRK 14 million had the interest rates been 50 basis points higher). Equivalent decrease of interest rates would result in decreased interest expenses by equal amounts.

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 2017 would have been unaffected as the equity investments are classified as available-for-sale; and
- other equity reserves of INA, d.d. would increase by HRK 61.8 million as a result of the changes in fair value of available-for-sale shares.

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

Credit risk management

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

The exposure of INA Group and the credit ratings of its customers are continuously monitored to mitigate the risk of default.

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

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

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 2017, INA Group had contracted and available short-term credit lines amounting to HRK 2,235 million (CNB middle rate), excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and contracted and available long-term credit lines amounting to HRK 2,754 million (CNB middle rate).

Based on international practice, INA, d.d. has contracted short term credit facilities ('trade finance'') with first class banking groups for financing crude oil and oil products purchase. As of 31 December 2017 INA Group had contracted and available short-term credit facilities for financing crude oil and oil products purchase amounting to USD 1,085 million.

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

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

(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 principal and interest cash flows.

INA Group

	Less than 1 month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2017					
Non-interest bearing	1,277	436	50	-	1,763
Interest bearing	1,133	578	125	-	1,836
	2,410	**1,014**	**175**	**-**	**3,599**
31 December 2016					
Non-interest bearing	1,807	546	53	15	2,421
Interest bearing	1,345	1,512	282	-	3,139
	3,152	**2,058**	**335**	**15**	**5,560**

INA, d.d.

	Less than 1 month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2017					
Non-interest bearing	1,052	426	44	-	1,522
Interest bearing	1,132	540	125	-	1,797
	2,184	**966**	**169**	**-**	**3,319**
31 December 2016					
Non-interest bearing	1,645	511	37	14	2,207
Interest bearing	1,345	1,538	282	-	3,165
	2,990	**2,049**	**319**	**14**	**5,372**

Non-interest bearing liabilities of INA, d.d. due in a period of less than one month consist mainly of trade accounts payable in the amount of HRK 787 million in 2017 (2016: HRK 1,498 million).

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

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

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments

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

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

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

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

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

(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

INA GROUP and INA, d.d.

				31 December 2017
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets available-for-sale*	618	-	-	618
Positive fair value of derivatives	-	62	-	62
Financial liabilities at fair value				
Negative fair value of derivatives	-	65	-	65

				31 December 2016
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets available-for-sale*	630	-	-	630
Positive fair value of hedge commodity transactions	-	17	-	17
Positive fair value of derivatives	-	38	-	38
Financial liabilities at fair value				
Negative fair value of hedge commodity transactions	-	19	-	19
Negative fair value of derivatives	-	45	-	45

* only assets available-for-sale at fair value are presented in tables above, the remaining equity instruments classified as available-for-sale in total amount of HRK 47 million are measured at cost (2016: HRK 47 million) and therefore not included in tables above.

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

(a) Financial instruments in level 1

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

(b) Financial instruments in level 2 and level 3

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

Specific valuation techniques used to value financial instruments include:

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

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

(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 Energopetrol owned by MOL.

As at 12 July 2016 INA, d.d. realized Option whereby INA, d.d. took 1,840,128 or 33.50% of Energopetrol shares owned by MOL.

With this transaction, INA, d.d. has increased its stake in Energopetrol d.d. to 67% and became the majority owner of the company whose financial results are consolidated into the results of the INA Group.

With the acquisition of Energopetrol, INA, d.d. further positioned itself in the market of Bosnia and Herzegovina and proved that it believes in Energopetrol's long-term perspective. Hereby INA, d.d. became the single largest distributor of petroleum products in the country with a total of 101 active retail sites in the retail network. INA's Management Board made the business decision on the basis of a good knowledge of market opportunities in Bosnia and Herzegovina, with the aim of further building the regional position that can have a positive impact on INA's business operations and placement of other INA's high-quality products in the market of Bosnia and Herzegovina.

INA, d.d. also took over from MOL the loan previously given to Energopetrol d.d. meaning that INA, d.d. is financing Energopetrol d.d. independently.

This transaction between INA, d.d. and MOL is considered as a transaction under common control. The most commonly used method for accounting for business combination under common control is the 'predecessor method' (also known as 'pooling of interest method' which INA, d.d. has used in the past).

Under predecessor method, the acquired assets and liabilities shall be recorded at predecessor (MOL) carrying values. In this approach, the assets and liabilities are not restated to their fair values and no goodwill is recognised. The fair value of acquired assets and liabilities of Energopetrol d.d. are the same as they were at MOL's records.

The deferred tax liabilities acquired is related to fair valuation of Energopetrol d.d. previously recorded in MOL's records.

The difference between the consideration paid and aggregate book value of the acquirer's assets and liabilities is reflected in a component of equity such as retained earnings.

The consideration is the sum of cash paid by INA, d.d. to MOL. Besides the consideration paid, the book value of INA's investment in Energopetrol d.d. and the loan originated by INA, d.d. is also taken into account.

Following the obtaining the control and acquisition of 67% ownership in INA, d.d. financial statements, a total investment amounting to HRK 132 million and impairment of investment in the amount of HRK 132 million is transferred from investment in associates to investment in subsidiaries.

(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 receivables	6
Cash and cash equivalents	2
	353
Liabilities	
Provisions for litigations	79
Loan liabilities to related parties	550
Other provisions	20
Trade payables	54
Other liabilities	39
Deferred tax liability	8
	750
Total identifiable net assets acquired	(397)
Non-controlling interest at fair value	(130)
Goodwill arising on acquisition	-
Consideration transferred	(267)
Net cash outflow on acquisition of subsidiaries	
Consideration paid in cash	-
Less: cash and cash equivalent balances acquired	(2)

From the date of acquisition, Energopetrol d.d. contributed HRK 85 million of revenue and decreased profit before tax from continuing operations of the Group by HRK 13 million. If the combination had taken place at the beginning of 2016, the Groups revenue from continuing operations would have been increased by HRK 149 million and the profit before tax from continuing operations would have been decreased by HRK 34 million.

41. SUBSEQUENT EVENTS

Organizational changes in Refining

During January 2018, a proposal of organizational changes in Sisak Refinery has been prepared by the management and submitted to the Works Council for consultations. This proposal of organizational changes is in line with the results of the analysis presented to the public in 2017 and implies the operation of Sisak Refinery without the FCC (catalytic cracker) complex enabling better utilization of conversion units in both refineries. These changes do not include any other decision regarding the future of Sisak Refinery: crude oil refining would continue in block mode as it is now, while secondary units would operate continuously, which was not the case so far. This change will lead to the reduction of number of employees by up to 40 during the second half of 2018.

Energopetrol

INA, d.d. participated in and subscribed 100% of new issued shares of Energopetrol d.d. Sarajevo. By issuing new 10,480,000 regular shares with a nominal value of BAM 12.50, share capital was increased by BAM 131 million. After the increase, total Energopetrol share capital amounts to BAM 199.6 million with INA, d.d. share of 88.6%.

42. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 7 March 2018.

Signed on behalf of the Company on 7 March 2018 by:

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

Niko Dalić, member of the Management Board

Gábor Horváth, member of the Management Board

Ivan Krešić, member of the Management Board

Davor Mayer, member of the Management Board

Peter Ratatics, member of the Management Board

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INA
INDUSTRIJA NAFTE, d.d. Av. V. Holjevca 10, Zagreb

FINANCE

REPORT
ON COMPANY AND INA GROUP
STATUS FOR JANUARY-DECEMBER 2017

Zagreb, February, 2018

INDUSTRIJA NAFTE, d.d.

CONTENTS

INA Group and INA d.d. financial results (IFRS) Q1-Q4 and Q4 2017

This report contains parts of audited financial statements and is based on audited numbers for the period ending 31 December 2017 as prepared by the management in accordance with the International Financial Reporting Standards.

	INA, d.d.						INA GROUP					
INA Group financial results	**2016**		**2017**		**Change %**		**2016**		**2017**		**Change %**	
(IFRS)	**HRK mln**	**USD mln**	**HRK mln**	**USD mln**	**HRK**	**USD**	**HRK mln**	**USD mln**	**HRK mln**	**USD mln**	**HRK**	**USD**
Net sales revenues	14,602	2,146	17,578	2,654	20.4	23.7	15,535	2,283	18,582	2,806	19.6	22.9
EBITDA (1)	2,269	333	3,317	501	46.2	50.2	2,112	310	3,215	485	52.2	56.4
EBITDA excl. special items (2)	**2,522**	**371**	**3,313**	**500**	**31.4**	**35.0**	**2,427**	**357**	**3,211**	**485**	**32.3**	**35.9**
CCS EBITDA excl. special items							**2,219**	**326**	**3,030**	**457**	**36.5**	**40.3**
Profit/(loss) from operations	907	133	1,700	257	87.4	92.6	607	89	1,418	214	133.6	140.0
Operating profit excl. special items (2)	**939**	**138**	**1,561**	**236**	**66.2**	**70.8**	**842**	**124**	**1,379**	**208**	**63.9**	**68.3**
CCS Operating profit excl. special items							**625**	**92**	**1,198**	**181**	**91.6**	**96.8**
Net financial result	(405)	(60)	74	11	n.a.	n.a.	(146)	(21)	146	22	n.a.	n.a.
Net profit/loss attributable to equity holder	160	24	1,426	215	791.3	815.6	101	15	1,220	184	1,107.9	1,141.0
Net profit/loss for the period excl. special items (2)	**192**	**28**	**1,287**	**194**	**569.8**	**588.1**	**336**	**49**	**1,181**	**178**	**251.8**	**261.5**
Simplified Free Cash Flow (3)	**-**	**-**	**-**	**-**	**0.0**	**0.0**	**834**	**123**	**1,637**	**247**	**96.3**	**101.7**
Operating cash flow	2,057	302	2,129	322	3.5	6.4	2,213	325	2,484	375	12.2	15.3
Earnings per share												
Basic and diluted/(loss) earnings per share (kunas per share)	16.0	2.4	142.6	21.5	791.3	815.6	10.1	1.5	122.0	18.4	1,107.9	1,141.0
Net debt	2,393	334	1,239	198	(48.2)	(40.8)	2,501	349	1,397	223	(44)	(36)
Net gearing	18.18		9.44				19.09		10.81			
CAPEX total	1,309	192	1,352	204	3.3	6.1	1,385	204	1,393	210	0.6	3.3
Domestic							1,215	179	1,262	191	3.9	6.7
International							170	25	131	20	(23.3)	(21.2)

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

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

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

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

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

Exploration & Production benefited from the positive external environment with 24% higher Brent price, which together with higher realised gas prices and a slight increase in domestic on-shore production contributed to the 42% uplift in operating profit to HRK 1,666 million. Total hydrocarbon production declined by 5% in 2017 driven mainly by natural decline of off-shore volumes.

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

CAPEX performance remained strong at HRK 1,393 million, at the 2016 level, with increased spending in Croatia. At the same time net debt decreased to HRK 1,397 million and net gearing at 10.8%.

INDUSTRIJA NAFTE, d.d.

Management discussion

Exploration and Production*

Segment IFRS results in millions	INA, d.d. 2016 HRK mln	2016 USD mln	2017 HRK mln	2017 USD mln	Change % HRK	Change % USD
Net sales revenues	3,887	571	4,445	671	14.4	17.5
EBITDA	2,132	313	2,470	373	15.9	19.0
EBITDA excl. special items**	2,157	317	2,466	372	14.3	17.4
Operating profit	1,128	166	1,617	244	43.4	47.3
Operating profit excl. special items**	1,141	168	1,364	206	19.5	22.8
CAPEX with one-off	714	105	618	93	(13.4)	(11.1)

Segment IFRS results in millions	INA GROUP 2016 HRK mln	2016 USD mln	2017 HRK mln	2017 USD mln	Change % HRK	Change % USD
Net sales revenues	3,889	572	4,448	672	14.4	17.5
EBITDA	2,141	315	2,474	374	15.6	18.7
EBITDA excl. special items**	2,166	318	2,470	373	14.0	17.1
Operating profit	1,172	172	1,666	252	42.2	46.0
Operating profit excl. special items**	1,185	174	1,413	213	19.2	22.4
Simplified Free Cash Flow***	1,452	213	1,852	280	27.6	31.1
CAPEX with one-off	715	105	618	93	(13.5)	(11.2)

** Exploration and Production refers to the Upstream of INA, d.d. and following subsidiaries: Adriagas S.r.l. Milano, Croplin d.o.o.*
*** In 2017, EBITDA was positively impacted by HRK 4 mn related to reversal of provision in Angola, while EBIT was positively influenced by HRK 253 million special items related to the same cause; 2016 EBITDA was negatively influenced by HRK 25 million special items related to Severance payments*
**** Simplified free cash flow = EBITDA excluding special items - capital expenditures*

Hydrocarbon production	2016	2017	Ch. %
Crude oil production (boe/d)	**15,044**	**14,515**	**(3.5)**
Croatia	11,929	12,165	2.0
Egypt	2,057	1,536	(25.4)
Angola	1,057	815	(22.9)
Natural gas production (boe/d)	**22,446**	**21,287**	**(5.2)**
Croatia - offshore	9,324	7,723	(17.2)
Croatia - onshore	13,122	13,564	3.4
Condensate (boe/d)	**1,887**	**1,786**	**(5.4)**
Total hydrocarbon production (boe/d)	**39,377**	**37,588**	**(4.5)**

Average realised hydrocarbon price	2016	2017	Ch. %
Total hydrocarbon price (USD/boe)*	37	42	14.7

Natural gas trading - mln cm	2016	2017	Ch. %
Total natural gas sales - domestic market	1,115	1,201	7.7

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

2017 vs. 2016 results

KEY DRIVERS

- Focus on domestic onshore production with a slight increase in spite of natural decline
- 24% higher Brent price; positive effect on oil and condensate sales revenues in the amount of HRK 419 million
- Higher realised gas prices together with customer base increase resulting in higher natural gas revenues by HRK 14 million
- Domestic crude oil production improved as a result of:
    - Additional development projects and the ongoing EOR project
    - Start-up of two new wells on Hrastilnica field partially offset by pipeline constraints on one well, resolved from mid-July 2017
- International crude oil production was lower by 0.7 Mboepd due to:
    - Natural production decline on all Egypt concessions
    - Natural production decline and technical issues on Block 3/05 in Angola
- Natural gas production was lower and driven by:
    - 17% lower offshore natural gas production due to reservoir maturity reflected in increased water cut and sharp natural decline
    - Partially offset by 3% higher onshore natural gas volumes mainly as a result of full year production from Međimurje fields, positive impact of the EOR project and additional development projects
- Lower domestic condensate production (5%) due to natural decline

CAPITAL EXPENDITURES

CAPEX 2017 (HRK million)	Croatia	Egypt	Angola
Exploration	28	-	-
Development	446	18	3
Other	123	-	-
Total	**597**	**18**	3

- Drava-02 exploration program - Drilling of Severovci-1 well started in December and is in progress
- 3D seismic on Bokšić-Klokočevci field and seismic on fields Letičani, Bilogora, Šandrovac finished
- EOR project - Injection of CO_2 into 5 wells at Ivanić field and 8 at Žutica North was carried out
- Additional development on Žutica field - 20 well workovers executed
- Development well Kozarice-42 - Drilling finished
- Well Stimulation Campaign Phase II - Stimulations performed on 17 wells which were brought into production as well
- Well General Workovers – performed 15 workovers

Refining and Marketing, including Retail*

Segment IFRS results in millions	INA, d.d. 2016 HRK mln	2016 USD mln	2017 HRK mln	2017 USD mln	Change % HRK	Change % USD
Revenues	12,562	1,846	15,396	2,325	22.6	25.9
EBITDA reported	458	67	750	113	63.8	68.2
EBITDA excl. special items**	672	99	750	113	11.6	14.7
Operating profit/(loss) reported	146	21	194	29	32.9	36.5
Operating profit/(loss) excl. special items**	160	23	309	47	93.3	98.6
CAPEX and investments (w/o acquisition)	554	81	628	95	13.4	16.5

Segment IFRS results in millions	INA GROUP 2016 HRK mln	2016 USD mln	2017 HRK mln	2017 USD mln	Change % HRK	Change % USD
Revenues	13,054	1,919	16,138	2,437	23.6	27.0
EBITDA reported	339	50	987	149	191.2	199.1
EBITDA excl. special items**	558	82	987	149	76.9	81.7
CCS-based DS EBITDA	350	51	806	122	130.3	136.7
Operating profit/(loss) reported	74	11	263	40	255.4	265.1
Operating profit/(loss) excl. special items**	94	14	378	57	299.7	310.6
CCS-based DS operating loss	(122)	(18)	196	30	n.a.	n.a.
Simplified Free Cash Flow***	(258)	(38)	93	14	n.a.	n.a.
CAPEX and investments (w/o acquisition)	608	89	713	108	17.3	20.5

Refers to Refining & Marketing including Retail INA. d.d. and following subsidiaries: INA-Maziva, INA Slovenija, INA BH Sarajevo, HoldINA Sarajevo, INA Crna Gora, INA Beograd, INA Kosovo, Petrol Rijeka, Energopetrol
*** In 2017, EBIT was negatively impacted by HRK 115 mn of Environment related provision, while 2016 EBITDA was negatively influenced by HRK 219 million special items related to Severance payments*
**** Simplified free cash flow = CCS EBITDA excluding special items - capital expenditures*

Refinery processing (kt)	2016	2017	Ch. %
Domestic crude oil	599	587	(2.1)
Imported crude oil	2,530	2,803	10.8
Condensate	84	80	(5.1)
Other feedstock	643	622	(3.2)
Total refinery throughput	**3,856**	**4,092**	**6.1**

Refinery production (kt)	2016	2017	Ch. %
LPG	211	242	14.6
Naphtha	64	52	(19.8)
Gasoline	989	1,058	7.0
Kerosene	112	133	18.3
Diesel	1,288	1,355	5.2
Heating oil	144	143	(0.5)
Fuel oil	500	512	2.4
Other products*	119	141	18.1
Total	**3,428**	**3,635**	**6.0**
Refinery loss	47	43	(9.1)
Own consumption	381	415	8.8
Total refinery production	**3,856**	**4,092**	**6.1**

*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)	2016	2017	Ch. %
Croatia	1,847	1,814	(1.8)
B&H	528	616	16.8
Slovenia	233	70	(70.1)
Other markets	1,246	1,727	38.6
Total	**3,854**	**4,227**	**9.7**

Refined product sales by product (kt)	2016	2017	Ch. %
LPG	265	291	9.9
Naphtha	67	50	(25.8)
Gasoline	925	1,044	12.9
Kerosene	137	175	27.6
Diesel	1,529	1,755	14.8
Heating oil	179	163	(9.0)
Fuel oil	460	536	16.5
Bitumen	41	51	23.1
Other products*	251	162	(35.3)
Total	**3,854**	**4,227**	**9.7**
o/w Retail segment sales	1,014	1,056	4.1

*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

2017 vs. 2016 results

KEY DRIVERS

- Focus on increase in sales activities, resulted in revenue increase by 24%
- Higher sales on both captive markets (+55kt) and other export markets (+318kt) resulting from efforts taken to expand on new markets (mainly Italy)
- Capturing market opportunities and favourable external environment enabled increased processing (+236kt) in the refineries, at highest levels since 2010, to support increased total sales
- Significantly better result impacted primarily by a more favourable external environment, higher diesel (+16 USD/t) and gasoline (+7 USD/t) crack spreads as well as a less negative fuel oil spread (+14 USD/t) which resulted in improved refining margins, while Brent prices averaged 54 USD/bbl (+10 USD bbl higher vs 2016)
- Introduction of new fuels: Class PLUS fuels, gasoline with a higher octane number (Eurosuper 100), and a high-quality diesel for severe winter conditions (Eurodiesel Arktik)
- Total retail sales volumes reached 1,056 kt (+4% vs 2016), with a significant contribution of network expansion in Bosnia and Herzegovina (Energopetrol integration starting from 1st July 2016) supported by introduction of new fuels
- Non-fuel margin increased by 11% is based on continuous expansion in goods, with Fresh Corner concept implementation and the development of new non-fuel related services, contributing to the growth of total Retail margin by 24%
- In spite of the improved Refining & marketing incl. Retail result, it remained burdened by the negative effect of Sisak refinery operations. The financial effect of Sisak Refinery on operating result level amounts to HRK (207) million loss in 2017 and HRK (264) million loss in previous year. Also, during 2017 Sisak Refinery generated negative free cash flow of HRK (125) million, compared to HRK (194) million in 2016

CAPITAL EXPENDITURES

- Refining and Marketing capital expenditures amounted to HRK 550 mln
    - Residue upgrade project FEED (Front End Engineering Design) activities on-going with the preparation of the next phase
    - Propane-propylene splitter project FEED documentation and main design finalized
    - Continued investment activities in logistics and refinery development projects

- Retail capital expenditures in 2017 amounted to HRK 163 mln
    - Various investments projects including greenfield constructions, service station reconstructions, modernizations and other improvement projects (LPG installation, tank replacement etc.)
    - Multiple projects on expanding the non-fuel offer in line with the "Fresh corner" concept, incl. cafe bar, car wash or shop modernization

Corporate and other

Segment IFRS results	INA, d.d.					
	2016		2017		Change %	
in millions	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Revenues	133	20	122	18	(8.3)	(5.8)
EBITDA reported	(224)	(33)	52	8	n.a.	n.a.
EBITDA excl. special items	(210)	(31)	52	8	n.a.	n.a.
Operating profit/(loss) reported	(263)	(39)	(152)	(23)	(42.2)	(40.6)
Operating profit/(loss) excl. special items	(258)	(38)	(152)	(23)	(41.1)	(39.4)
CAPEX and investments (w/o acquisition)	41	6	106	16	158.5	165.6

Segment IFRS results	INA GROUP					
	2016		2017		Change %	
in millions	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Revenues	1,610	237	1,451	219	(9.9)	(7.4)
EBITDA reported	(232)	(34)	(167)	(25)	(28.0)	(26.0)
EBITDA excl. special items	(161)	(24)	(167)	(25)	3.7	6.5
Operating profit/(loss) reported	(496)	(73)	(428)	(65)	(13.7)	(11.3)
Operating profit/(loss) excl. special items	(295)	(43)	(328)	(50)	11.2	14.2
CAPEX and investments (w/o acquisition)	46	7	43	6	(6.5)	(4.0)

INDUSTRIJA NAFTE, d.d.

Main external parameters

	2016	2017	Ch. %
Brent dtd (USD/bbl)	43.7	54.2	23.9
Brent-Ural spread	1.2	0.9	(24.3)
Premium unleaded gasoline 10 ppm (USD/t)*	462.4	548.3	18.6
Diesel – ULSD 10 ppm (USD/t)*	395.0	490.5	24.2
Fuel oil 3,5% (USD/t)*	205.6	298.3	45.1
LPG (USD/t)*	397.2	511.6	28.8
Crack spread – premium unleaded (USD/t)*	131.5	138.3	5.2
Crack spread – diesel (USD/t)*	64.2	80.5	25.5
Crack spread - fuel oil 3,5% (USD/t)*	(125.2)	(111.7)	(10.8)
Crack spread - LPG (USD/t)*	66.3	101.6	53.1
Indicative refining margins (USD/bbl)**	1.63	1.80	10.7
HRK/USD average	6.80	6.62	(2.7)
HRK/USD closing	7.17	6.27	(12.5)
HRK/EUR average	7.53	7.46	(0.9)
HRK/EUR closing	7.56	7.51	(0.6)
3m USD LIBOR (%)	0.74	1.26	69.6
3m EURIBOR (%)	(0.26)	(0.33)	24.3

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

Financial overview

Income statement – INA Group

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

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

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

Other **operating costs** realized in 2017 include:

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

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

Income tax expense in 2017 amounted to HRK 342 million and was HRK 24 million lower than in 2016. Tax costs and deferred taxes during the interim period are calculated on the basis of actual results and the profit tax rate, 20% for the periods ended 30 September 2016 and the profit tax rate, 18% for the periods ended 31 December 2017.

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

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

Income statement – INA d.d.

Total sales revenues in 2017 amounted HRK 17,578 million, 20% higher compared to 2016 level, primarily triggered by the improved price environment, higher processing level and introduction of new fuels in 2017.
Costs of raw materials and consumables were 22% higher and amounted to HRK 8,816 million, resulting mainly from higher prices and higher processing in both refineries.
Costs of goods sold recorded an increase of 41%, and amounted HRK 2,666 million, resulting from different sales structure and higher prices.
Within the **other operating costs** realized in 2017:

- Other material costs amounted to HRK 1,833 million, remaining at last year's level.
- Service costs in the amount of HRK 700 million recorded a decrease of 8% mainly due absence of additional profit oil tax in Angola paid in 2016.
- Depreciation was 8% higher compared to 2016 and amounted to HRK 1,733 million.
- Adjustments and provisions had a positive effect of HRK 116 million and were lower by HRK 122 million compared to 2016 mainly due to significantly higher positive impact of reversal of provisions related to Angola in 2016, partly offset by released employee related provisions related to establishment of INA Maloprodajni servisi.

Staff costs in the amount HRK 909 million were 23% lower than 2016, mainly due to lower severance payments and efficiency improvements.
Net financial profit in the amount of HRK 74 million was recorded in 2017, compared HRK 405 million of net financial loss in 2016.

Consolidated Statement of financial position – INA Group

As at 31 December 2017 INA Group **total assets** amounted to HRK 19,263 million and were 5% lower compared to 31 December 2016.
In the period ended 31 December 2017, INA Group invested HRK 90 million in **intangible assets**. The effect of depreciation equals HRK 46 million.
In the period ended 31 December 2017, INA Group invested HRK 1,303 million in **property, plant and equipment**. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 1,753 million.

Issued capital as at 31 December 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.

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

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

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

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

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

Statement of financial position – INA d.d.

Total assets of INA, d.d., as at 31 December 2017 amounted to HRK 19,214 million and was 5% lower than 31 December 2016.
Property, plant and equipment amounted to HRK 10,578 million and were lower 5% than at as 31 December 2016.
Trade receivables outside of INA Group amounted to HRK 1,118 million and were 15% lower compared to 31 December 2016.
Total liabilities amounted to HRK 7,333 million and were 22% lower compared to 31 December 2016.
Net indebtedness of INA, d.d., amounted to HRK 1,239 million as at 31 December 2017 which is 48% lower compared to 31 December 2016. **Gearing ratio** decreased from 18.2% as at 31 December 2016 to 9.44% as at 31 December 2017.
As at 31 December 2017 **trade payables** outside of INA Group amounted HRK 787 million, which is a 47% decrease compared to 31 December 2016

Cash flow – INA Group

The **operating cash-flow before changes in working capital** amounted to HRK 3,253 million in 2017 representing an increase of HRK 1,131 million compared to 2016, which is in line with change in EBITDA performance compared to the previous year.
Changes in working capital affected the operating cash flow negatively by HRK 736 million, due to:

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

Net outflows in investing activities amounted to HRK 1,363 million, in comparison with HRK 1,510 million outflows in 2016.

Cash flow – INA d.d.

The operating cash-flow before changes in working capital amounted to HRK 3,093 million in 2017, which is an increase of 45% compared to the same period last year and is in line with change in EBITDA performance.
Changes in working capital affected the operating cash flow negatively by HRK 951 million, primarily due to:

- Increased value of inventories by HRK 314 million
- Increase in receivables by HRK 643 million,
- Payables increase by HRK 6 million

In 2017, taxes paid influenced the operating cash flow in the amount of HRK 13 million, while in 2016 taxes paid influenced the operating cash flow in the amount of HRK 37 million. All the above factors resulted in HRK 2,129 million net outflows from operating activities generated by INA d.d. in 2017.

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 December 2017 INA had:

- opened short-term forward commodity swap transactions to hedge its exposure to changes in pricing periods, inventory levels and refinery margins
- contracted and available short-term credit lines amounting to HRK 2.24 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 2.75 bn.

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. In 2017, the result was materially impacted by Agreement between Angola Ministry of Finance and INA regarding the settlement of the Additional tax and Profit Oil in Angolan Blocks for previous periods, as well as certain environment related provisions. 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. This resulted in HRK 100 million CROSCO asset impairment.

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 2017 is HRK -79 million which is lower compared to HRK -136 million in 2016 due to different schedule of domestic crude processing.

Subsequent events

Organizational changes in Refining

During January 2018, a proposal of organizational changes in Sisak Refinery has been prepared by the management and submitted to the Works Council for consultations. This proposal of organizational changes is in line with the results of the analysis presented to the public in 2017 and implies the operation of Sisak Refinery without the FCC (catalytic cracker) complex enabling better utilization of conversion units in both refineries. These changes do not include any other decision regarding the future of Sisak Refinery: crude oil refining would continue in block mode as it is now, while secondary units would operate continuously, which was not the case so far. This change will lead to the reduction of number of employees by up to 40 during the second half of 2018.

Energopetrol

INA, d.d. participated in and subscribed 100% of new issued shares of Energopetrol d.d. Sarajevo. By issuing new 10,480,000 regular shares with a nominal value of BAM 12.50, share capital was increased by BAM 131 million. After the increase, total Energopetrol share capital amounts to BAM 199.6 million with INA, d.d. share of 88.6%

Investments in INA portfolio companies

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

		Shareholding	
Name of company	**Activity**	**31 Dec 2016**	**31 Dec 2017**
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%
Rotary Zrt., Hungary	Oilfield services	100%	100%
Crosco S.A. DE C.V. Monterrey, Mexico	Oilfield services	99.90%	99.90%
Crosco International d.o.o. Tuzla, BiH	Oilfield services	100%	100%
Crosco Ukraine LLC	Oilfield services	-	100%
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			
*IINA Slovenija d.o.o. Ljubljana, Slovenia	Trading	100%	100%
*INA BH d.d. Sarajevo, Bosnia and Herzegovina	Trading	100%	100%
*Holdina d.o.o. Sarajevo, B&H	Trading	100%	100%
*Energopetrol d.d. Sarajevo, BiH	Trading	67%	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%

INDUSTRIJA NAFTE, d.d.

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 2017 INA Group entered into the following trading transactions with the following related parties:

INA-Group	Sales of goods	Purchase of goods
HRK mln	31 December 2017	31 December 2017
Companies available for sale		
JANAF d.d. Zagreb	2	52
Strategic partner		
MOL Nyrt.	217	701
Companies controlled by strategic partner		
Tifon d.o.o.	536	8
MOL SLOVENIJA d.o.o.	91	63
MOL Petrochemical	65	4
MOL Serbia	57	-
MOL-LUB Kft.	5	4
Slovnaft, a.s.	3	226
MOL Norge AS	2	-
Petrolszolg Kft.	1	-
Geoinform Kft.	1	-
IES-Italiana Eenergia e Servizi s.p.a	-	3

INA-Group	Amounts owed from related parties	Amounts owed to related parties
HRK mln	31 December 2017	31 December 2017
Companies available for sale		
JANAF d.d. Zagreb	1	14
Strategic partner		
MOL Nyrt.	27	53
Companies controlled by strategic partner		
Tifon d.o.o.	70	1
MOL SLOVENIJA d.o.o.	4	6
MOL Serbia	4	-
MOL Norge AS	2	-
Slovnaft, a.s.	-	11
MOL-LUB Kft.	-	1
IES S.p.A - Refinery	-	1
MOL Commodity Trading Kft.	59	57

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 2017 are disclosed below:

INA, d.d. HRK mln	Sales of goods	Purchase of goods
	31 December 2017	31 December 2017
Related companies		
Holdina Sarajevo	1,795	-
Hostin	455	1
INA Crna Gora d.o.o Podgorica	175	-
Energopetrol d.d.	36	-
STSI d.o.o. Zagreb	23	607
Crosco d.o.o.	11	359
INA Slovenija d.o.o.	11	-
Plavi Tim d.o.o.	10	52
INA Maziva d.o.o.	9	53
INA Maloprodajni servisi	6	256
TOP Računovodstvo Servisi d.o.o.	4	51
INA d.o.o.Banja Luka	-	1
INA Kosovo	-	1
Companies available for sale		
JANAF d.d. Zagreb	3	52
Strategic partner		
MOL Nyrt	42	612
Companies controlled by strategic partner		
Tifon d.o.o.	535	8
MOL Slovenia d.o.o.	91	-
MOL Petrochemicals Co Ltd	65	2
MOL Serbia d.o.o.	57	-
Slovnaft a.s.	3	226
MOL NORGE AS, Oslo	2	-
MOL Commodity Trading Kft.	-	25
IES-Italiana Energia e Servizi s.p.a.	-	3

INA, d.d. HRK mln	Amounts owed from related parties 31 December 2017	Amounts owed to related parties 31 December 2017
Subsidiaries		
Holdina Sarajevo	171	-
INA Crna Gora d.o.o. Podgorica	27	-
Crosco d.o.o.	11	57
STSI d.o.o. Zagreb	6	201
INA Maziva d.o.o.	2	6
Plavi Tim d.o.o.	3	12
INA Slovenija d.o.o.	2	-
TOP Računovodstvo Servisi d.o.o.	-	4
INA Maloprodajni Servisi d.o.o.	-	30
Companies available for sale		
JANAF d.d. Zagreb	1	14
Strategic partner		
MOL Nyrt	2	45
Companies controlled by strategic partner		
Tifon d.o.o.	70	1
MOL Serbia d.o.o.	3	-
MOL Slovenia d.o.o.	4	2
MOL Norge AS	2	-
MOL Commodity Trading Kft.	59	59
Slovnaft a.s.	-	11
IES -Italiana Energia e Servizi s.p.a	-	1

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

	INA, d.d. 2016 HRK mln	INA, d.d. 2017 HRK mln	INA, d.d. Ch. %	INA GROUP 2016 HRK mln	INA GROUP 2017 HRK mln	INA GROUP Ch. %
Sales						
Exploration & Production	3,887	4,445	14	3,889	4,448	14
Refining & Marketing including Retail	12,562	15,396	23	13,054	16,138	24
Corporate and Other	133	122	(8)	1,610	1,451	(10)
Inter-segment revenue eliminations	(1,980)	(2,385)	20	(3,018)	(3,455)	14
Sales	**14,602**	**17,578**	**20**	**15,535**	**18,582**	**20**
EBITDA*						
Exploration & Production	2,132	2,470	16	2,141	2,474	16
Refining & Marketing including Retail	458	750	64	339	987	191
Corporate and Other	(224)	52	n.a.	(232)	(167)	(28)
Inter-segment profit eliminations	(97)	45	n.a.	(136)	(79)	(42)
Total	**2,269**	**3,317**	**46**	**2,112**	**3,215**	**52**
EBITDA Excluding Special Items						
Exploration & Production	2,157	2,466	14	2,166	2,470	14
Refining & Marketing including Retail	672	750	12	558	987	77
Corporate and Other	(210)	52	n.a.	(161)	(167)	4
Inter-segment profit eliminations	(97)	45	n.a.	(136)	(79)	(42)
Total	**2,522**	**3,313**	**31**	**2,427**	**3,211**	**32**
Operating Profit/Loss						
Exploration & Production	1,128	1,617	43	1,172	1,666	42
Refining & Marketing including Retail	146	194	33	74	263	255
Corporate and Other	(263)	(152)	(42)	(496)	(428)	(14)
Inter-segment profit eliminations	(104)	41	n.a.	(143)	(83)	(42)
Total	**907**	**1,700**	**87**	**607**	**1,418**	**134**
Operating Profit/Loss Excluding Special Items						
Exploration & Production	1,141	1,364	19	1,185	1,413	19
Refining & Marketing including Retail	160	309	93	94	378	300
Corporate and Other	(258)	(152)	(41)	(295)	(328)	11
Inter-segment profit eliminations	(104)	41	n.a.	(143)	(83)	(42)
Total	**939**	**1,561**	**66**	**842**	**1,379**	**64**
Property, plant and equipment						
Exploration & Production	5,798	5,318	(8)	5,787	5,329	(8)
Refining & Marketing including Retail	4,998	5,008	0	5,472	5,582	2
Corporate and Other	373	252	(32)	1,502	1,418	(6)
Inter-segment assets eliminations	-	-	n.a.	(188)	(313)	66
Total	**11,169**	**10,578**	**(5)**	**12,573**	**12,016**	**(4)**

** 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 2016 and 2017
(in HRK millions)

	INA, d.d. 2016 HRK mln	INA, d.d. 2017 HRK mln	INA, d.d. Ch. %	INA GROUP 2016 HRK mln	INA GROUP 2017 HRK mln	INA GROUP Ch. %
Sales revenue						
a) domestic	1,802	2,294	27	1,839	2,458	34
b) exports	591	1,353	129	763	1,387	82
Total sales revenue	**14,602**	**17,578**	**20**	**15,535**	**18,582**	**20**
Income from own consumption of products and services	6	10	67	365	327	(10)
Other operating income	296	365	23	186	126	(32)
Total operating income	**14,904**	**17,953**	**20**	**16,086**	**19,035**	**18**
Changes in inventories of finished products and work in progress	256	288	13	264	274	4
Cost of raw materials and consumables	(7,230)	(8,816)	22	(7,448)	(9,061)	22
Depreciation and amortization	(1,600)	(1,733)	8	(1,677)	(1,804)	8
Other material costs	(1,833)	(1,833)	0	(2,000)	(1,823)	(9)
Service costs	(764)	(700)	(8)	(623)	(466)	(25)
Staff costs	(1,175)	(909)	(23)	(2,083)	(1,803)	(13)
Cost of other goods sold	(1,889)	(2,666)	41	(2,084)	(2,942)	41
Impairment and charges (net)	(108)	(30)	(72)	(272)	(143)	(47)
Provisions for charges and risks (net)	346	146	(58)	444	151	(66)
Operating expenses	**(13,997)**	**(16,253)**	**16**	**(15,479)**	**(17,617)**	**14**
Profit/(loss) from operations	**907**	**1,700**	**87**	**607**	**1,418**	**134**
Share in the profit of associated companies	-	-	0	-	-	0
Finance income	155	384	148	106	452	326
Finance costs	(560)	(310)	(45)	(252)	(306)	21
Net loss from financial activities	**(405)**	**74**	**n.a.**	**(146)**	**146**	**n.a.**
Profit/(loss) before tax	**502**	**1,774**	**253**	**461**	**1,564**	**239**
Income tax expense	(342)	(348)	2	(366)	(342)	(7)
Profit/(loss) for the year	**160**	**1,426**	**791**	**95**	**1,222**	**1,186**
Attributable to						
Owners of the Company	160	1,426	791	101	1,220	1,108
Non-controlling interests	-	-	n.a.	(6)	2	n.a.
	160	1,426	791	95	1,222	1,186
Earnings per share						
Basic and diluted earnings/(loss) per share (kunas per share)	16.0	142.6	791	10.1	122.0	1,108

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated and Unconsolidated Statement of Financial Position INA-Group and INA d.d. at 31 December 2017 (in HRK millions)

	INA, d.d.			INA GROUP		
	31 Dec 2016 HRK mln	31 Dec 2017 HRK mln	Ch. %	31 Dec 2016 HRK mln	31 Dec 2017 HRK mln	Ch. %
Assets						
Non-current assets						
Intangible assets	380	408	7	536	570	6
Property, plant and equipment	11,169	10,578	(5)	12,573	12,016	(4)
Goodwill	-	-	n.a.	-	-	n.a.
Investments in subsidiaries	805	1,079	34	22	-	n.a.
Investments in associates and joint ventures	22	-	n.a.	13	13	n.a.
Other investments	809	669	(17)	-	-	0
Long-term receivables	137	105	(23)	128	96	(25)
Deferred tax	1,684	1,343	(20)	1,769	1,451	(18)
Available for sale assets	676	665	(2)	676	665	(2)
Total non-current assets	**15,682**	**14,847**	**(5)**	**15,717**	**14,811**	**(6)**
Current assets						
Inventories	1,802	2,021	12	2,050	2,264	10
Trade receivables net	1,315	1,118	(15)	1,591	1,393	(12)
Intercompany receivables	258	225	(13)	-	-	0
Other receivables	153	144	(6)	184	210	14
Corporative income tax receivables	1	1	0	11	10	(9)
Other current assets	434	494	14	120	139	16
Prepaid expenses and accrued income	-	-	n.a.	-	-	n.a.
Cash and cash equivalents	500	364	(27)	611	428	(30)
Current assets	**4,463**	**4,367**	**(2)**	**4,567**	**4,444**	**(3)**
Assets classified as held for sale	-	-	n.a.	8	8	(4)
Total current assets	**4,463**	**4,367**	**(2)**	**4,575**	**4,452**	**(3)**
Total assets	**20,145**	**19,214**	**(5)**	**20,292**	**19,263**	**(5)**
Equity and liabilities						
Capital and reserves						
Share capital	9,000	9,000	0	9,000	9,000	0
Legal reserves	20	28	40	20	28	40
Revaluation reserve	299	289	(3)	299	289	(3)
Other reserves	1,288	1,138	(12)	1,647	1,516	(8)
Retained earnings / (Deficit)	160	1,426	791	(233)	827	n.a.
Equity attributable to equity holder of the parent	**10,767**	**11,881**	**10**	**10,733**	**11,660**	**9**
Non-controlling interests	-	-	n.a.	(136)	(134)	(1)
Total equity	**10,767**	**11,881**	**10**	**10,597**	**11,526**	**9**
Non-current liabilities						
Long-term loans	271	122	(55)	271	122	(55)
Other non-current liabilities	60	51	(15)	60	52	(13)
Employee benefits obligation	46	31	(33)	85	73	(14)
Provisions	3,314	3,241	(2)	3,224	3,119	(3)
Deferred tax liability	-	-	0	13	14	8
Total non-current liabilities	**3,691**	**3,445**	**(7)**	**3,653**	**3,380**	**(7)**
Current liabilities						
Bank loans and overdrafts	2,487	1,359	(45)	2,706	1,581	(42)
Current portion of long-term debt	135	122	(10)	135	122	(10)
Intercompany payables	560	495	(12)	-	-	0
Trade payables	1,498	787	(47)	1,857	1,171	(37)
Taxes and contributions	552	527	(5)	637	626	(2)
Other current liabilities	336	374	11	503	540	7
Accruals and deferred income	-	-	n.a.	-	-	n.a.
Employee benefits obligation	2	3	50	10	5	(50)
Provisions	117	221	89	194	312	61
Total current liabilities	**5,687**	**3,888**	**(32)**	**6,042**	**4,357**	**(28)**
Total liabilities	**9,378**	**7,333**	**(22)**	**9,695**	**7,737**	**(20)**
Total equity and liabilities	**20,145**	**19,214**	**(5)**	**20,292**	**19,263**	**(5)**

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated and Unconsolidated Cash Flow Statement INA Group and INA d.d. for the period ended 31 December 2016 and 2017 (in HRK millions)

	INA, d.d.			INA GROUP		
	2016	2017	Ch. %	2016	2017	Ch. %
Profit/(loss) for the year	160	1,426	791	95	1,222	1,186
Adjustments for:						
Depreciation and amortisation	1,600	1,733	8	1,677	1,804	8
Income tax expense recognised in income statement	342	348	2	366	342	(7)
Impairment charges (net)	108	30	(72)	272	143	(47)
Gain on sale of property, plant and equipment	(21)	(268)	1,176	(17)	(16)	(6)
Foreign exchange loss/(gain)	23	43	87	49	(186)	n.a.
Interest income, net	(11)	-	n.a.	38	48	26
Other financial expense recognised in profit	342	(59)	n.a.	10	(29)	n.a.
Increase in provisions	(366)	(150)	(59)	(469)	(155)	(67)
Decommissioning interests	51	21	(59)	50	21	(58)
Net gain/loss on derivative financial instruments and hedge transactions	44	48	9	44	48	9
(Gain)/loss from emmission quotas	-	-	n.a.	-	-	n.a.
Other non-cash items	(1)	-	n.a.	5	11	120
Operating cash flow before working capital changes	2,136	3,093	45	2,122	3,253	53
Movements in working capital						
(Increase)/decrease in inventories	(227)	(314)	38	(248)	(327)	32
(Increase)/decrease in receivables and prepayments	(256)	(643)	151	49	(76)	n.a.
(Decrease)/increase in trade and other payables	441	6	(99)	333	(333)	n.a.
Cash generated from operations	2,094	2,142	2	2,256	2,517	12
Taxes paid	(37)	(13)	(65)	(43)	(33)	(23)
Net cash inflow from operating activities	2,057	2,129	4	2,213	2,484	12
Cash flows used in investing activities						
Capital expenditures, exploration and development costs	(1,232)	(1,263)	3	(1,337)	(1,299)	(3)
Payment for intangible assets	(62)	(85)	37	(38)	(92)	142
Proceeds from sale of non-current assets	37	470	1,170	30	26	(13)
Payments related to sale of subsidiary	1	-	n.a.	1	23	2,200
Interest received and other financial income	8	60	650	13	11	(15)
Investments and loans to third parties, net	(260)	(164)	(37)	(197)	(52)	(74)
Net cash used for investing activities	(1,477)	(942)	(36)	(1,510)	(1,363)	(10)
Cash flows from financing activities						
Additional long-term borrowings	1,192	-	n.a.	1,192	-	n.a.
Repayment of long-term borrowings	(1,309)	(129)	(90)	(1,316)	(129)	(90)
Additional short-term borrowings	10,538	10,519	(0)	10,416	10,103	(3)
Repayment of short term borrowings	(10,557)	(11,458)	9	(10,506)	(11,040)	5
Interest paid on long-term loans	(12)	(8)	(33)	(12)	(8)	(33)
Other long-term liabilities, net	-	-	n.a.	-	-	n.a.
Interest paid on short term loans and other financing charges	(120)	(75)	(38)	(124)	(78)	(37)
Changes in shareholders equity due to acquisition of subsidiaries	-	-	0	-	-	n.a.
Net cash from financing activities	(268)	(1,303)	386	(350)	(1,304)	273
Net (decrease)/increase in cash and cash equivalents	312	(116)	n.a.	353	(183)	n.a.
At 1 January	195	500	156	275	611	122
Effect of foreign exchange rate changes	(7)	(20)	186	(17)	-	n.a.
At the end of period	500	364	(27)	611	428	(30)

Management representation

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

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