

INA Group (ZB: INA-R-A; www.ina.hr) announced its Q2 2017 results today. This report contains unaudited consolidated financial statements for the period ending 30 June 2017 as prepared by the management in accordance with the International Financial Reporting Standards.

INA Group financial results (IFRS)

Q2 2016	Q2 2017	%	HRK mln	H1 2016	H1 2017	%
3,693	4,565	24	Net sales revenues	6,295	8,410	34
419	791	89	EBITDA ⁽¹⁾	521	1,398	168
521	773	48	EBITDA excl. special items ⁽²⁾	791	1,380	74
437	896	105	CCS EBITDA excl. special items	823	1,381	68
193	712	269	Profit/(loss) from operations	34	910	2,576
215	459	113	Operating profit excl. special items ⁽²⁾	81	657	714
120	590	393	CCS Operating profit excl. special items	105	665	534
(58)	99	n.a.	Net financial result	26	139	435
89	662	644	Net profit/loss attributable to equity holder	23	861	3,653
111	409	267	Net profit/loss for the period excl. special items ⁽²⁾	70	608	773
62	586	846	Simplified Free Cash Flow ⁽³⁾	106	861	712
369	1,165	216	Operating cash flow	344	979	185
Earnings per share						
8.9	66.2	644	Basic and diluted/(loss) earnings per share (kunas per share)	2.3	86.1	3,653
3,371	2,026	(40)	Net debt	3,371	2,026	(40)
24.2	15.3		Net gearing (%)	24.2	15.3	
375	310	(17)	CAPEX total	717	520	(28)
340	300	(12)	Domestic	632	496	(22)
35	10	(72)	International	85	24	(72)

Q2 2016	Q2 2017	%	USD mln ⁽⁴⁾	H1 2016	H1 2017	%
556	676	21	Net sales revenues	929	1,221	31
63	117	85	EBITDA ⁽¹⁾	77	203	164
78	114	46	EBITDA excl. special items ⁽²⁾	117	200	72
66	133	101	CCS EBITDA excl. special items	122	200	65
29	105	262	Profit/(loss) from operations	5	132	2,532
32	68	109	Operating profit excl. special items ⁽²⁾	12	95	701
18	87	385	CCS Operating profit excl. special items	15	97	523
(9)	15	n.a.	Net financial result	4	20	426
13	98	631	Net profit/loss attributable to equity holder	3	125	3,590
17	60	261	Net profit/loss for the period excl. special items ⁽²⁾	10	88	759
9	87	829	Simplified Free Cash Flow ⁽³⁾	16	125	699
56	172	210	Operating cash flow	51	142	180
Earnings per share						
1.3	9.8	631	Basic and diluted/(loss) earnings per share (kunas per share)	0.3	12.5	3,590
496	312	(37)	Net debt	496	312	(37)
57	46	(19)	CAPEX total	106	75	(29)
51	44	(13)	Domestic	93	72	(23)
5	1	(72)	International	13	3	(72)

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

⁽²⁾ In H1 2017, EBITDA was positively impacted by HRK 18 mn of retranslation related to Angola, while EBIT was positively influenced by HRK 253 million special items related to both retranslation and reversal of provision in Angola

⁽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 Q2 2016 – 6.6386 HRK/USD; Q2 2017 – 6.7576 HRK/USD; H1 2016 – 6.7740 HRK/USD; H1 2017 – 6.8893 HRK/USD; as at Dec 31, 2016 – 7.1685 HRK/USD; as at Jun 30, 2016 – 6.7915 HRK/USD; as at Jun 30, 2017 – 6.4902 HRK/USD

The strong growth witnessed during Q1 2017 accelerated in the second quarter. EBITDA grew by 168% in H1, reaching HRK 1,398 million for the period, while net profit exceeded HRK 850 million, the best H1 result since 2011. Although Exploration & Production remained the main contributor to the results, Refining & Marketing incl. Retail saw the biggest improvement in its performance indicators.

For Exploration & Production, a more favourable external environment managed to offset a 4% decrease in production, resulting in 26% higher EBITDA compared to H1 2016. Refining & Marketing incl. Retail benefited from a period of favourable crack spreads, which alongside higher processing levels (+34%) and strong Retail performance pushed EBITDA excluding special items into positive territory, reaching HRK 183 million for the first half year. Retail sales in both the fuel and non-fuel segments showed a record increase. The continued period of favourable environment will be used for further efficiency measures in order to eliminate cash losses of the business.

CAPEX amounted to HRK 520 million, impacted by different schedule of investments within a year, where a more intensive investment campaign is expected in the second half of 2017. Net debt decreased to HRK 2,026 million with gearing going to historically low level of 15.3%.

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

H1 2017 showed a respectable growth for INA results across all business operations. All main indicators are improved with EBITDA increasing from HRK 521 mn in H1 2016 to HRK 1.398 mn in H1 2017 while net profit, excluding one off items, jumped to HRK 608 mn from HRK 23 mn in H1 2016.

2016 efficiency program continued to show visible results in 2017 while favourable external environment brought additional relief. Combined, it led to the lowest indebtedness in the last decade and the ability of INA to finance all main strategic projects in forthcoming period.

Upstream results benefited from the improved external environment with modest growth of Brent and gas prices, while natural decline was slowed down by successful growth projects: EOR project and higher production from new wells Selec and Đeletovci Zapad. Combined with the efficiency program it led to the improved financial result.

Still, Upstream growth was surpassed by Downstream improvements. Significantly higher R&M processing levels further supported by more favourable margins drove the Downstream result to a positive area in EBITDA terms, but the cash flow still stays negative.

Retail maintains good results with regional network growth together with non-fuel expansion assuring constantly strong results.

It is worth to mention stabilized performance of our oil services activities, which were strongest hit by halved Brent prices in the past several years. Croscos reported positive EBITDA in H1 2017.

This relief period should also be used for further strengthening of the market position and operations, as long term outlook is difficult to make and the volatility of the market can once again prove challenging.

Management discussion

Exploration and Production*

Q2 2016	Q2 2017	%	Segment IFRS results (HRK mln)	H1 2016	H1 2017	%
926	1,042	13	Net sales revenues	1,859	2,205	19
495	667	35	EBITDA	1,034	1,302	26
508	649	28	EBITDA excl. special items **	1,055	1,284	22
332	748	125	Operating profit	583	1,123	93
337	495	47	Operating profit excl. special items **	590	870	48
302	498	65	Simplified Free Cash Flow***	684	1,025	50
206	151	(27)	CAPEX	371	259	(30)

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

** In H1 2017, EBITDA was positively impacted by HRK 18 mn of retranslation related to Angola, while EBIT was positively influenced by HRK 253 million special items related to both retranslation and reversal of provision in Angola

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

Q2 2016	Q2 2017	%	Hydrocarbon production	H1 2016	H1 2017	%
15,449	14,830	(4)	Crude oil production (boe/d)	15,280	14,467	(5)
12,149	12,400	2	Croatia	11,949	11,952	0
2,212	1,569	(29)	Egypt	2,224	1,625	(27)
1,088	860	(21)	Angola	1,107	891	(19)
22,005	21,449	(3)	Natural gas production (boe/d)	22,562	22,005	(2)
8,995	8,153	(9)	Croatia - offshore	9,728	8,367	(14)
13,011	13,296	2	Croatia - onshore	12,834	13,638	6
2,019	1,867	(8)	Condensate (boe/d)	1,962	1,881	(4)
39,473	38,146	(3)	Total hydrocarbon production (boe/d)	39,804	38,353	(4)
Q2 2016	Q2 2017	%	Average realised hydrocarbon price	H1 2016	H1 2017	%
36	41	14	Total hydrocarbon price (USD/boe)*	36	40	13
Q2 2016	Q2 2017	%	Natural gas trading - mln cm	H1 2016	H1 2017	%
267	266	(0)	Total natural gas sales - domestic market	548	593	8

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

H1 2017 vs. H1 2016

KEY DRIVERS

- 30% higher Brent price; positive effect on oil and condensate sales revenues in the amount of HRK 266 million
- HRK (73) million lower natural gas revenues caused by lower realised gas prices
- Domestic crude oil production is at 2016 levels mainly due to:
 - positive effect of full field optimization and EOR projects
 - higher production from new wells Selec and Đeletovci Zapad
 - natural decline and pipeline constraints on Hraštilnica field
- International crude oil production lower by 0.8 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 lower driven by:
 - 14% lower offshore natural gas production due to natural decline and water cut
 - 6% higher onshore natural gas production mainly as a result of production startup from Medimurje fields
- Lower domestic condensate production (4%) as a consequence of lower well performance

CAPITAL EXPENDITURES

E&P CAPEX H1 2017 (HRK million)	Croatia	Egypt	Angola
Exploration	1.3	-	-
Development	180.5	7.0	0.2
Other	70.2	-	-
Total	252.0	7.0	0.2

- Lower investment level as a result of lower Croatia Onshore activities and lower development in Angola and Egypt
- Drava-02 exploration program - Preparatory activities for drilling program in 2017 are in progress
- 3D seismic survey and additional development of Bokšić-Klokočevci Field - 3D seismic recording completed on June 25th
- Additional development Žutica – Well workovers finished on 10 wells, 7 of which are put in production
- Well Stimulation Campaign Phase II - performed stimulations on 17 wells, out of which 9 were put in production up to date

Refining and Marketing, including Retail*

Q2 2016	Q2 2017	%	Segment IFRS results (HRK mln)	H1 2016	H1 2017	%
3,109	3,988	28	Revenues	5,013	7,196	44
21	34	62	EBITDA	(326)	183	n.a.
73	34	(53)	EBITDA excl. special items**	(126)	183	n.a.
(11)	157	n.a.	CCS-based DS EBITDA excl. special items**	(94)	184	n.a.
4	(91)	n.a.	Operating profit/(loss)	(298)	(57)	(81)
(9)	(91)	966	Operating profit/(loss) excl. special items**	(296)	(57)	(81)
(104)	40	n.a.	CCS-based DS operating loss	(272)	(49)	(82)
(172)	8	n.a.	Simplified Free Cash Flow***	(427)	(60)	(86)
161	149	(7)	CAPEX and investments (w/o acquisition)	333	244	(27)

*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

** No one-off items in H1 2017, while H1 2016 EBITDA was negatively influenced by HRK 200 million special items related to Severance payments

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

Q2 2016	Q2 2017	%	Refinery processing (kt)	H1 2016	H1 2017	%
61	255	318	Domestic crude oil	182	256	40
758	779	3	Imported crude oil	937	1,231	31
15	42	176	Condensate	36	42	15
172	103	(40)	Other feedstock	196	286	46
1,006	1,179	17	Total refinery throughput	1,352	1,815	34
Q2 2016	Q2 2017	%	Refinery production (kt)	H1 2016	H1 2017	%
56	77	36	LPG	71	111	57
25	26	5	Naphtha	31	37	22
258	300	16	Gasoline	347	452	30
35	47	36	Kerosene	42	61	45
340	394	16	Diesel	437	606	39
25	23	(10)	Heating oil	55	59	8
129	141	9	Fuel oil	167	211	26
29	37	29	Other products*	40	62	56
898	1,045	16	Total	1,189	1,600	35
11	14	25	Refinery loss	15	21	40
97	120	23	Own consumption	148	194	31
1,006	1,179	17	Total refinery production	1,352	1,815	34
Q2 2016	Q2 2017	%	Refined product sales by country (kt)	H1 2016	H1 2017	%
429	454	6	Croatia	791	842	7
127	153	20	B&H	241	270	12
74	18	(76)	Slovenia	84	34	(60)
320	456	43	Other markets	412	730	77
950	1,081	14	Total	1,528	1,876	23
Q2 2016	Q2 2017	%	Refined product sales by product (kt)	H1 2016	H1 2017	%
70	91	30	LPG	107	139	30
27	24	(9)	Naphtha	32	36	10
209	260	24	Gasoline	339	442	30
39	51	32	Kerosene	53	67	26
380	467	23	Diesel	662	817	23
29	28	(5)	Heating oil	88	80	(9)
127	120	(5)	Fuel oil	141	219	55
13	12	(7)	Bitumen	18	18	4
58	28	(51)	Other products*	87	58	(33)
950	1,081	14	Total	1,528	1,876	23
243	266	10	o/w Retail segment sales	433	473	9
439	494	13	Total number of Retail sites	439	494	13

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

H1 2017 vs. H1 2016

KEY DRIVERS

- Favourable external environment, mainly driven by stable DTD Brent price around 50 USD/bbl, higher diesel crack spreads (+13 USD/t vs H1 2016), and more favourable, less negative fuel oil spread which had a direct positive impact on refining margins
- Increased total sales volumes on the back of higher sales on both captive markets (+80kt) and other export markets (+268kt)
- Higher refining margins and sales demand resulted in higher processing level in refineries (+463kt), operating without major disturbances while capturing both margin drivers
- Total retail sales volumes reached 473kt (+9% vs H1 2016), mostly driven by network expansion with Energopetrol consolidation and further assisted with active sales of Class PLUS fuel (introduced in Q2 2017). Introduction of RON 100 Gasoline produced in the INA refining system.
- Non-fuel margin increased on the back of continuous investment and development activities in goods segment, contributing 21% to total Retail margin
- Following the Sisak Refinery last year negative free cash flow in the amount of HRK (194) million, Sisak Refinery accounts for further creation of negative cash losses in the amount of HRK (113) million in H1 2017. Last year Sisak Refinery realized operating loss amounting HRK (264) million, trend of which continued further in H1 2017 with operating loss of HRK (146) million, negatively impacting the INA group result.

CAPITAL EXPENDITURES

- Lower CAPEX level in H1 2017 mainly driven by the Rijeka Refinery turnaround executed during Q1 2016
- Refining and Marketing capital expenditures in H1 2017 amounted to HRK 205 mn
 - Continued investment activities in logistics and refinery development projects
 - On-going activities on FEED phase for the Residue upgrade investment in the Rijeka Refinery, together with site preparation activities. Preparation of the main design for the coke port has been finalised
- Retail capital expenditures in H1 2017 amounted to HRK 39 mn
 - Various investments projects including highway greenfield constructions, service station reconstructions, modernizations and other improvement projects
 - Multiple projects on expanding the non-fuel offer in line with the "Fresh corner" concept have been executed, are ongoing or in preparation, incl. cafe bar, car wash or shop modernization

Main external parameters

Q2 2016	Q2 2017	%		H1 2016	H1 2017	%
45.6	49.6	8.9	Brent dtd (USD/bbl)	39.8	51.7	29.9
1.29	0.79	(38.9)	Brent-Ural spread	1.26	0.98	(21.9)
486.6	518.5	6.5	Premium unleaded gasoline 10 ppm (USD/t)*	441.9	531.1	20.2
408.5	449.2	10.0	Diesel – ULSD 10 ppm (USD/t)*	360.3	463.7	28.7
198.7	277.7	39.8	Fuel oil 3,5% (USD/t)*	166.8	283.6	70.1
377.0	425.3	12.8	LPG (USD/t)*	376.7	484.4	28.6
141.8	143.0	0.9	Crack spread – premium unleaded (USD/t)*	140.7	139.9	(0.6)
63.6	73.7	15.9	Crack spread – diesel (USD/t)*	59.1	72.5	22.6
(146.2)	(97.9)	(33.1)	Crack spread - fuel oil 3,5% (USD/t)*	(134.4)	(107.6)	(20.0)
32.2	49.8	54.9	Crack spread - LPG (USD/t)*	75.6	93.1	23.3
1.05	1.87	78.1	Indicative refining margins (USD/bbl)**	1.67	1.72	3.0
6.64	6.76	1.8	HRK/USD average	6.77	6.89	1.8
6.79	6.49	(4.4)	HRK/USD closing	6.79	6.49	(4.4)
7.50	7.43	(1.0)	HRK/EUR average	7.56	7.45	(1.5)
7.51	7.41	(1.4)	HRK/EUR closing	7.51	7.41	(1.4)
0.64	1.21	87.4	3m USD LIBOR (%)	0.63	1.14	79.2
(0.26)	(0.33)	27.8	3m EURIBOR (%)	(0.22)	(0.33)	47.3

* FOB Mediterranean

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

Condensed Consolidated Income Statement – INA-GROUP
For the period ended 30 June 2016 and 2017
(In HRK millions)

Q2 2016	Q2 2017	%		Note	H1 2016	H1 2017	%
3,693	4,565	24	Total sales revenue	1	6,295	8,410	34
106	92	(14)	Capitalised value of own performance		209	152	(27)
74	93	25	Other operating income		108	145	34
3,873	4,750	23	Total operating income		6,612	8,707	32
205	84	(59)	Changes in inventories of finished products and work in progress		320	253	(21)
(2,085)	(2,439)	17	Cost of raw materials and consumables	2	(2,709)	(4,197)	55
(419)	(437)	4	Depreciation and amortization	4	(813)	(877)	8
(502)	(441)	(12)	Other material costs	4	(958)	(854)	(11)
(197)	(113)	(43)	Service costs	4	(348)	(238)	(32)
(510)	(424)	(17)	Staff costs	5	(1,140)	(835)	(27)
(365)	(626)	72	Cost of other goods sold	3	(1,256)	(1,438)	14
11	83	655	Impairment and charges (net)	4	(74)	71	n.a.
182	275	51	Provisions for charges and risks (net)	4	400	318	(21)
(3,680)	(4,038)	10	Operating expenses		(6,578)	(7,797)	19
193	712	269	Profit from operations		34	910	2,576
			Share in the profit of associated companies				
(27)	194	n.a.	Finance income		156	379	143
(31)	(95)	206	Finance costs		(130)	(240)	85
(58)	99	n.a.	Net result from financial activities	7	26	139	435
135	811	501	Profit before tax		60	1,049	1,648
(46)	(136)	196	Income tax expense	6	(37)	(178)	381
89	675	658	Profit for the year		23	871	3,687
			Attributable to				
89	662	644	Owners of the Company		23	861	3,653
0	13	21,567	Non-controlling interests		0	10	16,567
89	675	658			23	871	3,687
			Earnings per share				
8.9	66.2	644	Basic and diluted earnings per share (kunas per share)		2.3	86.1	3,653

Condensed Consolidated Statement of Financial Position – INA-GROUP
At 30 June 2017
(in HRK millions)

	Note	31 December 2016	30 June 2017	%
Assets				
Non-current assets				
Intangible assets	9	536	521	(3)
Property, plant and equipment	10	12,573	12,073	(4)
Investments in associates and joint ventures		22	22	0
Other investments		13	13	0
Long-term receivables		128	127	(1)
Deferred tax		1,769	1,590	(10)
Available for sale assets		676	724	7
Total non-current assets		15,717	15,070	(4)
Current assets				
Inventories	12	2,050	2,445	19
Trade receivables net	13	1,591	1,420	(11)
Other receivables		184	178	(3)
Corporative income tax receivables		11	12	9
Other current assets		120	167	39
Cash and cash equivalents		611	322	(47)
Current assets		4,567	4,544	(1)
Assets classified as held for sale		8	8	(4)
Total current assets		4,575	4,552	(1)
Total assets	8	20,292	19,622	(3)
Equity and liabilities				
Capital and reserves				
Share capital	11	9,000	9,000	0
Legal reserves		20	28	40
Revaluation reserve		299	338	13
Other reserves		1,647	1,515	(8)
Retained earnings / (Deficit)		(233)	468	n.a.
Equity attributable to equity holder of the parent		10,733	11,349	6
Non-controlling interests		(136)	(126)	(7)
Total equity		10,597	11,223	6
Non-current liabilities				
Long-term loans		271	187	(31)
Other non-current liabilities		60	55	(8)
Employee benefits obligation		85	85	0
Provisions		3,224	2,860	(11)
Deferred tax liability		13	13	0
Total non-current liabilities		3,653	3,200	(12)
Current liabilities				
Bank loans and overdrafts		2,711	2,036	(25)
Current portion of long-term debt		135	125	(7)
Trade payables	15	1,857	1,607	(13)
Taxes and contributions		637	678	6
Other current liabilities		498	556	12
Employee benefits obligation		10	7	(30)
Provisions		194	190	(2)
Total current liabilities		6,042	5,199	(14)
Total liabilities	14	9,695	8,399	(13)
Total equity and liabilities		20,292	19,622	(3)

Condensed Consolidated Cash Flow Statement - INA GROUP
For the period ended 30 June 2016 and 2017
(in HRK millions)

Q2 2016	Q2 2017	%		Note	H1 2016	H1 2017	%
89	675	658	Profit for the year		23	871	3,687
			Adjustments for:				
419	437	4	Depreciation and amortisation		813	877	8
46	136	196	Tax expense recognised in income statement		37	178	381
(11)	(83)	655	Impairment charges (net)		74	(71)	n.a.
(2)	(7)	250	Gain on sale of property, plant and equipment		(7)	(7)	(0)
2	-	n.a.	Gain on sale investments and shares		2	-	n.a.
39	(103)	n.a.	Foreign exchange loss/(gain)		(66)	(171)	159
-	8	n.a.	Interest expense (net)		10	37	270
6	(11)	n.a.	Other finance expense/(income) recognised in profit		4	(17)	n.a.
(183)	(276)	51	(Decrease)/increase in provisions		(406)	(319)	(21)
13	6	(54)	Decommissioning interests and other provision		26	12	(54)
9	(57)	n.a.	Net (gain)/loss on derivative financial instruments and hedge transactions		18	(82)	n.a.
6	4	(33)	Other non-cash items		2	5	150
433	729	68	Operating cash flow before working capital changes	16	530	1,313	148
			Movements in working capital	17			
(400)	(161)	(60)	Decrease/(increase) in inventories		(319)	(441)	38
(14)	203	n.a.	Decrease/(increase) in receivables and prepayments		(76)	49	n.a.
377	410	9	(Decrease)/increase in trade and other payables		241	77	(68)
396	1,181	198	Cash generated from operations		376	998	165
(27)	(16)	(41)	Taxes paid		(32)	(19)	(41)
369	1,165	216	Net cash inflow from operating activities		344	979	185
			Cash flows used in investing activities				
(435)	(274)	(37)	Capital expenditures, exploration and development costs		(760)	(470)	(38)
(1)	(11)	1,000	Payment for intangible assets		(21)	(24)	14
5	11	120	Proceeds from sale of non-current assets		10	13	30
1	-	n.a.	Payments related to sale of subsidiary		1	-	n.a.
1	-	n.a.	Dividends received from companies classified as available for sale and from other companies		1	-	n.a.
3	2	(33)	Interest received and other financial income		3	7	133
10	6	(40)	Investments and loans to third parties, net		1	(5)	n.a.
(416)	(266)	(36)	Net cash used for investing activities	18	(765)	(479)	(37)
			Cash flows from financing activities				
1,102	-	n.a.	Additional long-term borrowings		1,102	-	n.a.
(811)	-	n.a.	Repayment of long-term borrowings		(877)	(67)	(92)
1,547	2,381	54	Additional short-term borrowings		4,523	4,570	1
(1,727)	(2,996)	73	Repayment of short term borrowings		(4,362)	(5,131)	18
-	(152)	n.a.	Dividends paid		-	(152)	n.a.
(3)	(1)	(67)	Interest paid on long-term loans		(6)	(4)	(33)
(2)	(10)	400	Interest paid on short-term loans and other interest charges		(45)	2	n.a.
106	(778)	n.a.	Net cash used in financing activities		335	(782)	n.a.
59	121	105	Net (decrease)/increase in cash and cash equivalents		(86)	(282)	228
146	215	47	At 1 January		275	611	122
57	(14)	n.a.	Effect of foreign exchange rate changes		73	(7)	n.a.
262	322	23	At the end of period		262	322	23

INA Group Summary Segmental Results of Operations

Q2 2016	Q2 2017	%	(HRK mln)	H1 2016	H1 2017	%
Sales						
926	1,042	13	Exploration & Production	1,859	2,205	19
3,109	3,988	28	Refining & Marketing including Retail	5,013	7,196	44
411	363	(12)	Corporate and Other	816	635	(22)
(753)	(828)	10	Inter-segment revenue eliminations	(1,393)	(1,626)	17
3,693	4,565	24	Sales	6,295	8,410	34
EBITDA*						
495	(294)	n.a.	Exploration & Production	1,034	1,302	26
21	(4,079)	n.a.	Refining & Marketing including Retail	(326)	183	n.a.
(44)	(426)	868	Corporate and Other	(101)	(79)	(22)
(53)	946	n.a.	Inter-segment profit eliminations	(86)	(8)	(91)
419	(3,853)	n.a.	Total	521	1,398	168
EBITDA Excluding Special Items						
508	748	47	Exploration & Production	1,055	1,284	22
73	(91)	n.a.	Refining & Marketing including Retail	(126)	183	n.a.
(7)	(63)	800	Corporate and Other	(52)	(79)	52
(53)	118	n.a.	Inter-segment profit eliminations	(86)	(8)	(91)
521	712	37	Total	791	1,380	74
Operating Profit/Loss						
332	748	125	Exploration & Production	583	1,123	93
4	(91)	n.a.	Refining & Marketing including Retail	(298)	(57)	(81)
(76)	(63)	(17)	Corporate and Other	(156)	(153)	(2)
(67)	118	n.a.	Inter-segment profit eliminations	(95)	(3)	(97)
193	712	269	Total	34	910	2,576
Operating Profit/Loss Excluding Special Items						
337	667	98	Exploration & Production	590	870	48
(9)	34	n.a.	Refining & Marketing including Retail	(296)	(57)	(81)
(47)	(27)	(42)	Corporate and Other	(118)	(153)	30
(67)	117	n.a.	Inter-segment profit eliminations	(95)	(3)	(97)
215	791	267	Total	81	657	714
Property, plant and equipment						
5,901	5,412	(8)	Exploration & Production	5,901	5,412	(8)
5,179	5,461	5	Refining & Marketing including Retail	5,179	5,461	5
1,481	1,398	(6)	Corporate and Other	1,481	1,398	(6)
(168)	(198)	18	Inter-segment assets eliminations	(168)	(198)	18
12,393	12,073	(3)	Total	12,393	12,073	(3)

* EBITDA = EBIT + Depreciation + Impairment + Provisions

Intersegment profit eliminations

Intersegment transfer represents the effect of unrealized profit arising in respect of transfers of inventories from Exploration and Production to Refining and Marketing. Through intersegment transfer unrealized profit is eliminated (difference between transfer price and cost of domestic crude). For segmental reporting purposes the transferor segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place. Intersegment EBITDA effect on results in H1 2017 is HRK -8 million which is lower compared to HRK -86 million in H1 2016 due to different schedule of domestic crude processing.

Financial overview and notes

INCOME STATEMENT

Notes H1 2017 RESULTS

- 1 **Total sales revenues** in H1 2017 amounted to HRK 8,410 million and were 34% above H1 2016 level, triggered by both Exploration and production and Refining & marketing including Retail sales revenue increase as a result of the improved price environment together with higher processing level and retail network expansion activities.
- 2 **Costs of raw materials and consumables** were 55% above H1 2016 level at HRK 4,197 million, resulting from higher crude prices and higher processing in both refineries.
- 3 **Costs of goods sold** in H1 2017 recorded an increase of 14% compared to H1 2016, and amounted to HRK 1,438 million resulting from different sales structure.
- 4 Other **operating costs** realized in H1 2017 include:
- Other material costs were lower by 11% and amounted to HRK 854 million resulting from lower subcontractors costs related to STSI project in Belarus.
 - Service costs in the amount of HRK 238 million recorded a decrease of 32% mainly due to absence of additional profit oil tax in Angola paid in H1 2016 and lower VAT related expenses.
 - Depreciation in the amount of HRK 877 million was 8% higher compared to H1 2016.
 - Value adjustments and provisions had a positive effect in the amount of HRK 389 million and were HRK 63 million higher compared to H1 2016, mainly due to positive impact of reversal of provisions related to Angola, partly offset by released employee related provisions related to establishment of INA Maloprodajni servisi and released litigation provisions in Holdina in H1 2016.
- 5 **Staff costs** in the amount HRK 835 million were 27% lower compared to H1 2016, mainly due to lower severance payments.
- 6 **Income tax expense** in H1 2017 amounted to HRK 178 million and was HRK 141 million higher than in H1 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 June 2016 and the profit tax rate, 18% for the periods ended 30 June 2017.
- 7 **Net financial result** is positive in H1 2017 and significantly higher compared to H1 2016 mainly as a result of
- Net foreign exchange profit was HRK 206 million in H1 2017 while in H1 2016 net foreign exchange profit was HRK 72 million.
 - Interest payable amounted to HRK 39 million and interests received to HRK 1 million in H1 2017 while in H1 2016 interest payables amounted to HRK 36 million and interests received to HRK 14 million, reflecting court cases which offset lower interest cost.
 - Other financial net expenses amounted to HRK 28 million, and are lower compared to HRK 24 million in H1 2016.

BALANCE SHEET

Notes

- 8 As at 30 June 2017 INA Group **total assets** amounted to HRK 19,622 million and were 3% lower compared to 31 December 2016.
- 9 In the period ended 30 June 2017, INA Group invested HRK 31 million in intangible assets. The effect of depreciation equals HRK 21 million.
- 10 In the period ended 30 June 2017, INA Group invested HRK 489 million in property, plant and equipment. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 856 million.
- 11 **Issued capital** as at 30 June 2017 amounted to HRK 9,000 million. There was no movements in the issued capital of the Company in either the current or the prior financial reporting.
- 12 **Inventories** amounted to HRK 2,445 million, and have increased by 19% compared to 31 December 2016 as a result of preparations for summer season.
- 13 **Trade receivables** decreased to HRK 1,420 million and are 11% lower compared to the opening balance resulting mainly from higher collection of overdue receivables.
- 14 As at 30 June 2017 **total liabilities** amounted to HRK 8,399 which is 13% or HRK 1,296 million lower compared to 31 December 2016. INA Group **net debt** decreased by 19% and amounted to HRK 2,026 million compared to 31 December 2016. **Gearing ratio**¹ decreased from 19.1% as at 31 December 2016, to 15.3% as at 30 June 2017.
- 15 **Trade payables** decreased by 13% to HRK 1,607 million, as a result of lower liabilities for imported crude oil.

CASH FLOW

Notes

- 16 The **operating cash-flow before changes in working capital** amounted to HRK 1,313 million in H1 2017 representing an increase of HRK 783 million compared to H1 2016, which is in line with change in EBITDA performance compared to the previous year.
- 17 **Changes in working capital** affected the operating cash flow negatively by HRK 315 million, due to:
- Increased value of inventories by HRK 441 million mainly related to higher inventories as a result of preparations for summer season, partly offset by
 - Increase in trade and other payables by HRK 77 million related to imported crude oil.
 - Decrease in receivables by HRK 49 million mainly as a result of collection of previously value adjusted receivables.
- 18 **Net outflows in investing activities** amounted to HRK 479 million, in comparison with HRK 765 million outflows in H1 2016.

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

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

	HRK mn	H1 2016	H1 2017
INA GROUP			
Total impact of special items on operating profit/(loss)		47	253
Total impact of special items on EBITDA		270	18
Exploration & Production			
Total impact of special items on operating profit/(loss)		7	253
Total impact of special items on EBITDA		21	18
Severance payment		21	-
Retranslation related to Angola			18
Net Provisions for incentives		14	-
Reversal of provisions for additional tax Angola including retranslation			253
Refining & Marketing including Retail			
Total impact of special items on operating profit/(loss)		2	-
Total impact of special items on EBITDA		200	-
Severance payment		200	-
Net Provisions for incentives		198	-
Corporate functions			
Total impact of special items on operating profit/(loss)		38	-
Total impact of special items on EBITDA		49	-
Severance payment		49	-
Net Provisions for incentives		11	-

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 H1 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. If special items reaches materiality level on cumulative basis, previous quarters are restated.

Furthermore, in accordance with the adopted accounting policies and IFRS 36 – Impairment of Assets, INA performs impairment testing at the end of each reporting period if impairment indicators are assessed to be significant.

Financial instruments and risk management

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

As of 30 June 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 2.28 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 2.91 bn.

Related party transactions

INA Group has dominant positions in Croatia in oil and gas exploration and production, oil refining and the sale of gas and petroleum products. As a result of the INA Group strategic position within the Croatian economy, a substantial portion of its business and the business of its subsidiaries is transacted with the Croatian Government, its departments and agencies, and the companies with the Republic of Croatia being their majority shareholder. Transactions between INA, d.d. and its subsidiaries, which are related parties of the Company, have been eliminated on Group level consolidation. During the 2017 and 2016, INA Group entered into the following trading transactions with the following related parties:

INA-Group	Sales of goods	Purchase of goods
HRK mln	30 June 2017	30 June 2017
Companies available for sale		
JANAF d.d. Zagreb	2	27
Strategic partner		
MOL Nyrt.	76	418
Companies controlled by strategic partner		
Tifon d.o.o.	237	4
MOL SLOVENIJA d.o.o.	55	30
MOL Serbia	37	-
MOL Petrochemical	20	4
Slovnaft, a.s.	3	116
MOL Lubricant	2	2
MOL Commodity Trading Kft.	-	10

INA-Group	Amounts owed from related parties	Amounts owed to related parties
HRK mln	30 June 2017	30 June 2017
Companies available for sale		
JANAF d.d. Zagreb	1	12
Strategic partner		
MOL Nyrt.	21	37
Companies controlled by strategic partner		
Tifon d.o.o.	80	1
MOL Commodity Trading Kft.	33	34
MOL SLOVENIJA d.o.o.	5	6
MOL Serbia	5	-
MOL Petrochemicals	5	-
Slovnaft, a.s.	-	8

Management representation

INA Group's consolidated financial statements for H1 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