Annual Report 2016

ECONOMIC, SOCIAL AND ENVIRONMENTAL PERFORMANCE

INA GROUP AT A GLANCE

INA is a medium-sized European oil and gas company. With 10,861 employees and Group EBITDA of HRK 2,112 million, INA has the leading role in the Croatian oil and gas business, including exploration and production, oil processing and oil products distribution activities, and a strong position in the regional motor fuel market. At the end of 2016, INA had 198 MMboe of proven and probable hydrocarbon reserves and hydrocarbon production of 39,4 Mboe/day on a yearly average. Its refineries in Rijeka and Sisak produced a total of 3.9 Mt of refined products in 2016. As at 31 December 2016, Retail Business Division operated a network of 504 retail locations*.

Our core activities in a snapshot

Exploration and Production Business Division is engaged in exploration, development and production of oil and natural gas in Croatia and abroad. Since its establishment, INA Group has been involved in oilfield operations in 20 foreign countries and is currently operating in Angola and Egypt. In more than 60 years of onshore exploration and production activities, 45 oil and 37 gas fields were equipped and put into operation and around 4,500 exploration and development wells with the total depth of about seven million meters, about 1,200 producing oil wells with more than 4,000 km of pipelines and more than 200 production gas wells and oil facilities and installations were built. To this day, INA's hydrocarbon production was and still is between 50 and 60 percent of total domestic primary energy production. Due to recent developments on oil and gas market, the Division's activities have been focused on increasing production from the existing fields and searching for new opportunities within the existing concessions.

Refining and Marketing Business Division's key competencies are processing of crude oil as well as production, distribution and sales of crude oil products on domestic and international markets. INA operates Croatia's two refineries located in Rijeka and Sisak. In the past few years, INA invested over HRK 5 billion in the development of its refinery systems which resulted in the production of top quality EURO V fuels. Nevertheless, due to recent trends of declining market demands and pressures placed on the entire European refining business, adjusting refinery capacities to market demand is the key to future sustainable development and success.

Retail Business Division operates a regional network of 504 retail locations, of which 396 are located in Croatia, while additional 108 retail locations are situated in the neighbouring countries: Bosnia and Herzegovina, Slovenia and Montenegro. 60 retail service stations in Croatia were included in the Entrepreneurship model. On 1 July 2016, Energopetrol was integrated into INA Group Retail BD.

* Retail locations implies: 495 service stations and other retail sites/locations (auto bar / restaurants, carwash, shop, Heating Oil sales point, LPG sales point)

INA HAS THE LEADING ROLE IN THE CROATIAN OIL AND GAS BUSINESS, INCLUDING EXPLORATION AND PRODUCTION, OIL PROCESSING AND OIL PRODUCTS DISTRIBUTION ACTIVITIES, AND A STRONG POSITION IN THE REGIONAL MOTOR FUEL MARKET

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INA IN THE COMMUNITY

In over five decades of its business operations INA has proven as a reliable partner to the local communities it operates in and to the society as a whole. In 2016, the company supported more than 100 development projects, events and initiatives focusing on children, youth, culture, sport and environmental protection and helped improve the quality of life in local communities.

INA is particularly proud of six donations totalling HRK 750,000 in November and December 2016, aimed at improving the quality of treatment for little patients at the Paediatric Clinic of the Clinical Hospital Centre Zagreb, the Special Hospital for Children with Chronic Diseases in Gornja Bistra, the Oncology and Haematology Institute of the Children's Clinic Zagreb, the Paediatric Clinic of the Clinical Hospital Centre Rijeka, the Ivo Pedišić General Hospital in Sisak and the Paediatric Clinic of the Clinical Hospital Centre Osijek.

INA continued its ongoing cooperation with the SOS Children's Village Croatia, which first started in 2009. INA's donation of HRK 150,000 in 2016 covered the annual costs of two special education therapists at the SOS Children's Villages Lekenik and Ladimirevci, and INA once again joined forces with music artist Gibonni and raised funds for the SOS Children's Village Croatia by selling Gibonni's album Familija at INA's filling stations. HRK 50,000 was raised and donated to the village for the reconstruction of the SOS Community Centre.

INA continued to lend its support to Gunja, which sustained heavy damage in the disastrous floods of 2014, contributing HRK 2.5 million for the new Gunja Community Centre that was formally opened in October 2016. The artwork produced by distinguished Croatian artists in INA's My Sun for Gunja project will be on permanent display at the Centre.

INA provides ongoing support to civil society associations on two locations through the Spajalica (Binder) project: at INA's House of Associations in Medulićeva 34 in Zagreb and in Sesvete, where INA's real estate properties have been consigned to the Therapeutic Horseback Riding Association Krila (Wings). INA and its partners built a new outdoor riding arena for the Association at the Sesvete location in September as part of the Let's Add Another Feather to Their Wings campaign, creating even better therapeutic horseback riding conditions for persons suffering from cerebral and children's palsy.

INA received record-breaking 222 applications to its Green Belt contest in 2016, and supported the 17 winning projects with a total of HRK 340,000. INA's Volunteer Club contributed a total of 6,168 volunteer hours for the common good in as many as 42 volunteer campaigns across Croatia in 2016. The membership of the INA Volunteer Club continued to grow, and the Club was 986 members strong at the end of the year, 27 percent stronger than in 2015.

100

DEVELOPMENT PROJECTS

42

VOLUNTEER CAMPAIGNS ACROSS CROATIA

222

APPLICATIONS TO ITS GREEN BELT CONTES

BEST *of the* YEAR

EMPLOYER PARTNER CERTIFICATE

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

INA - A FIRST CHOICE EMPLOYER

The job search portal MojPosao carried out the twelfth successive First Choice Employer survey in 2016, drawing more than 15,000 responses. INA was ranked a high fourth in the list of the first choice employers in Croatia. Survey participants laid a special emphasis on job security, harmonic workplace atmosphere and career opportunities as their top reasons for naming these employers.

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

At the formal reception held in Osijek in honour of UN's International Volunteer Day on 5 December 2016, INA was presented with the Special Award for Business Sector's Contribution to the Development of Volunteering as a confirmation of the values INA and its volunteers have been promoting through their activities, but also as a responsibility to continuously improve its position as an esteemed and recognised partner of the local community.

GOLDEN BARREL AWARD

The Spajalica project won first place and the Golden Barrel Award in the Inclusion category in September 2016. The Golden Barrel Award is MOL Group's first corporate award for important corporate achievements in the promotion of best practices to which the company owes its success.

GRAND PRIX

Croatian Public Relations Association (CPRA) awarded „SpajaLICA“ as best communication project in the category of social responsibility for 2015.

KEY FINANCIAL AND OPERATING DATA

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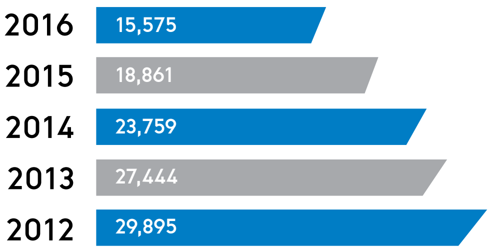
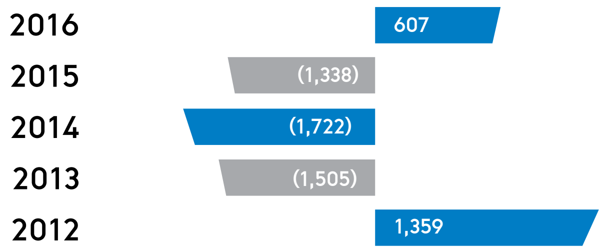
	2014	2015	2016	2016/2015
HRK mln	HRK MLN	HRK MLN	HRK MLN	%
Net sales revenues	23,759	18,861	15,575	-17
EBITDA [(1)]	2,570	2,665	2,112	-21
EBITDA excl, special items [(2)]	2,689	2,953	2,428	-18
o/w Exploration and Production	3,739	3,203	2,166	-32
o/w Refining and Marketing including Retail	-1,194	-422	558	-232
CCS EBITDA excl. special items	3,378	3,670	2,219	-40
Operating profit/(loss)	-1,722	-1,338	607	-145
Operating profit excl. special items [(2)]	513	138	842	510
CCS Operating profit excl. special items	1,206	843	626	-26
Net financial expenses	-612	-411	-146	-64
Net profit/loss for the period	-1,897	-1,418	101	-107
Net profit for the period excl. special items [(2)]	344	58	336	479
Operating cash flow	3,849	1,954	2,228	14
Capital expenditures with one-off	1,691	1,650	1,387	-16
o/w Exploration and Production	1,102	840	716	-15
o/w Refining and Marketing	317	451	481	7
o/w Retail	156	162	127	-22
Earnings per share				
Basic and diluted earnings per share (kunas per share)	(189,7)	(141,8)	10,1	N.A.
Net gearing %	20.41	22.27	19.13	-14
KEY EXPLORATION AND PRODUCTION DATA	**2014**	**2015**	**2016**	**2016/2015**
Gross crude oil reserves (MM bbl) 2P	97	92	86	-7
Gross natural gas reserves (MM boe 2P	125	107	98	-8
Total gross hydrocarbon reserves (MM boe) 2P	237	213	198	-7
Average crude oil production (Mbbl /day)	12.1	14.0	15.0	7
Average condensate production (M boe /day)	2.1	1.9	1.9	-1
Average natural gas production (M boe /day)	24.2	25.0	22.4	-10
Total hydrocarbon production (M boe /day)	38.4	40.9	39.4	-4
KEY REFINING AND MARKETING DATA	**2014**	**2015**	**2016**	**2016/2015**
Total refinery throughput (kt)	3,125	3,523	3,856	9
Total crude oil product sales (kt)	3,284	3,622	3,854	6
KEY RETAIL SERVICES DATA	**2014**	**2015**	**2016**	**2016/2015**
Total number of petrol stations	442	438	495	13
Total sales (000 t)	994	996	1,014	2

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

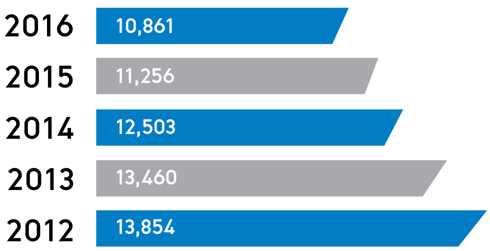
NET SALES REVENUES (HRK MLN)



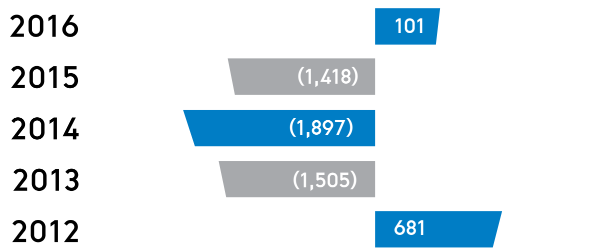
OPERATING PROFIT/LOSS (HRK MLN)



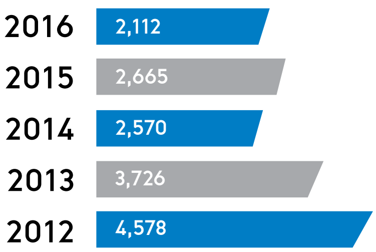
NUMBER OF EMPLOYES



NET PROFIT/LOSS (HRK MLN)



EBITDA (HRK MLN)



Group EBITDA (HRK mln)

2,112

Domestic crude production increase

12%

Service stations 2016

495

Production 2016

39.4

mboe/d

2P Reserves

198

MMboe

LETTER FROM THE PRESIDENT OF INA MANAGEMENT BOARD

The year behind us was successful for INA. After a long period of negative price environment and political turmoil in Syria, in the second half of 2016 the situation relatively stabilized, which was reflected on INA financial results: for the first time after several years no significant impairments were booked. EBITDA excluding special items reached HRK 2,428 million, while the operating profit excluding special items amounted to HRK 842 million, 510% above the level in 2015. The first half of 2016 though was marked with historically low oil and gas prices that pushed us to optimize our spending. This was executed through a cost optimisation program which, combined with business expansion, made INA eligible for strategic investments in the future.

Both net gearing and net debt registered a decrease in relation to 2015. On the other hand, CAPEX and other investment levels in 2016 stayed strong, having in mind the environment, reaching almost HRK 1.6 billion. Comparing INA's CAPEX performance and trends after the start of oil price collapse in 2014 with global and regional oil and gas companies, it is evident that INA is among the few which maintained robust investments with a reinvestment ratio well above 60%.

Despite the unfavourable environment and the necessary cost optimisation, almost all indicators were improved. Exploration and Production continues successfully increasing domestic oil production which, after several year of increase, has reached the 2009 level. Compared to 2015, domestic oil production has grown by 12%, while comparing to 2013 we have registered an increase of almost 40%.

A total of HRK 14 billion was invested in E&P in the last ten years and INA will continue making significant investments in this area. After obtaining necessary documentation, we will launch exploration activities of the total value of EUR 10 million on the Drava-2 Exploration Area, for which we obtained the concession last summer. We are continuing the intensive overhaul activities on existing fields, and will also begin developing the Zalata-Dravica field. In addition, there are plans to launch a new EOR project with the aim of increasing production of oil and gas on mature fields. In our search for profitable business opportunities, we are intensively monitoring events on foreign markets.

Refining and marketing operations register growth for the third year in a row, in Croatian and regional sales and refinery processing as well, but also through regional expansion of Retail. INA Group increased its share in Energopetrol from 33% to 67%, further strengthening the regional position. However, free cash flow is still negative, as it is burdened by refining operations. To be more precise, in 2016, the financial effect of Sisak Refinery on operating result level amounts to HRK (264) million loss in 2016. The situation stresses the need for a revised operational model of INA's refining business.

Rijeka Refinery represents the future of INA's refining operations. The completion of the Front End Engineering Design (FEED), as well as of the main design for the Residue Upgrade plant in Rijeka Refinery, is planned

for autumn of 2017. With the estimated value of approximately HRK 3 billion, this is not just one of the largest investments in the history of INA, but also one of the largest investments in Croatia ever. Also, Deloitte consultants have been engaged to implement the project of identifying options for a sustainable business operation at Sisak site.

Our business success is founded on the principles of sustainability. Since 2007 INA has been a signatory of UN Global Compact, the largest global initiative aimed at sustainable business, and thus committed to promotion of human and labour rights, as well as environmental protection and anticorruption. We share our success with the community – to those in need, we have donated HRK 2.5 million in 2016, as well as thousands of hours of volunteer work. INA is a leading company in hiring young graduates – we have employed more than 550 talents since the beginning of Growww program. We take care of our employees and our Collective Agreement is one of the best ones in Croatia, but we also enable a palette of additional benefits to ours employees, in line with the most modern global HR practices. Systematic environmental management is an integral part of INA's business policy, and health and safety is our priority when it comes to employees, contractors and suppliers, as well as processes and operations.

Today, INA is a successful and efficient company with a healthy financial base and growth potential. After a relatively long period, 2016 was the first year without regulatory changes for us, which is very important. We hope that the period of regulatory stability would persist in upcoming years. Although 2017 will be another challenging year for the oil industry, INA is entering it with the strongest balance sheet in a decade, low indebtedness and efficient operations. These are the prerequisites to achieving our goals, as we remain committed to strong growth in all areas of business.

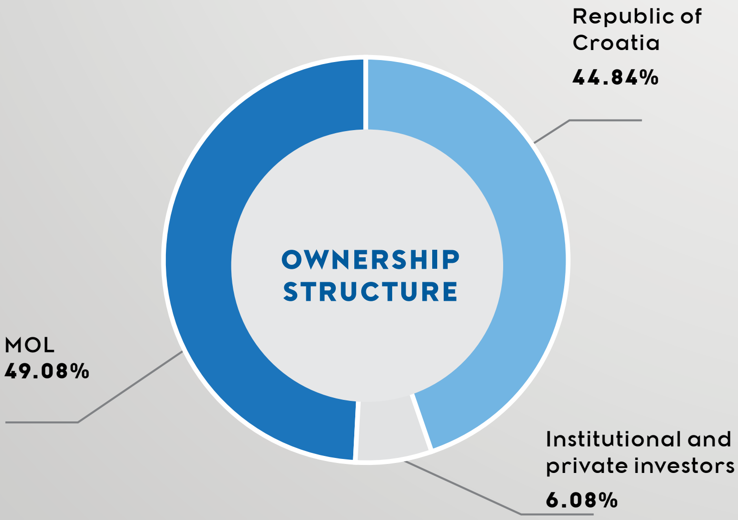
CORPORATE AND SHAREHOLDERS INFORMATION

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

In 2003, MOL Rt. (MOL) acquired 25% plus one share of INA. Through acquisition of 25% plus one share, MOL became INA's strategic partner and INA became a part of an integrated regional partnership in the oil and gas industry consisting of MOL, INA, Slovnaft and TVK.

Two years later, in 2005, 7% of INA shares was transferred to the Croatian Homeland Independence War Veterans and Their Family Members' Fund. INA - Industrija nafte, d.d. was officially listed at the Zagreb Stock Exchange on 30 November 2006 with stock ticker symbol INA-R-A. INA's global depositary receipts ("GDR") were also listed on the London Stock Exchange until September 2014.
In 2007, the Croatian Government decided to sell 7% of INA shares (700,000 shares) to the current and former INA employees.
In September 2008, the Croatian Financial Services Supervision Agency approved the publication of MOL's voluntary takeover offer, following which MOL's share in INA raised to 47.16% of the total share capital. Another offer was made at the end of 2010, raising MOL's stake to 47.26% of the Company's share capital.

As at 31 December 2016, INA's shareholder structure is as follows:
• MOL 4,908,207 shares – 49.08%
• Republic of Croatia 4,483,552 shares – 44.84%
• Institutional and private investors – 608,241 shares – 6.08%.



QUALITY MANAGEMENT

INNOVATION AND AWARDS

Since the 1960s, INA, d.d. has been maintaining a tradition of caring for innovative work as part of the intellectual property and this system has been continuously improved. INA, d.d. workers continuously apply their innovation proposals which can be categorized as patent (invention), industrial design, technical improvement, business rationalization or useful idea.
INA, d.d. workers' innovation proposals are processed by the Innovation Proposal Evaluation Committee, and this year Eiffel coordinators were introduced for Retail and Refining and marketing divisions, who encourage workers in their divisions to be creative and actively participate in the work of the Committee. In 2016, the Innovation Proposal Evaluation Committee accepted 5 innovation proposals: "Creating and manufacturing apparatus for special and EOR analysis in reservoir conditions", "Technical improvement and implementation of energy efficiency measures and environmental protection in the system of external lighting PRSrH-Facilities Stružec-PP Lipovljani", "Graphical representation of process equipment for the sections FCC, PKS, Merox LPG, sour water strippers, neutralization with alkalis, auxiliary systems", "Increasing competitiveness and improving the quality of products (gas bottle a'7,5, a'10 and a'35 kg)" and "Optimization of gas wells using a soap based surfactant".

Numerous awards at innovation exhibitions in the country and abroad and regulated innovative work issues confirm a long-standing company tradition of encouraging employee inventiveness and creativity, ultimately resulting in company innovativeness and finally, in the intellectual property that can be protected.
On this year's exhibition INOVA - BE A ROLE MODEL 2016, INA, d.d. received an award for the best Croatian exhibitor and acknowledgement for outstanding contribution to the success of the exhibition. In addition, the innovators of INA Group companies, with their innovative solutions, presented at the show and won five gold and two silver medals.

GOLD:

- Technical improvement and implementation of energy efficiency measures and environmental protection in the system of external lighting, author: Igor Štavalj, INA, d.d.
- Breakout to restore gasoline from drainage start-up water NHT on Inlet P-11101, author Darko Mažić, INA, d.d.
- INA Outboard 4T SAE 10W-30, authors: Tonća Ćaleta Prolić, Damir Andrić, INA MAZIVA d.o.o.
- INA Kalenol Ekstra 22, authors: Ljiljana Pedišić, Amila Visković, Helena Tkalčić, INA MAZIVA d.o.o.
- INA Biomet E, authors: Ljiljana Pedišić, Helena Tkalčić, Irena Polenus, INA MAZIVA d.o.o.

SILVER:

- Breakout of critical evaporator pipes and boiler NGP and replacement package EKO1, author: Ivica Vrščaj, INA, d.d.
- Graphical representation of process equipment for the sections FCC, PKS, Merox LPG, sour water strippers, neutralization with alkalis, auxiliary systems, author: Zoran Vida, INA, d.d.

QUALITY

In all business areas, INA Group companies continuously develop technologies, processes, products and services to minimize risks related to human health, safety and environment, and in this respect, preventive actions are being taken to prevent and/or reduce negative impacts.
Today, ISO 9001 standard is applied through the integrated company system on main processes and on processes in the function of management and support to INA, d.d. activities. Business management system certified according to ISO 9001 was also introduced in major INA Group companies. INA, d.d. divisions/sectors and other INA Group companies, which have a potential or an actual impact on the environment, maintain and certify environmental management systems in accordance with ISO 14001 standard. Health and safety protection at work is performed in order to prevent injury, occupational diseases and work-related diseases and protect the working and living environment and material goods in accordance with OHSAS 18001 standard. Energy efficiency and energy savings programs were implemented through the Energy Management System in accordance with the international ISO 50001 standard.

Since 2011, certification cycle for all three standards has been harmonized on INA Group level.
The first step at INA, d.d. was certification of core processes in accordance with ISO 9001 standard (quality management). At the beginning of 2000, INA, d.d. Management opted for a new management philosophy. A unique system was developed that is basically an integrated business management system based on laws, company regulations, rules of profession and requirements of ISO 9001, ISO 14001 and OHSAS 18001 standards.

Today, INA, d.d. has a total of 10 certificates according to ISO 9001, ISO 14001, ISO 50001, OHSAS 18001 standards and

EU-ISCC certificate on biofuels sustainability (International Sustainability and Carbon Certification System). EU-ISCC certificate is a required condition for the sale of biofuels on the EU market.
On INA, d.d. level, three certificates have been obtained:
- Quality management according to ISO 9001 since 2005,
- Sustainable biofuels certification according to EU-ISCC standard (International Sustainability and Carbon Certification) since 2013,
- Energy Management System in accordance with the international ISO 50001 standard since 2015.

Commitment of INA, d.d. Management Board to continuously improve business processes and business quality was also acknowledged by introducing an integrated information system, SAP, in 2006, and as early as 2007, the obligation of developing information security management system was determined. In 2008, in accordance with the legal obligation, HACCP system (Hazard Analysis and Critical Control Points) was implemented in INA restaurants. This year initial preparations for transition to the new editions of ISO 9001:2015 and ISO 14001:2015 standards were made. A complete transition is planned until the end of 2017. It is expected that implementation of these new versions of standards will enable further improvements of management systems and business processes (e.g. in risk management area) in general.

Monitoring of the entire system is carried out by means of external monitoring management system (MS) audits, MS internal audits and supplier audits in accordance with the annual planning. MS internal audits are supported by the specially developed IT support. Through MS internal audits we cooperate with health and safety audits, internal audits, compliance with the regulations audits and with security audits, which leads to a better control of processes since the results of all audits exchange and complement. Based on the collected data and performed analyses, reports are sent to the Management Board. In the second half of 2015, a new model for management of internal auditing of management systems was implemented to achieve their better control, greater efficacy and resource savings. In 2016, better results, easier coordination and greater efficacy of internal audits was achieved. We continued the improvement of a unified, centralized document management system at INA Group level. Documents are published in the Management System Regulation Database which is available to all INA Group companies.

In order to improve quality management at INA, d.d., we conduct internal training for management, management representatives and internal auditors. Furthermore, INA, d.d. experts actively participate in the work of the Croatian Society for Quality (CCS), Croatian Standards Institute -Technical Committee: 574 (quality, risks, values and innovations management systems) and through membership in the CCS Supervisory Board they contribute to the development of good relations with stakeholders and build the reputation of our company. In the 16th annual Croatian Conference on Quality 2016, i.e. 7th CCS scientific congress, two lectures and papers were presented: “Quality of information for quality of decisions and is it enough?” and “Professionalization of management system internal auditors at INA, d.d.”. During Conference preparation, we actively participated in the work of the Organizational and Program Committee, where INA, d.d. was a silver sponsor.

In the current year, external audit again confirmed compliance with the corporate policies and conformity with the requirements of the standards as a prerequisite for certification preservation.
A high degree of customer satisfaction and loyalty to our products and services confirmed that the quality management system is appropriate and effective, and that it achieves the defined goals.

STANDARDISATION

Basic principles and business rules for standardisation management system, as well as the framework and guidelines for the creation of standards in individual companies are defined on INA Group level. Control over the application of these business rules is managed centrally by INA, d.d. INA Group companies are free to define relevant areas for the creation of internal standards, in respect to the impact of these standards on business and company image. INA Group companies cooperate with the Croatian Standards Institute during the creation and publishing of standards relevant to INA Group companies.

For many years INA, d.d. has been developing and improving the standardization system on a corporate level with the aim of establishing unique corporate standards. INA standards determine the specification of our products and raw materials and the elements of the company’s visual identity, and prescribe rules and standards in the field of business communication. This year, four INA standards were revised (Retail stations: Visual identity elements – Red dot concept, Unleaded Petrol, Aviation Turbine Fuel and Diesel Fuels) according to the requirements of international and European standards and internal requirements.

INA, d.d. experts actively participate in the work of more than 34 technical committees and numerous subcommittees and working groups at CSI. At these committees, our experts also improve the process of sustainable development of our company while maintaining excellent connections with stakeholders, promoting the interests of the company in the society in a transparent and mutually acceptable manner.

INTELLECTUAL PROPERTY

Basic principles and business rules for the intellectual property management system are defined on INA Group level.

Protection of intellectual property rights on INA Group level has been managed since 2008. By centralization of the protected intellectual property on INA Group level, intellectual property of INA Group (Crosco, Proplin, INA Maziva, and STSI) becomes a part of the INA brand and an integral part of the intellectual property of INA, d.d. This approach allows us to implement consistent and effective protection of intellectual property rights on INA Group level.

Protection of intellectual property rights includes the protection of inventions (patents), logo (the names of INA Group companies), trade and service mark (trademark) and the protection of the external appearance, i.e. product appearance (industrial design), as well as visual identity of INA's filling stations, etc. It is implemented in accordance with the Company's Intellectual Property Management Strategy both in Croatia and abroad, on the markets where INA, d.d. and other companies of INA Group are already present or intend to be present.

International registration of INA's name was also accomplished, which ensures protection of the name in 23 countries. In Croatia, there are 46 protected trademarks and 24 industrial designs. Abroad, INA, d.d. protects 22 trademarks in Slovenia, 15 trademarks in Macedonia, 17 trademarks in Bosnia and Herzegovina, 12 trademarks in Serbia, 11 trademarks in Albania, 13 trademarks in Kosovo, 13 trademarks in Montenegro and 9 trademarks in Hungary as well as 5 industrial designs in Bosnia and Herzegovina, Slovenia, 4 industrial designs in Serbia, Kosovo and Montenegro. In the past few years great attention has been given to the protection on INA web domain due to its extreme importance for company recognisability on the Internet and easy access (it is protected in Macedonia and Bosnia and Herzegovina).

INA, d.d. actively conducts surveillance to prevent possible infringement of its own protected intellectual property. Representative of INA, d.d. is an active member of the Intellectual Property Commission of the National Committee of ICC (International Chamber of Commerce) Croatia at the International Chamber of Commerce and an active member of the working group for increasing public awareness on obeying and enforcement of intellectual property rights.

The other part of INA, d.d. intellectual property are employees and all their knowledge, ideas and skills applied in their work. Such intellectual property is adequately protected. Our aim is to promote the importance and the need of know-how on company and personal level through intellectual property management processes. The guidelines for managing corporate knowledge are an open and communicative corporate culture, a focus on core activities and encouragement of creativity and employee knowledge transformation into a form that can be used and shared within the company. That was the goal behind setting up the Company Knowledge Base, where it is possible to find all information related to creative work of INA, d.d. employees. In 2016, with the launching of INA Academy, the entry of INA Academy materials in Company Knowledge Base was introduced. The Company Knowledge Base is available to INA Intranet users.

OVERVIEW OF THE MACRO ENVIRONMENT

The Global Economy: Political developments increase uncertainty despite continued growth

Global growth of an estimated 3.1% in 2016 was slightly changed from the previous year, however, the contribution of advanced economies fell with the US and Japan recording slower growth in 2016 while the Eurozone saw GDP growth accelerate from 1.6% in 2015 to 1.7% in 2016. Yet, June's referendum vote in the UK to leave the European Union has increased political uncertainty, especially in the light of elections in the founding member states - the Netherlands, France and Germany in 2017. The US economy ended 2016 on a stronger note, even though overall economic growth was an estimated 1.6%, well below 2015's 2.6% growth rate. While the stock market reacted positively to the election of Donald J. Trump's administration in November 2016 on the back of promises of lower taxation, regulatory burdens and increased infrastructure spending, uncertainty over the new administration's policy impact on global trade, the risk of a more rapid increase in interest rates in response to looser fiscal policy and expectations of a stronger US dollar have all increased uncertainty in the near term or at least until the details of policy directions become apparent. On average, emerging and developing market economies grew at the same rate in 2016 as in 2015. Yet, this average figure masks significant variations with Russia still in recession in 2017 (-0.6%) and Brazil in deep recession (-3.5%), while India and China (both growing at over 6.5%) contributed most to global growth.

Global Oil Demand and Supply: OPEC steps in to boost prices and accelerate rebalancing process

Until OPEC stepped in during September, the price of Brent had averaged barely $40/barrel in 2016, as excess supply continued to characterise the market. By announcing in September that production cuts would be agreed not only within OPEC, but also with important non-OPEC producers at the end of November 2016, OPEC managed to push the price of Brent towards $55/barrel in the final quarter of 2016. It thus achieved its goal of lifting prices to support the weak budget positions of member states. OPEC agreed to cut production by 1.2 million barrels a day (MMb/d) on 30 November 2016 and ten days later non-OPEC producers including Russia (but not the US) agreed to cut production by a further 0.6 MMb/d in 1H 2017. Despite demand growing an estimated 1.3 MMb/d continued efforts by OPEC members to squeeze out higher cost producers did not succeed and global production and inventories rose, remaining above long term average levels in 2016. Non-OPEC producers, such as Russia, also continued to maximise production helped by a weaker currency, while US unconventional production fell moderately. Efficiency gains in the US unconventional industry through further cost reductions, technological advances and more selective targeting of production areas, all resulted in a more resilient US oil production industry. That was also a part of the reason OPEC made its move in late 2016 to curb production. Brent averaged $43.7/barrel in 2016 while WTI traded at an average price of $42/barrel. On the Mediterranean market Urals averaged $42.5/barrel compared to $51/barrel in 2015.

Natural gas prices remained low throughout 2016, although by the end of the year US natural gas production appeared to reach a peak and gas storage levels had returned to historical average levels. This suggests further falls in prices are unlikely. That said, global LNG export facilities will continue to come on line ensuring ample supply in an environment of relatively muted European demand growth.

Refining margins in 2016 remained healthy, even though they were lower than in 2015. Gasoline crack spreads continued to benefit from strong demand, especially in the Atlantic Basin in 2016 with the additional benefit to US and European refiners of increased imports into South America. Diesel demand growth, on the other hand, has been more moderate and unlike gasoline, stocks of diesel remain very high, all of which has contributed to relatively somewhat lower diesel crack spreads. With most of the OPEC/non-OPEC cuts in crude oil production to fall on heavy and sour crude grades, the price differential between Brent and Urals narrowed toward the end of 2016 squeezing Mediterranean refining margins.

The Croatian Economy in 2016: economic recovery accelerates

Economic growth accelerated in 2016 with the economy growing at an estimated 2.9% after expanding 1.6% in 2015. This was the fastest pace of expansion in the economy since the global financial crisis. 2016 saw employment rise, investment activity accelerate and real wages increase while private sector indebtedness fell at the same time. The result of all of this was that domestic demand was the main driver of economic growth. Industrial production rose 5% in 2016, the fast pace of expansion since 2002. While exports of goods and services continued to rise, the recovery of investment spending and household consumption resulted in an increase in imports. The contribution of net exports of goods and services to GDP in 2016 was -0.1% percentage points.

In the 12 months to November 2016 (the latest available data at the time of writing), foreign indebtedness fell EUR 3.3 bn (over 10 percentage points of GDP) with banks responsible for most of the reduction and the private sector contributing almost EUR 0.8 bn to the overall reduction. Foreign debt at the end of 2016 was below 100% of GDP for the first time since late 2009.

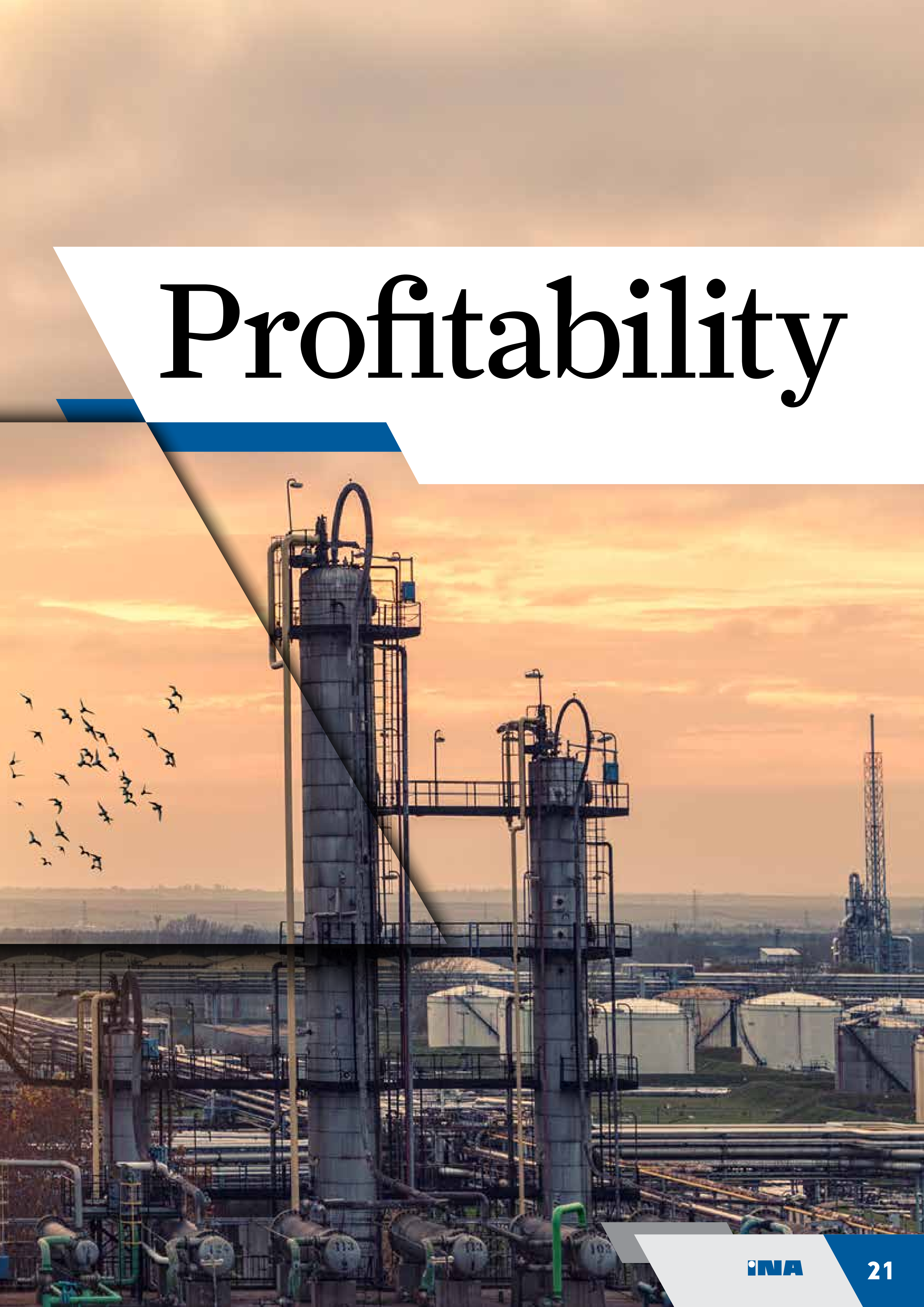
Although imports of goods and services rose, the current account recorded an estimated surplus of 2.7% of GDP in 2016. Inflows of EU structural funds were once more an important contributor to Croatia's current account surplus in 2016. Also, while the growth of exports of goods and services slowed in 2016 to an estimated 5%, exports of goods and services as a percentage of GDP rose to an estimated 51.2% in 2016, from 50.0% in 2015. This reflects the dynamic effects of joining the EU with more and more local companies joining EU supply chains as the previous period of robust external demand (2002-2008) were characterised by essentially constant shares of exports of goods and services relative to GDP.

Given the pick-up in economic growth, it was no surprise that budget revenues recovered strongly, resulting in a consolidated general government budget deficit below 2% of GDP in 2016. Public debt at the end of 2016 is likely to have fallen towards 85% of GDP compared to 86.7% at the end of 2015. While the contribution of stronger economic growth to a lower budget deficit is welcome, further efforts to improve the efficiency of public expenditure will be needed to ensure budget deficit and public debt dynamics are more resilient to a down turn in the economic cycle.

As welcome as the recovery in economic growth and employment is, the economy continues to be held back by structural constraints. For example, more and more employers are voicing concern over shortages of adequate labour despite high unemployment. The fiscal position is also less robust than appears at first glance with the 2017 budget increasing recurrent spending. Loose fiscal policy over the previous two decades has seen public debt increase significantly resulting in interest payments amounting to 3.2% of GDP in 2016 – a year of record low interest rates. As global interest rates rise in the coming years, the need to control public expenditures will become more important.

With respect to the domestic gas market, pursuant to a government decision under the auspices of the Gas Market Act, gas producers are obliged to deliver gas produced in Croatia at a regulated price to the nominated wholesale gas supplier for households. This price was reduced by 20% effective 1 April 2016 which has adverse financial implications for INA's gas business.

Profitability



"Our great success this year was putting two Međimurje fields, Vučkovec and Zebanec, into production, which was an immensely complex and long-lasting project in many aspects. In this project, as in everything else we do, constant effort to protect the health and safety of our people and the environment is our top priority. I am proud to say that this year we managed to improve our already impressive results in this regard."

Želimir Šikonja, Executive Director of Exploration and Production Business Division

EXPLORATION AND PRODUCTION

The Exploration and Production Business Division is engaged in the exploration, development and production of oil and natural gas in Croatia and abroad. Since it was founded, it has been involved in oilfield operations in 20 foreign countries and currently operates in Angola and Egypt. At the end of 2016, INA had 198 million BOE of proven and probable (2P) hydrocarbon reserves with an average hydrocarbon production of 39.4 MBOE/day.

The trend of oil price decrease has continued even further and in 2016 oil prices sank to new lows, dropping below 30 $/bbl in January. This unfavourable environment forced INA to lower its E&P investments in 2016, by over HRK 350 mil. This resulted in the postponement of several major projects including drilling one new well, well

2016 HIGHLIGHTS

- HSE KPIs: 0 fatalities, 1,206 FTEs with 0.8 LTIFs
- CAPEX: HRK 716 mn.
- SPE 2P Reserves: 198 MMBOE
- Total Production: 39.4 MBOE/d

workovers and stimulations as well as two 3D seismic campaigns.

INA's total hydrocarbon production in 2016 was 4% lower than in 2015. The domestic onshore oil production natural decline trend, which lasted for 17 years, was finally halted in 2014 and has been rising since, achieving a 12% increase in 2016 compared to 2015, a 39% increase compared to 2013 and reaching the levels seen back in 2007. The onshore gas production decline has been reversed in 2016, and production was 3% higher than in 2015. Offshore gas production in 2016 has seen a sharp 24% drop compared to 2015, as a result of natural decline, increasing water cut as well as INA's production share being roughly 10% lower than the previous year (60% in 2016 compared to 67% in 2015). In 2016, two (2) wells were drilled in Croatia, both of which were development wells. Two (2) development wells were also drilled in Egypt. Drilling of one (1) development well in Croatia was postponed due to the above mentioned low oil price environment.
INA's major field development success in 2016, despite the low oil price environment, was Međimurje Project. The project entailed bringing into production three new gas fields, Vučkovec, Vukanovec and Zebanec. This was an immensely complex project which started all the way back in 1993. The Project's significance, other than the obvious production of hydrocarbons is the synergy with the EOR Project since the Međimurje fields contain CO2 which will be used to increase production from INA's mature onshore oil fields. INA's investment into this project has surpassed HRK 450 mil.

Međimurje Project was immensely complex, both in technical and legal terms. Technically, it entailed well drilling and completion, design and construction of the surface gas processing facilities as well as a gathering and transport pipeline system of over 100 km in total length. Legally, INA had to obtain vast amounts of permits and acquire rights to over 4,300 property plots. The project involved three (3) consortiums of Croatian companies led by STSI, Đuro Đaković Holding and KONČAR - Power Plant and Electric Traction Engineering.

Finally, two fields (Vučkovec and Zebanec) were put into trial production in July and August respectively. The third field, Vukanovec, is still not producing due to permitting issues. The Full Field Optimization concept originally performed on one field in 2016 and planned to continue in 2017 has been accelerated and was already successfully implemented onto four fields so far.

No exploration drilling has taken place in 2016 due to the inability to obtain the necessary permits. However, there was one positive event regarding exploration, which was the signing of the Production Sharing Agreement (PSA) with the Government for the onshore block Drava-02 which was awarded to INA in 2014. Even though it has taken roughly two years for the Government to offer the signing of the PSA, this event is a key milestone. INA has already performed the obligatory activities from the PSA for the year 2016, which included seismic data reprocessing and preparatory activities for drilling of two exploration wells in 2017.

The First Offshore Licensing Round for Licenses for the Exploration and Production of Hydrocarbons on the Adriatic Sea was held in 2014. INA was awarded licenses for two (2) exploration blocks, South Adriatic 25 and South Adriatic 26. Signing of the Production Sharing Agreements has been postponed by a decision of the Croatian Government and remained unchanged throughout 2016.

INA's natural gas sales on the domestic market dropped by 2.36% in 2016 compared to 2015 which also resulted in 30% less income due to the decreased prices, market loss due to stronger competition, decreased demand on the market and Government regulations.

KEY ACHIEVEMENTS IN 2016

PRODUCTION

Total hydrocarbon production in 2016 was 39.4 MBOE/d, which is 4% lower than in 2015. Despite performing the maximum amount of works on onshore fields and production increases achieved, relative to the unfavourable external environment, it was not possible to mitigate the severe production rate drops on offshore fields.

Domestic onshore oil production decline trend, which lasted for 17 years, was finally stopped in 2014, and the increase trend continued in 2016, reaching 11.9 MBOE/d, which is an increase of 12% compared to 2015. Furthermore, it is slightly higher than the production in 2009.

Domestic onshore gas production decline trend has been reversed in 2016 and production reached 13.1 MBOE/d, which is 3% higher than in 2015.

Domestic offshore gas production in 2016 has seen a sharp 24% drop compared to 2015, as a result of natural decline and increasing water cut.

INA's share of production in Angola was 1.1 MBOE/d, which is 12% lower than in the previous year. Due to unfavourable conditions in the external environment in which the fall of crude oil prices has heightened uncertainties, the Partner Group remains dedicated to seeking every opportunity to

-4%
TOTAL HYDROCARBON PRODUCTION

+12%
DOMESTIC ONSHORE OIL

+3%
DOMESTIC ONSHORE GAS

-24%
DOMESTIC OFFSHORE GAS

-6%

INTERNATIONAL

maximize the project's efficiency and cost effectiveness and thus improve its economics.

INA's share of production in Egypt was 2.1 MBOE/d, which is 2% lower than in the previous year. Higher production on North Bahariya and especially on East Yidma compensated lower production on Ras Qattara and West Abu Gharadig where production decrease is a result of a natural production decline.

CROATIA ONSHORE

INA started the Croatian onshore exploration and production activities more than 60 years ago. This accumulated knowledge of geological structures and experience make INA the most efficient company to exploit the remaining sizeable hydrocarbon potential of the continental part of Croatia. Production of oil and gas onshore is conducted on 3 (three) Production Regions (northern, central and eastern Croatia) and 1 (one) Production Unit with 38 oil fields, 18 gas fields and more than 3,000 kilometres of pipelines. Average age of oil and gas fields onshore is 41 years.

- **Reserves (SPE 2P, 2016 Y/E): 146.4 MMBOE**
- **Production (2016): 26.9 MBOE/d**

Exploration

Key exploration milestone in 2016 was on 10 June 2016, when INA signed the Production Sharing Agreement (PSA) with the Croatian Government for the awarded onshore Block Drava-02. Total agreement area of awarded Drava-02 license is 2,506 km2, while duration of the First Exploration phase is 3 years, with the possibility of extension.
INA has successfully conducted obligatory work program for Drava-02 block for the year 2016, including reprocessing of 3D seismic polygon of 300 km2 "Molve, Molve South and Molve South continuation", including preparatory activities for drilling of two exploratory wells, the committed work program for 2017: Mala Jasenovača-1 and Severovci-1, compilation of two locality studies "Hydrocarbon potential of wider exploration area Mala Jasenovača" and "Hydrocarbon potential of wider exploration area Severovci", two Geological projects for Mala Jasenovača-1 and Severovci-1 and two Well Site Design projects for location permits. The aim of the outlined drilling projects is to discover new commercial hydrocarbon reserves, while additional geological studies should provide new perspective areas for further exploration activities in 2018/2019.
In order to better define perspective hydrocarbon areas, INA performed different preparatory activities for new tenders in

BLOCK DRAVA-02

PSA SIGNED ON JUNE 10TH

2,506 km²

EXPLORATION BLOCK AREA

300 km²

3D SEISMIC REPROCESSED IN 2016

2

OBLIGATORY WELLS TO BE DRILLED IN 2017

Croatia, expected to launch in 2017, that would include 6 blocks in the Pannonian region and 4 blocks in Dinarides. Therefore, INA has started a technical re-evaluation of the Pannonian basin, in order to better define remaining hydrocarbon potential and as a technical basis for the future bid round.
The exploration area is divided into Drava, Mura and Sava sub-basins, whereas regional evaluation has been started with Play and Prospect Workflow and with the special attention to new plays and prospect analysis.

Moreover, INA has successfully signed the contract for geological study preparation "Dinarides, Thrust Belt potential assessment", to be conducted in co-operation with an international partner, planned to be finished by the end of 2017. Additionally, in 2016, INA started a procurement procedure for the "Study of the unconventional potential", geological study preparation in 2017. Both of these studies will serve as a basis for the new onshore tenders in Croatia.
During 2016, INA was engaged on numerous international evaluations, seeking opportunities and perspective hydrocarbon areas, including Greece, Egypt (Bid Round 2016), Iran, Italy, Tunisia and Albania.

Development

INA's major field development success in 2016, despite the low oil price environment, was Međimurje Project. The project entailed bringing into production three new gas fields, Vučkovec, Vukanovec and Zebanec. This was an immensely complex project which started all the way back in 1993. The Project's significance, other than the obvious production of hydrocarbons is the synergy with the EOR Project since the Međimurje fields contain CO2 which will be used to increase production from INA's mature onshore oil fields. INA's investment into this project has surpassed HRK 450 mil.

The EOR project trial injection continued throughout 2016 and CO2 is being injected into wells on the Ivanić and Žutica North fields. Approximately 177 million m3 of CO2 was injected in 2016 which is 50% more than in 2015. During the year, almost 300 well activities were performed on Ivanić and Žutica wells as part of the project. Activities included well workovers and relining on injection and production wells, well measurements, corrosion inhibition, installation of surface equipment for CO2 injection measurement and control, etc. During the year, production has been steadily increasing. Total capital expenditure in 2016 amounted to more than HRK 180 mil.
The Full Field Optimization concept originally performed on one field in 2016 and planned to continue in 2017 has been accelerated and was already implemented onto four fields so far. It is planned to continue and will be intensified, implementing it across prospective mature onshore fields. All the necessary preparatory works are in progress and already finished for certain fields.
The Full Field Optimization concept includes improvements across the entire production system. It involves improvements in reservoir performance, well performance, pipeline network performance, facility performance which are all made possible using integrated production system computer models.

177 MMm^3

CO_2 INJECTED

4

FFO CONCEPT IMPLEMENTED ON 4 FIELDS

Two (2) development wells were successfully drilled in 2016. Molve-35R was put into production, while Selec-3 is expected in 2018. Well Đeletovci-1Z has finally been put into production after a lengthy period of inability to obtain the necessary permits.

2

DEVELOPMENT WELLS DRILLED

CROATIA OFFSHORE

Major offshore field development started after signing the North Adriatic Production Sharing Agreement (1996) and Aiza-Laura Production Sharing Agreement (1997). Extensive exploration and development activities in the North Adriatic were carried out in cooperation of INA and its Italian partners (ENI and EDISON Gas) within the Mining Plot areas. Until now, in the contract areas North Adriatic and Aiza-Laura, INA has invested a total of HRK 5.1 billion (USD 1.0 billion) in capital construction of plants and facilities, while of the total gained reserves INA's share is around 64% of the produced gas.

- Reserves (SPE 2P, 2016 Y/E): 9.9 MMBOE
- Production (2016): 9.3 MBOE/d

Exploration

The First Offshore Licensing Round for Licenses for the Exploration and Production of Hydrocarbons on the Adriatic Sea was held in 2014. 29 blocks were offered in the North, Central and South Adriatic. INA successfully submitted bids and was awarded licenses for two (2) exploration blocks, South Adriatic 25 and South Adriatic 26. Signing of the production sharing agreements was postponed by a Government decision. There have been no changes to the situation in 2016.

Development

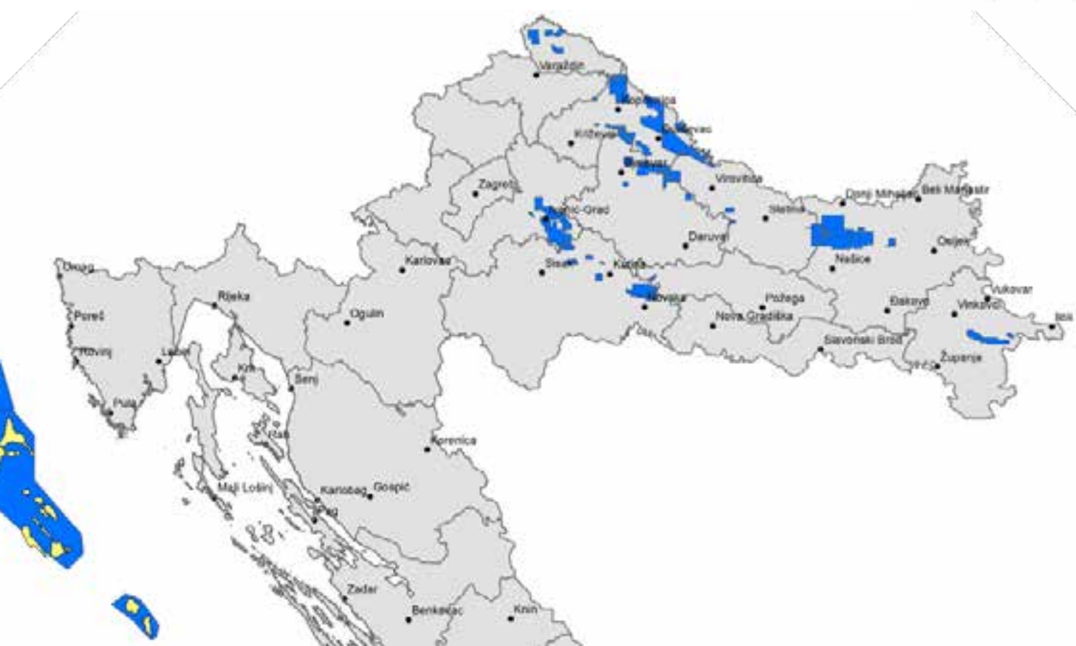
On the existing fields, workovers and maintenance activities required for production to continue and to help offset production decreases were performed.

INTERNATIONAL CONCESSIONS

a) ANGOLA

- **Reserves** (SPE 2P, 2016 Y/E): 3.3 MMBOE
- **Production (2016):** 1.1 MBOE/d

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



was transferred to Sonangol Pesquisa & Producao S.A. on 31 December 2010. INA's participating interest in Block 3/05 and Block 3/05A is 4%.

BLOCK 3/05

Block's Operator is Sonangol P&P with a 50% participating interest. Other partners are: AJOCO (20%), ENI (12%), Somoil (10%) and NIS (4%), while INA's participating interest is 4%. This is former Block 3/80 with license extended in 2005. There are eight (8) production oil fields in the Block: Palanca, Pacassa, Bufalo, Impala SE, Impala, Cobo, Pambi and Oombo. The Block's license expires on 30 June 2025.
The 2016 work programme included facilities maintenance and well workovers across the Block.

BLOCK 3/05A

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

Development well Gazela-101/Gazela-101 ST-1 was drilled and completed in 2015. In 2016, the Operator's main focus was on studies and engineering activities related to the forthcoming Final Investment Decisions.

b) EGYPT

- **Reserves** (SPE 2P, 2016 Y/E): 2.5 MMBOE
- **Production (2016):** 2.1 MBOE/d

INA has been involved in E&P activities in Egypt since 1989.
East Yidma Concession: INA is a 100% operator of the Concession after exercising its pre-emption rights to 50% of RWE Dea participating interest and Sales and Purchase Agreement (SPA) was signed in 2012, while the Deed of Assignment was signed in 2013. Concession consists of two Development Leases, Sidi Rahman and Rizk.
Sidi Rahman Development Lease is operated by JV - Marina Petroleum Company (MPC) established in 2007. Sidi Rahman is the only field in production. INA's share of production is 58%. The production licence expires in 2026 and has an optional 5-year extension period.
Rizk Development Lease is operated by JV - Marina Petroleum Company (MPC). Production started in 2012. INA's share of production is 58%. The production licence expires in 2029 and has an optional 5-year extension period.
Ras Qattara Concession is operated by IEOC whose stake is 75%, while INA is the sole partner with a stake of 25%. Concession consists of two (2) oil fields: Zarif and El Faras. Production started in May 1994 on Zarif field and in November 1996 on El Faras field. INA's share of production is 10.825%. The production licence expires in 2018, including a 5-year extension period.
West Abu Gharadig Concession is operated by IEOC whose stake is 45%, while Dana Petroleum and INA are the two partners, with stakes of 30% and 25% respectively. There are two (2) oil fields in production: Raml and Raml SW. Production started in 1996 on Raml field and 1999 on Raml SW field. INA's share of production is 14.5%. The production licence for the Raml Lease expires in 2021 including a 5-year extension period, while for the Raml SW Lease it expires in 2019, with an optional 5-year extension period.

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

Development Activities in 2016

Due to low oil price environment, operations in 2016 were restricted to minimum activities necessary to maintain production.

On the North Bahariya Concession, very low oil price at the beginning of 2016 was the reason for suspending the drilling program after successfully drilling two (2) development wells. Four (4) production wells were converted to water injectors. In addition, two (2) water source wells were drilled. Workover operations were performed on ten (10) wells while operations on one (1) well are in progress.

2

WELLS DRILLED IN EGYPT

On the West Abu Gharadig Concession, there were no drilling activities in 2016. However, several projects were performed, such as upgrading Raml process, flow line upgrade, civil works and other small activities. In addition, workover operations were performed on one well.
On the East Yidma Concession, there were no drilling activities in 2016. Maintenance and construction of three (3) oil storage tanks on the Sidi Rahman field that started in 2015 were completed in 2016. Workover operations were performed on two (2) wells.

SYRIA

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

GAS TRADING

In 2016, INA's natural gas sales on the domestic market (without internal consumption of 0.199 bcm) amounted to 1.115 bcm, which is 2.3% less compared to 2015 which also resulted in a 30% less income due to decreased prices, market loss due to stronger competition, decreased demand on the market and Government regulations.

Almost 51% (0.574 bcm) of total natural gas sold was delivered to HEP according to the Government decision under which INA as a producer of natural gas is obliged to deliver to HEP (for households supply) up to 0.670 bcm of natural gas per year until 31 March 2017.
The remaining part of delivered natural gas was sold to local suppliers/traders and other industrial customers. All contractual obligations towards customers in 2016 are fulfilled.

On 1 April 2016, the Government made a decision under which the price for which INA delivers natural gas to HEP was decreased by 20%. The new price is valid until 31 March 2017. Due to regulation, INA's total estimated revenue loss in 2016 amounts to approximately HRK 98 mn compared to market prices in 2016.
From 01 April 2017 INA is no longer obligated to sell natural gas to HEP (for households supply) under regulated prices. Government decided that HEP will remain wholesale supplier for households in Croatia from 01 April 2017 till 01 April 2018

-2,3

DOMESTIC GAS SALES

-20%

REGULATED HOUSEHOLD GAS PRICE

Until July 2016, INA managed to contract the entire planned volumes of natural gas for the gas year 2016/2017 (1,3 mcm) from its own production and additional volumes from import was contracted in order to secure supply of gas to all customers in INA's portfolio.

The main objective in 2017 is to hold/increase our present market share and sell gas at highest possible prices (margins). In addition, maintaining our position as the leading seller of natural gas and provide a competitive, reliable and flexible supply of natural gas to customers, while maintaining a sustainable level of returns from all operations.

STRATEGY AND OUTLOOK

In 2017, INA plans to remain focused on intensifying the implementation of its Full Field Optimization concept, continue the Drava-02 exploration programme, begin the second and third phases of the EOR project, acquire 3D seismic and perform geological studies as well as put into production the remaining wells on Selec and Hrastilnica fields. The projects which were postponed from 2016 to 2017 due to the low oil price environment are expected to be performed as planned. The Full Field Optimization concept is planned to continue and will be intensified, implementing it across prospective mature onshore fields. Well workovers and optimizations are planned to continue in order to maintain a steady increase in production level.

The Drava-02 exploration programme, after being prepared for in 2016, will start in full swing in 2017 with drilling of two mandatory exploratory wells. New tenders in Croatia are expected to be launched in 2017 and INA has already performed different preparatory activities. Tenders are expected for six blocks in the Pannonian region and four blocks in the Dinarides.

The second phase of the EOR project related to the southern part of the Žutica field is expected to continue in 2017 along with workovers on the production wells.

The third phase of the EOR project is an immensely complex project which is heavily dependent on the external environment in order to be viable. Currently, it is in the preparation phase and is planned to start off with Pilot projects in order to prove the concept after which it can be expanded onto entire fields. Vukanovec, the last remaining field of Međimurje Project, is expected to be put into production in 2017 following the resolution of permitting issues.
In the upcoming years, INA will partake in international tenders with the goal of acquiring both discovered reserves and new exploration opportunities in order to ensure a stable reserve replacement, largely depending on the crude oil price.

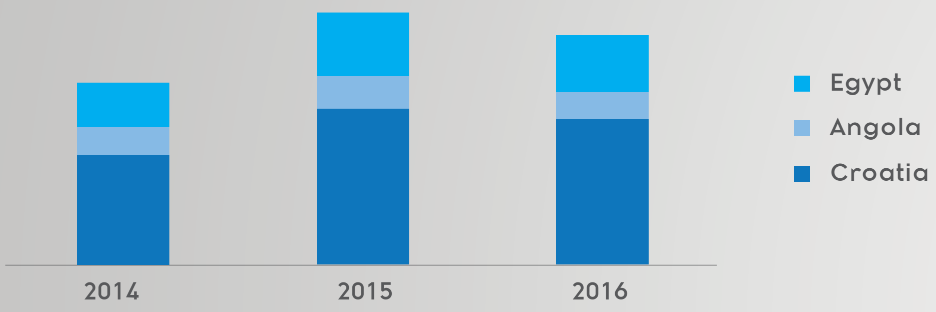
RESERVES BREAKDOWN

MMBOE	1P			2P		
	2014	2015	2016	2014	2015	2016
by country						
Croatia onshore	133	127	117	168	158	146
Croatia offshore	16	9	6	27	14	10
Syria	22	22	22	36	36	36
Egypt	2	1	1	3	2	3
Angola	2	1	2	3	4	3
Total	**175**	**161**	**148**	**237**	**213**	**198**
By product						
Oil	71	66	62	97	92	86
Gas	93	84	10	125	107	98
Condensate	11	11	76	15	15	14
Total	**175**	**161**	**148**	**237**	**213**	**198**

HYDROCARBON PRODUCTION BY REGION

Hydrocarbon production (Mboe/day)	2014	2015	2016	2016/2015
Croatia	35.2	37.6	36.3	-4
Angola	1.2	1.2	1.1	-12
Egypt	2.0	2.1	2.1	-2
Total	**38.4**	**40.9**	**39.4**	**-4**

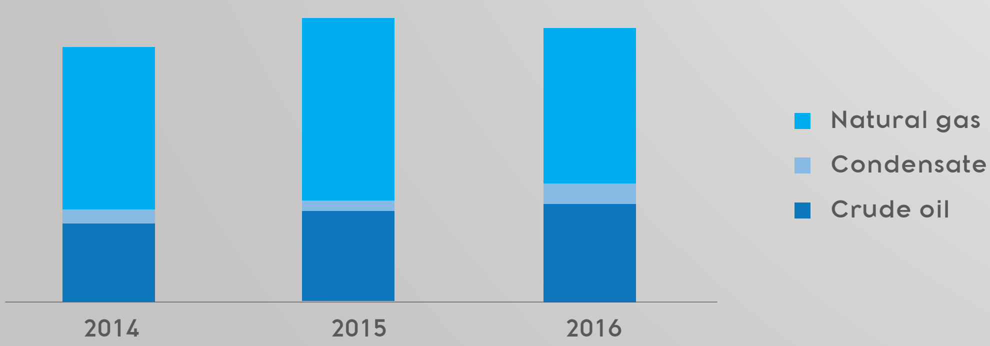
PRODUCTION BY REGION



HYDROCARBON PRODUCTION BY PRODUCTS

Hydrocarbon production (Mboe/day)	2014	2015	2016	2016/2015
				%
Crude oil	12.1	14.0	15.0	7
Natural gas	24.2	25.0	22.4	-10
Condensate	2.1	1.9	1.9	-1
Total	**38.4**	**40.9**	**39.4**	**-4**

PRODUCTION BY PRODUCTS



EXPLORATION AND PRODUCTION SUSTAINABILITY ACHIEVEMENTS

Good HSE performance without fatalities, no penalties, no Process Safety Events (PSE) and no High Potential (HiPO) incidents marked the year 2016. The number of Lost time injuries (LTIs), halved already in 2015 compared to 2014 (4), in 2016 remained at the same level (LTI = 2). INA E&P achieved a high level in realisation of the HSE and SD Action Plans (98.8% and 100% respectively).
In 2016, three hydrocarbons spills over 1 m3 occurred, resulting in environmental pollution. Applied projects of rehabilitation and replacement of critical pipelines sections have resulted in a multi-year trend of reduction in the total number of environmental pollution incidents, which is a certain confirmation of existence of a continuous and secure operating system. However, prevention of illegal connections through implementation of measures in order to preserve security represents a difficult task for the company due to significant length of our pipelines, so that illegal connections performed by the third party with the purpose of stealing of oil and condensate, remain an obvious issue posing immediate danger to safety of the local population and the protection of nature and the environment. Nevertheless, the total number of illegal connections registered on an annual basis shows a decreasing trend, which can certainly be attributed to good cooperation with the local police.
Environmental pollution remediation activities are carried out responsibly and promptly by an authorized company (in 2016 a two-year contract for remediation services in case of uncontrolled discharge of dangerous substances into the environment with the company STSI Ltd. was signed), in order to prevent further environmental damage and restore the area to a satisfactory state. The success of rehabilitation is confirmed by agro-ecological studies for which an authorized company is engaged.
In 2016, environmental impact assessment (EIA) for INA E&P mining plots and new interventions/projects was continued, which resulted in signing of a new contract for the service of EIA studies and surveys.

As regards our E&P provision based environmental liability, in 2016, calculation revision was made, taking into account the unit prices at the Croatian market and all calculation parameters (necessary works) in the extent which ensures requirements of current legislation in the Republic of Croatia.
At the locations covered by preliminary pollution investigation programme (facilities for technological fluid regeneration Stružec, Beničanci and Šandrovac) groundwater monitoring was done in the scope of the contracted service. By analysing the results of received monitoring reports, and taking into account the hydrogeological features of the sites, the conclusion is that identified concentration cannot affect the groundwater quality.

2016 was marked by the procedure for obtaining Authority approvals for Safety reports prepared for E&P SEVESO locations in line with SEVESO III Directive i.e. seven (7) Dispatching Stations (Žutica, Šandrovac, Graberje, Stružec, Jamarice, Beničanci and Đeletovci) and Fractionation Facilities Ivanić Grad. Expert Committee Assemblies were held for all locations. For the Dispatching Stations Žutica, Stružec and Šandrovac, the Authority issued approvals, while the process for other locations is still ongoing. All E&P SEVESO locations were covered by integrated authority inspections supervision.
As per Environmental permits, INA E&P activities in 2016 were focused on fulfilment of the requirements prescribed by the issued Decisions, first of all, realisation of the Gas turbines NOx reduction project through injection of demineralized water into cogeneration plants gas turbine fuel combustion chambers at FF Ivanić Grad and GTP Molve.
Compliance with legal requirements in the area of air protection referred to activities on the gas engines reconstruction project at Compressor stations Šandrovac and Lipovljani.
For the locations of Dispatching Stations Đeletovci, Beničanci and Šandrovac, Decisions to use dangerous chemicals were issued by the Authority, while the issuing procedure for the locations of Dispatching Stations Žutica and Jamarice, Measuring Station-2 Lipovljani, Compressor Station Lipovljani, and Gathering Station Iva-2 started in 2016 also.
Our activities within the EU ETS system were carried out under legally defined requirements and deadlines. INA E&P successfully submitted verified emission allowances for 2015 to the facility accounts. As regards non-ETS emissions, significant CO_2 emission decrease was achieved by the ongoing CO_2 EOR project Ivanić and Žutica.

INA E&P actively participates in the activities of individual organizations. Through a nominated representative, we are actively involved in the activities of IOGP Subcommittee on the sea and the environment, working on the topics such as Marine Protected Areas, Maritime Spatial Planning, Marine Strategy Framework Directive (MSFD), Good Environmental Status (GES).
Our appointed representative (INA E&P representative is also the appointed representative of the Republic of Croatia) participated in the work of the Technical Working Group at the European Commission – DG Environment in drafting the HC BREF - reference document which lays down the best available techniques in the field of exploration and production of hydrocarbons, with special emphasis on potential impact of all offshore and onshore activities on environment. Also, E&P representative in cooperation with the representative of the Republic of Croatia participated in the Technical Working Group at the European Commission in the preparation of this document, which defines the best available technology (BAT) in waste management in the mining industry, including exploration and production of hydrocarbons on land.
Process Safety Management system implementation in 2016 resulted in the contracted P&ID and HAZOP/SIL studies preparation for nine PSM relevant locations in E&P, NICE system for e-MoC installation and LOTO equipment delivered on sites with LOTO procedure prepared and ready to use. Other activities were mainly focused on gas processing units of Production unit-processes, such as PSM critical equipment selection, Technological manual and operating procedures preparation. There were five PSM audits held; for Process Safety Information, Operating procedures and Safe Work Practices, Quality Assurance and Mechanical integrity to define the implementation gaps on certain location in more detail. Pre-Startup Safety reviews were held on four E&P projects and PSM forums were regularly held; six in total. Several educations from MOL Group supported the implementation; PHA and MoC, QA, PSM for project managers and organizational managers. The final realization of PSM action plan resulted in 85.3%.

"In a constantly changing market environment, we have managed to capture the opportunities presented while maintaining a safe and reliable operation. This is tangible proof of the fantastic capability of the INA R&M team."

Bengt Oldsberg, Executive Director of Refining and Marketing Business Division

REFINING AND MARKETING

INTRODUCTION

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

2016 HIGHLIGHTS

- Strong focus on zero accident operation. 2016 HSE efforts aimed at process safety management and HSE Leadership Engagement.
- Market share on the domestic market remained stable with increased sales on export markets.
- Improved wholesale performance with increased sales of motor fuels on the domestic market. Overall customer satisfaction improved in Croatia as well.
- Production optimisation

  resulted in increased processing and enhanced sourcing of feed stock, while maintaining focus on stable captive market supply and maintaining a strong position on the domestic market.
- Trading activities enabled fast reaction to market conditions with increased flexibility in production.
- Direct access to Mediterranean markets utilised by flexibly placing volumes on sea borne trade. Proven management tactics of adjusting production assets to reflect market realities continued with:
  - on-demand and block operation in the refineries,
  - increased utilisation of production assets to capture favourable refinery margins in 2016 resulting in maintained white product yields in the refineries compared to 2015,
  - smooth refining operations during H2 2016 affected performance positively while capturing favourable refining margins,
  - proactive crude and feedstock selection continued - more crude grades in evaluation basket to increase the share of marketable motor fuels. Total of 11 crude grades processed in 2016 while increasing the share of alternative crude grades processed in the Rijeka Refinery, and
  - processing alternative feedstock (other than crude oil) to optimise key processing units and increase white product yields.
- The turnaround in the Rijeka Refinery was successfully executed during Q1 2016 and was aimed at improving asset performance and reliability, fulfilling legal obligations, ensuring continuous operation and in parallel allowing for the execution of major investment project.
- Efficiency improvement initiatives including energy efficiency, loss management, inventory management, removing logistics bottlenecks and strengthening synergies between the refineries successfully continued.
- Major capital investments

  finished in Logistics: new truck loading facility in Rijeka and new rail loading/unloading facilities in Rijeka and Sisak.

RIJEKA REFINERY

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

During the modernisation programme, which was completed in 2011, three facilities were completed within the Hydrocracking complex - Mild Hydrocracking, Hydrogen Unit and Desulphurization Plant (Claus), as well as numerous supporting facilities and installations. The hydrocracking complex significantly increased conversion and the complexity of the refinery (9.1 Nelson Complexity Index, “NCI”). After the modernisation programme, the Rijeka Refinery produces only EURO V quality gasoline and diesel fuels, and complies with high European environmental standards. Besides gasoline and diesel fuels, the Rijeka Refinery produces jet fuel, virgin naphtha for the petrochemical industry, benzene concentrate, heating oils and several grades of fuel oils.

SISAK REFINERY

The Sisak Refinery is located in central Croatia in the vicinity of Zagreb, placing it near the main centre of Croatian motor fuel consumption. The connection to the JANAF crude oil pipeline system enables the transport of continental and sea purchased crude oil to the refinery, while the local oil pipeline is used to transport crude oil and condensate from domestic oil fields in Moslavina and the Sava River is used to transport crude oil from the Slavonian fields. The Refinery is able to produce EURO V diesel and motor gasoline, high sulphur gas oils, virgin naphtha, benzene concentrate, heating oils, several grades of fuel oils and petroleum coke.

KEY ACHIEVEMENTS IN 2016

INA has been facing stagnating mainland demand development due to the recession in the region, as well as changes in environmental product standards. The declining trend in market demand in Croatia continued, putting further pressure on R&M operations. The external environment in 2016, in terms of refining margins, continued to be favourable, but slightly lower than in 2015, which supported higher sales and contributed to lower unit operating expenses. The yearly average Brent price compared to the previous year dropped from 52 USD/barrel to 44 USD/barrel leading to lower energy costs, while favourable crack spreads resulted in higher sales volumes on captive markets and increased exports. Gasoline production in the refineries was maximised to benefit from favourable gasoline crack spreads while benefitting from improved fuel oil spreads at the same time. INA R&M managed to keep its market position stable on core markets. Proven management efforts of capturing favourable market opportunities, on-demand and block operation of the refineries, extending the crude basket, feedstock selection, and energy and inventory management alongside internal company efforts focused on OPEX saving initiatives in 2016 contributed positively toward the results.

Key achievements for the year include:

HSE PERFORMANCE

- Strong focus on safe and secure operations. In 2016, HSE efforts were aimed at reorganising the process safety network towards safety prevention and addressing human factors (as a main cause of incidents) through the HSE Leadership Engagement program as a basis for improving safe behaviour.

COMMERCIAL ACTIVITIES

- INA kept its strong market position on the Croatian motor fuel market as well as the Bosnian market.
- Improved wholesale performance with increased sales of motor fuels on the domestic market. Overall customer satisfaction improved in Croatia as well.
- Higher blue diesel sales during the second half of the year as a result of a new, more effective sales policy.
- Sales results were offset in terms of sales margins, due to external factors, but were positively impacted by crack spreads. Likewise, LPG margins on cylinders improved.
- In terms of export markets, opportunity captured in Bosnia & Herzegovina in heating oil sales and more volumes sold in Montenegro as a result of increased commercial activities.

REFINING OPERATIONS

- Block and on-demand operation mode in the Sisak Refinery continued while processing an increased quantity of domestic crude oil.
- The turnaround in the Rijeka Refinery was successfully executed during Q1 2016 and was aimed at improving asset performance and reliability, fulfilling legal obligations, ensuring continuous operation, and in parallel allowing for the execution of major investment project.
- Organisational change in the Rijeka Refinery in production

with a thoroughly developed plan for developing operator competencies and flexibility was implemented during the first half of 2016.

- Increased utilisation of production assets to capture favourable refinery margins in 2016 resulting in maintained white product yields in the refineries compared to 2015.
- Smooth refining operations during H2 2016 affected performance positively while capturing favourable refining margins.
- Proactive crude and feedstock selection continued - more crude grades in evaluation basket to increase the share of marketable motor fuels. Total of 11 crude grades processed in 2016 while increasing the share of alternative crude grades processed in the Rijeka Refinery.
- Efficiency improvement initiatives of increasing energy efficiency, loss management, yield improvement continued.
- Continuous evaluation whether to "make or buy" in order to generate value in downstream.

LOGISTICS AND DISTRIBUTION

- Stable market supply with over 350 thousand deliveries to customers resulting in a customer service level index of 99.9%.
- Five million tonnes of product throughput at logistics terminals in 2016. Likewise, product inventory management improved by 31% compared to 2015.
- Reorganisation of Logistics executed with quality replacements and reduction of operating expenses.
- Major capital investments finished: new truck loading facility in Rijeka and new rail loading/unloading facilities in Rijeka and Sisak.
- Modernisation of the Bakar Port continued. Construction works are on-going.
- Domestic crude rail transfer test successfully executed.

RESIDUE UPGRADE PROJECT

- In the Rijeka Refinery, a contract was signed between INA and the Spanish company Tecnicas Reunidas for the FEED (Front End Engineering Design) for the planned Delayed Coker Unit for the refinery and connected units and related projects.
- The detailed project (i.e. FEED) will show how the planned unit for processing heavy residues and related installations will be integrated with the existing units in the refinery. In this phase of the project, INA will invest more than 200 million HRK in 2016 and 2017.
- In addition to the Delayed Coker Unit, a new port and closed storage will be built for coke handling, a substation and transmission line will be built and many existing refining units will be reconstructed.
- The completion of the FEED is expected by the end of 2017, until when a decision on the construction of the new unit can be made. So far, INA has invested more than 40 million HRK into the project for site and project preparation.
- To keep the pace with European downstream competition, business processes in INA R&M were focused on optimising operations throughout the entire value chain. The main goal was to maintain high security of market supply on core markets, increase profitability (i.e. reduce losses with improved efficiency), flexible operations, disciplined cost control, and by capturing market opportunities.

OUTLOOK

INA is focused on maintaining high supply security of the Croatian and Bosnian markets while further strengthening its market presence by serving those core markets with high quality fuels and services at lowest possible cost. INA R&M will continue to focus on safe and reliable operations, improving the overall performance and cost efficiency.

Furthermore, it is believed that investments in increasing the refining unit conversion level and biofuels segment are the key for future sustainable development and success. Utilising Group level synergies will provide additional optimisation possibilities and create value in the current and future market environment.

INA R&M will try to further strengthen its position by focusing on:

Refining Operations:

I.) Production and sales flexibility in case of favourable spreads of certain products. Quick decision on diesel vs. gasoline based on current economics can produce extra value in a very short time.

II.) Increasing white product ratio through increased utilisation of main conversion units. Optimisation of process unit operation will be further developed as well as debottlenecking units within the refineries.

III.) Continued development of operator competencies and organisational competitiveness.

IV.) Initiatives that focus on lowering energy cost and improving operational reliability.

Commercial Activities:

V.) Customer's first choice and reliable partner through a developed sales force and market leader position.

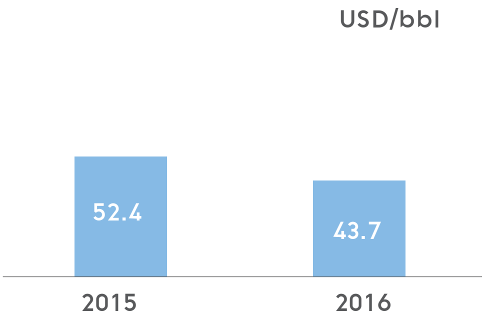
VI.) Optimising a mix of term and spot contracts for buying raw materials and ensuring flexible supply.

VII.) Increasing market share in the region by using

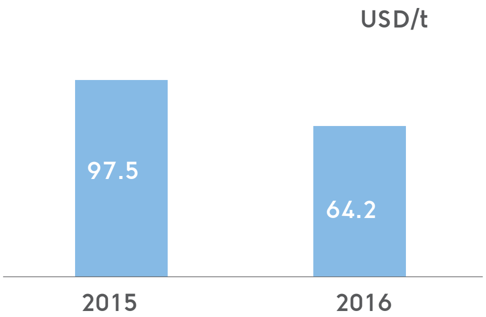
the market maker position advantages: refinery location, warehouse coverage, efficient distribution, modernised retail stations, and high quality fuels.
VIII.) Modernised logistics infrastructure and own fleet utilised for top quality customer interaction.

On a medium term horizon, the aim is to further strengthen logistics connections between assets to facilitate INA R&M synergic operations and flexibility. Besides the existing asset structure, improving the competitiveness of the Rijeka Refinery is in focus through increased energy efficiency, organisational competitiveness, higher operational availability and improved conversion capacity. The on-going residue upgrade project at the refinery will increase conversion of black products to lighter, more valuable products.

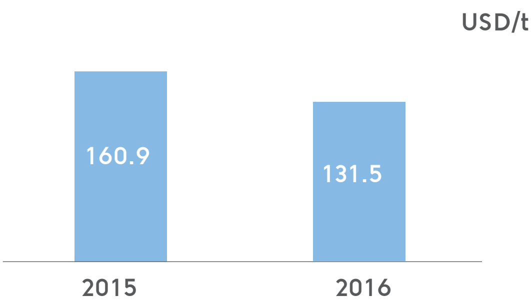
CRUDE OIL PRICES



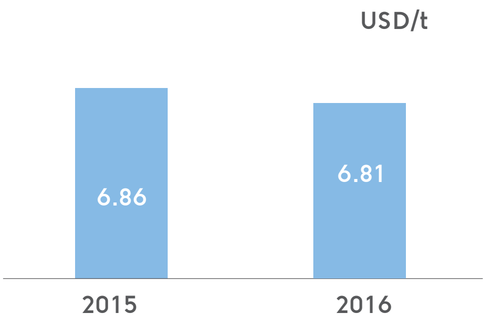
DIESEL CRACK SPREAD AVERAGE



GASOLINE CRACK SPREAD AVERAGE



USD/HRK EXCHANGE RATE AVERAGE



DOWNSTREAM SUSTAINABILITY ACHIVEMENTS

Safety is INA Group's core value and so much more than an item on the list of tasks. Our commitment to the belief that all personal injuries and negative process events are preventable drives INA Downstream sites in reaching perfection in the area of safety and in attaining the zero incidents goal. This is the essence of safety culture excellence. Process safety as well as behavioural based safety became a top priority for the upcoming period. The business needs of the refinery in today's challenging environment are focused on ensuring stability of production and logistics processes with minimal disruptions and less deviation.

Total recordable incident rate (TRIR = 2,3) and Process safety event rate (PSER-TIER1 = 1,25) are regularly monitored for both INA employees and onsite contractors. Recorded incidents show the highest number of injuries were caused by slips and trips with minor health impact on injured employees. Challenging this number will be the first short term action in the year 2017 as part of our daily effort to improve overall safety performance in operation, distribution and maintenance activities.

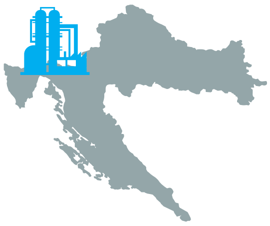
Achieving a positive safety culture in INA is fundamental for managing safety effectively. In 2017, we will continue the project of HSE leadership engagement following the initial HSE culture survey. The expected result is better understanding of all involved stakeholders in business, especially the management, employees and contractors.

Environmental impact of our process units and supported activities is covered by strong orientation to reduce environmental footprint. Energy savings projects, water reduction and other environmental investments were started in 2016. Closed Blow down in Sisak refinery, Gas recompression station in Rijeka Refinery, VOC project in Logistics are some of many ongoing projects in that direction.

Our ultimate target will remain: To be a socially responsible company with minimum environmental impact on the community and achieve the best safety performance through continues improvement of all processes.

RESIDUE UPGRADE PROGRAM

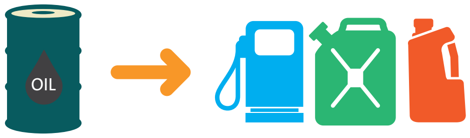
RIJEKA REFINERY



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

It is an investment worth over

400 mil.$



The aim of the Residue Upgrade Program is to increase profitability of refinery conversion (i.e. improved yields) through processing of heavy residue and elimination of the fuel oil production, while converting them into white, high value marketable product.

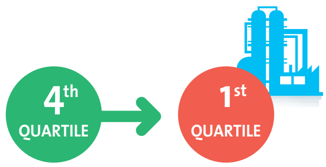
In addition to the residue upgrade plant, a new harbor will also have to be built, with a closed coke storage, as well as a new power station and a power line, while a number of existing plants will also have to be reconstructed or re-vamped.

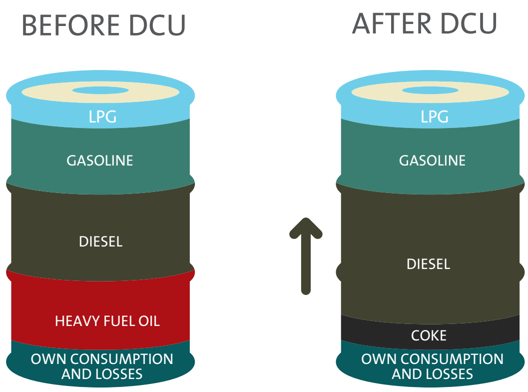
With the proposed project and foreseen increased processing level in Rijeka Refinery, white products production level is estimated to increase. Total processing with the DC unit will be at 4.5 Mtpa

4.5 mil. t

Completion of FEED and the necessary accompanying documentation is planned for fall 2017, after which a final decision on the investment is expected. In that case , the new plant would become operational in 2021 earliest.

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





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

In 2016, Retail BD succeeded in keeping steady sales on the increasingly competitive market, through continuous business quality improvement including a wider assortment of fuel and consumer goods, improved technology equipment and new services at service stations. We have put special emphasis on extending our gastro offer. Furthermore, we have successfully implemented two extensive and challenging projects related to the operation of INA service stations, as a basis for the introduction of INA retail sites managing diversity - Entrepreneurial operating model at retail sites and INA Maloprodajni servisi.

Darko Markotić-executive director of Retail Business division

RETAIL

On 31 December 2016, INA Group operated a retail network of 504 retail locations - 396 in Croatia, 101 in Bosnia and Herzegovina (45 in Holdina and 56 in Energopetrol), 6 in Slovenia and 1 in Montenegro, of which 60 retail service stations in Croatia were included in the Entrepreneurship model. Starting from 1 July 2016, Energopetrol was integrated into INA Group Retail BD.
Total sales volumes of Retail Business Division (including 34 kt of Energopetrol) in 2016 were 1,014 kt, a 2% increase compared to the previous year. The increase was mainly driven by higher sales of diesel and heating oil by 3% (21kt) in correlation with market demand increase, while the sales of motor gasoline are in a continuous decline by 1% (3kt). In relation to the previous year, there was an evident downward trend in motor gasoline share in favour of diesel fuel as a consequence of market dieselization. Non-fuel margin revenue increased on the back of continuous expansion in goods along with the development of new non-fuel related services.

The fuel sales have remained stable as a result of KDR and modernisation programs,

2016 HIGHLIGHTS

- Implementation of a new retail operation model (INA Maloprodajni servisi d.o.o.) – on 1 February 2016, a total of 336 service stations were transferred to a newly established company INA Maloprodajni servisi d.o.o.
- Entrepreneurial operating model implementation (PSUM) - as of 1 February 2016, a total of 60 planned service stations (including 7 service stations of former INA Osijek Petrol) are handed over to selected partners for managing
- Extending the non-fuel segment with emphasis on gastro offer
- Continuing the modernisation program, with emphasis on Knock down and rebuild (KDR) projects in Bosnia and Herzegovina
- Energopetrol acquisition (56 service stations)

including implementation of additional LPG units and extension of the retail network in Bosnia and Herzegovina. Major marketing campaigns have kept and supported the stable fuel sales, as well as the pricing techniques applied timely on the micro market, along with market environment and demand monitoring.

Furthermore, major achievements were accomplished in 2016 in reduction of fuel losses through daily inspections of fuel delivery differences, as well as causes of those losses, through supervision and control of tanker unloading. With these successful results, INA Retail set new, high standards in the prevention and reduction of fuel losses on MOL Group level.
In 2016, Retail continued the implementation of non-fuel strategy through planned transformation of filling stations into service stations, introduction of Fresh Corner concept with extended gastro offer, implementation of the assortment strategy, selective pricing, product positioning and promotional activities, as well as implementation of a new carwash concept (in April 2016, carwash facilities Dubrava, Delnice and Slavonski Brod were commissioned), followed by various loyalty programs and new services at retail sites, such as payment of utility bills, postal services and package shipping services ("paketomat"), HUGO vignettes, AIRCRASH, customer rewarding system – vouchers and discounts, etc. In order to improve the sales of gas cylinders in 2016, a new marketing approach and pricing strategy were introduced.
Entrepreneurial operating model implementation (PSUM) – in February 2016, all 60 planned service stations

were transferred into operation of selected partners, where six former INA Osijek Petrol service stations were also modernised within PSUM project. The growing trend of business results at PSUM locations has continued in 2016, with significant improvement of customer services within fuel and non-fuel segment, according to the Mystery shopping report, all in order to keep positive results in the following period.

A new retail operating model, INA Maloprodajni servisi (INA MS d.o.o.), was launched in February 2016. In this project, operation of a total of 336 service stations was transferred to a newly established INA Group company, INA Maloprodajni servisi d.o.o. In the following period, the emphasis will remain on improvement of service quality, extension of the non-fuel segment and on increasing the number of LPG sites, with installation of additional skid units in order to increase LPG sales.

Regarding the above mentioned projects, HOST program was launched within MOL Group in 2016, primarily focused on service stations employees host skills development, followed by upcoming intensive training activities and continuous education of retail service station employees.

STRATEGY AND OUTLOOK

Implementation of the modernisation program is carried out according to the planned schedule and 220 service stations have been modernised so far (184 modernisation projects, 20 KDR projects and 16 red dot projects), with positive feedback from customers. Furthermore, continued modernisation program will focus more on KDR projects in Bosnia and Herzegovina, as well as INA Crna Gora.

In July 2016, INA and MOL signed an agreement on acquisition of Energopetrol shares by which INA took over 33.5% shares of Energopetrol owned by MOL. With this transaction, INA increased its share in Energopetrol to 67%, becoming the majority shareholder of the company, of which financial results have been consolidated into INA Group results.

Projects in Bosnia and Herzegovina (Holdina and Energopetrol) are focused on refurbishment of eight service stations. In the forthcoming period further business development is planned and positioning on the Montenegrin market.

RETAIL SUSTAINABILITY ACHIVEMENTS

In accordance with INA's dedication to sustainable development and improvement of relations with customers, but also with the local community, INA Retail continued the action of selling fruit from small family farmers (OPG), which proved our support to local farmers, and at the same time gave customers an opportunity to enjoy domestic products. This year, 13 local producers sold domestic products such as fruit, vegetables, honey and cheese on 13 service stations. The offer was extended, so in addition to fruit, vegetables, cheese and honey we had sold in the previous years, our offer this year included Christmas trees and hazelnuts.

BIODIVERSITY

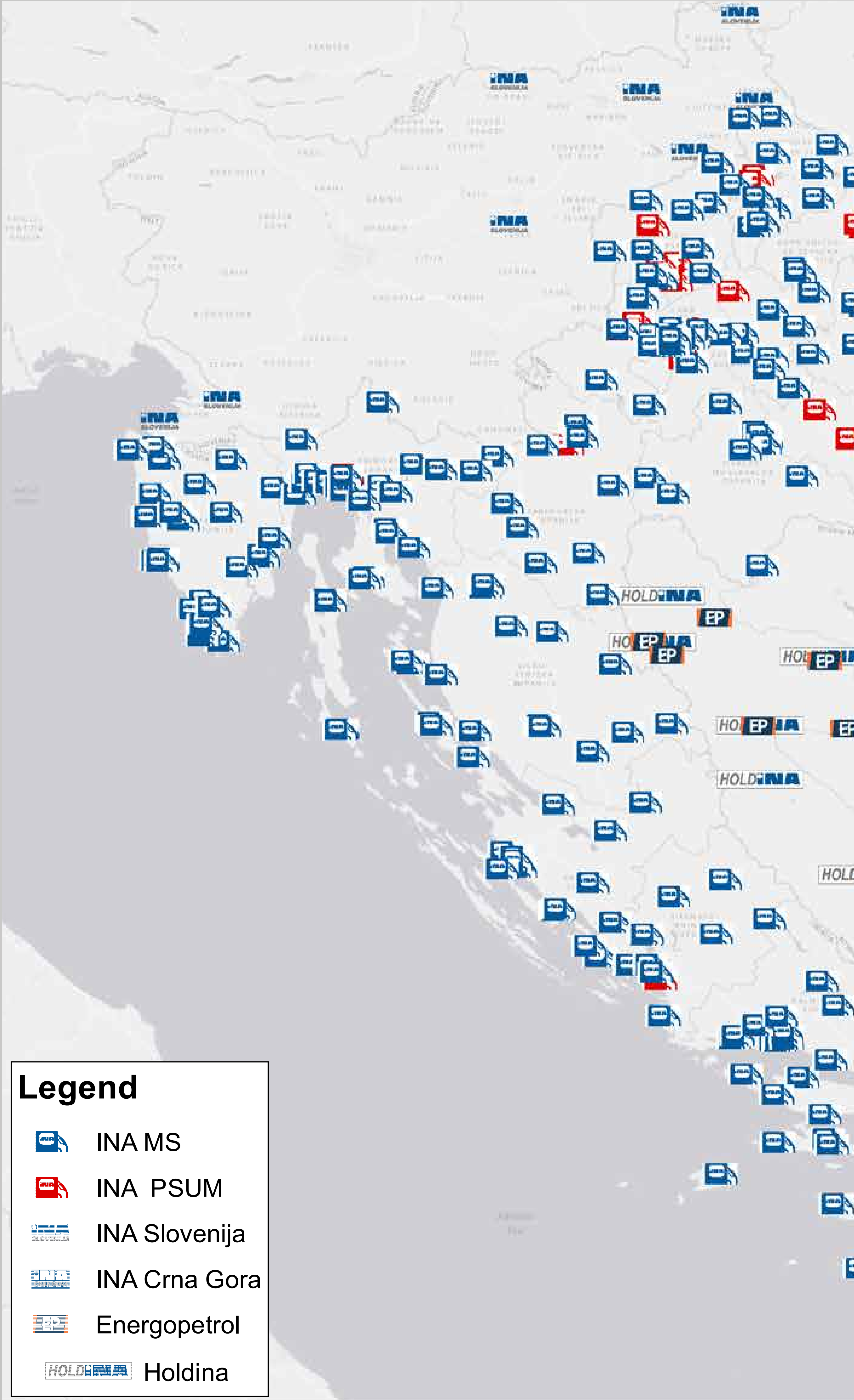
Leaflets were designed for five service stations that are close to the protected areas. The leaflets contain information about the activities INA is taking to protect the environment in general, and information on the protected areas. The leaflets have the purpose of informing customers of INA's policy and commitment to the systematic management of occupational health, safety and environment.

ENERGY EFFICIENCY

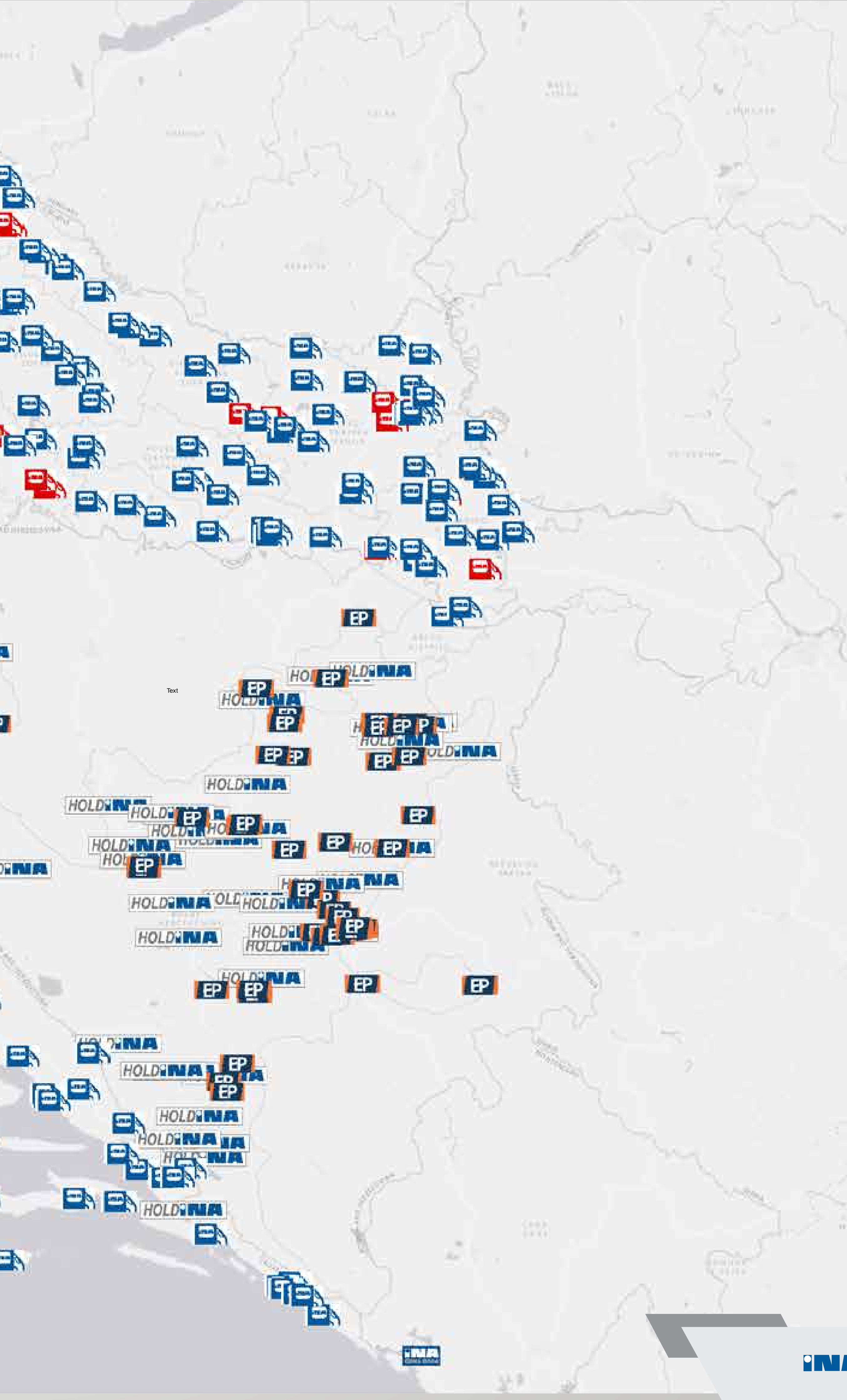
In 2016, INA Retail participated in MOL Group's "Green Fund contest" with the "Improved waste management practices and LED energy efficiency" project. INA Retail was preliminary selected for 2017 Green Fund investment funding. The major objective of this project is to improve selective waste collection on one INA location by purchasing two press devices for municipal and packaging waste and installation of energy-efficient LED lighting at four INA service stations.
INA Retail conducted the first supervision of the energy management system according to ISO 50001:2011 standard.
Also, in terms of energy efficiency, we continued the replacement of complete air conditioning systems at 15 service stations; electric boilers for central heating were replaced with a new air conditioning system on one location, fuel oil central heating system on five locations, old air conditioners on five locations, old heating boilers which use natural gas were replaced with new condensing units on four locations. Regarding the refrigerated display cabinets, we substituted old refrigerators with new refrigerated display cabinets on four locations and an inappropriate outdoor unit was substituted on one location.

REMEDIATION

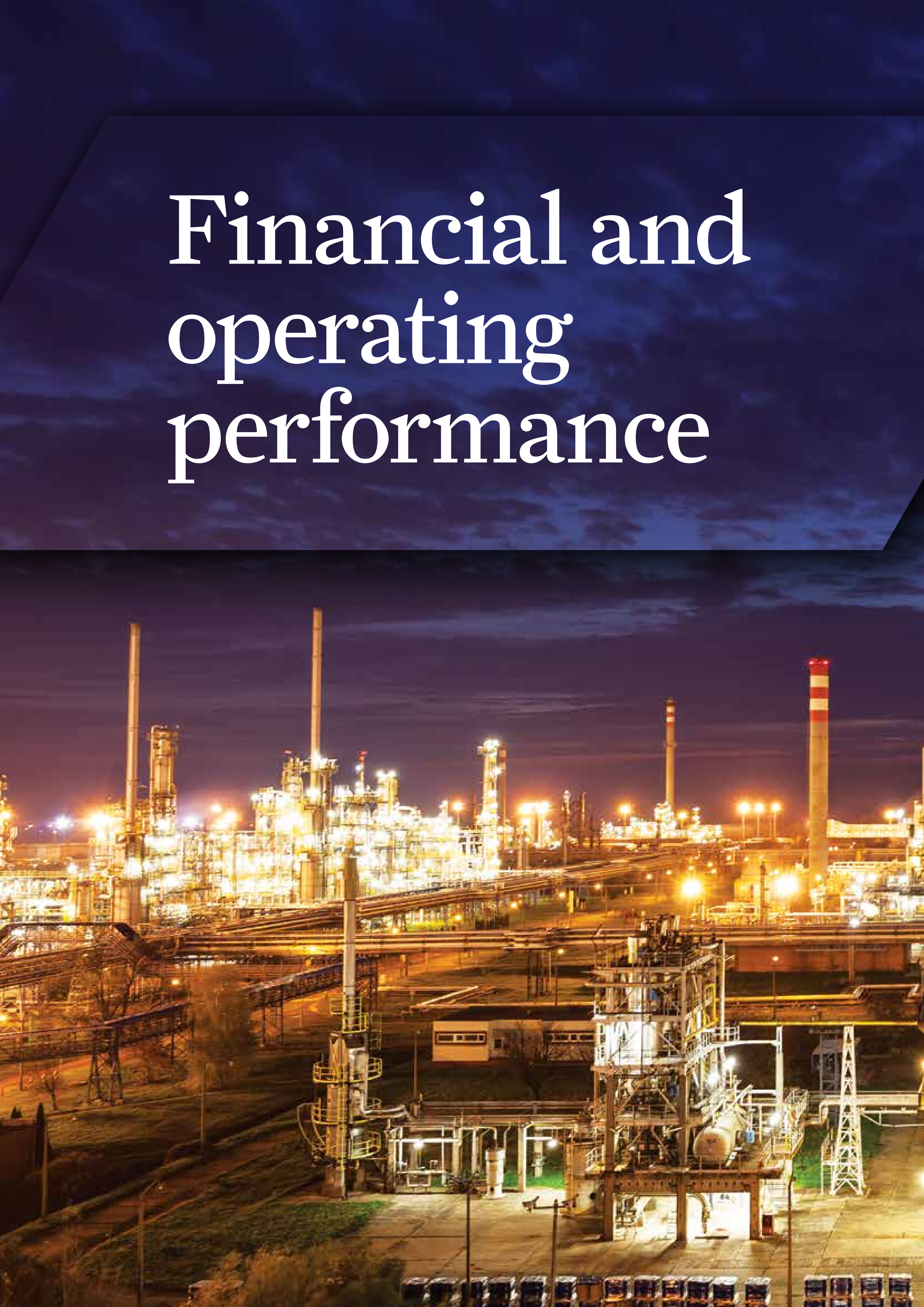
In 2016, INA Retail continued the remediation activities. Preliminary site investigations were conducted on 21 location. Recovery programs were prepared for 15 locations and submitted to the Ministry of environmental protection for approval. On one location, there was no hazardous waste, while on the remaining two sites 854,84 T of contaminated soil was produced. All waste was delivered to STSI for further processing. For the locations where the contaminated soil occurred, we have obtained confirmation from the Ministry of environmental protection that the remediation was carried out successfully.
We continued the remediation activity on one location by closing construction pits and by removing remaining wells from the location, where 355,70 T of contaminated soil was removed and disposed of. Furthermore, we started the groundwater monitoring in accordance with the decision of water inspection and opinion of Croatian Waters.
Representatives of Croatian waters and water inspection are timely informed about all the activities.
Procedures for the procurement of services were completed: analysis of water and eluates for preliminary investigations and remediation; groundwater monitoring, ground expertise.



Legend
INA MS
INA PSUM
INA Slovenija
INA Crna Gora
Energopetrol
Holdina



Financial and operating performance



MANAGEMENT DISCUSSION AND ANALYSIS

Summary of 2016 results

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

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

CAPEX amounted to HRK 1,387 million, which is a decrease of 16% compared to 2015. Additionally, INA Group increased its share in Energopetrol from 33,5% to 67%, further strengthening the regional position. On the back of a disciplined approach to CAPEX spending, the financial position of the Company remained stable during 2016. Net gearing decreased to 19.1%, whilst net debt reached HRK 2,506 million, a 17% decrease compared to the corresponding period of 2015.

	2015		2016		Change 16/15%	
HRK mln.	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Net sales revenues	18,861	2,748	15,575	2,289	-17	-17
EBITDA (1)	2,665	388	2,112	310	-21	-20
EBITDA excl, special items (2)	2,953	430	2,428	357	-18	-17
Operating profit	-1,338	-195	607	89	-145	-146
Operating profit excl. special items (2)	138	20	842	124	510	515
Net financial expenses	-411	-60	-146	-21	-64	-64
Net profit/loss for the period	-1,418	-207	101	15	-107	-107
Net profit for the period excl. special items (2)	**58**	**8**	**336**	**49**	**477**	**512**
Operating cash flow	**1,954**	**285**	**2,228**	**327**	**14**	**15**
Earnings per share						
Basic and diluted/(loss) earnings per share (kunas per share)	(141.8)	(20.7)	10.1	1.5	n.a.	n.a.
Net gearing %	22.3		19.1			

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

EXPLORATION AND PRODUCTION OVERVIEW

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

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

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

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

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

- Offshore natural gas production decrease of 24% driven by natural decline, water cuts and lower INA share.
- This was partially offset by 3% higher onshore production as a result of performed well workovers and optimisation as well as production from new fields Vučkovec, Zebanec and Stružec.

Onshore increase was achieved despite a scheduled general overhaul on the Gas Treatment Plant Molve and Fractionation Facilities Ivanić Grad performed in September 2016.

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

	2015		2016		Change 16/15 %	
Segment IFRS results	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Net sales revenues	4,970	724	3,890	572	(22)	(21)
EBITDA	3,141	458	2,141	315	(32)	(31)
EBITDA excl. special items	3,203	467	2,166	318	(32)	(32)
Operating profit	371	54	1,172	172	215	218
Operating profit excl. special items	1,375	201	1,186	174	(14)	(13)
CAPEX with one-off	840	122	716	105	(15)	(14)

REFINING AND MARKETING (INCLUDING RETAIL) OVERVIEW

Refining and Marketing (including Retail): 2016 CCS EBITDA excl. special items amounted to HRK 350 million while EBITDA excl. special items amounted to HRK 558 million. The result was positively impacted by a number of factors, internal efficiency efforts focused on reducing OPEX, the diversification of crude oil portfolio and an improvement in retail, including the positive results from the non-fuel segment. However, the result was negatively affected by a deterioration of unit sales margins and crack spreads.

REFINING & MARKETING OPERATIONS

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

RETAIL OPERATIONS

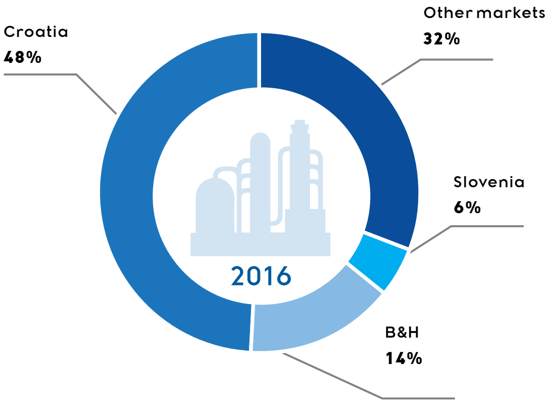
Total retail sales volumes in 2016 (including 34 kt of Energopetrol) were 1,014 kt, a 2% increase compared to 2015. Positive market demand increased the sales of diesel and heating oil by 3% (21kt), while the sales of motor gasoline continued its decline, as they decreased by 1% (3kt). Compared to 2015, there is a downward trend in the share of motor gasoline as a consequence of the continued dieselization in the market.

Non-fuel margin revenue increased on the back of continuous expansion in goods along with the development of new non-fuel related services.
On 31 December 2016, INA Group operated a retail network of 495 service stations (387 in Croatia, 101 in Bosnia and Herzegovina (45 in Holdina and 56 in Energopetrol), six in Slovenia and one in Montenegro), of which 60 Retail sites in Croatia were included in the Entrepreneurship model. On 1 July 2016, Energopetrol was integrated to INA Group Retail segment.

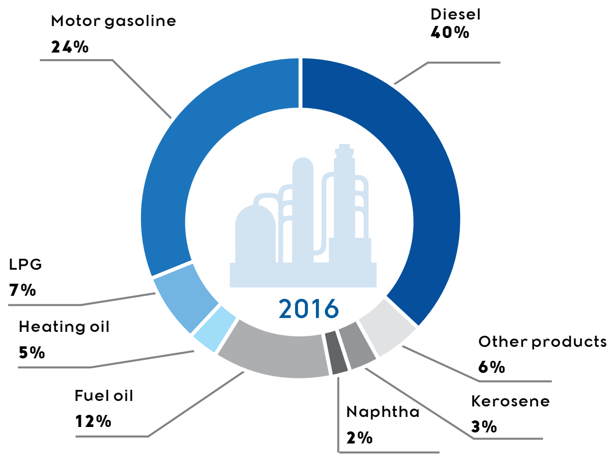
	2015		2016		Change 16/15 %	
Segment IFRS results	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Revenues	**14,831**	**2,161**	**13,094**	**1,925**	**(12)**	**(11.0)**
EBITDA reported	-587	-86	339	50	(158)	(158.1)
EBITDA excl. special items*	-422	-62	558	82	(232)	(233.1)
CCS-based DS EBITDA excl. spec. items*	295	43	350	51	19	20.2
Operating profit/(loss) reported	-1,324	-193	74	11	(106)	(105.6)
Operating profit/(loss) excl. special items*	-1,100	-160	94	14	(109)	(108.7)
CCS-based DS operating loss excl. spec. items	-395	-58	-122	-18	(69)	(69.0)
CAPEX and investments (w/o acquisition)	613	89	608	89	(1)	0.0

• The 2016 EBITDA was negatively influenced by HRK 219 million special items related to Severance payments, while 2016 EBIT was negatively influenced by HRK 20 mn of net impact of provisions for incentives and severance payments.

REFINED PRODUCT SALES BY COUNTRY



REFINED PRODUCT SALES



CAPITAL EXPENDITURE

CAPEX amounted to HRK 1,387 million, which is a decrease of 16% compared to 2015. Additionally, INA Group increased its share in Energopetrol from 33.5% to 67%, further strengthening its regional position. On the back of a disciplined approach to CAPEX spending, the financial position of the Company remained stable in 2016. Net gearing decreased to 19.1%, whilst net debt reached HRK 2,506 million, representing a 17% decrease compared to the corresponding period of 2015.

EXPLORATION AND PRODUCTION CAPITAL EXPENDITURES

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

REFINING AND MARKETING (INCLUDING RETAIL) CAPITAL EXPENDITURES

Total capital expenditures were HRK 608 million in 2016, a slight decrease compared to last year. Refining and Marketing capital expenditures reached HRK 481 million, primarily driven by major Rijeka Refinery and logistics projects, including the Rijeka Refinery Turnaround during Q1 2016, new truck loading facility in Rijeka, new rail loading/unloading facilities in Rijeka and Sisak, relating to legal compliance and efficiency type projects.

Retail capital expenditures reached HRK 127 million, HRK 35 million decrease compared to 2015. Retail in Croatia and Bosnia and Herzegovina completed two highway Greenfield constructions, seven reconstructions, 14 modernizations and multiple projects on expanding non-fuel offer in line with the ”Fresh corner” concept.

BALANCE SHEET – INA GROUP

	31 DEC 2015	31 DEC 2016	%
Assets			
Non-current assets			
Intangible assets	540	536	(1)
Property, plant and equipment	12,730	12,573	(1)
Investments in associates and joint ventures	22	22	0
Other investments	14	13	(7)
Long-term receivables	144	128	(11)
Deferred tax	2,094	1,769	(16)
Available for sale assets	581	676	16
Total non-current assets	**16,125**	**15,717**	**(3)**
Current assets			
Inventories	1,820	2,050	13
Trade receivables net	1,724	1,591	(8)
Other receivables	136	184	35
Corporative income tax receivables	23	11	(52)
Other current assets	278	120	(57)
Cash and cash equivalents	275	611	122
Current assets	4,256	4,567	7
Assets classified as held for sale	1	8	733
Total current assets	4,257	4,575	7
Total assets	**20,382**	**20,292**	**(0)**
Equity and liabilities			
Capital and reserves			
Share capital	9,000	9,000	0
Legal reserves	330	20	(94)
Revaluation reserve	216	299	38
Other reserves	1,641	1,647	0
Retained earnings / (Deficit)	(602)	(233)	(61)
Equity attributable to equity holder of the parent	10,585	10,733	1
Non-controlling interests	**0**	**(136)**	**N.A.**
Total equity	10,585	10,597	0
Non-current liabilities			
Long-term loans	**400**	**271**	**(32)**
Other non-current liabilities	66	60	(9)
Employee benefits obligation	101	85	(16)
Provisions	3,266	3,224	(1)
Deferred tax liability	22	13	(41)
Total non-current liabilities	3,855	3,653	(5)
Current liabilities			
Bank loans and overdrafts	2,768	2,711	(2)
Current portion of long-term debt	139	135	(3)
Trade payables	1,400	1,857	33
Taxes and contributions	665	637	(4)
Other current liabilities	511	498	(3)
Employee benefits obligation	8	10	25
Provisions	451	194	(57)
Total current liabilities	**5,942**	**6,042**	**2**
Total liabilities	**9,797**	**9,695**	**(1)**
Total equity and liabilities	**20,382**	**20,292**	**(0)**

As at 31 December 2016, INA Group total assets amounted to HRK 20,292 million and were around the same level compared to 31 December 2015.
In the period ended 31 December 2016, INA Group invested HRK 43 million in intangible assets. The effect of depreciation equals HRK 42 million. Foreign exchange revaluation of oil and gas fields increased net book value by HRK 4 million. Transfer to tangible assets decreased intangible assets by HRK 8 million. Emission quotas decreased NBV by HRK 2 million. By acquiring additional shares of Energopetrol INA, d.d. has gained control over Energopetrol and started fully consolidating it which resulted in an increase of INA Group intangible assets by HRK 1 million.
In the period ended 31 December 2016, the Group invested HRK 1,342 million in property, plant and equipment. Capitalized decommissioning costs decreased the value of assets by HRK 1 million. Foreign exchange revaluation increased net book value by HRK 18 million. The effect of depreciation reduced net book value of property, plant and equipment in the amount of HRK 1,636 million. Transfer of property, plant and equipment on assets held for sale decreased the value of assets by HRK 154 million. Write-off of negative wells reduced net book value by HRK 2 million. Impairment of assets decreased NBV by HRK 26 million. Transfer to merchandizing goods decreased net book value by HRK 1 million. Disposal of tangible assets equals HRK 25 million. Transfer from intangible assets increased net book value by HRK 8 million. By acquiring additional shares of Energopetrol INA, d.d. has gained control over Energopetrol and started fully consolidating it which resulted in an increase of INA Group total assets by HRK 322 million.
Issued capital as at 31 December 2016 amounted to HRK 9,000 million. There were no movements in the issued capital of the Company in either the current or the prior financial reporting.

Inventories amounted to HRK 2,050 million, and have increased by 13% compared to 31 December 2015 as a result of higher product inventories. During 2016 company has not required any treasure shares.
Trade receivables decreased to HRK 1,591 million and are 8% lower compared to the opening balance on 31 December 2015 resulting mainly from lower sales revenue.

As at 31 December 2016 total liabilities amounted to HRK 9,695 which is 1% or HRK 102 million lower compared to 31 December 2015. INA Group net debt amounted to HRK 2,506 million which is 17% lower compared to 31 December 2015. Gearing ratio decreased significantly from 22.3% as at 31 December 2015, to 19.1% as at 31 December 2016.
Trade payables increased by 33% to HRK 1,857 million, as a result of higher liabilities for imported crude oil.

INCOME STATEMENT – INA GROUP

	31. DECEMBER 2015	31. DECEMBER 2016	%
Sales revenue			
a) domestic	11,116	9,356	(16)
b) exports	7,745	6,219	(20)
Total sales revenue	18,861	15,575	(17)
Capitalised value of own performance	466	365	(22)
Other operating income	440	186	(58)
Total operating income	19,767	16,126	(18)
Changes in inventories of finished products and work in progress	(238)	264	N.A.
Cost of raw materials and consumables	(8,364)	(7,448)	(11)
Depreciation and amortization	(2,191)	(1,677)	(23)
Other material costs	(2,568)	(2,000)	(22)
Service costs	(706)	(663)	(6)
Staff costs	(2,421)	(2,083)	(14)
Cost of other goods sold	(2,805)	(2,084)	(26)
Impairment and charges (net)	(1,546)	(272)	(82)
Provisions for charges and risks (net)	(267)	444	N.A.
Operating expenses	(21,105)	(15,519)	(26)
Profit from operations	(1,338)	607	N.A.
Share in the profit of associated companies			
Finance income	197	106	(46)
Finance costs	(608)	(252)	(59)
Net result from financial activities	(411)	(146)	(64)
Profit before tax	(1,749)	461	N.A.
Income tax expense	331	(366)	N.A.
Profit for the year	(1,418)	95	N.A.
Attributable to:			
Owners of the Company	(1,418)	101	N.A.
Non-controlling interests	-	(6)	N.A.
	(1,418)	95	N.A.
Earnings per share			
Basic and diluted earnings per share (kuna per share)	(141.8)	10.1	N.A.

The total sales revenue in 2016 amounted to HRK 15,575 million and were 17% below 2015 level, primarily triggered by lower Brent, lower natural gas prices and lower hydrocarbon production in Exploration and Production Segment.

Costs of raw materials and consumables were 11% below 2015 level, at HRK 7,448 million, resulting mainly from lower prices.

Costs of goods sold in 2016 recorded a decrease by 26% compared to 2015, and amounted to HRK 2,084 million, resulting mainly from different sales structure.

Other operating costs realized in 2016 include:

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

Staff costs in the amount HRK 2,083 million were lower by 14% than in 2015. Staff costs represent the cost of net salaries in the amount of HRK 1,012 million, cost of tax and contributions for pension and health insurance in the amount of HRK 710 million, non-taxable severance payments in net amount of HRK 216 million and other payroll related costs in the amount of HRK 146 million, for the period until 31 December 2016.

For the period until 31 December 2015, the staff costs included the cost of net salaries in the amount of HRK 1,191 million, cost of tax and contributions for pension and health insurance in the amount HRK 825 million, non-taxable severance payments in net amount of HRK 186 million and other payroll related costs in the amount HRK 214 million.

Income tax expense in 2016 amounted to HRK 366 million, compared to HRK 331 million of income tax revenues in 2015. Tax costs and deferred taxes during the interim period were calculated based on the actual results and the profit tax rate, 20% for the period until 31 December 2015 and 18% for the period until 31 December 2016.

Net financial loss in 2016 was HRK 146 million lower compared to the loss recorded in 2015, mainly as a result of forex differences.

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

CASH FLOW – INA GROUP

HRK mln	2015	2016	%
Net cash inflow from operating activities	1,954	2,228	14
Net cash used for investing activities	-1,508	-1,525	-1
Net cash from financing activities	-598	-350	-41
Net (decrease)/increase in cash and cash equivalents	-152	353	N.A.

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

Changes in working capital affected the operating cash flow positively by HRK 167 million, due to:

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

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

FINANCIAL RISK MANAGEMENT

Risk Management and Hedging Policy in INA Group provides a framework within which INA and its consolidated subsidiaries manage and maintain commodity, foreign exchange and interest rate risk on an acceptable level. Beside the financial (market) risks, the most important risks are credit risk and liquidity risk.

a) Market risk

Commodity price risk management (price risk)
INA purchases crude oil and oil products on a spot market in USD, mostly using short-term credit facility arrangements. The required quantities of gas have been purchased in EUR based on spot prices. INA may use derivative instruments in managing its commodity exposure. As of 31 December 2016, INA opened short-term forward commodity swap transactions to hedge its exposure to changes in pricing periods, inventory levels and refinery margins.
Foreign currency risk management
Many INA Group's transactions are priced and denominated in foreign currency and thus INA Group is exposed to a currency risk. INA Group has net long USD and EUR, and net short HRK exposure of operative cash flow position. INA Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of 31 December 2016, there have been no open cross currency swap transactions.
Interest rate risk management
INA Group companies use borrowed funds with floating interest rates and consequently INA Group is exposed to the interest rate risk. INA Group does not speculate on interest rate developments and generally chooses the floating rates. INA Group may use interest rate swap to manage interest rate risk. As of 31 December 2016, there have been no open interest rate swap transactions.

Other price risk

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

b) Credit risk

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

c) Liquidity risk

INA Group's liquidity risk is managed by maintaining adequate reserves of liquidity and credit lines and by continuous monitoring of projected and actual cash flow and due dates for account receivables and payables.
As of 31 December 2016, INA Group has had contracted and available short-term credit lines amounting to HRK 2.67 bn, excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and contracted and available long-term credit lines amounting to HRK 3.28 bn.

APPENDIX I
SPECIAL ITEMS IN OPERATING PROFIT AND EBITDA (IN HRK MLN)

HRK mln	2015	2016
INA GROUP		
Total impact of special items on operating profit/(loss)	**1,476**	**235**
Total impact of special items on EBITDA	**288**	**315**
Exploration & Production		
Total impact of special items on operating profit/(loss)	**1,004**	**13**
Total impact of special items on EBITDA	**62**	**25**
Impairment of assets - Syria, Cro Offshore, Angola, Egypt	987	-
Severance payment	62	25
Provisions for incentives	17	11
Refining & Marketing including Retail		
Total impact of special items on operating profit/(loss)	**224**	**20**
Total impact of special items on EBITDA	**165**	**219**
Severance payment	165	219
Provisions for incentives	224	199
Corporate functions		
Total impact of special items on operating profit/(loss)	**248**	**201**
Total impact of special items on EBITDA	**61**	**71**
Impairment of assets - Zagreb 1	234	139
Severance payment	61	71
Provisions for incentives	14	9

APPENDIX II
BRANCH AND REPRESENTATIVE OFFICES ON 31 DECEMBER 2016

INA d.d.
- Branch office Damascus, Syria (temporarily not active due to existing economic sanctions and suspension of activities in Syria)
- Branch office Cairo, Egypt
- Representative office Luanda, Angola
- Representative Office Moscow, Russia
- Branch Office Tirana, Albania (suspended)
- Representative office Teheran, Iran (suspended)
- Branch Office Teheran, Iran (in liquidation)

CROSCO d.o.o.
- Branch office Zadar, Croatia
- Branch office Tirana, Albania
- Branch office Tripoli, Libya
- Branch office Damascus, Syria (temporarily not active due to existing economic sanctions and suspension of activities in Syria)
- Branch office Cairo, Egypt
- Branch office Nagykanizsa, Hungary
- Branch office Tunisia (in the reactivation process)
- Branch office Baku, Azerbaijan (in the reactivation process)
- Branch office Casablanca, Morocco (in the process of closing)

Rotary Zrt.
- Branch office Erbil, Iraq
- Branch Office Tirana, Albania

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

INA-NAFTAPLIN IE&PL
- Branch Office Tripoli, Libya

HOLDINA d.o.o.
- Branch Office Petrol Station Čitluk
- Branch Office Petrol Station Prozor
- Branch Office Petrol Station Široki Brijeg
- Branch Office Petrol Station Posušje
- Branch Office Petrol Station Sutina-Mostar
- Branch Office Petrol Station Počitelj
- Branch Office Petrol Station Sanski most
- Branch Office Petrol Station Cazin
- Branch Office Petrol Station Tuzla-centar
- Branch Office Podlugovi Warehouse
- Branch Office Petrol Station Kravice-Sjever
- Branch Office Petrol Station Kravice-Jug
- Branch Office Petrol Station Lepenica Istok
- Branch Office Petrol Station Lepenica Zapad

KEY GROUP OPERATING DATA

EXPLORATION AND PRODUCTION

	2014	2015	2016	2016/2015 %
Hydrocarbon production				
Crude oil production (boe/d)	**12,142**	**13,974**	**15,044**	**8**
Croatia	8,931	10,674	11,929	12
Egypt	2,034	2,093	2,057	-2
Angola	1,177	1,207	1,057	-12
Natural gas production (boe/d)	**24,166**	**24,967**	**22,446**	**-10**
Croatia - offshore	11,136	12,202	9,324	-24
Croatia - onshore	13,030	12,765	13,122	3
Condensate (boe/d)	**2,097**	**1,916**	**1,887**	**-1**
Croatia	2,097	1,916	1,887	-1
Syria	0	0	0	0
Total hydrocarbon production (boe/d)	**38,405**	**40,857**	**39,377**	**-4**
Average realised hydrocarbon price				
Crude oil and condensate price (USD/bbl)	89	48	40	-18
Average realised gas price (USD/boe)	62	48	34	-29
Total hydrocarbon price (USD/boe)	72	48	37	-23
Natural gas trading - mln cm				
Natural gas imports	107	28	160	470
Total natural gas sales - domestic market	1,542	1,142	1,115	-2
Natural gas price differential to import prices (HRK/000 cm)				
Eligible customers' price	-216	473	200	-58
Tariff customers' price	9	0	0	0
HEP price	-516	-58	166	-385
Total price	-270	244	182	-25

RESERVES BREAKDOWN

MMBOE	1P			2P		
	2014	2015	2016	2014	2015	2016
By country						
Croatia onshore	133	127	117	168	158	146
Croatia offshore	16	9	6	27	14	10
Syria	22	22	22	36	36	36
Egypt	2	1	1	3	2	3
Angola	2	1	2	3	4	3
Total	**175**	**161**	**148**	**237**	**213**	**198**
By product						
Oil	71	66	62	97	92	86
Gas	93	84	10	125	107	98
Condensate	11	11	76	15	15	14
Total	**175**	**161**	**148**	**237**	**213**	**198**

REFINING AND MARKETING INCLUDING RETAIL

	2014	2015	2016	2016/2015
Refinery processing (kt)				
Domestic crude oil	394	553	599	8
Imported crude oil	1,880	2,212	2,530	14
Condensate	102	85	84	-1
Other feedstock	749	673	643	-4
Total refinery throughput	**3,125**	**3,523**	**3,856**	**9**
Refinery production (kt)				
LPG	190	210	211	1
Motor gasoline	824	946	989	5
Diesel	1.022	1.130	1.288	14
Heating oil	107	144	144	-0
Kerosene	107	105	112	8
Naphtha	33	52	64	22
Fuel oil	358	389	500	28
Bitumen	3	0	0	0
Other products*	86	108	119	10
Total	**2,728**	**3,085**	**3,428**	**11**
Refinery loss	22	29	47	60
Own consumption	374	409	381	-7
Total refinery production	**3,125**	**3,523**	**3,856**	**9**
Refined product sales by country (kt)				
Croatia	1,756	1,790	1,847	3
B&H	510	523	528	1
Slovenia	151	183	233	27
Other markets	867	1,126	1,246	11
Total	**3,284**	**3,622**	**3,854**	**6**
Refined product sales by product (kt)				
LPG	214	238	265	11
Motor gasoline	844	940	925	-2
Diesel	1,415	1,465	1,529	4
Heating oil	146	172	179	4
Kerosene	128	127	137	8
Naphtha	37	49	67	36
Fuel oil	366	394	460	17
Bitumen	40	37	41	10
Other products*	95	199	251	26
Total	**3,284**	**3,622**	**3,854**	**6**
o/w Retail segment sales	994	996	1,014	2

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

CORPORATE GOVERNANCE

ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES

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

At the meeting held on 10 June 2009, INA Management Board appointed Executive Directors authorized to operate, manage and supervise the respective business divisions/functions of the Company. Each Executive Director is responsible to the Management Board for the overall operation of the assigned segment.

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

MANAGEMENT BOARD

The list below contains the names of current members of the Management Board and their respective positions on 31 December 2016. The business address for all members of the Management Board is Avenija V. Holjevca 10, 10002 Zagreb, Croatia.

Zoltán Sándor Áldott, President of the Management Board
Niko Dalić, member of the Management Board
Gabor 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

EXECUTIVE DIRECTORS

Executive Directors are appointed based on a Management Board decision. They are authorized and responsible for the management of operations of INA's individual business divisions (Exploration and Production, Refining and Marketing, Retail, Finance, Corporate Centre and Corporate Affairs).

List of Executive Directors as at 31 December 2016:
András Huszár, Executive Director in charge of Finance (until 31/1/2016)
Ákos Székely, Executive Director in charge of Finance (since 1/2/2016)
Darko Markotić, Executive Director in charge of Retail
Tvrtko Perković, Executive Director in charge of Corporate Centre
Želimir Šikonja, Executive Director in charge of Exploration and Production
Bengt Oldsberg, Executive Director in charge of Refining and Marketing
Tomislav Thür, Executive Director in charge of Corporate Affairs

SUPERVISORY BOARD

The list below contains the names of current members of the Supervisory Board and their respective positions (on December 31, 2016). The business address for all members of the Supervisory Board is Avenija V. Holjevca 10, 10002 Zagreb, Croatia.

Damir Vanđelić, President of the Supervisory Board (from 9/6/2016 to 18/12/2016 and elected again for a 4-year mandate from 19/12/2016 to 18/12/2020)
Siniša Petrović, President of the Supervisory Board (until 9/6/2016)
György Mosonyi, Vice-President of the Supervisory Board (until 18/12/2016)
József Molnár, member of the Supervisory Board (until 18/12/2016 and elected again as Supervisory Board Vice-President for a 4-year mandate from 19/12/2016 to 18/12/2020)
Oszkár Világi, member of the Supervisory Board (until 9/6/2016)
Dr. László Uzsoki, member of the Supervisory Board (elected for a 4-year mandate from 19/12/2016 to 18/12/2020)
Szabolcs I. Ferencz, member of the Supervisory Board (until 18/12/2016 and elected again for a 4-year mandate from 19/12/2016 to 18/12/2020)
Ferenc Horváth, member of the Supervisory Board (until 18/12/2016 and elected again for a 4-year mandate from 19/12/2016 to 18/12/2020)
Jasna Pipunić, member of the Supervisory Board
József Simola, member of the Supervisory Board (elected for a 4-year mandate from 19/12/2016 to 18/12/2020)
Mladen Proštenik, member of the Supervisory Board (until

9/6/2016)
Željko Perić, member of the Supervisory Board (until 9/6/2016)
Dario Čehić, member of the Supervisory Board (from 9/6/2016 to 18/12/2016 and elected again for a 4-year mandate from 19/12/2016 to 18/12/2020)
Luka Burilović, member of the Supervisory Board (from 9/6/2016 to 18/12/2016 and elected again for a 4-year mandate from 19/12/2016 to 18/12/2020)

ISSUER'S AUDIT COMMITTEE

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

The Audit Committee's responsibilities are related to:
1. Accounting segment;
2. External auditor segment;
3. Financial segment;
4. Risk-management segment

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

Members of the INA Audit Committee as at 31 December 2016 are:
Željko Perić, Chairman
József Molnár, member
József Simola, member
Damir Vanđelić, member

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

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

Zoltán Sándor Áldott

President of the Management Board

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

Niko Dalić

member of the Management Board

Mr Niko Dalić was appointed member of INA Management Board in February 2011. He started his career in 1986 as a geologist working on upstream projects in Croatia. In 1996, he was appointed Head of the business unit responsible for Eastern Slavonia and Podravina. From 2005 to 2008, he was Assistant Executive Director of Naftaplin, where he was in charge of running international projects. Apart from that, he was also the Head of the strategy team in Naftaplin and the team for Energy Strategy of the Republic of Croatia, as well as the IPO team. After that, from 2008 to 2009, he was the Head of the Exploration Sector. As of June 2009, he has been serving as a member of the Management Board of Edina, a joint venture of INA and Italian company Edison, where he has focused on the activities in the Izabela field in Northern Adriatic. He graduated from the Faculty of Science (Prirodoslovno-matematički fakultet) at the University of Zagreb, where he later acquired his master's degree. He passed his state licence exam at the Ministry of Science in 1996. Mr Dalić attended a number of seminars and professional trainings in Croatia and abroad. He is a member of numerous professional associations and has published several papers. From 2009 to 2016, he was the President of the Croatian Geological Society. As of December 2014, Mr Dalić has been serving as co-chairman for geology in HUNIG (Croatian Association of Petroleum Engineers and Geologists).

dr. Gabor Horváth

member of the Management Board

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

Ivan Krešić,

member of the Management Board

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

Davor Mayer

President of the Management Board

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

Péter Ratatics

member of the Management Board

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

Darko Markotić

Executive Director in charge of Retail Business Division

Mr Darko Markotić graduated from the Faculty of Law at Zagreb University in 1998. He joined INA in 2000 and performed multiple functions within the Company in a variety of different organizational units. At the very beginning of his career in INA, he worked in the Legal Sector. In June 2002, he took the position of Business Secretary in the Office of the Management Board member for coordinating the privatization of INA. In late 2003, he was promoted to Assistant Secretary of the Company and in 2005, he was appointed Company Secretary and held that position for three years. In 2008, he was elected a new member of INA Management Board and after serving one year at that position, he was appointed Executive Director of Corporate Services BF in 2009. Since October 2010, he has been serving as Executive Director of Retail Business Division.

Bengt Oldsberg

Executive Director in charge of Refining and Marketing Business Division

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

Tvrtko Perković

Executive Director in charge of Corporate Centre Business Function

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

Ákos Székely

Executive Director in charge of Finance Business Function (since 1/2/2016)

Dr. Ákos Székely was appointed Executive Director for Finance in INA in February 2016. Dr. Székely started his career at Budapest Waterworks and continued it in 2003 as Controlling Manager for the company Provident. In 2007, he started working at E.ON Hungary as Group Controlling Manager. Dr. Székely joined MOL Group in 2013 as a subsidiary CFO, working in Hungary, Slovakia and France, and from May 2015 he served as CFO of MOL Hungary. He graduated from the Faculty of Management and Business Administration at the Budapest University of Economic Sciences in 1999. His Ph.D. thesis is about Performance Management.

András Huszár,

Executive Director in charge of Finance Business Function (until 31/1/2016)

Mr András Huszár joined INA in 2010 as Executive Director for Finance business function, prior to which he had been the Head of MOL Treasury since 2001. Over the years, he has held managerial positions in the domain of corporate finance in prominent companies/institutions, at the Budapest Stock Exchange from 1991 to 1994 and in Matav (Deutsche Telekom Group) from 1994 to 2001. He graduated from the Faculty of Economic Planning at the University of Economic Sciences in 1988, and in 1993, he earned a PhD of Economic Science at Corvinus University of Budapest. In 1999, he earned the CFA Institute's Chartered Financial Analyst designation.

Želimir Šikonja

Executive Director in charge of Oil & Gas Exploration and Production Business Division

Mr Želimir Šikonja graduated from the Faculty of Mining, Geology and Petroleum Engineering at the University of Zagreb in 1983. On 14 June 2011, he was appointed Executive Director of Exploration & Production BD. His extensive professional experience was gained in various positions, mainly within INA Exploration and Production. He started his career in 1983 as Production Engineer at the Stružec Production Area, after which he served as Oil Transportation Department Director, and from 1994 to 1997, he was Chief Production Engineer for Molve Oil Technology. Before his appointment as Executive Director, he held various managerial positions – from 1997 to 2000, he was Director of Development and Engineering Sector, and then, until 2005, Director of Production Coordination Department. He was General Manager of INAgip until 2007, when he was appointed Deputy Director of the Rijeka Refinery Modernisation Project. From 2009 to 2011, he served as Director of E&P SEE Sector. He attended additional education through Business Leadership and Mini MBA programs.

Tomislav Thür

Executive Director in charge of Corporate Affairs Business Function

Mr Tomislav Thür graduated from the Faculty of Law at the University of Zagreb in 1991 and gained his Master's degree at the Harvard Law School in 1998. Mr Thür joined INA as a member of the Management Board and Director for Corporate Processes. In 2012, he was appointed Executive Director for Corporate Affairs. Before joining INA, he was General Secretary of Atlantic Grupa. From 1992 to 2001, he was employed at the Croatian Embassies in Bern and Washington and the Croatian mission at the UN office in Geneva. Mr Thür also served as Head of the National Coordinator's Office for the Stability Pact. He studied executive management at London Business School, Harvard Business School and INSEAD. He is member of the Executive Board of the Croatian Employers Association and as of 2013, President of the Executive Board of the Energy Association of HUP within the Croatian Employers Association. From 2012 to July 2015, Mr Thür was also a member of the National Competitiveness Council.

Sustainability

in INA GROUP

ABOUT THIS REPORT

INA Group Annual Report 2016 was prepared in accordance with the GRI G4 reporting guidelines and Oil & Gas Sector Supplement, core option. The report covers a full range of economic, environmental and social impacts of INA Group companies on their stakeholders. The information presented in this report refers to business activities of INA, d.d., larger INA Group companies and, for the first time, two major joint ventures throughout a 12-month period, from 1 of January to 31 of December 2016.

INA Group publishes a sustainability report on an annual basis, and the last report was published in May 2016. This Report also covers the requirements of the Communication on Progress related to UN Global Compact 10 principles (more details in the Table of Contents According to G4 GRI Performance Indicators).

In monitoring its own operations, INA applies all relevant international accounting standards, including statutory requirements, techniques, methods and evaluations. Health, safety and environmental protection data are monitored and reported in accordance with the directives of the International Labour Organization and Croatian legislation, International Association of Oil & Gas Producers (IOGP), and according to the methodology for monitoring injuries prescribed by EU association of oil companies - CONCAWE. Emissions of pollutants into the environment are determined by measuring, emission factors and/or material balancing.

All topics describing significant economic, environmental and social impacts of INA, as well as those that could have an impact on the company and/or our stakeholders are treated as material issues in this report. When identifying the material issues, in addition to the internal Sustainable development strategy 2020 and financial impact to the Group, we have also taken into account the GRI G4 guidelines, additional indicators from Oil and Gas Sector supplement, results of customer satisfaction research, recommendations from an independent assessment of the sustainability reports in previous years, CSR Index, result of internal and external audits, comments and suggestions from employee surveys, pears benchmarks, etc. Preference was given to those areas where INA had a significant impact and where it could improve its performance.

In the preparation of this report, for the first time, an independent assurance company has been engaged to perform a limited assurance engagement, where six indicators were in the scope (Page 148). These indicators were: Energy Consumption within the Organization (G4-EN3), Total Water Withdrawal by Source (G4-EN8), Direct greenhouse gas (GHG) emissions (Scope 1) (G4-EN15), Energy indirect greenhouse gas (GHG) emissions (Scope 2) (G4-EN16), Total Weight of Waste by Type and Disposal Method (G4-EN23), Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities, by region and by gender (G4-LA6).

Key sustainability data for two major Joint ventures are available in this report for the first time, as well as for Energopetrol, as it has been fully operated by INA since mid-2016.

Just as in the previous year, the amounts of municipal waste, which is considered a minor component of total waste, are not reported because the data are available in different measuring units due to different methods of calculation (measuring units) in certain Croatian counties.
The final structure of the sustainability part of this report is related to six strategic sustainability areas (INA Group Sustainable Development Strategy 2020).
We would appreciate it if you could contact us and send us your feedback on this Report via e-mail address: Odrzivi_Razvoj@ina.hr or PR@ina.hr.

INA GROUP HEALTH, SAFETY, ENVIRONMENT AND SOCIAL IMPACT POLICY

Our long term business success is only possible in conditions of socially responsible development with care for health and safety of our employees and protection of environment in which we work and live. We are committed to develop goals and actions appropriate to principles of:

- sustainable development and responsible management of all our activities in the field of safety, health, environment and social impact
- the highest standards and the best industry practices in area of health, safety and environment
- proactive health, safety and environment protection culture distinctive to all our employees and contractors

All our employees and contractors are personally responsible to act in line with our health, safety and environmental protection principles, while total INA Group management structures are obliged to take leading role in promotion, development and practice of:

- full compliance with all legal requirements
- full compliance with INA Group Code of Ethics and other internal standards
- health care of our employees and health care improvement measures
- high standards of safety work and personal protection by all employees and contractors
- strict control of safety workplace and process safety at all our sites
- management system for health, safety, environment and social risks control and decrease
- prevention of major accidents involving hazardous substances
- the highest standards of action and immediate response in emergency and crises situations
- support and active participation in initiatives related to climate changes
- environment protection in line with the principles of natural heritage and biodiversity
- energy management and use of energy efficient technologies
- the system for continuous monitoring, transparent reporting and the best industry practice benchmarking of our sustainable development, environment, health and safety performances
- awareness of our employees in area of sustainable development, environment, health and safety
- evaluation and rewarding of the best health, safety and environment performances and socially responsible activities

INA Group health, safety, environment and social impact policy is valid for all INA Group companies.

Zagreb, January 2015

President of INA MB

Zoltán Áldott

INA GROUP

LETTER FROM TVRTKO PERKOVIĆ

INA systematically pays attention that long-term sustainable and socially responsible business becomes everyday behaviour of all our employees and partners. Through projects that we initiate, we strive to create a unique model of collaboration with active involvement of participants: from employees, over business partners and contractors to the associations and the community. Such an example is the project “spajaLICA”, a project which makes INA a pioneer of the real estate management in a socially responsible manner. Namely, through project "spajaLICA", INA provides space for use to NGO organizations and includes its employees and contractors in the volunteering activities related to the project. The importance was also recognized by the Croatian Association for Public Relations and INA was awarded the Grand PRix Award 2016 for Corporate Social Responsibility.

Tvrtko Perković, executive director of Corporate Centre BF

In addition, INA continues with the practice of caring for its employees and the importance of knowledge sharing. Accordingly, project INA Academy was launched in 2016 i.e. an internal platform for the transfer of knowledge and experience among colleagues, which makes knowledge even more accessible to INA´s employees. Furthermore, INA launched the implementation of yet another project, FORa - flexible forms of work (flexible working hours and flexible working place), in order to ensure a better balance between work and private life of employees, increase motivation and satisfaction of employees and improve business efficiency and productivity.
In 2016, INA also became an official partner of the EU/OSHA (European Agency for Safety and Health at Work) campaign "Healthy Workplaces 2016 - 2017", where INA holds the first place among the companies in Croatia.

We will certainly follow this example in the future, in order to transfer the improvement of social responsibility to all participants.

APPROACH TO STAKEHOLDERS

In stakeholders' engagement process in INA Group companies, a variety of informal and formal methods have been used. Feedbacks received are used in establishing strategically important issues and focusing on the most relevant sustainability topics to the company and its stakeholders. These inputs are the basis for defining material topics, and consequently, sustainable development activities planning, as well as sustainability reporting.
The following groups are recognised as INA Group companies' primary stakeholders: employees, customers, shareholders, government authorities and regulators, contractors, local communities, non-profit organizations (NGOs) and the media. Other important secondary stakeholder groups include trade unions (TU), financial analysts, academics and the general public. All stakeholders can communicate with INA Group companies through different communication channels, including our free toll phone and e-mail addresses listed on the corporate website, depending on the subject of their interest (e.g. pitaj.suljr@ina.hr, eticko.povjerenstvo@ina.hr, lijecnici@ina.hr, Odrzivi_Razvoj@ina.hr, donacije@ina.hr, sponzorstva@ina.hr, etc.). Primary stakeholder groups are prioritized based on their ability to influence INA, as well as the level of the company's impact on them.
INA Group companies also hold an important responsibility to passively monitor secondary stakeholder groups with regards to their possible significance outside the company and in order to be able to engage in productive collaborations when appropriate.

As a part of the ongoing stakeholder engagement program that formed a direct input to the preparation of this GRI G4 report, the company applied the GRI principle of 'stakeholder inclusiveness' for defining the report content, reviewed its stakeholder engagement program and undertook specific additional engagement where it required further information to ensure that it fully understood the priorities of its most important stakeholders based on their interest in, and influence over the company's activities.

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

Stakeholder engagement

Stakeholder Group	Employees (& Works Council)	Media	Authorities/ Regulators (Government)	Contractors	Local communities / NGOs	Shareholders
Engagement Method	Surveys. Internal electronic channels. Monthly magazine. Development & educations. Forums. Regular meetings. Employees Assembly & Works Council. Meetings/Reports. OHS safety Committees.	Annual report. External electronic channels. Journalists / media . Round tables.	Cooperation within the working groups through the business associations. Expert support and information in the process of drafting regulations. Annual report. Providing expert input and data to the national positioning on various EU legislative initiatives relevant for the company.	Contractor Safety forums. OHS workshops . Workshops&meetings with bidders.	Student associations and high schools. Annual report. Company visit. Community engagement activities.	Annual General Meetings. Annual report. Quarterly reports. Investor conferences, meetings.
Stakeholder Expectations	Job security. Education & career development. Working conditions improvement. To be informed. OHS status and programs, Safety at work.	High transparency. Accountability.	Compliance with regulations. Exchange of knowledge and experience.	OHS improvement. Report on LTIs and OHS activities. Better understanding of INA's needs. Fair and transparent procurement process.	Internships, employment opportunities, awards. No negative impacts from business operations. Support for long-term development.	Sustainable business.

Stakeholder Group	Customers	Trade unions	General public	Opinion leaders/ Academics	Financial analysts	Top management
Engagement Method	Toll-free phone Surveys. E-mail.	Regular meetings . Ad hoc thematic meetings (i.e. agreement on social clauses for employees). Reports.	Talent attraction. Annual report. Communication via external electronic channels. Roundtables.	Annual report. Company visit. Regular meetings.	Annual report.	Management review . Reports.
Stakeholder Expectations	Favourable Prices. High-quality products and services.	Maintaining good social dialogue. To be consulted on new OHS documentation.	Employment and career development. Compliance with laws and regulations. No negative impact from business activities. Sustainable business. Sustainability improvement, sharing experiences.	Good corporate governance. Sustainable business plan.	Information on overall performance.	Information on all important issues and overall performance.

APPROACH TO MATERIALITY

INA Group prioritises the interests and expectations of its key stakeholder groups (including employees, investors, customers, government entities and non-profit organizations) when identifying sustainability risks and determining their materiality.

We applied the Principle of Sustainability Context by taking into consideration general trends in sustainability in our sector, which helped us ensure that the report was materially complete.

The Company applied the Principle of Stakeholder Inclusiveness by reviewing the feedback received from its main stakeholder groups, ensuring that the main topics raised were aligned with the topics prioritised in this report.

During the reporting period, we conducted two workshops on stakeholders' expectation and materiality assessment with SD working group members and a series of SD trainings for managers in order to identify and prioritise the issues that should be covered in this GRI G4 report. In the workshops and trainings, a total of more than 150 experts and managers from different business areas completed the exercises on material topics. The results of the workshops were subsequently calibrated against the results of the main stakeholder feedback received during the reporting period and the updated document was reviewed and approved by our experts and top management. The finalised list of material items provided the framework for compiling the sustainability report content of this report. The full list of material topics is shown on the materiality matrix on page 82 .

As noted in the previous section on stakeholders, INA undertook a detailed analysis of our most material issues across our businesses, linked these issues to the corresponding GRI G4 indicators that we have reported in this report and that are listed in the G4 and Oil and Gas Sector Supplement (O&GSS) Index on pages 148-154.

In carrying out the G4 materiality assessment for this Sustainability Report section, we applied the GRI Principles for Defining Report Content and Quality in order to identify the information to be disclosed, by considering activities, impacts and the substantive expectations and interests of our stakeholders. We applied the Principle of Materiality by ensuring that the issues regarded as most important to our key stakeholder groups were prioritised in this report.

Image INA Group's Materiality Matrix for Sustainability Issues summarises the results of INA's G4 materiality analysis. Material topics were subsequently linked to the corresponding GRI G4 aspects and had regard to whether the aspect was material within our organisation, outside the organisation or both. Topics were prioritized based on their significance of impact – their potential influence on INA's ability to deliver its strategy and influence on its stakeholder's assessments and decisions. Their significance of impact was determined based on the following criteria:

- o INA Group Sustainable Development Strategy 2020,
- o potential financial gain or loss,
- o severity of occurrence and scale of the risks and opportunities,
- o relation to strategic initiatives,
- o level of stakeholder interest,
- o relevance to the sector on the global market.

The results of this prioritisation were approved by INA, d.d. management. Topics in the light-grey and dark grey area are the less material, but still managed ones.

An important change from the previous year is that sustainable product and services were recognised as the most material aspect, as well as Spills to environment, which were, unfortunately, often the result of illegal connections to pipelines. Topics considered material are shown on the next page.

Materiality matrix

High importance

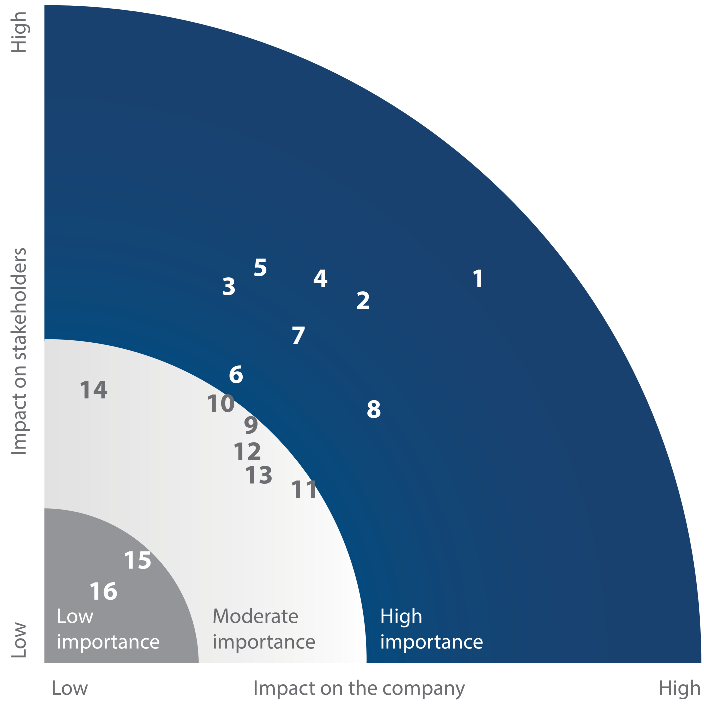
1. Responsible products and services
2. Spills
3. Health & Safety
4. Energy efficiency & GHG emissions (Climate Change)
5. Process Safety
6. Human capital
7. Customers
8. Community relations

Moderate importance

9. Waste management
10. Future eco-efficient products and services
11. Services
12. Ethics and governance
13. Water production and management
14. Supplier and contractor management

Low importance

15. Human rights
16. Biodiversity



SIGNIFICANCE OF MATERIAL ASPECTS INSIDE AND OUTSIDE OF THE COMPANY

The most material aspects outside of the company are: responsible products and services, spills prevention, community relations and energy efficiency and greenhouse gas (GHG) emissions, which are presented in the upper half of the diagram. The most material aspects inside of the company are: health & safety, process safety, spills and energy efficiency & GHG emissions, presented in the right half of the diagram. Aspects recognised as the most material ones outside and inside of the company are: responsible products and services, spills, health & safety, energy efficiency & GHG emissions, process safety, human capital, customers and community relations.

INA VALUE CHAIN

Every stage of the value chain offers opportunities for us to identify and prioritise the issues and create value. INA Group is striving to successfully execute activities that are core to our industry bearing in mind the social, environmental and economic impacts along our value chain.
INA Group value chain infographic represents relevance of material aspects recognized throughout the value chain, consisting of core activities (exploration and production, refining and marketing, logistics and retail) and stakeholders.

OUR VALUE CHAIN

OUR MATERIAL ISSUES	E&P	REFINING	LOGISTICS	RETAIL	STAKEHOLDERS
RESPONSIBLE PRODUCTS AND SERVICES	●●●	●●●	●●●	●●●	●●●
SPILS	●●●	●●●	●●●	●●●	●●●
HEALTH AND SAFETY	●●●	●●●	●●●	●●●	●●
ENERGY EFFICIENCY AND GHG EMISSIONS	●●●	●●●	●●	●●	●
PROCESS SAFETY	●●●	●●●	●●	●	●
HUMAN CAPITAL	●●●	●●●	●●●	●●●	●●
CUSTOMERS	●●	●●	●●	●●●	●●●
COMMUNITY RELATIONS	●●●	●●●	●	●●	●●●

● lower relevance in this step of the value chain

●● medium relevance in this step of the value chain

●●● high relevance in this step of the value chain

REPORT BOUNDARIES

The scope of this report and sustainability material aspects boundaries are determined by considering their relevance to business, availability of the information and operation performances, covering sites and locations directly under operating control of INA Group companies. As already mentioned, a new direct subsidiary is included (Energopetrol) into report boundary.

MATERIAL ASPECTS AND REPORT BOUNDARY													
	GROUP'S BUSINESSES												
		DIRECT SUBSIDIARY											
SUSTAINABILITY MATERIAL ASPECTS	INA, d.d.	Crosco	STSI	INA Maziva	HOSTIN	TRS	Interina Ljubljana	Holdina Sarajevo	INA Crna Gora	Energopetrol	INA Blue team	INA Maloprodajni servisi	Stakeholders
Responsible products and services	√	√	√	√	√	√	√	√	√	√	√	√	Customers, Communities, Shareholders, Authorities, Employees
Spills	√	√	√	√			√	√		√			Communities, Shareholders, Authorities, Employees, NGOs
Health & Safety	√	√	√	√	√	√	√	√	√	√	√	√	Employees, Customers Communities, Contractors, Authorities
Energy efficiency & GHG emissions (Climate Change)	√	√	√	√	√	√	√	√	√	√	√	√	Authorities, Employees, Communities
Process Safety	√	√	√	√			√	√		√			Employees, Customers Communities, Contractors, Authorities
Employment and Human capital	√	√	√	√	√	√	√	√	√	√	√	√	Communities, Employees Trade Unions
Customers	√	√	√	√	√	√	√	√	√	√	√	√	Customers
Community relations	√	√	√	√			√	√		√	√		Communities, Employees NGOs
Waste management	√	√	√	√	√	√	√	√	√	√	√	√	Authorities Communities NGOs
Future eco-efficient products and services	√	√	√	√	√	√	√	√	√	√	√	√	Customers, Communities, Shareholders
Services	√	√	√	√	√	√	√	√	√	√	√	√	Customers Employees, Communities Contractors

Ethics and governance	√	√	√	√	√	√	√	√	√	√	√	√	Employees, Contractors, Customers Shareholders Communities
Water production and management	√	√	√	√	√	√	√	√	√	√	√	√	Authorities Communities Employees
Supplier and contractor management	√	√	√	√	√	√	√	√	√	√	√	√	Contractors Communities
Human rights	√	√	√	√	√	√	√	√	√	√	√	√	Employees Contractors Communities Customers
Biodiversity	√												Communities NGOs

SUSTAINABLE DEVELOPMENT IN INA GROUP

ACHIEVEMENTS

- “Sustainable Development Strategy 2020” published;
- 86% of INA Group middle managers participated in Sustainable Development workshops;
- 94% realisation of SD Action Plan 2016.

CHALLENGES

- Implementation of “Sustainable Development Strategy 2020”;
- 2017 SD report preparation in accordance with the new GRI Standards.

INA Group´s approach to sustainability is based on the company's values and is guided by its Health, safety, environment and social impact policy, which includes INA's commitment to develop goals and actions appropriate to the principles of SD and responsible management.

In 2016, INA Group published Sustainable Development Strategy 2020 defining objectives and actions which are necessary to meet some of the long-term sustainability and low social and environmental risk criteria. The strategic objectives are related to six focus areas: climate change, environment, health and safety, communities, ethics and governance and human capital. Within the six focus areas, 24 programs were defined, some of which are directly connected to 17 Sustainable Development Goals (SDGs), adopted at the UN summit within the 2030 Agenda for Sustainable Development in 2015.

INA Group Sustainable development strategy 2020

COMMUNITIES
- Implementation of Stakeholder engagement practice;
- Engage customers with sustainable service offering.

ETHICS AND GOVERNANCE
- Implement UN "Protect, Respect and Remedy" Framework (Ruggie-framework);
- Implement compliance and anti-corruption programs.

HUMAN CAPITAL
- Implementation of equal opportunity survey;
- Diversity and inclusion roadmap implementation;
- Increase average education/ training hours per employee;
- Increase Growww employees´ retention rate;
- Reduce time to autonomy in E&P and R&M;
- Implement technical career ladder in E&P and R&M;
- Increase employees engagement level.

CLIMATE CHANGE
- Examine the applicability of CO_2 injection into hydrocarbons reservoirs;
- Reduce direct and indirect greenhouse gas emissions;
- Reduce CO_2 emissions resulting from flaring.

ENVIRONMENT
- Implementation of spill prevention program;
- Develop low cost and high environmental benefit projects;
- Reduce emissions of sulphur and nitrogen oxides;
- Prepare and implement BAPs* for all sites in sensitive areas.

HEALTH & SAFETY
- Revise / restructure health promotion framework;
- Implement programs to aim zero injuries and fatalities;
- Safe driving program implementation in all INA Group companies;
- Prequalification and post evaluation of suppliers;
- Obligatory SCC* certification for high risk contractors;
- Monitoring of supply chain safety performance.

3. Good Health and Well-being

4. Quality Education

5. Gender Equality

6. Clean Water and Sanitation

8. Decent Work and Economic Growth

10. Reduced Inequalities

11. Sustainable Cities and Communities

12. Responsible Consumption and Production

13. Climate Action

17. Partnerships for the Goals

SSC - Safety Checklist Contractors
BAP - Biodiversity action plans

In order to raise awareness of the importance of sustainable development and promote new Sustainable Development Strategy 2020, an online campaign on sustainable development on INA Group level was carried out from July to September 2016, in form of 6 quizzes dealing with 6 focus areas; climate change, environment, health and safety, communities, human resources and ethics and governance. Approximately 600 employees participated in the quizzes.
In addition to the campaign on sustainable development, a workshop on sustainable development was held for INA Group middle management. A materiality assessment was conducted as a part of SD workshop. Attendance of the middle management in those 9 workshops was 86%.

SUSTAINABILITY MANAGEMENT

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

Management Board

The highest level SD governance body in INA Group companies.
Supervising sustainability related risks and new business opportunities, policies and strategies
Approves INA Group level SD/CSR issues.

Corporate Centre BF Executive Director

Highest level of SD management.

SD&HSE Organisational units in INA Group Companies

Integrates SD issues into management meetings in OU of INA, d.d./INA Group companies.
Supports the implementation of key SD actions.
Defining long and short term objectives.
Reporting on SD in OU of INA, d.d. / INA Group companies.

SD&HSE Sector

SD coordination on INA Group level.
Development of SD&HSE strategy and policy, and the processes for strategy implementation.
Proposing SD improvement actions.
Coordination of SD activities in INA, d.d. organizational units/ INA Group companies.
Monitoring of SD trends.

SD Council

Proposing SD/CSR improvement actions.
SD/CSR related communication with stakeholders.
Preparing reports for operational HSE Committee and INA, d.d. MB.

SD Working Group

Ensuring involvement of all relevant organizational units in SD.
Discussing corporate SD issues, documentation and actions. SD reporting support.
Informing/educating on SD issues. Sustainability assessment support.

OU- organisational units
MB- Management Board

Key SD processes in INA Group include objectives setting and SD targets approval, defining annual INA Group SD improvement action plan, execution of SD actions, internal and external reporting and SD audit framework implementation.

OVERVIEW OF IMPACTS AND PERFORMANCE

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

Our impact in 2016	Strategic focus areas	Our performance in 2016
Total CO_2 emissions 1.79 mln tCO_2eq	**Climate Change**	Energy saving projects in 2016 were based on 32 initiatives. As result of this activities, energy savings and related CO_2 emissions decreased in Rijeka Refinery, as the biggest energy consumer in INA Group, by 7% of total energy consumption and emissions in 2015.
		Significant CO_2 emission decrease was achieved by the Enhanced Oil Recovery projects at Ivanić and Žutica locations. In 2016 177,293,795 m^3 CO_2 was injected.
Revision of environmental permits for Refineries	**Environment**	Signed contracts for environmental permit revision of both refineries. Comprehensive documentation collected for development of RR and SR baseline reports. Teams responsible for preparation of Best Available Technologies (BAT) gap analysis formed. BUBBLE workshop organized for the authorities.
6 spills over 1m^3 of hydrocarbons (HC)		Numerous measures for spill prevention taken, including trainings for the staff, procedures update, improvements in sewage system monitoring and inspection and sewage system reparation, projects of rehabilitation and replacement of critical pipelines.
1,163 m^3 of HC pumped from underground		Remediation actions contributed to the reduction of the amount of HC from the underground (decreased volume of pumped HC by 11% compared to 2015). Road Map documents for refineries developed. New remediation equipment installed in Rijeka Refinery.
10,861 employees in INA Group	**Health & Safety**	To upgrade the safety of our own staff and contractors e-PTW pilot project and PTW standardization project were done.
		Total recordable injury rate has decreased in INA Group to 1.8 which is a big improvement to 2015 when the result was 2.5
		Continued with enforcing the implementation Life Saving Rules supporting projects – job safety analysis, STOP Card system and other programs.
		PSM implementation focused on the selected 6 elements within which PSI audits, selection of critical equipment, implementation of e-management of change and LOTO can be highlighted as the most important ones.
		Identified and prescribed Key Positions (KP) in INA fire brigades, further educated INA firefighters for Key Positions.
		Fire Hazard Analysis was done for selected Seveso locations, according Best Practice INA Group (requirements above legal obligations).
	Human Capital	Implementation of INA ACADEMY, internal knowledge sharing platform.
		Downstream Technical Career Ladder
		EPMS (employee performance management system)
		beneFIT platform
		Flexible working arrangements (Flexitime & Flexiplace)
INA donated more than HRK 3 mln for community investment and charitable gifts	**Communities**	Green Belt Projects - all 2015 Green Belt projects were carried out; 18 new projects selected within the scope of Green Belt 2016 out of which three were already carried out.
		INA Volunteers Club – 42 volunteering actions held; with participation of 771 volunteers; 6168 volunteering hours; 7,220 km crossed; 268 new members in 2016.
		Let's put a gift under the tree for every child: 504 gifts collected for children without adequate parental care from Children's Home Maestral, Split, Children's Home Sveta Ana, Vinkovci, Center Izvor, Selce and Novi Vinodolski, Center Klasje, Osijek and SOS Children's Villages, Lekenik and Ladimirevci.

Transparent sustainability reporting	Ethics and Governance	In 2016 INA Group received an acknowledgement in form of Deloitte Central European Sustainability Report Award for 2014 Annual Report
Ethical business / Human rights protection		Ethical trainings were held in security companies that provide services within INA Group with 100% accomplishment

Sustainable Development and Health, Safety and Environment Sector is responsible in its field of operation for proposing strategies and policies, coordination of activities in other INA Group companies, tracking trends and proposing actions for improvement and reporting.

In accordance with the company's commitment to implement the principles of sustainable development, as well as global trends, we recognized an improvement opportunity in this area. Accordingly, after consultation with all relevant companies, the Sustainable Development Strategy of INA Group was published in 2016 for the period until 2020. The strategy defines key areas and objectives, the realisation of which will be achieved through annual programs for sustainable development of INA Group within the said period.

Since sustainable development is integral in the business processes of the company and an integral part of accountability of the management structures, we conducted a series of trainings in 2016, which were attended by 130 managers from different INA Group companies.

The safety development and improvement was again one of the priorities in INA Group companies in 2016, where various programs were implemented in accordance with the defined strategic objectives. An example of a successful program is the prevention of incidents, which includes the basic rules of safety, protection against falls from heights, energy isolation, safe driving program and basic safety of truck drivers' program. A progress in the field of security is clearly visible according to different, continuously monitored indicators. Thus, in 2011, 2.5 injuries were registered per 1,000 workers, including subcontractors' workers, while in 2016 the same parameter was 1.6 injuries per 1,000 employees. Implementation of the safe driving program for employees reduced the number of traffic accidents, which was only 0.9 per 1,000 employees in 2016, while in 2011 there were 3.4 traffic accidents per 1,000 employees.

A special focus has been given to the implementation of the process safety management. This includes identifying, understanding and control of process risks in order to prevent incidents, regardless of their severity. However, regardless of the quality of the program, there is no successful implementation without a genuine involvement of the management at all levels, as well as a role model leadership in the area of health, safety, environmental and process safety. The management engagement in the health, safety and environment (HSE) program, based on an anonymous surveys, collected the views of workers on involvement of their managers in the HSE and the challenges they face at their workplace. Following that, the company organised workshops where 250 managers of all levels were further educated on the importance of their role in ensuring safe working conditions, as well as a need to establish permanent communication link with the workers regarding this issue. The program was accepted with enthusiasm and 94% of invited managers took part in training sessions organized in 2016.

In the field of environmental protection and climate change, special attention has been given to energy efficiency projects, which, in addition to financial savings, ensure a reduction of negative environmental impacts.

Angelika Brnada, Director of Sustainable Development and Health, Safety and Environment Sector

TARGETS SETTING AND SUSTAINABILITY PERFORMANCE MONITORING

INA Group companies define sustainability targets on a yearly basis, as a result of materiality assessment, taking into account financial, business and sustainability aspects, comprising results of different kinds of stakeholder engagements and organizational results from the previous period.
Sustainable development activities and projects are an integral part of the business plan of all relevant INA, d.d. organizational units and INA Group companies, and are related to identified six sustainability focus areas: climate change, environment, health and safety, communities, human capital, and ethics and governance.
In 2016, 14 INA Group companies / INA, d.d. organisational units planned a total of 84 actions, and the average realisation rate on INA Group level was 94%.

REALIZATION OF SD &HSE TARGETS OF INA GROUP FOR 2016

Indicator	PLAN	REALIZATION
Fatalities INA Group (own and contractors)	0	0
Lost Time Injury Frequency (LTIF) INA Group (own and Contractors)	1.52	1.67
Total reported injuries rate (TRIR) INA Group (own and Contractors)	2.55	1.75
High Consequence and High Potential Incident Inquiry Rate – INA Group and Contractors	100%	100%
Implementation of BU SD&HSE action plans	85%	91%
PSE Tier 1*	4	7
Leadership Engagement – top 600+ workshops	60%	94%

*PSE Tier1 – Process safety event with highest impact

Most of the LTIs were slip, trip, and fall type (37%) of injuries. Results are slightly above the targeted values, but there is still a big improvement in comparison to 2015 results, which were 2.05. If we look at the targeted value for LTI in 2016, which was 42, and the realization was 43, it shows that there is only a slight increase.

The number of process safety events was higher than planned. Therefore, a focus on implementation of process safety management will continue in 2017, with a special focus on management of changes, implementation of flange protocol, critical equipment integration in preventive maintenance, as well as training of the relevant personnel.

CRITICAL CONCERNS AND ACTIONS TAKEN

CRITICAL CONCERNS	ACTIONS TAKEN	AFFECTED STAKEHOLDERS
LEADERSHIP ENGAGEMENT	‣ Continuation of 2015 activities on safety leadership improvement programs, based on 2015 safety culture survey (1,543 respondents), and performed 2015 safety leadership workshops for top management (23 participants, 100% of the scope) ‣ Education of internal trainers (11 persons), who provided 20 safety leadership workshops for a middle management ‣ 2016 safety leadership workshops (20 sessions) for the middle management (210 participants, 94% of the scope) ‣ Dialogue workshops on safety survey results (987 participants) ‣ 2017 action plan evaluation on dialog workshops findings	‣ WORKERS ‣ MANAGEMENT ‣ CONTRACTORS
SD 2020 STRATEGY IMPLEMENTATION	‣ 94% realization of Annual SD Action plan (targeted minimum value of implementation was 85%) ‣ Training of 130 managers on sustainability strategy ‣ Setting sustainability targets as personal targets for relevant managers	‣ WORKERS ‣ CONTRACTORS ‣ LOCAL COMMUNITIES ‣ SHAREHOLDERS
HIGH NUMBER OF HIGH POTENTIAL INCIDENTS (10)	‣ INA Group OHS improvement plan 2016 prepared and implemented 90% of the actions	‣ WORKERS ‣ CONTRACTORS ‣ AUTHORITIES ‣ LOCAL COMMUNITIES
LTIF INCREASE 2016 (REAL 1.7, PLAN LESS THAN 1.5)	‣ Implementation of various OHS programs as: ‣ Life-saving rules supporting the implementation of programs: Fall protection program, Job safety analysis implementation, LOTO project implementation, Toolbox meeting campaign, Confined space/gas safety project	‣ WORKERS ‣ CONTRACTORS ‣ AUTHORITIES
SLIP, TRIP & FALL ARE MOST COMMON CAUSE OF INJURIES (37%)	‣ New slip, trip, fall program ‣ Markings of stairways ‣ Education and promotion	‣ WORKERS ‣ CONTRACTORS ‣ VISITORS
FULL IMPLEMENTATION OF PERMIT TO WORK SYSTEM (E-PTW)	‣ Regulatory framework ‣ Trainings ‣ Audits ‣ Site gap analysis ‣ Implementation action plan ‣ Electronic permit to work pilot	‣ WORKERS ‣ CONTRACTORS
STOP CARD IMPLEMENTATION IN DOWNSTREAM	‣ Framework for recognition of employees in HSE area prepared ‣ Targeting minimum value of STOP CARD for 2017	‣ WORKERS ‣ CONTRACTORS ‣ AUTHORITIES
SAFETY CONTRACTOR CERTIFICATION (SCC) FOR HIGH RISK CONTRACTOR COMPANIES	‣ 8 forums with contractors, 113 suppliers attended ‣ Communication to external stakeholders	‣ WORKERS ‣ CONTRACTORS ‣ AUTHORITIES

REFINERIES´ ENVIRONMENTAL PERMITS REVISION	▸ Signed contract for refineries´ environmental permit revision and the baseline report development ▸ The baseline reports prepared (precondition for the permit revision) for both refineries ▸ A bubble workshop organized for the authorities, on the possibility of application of integrated emission management (bubble) in the refineries. ▸ A comprehensive gap analysis of current state of the plants vs new Best Available Techniques Conclusions for the refining of mineral oil and gas	▸ WORKERS ▸ CONTRACTORS ▸ AUTHORITIES ▸ LOCAL COMMUNITIES
7 PROCESS SAFETY EVENTS (TIER 1 CASES)	▸ Implementation of the process safety management system with focus on selection of critical equipment and the lock-out / tag-out implementation as the most relevant elements in leakage prevention ▸ Formal governance bodies responsible for PSM implementation established ▸ Audits executed as planned ▸ Training ▸ Targeted annual implementation plan	▸ WORKERS ▸ CONTRACTORS ▸ AUTHORITIES ▸ LOCAL COMMUNITIES
FLUCTUATION OF EXTERNAL FIREFIGHTERS	▸ Identified and prescribed key positions (KP) in INA fire brigades ▸ Training of own firefighters for key positions ▸ Proposal for 2017 on training own firefighters through a certified firefighting training polygon made ▸ Fire protection month, emergency exercises ▸ Selection of competent service providers in some regions	▸ WORKERS ▸ CONTRACTORS ▸ AUTHORITIES ▸ LOCAL COMMUNITIES
RIJEKA REFINERY SPILL (18.3 m^3 OF HC SPILLED TO THE SEA AND COAST)	▸ Comprehensive investigation done ▸ Sea and coast remediation completed ▸ Total remediation cost was HRK 3,901,118 mln ▸ Additional ocean booms for sea protection installed ▸ More than 20 measures taken to prevent future spills	▸ WORKERS ▸ CONTRACTORS ▸ AUTHORITIES ▸ LOCAL COMMUNITIES ▸ MEDIA
CONTAMINATED LAND STRATEGY	▸ Contract for contaminated land advisory services signed ▸ Activities started on preparation of risk based INA Group approach to contaminated land remediation ▸ Road maps prepared for both refineries ▸ New equipment bought for sea protection	▸ WORKERS ▸ CONTRACTORS ▸ LOCAL COMMUNITIES

HEALTH, SAFETY AND ENVIRONMENTAL COSTS END ENVIRONMENTAL PROTECTION INVESTMENTS

For the third year in a row, INA Group has been delivering structured reporting, that consider quarterly reporting by all Group entities through well-defined HSE cost categories.

HSE COSTS FOR INA GROUP IN 2014, 2015 AND 2016 IN HRK MLN	2014	2015	2016
Health protection	11.9	7.2	3.4
Occupational safety	12.4	17.4	14.0
Fire protection	20.0	21.9	29.1
Surface waters protection	8.5	8.2	11.4
Hazardous waste treatment	13.5	10.0	8.9
Non-hazardous waste treatment	2.6	3.0	2.5
Soil and groundwater protection	12.6	19.4	16.4
Air protection	3.8	3.9	3.4
Non material HSE services	4.2	4.4	3.4
REACH and Product Safety	1.0	0.0	0.4
Fees and charges	35.9	37.6	30.7
Total	126.4	133.0	123.6

Compared to 2015, HSE costs in 2016 were slightly lower (by 7%) and the difference was mainly driven by lower fees and charges, lower health protection and occupational safety costs, while fire protection and surface water protection costs increased. Contrary to the difference in other cost categories, decreased fees and charges did not result from the changes in business activities, since they were due to accounting reasons and 2014 water fees recording in 2015.

Health protection and occupational safety costs in 2016 were lower mainly due to decreased Crosco Group´s oil service activities abroad, while fire protection costs were higher due to increased unit prices of external firefighting services. Surface water costs were mainly incurred by the sea remediation after Rijeka Refinery spill.

INA Group HSE project investments in 2016 were realised in the amount of HRK 308 mln and the major part of the investments were related to the environmental type of projects (HRK 279 mln, or 91%), while the most intensive environmental investments were performed in area of Refining and Marketing Business (HRK 257 mln, or 92%).

Out of the total investments of Refinery and Marketing, the main driver were investments into environmental projects, concerning compliance projects in Logistics (55%) and Rijeka Refinery (41%). Individually, the most intensive HSE projects in 2016 were modernisation of Bakar port, rail tank car (RTC) loading / unloading units at Sisak and Rijeka logistics sites, as well as in projects for flare gas recovery system, condensate collecting and amine unit installation at Rijeka Refinery site.

ETHICS AND GOVERNANCE

INA Group companies adhere to all laws of the Republic of Croatia, including those related to human rights protection, occupational health and safety, environmental protection, competition and marketing practices. Risks associated with changes in the legislation, which may or will have a significant impact on our business, are continuously monitored.
INA Group companies neither endanger the rights of indigenous communities with their business operations, nor use children or forced labour, and require the same from their suppliers. In addition, they do not provide a financial or any other kind of assistance to political parties, politicians and related institutions.
Customer privacy is respected in accordance with all codes of practice, INA Group procedures and legal requirements. The security of cards and protection of data of natural and legal persons is very rigorous. So far, there have been no complaints regarding breaches of customer privacy or marketing practices.

ETHICS

INA Group's Code of Ethics (CoE) aims to provide all internal and external stakeholders with an overview of the ethical norms which INA Group companies consider to be essential to their successful operations, both within and outside INA Group companies. Code of Ethics is based on the respect of fundamental human rights and ethical principles of integrity, honesty, trust, respect, humanity, tolerance and responsibility. The CoE is available to the public on INA's website, and is incorporated in the majority of the contracts with our suppliers. In INA Group 97% of contracts with suppliers include the obligation of compliance with CoE. The remaining 3% that do not contain the obligation of compliance with CoE mostly refer to the accession contracts where the basic contract conditions contain a reference provision, contracts concluded within INA Group companies that already apply CoE compliance provision. There are cases of adhesion contracts where INA Group Company signs a predefined vendor's contract which is not possible to be influenced or negotiated on.

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

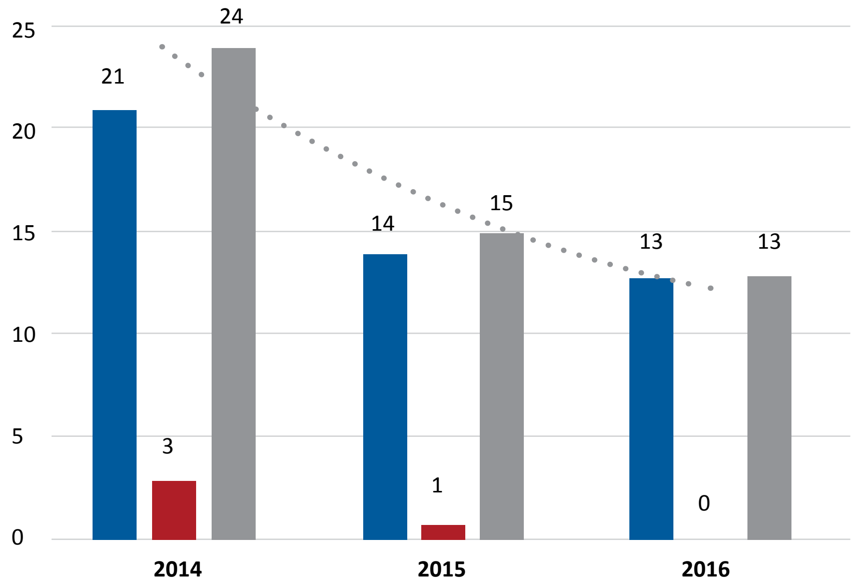
In the event of any ethical concerns, employees may first contact their line manager. Help or advice can also be sought from the Human Resources (HR) Sector/HR partner or the Legal Sector of INA, d.d., or competent organizational units/persons performing such tasks in the relevant INA Group company. Should an employee ever feel uncomfortable to use these channels, they may, at any time, contact INA Group's EC or the ethics officer in the relevant INA Group member company.
Permanent members of the EC are high and medium level managers and an employee representative. The chairperson is an external expert responsible for fairness of procedures. When it comes to the procedures related to the protection of dignity, ad hoc Council members will also partake, i.e. a TU or Works Council (WC) representative, in addition to the permanent Ethics Council members.

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

Ethical procedures

In 2016, INA Group Ethics Council processed 13 complaints, with 6 investigations procedures conducted, without any established breaches of INA Group Code of Ethics. The reports concerned the following topics: protection of dignity, prohibition of discrimination, transparency of financial information and accounting, conflict of interest in suppliers and business partners.

Overview of ethical internal and external reports in INA Group in the period of 2011 to 2016:



	2014	2015	2016
Internal reports	21	14	13
External reports	3	1	0
Total	24	15	13

During 2016, six investigation procedures were undertaken and there was no breach of INA Group Code of Ethics established in four cases, while two other cases are still open.

Education on Code of Ethics

President of INA Group Ethic Council held an ethical training for 40 newcomers – Growww population and wrote an article for INA Glasnik on ethics focusing on the issue of the fight against corruption.

INA Group Retail network held an ethical training for the retail staff, with a total of 97% accomplishment: INA Maloprodajni servisi (Retail Services - IMS) 97%, INA Partners 100%, Holdina 98%, Energopetrol 99%, Interina Ljubljana 92%, and INA Crna Gora 97%.
The remaining 3% did not attend the ethics training due to a long term sick leave, annual leave or a new employment. Generally, all employees have been informed on the obligation of compliance with INA Group Code of Ethics.
Ethical trainings were also executed in security companies that provide services within INA Group (INA, d.d., Crosco, INA Maziva, Holdina, Energopetrol and INA Crna Gora), with 100% accomplishment.
Further activities initiated during 2016 and to be finalized in 2017 include designing of an educational brochure with recommendations on how to communicate and conduct business cooperation negotiating and contracting activities with suppliers, with the aim of raising awareness of INA and INA Group employees, participants in these activities, in terms of respecting the principles of INA Group Code of Ethics and elimination of circumstances that could potentially lead to submission of inappropriate and illegal bids by suppliers.

TRANSPARENCY

Sustainability reporting

INA Group regularly publishes its sustainability reports on annual basis, in accordance with GRI Guidelines. The last three sustainability reports were integrated with the financial report and published as an annual report. The annual report for 2015 was prepared in accordance with GRI G4 and has undergone GRI Materiality Disclosure Service.
INA Group Annual Report 2014 was awarded a national Green Frog Award by Deloitte Croatia for the best sustainability report in 2015 in Croatia. INA Group also received an acknowledgement in form of a Deloitte Central European Sustainability Report Award. The members of the regional jury recognised that INA has developed its own approach, supported by strong data and a process-led organization, where corporate social responsibility was presented as internally and organically grown.

Cooperation with other organisations

In June 2016, a workshop on green public procurement was conducted by director of Croatian Business Council for Sustainable Development Mrs. Mirjana Matešić. Following the workshop, steps were taken in terms of procurement of paper and office equipment under the rules of the Green Public Procurement set out in the Croatian National Action Plan for the Green Public Procurement, in accordance with the criteria of priority product groups and services. Consequently, a forum of paper and office equipment suppliers was held in order to communicate requirements regarding green procurement and in order to encourage them to extend the range of products that meet the criteria of the green public procurement.

Due to the fact that as of 1 January 2017 non-financial reporting has become obligatory for companies over 500 employees, INA's representative was invited as a lecturer on a training organized by the Institute for Sustainable Development and RRiF College of Financial Management, in order to share experience and knowledge collected in a long-standing practice of non-financial reporting.
INA hosted Workshop on Volunteering in organization of UNGC Croatia and Croatian Employers' Association, as a company with a very active and experienced volunteering club, to share its best practices with other members of UNGC Croatia.
INA Group companies´ employees took part in various professional conferences and similar events, thus, for example, SpajaLICA project was presented at the 8th Croatian Corporate Social Responsibility (CSR) Conference and Process Safety Management (PSM) on 49th Symposium Fuel and Lubricants (GOMA) in Šibenik.

SUSTAINABLE PRODUCTS AND SERVICES

Sustainable development has been an important segment of INA retail business for years, because we are aware of our impact on the environment and society. Our areas of corporate social responsibility are related to all aspects of the business and we aim to act in a socially and environmentally responsible manner. Even though we had actions from different areas in our action plans, we are primarily focused on the goal of improving relations with customers and the local community. All our activities are defined through annual action plans for sustainable development, whose realisation we follow on quarterly basis.

Some actions that have met a very positive response among customers, such as selling fruit, vegetables and local products on service stations in cooperation with local producers, are traditionally repeated with some improvements that we introduce each year (offer extension, higher number of local producers).
In 2016, we had a series of events and benefits for customers, such as a super offer - promotional zones, active sales, products on sale, contests, loyalty programs, etc., in order to fulfil their expectations and also ensure a long-term sustainable business. A new gastro concept called Fresh Corner was introduced, which includes daily offer of pastries, sandwiches, hot and cold beverages, thus we are expanding the offer on our service stations. Furthermore, many new services have been implemented at our service stations, such as: Croatian Lottery, Paysafe payment cards, purchase of vignettes, and payment in instalments. Sales of domestic products was conducted at 13 service stations in cooperation with 13 local producers. Novelty in 2016 was an extension of offer, where we added Christmas trees and nuts to our offer, in addition to fruit, vegetables, cheese and honey.

For five service stations that close to protected areas, we designed leaflets for customers that contain information about what is INA doing to protect the environment in general, as well as information on those protected areas.
In order to increase energy efficiency on service stations, we have continued replacing old air conditioners and heating systems with new air conditioning systems. For further improvement, we participated on MOL group “Green Fund contest” with a project titled “Improved waste management practices and LED energy efficiency“ and we were, along with 2 other projects, selected for funding from MOL's "Green Fund" in 2017 year.

Darko Markotić, executive director of Retail BD

In order to meet a variety of customers´ needs and expectations, INA's service stations are supplied with high quality fuels, such as Euro V, liquefied petroleum gas (LPG), gas in cylinders, but we also have a wide range of consumer goods, an assortment of oils and lubricants and car cosmetics. INA stations provide additional services to their customers, including carwash, coffee bars and restaurants.
INA owns the biggest modernized retail network in Croatia, with a significant improvement of site appearance, efficiency, technical conditions and expanded range of consumer goods, which, by the end of 2016, included 204 modernized service stations.
Additionally, in order to help local communities to market their products and to provide additional offer to its customers, INA, d.d. has launched a local product-selling project on its service stations. In 2016, 13 local producers were selling fruit, vegetables, honey and cheese on 13 locations. A novelty compared to the previous year was a possibility of selling / buying Christmas trees and hazelnuts.
In 2016, there were no complaints concerning customer privacy breach or loss of customer data, no non-compliance incidents concerning the health and safety impacts of products and services or product and service information and labelling.
INA tool free phone 0800-1112, which was launched almost twenty years ago, is still in use for the constant direct communication with all interested stakeholder groups, but it is mostly used by the customers. During 2016, INA Free Phone received a total of 16,610 calls, which was 39.38% higher than in the previous year. Out of the received calls, there were 15,550 notifications, including notifications related to LPG, 414 complaints, 616 praises and 30 proposals.

CUSTOMER SATISFACTION SURVEY

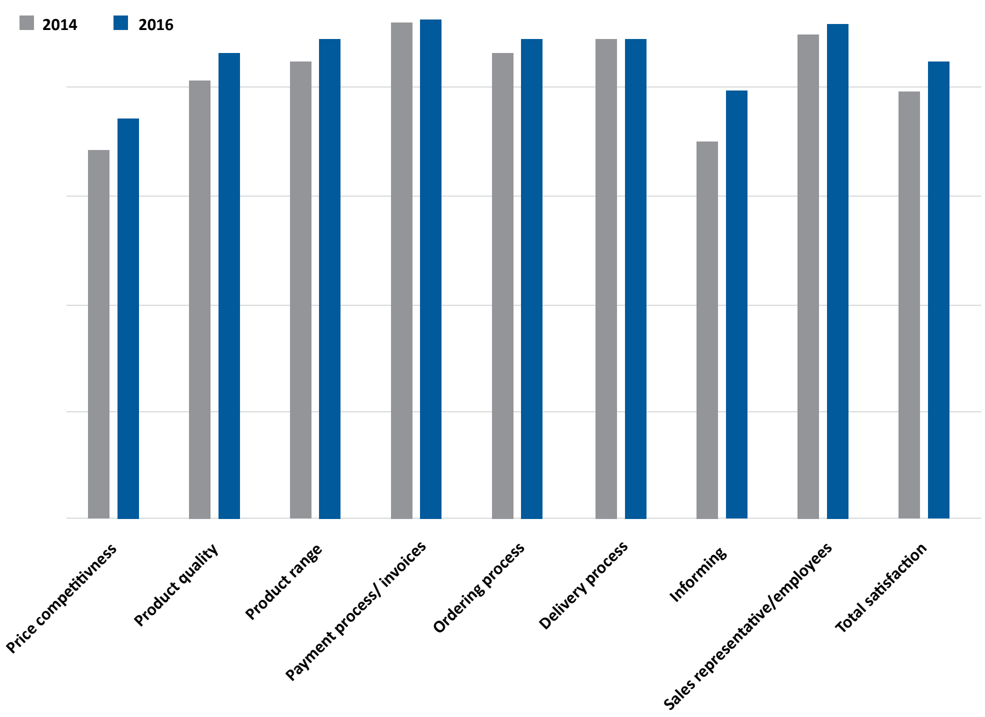
INA regularly conducts surveys on attitudes and expectations of its customers. A customer value analysis (CVA) is done by a marketing research agency and shows the customers´ satisfaction through business elements, aiming to determine INA's position on the market, improve communication and customer relations, to objectively measure and monitor trends in customers´ satisfaction and identify the areas with a room for improvement. The CVA results are compared to 2014, when the first CVA was conducted with the same methodology, in order to follow its advancement with the purpose of the business improvement.
The survey targeted companies that buy petroleum products or use fuel cards for buying fuels at service stations on the domestic market. It included buyers of fuel, heating oil, LPG, bitumen, fuel oil and separately cardholders. The focus of the interview was on a detailed inquiry into experience with the main supplier of the most important product. The sample was based on INA, d.d. customer base, supplemented with the general base of businesses. The share of INA, d.d.´s customers in total number of the survey participants was in line with the market share of INA, d.d. in the wholesale segment.

Survey results

The results of the survey show that 89% of oil derivatives customers and 94% of fuel card customers are exceptionally satisfied and very satisfied with INA, d.d.
Results show that overall satisfaction of INA, d.d. oil derivate customers is improved for 7.37% in comparison with 2014, while satisfaction of INA, d.d. fuel card customers is improved for 5.23%, compared to 2014.
90% of customers who have INA, d.d. as the main supplier described its relationship with INA d.d. as strong (colleagues, partners, friends...). Results are also better in terms of value for money perception: 58% of oil derivatives customers and 69% of fuel card customers completely or almost completely agree that INA, d.d. products and services are worth the price they pay for them.
As a result of a survey, lower product prices, higher discounts and longer payment term are elements where there is a place for improvement.

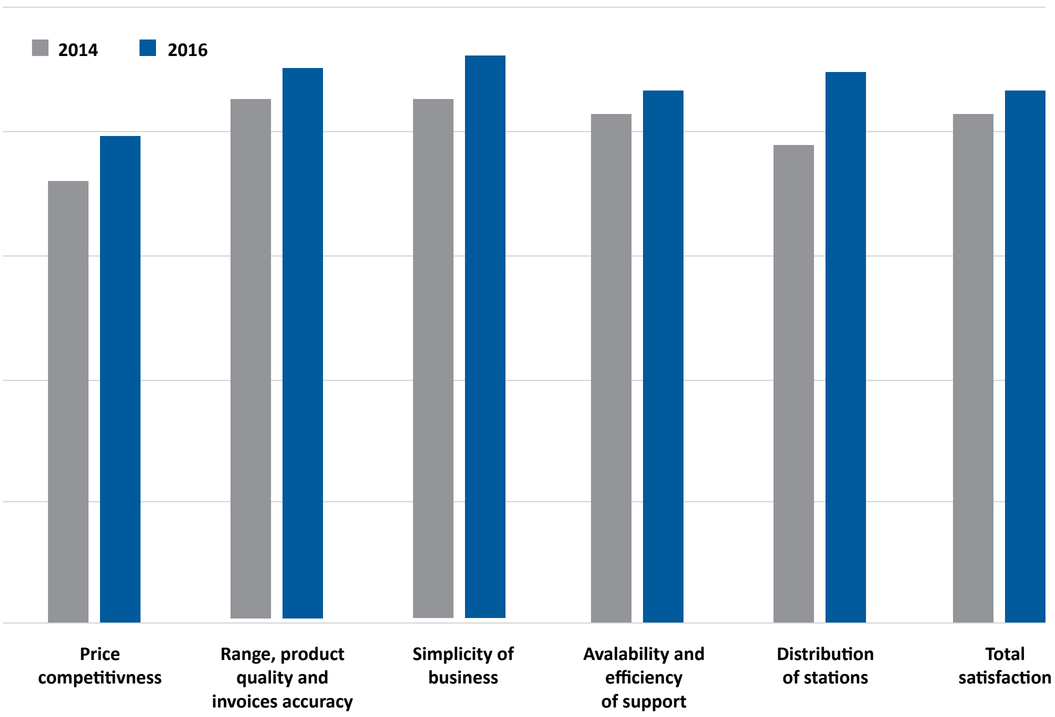
Derivatives buyers

The 2016 survey on buyers of oil derivatives showed that all of the elements are improved or remained at the same high level (delivery process) as in 2014.



CARD USERS

The survey on fuel card users showed that the results for most of the elements improved compared to 2014.



Bosnia and Herzegovina market

INA Group operating company on the market of Bosnia and Hezegovina, Holdina, d.o.o., has conducted a survey on wholesale customers' satisfaction after implementation of a new sales policy in 2016. The survey was conducted by e-mail and targeted top 30 owners of filling stations and resellers that buy petroleum products. The sample was based on Holdina's customer base and the response rate was 60%.
Results of the customers´ satisfaction show that, due to implemented discount policy in 2016, satisfaction of end user customers increased in comparison with resellers' satisfaction, and this was a primary goal of the new sales policy implementation. Next steps in 2017 aim a further improvement in the sales and services toward end users.

RENEWABLES AND PRODUCTS WITH BIO COMPONENT

INA, d.d. investments in renewables were mainly focused on the projects related to the use of biofuels in transportation, so in 2016 there were investments into construction and modernization of installations for storage and blending of biodiesel and bioethanol at Rijeka and Sisak refineries.
In 2016, INA, d.d. launched several projects to evaluate possible production of advanced biofuels in Croatia. The projects would evaluate possible directions and profitability of different processes for advanced biofuels that are produced from biomass, waste and residues (sustainable raw materials that are not in competition with food production).
Responding to expected environmental changes and climate framework for renewable energy in 2030, INA, d.d. decided to invest into a feasibility study that would focus on use of solar energy in Rijeka refinery.

PRODUCT STEWARDSHIP

INA Group companies adhere to the Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH Regulation) and the Regulation on the Classification, Labelling and Packaging of Substances and Mixtures (CLP Regulation), which require that companies increase their knowledge about the chemicals they produce and pass that information on to their customers. This improves our understanding and raises awareness about chemicals and their hazards.
INA REACH team continuously supports all company processes, including production, procurement, sales, registration dossier maintenance and update. INA experts actively participate in working groups of European associations of refining industry CONCAWE: Petroleum Products Management Group (PPMG), REACH Delivery Management Group (RDMG), Substance Identification Group (SIG) and IUCLID Policy Team (IPT). In 2016 INA experts have joined in Fuels Europe REACH Advocacy Issue Group (RAIG) and Lower Olefins and Aromatics Consortium Classification and Labelling working group (CLPWG).

SUPPLIERS

Pre-screening of INA Group's bidders (contractors and subcontractors) determines which bidder should be included in the initial supplier engagement procedure in order to effectively focus efforts, prioritize resources, determine risk rating, as well as to ensure a smoother and more effective procurement process.

Beside the general company information, bidders are required to provide financial, legal, ethical, technical as well as related health, safety and environmental (HSE) information, which includes introducing a bidder to the HSE requirements that they would be required to apply during the contract term.

Following the pre-screening process, a pre-qualification process is carried out for any company performing HSE critical activities, where the HSE performance of the company is evaluated based on documents and on-site findings. If the company already owns "Safety Checklist Contractors (SCC)" certificate or OHSAS 18001 and ISO 14001 (both of them together) certificates - issued by an accredited certification body for the following management systems, and if such system certificate contains the activity subject to the tendering, then conducting a pre-qualification is not mandatory. In 2016, 34 prequalification HSE audits were held in INA Group. One supplier did not fulfil the HSE.

By making a statement as part of the bid, i.e. by signing the contract, the vendor declares that they have been familiarised with the content of INA Group Code of Ethics, that they find the provisions of the Code clear and understandable and that they fully accept it. A post-evaluation of vendors in terms of requirements stipulated in the contracts are carried out on annual basis, with respect to the overall contract and HSE requirements. In case any non-compliances with HSE requirements have been found during on-site audits, the financial sanctioning of the vendor in question shall be proposed.

An HSE post-evaluation of suppliers for suppliers that performed works in 2015 at INA's locations was done in April 2016. It showed that 132 suppliers met the expectations, 2 suppliers did not meet the expectations.

A penalization of INA Group's suppliers was carried out in accordance with internal regulations in case of noncompliance with the HSE requirements. There were 11 proposals for penalizations in amount of HRK 78,000, based on the conducted audits.
A ratio of local vendor in 2016 was 85% in number and 82% in value. INA's definition of 'local' geographic location entails the geographic area of Croatia.

In our daily operations our top priority is enforcement of stringent standards to protect the health and safety of people and the environment. For this purpose we implement best industry practices in our processes thus protecting the environment and continuously contributing to GHG emissions reduction at INA Group level.

Our commitment to corporate socially responsibility, and in particular economic sustainability is reflected in our dedication to create welfare for all our stakeholders from employees to local communities in which we are present and where we nurture years-long tradition of good cooperation. We are daily engaged in partner relationships with our stakeholders and we constantly strive to maintain transparent and regular communication aimed at mutual understanding and further development and maximization of the company's value.

Želimir Šikonja, executive director of Exploration and Production BD

Sustainability for Refining and Marketing defines our operation today and tomorrow. It requires endorsement of our products, environmental impact, economic impact and social impact by our employees, customers, neighbours, authorities and shareholders. By setting challenging targets and striving for excellence in our daily operations we gradually improve our performance in these areas. We also have an extensive investment programme that will make our business more sustainable. Telling our stakeholders what we do and listening to their input, is another crucial part of our sustainability work. The list of activities is long, but to name a few it includes: training truck drivers in economic driving, setting ambitious targets for our sales representatives dialogue with customers, improving energy efficiency under the umbrella of ISO 50001, developing renewable fuel alternatives, organising open houses and town hall meetings for neighbours of our refineries, implementing a comprehensive process safety management programme and delivering the strategy for making Refining and Marketing a profitable and self-sustaining business.

Bengt Oldsberg, executive director of Refining and Marketing BD

CLIMATE CHANGE

ACHIEVEMENTS

- Energy savings and related greenhouse gas emissions decreased in Rijeka Refinery, as the biggest energy consumer in INA Group, by 7%, compared to 2015;
- ECO driving education for all INA, d.d. tanker truck drivers;
- 177,293,795 m^3 of CO_2 injected in 2016 at Ivanić and Žutica locations in the scope of Enhanced Oil Recovery (EOR) project.

CHALLENGES

- In line with the 2015 United Nations Climate Change Conference in Paris (COP21) the goal is to “hold the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels”, to further reduce flaring, venting, leaks and energy used for production and distribution of fossil fuels.

ENERGY EFFICIENCY AND GREENHOUSE GAS EMISSIONS REDUCTION

Energy management

INA Group has implemented energy management system, in compliance with ISO 50001, i.e. has been certified, since November, 2015. ISO 50001 is based on the Plan-Do-Check-Act (PDCA) continual improvement framework and incorporates energy management into everyday practices.

INA Group has imported better continual data updates and analysis for energy consumers in each organizational unit and set out action plans by which it defines the level of ensured energy saving within the given deadline. Evaluation of the energy management system performance has been provided by the energy management system review, which lays out the basis for data on energy management system regulation in INA Group.
A supervisory audit and recertification for ISO 50001 Energy management system was conducted successfully by “Bureau Veritas” in September 2016.

ENERGY CONSUMPTION

The total direct and indirect energy consumption of INA, d.d.'s organizational units and INA Group companies

	2014		2015		2016	
	Total direct energy consumption (thousand GJ)	Total indirect energy consumption (thousand GJ)	Total direct energy consumption (thousand GJ)	Total indirect energy consumption (thousand GJ)	Total direct energy consumption (thousand GJ)	Total indirect energy consumption (thousand GJ)
Rijeka Refinery	13,331,037	250,667	13,243,367	316,115	12,408,234	322,306
Sisak Refinery	3,773,464	252,918	4,843,555	290,738	4,466,501	332,402
Exploration & Production	2,095,487	186,772	2,681,013	214,418	2,797,525	271,509
Retail	4,428	75,788	4,178	76,352	3,767	78,240
Logistics	97,785	17,567	84,943	16,450	83,231	15,317
Corporate Centre	36,103	64,334	44,396	65,999	56,802	69,474
Total INA, d.d.	**19,338,304**	**848,046**	**20,901,452**	**980,072**	**19,816,060**	**1,089,248**
Crosco	91,107	9,503	392, 775	7,564	130,909	7,625
Rotary	n.a.	n.a.	95,602	2,025	41,578	1,918
INA Maziva	51,982	7,429	54,823	7,472	58,335	7,583
Holdina	12,135	8,974	13,108	20,805	2,338	8,935
Energopetrol	13,412	12,232	11,538	12,681	4,729	12,482
Interina	4,305	1,651	4,376	1,596	4,711	1,495
STSI	75,964	7,449	79,561	7,420	86,005	7,414
Total INA Group	**19,587,209**	**895,284**	**21,553,235**	**1,039,635**	**20,144,665**	**1,136,700**

ENERGY-SAVING AND EMISSION REDUCTION PROJECTS

Energy saving projects in 2016 were based on 32 initiatives with different status of realisation. As result of these activities, energy savings and related CO_2 emission decreased in Rijeka Refinery, as the biggest energy consumer in INA Group, by 7% of total energy consumption and emissions in 2015. A new plan was created in the scope of the energy management system, based on 26 new energy savings initiatives, which will be followed by the related emission reduction.

ENERGY SAVING AND EMISSION REDUCTION PROJECTS

	REFINERY – Rijeka	REFINERY – Sisak	E&P	LOGISTICS	IS SECTOR
ENERGY SAVING (GJ)	243,353	35,748	3,443	836	1,840
CO_2 (t) SAVING	18,648	4,069	268	65	119
FINANCIAL SAVING (HRK)	17,290,768	1,323,915	29,400	175,312	357,700
ABOUT	**Rijeka Refinery** Steam network maintenance and condensate collecting.	**Sisak Refinery** Reducing steam leakage on steam traps and steam line.	**4** projects Reconstruction and replacement of old boilers and reconstruction of hot oil and steam production process on Fractionation Facilities Ivanić Grad (FFIG), utilizing existing gas turbines for heat and electric production which results in electricity supply for nearby oil Fields Ivanić and Žutica.	ECO driving education for all INA d.d. tanker truck drivers.	Optimization of the data centers infrastructure, servers virtualization that aims for optimization of virtual infrastructure in terms of capacity planning, operations efficiency, thin provisioning, central management.

EOR Project

177,293,795 m³ CO_2 injected

184,669,716 HRK invested in 2016

Primary goal is to increase oil recovery residual on mature oil fields Ivanić and Žutica. Secondary target is to reduce CO_2 emissions, extending the both fields life-cycle.

IS - Information services
E&P - Exploration & Production

OTHER ENERGY SAVING AND EMISSION REDUCTION PROJECTS IN INA GROUP

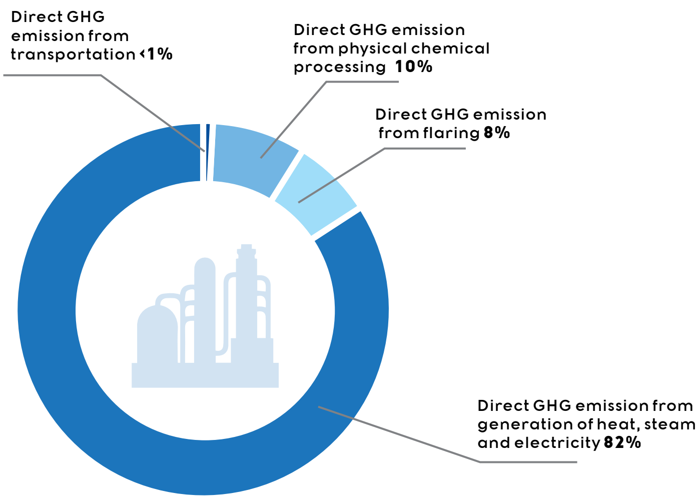
Retail
Actions for energy efficiency improvement at Retail BD service stations continued in terms of replacement and installation of air conditioning systems and replacing old refrigerators with new refrigerated display cabinets. Furthermore, Retail BD was preliminary selected for the 2017 Green Fund investment funding with project "Improved waste management practices and LED energy efficiency". The major objective of the project was to improve the separate waste collection by buying 2 press devices for municipal and package waste, as well as installation of energy-efficient LED lighting at 4 service stations.

Crosco Group
Energy Efficiency Awareness Rising Campaign was launched during 2016. E-news were published on monthly basis and trainings on smart energy use were conducted at all workplaces. Old working diesel motor on drilling rigs was replaced with a new one. The new motor has a higher energy efficiency, with reduction of GHG emissions. Modernization of the illumination started on ROTARY premises in 2016.

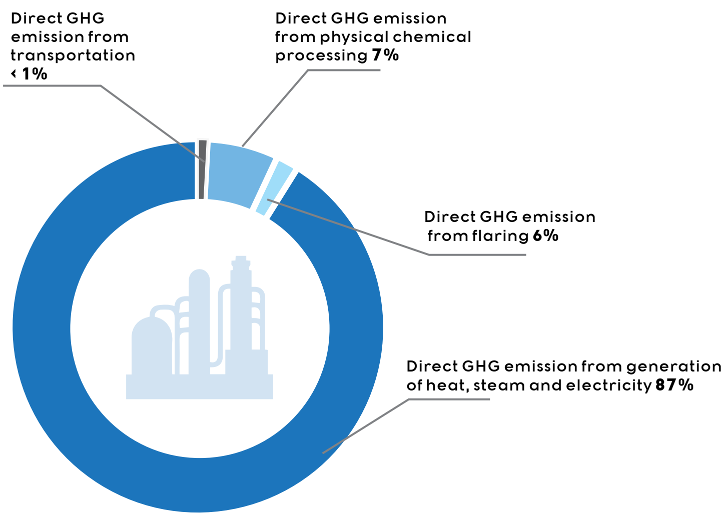
GREEN HOUSE GAS (GHG) EMISSIONS

CO_2 Emissions
In the pie charts below, share of direct GHG emissions from INA, d. d. organizational units is presented in tonnes of CO_2eq. Emissions are presented as Direct GHG emissions from physical or chemical processing, Direct GHG emissions from venting (applicable only for E&P), Direct GHG emissions from flaring, Direct GHG emission from generation of heat, steam and electricity and Direct GHG emission from transportation indicators. Total direct GHG emissions for Rijeka Refinery are 983,553 tonnes CO_2eq, 318,336 tonnes CO_2eq for Sisak Refinery and 346,972 tonnes CO_2eq for Exploration and Production.
Indirect CO_2 emissions from transport of INA Group employees by airplane are also monitored and in 2016 they amounted to approximately 358 thousand tonnes of CO_2eq.

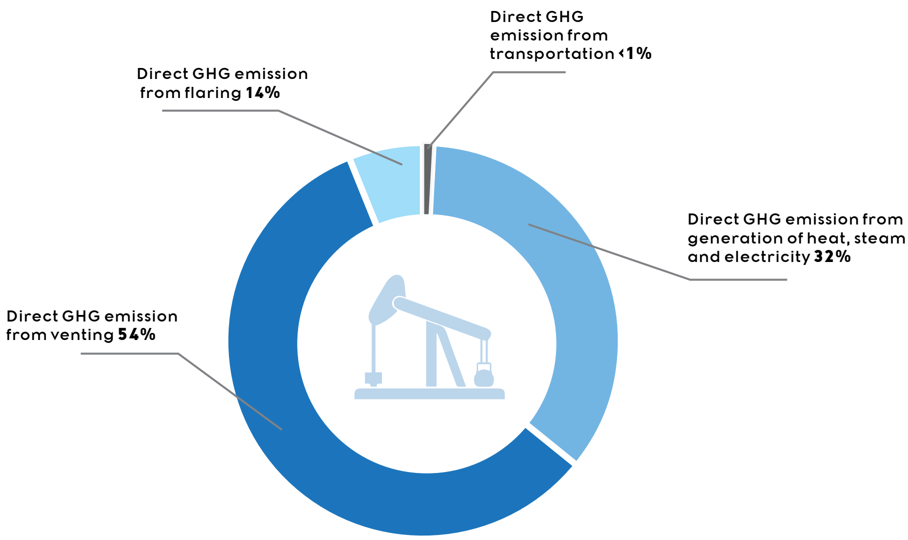
RIJEKA REFINERY



SISAK REFINERY



EXPLORATION AND PRODUCTION



EUROPEAN UNION EMISSIONS TRADING SYSTEM (EU ETS) EMISSIONS

In July 2015, a legislative proposal to revise the European Union emissions trading system (EU ETS) for the 2021 - 2030 period was proposed by the European Commission. European Union has set targets to reduce greenhouse gas emissions by at least 40% domestically by 2030 where the revision of the EU ETS represents the first step towards this goal. Greenhouse gas emissions reduction target is in line with the 2030 climate and energy policy framework, and it contributes to the Paris Agreement. In 2016, INA, d.d. continued its collaboration with local authorities, companies, and peer companies in refining sector in defining rules for a new trading period after 2020.

Energy Department, established in 2015, participates in all Energy related projects by preparing proposals for energy savings and by analysing options for decrease of CO_2 emissions. Energy Department continuously monitors CO_2 emissions in INA's refineries, and for this purpose, a new performance indicator used to calculate emissions has been established. All data are collected and published in regular monthly report. After implementation of Energy related projects, Energy Department prepares annual report which includes data about related CO_2 emissions reduction.

VERIFIED CO_2 UNDER EU ETS			
(t/year)	2014	2015	2016
Rijeka Refinery	952,377	991,903	983,431
Sisak Refinery	257,724	328,064	318,271
Gas Processing Facilities Molve	69,242	74,772	76,583
Fractionation facilities Ivanić Grad	28,156	31,626	36,383
Total verified EU ETS CO_2 t/year	**1,307,499**	**1,426,365**	**1,414,668**

When it comes to downstream, compared to 2015, emissions in Rijeka Refinery stayed similar to those of the previous year. Nonetheless, CO_2 intensity has improved significantly (47.83 t CO_2/kt CWT* in 2015 compared to 42.14 t CO_2/kt CWT in 2016), due to reducing of the consumption of fuel oil by 15%. In Sisak Refinery CO_2 emissions under EU ETS stayed similar and CO2 intensity in 2016 equals 77.72 CO_2/kt CWT.

While emissions in Gas Processing Facilities Molve stayed similar to the previous year, emissions in Fractionation Facilities Ivanić Grad increased by 15% due to start of cogeneration project (heating system reconstruction). With this project, among other improvements, additional quantities of electricity are being produced from turboelectric aggregates which will also supply, along with the fractionation process plant and EOR compressor station, Žutica and Ivanić Exploitation Fields. Both gas turbines now are working simultaneously under higher load, resulting in generation of larger amounts of air emissions.
All CO_2 emissions under the Emissions Trading System are verified by an accredited company in line with the relevant European and national legislations.
* CWT - Complexity Weighted Tonne

GAS LEAKAGES

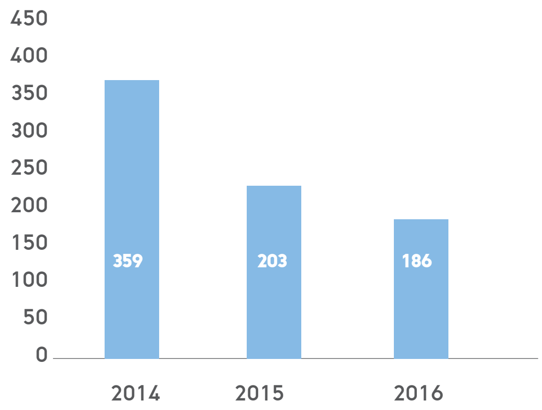
Flaring in Exploration and Production BD mostly represents a safety element. The flares are used in way prescribed by the Environmental Permits and Environmental Impact Studies, which are approved by the Authority within the Decisions on environmental acceptability.

Flaring is primarily considered a non-routine flaring connected to activities such as exploration, initial well flow-back, well servicing, process upset, safety or emergency situations, equipment or gas handling infrastructure malfunction or de-pressuring equipment for maintenance, as well as for purge and pilot flaring necessary for safe flare operation.

However, flaring of commercially profitable goods does not represent a sustainable solution for the Company, therefore its decreasing is under constant consideration which resulted in projects such as: installation of condensate screw compressor intended for compression of low pressure condensate from Žutica Dispatch Station beyond the Žutica Gas Station intake pressure limit in

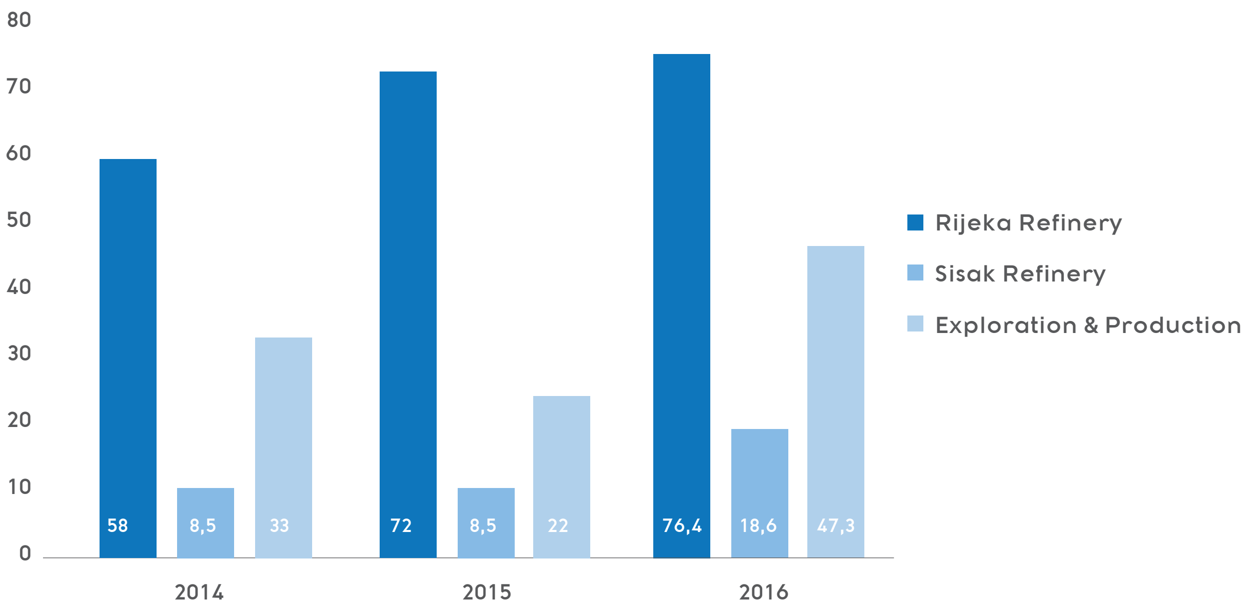
order to return it to the process and installation of screw compressor at the Dispatching station Beničanci, in order to increase the pressure of produced gas enabling its usage for the gaslift (the gas was flared when delivery to local distributor was not possible, while for the gaslift the gas from distribution was used), by which the gas that would previously be flared due to different technical reasons, is now successfully returned to the process and used.
Significant CO_2 emission decrease was achieved by the ongoing EOR project, which started in 2014 with a primary goal to increase oil recovery at mature oil fields Ivanić and Žutica, and the secondary targets are CO_2 emission reductions, extension of field life cycle and enforcement of further development of this region.
Project CO_2 compression Ethane Plant is under development, which is going to use CO_2, separated from the associated gas produced within the existing EOR project and currently emitted to atmosphere, for further EOR purposes.
From 2014, Direct GHG emissions from venting in Exploration and Production decreased for 48% due to EOR project.

Direct GHG emissions from venting in Exploration and Production (in thousand t CO_2eq)



Direct emissions from flaring show increase in 2016 due to overhaul operations at production unit processes in Exploration and Production- Also, in Sisak Refinery one of the flares worked longer during refinery turnaround, thus using more natural gas.

Direct GHG emissions from flaring in INA, d.d. organizational units (in thousand tCO_2eq)



ENVIRONMENTAL PROTECTION

ACHIEVEMENTS

- A remediation advisory company was engaged to prepare INA risk based remediation strategy;
- Comprehensive baseline reports were prepared as a precondition for environmental permit revision;
- A discussion workshop on integrated SOx/NOx emission management (bubble) was organized for the relevant authorities.

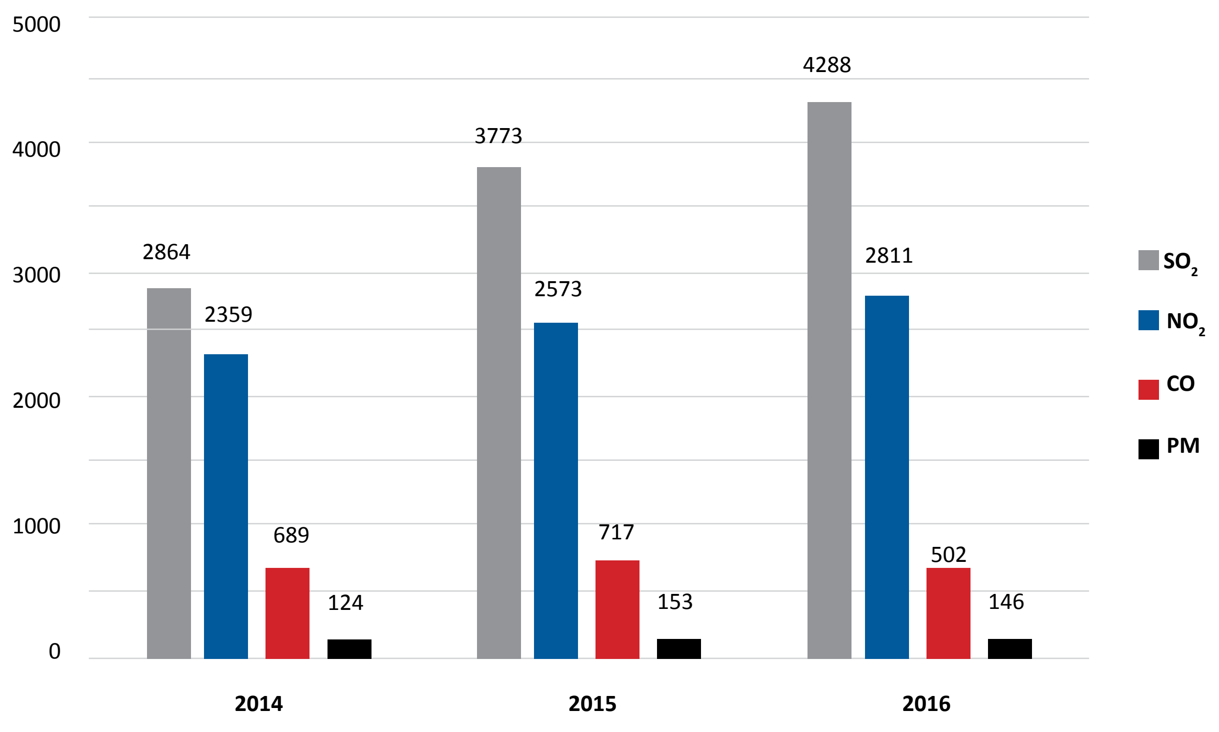
CHALLENGES

- 71% of all spills are caused by corrosion with remediation cost of HRK 13.7 mln;
- Waste management cost;
- Implementation deadlines of some projects.

AIR EMISSIONS

INA Group continuously monitors emissions of sulphur oxides (SOx), nitrogen oxides (NOx), particulate matter (PM), carbon monoxide (CO), volatile organic compounds (VOC) and hydrogen sulphide (H_2S) and undertakes measures for their reduction.
For example in 2016, in INA Retail BD installation of Phase II vapour recovery units (VRU II) continued and the number of service stations with installed VRU II is 195 from the total of 388 service stations. In Sisak Refinery Leak Detection and Repair program (LDAR) has been performed second year around and by implementing VOC reduction measures, the number of identified emission points has been reduced by 17%. Also, gasoline tanks with fixed roof have been connected to the Vapour Recovery Unit and Closed Blowdown system has been installed at Delayed Coker Unit which decreased the number of excess limits of H_2S emissions to the air by approximately 70%. Rijeka Refinery also continued to successfully use LDAR program to detect and repair leakages of VOC emissions. Reports generated after the measurements are used to plan equipment reparation or their replacement.
Logistics Sector continued with modernization of tank truck loading station in Osijek and in Solin (V.Blato) with bottom loading and Vapour Recovery Unit (VRU), modernization of vessel loading in Solin (Sv. Kajo) and Rijeka (port Bakar) with VRU, modernization of rail loading/unloading stations in Rijeka and Sisak refineries with fast filler and VRU, new Tank truck loading station in Rijeka refinery with bottom loading and VRU and renewal of own fleet with 17 new towing trucks that will be delivered in Q1 2017.
In Exploration and Production BD Gas turbines NOx reduction project through injection of demineralized water into cogeneration plants gas turbine fuel combustion chambers at FF Ivanić Grad and GPF Molve was conducted in 2016, as well as activities on the gas engines reconstruction project at Compressor stations Šandrovac and Lipovljani.

INA Group air emissions (in tonnes)



New BAT conclusions for mineral oil and gas refineries, with which refineries should reconcile until October 2018, include an integrated emission management technique (the bubble concept) as one of the best available techniques for reducing emissions SOx and / or NOx at the site of the refinery. The specificity of this technique is that the refinery is seen as one source of emissions and one limit value is defined for SOx and/or NOx emissions for the entire refinery, instead of separate limit values for each emission source. This allows a flexibility to choose the sources of emissions that are more favourable to control, providing that the total resulting emissions are equal to or less than the emissions that would have been achieved if each source individually met the prescribed ELVs. Harmonisation with the best available techniques will result in a significant reduction of emissions, but also a reduction of significant costs, and the bubble concept is crucial to maintaining competitiveness in the downstream sector, while fulfilling the environmental objectives in a cost effective way.

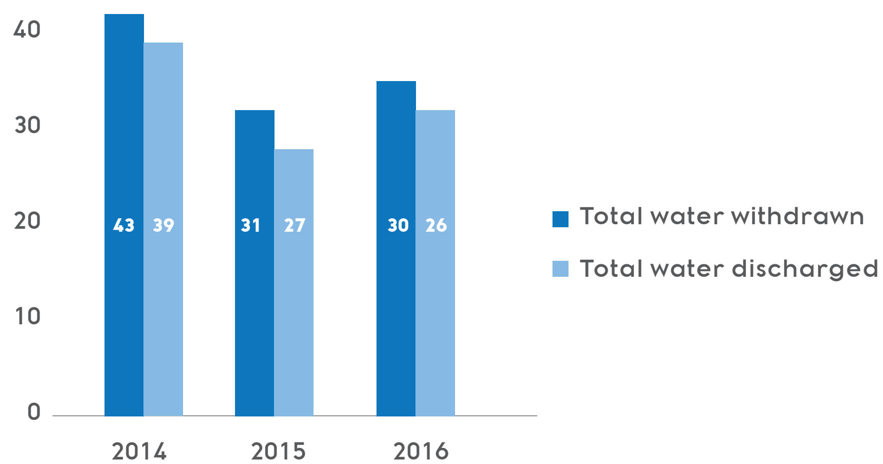
With the aim of conducting an expert discussion and presenting the bubble concept a workshop was held for the relevant regulatory representatives at which a representative of the European association of oil and gas companies Fuels Europe introduced the bubble concept and experience in its application in other member states of the European Union.

WATER

In comparison to 2015, the total withdrawn and discharged water slightly decreased (withdrawal by 2% and discharge by 4%) on INA Group level. Reduction mainly occurred due to various water efficiency and water protection projects.
In Rijeka Refinery a separation of precipitation system from sanitary waste water system is conducted in order to enhance the quality of waste water. Condensate collecting project enabled reuse of water for boilers supply, increased the heat and energy recovery and reduced the amount of water used at the Refinery. Revitalization of the Cooling water system project is conducted in order to eliminate oil leaks in the cooling water flows projects.

At Sisak Refinery, modernization of the cooling towers was conducted, as part of the freshwater withdrawal reduction project. Hydrant water supply is no longer in use due to increased efficiency of the cooling towers. With this project the withdrawn water has decreased by 15% in comparison to 2015 (approx. 500 thousand m^3 less).
In Exploration and Production BD, the quantities of withdrawn water for own consumption recorded a negative trend in the recent years because part of the technological water used in order to maintain reservoir pressure was replaced with the produced formation water within the EOR project. Furthermore, formation water is also used for the well workovers, thus avoiding fresh water usage. At the Fractionation Facilities Ivanić Grad, there is an ongoing project of water towers reconstruction, which will also contribute, among other things, to reduction of water losses due to evaporation. Filters for rainwater were installed on the Dispatching Station Stružec and Dispatching Station Žutica

Water withdrawal and discharge in INA Group (in million m^3)



GEOTHERMAL WATER AND WATER PRODUCTION

The amount of produced water from the water stations Prerovec-Dubrovčak was reduced because local utility company transferred to a new water supply system. In 2016, the quantities of produced geothermal water were reduced due to the sale of mining facilities of the Geothermal field Zagreb to a new owner.

WATER PRODUCTION

m^3	2014	2015	2016
Water produced from water stations	1,938,749	2,062,937	1,637,126
Water produced from wells	492,827	479,755	452,827
Geothermal water	402,498	358,671	250,118
Total water production:	**2,834,074**	**2,901,363**	**2,340,071**

WASTE

In the issued INA Group waste management strategy 2015-2018 guidelines for further development of the existing waste management system and better cost monitoring are defined. In order to achieve prescribed goals, activities for their implementation are performed. Working group for waste management at INA Group level prepared action plans for improvement of waste management in each organizational unit. Percentage of implementation of all defined actions at INA Group level is 94%. Most common are activities focused on improvement of separate waste collection, education of employees about sustainable waste management and waste management audits.

In order to have a better insight into the waste management costs, a new account for non-hazardous waste was opened, which will enable separate accounting of non-hazardous, hazardous and municipal waste treatment costs and better cost control and monitoring. In 2016, the most common types of waste generated in INA Group were drilling muds and other drilling wastes containing hazardous substances, oily sludge from maintenance operations of the plant or equipment and iron and steel. The total income from the sale of scrap materials (non-hazardous waste) in 2016 was HRK 2.6 mln. The biggest income from sale of sold scrap material refers to the ferrous metals, bronze, brass and old vehicles.

According to the Environmental Permit, Rijeka Refinery is obligated to close and recover non-hazardous waste landfill Šoići until December 31st, 2018. The first phase of project “Closing and recovery of non-hazardous waste landfill Šoići in Rijeka Refinery”, preparation of necessary documentation for project implementation, has started. Increased amount of both hazardous and non-hazardous waste in Rijeka Refinery in 2016 is due to old units’ demolition in Mlaka Refinery and spill into sea that occurred in May 2016.

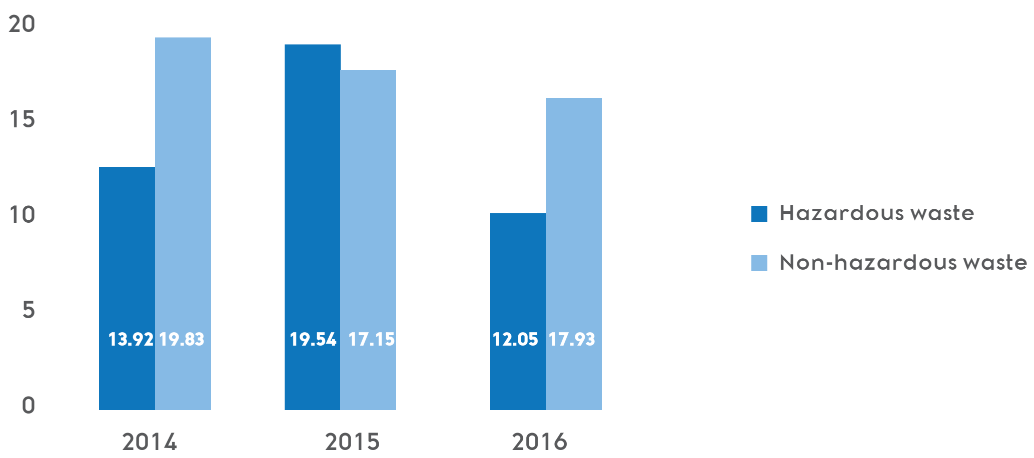
Due to overhaul in 2016 in Exploration and Production amount of waste (hazardous and non-hazardous) increased. Hazardous and non-hazardous waste (especially hazardous waste from remediation) in Retail decreased due to reduced scope of work.
INA Maziva d.o.o. is collecting waste oils from the market but the permit for waste management expired at the end of the year. Process of obtaining a new permit, which has been initiated at the end of 2014, is still ongoing. At the same time, the process of obtaining Environmental permit for waste collecting activities was also initiated since this permit is a necessary precondition for getting the Waste permit. In 2016, INA Maziva collected around 407 tonnes of waste oils.

The amount of hazardous and non-hazardous waste produced in INA, d.d. and INA Group (without municipal waste):

	2014		2015		2016	
	HAZARDOUS WASTE (t)	NON-HAZARDOUS WASTE (t)	HAZARDOUS WASTE (t)	NON-HAZARDOUS WASTE (t)	HAZARDOUS WASTE (t)	NON-HAZARDOUS WASTE (t)
Rijeka Refinery	410	892	875	3,452	2,019	7,491
Sisak Refinery	2,266	1,347	2,510	1,212	2,603	755
Lubricants Sector (Mlaka)	714	34	*	**	N.A.	N.A.
Exploration & Production	3,289	10,161	1,391	4,596	3,487	6,197
Retail	4,537	3,878	10,969	2,854	1,682	479
Logistics	1,053	900	300	551	462	212
Corporate Centre	4	30	614	1,327	116	386
Total INA, d.d. (t)	**11,559**	**17,209**	**16,660**	**13,993**	**10,369**	**15,520**
Crosco	376	1,794	411	1,233	298	1,622
Rotary	***	***	77	436	40	158
INA Maziva	142	107	194	733	170	63
Holdina	467	169	1,003	213	1,147	106
Energopetrol	1,339	0	1,184	313	5	117
Interina	13	53	0	35	0,7	39
STSI	20	478	15	198	16	301
INA Osijek petrol****	1	19	N.A.	N.A.	N.A.	N.A.
Total INA Group (t)	**13,917**	**19,828**	**19,555**	**17,155**	**12,045**	**17,926**

*; ** Total amount of hazardous and non-hazardous waste shown within the Corporate Centre
*** Displayed within Crosco
**** Subsidiary no longer exists

Waste quantities in INA Group (in thousand tonnes)



REMEDIATION

Whether reconstructing facilities, replacing an underground drainage system or dealing with an accidental spill, contaminated land issues present a significant challenge. In order to develop Contaminated Land Management Strategy and align environmental remediation activities with the risk based approach adopted by the most European oil & gas companies (a methodology internationally regarded as best practice in managing contaminated land), a new project was started in INA in 2016 with the support of independent consultancy service provider. Clearly defined and agreed Contaminated Land Management Strategy will enable INA to identify, assess and manage contaminated sites more efficiently and cost-effectively. Development of a clear strategy towards Contaminated Land Management is essential and it will help INA get a better understanding of the actual liabilities and actual costs involved. Secondly, it will act as a road map for setting priorities, resolving issues that actually pose a risk for health, environment and ultimately reputation and thus the business. The aim of the strategy is to ensure that all actions taken in relation to contaminated land help protect human health and eliminate or minimize the negative impact that contamination can cause to the environment.

In 2016, INA continued with preliminary site investigation in order to identify possible pollution sources and soil and groundwater pollution. Site investigation was carried out at four closed logistics warehouses. For the Mlaka site, a closed lube refinery, a comprehensive investigation study was prepared and results provided an assessment of underground pollution extent and suggestions for further, detailed investigation and a possible cost-effective remediation scope and methods due to geology structure of the location. A completed overview of soil and groundwater status form the basis for further decision-making related to future use of the site. In Upstream, agro-ecological analyses of the soil for the baseline state and the final state of the environment after completed remediation are regularly done. Also, an old drilling mud pit near Bizovac was remediated. In Sisak Refinery, groundwater monitoring on 20 monitoring wells was conducted.

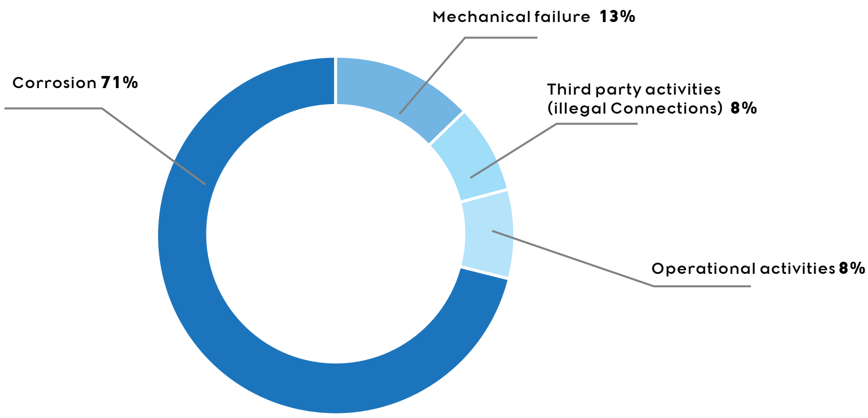
Underground remediation in Rijeka Refinery represents a long-term process of multidisciplinary activities that have been continuously carried out since 1993. Remediation costs in 2016 amounted to 5,523,485 HRK, and the total of 1,163 m^3 hydrocarbons was pumped from the underground (in 2015, it amounted to 1,305 m^3). Continuous activities on elimination of hydrocarbons (HC) from the underground using pump and treat technology, and works on the repair of oily sewage system contributed to a reduction of the amount of hydrocarbons from the underground (a decreased volume of pumped hydrocarbons by 11% compared to 2015). Also, new equipment for remediation purposes was acquired. Remedial actions were carried out for implementation of the three main objectives: the protection of the sea and the coastal belt, continuous elimination of historical pollution and daily insight into the quantitative and qualitative state of pollution in the underground (monitoring).

INA Retail continued with Soil Remediation Project in 2016. Preliminary site investigations were conducted at 21 service stations (SeS). Recovery program was prepared for 15 locations, and Retail obtained an approval from the Ministry of Environmental Protection on prepared recovery programs. Due to the savings measures in 2016, only two tank replacements and one Ses demolition were performed. For those locations, a confirmation from the Ministry that remediation was carried out successfully was obtained. All generated contaminated waste was given to STSI for further treatment. On the Sesvete location construction pits were closed and two wells were removed. Also, in accordance with the opinion of Hrvatske vode and the water inspection's decision groundwater monitoring was initiated.

SPILLS

In 2016, the total number of spills in INA Group was 25, six of which were hydrocarbon (HC) spills with volumes exceeding $1m^3$. There were two spills over $1m^3$ registered in Rijeka Refinery, one in Logistics and three in Exploration and Production.

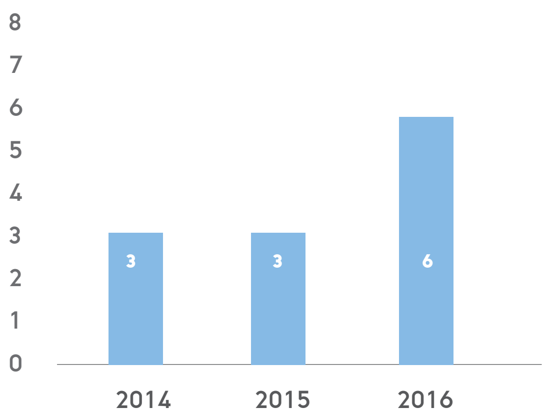
Distribution of spills by cause



A major spill occurred in May 2016 in Rijeka Refinery. Leakage of hydrocarbons into the sea and onto the coast next to the Refinery in the direction of the harbour Podurinj was detected. Sea pollution happened due to the removal of fuel oil with rainwater from the rain sewage system of the Waste Water Treatment plant. Fuel oil accumulated in the underground as a consequence of the event that occurred in March. A total of 18.7 m^3 of hydrocarbons (HC) was spilled into the sea and remediation was successfully completed. The total cost of the spill was HRK 3,901,119. More than twenty measures were taken to prevent future spills. The measures include trainings for the staff, procedures update, improvements in sewage system monitoring and inspection and reparation of sewage system. In addition, results of the sea quality testing are excellent at all the beaches of the Municipality of Kostrena. Institute of Public Health Primorsko - Goranska County continuously examines the sea quality and marine sediments in the affected area of the Refinery. Results of the sea quality testing show that Rijeka Refinery took all necessary measures for sea and coast rehabilitation after the spill from May 2016. Rare marine species are inhabiting the Rijeka Refinery area which confirms that the sea quality is excellent.

In Exploration and Production BD, measures taken to prevent future spills apply to projects for critical pipelines rehabilitation and replacement. However, prevention of illegal connections through implementation of security protection measures presents a difficult task for the company due to a significant length of the pipelines and it still remains an obvious issue, posing immediate danger to local population, security, nature and the environment. All pipeline ruptures are regularly registered and a database was developed as a basis for the Pipeline Ruptures and Spills Management Action Plan.

Spills over $1m^3$ of hydrocarbons in INA Group



LEADERSHIP ENGAGEMENT PROGRAM

Corporate safety culture level or general attitude towards the HSE is recognised as a coherent part of the HSE Strategy as its basic supportive element. Since safety culture is by its nature intangible, it is hard to measure, so the best practice experience and top consultancy services are engaged in order to apply a reliable and proven methodology, tools to develop results and corrective measures through the multiyear Leadership Engagement Program, which was developed in cooperation with top consultants from the field.

Program was launched in 2015 and initiated by the Survey on HSE Culture that was conducted among all of INA Group businesses, except Retail due to its territorially dispersed nature of activities. A standardised questionnaire was developed in a way to allow interpretation of results and evaluation of Safety Culture Index, which reflects quality and sustainability of the current safety culture level.

Based on the Survey result and identified INA Group Safety Culture Index (INA Group average is 3.5, out of the maximum of 5), improvement areas were developed and addressed to leaders, who are recognised to be the critical force in shaping and strengthening of the HSE culture. In order to prepare them for this role, the entire INA Group management structure is subjected to education through the Safety Leadership Workshops to understand safety as a value and its importance at work, the importance of the personal engagement in the safety processes, how all hierarchic levels have to act in terms of safety and should act in case of conflicts with a basic statement “Safety first“.

Safety Leadership Workshops were started in 2015 by the top management level (100% of the scope of 23 managers responded), while in 2016 they continued with tailored content for the middle management and 94% managers out of the scope of 224 participated. High level of response to workshops, both by the top management in 2015 and the middle management in 2016, indicate that INA Group managed to achieve that the majority of decisions makers received training in the field of safety leadership. Additionally, managers presented a high level of their own HSE awareness during the workshops, so they responded extremely positively on the workshop evaluation feedback by giving high grades to the quality and content (the average grade was 5.3 in the 1-6 range).

Unlike 2015 Safety Workshops for top managers which were held by external consultants and practiced through examples and case studies, the basic prerequisite for 2016 Safety Workshops for middle management was development of internal trainers´ resources for the Workshops delivery (Train-the-Trainer Program), while site visits were included in the workshop schedule in order to practice safety leadership principles in the practice.

Train-the-Trainer Program was also implemented in 2016 and it included nominated INA Group employees and managers. All of the 11 selected internal trainers were certified through intensive 5-day course, which was designed and provided by external consultancy. Internal trainers were prepared to work in pairs and perform two-day Safety Leadership Workshops that also include production site visits. During Q2 2016, 10 certificated internal trainers held 20 Safety Leadership Workshops attended by 220 INA Group middle managers and which achieved an extraordinarily good response regarding the quality of provided workshops (average grade was 5.9 on the 1-6 scale).

Safety Leadership Workshops for INA Group middle management

HEALTH AND SAFETY

ACHIEVEMENTS

- No fatalities in 2016;
- Further decrease of total recordable injury rate compared to previous years;
- Programs and initiatives on leadership engagement in HSE culture improvement continued;
- Contractor forums for Vendors regarding requirements of INA Group according to SCC standard;
- e-PTW pilot project was implemented.

CHALLENGES

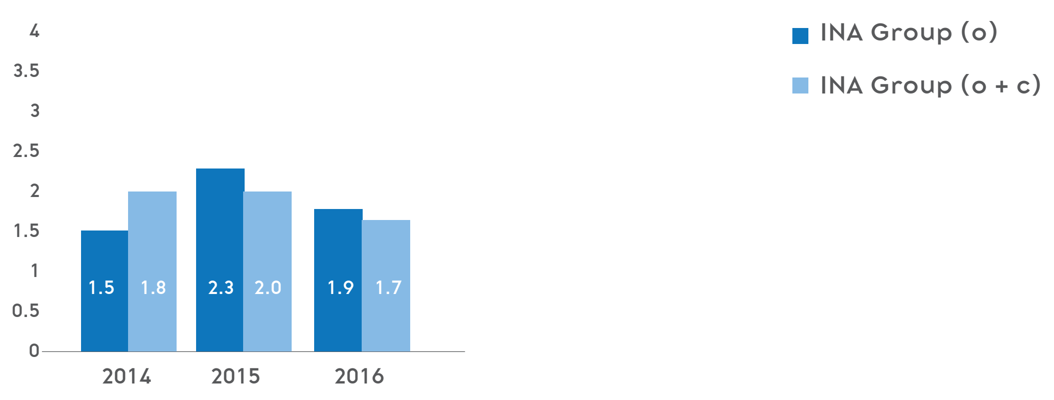
- Implementation of Process safety management system;
- Reduce the number of slip, trip, fall type of injuries;
- Implementation of standard permit to work system in INA Group.

PERSONAL SAFETY (OCCUPATIONAL SAFETY)

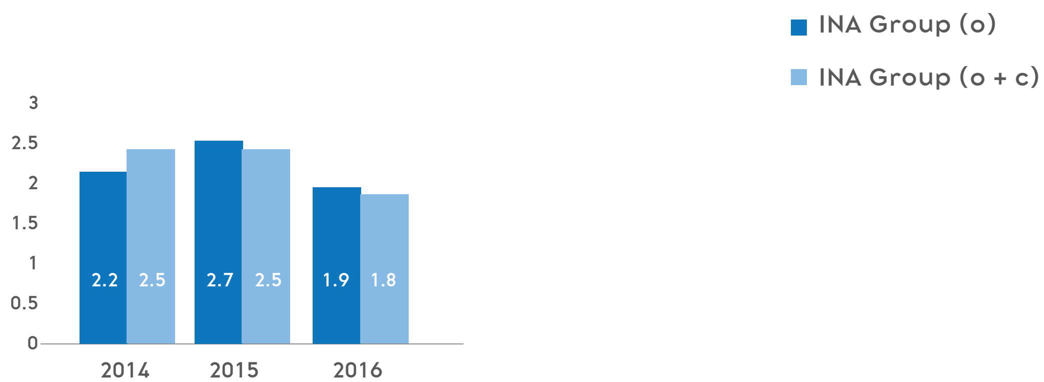
Safety culture
INA Group's orientation to achieve business excellence through the highest HSE standards is reflected in its fundamental commitments and policies, while the journey towards zero HSE accident level is considered a major guideline to all business activities and therefore it is embedded in the HSE Strategy.

WORKFORCE SAFETY

LTIF in INA Group (Lost Time Injuries per million worked hours) (o – own employees; o+c – own employees and contractors)



TRIR in INA Group (Total recordable Injuries per million worked hours) (o – own employees; o+c – own employees and contractors)



In 2016, the number of LTIs was 37 for own staff, which is an improvement in comparison to 2015 (LTI=49), as well as the LTIF which was 1.9 (2.3 in 2015). In 2016, there were no fatalities. Analysis of the root causes shows that most of our injuries can be contributed to slip, trip and fall type of injuries, and improper equipment handling which resulted in injuries of extremities, minor wounds and bruises. For the past four years we have also been tracking the total recordable injury rate (TRIR) for own employees and contractors. This indicator is showing all types of injuries not just focusing on lost time injuries and gives further insight of the root causes that can result in LTI. With regard to 2016, the results show improvement when compared to 2015 results (1.8 vs 2.5) which can be attributed to all the programs and actions that were taken to ensure a 0 accident long term goal.

Central Occupational Health and Safety Committee was established in INA, at which health and safety issues and programs are discussed on a company level between the employer and employee representatives with the participation of an M.D. (medical doctor) a specialist for occupational health. 100% of the total workforce is represented in those committees. Representatives of the workforce are selected through elections. Currently, there are three times more representatives then legally required.
Preparation for LOTO (lock out – tag out) implementation program was carried out in 2016 in such a way that procurement of needed equipment was carried out and the implementation is following in 2017.

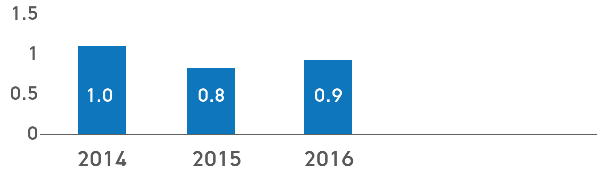
The biggest focus in occupational health and safety was in Permit to Work (PTW) system. This was performed in two separate projects – one was continuation of e-PTW (electronic permit to work) pilot project and the other was unification and standardization of PTW system. The standardization and unification was delivered through managerial tools where a single set of rules was promoted through global operating regulation (GOR) for INA Group. After the publication, a bottleneck analysis of PTW process with defined set of actions for the businesses was performed to ensure smooth implementation of the rules that were set out in the GOR document.

The e-PTW pilot project started in INA Group in August 2015. Implementation of the pilot solution was performed in Refinery Rijeka, Logistics Sector, Upstream BD and Retail BD in Q2 2016. The aim of this pilot was to implement electronic permit to work system. The pilot was successful and followed the standards set out in the GOR document. Implementation of the e-PTW system is expected in 2017.
These two projects showed that improvement of the PTW system was needed to ensure further increase of safety while performing all types of works for our employees as well as for our contractors.

ROAD SAFETY

As part of the Safe Driving Program implemented in 2011, 433 employees of INA Group were trained in 2016. Program was extended to Interina Slovenia and INA Blue team. Safe driving team on INA Group level continuously works on program promotion through various activities and campaigns, tracking its effects and continuously upgrading regulations. In 2016, a new version of the Safe driving program regulation was published in order to continue to set new standards.
Because of the Safe Driving Program, INA Group Road Accident Rate (RAR) decreased from 1 in 2014 to 0.9 in 2016.

Road accident rate (RAR) in INA Group



“Truck drivers’ safety fundamentals” programme continued in 2016, aiming to raise safe driving awareness of professional drivers. It is based on continuous reminders of top ten rules that the truck drivers have to follow.
“Reverse parking” project, started in 2016, as a mandatory obligation for all drivers at the high-risk operational locations to enable safe and fast evacuation from marked locations.
A series of educational campaigns are conducted within Safe Driving Program, mostly in the form of helpful advices and tips for safe driving such as: “Ten tips for safe driving in winter conditions”, “What should you do if you get stuck in the snow?” etc., can be found on INA Intranet site.

CONTRACTOR SAFETY

SCC is the abbreviation for Safety Health and the Environment (SHE) Checklist Contractors and it is intended to enable operation with greater safety awareness and reduce the number of accidents. The SCC is a multipurpose and comprehensive program for testing and certifying the SHE management systems of service companies. Customers increasingly impose SCC certification as a mandatory requirement.
SCC is suitable for manufacturers and services internationally in all the sectors of the industry – irrespective of whether they become sub-contractors.

The Advantages of SCC Occupational Safety Certification are: Systematic reduction and prevention of accidents, expansion of the supplier assessment system by safety aspects, high motivation of the employees by means of clearer organization and responsibilities, improvement of legal safety through proof of fulfilment of legal requirements, increased communication among the contractual partners and within the company, reduction of costs through improvement of work safety.
Members of INA Group are focused on continuous improvement of safety standards in order to ensure a safe environment for all its employees and workers of all our contractors. Given that the oil and gas business is characterized as a high-risk industry, INA Group will require SCC certification for high-risk work from all the contractors, as proof of an effective system of the HSE management.

In 2016, eight forums with suppliers (five in INA, d.d. and STSI, two in CROSCO and one in Holdina & Energopetrol) were held to help them become familiar with requirements of the INA Group. 113 suppliers attended the forums and all of them declared their commitment to introduce the SCC standard in their companies. The certification can only be obtained from the authorized certification companies that are accredited based on the SCC standard.
STSI (single service company) introduced the SCCp standard in 2015, and in 2016 an authorized certification company carried out the audit. The results of that audit show that SCCp was fully implemented and that it is effective as a tool for maintaining and improving the management system. Throughout the audit process, the management system demonstrated an overall conformance with the requirements of the audit standard.

CROSCO performed eight QHSE audits at our service contractors, such as contractor for waste disposal (two), technical gases supplier (one) and service for hydraulic equipment maintenance (five).

HEALTH PROTECTION AND PROMOTION

Occupational Health

With a wide range of legal obligations in the field of occupational health INA has been making efforts to improve the health of their employees with its own initiatives and activities.

We would like to especially point out to the following:
The HEALTH-INA project, which united occupational health protection and health promotion activities, provided the convenience of Medicine Programmed Active Vacation (MPAV), a specialized health care area with a primary objective of prevention, safeguarding and improvement of the employee health and their working ability since 2013.

Cooperation with the contractual occupational medical specialists allows us to plan measures to support employee work capacity and health on the basis of health examinations, especially for employees working in jobs with special working conditions (SWC). The results of medical examinations directly provide information on the employee health status, however, indirectly they may point out to job working conditions and other indicators related to workplace. This information is completed by visits of occupational medicine specialists to workplaces, as well as their participation in the investigation of work related injuries with the aim of prevention and improving the health status of our employees.
The service "Ask our doctors" is intended for professional advice and consultation with contracted occupational medicine specialists via e-mail or in person.

Workplace Health Promotion

INA, d.d. has become the official partner of a two-year campaign "HEALTHY WORKPLACES FOR ALL AGES" of the European Agency for Safety and Health at Work (EU OSHA). INA, d.d., as one of the first companies in Croatia to establish this partnership, has become part of a network of leading public and private organizations that raise awareness and encourage others to successfully manage workforce aging.
The basis of the project HEALTH-INA is the Health Protection and Promotion Programme, which has been established for the 2016/2017 period according to the thematic areas of the EU OSHA campaign “HEALTHY WORKPLACES FOR ALL AGES”. “PROMOTION OF SUSTAINABLE WORK AND HEALTHY AGING FROM THE BEGINNING OF WORKING LIFE” is a link to workshops and trainings contracted by the occupational medicine specialists and other experts with the topics such as:
- Breathing techniques in stress prevention (also a part of the "LESS STRESS" campaign, which we have been implementing since 2014).
- Healthy diet promotion and screening for optimal cardiovascular health which were additionally highlighted on the October 21,the Apple Day, which was celebrated with apple donation by introducing the health and nutritional value of this fruit to INA employees.

Programmed active vacation for “PREVENTION OF HEALTH ISSUES DURING THE WORKING LIFE” has been supplemented with a new version - HEALTH PROGRAMMED ACTIVE VACATION (HPAV), which this year includes five days of activities for physical and mental relaxation and fitness in specialized hospitals for medical rehabilitation. This campaign is carried out with the aim of mobilizing employees with significant health risk problems and for introducing healthy lifestyles.

We have also launched a project “MOVEMENTS THAT MAKE A CHANGE” in collaboration with Ph.D. Josipa Nakić, Faculty of Kinesiology University of Zagreb in order to inform our employees about proper execution of movements and correction of movements in general and in order to create a habit of daily application of the above mentioned, both in the workplace and in everyday life. Developing awareness and competence of INA employees on the proper execution of movements and proper movement generally is beneficial for health and working ability, and it also increases employee satisfaction in the workplace and reduces the number of injuries at work, duration of sick leave, as well as employee turnover.

The following activities were carried out for “ENCOURAGING EXCHANGE OF INFORMATION AND GOOD PRACTICES” and promotion of health.
In addition to complying with the legal minimum, refreshment courses in first aid with a special emphasis on the effective recognition of cardiac arrest and resuscitation are also performed under the slogan “EVERYONE CAN SAVE A HUMAN LIFE” as internal education for all interested employees on an annual basis.

With the goal of promoting health initiatives INA employees actively participated in sport and recreation festival in Rijeka and B2B races. In Zagreb, 204 companies with 3,107 registered employees participated in the race. INA representatives achieved noteworthy results. In the women's category for large enterprises, M. Šimek Bilić won second place, and in the category of running teams from large enterprises, INA's running team won eighth place.

A campaign dealing with high/low temperatures in the living and working environment is also run as internal education on an annual basis.

Movements that make a change

EU OSHA Certificate

PROCESS SAFETY MANAGEMENT (PSM)

ACHIEVEMENTS

- Implementation of 7 key PSM Best recommended practices;
- 29 self-assessment audits with finalised audit reports and defined actions to be solved;
- Execution of pre start-up safety review for more than 10 projects;
- Implementation of management of change system supported by electronic software solution;
- Identification of critical equipment makes a key role.

CHALLENGES

- High number of Process safety events Tier 1;
- Implementation of Process safety management in offshore business (INAGip,) and Holdina in 2017;
- Further development of awareness in Process safety management;
- Implementation of electronic Management of change.

It is extremely important, especially in the oil industry, to have a system in place to prevent incidents and to increase process safety. In addition, INA Management Board rendered a decision to implement the PSM system with its 14 elements. Dedicated PSM Experts at Downstream and Upstream lead the implementation of PSM system, and the whole process is coordinated from the SD&HSE Sector.

Clearly defined rules, application of international standards, and monitoring on safety indicators with continuous cultural change are most important in prevention of repeated incidents and potentially hazardous situations.
In 2016, INA Group continued with the structured and systematic implementation of Process Safety Management (PSM). A detailed action plan based approach helped to achieve significant results even after one year of implementation. Results were in line with the originally defined key deliverables.

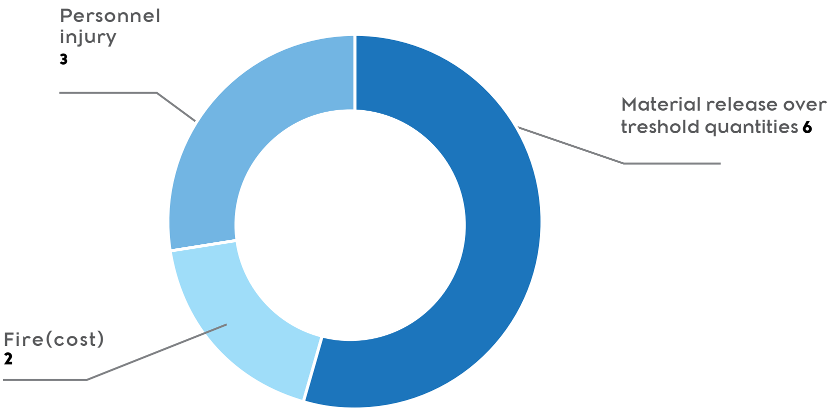
In 2016, PSM project organizational chart was further extended to HOLDINA and INAgip seven best recommended practices for six PSM elements and operative regulations are implemented. During the year, detailed PSM action plans for relevant business units were implemented through 24 local PSM forums and controlled by five Steering Committees and four Senior Review Board meetings. 13 internal PSM trainings were held and the group of PSM experts became successfully certified by an external organization. 29 self-assessment audits were conducted, containing further recommendations for improving the process safety. Process hazard control is visible in execution of pre start-up safety review for more than 10 projects and implementation of energy isolation lock-out / tag-out procedure. Hazard identification is handled by a transparent management of change system supported by electronic software solution. In prevention of dangerous material releases and damages to assets, the identification of critical equipment is crucial.

PROCESS SAFETY EVENTS IN INA GROUP

	2014		2015		2016	
	TIER 1*	TIER 2**	TIER 1*	TIER 2**	TIER 1*	TIER 2**
Exploration & Production BD	4	2	0	1	0	1
Refining & Marketing BD	2	3	4	3	7	3

* Process Safety Event with the greatest consequence (TIER 1)
** Process Safety Event with lesser consequence (TIER 2)

Tier 1&2 events by consequences in INA Group



EMERGENCY PREPAREDNESS AND RESPONSE

- **Safety Reports**

According to the Environmental Protection Law and the Regulation on the prevention of major accidents involving dangerous substances there are 13 “SEVESO” locations (higher grade plant) in INA Group that are subject to preparation of safety Reports. Safety reports are made by INA, d.d. experts in the field of fire protection, environmental protection, occupational and process safety, and authorized by an external company for all locations. They are all in the process of obtaining approval from the Ministry of Environment and Energy.

- **Fire protection and firefighting**

There are 5 Professional Fire Brigades (PFB) in INA Group, with 390 professional firefighters (own workers and external firefighters).
On May 4, International Firefighters Day (St. Florian day) was celebrated as part of the Fire Protection month "May 2016" in INA Group during which various activities took place in INA, d.d, Crosco Group, STSI d.o.o., INA Maziva d.o.o., INA MS d.o.o., INA Hostin d.o.o., TRS d.o.o., Holdina Sarajevo, Energopetrol Sarajevo and Interina Ljubljana.
“Open days of INA PFB” were held in three fire brigades at INA locations in Sisak, Zagreb and Solin.
INA PFB executed all firefighting activities related to organization and implementation of the operational part of the firefighting activities. Training on initial fire extinguishing for white-collar workers was conducted by using new specialised training equipment (interactive screen displaying different types of fires, responding to the laser beam that simulates the discharge of fire from a hand fire extinguisher).
The final firefighting exercise was held in Refinery Rijeka on 23 May 2016.

Month of fire protection at INA Group Companies - main activities:	
Number of fire drills (exercises)	122
Number of participants (own and contracted firefighters)	877
Number of participants - external firefighters (VFB, PFB, other)	400
Number of participants – process operators – total	1010
Number of evacuation exercises	165
The number of trained workers for fire protection and initial firefighting	3061
The number of trained contractors for fire protection and initial firefighting	559
Number of professional meetings and lectures focused on fire protection	150
The cost of program execution (HRK)	83,188

PROCESS SAFETY EVENT

The most significant process safety event in 2016 was a fire case at Rijeka Refinery Hydrocracker unit. Gas oil leaked out and got ignited during maintenance work. It was categorised as Process Safety Event with the greatest consequence (TIER 1). Direct financial loss was HRK 600,000. After the above-mentioned event, corrective measures were taken: making procedures clear for penetration of impulse lines, permit to work revision, and additional Rijeka Refinery staff training. Special attention was paid to risk assessment and generally risk awareness. One of the prevention measures was organizing process staff training on the usage of firefighting equipment at the Hydrocracker unit (HCU).

HUMAN RESOURCES

In 2016, in the area of human resources, INA continued with the implementation of the best global practice and was re-certified as an Employer Partner. We are especially proud of the MAMFORCE certification. Both certificates confirm our constant focus on the economic, environmental and social aspects of sustainable business. A special emphasis was placed on the development of INA's employees and professionals through our strong platform of education for management and experts from the key areas of our business. Equally, in collaboration with colleagues from other sectors we launched beneFIT platform that promotes a holistic approach to supporting employees through INA Academy - life-long learning, ForA - a flexible workplace and working hours, and many other benefits for our employees to help achieve a balance between their work and private life.

Vladimira Senčar Perkov,
Director of Human Resources Sector

ACHIEVEMENTS

- IMPLEMENTATION OF INA ACADEMY, a knowledge transfer platform, used by professional internal trainers who deliver trainings to other employees within defined internal knowledge portfolio;
- DOWNSTREAM TECHNICAL CAREER LADDER was implemented in order to retain talents and give employees an opportunity to see their technical part of career path and objective conditions that they have to fulfil for their promotion;
- MAMFORCE certification process successfully finished and INA received a BASIC MAMFORCE STANDARD/CERTIFICATE;
- BENEFIT PLATFORM - a unique platform with more than 200 various benefits available to all INA Group employees.

CHALLENGES

- Attracting, sourcing and employing white-collar young talents due to anticipated future business needs caused by aging of top oil & gas experts. INA is now facing and it will face the same challenges in the future, more drastically regarding the blue-collar workers and these issues should also be strategically addressed. In 2016, INA identified a need to employ new blue-collar trainees in the next 5 years;
- Improvement in the field of monitoring the implementation of the training budget and linking the financial, accounting and HR systems;
- Update of position requirements in accordance with legal changes and changes in business processes;
- Rejuvenation of blue-collar personnel in E&P and DS.

ATTRACTING EMPLOYEES

For the last 6 years, INA Group has been strategically planning, attracting and employing white-collar young talents due to the anticipated future business need caused by aging of the top oil & gas experts. Attraction & recruitment programs for young graduates are continuously implemented:

- Growww internship program - Strategic employment of fresh graduates;

- MesterM award - Supporting secondary education on nature sciences and for raising popularity of nature science - creating talent pool; furthermore to orientate students at an early age towards nature sciences;
- UPPP – online competition game for students of the Faculty of Mining, Geology and Petroleum Engineering;
- FRESHHH – student online competition game in which students manage an oil & gas company;
- Junior Freshhh – high-school online competition in natural sciences.

In 2016, a new talent acquisition program, Female Engineers MOL ProgramMe, was introduced to support young STEM (Science, technology, engineering, and mathematics) female students by providing them with an opportunity to acquire a scholarship.
E-recruitment Taleo tool has been successfully implemented in 2016, supporting and covering the whole recruitment and selection procedure in INA.
INA is also now facing a decreasing number of blue-collar workers, which will be even more prominent in the future. Therefore, in autumn of 2016, blue collars sourcing strategy was approved and it will be implemented in 2017.

COMPETITIVE COMPENSATION

Average gross salary (HRK) in 2016

	2014	2015	2016
Republic of Croatia*	**7,953**	**8,031**	**7,696**
Sectors according to national classification			
Mining and exploration	9,715	10,083	9,546
Processing industry	7,048	7,125	6,868
Electricity, gas and water distribution	10,367	10,531	10,685
Civil engineering	6,545	6,691	N.A
INA, d.d.	**10,580**	**10,546**	**11,478**
Ratio INA pay vs Country	+25%	+24%	+33%

* Source: Central Bureau of Statistics

INVESTING IN EDUCATION

The implemented development programs, both internal and external, are shaped to increase the overall level of competencies within INA Group in the area of technical, professional or general business knowledge and skills. Majority of development programs combine various development methods such as: self-learning, classroom workshop, online learning, on-the-job training and professional practice, each presenting an integrated platform known as the “blended learning approach”.

Leadership-related development programs aim to develop four leadership competencies: thought, result, people and personal. The expected outcome is to boost leaders for future challenges, upgrade their self-awareness and make them effective & efficient in their everyday people leadership challenges. This year 156 managers were included.
Leadership development programs:

- LEAD – Leadership program for current leaders and top talents; 11 INA Group employees in 2016 continue the program as the 2nd generation of LEAD participants;
- Intensity – Modular managerial development program with a curriculum based on development across four leadership competencies areas;
- Effective Leadership – Local INA Managerial program for personal leadership skills area, in which 61 managers participated in 2016.

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

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

General business knowledge related trainings aim to develop capability and skills in order to build competencies and skills across a specific general business area:

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

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

PARTNERSHIPS WITH EDUCATIONAL INSTITUTIONS

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

- Presence at local Job and career fairs in order to build INA's image as a desirable employer and to present its programs to student population: BEST Company Day, INA Spring Course, Virtual Days of Career and Knowledge, Career Day on Faculty of mining, geology and petroleum engineering, Scholarships Fair etc.
- Regular projects with student associations: AIESEC YouthSpeak conference, Case Study Competition (eSTUDENT) etc.

INA supported new projects with students associations:

- Scientific Picnic, the largest event in Croatia of this kind, which aims to popularize science and art was held in Zagreb. In addition to promoting science and art, the aim of the picnic was to motivate young people to choose science as their vocation. Through a relaxed and fun atmosphere, lectures, workshops and interactive educational and artistic formats, INA, as a partner of the project, was promoting science and presenting programs with the same goals, such as Junior Freshhh which is intended for high school students.
- Smartup is an educational competition which is organized by eSTUDENT student association where students compete in developing business ideas. The main objectives of the competition are to promote entrepreneurship and entrepreneurial spirit among students and connect proactive young talents with the most desirable companies, potential employers or investors. During the event, students have the opportunity to go through a variety of educational workshops and work with mentors who will help them in realizing their ideas. Top teams will win financial prizes and an opportunity to be admitted to the incubator of entrepreneurship.

The above mentioned talent attraction programs build a talent pipeline for attracting newly graduated talents through strategic Growww program in 2016, 1445 applicants applied, 600 applicants were tested, 40 of which were employed within INA Group. INA is attracting talents across all targeted groups also through social media and networks as an essential communication channel in 2016:

- LinkedIN – INA's number of followers is increased by 40% in comparison with 2015,
- Facebook - INA's number of followers is increased by 26% in comparison with 2015.

PROGRAMS FOR THE NEWLY EMPLOYED

In INA there is a formal on boarding program for interns (Growwwers). The program consists of:

- "Welcome day" on the first working day – a set of lectures with the aim to provide a general perspective about the INA Group (company's strategy, organization, HSE, HR topics, E&P / R&M introduction, security topics, Code of ethics etc.);
- Onboarding days organized by MOL HQ– a set of lectures with the aim to provide a general perspective about MOL Group;

- Business education program – lasts the whole intern year and it consists of different topics, including Team task competition - Growwwers have to come up with an innovative idea and present it. After the local competition, the top three teams have an opportunity to compete and present their ideas on the MOL Group level;
- Professional induction – each Growwwer has his/hers own mentor who transfer them professional knowledge and builds their professional competencies. Each Growwwer has his/hers own formal Intern program.

In 2016, an on-boarding survey was conducted among three target groups: new employees, their hiring managers and HR business partners. Based on the results, new obligatory on-boarding standards were created and will be implemented in 2017.

RETAINING AND MOTIVATING EMPLOYEES

Performance management APC/EPMS

INA has performance driven culture, therefore it is strongly recommended for all INA Group companies to include Short Term Incentive element in employee compensation package. Short Term Incentives are part of the total compensation packages. Implemented Performance management systems are the basis for Short Term Incentive (bonus) pay-outs. Bonuses are paid out annually or quarterly depending on the Performance Management System applied for a certain employee group.

- Managerial performance management system (APC- Annual people cycle for managers)

Annual people cycle (APC) applies to managers across INA Group. It integrates all three pillars of people management as equally important: Managerial performance management system, Career and Succession Planning and Development planning. Succesfactors (SF), IT tool which was upgraded in 2016 and aligned processes across the Group ensured integrated, clear and transparent APC processes.

- Employee performance management system (EPMS)

EPMS is a transparent system for evaluating employee's performance. In 2016, EPMS was extended, so now it gives answers to WHAT (results), HOW (competencies i.e. working behaviours) and HOW FAR (potential), providing a comprehensive insight and ensuring objective HR decisions related to rewarding and employee development planning.

- Sales incentive system for sales representatives (SIS)
- Other types of PM systems are tailored for strategic targeted groups (e.g. IT, petrol station staff)
- There are various types of quarterly PMS in order to answer business need to track performance in real time aiming to boost employee's motivation and business results (e.g. SIS model for sales representatives in commercial department, IT employees, sales staff) due to complexity of INA business areas.

All systems reward individual performance as a key tool which facilitates the identification and rewarding of employees who perform their work exceptionally well. An employee can participate only in one performance evaluation system and be entitled to only one type of performance bonus pay-out during the same eligibility period.

Employee wellbeing (FORa)

INA offers its employees opportunity to use flexible work arrangements (in particular, Flexitime and Flexiplace) with the following aims:

- To achieve work-life balance, and reduce stress for employees, through a possibility of a better balance between work and personal responsibilities - strong personal relationships with family and friends reduce stress, improve health, and stimulate creativity;
- To increase employee satisfaction and motivation by providing a greater sense of control over personal working time;
- To encourage diversity further: e.g. mothers returning from maternity leave, increasing number of opportunities for disabled employees and similar;
- To improve business effectiveness and leverage creativity, productivity and innovations of our employees;
- To increase the commitment and entrepreneurship of employees;
- To attract, recruit and retain talent - the best employees know that sometimes time is more valuable than the money, which is why they are attracted and retained by companies that have flexible work arrangements.

INA offers two different types of flexibility, which are internationally most widespread flexible programs: Flexitime & Flexiplace.

1. Flexitime – implies working in a work schedule with variable starting and ending times, within general limits and conditions agreed with employer. An employee is able to choose the duration of daily work, with two main conditions that must be met: minimum number of working hours in a day (5) and at the end of the relevant period employee has to achieve the same number of scheduled hours as in regular schedule, just in a more flexible form.

2. Flexiplace – implies working arrangement in which employees can occasionally complete their tasks at home or at any other alternative worksite, when circumstances and the type of the given tasks are compliant for FlexiPlace working.

Based on the feedback received from the employees and managers who participated in pilot project, the benefits of this project generated a very high employee satisfaction and motivation, and achieved all desired targets, they ensured much better work-life balance, reduced absences and late arrivals to work, reduced sick leave & overtime, ensured positive company culture and made our company more attractive to prospective employees.

Employee wellbeing (BeneFIT platform)

In line with the company's strategy and in accordance with best international practices, we have enabled a series of benefits that support and contribute to the wellbeing of INA Group employees.

Employees' wellbeing is more than just physical health, it also applies to emotional, social, financial, and career aspect. On the beneFIT platform we have encompassed all these segments with over 200 benefits available to INA Group employees. In addition to array of benefits steaming from the Collective Agreement (Christmas bonus, Easter gift, Christmas gifts for children, annual leave contribution, transportation contribution, additional health insurance, jubilee award, etc.), employees can find a series of other services on beneFIT platform, such as benefits in sport and fitness, shopping, travel, gastronomy, personal care, pets, etc. These benefits are considered a significant part of employee's remuneration package, which also ensure company's market competitiveness and attraction, motivation and retaining current and future employees.

Besides providing insight into all available benefits, beneFIT platform actively promotes a culture of wellbeing, which in turn results in better engagement, performance and loyalty. Every aspect of the site is kept flexible and dynamic in order to be able to address the true employees' needs.

Technical Career Ladder program (TCL)

TCL gives employees opportunity to see their technical part of career path and objective conditions they have to fulfil for their promotion. Knowledge and other technical competencies are assessed for every petrol-technical professional (PTP) and in accordance with that Individual development plans for every PTP were created. Assessments give insight to knowledge gaps of every PTP and they can see which competencies they should improve. That clear and objective career path and promotion system gives higher motivation for employees and retains them in the company. From 2016, TCL for Downstream professionals has been also implemented.

In 2016, the identified key employees from supportive functions attended tailor-made programs in order to build their potential, skills and knowledge.

DEVELOPMENT OF HUMAN RESOURCES

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

Non-managerial employees are also included in the development through various programs (such as Petroskills program, Technical Career Ladder, Intensity and LEAD program...) or education plans, which are individualized in a way that each organizational unit needs to plan educational needs for its employees for the following year
In order to improve employee development, in 2016, EPMS was upgraded with development planning and talent management modules, so from 2017 there will be a possibility to create an individual development plan for every employee, and also information about their potential will be available in the system.

COMMITMENT TO FAIR EMPLOYMENT

Employee relations

INA Group companies pay certain allowances and financial supports established by the Collective Agreement or special agreements arranged over the course of negotiations between the Employer and the TU, i.e. Company Labour Relations By-Laws or other regulations of the Employer. In 2016, a new Collective Agreement was concluded for a period of two years. 100% of employees of INA, d.d. are encompassed by the CA.
INA, d.d. is committed to continuous improvement of the social dialogue through cooperation with the social partners (INA, d.d. Works Council and trade unions), which essentially consists of regular meetings between HR representatives and social partners, negotiations on employee fringe benefits – collective negotiations, negotiations on social clauses relating to compensation for employees included in optimization and/or restructuring projects.
During 2016 - 22 regular meetings with the social partners (Works Council & trade unions) were held and further ~ 60 meetings with trade unions were held on specific topics: collective negotiation, IMS implementation, agreement on governing the working conditions of INA, d.d. Works Council of INA, specific agreements on social clause for employees on other benefits for protected category of employees. 123 consultation procedures were conducted with Works Council/trade unions, in line with Labour act obligation.

Works Councils (WC) in INA Group

INA, d.d. Works Council was established in 2011 and consists of 25 members. Employer maintains a regular dialogue with the Works Council in the following areas: consultation, presentation of company business plans and participation in employee assemblies organized by the Works Council (one assembly was held in 2016). Works Council elections were conducted in STSI (2013) and INA Maziva (2014) and in 2016, in all other INA Group companies with over than 20 employees:

INA Group company	WORKS COUNCIL MEMBERS
INA, d.d.	25
CROSCO	11
STSI	9
TRS	5
INA MALOPRODAJNI SERVISI	13
PLAVI TIM	3
INA MAZIVA	3
TOTAL	**69**

Informing employees on the changes in operations is carried out indirectly through consultations with the Works Council regarding every decision that could have an effect on the employees. Deadline for a response from the Works Council is eight days, and if a decision is made prior to expiry of this deadline or without having conducted consultations, it would be considered null.
In 2016, 123 consultation/co-decision procedures on important matters concerning employees were conducted:
- 56% are cases of consultations/co-decisioning on employment termination,
- 18% consultations on internal acts,
- 26% consultations on organizational changes.

During the consultation process, the Employer considers the Works Council replies, accepts proactive proposals and corrections, but also replies when it considers that the Works Council comments are not grounded and/or not corresponding with the business processes.
The Employer informs the Works Council quarterly on trends and changes in salaries, the extent of and the reasons for the introduction of overtime work, the number and type of workers employed, employment structure (the number of fixed-term workers, blue and white collars, workers at alternative workplaces, workers assigned by temporary-work agencies, workers temporarily posted to/from an associated company), inspections of work and safety at work conditions.

Safety-at-work commissioners

New Labour Act redefined procedure of safety-at-work commissioner's selection and based on new stipulations, the trade unions initiated and conducted elections of safety-at-work commissioners in INA Group companies.

INA Group company	NO. OF ELECTED SAFETY-AT-WORK COMMISSIONERS
INA, d.d.	50
CROSCO	11
STSI	9
TRS	5
INA MALOPRODAJNI SERVISI	13
PLAVI TIM	1
INA MAZIVA	3
TOTAL	**92**

Employee assemblies

The purpose of an assembly is to improve the relationship and direct communication between employees and the management and to inform employees of the company strategy and strategy for specific organizational units, as well as the tasks and targets set before them. During November 2016, INA Works Council organized an Employee Assembly in Rijeka Refinery, with the participation of INA management representatives.
Exchange of information between the management and employees is carried out through: Internal newsletter "Glasnik", Intranet, News, Internal regulations, Decisions, Instructions, Business meetings, Employee forums/assemblies, individual meetings between directors and employees, manuals and catalogues for employees, meetings with particular interest groups of employees, meetings with members of the Management Board and Executive Board, meetings with Sector Directors, "Ask Human Resources" service and meetings between the management and the TU.

Committee for amicable dispute settlement

Establishment of a Committee for amicable dispute settlement is prescribed by the Collective Agreement. The Committee consists of two Employer's representatives and three Trade Union representatives, and it conducted eight amicable dispute procedures.

EQUAL OPPORTUNITIES AND DIVERSITY

INA has successfully implemented Group's project like Femme, Diversity & Inclusion (D&I) Champions, Lean in Circles participation etc. Local Diversity and Inclusion initiatives were also implemented:

Mamforce certification

INA was certified as a "Mamforce Company" in 2015. This valued recognition confirms dedication to "family friendly" HR management, and is based on an employee survey on flexible working hours, working conditions of parents with young children, promotion and equal gender representation in top management positions, etc. In 2017 INA will re-certify and earn full Mamforce standard after extended audit.

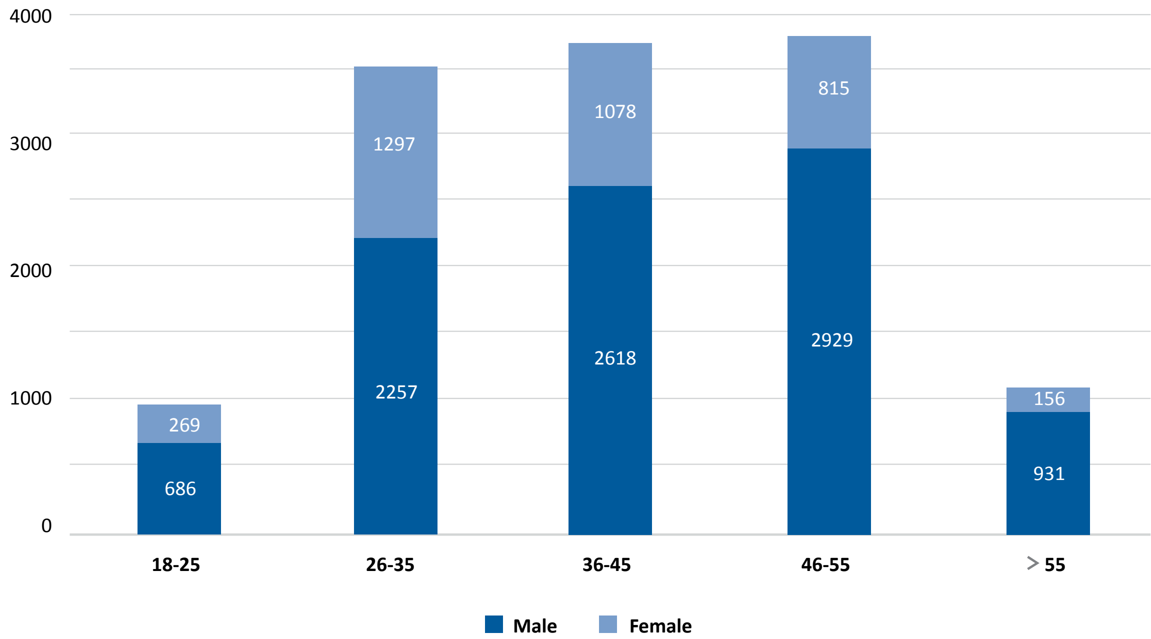
INA Growww 2016 boosts workforce gender balance

Through the 2016 GROWWW program, INA Group achieved a significant increase of female employees (60% vs. 40% men) which is the result of focus on work on equal gender opportunities, thus increasing the active female workforce in the oil and gas industry.

Managing differences by managing different motivational drivers

One of the powerful tools INA uses is known as the Strength Deployment Inventory (SDI) used for understanding motives and values that drive behaviours with the aim to improve and encourage collaboration and team work among employees. The SDI plays off people's basic need to understand themselves and others better, to lead with clarity and empathy, build stronger teams and more effectively navigate conflict. In 2016, 10 workshops were held at which more than 100 employees attended.

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



FREEDOM OF ASSOCIATION

Five Trade Unions (TU) actively operate in INA, d.d.: INAŠ-Oil Industries Trade Union, Oil Industry Union – SING, Autonomous Trade Union of Workers in the Power Industry, Chemistry and Non-Metal Industry of Croatia - EKN, Croatian Drivers' Trade Union – SHV and New Solidarity Trade Union – SNS. Out of the total number of INA, d.d. employees, 66% are members of one or more trade union.

Number of INA employees in trade unions on December 31st 2016

	TRADE UNIONS IN INA GROUP *					TOTAL
	INAŠ	SING	EKN	SHV	SNS	
NUMBER OF EMPLOYEES	776	1,932	365	11	172	3,256

* ~ 12 % of employees are members of more than one TU

Trade unions percentage in the total number of employees in INA Group companies in Croatia on December 31 st 2016

	INA	CROSCO	STSI	TRS	HOSTIN	INA MAZIVA	PLAVI TIM	INA MALOPRODAJNI SERVISI (IMS)	TOTAL
% employees members of TU	66	76	73	69	45	83	47	70	69

EMPLOYEE INCENTIVES

Help for employees and their families in cases of serious illnesses

The Committee for establishing the eligibility of INA, d.d. employees to aid in case of illness is a working body of the HR Sector Director. The Committee reviews individual requests of employees, acquires expert opinions of the contracted primary health physician on the grounds of the request and the amount of necessary funds, and prepares proposals of decision on the allocation of aid within the framework of planned costs.

In 2016, ten requests for aid due to serious illnesses were received and processed and the Committee established that a financial aid was justified in those cases and awarded approximately HRK 200,000 in total.

Other forms of support to employees

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

Jubilee Awards are prescribed by the Collective Agreement and are applicable for the total years of service in INA, including the years of service at its legal predecessors. The employee acquires the right to a jubilee award based on the years of tenure with the employer (10, 15, 20, 25, 30, 35, 40 tenure and each following five years), including the tenure for its legal predecessors and affiliated companies.

Lifetime Achievement Award is granted on annual basis to employees who have made exceptional achievements and significant work contribution during their tenure (for a minimum of 25 years) in INA Group companies. The basic objective of this award is: employee retention and motivation, acknowledgement for significant contribution to the business, and strengthening the image of INA Group companies as a desirable employer. Each year 12 to 15 employees are awarded.

COMMUNITIES

ACHIEVEMENTS

- 166 INA volunteers participated in 12 spajaLICA's projects, with 744 volunteer hours invested;
- New Community Centre in Gunja opened in October 2016 for all visitors;
- In 2016, 222 applications for Green Belt project received.

CHALLENGES

- Implementation of Green Belt projects in 2017;
- Improvement of grievances management.

Relations with the local communities are defined by the Manual for the Management of Social Engagement Activities. Local community members (individuals, local leaders, non-profit organisations, municipalities, associations, etc.) are involved in a business activity that has an impact on the communities in which it takes place.
The relationships with the community and open issues are continuously assessed and evaluated. Social engagement and complaints management are provided through meetings and consultations and appointments of a company representative responsible for negotiations with the local communities.

In order to ensure timely processing of all complaints, each business activity must ensure a formal complaint collection and management system. The implementation method depends on the degree of risk and impacts associated with business activities, such as an e-mail address or a toll-free phone number (24 hours a day, seven days a week). The complaint mechanism is easily accessible, understandable and free.
In 2016, there were six environmental protection related grievances in Rijeka Refinery and two in Sisak Refinery. Investigations were conducted, actions were taken wherever they were needed and local communities representatives and authorities were informed.

LOCAL COMMUNITIES

INA continues to support projects in the area in which it operates, particularly in the vicinity of Sisak and Rijeka Refineries and in the Pannonia Basin. Focus is especially on helping children, young people, health care institutions and projects that contribute to the quality of life of the local communities.

Downstream
In Primorsko-goranska County INA supports cultural institutions and events, kindergartens, sports clubs, associations, libraries, faculties and scientific institutions and events. In Sisak INA supports sports clubs and events, cultural events and institutions, kindergartens and associations for persons with disabilities.

Upstream
INA supports cultural institutions and events, sport clubs and events, kindergartens, associations for persons with disabilities, schools, scientific institutions and faculties in all parts of Croatia where it operates (Slavonija, Podravina, Posavina, Zagreb).

Community Centre in Gunja
Thanks to INA's donation, a brand new Community Centre in Gunja opened in October 2016 for all visitors. It was built where the old one, completely destroyed by severe floods which affected Gunja and surrounding area in 2014, used to be.
The artwork exhibited within the project "My sun for Gunja" will be permanently displayed at the premises of the new Community Centre. INA developed this project in 2014 on the occasion of the fiftieth anniversary of the company, when ten renowned Croatian artists created works especially for Gunja. An interactive playground in Gunja is to be built within INA's Green Belt Program.

SOCIAL INVESTMENT

Green Belt Project
INA once again published a tender for civil society organizations and public educational institutions to develop ideas and projects for the preservation of the environment and nature, and implement their ideas with financial support of INA with the assistance of INA Volunteers Club. Within the Green Belt project INA supports projects such as reforestation, education about ecology, landscaping, underwater cleaning, cleaning of coastal areas, lakes and rivers, and other similar activities.
In 2016, INA received 222 applications and the expert committee consisting of faculty representatives, independent experts for sustainable development, representative of INA's SD&HSE Sector and Corporate Communications Sector selected top 17 projects. This year, for the first time, INA's Facebook fans chose one additional project.

SpajaLICA project
During the first year of SpajaLICA project, INA positioned itself in Croatian business and general public as a pioneer in the field of creative and socially responsible management of real estate for the benefit of a wider community. This partnership model of cooperation between INA and the non-profit sector (6 NGO organizations which moved in on two INA's location) created a unique platform which in the first year of its existence already successfully launched and implemented 12 additionally actions/projects for the wellbeing of the community. The added value of the SpajaLICA project is also a possibility of including INA volunteers club in volunteering activities related to this project - in the last year 166 INA volunteers were included in 12 spajaLICA's projects and they invested 744 volunt eering hours in these activities.
Awards and recognitions:

- Croatian Association for Public Relations named spajaLICA project the best communication project in the category of corporate social responsibility
- spajaLICA received the first business award of MOL Group - MOL Group Golden Barrel Award for the best project in the category of "People Engagement"
- the project also gained recognition from MOL Group employees - in an on-line voting employees of MOL Group, spajaLICA received the most votes/likes from employees

INA continues to support SOS Children's Village Croatia through various projects and initiatives, annual donations and actions of INA Volunteer Club.

Donations to the hospitals
INA has donated more than HRK 750,000 to paediatric wards across Croatia: Clinical Hospital Centre Zagreb - Department of Paediatrics; Children's Hospital Zagreb; Special hospital in Gornja Bistra; Clinical Hospital Centre Rijeka - Department of Paediatrics; General Hospital "Dr. Ivo Pedišić"- Department of Paediatrics and Clinical Hospital Centre Osijek - Department of Paediatrics.

Let's put a gift under the tree for every child
This action was inspired by the fact that not every child would find a gift under the Christmas tree. Therefore INA's employees bought presents based on children's own wishes. 504 gifts were collected for children without adequate parental care from Children's Home Maestral, Split, Children's Home Sveta Ana, Vinkovci, Center Izvor, Selce and Novi Vinodolski, Center Klasje, Osijek and SOS Children's Villages, Lekenik and Ladimirevci.

Corporate Volunteering

- In 2016, INA Volunteer Club organized 42 actions with participation of 771 members with a total of 6,168 volunteers' hours. Volunteers covered the distance of 7,220 km. INA Volunteer Club focused on ecological, humanitarian and projects for children and youth.
- The Club currently has 988 members which is an increase of 27.13% compared to 2015.
- Volunteering Centre Osijek awarded INA Volunteer Club with "Recognition for contribution of business sectors to the development of volunteering" in Slavonia and Baranja in 2012, 2014, 2015 and 2016.
- Three actions were nominated for the award: Nature Park Papuk action, Play for children kindergarten in Osijek and action at Home for the elderly and disabled persons in Vukovar.
- INA has signed the Charter on the recognition of competences acquired through volunteering, along with twenty other companies, associations and educational institutions.

APPENDICIES

SUSTAINABILITY IN NUMBERS

Sconomic sustainability data

Direct economic value generated and distributed

Indicator / mln HRK	2014	2015	2016
Realized revenues	23,759	18,861	15,575
Financial assistance received from government	0	0	0
Operating costs	26,207	21,113	15,519
Cash added value (company cash)	467	275	611
Employee wages and benefits	2,467	2,422	2,083
Capital investors	0	150	0
Payments to governments	8,157	8,542	8,132
Economic value retained	-311	-602	-233

INA Group realized revenue by region mln HRK	2014	2015	2016
Croatia	14,187	11,116	9,355
Bosnia and Herzegovina	2,777	2,098	1,784
European countries	5,313	4,544	3,894
Other countries	1,482	1,103	542
TOTAL	**23,759**	**18,861**	**15,575**

Costs of purchased materials, goods and services in INA Group mln HRK		
2014	2015	2016
18,513	14,451	12,193
INA Group profit earned (EBIT) mln HRK		
2014	2015	2016
-1,712	-1,338	607

INA GROUP Return on Assets Profitability indicator (ROA) in 2016

$$\text{ROA (\%)} = \frac{\text{Profit}}{\text{Total Assets}} \times 100 = \frac{101}{20{,}292} \text{ X } 100 = 0.50\%$$

INA Group 2014-2016 Payroll costs (mln HRK)	2014	2015	2016
Net	1,250	1,191	1,012
Taxes and contributions	861	824	710
Other salary expenses	356	406	361
TOTAL	**2,467**	**2,421**	**2,083**

INA, d.d. total taxes paid (mln HRK)	2014*	2015	2016
Croatia	8,125	8,519	8,105
Angola	32	23	27
TOTAL	**8,157**	**8,542**	**8,132**

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

Paid VAT, excise duties, biofuels fee, profit tax, income tax and surtax and Croatian Compulsory Oil Stocks Agency (HANDA)			
	2014	2015	2016
Value added tax	761	1,602	761
Value added tax - IMPORT	2,372	1,769	2,372
Corporate income tax (PROFIT TAX)	86	17	86
Excise duties	4,759	4,983	4,759
Income tax and surtax	147	147	127
TOTAL (mil HRK)	**8,125**	**8,519**	**8,105**

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

Company	LOCAL/EXTERNAL
CROSCO	67%
ED-INA d.o.o.	100%
Holdina d.o.o. Sarajevo	0%
Energopetrol d.d. Sarajevo	0%
HOSTIN	100%
INA Crna Gora d.o.o.	0%
INA Kosovo d.o.o.	0%
INA Maziva	100%
INA, d.d.	**74%**
INAgip d.o.o.	100%
Interina Ljubljana d.o.o	100%
Plavi Tim	100%
Rotary Drilling Co. Ltd	0%
STSI	67%
TRS	100%
Total	**68%**

* Local means from the country where the company is located

SOCIAL INVESTMENT DATA

Category	
Cash (HRK)	3,078,240
Time (hours)	373,845
In-kind giving (HRK)	291,803
Charitable gift (HRK)	3,154,703 (84.30%)
Community investment (HRK)	589,185 (15.70%)

ENVIRONMENTAL DATA

Indicator	2014	2015	2016
Total Carbon dioxide (CO_2) (million tons) INA Group	1.78	1.72	1.79
Flaring emissions (thousand tons CO_2 equivalent) INA Group	99.40	102.83	142.30
Total direct energy consumption(1) (million GJ) INA Group	19.58	21.55	20.14
Total indirect energy consumption(2) (million GJ) INA Group	0.90	1.04	1.13
Energy intensity (total energy consumption (GJ) / production (t)) Rijeka Refinery	N.A.	4.72	4.08
Energy intensity (total energy consumption (GJ) / production (t)) Sisak Refinery	N.A.	7.08	6.64
Energy intensity (total energy consumption (GJ) / production (tOE)) Exploration & Production	N.A.	1.45	1.71
Emissions from direct energy consumption (million t CO_2eq) INA Group	1.19	1.33	1.68
Emissions from indirect energy consumption (million t CO_2) (3) INA Group	0.08	0.09	0.11
Emission intensity E&P (t CO_2eq / mboe)	51	24	30
Emission intensity Rijeka Refinery (t CO_2 / kt CWT) (4)	45	48	42.14
Emission intensity Sisak Refinery (t CO_2 / kt CWT) (5)	89.84	79.15	77.72
Sulphur oxides (SOx) (thousand tons) INA Group	2.86	3.77	4.28
Nitrogen oxides (NOx) (thousand tons) INA Group	2.35	2.53	2.81
Total water withdrawal (million m^3) INA Group	42.73	31.20	29.9
Total water discharge (million m^3) INA Group	39.44	27.10	26.03
Chemical oxygen consumption (COD) (tons) INA Group	331.96	333.40	278.86
Biological oxygen consumption (BOD5) (tons) INA Group	77.67	54.21	59.25
Total suspended solids (tons) INA Group	116.84	106.44	85.5
Total petroleum hydrocarbons (tons)(6) INA Group	44.98	9.41	11.17
Total hazardous waste (thousand tons) INA Group	13.91	19.55	12.05
Total non-hazardous waste (thousand tons)(7) INA Group	19.82	17.15	17.93
Waste exported (thousand tons) INA Group	N.A.	0.64	1.08
Recycled waste (thousand tons) INA Group	10.36	11.55	15.32
Disposed waste (thousand tons) INA Group	23.38	24.52	14.88
Spills over 1m^3 INA Group	3	3	6

(1) Total direct energy consumption = Total natural gas consumption (as energy source) + Total consumption of other HC energy sources
(2) Total indirect energy consumption = Total electricity consumption + Total consumption of other indirect sources (steam, heat...)
(3) Conversion factors for electricity source – International Energy Agency
(4), (5) Methodology described in chapter Abbreviations
(6) As of 2015, only mineral oils are presented.
(7) Municipal waste is not included due to different measuring units (see Chapter Waste)

HEALTH AND SAFETY DATA

INA Group	2014	2015	2016
Lost time injury (LTI) (No.)	36	50	37
Lost time injury frequency (LTIF)	1.50	2.30	1.87
Total reportable occupational illnesses frequency (TROIF)	0	0	0
Absence rate (AR) (%)	3.10	4.53*	4.48
Lost day rate (LDR) (%)	0.26	0.12**	0.11
Fatalities amongst employees (No.)	0	1	0
Fatalities amongst contractors (No.)	0	0	0
Fatalities amongst 3rd parties (No.)***	0	2	0
Process safety events (Tier 1+Tier 2)	6+5	4+4	7+4

LTI and LTIF are calculated for own staff
*different calculation methodology
**different calculation methodology - LDR = total days lost / total number of scheduled work days
*** 3rd party has no contractual obligation to INA, d.d., INA Group Company or its contractors.

HUMAN RESOURCES DATA

INA Group	2014	2015	2016
No. of workers	11,452	11,127	10,861
No. of workers with shortened working hours	55	131	207
No. of newly employed employees	217	354	1,514*
No. of leavers	871	1,449	1,126
No. of employees working abroad	410	287	117
% of women in total workforce	33.50	30.00	21.36
% of disabled people in total work force	3.20	3.00	2.80

*Includes employees that were employed in INA Maloprodajni Servisi (INA MS)

HUMAN RESOURCES DATA, INA GROUP COMPANIES IN 2016

	INA, D.D.	CROSCO	ROTARY	STSI	INA MAZIVA	HOSTIN
No. of workers	4387	1034	419	842	167	11
No. of workers with shortened working hours	24	8	17	1	2	0
No. of newly employed employees	72	7	1	48	1	0
No. of leavers	216	224	97	85	13	3
No. of employees working abroad	4	83	12	9	0	0
% of women in total workforce	25	5	7	9	29	73
% of woman in managerial positions	18	15	18	0	13	100
% of disabled persons in total work force	3	2	5	3	1	0
Education level						
No. of Unskilled workers	29	5	0	23	0	0
No. of Semi-skilled workers	15	0	0	93	1	0
No. of Primary school degree workers	16	13	3	340	15	0
No. of Skilled workers	221	130	113	134	13	0
No. of High school degree workers	2102	615	38	69	71	7
No. of Highly skilled workers	212	29	136	157	1	0
No. of assoc. degr. /bacc. workers	318	33	54	1	12	3
No. of Univ.degr. / mag. workers	1179	179	23	6	50	1
No. of MA / univ. spec. workers	82	4	10	0	1	0
No. of PhD workers	106	0	0	0	0	0
Age structure of workers						
Under the age of 30	288	65	47	47	1	0
31-40 years	878	330	104	151	24	3
41-50 years	1404	233	106	242	56	4
51-60 years	1636	364	118	354	79	4
over 61 years	74	16	2	29	4	0
Education						
Average training time per employee (hours)	28	22.57	25.31	9.75	15.85	16
Average cost of training per employee (HRK)	1800	563	1006	755	1047	7785
Freedom of association						
% of employees in trade unions (TU)	66	76	39	73	83	70
% of employees covered by the Collective agreement	100	100	100	100	100	100
Data related to parental leave in INA Group, by gender						
	F/M	F/M	F/M	F/M	F/M	F/M
Number of employees entitled to parental leave	89/31	1/41	0	3/8	0	0
Number of employees by gender that took parental leave	89/4	1/1	0	3/0	0	0
Number of employees who returned to work after their parental leave ended	47/3	1/0	1/0	5/0	2/0	0
Number of employees who returned to work after their parental leave ended who are still employed twelve months after their return to work	60/6**	2/0	0	5/0	0	0
The return to work and retention rates of employees who returned to work after leave ended (%)	94***	0	0	0	0	0

*Joint ventures
**base year - 2014.when employees went to parental leave
***all employees return to work, 3 of them went to INA MS

INA MS	PLAVI TIM	TRS	ED-INA*	INAGIP*	INTERINA LJUBLJANA	HOLDINA SARAJEVO	INA CRNA GORA	ENERGOPETROL
2387	141	340	13	43	80	445	36	563
2	1	6	0	0	2	72	0	72
1177	24	4	0	10	1	83	0	86
301	7	28	0	2	0	83	0	67
0	0	0	0	0	0	9	0	0
20	32	90	53	35	33.75	16	25	11
0	30	63	17	2.33	25	0	0	0
0.69	0.71	1	0	2.33	5	6	0	10
2	0	0	0	0	2	0	1	4
86	0	0	0	0	4	0	0	1
2	0	1	0	0	0	1	0	0
0	0	1	0	0	11	158	8	245
2066	54	183	5	13	44	198	9	236
18	1	0	0	0	5	5	0	6
112	18	45	0	4	10	13	5	8
40	66	86	6	26	3	34	12	18
0	2	4	2	0	1	0	1	9
0	0	0	0	0	0	0	0	0
647	12	14	0	0	5	61	8	80
817	34	52	5	13	18	141	17	137
580	46	76	5	16	29	122	9	167
275	47	173	3	14	24	78	2	128
7	2	5	0	0	4	7	0	15
20.44	4	15.25	30.63	23	0	9.9	0	7.2
646	417	689	4625	7209	0	689	0	114
47	45	69	0	21	39	60	80	59
NO CA	100	100	NO CA	NO CA	NO CA	NO CA	NO CA	NO CA
F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M
0	0	7/0	1/0	0	0	0	1/0	3/0
0	0	7/0	1/0	0	0	0	1/0	3/0
0	0	3/0	0	0	0	2/0	0	3/0
0	0	3/0	0	0	0	0	0	3/0
0	0	0	0	0	0	0	0	0

JOINT VENTURES DATA *

SELECTED PERFORMANCE INDICATORS 2014–2016

Indicator	UNIT	2014		2015		2016	
		EDINA	INAAGIP	EDINA	INAAGIP	EDINA	INAAGIP
Total Direct GHG (scope-1)	TONNES OF CO_2 EQUIVALENT	333	73,101	342	56,682	352	41,672
Total Water Withdrawal	M^3	35	N.A.	35	N.A.	30	N.A.
Number of Spills (over $1m^3$)	NUMBER	0	0	0	0	0	0
Fatalities – own employees	NUMBER	0	0	0	0	0	0
Lost Time Injury Frequency (LTIF) – employees		0	1.25	0	0	0	0
Total Workforce	NUMBER	16	3,621	16	1,504	16	1,420
Donations	HRK MLN	0	0	0	0	0	0

* Reported for the first time.

MEMBERSHIPS, EXTERNAL INITIATIVES AND PUBLIC POLICIES

Association	Participation status
European Petroleum Refiners Association (joint INA-MOL membership)	member of the Scientific Council
European Economic Senate	Economic Senator (until September 1, 2017, after that cancelled)
Project Management Institute	member
European Association of Communication Directors	member
International Organisation for Industrial Hazard Management	member
Society of Petroleum Engineers (Croatian Branch)	member of the Presidency
Croatian Chamber of Economy	member of the Executive Board
Croatian Employers' Association	member of the General Assembly, the Executive Board and the Commission, INA representative is the President of the Energy Association EB
Croatian Gas Association	the main sponsor, member of the MB, INA representative is the Vice-President
Croatian Association of Petroleum Engineers and Geologists	the principal founder, INA representative is the Vice-President of the MB, Member of the Presidency, Member of the Supervisory Board
Croatian National Committee of World Petroleum Council	INA representative is the Vice-president, member
Croatian Energy Association	member of the Managing Board
Croatian Business Council for Sustainable Development	member of the Governing Council
Croatian Standards Institute	member
Croatian Exporters	member
Croatian Geological Association	INA representative is the President of the MB; member of the SB; member of the MB
Academy of Technical Sciences	member
Croatian Society for Quality	member
Croatian Metrology Society	member
Laboratoria Croatica	member

Croatian Association of Corporate Treasurers	member
International Chamber of Commerce (ICC)	member
Croatian Managers' & Entrepreneurs' Association	member
CIGRE - Comité Croate Conseil International des Grands Réseaux Électriques	member
Croatian Journalists' Association	member
Croatian Information Technology Society – Society of SAP users	member
Croatian Public Relations Association	member
Electro-technical Society Zagreb	member
Croatian Water Pollution Control Society	member
Croatian society for a healthy work place	member
Croatian Institute for Health Protection & Safety at Work	member
Association for the Advancement of Human Safety	member
Croatian Association for Professional Fire-fighters	member
Croatian Academy of Sciences and Arts	member
Croatian Institute of Internal Auditors	member
Croatian Maintenance Society	member
Croatian Fire-fighting Association	member

INDEPENDENT REVIEW I

OPINION OF THE COMMISSION OF THE ADMINISTRATIVE COUNCIL OF THE CROATIAN BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT ON THE INA GROUP SUSTAINABILITY FOR 2016

Upon reviewing the content and structure of the INA Group 2016 Sustainability Report, the Commission of the Administrative Council of the Croatian Business Council for Sustainable Development unanimously concluded that the Report contains all the elements required by the Global Reporting Initiative G4 reporting guidelines, core option. This Report represents successful integration of the financial and non-financial reporting requirements and provides an overview of the results of the effects in three dimensions: economic, environmental and social, achieved in 2016.

INA Group is a company that has a long tradition of reporting and is ready for the obligation of large companies to publish information on non-financial impacts of their business processes. The non-financial reporting obligation began to be applied at the beginning of this year and shall significantly affect better understanding of the business world with regard to the implementation of the principle of responsibility to non-financial impacts and shall attract and engage the general public in sustainability topics.

INA Group operates on three continents and has been for many years, due to its size and impact on the local economy, under the scrutiny of political and general public, particularly in the Republic of Croatia and the surrounding countries. In order to define the objectives and activities necessary to meet the criteria of long-term sustainability of the company and minimize the risks for the society and the environment, INA Group adopted the Sustainable Development Strategy by 2020. The supervision and implementation of the strategy is an integral part of the responsibility of management structures. For better understanding of the objectives and activities set for sustainable development, training of 130 managers from different INA Group companies was conducted in 2016. The aforementioned Strategy defines key areas and objectives, which shall be realized through annual sustainable development programs for INA Group companies in the given period, divided into six key areas: climate changes, environment, health and safety, communities, ethics and governance, and human capital.

The 2016 INA Group Report is improved compared to the last year report, confirming that INA is an organization that systematically works to improve its non-financial impacts. The selection of topics that are presented is various and covers all aspects of impacts, starting from the environment, conditions for employees to community investments and projects dealing with these impacts, which are really diverse and innovative and witness the dedication and commitment.
When determining material issues in the coming reporting periods, greater emphasis should be put on continuous stakeholder engagement in the reporting process and to their reasonable expectations and interests, that is, the process of involving stakeholders should be described more clearly in order to perceive its proactivity and dialogue encouragement, which is not clearly visible from the current report.

The report gives great attention to the environmental aspect of the business and an effort to reduce the environmental impact to a minimum. From presented data on emissions into the environment, energy efficiency and waste produced, the results of continued efforts to reduce own environmental footprint are visible, but also the seriousness with which INA addresses environmental issues. However, although the process of assessing the significance of these aspects demonstrated that sustainable products and services are recognized as an aspect with the greatest significance, it is not evident from the report how this aspect is managed. On the other hand, although the importance of increasing the share of biofuels is recognized, there is not enough information to show that significant investments have been made in the development of alternative fuels, which we would expect given the impact of the company primary activity on the environment and recognition of its significance.

The Report deals with significant topics for the society as a whole, such as environmental protection, climate changes, energy efficiency and ethical business, and is interesting to the general public due to its selection of indicators. Despite the large number of interesting information and indicators, the length and volume of information shall likely reduce the number of interested stakeholders who shall read the Report. We recommend shortening the descriptions in the Report and avoiding repetition of topics in order to reduce its volume and thereby increase its availability to wider audience.
Taken as a whole, the INA Group Report, in relation to previous reports, is clearer and better balanced, topics are specific and show a continuity of efforts in the management of non-financial impacts, which proves INA's true commitment to implement the Sustainable Development Strategy and contribute to positive changes.

INDEPENDENT REVIEW II

The quality of content, the amount of offered and relevant information, and how they are displayed suggests that the "Sustainability Report of INA Group for 2016" is in accordance with the reporting requirements under the Guidelines of the Global Reporting Initiative, a core option with the use of additional indicators for the Sector of oil and gas. It is also important to emphasize that the scope of this report and the boundaries of certain material aspects are determined with regard to the importance and influence of key processes on the business model, and the availability of relevant information.

A continuity of good reporting practices is visible in many aspects of this report. This can be explained through the fact that that in recent years, the interest for non-financial reporting has risen significantly. This particularly refers to its impact on the environmental, social and governance aspects of companies. In the case of the INA group, it is important not only because of its size and impact on the local economy, but also because of the industry/ sector in which it performs.

The report shows that the final results and plans are based on a clear perception of the importance of the INA Group and its impact on the wider economic and social context. There is clear progress compared to previous years when the INA group also informed the public using the G4 guidelines.

This report clearly indicates what the company's socially responsible strategy is, and what its materiality targets are. The INA Group shows progress in managing the performance of complex and layered supply chains through reporting on the level of importance of certain substantive material issues.

The recent experience with similar reports suggest that all parties involved understand, that this report does not represent only the possibility of transparent reporting on the economic, social, environmental and management aspects of the business, but it is also an opportunity for the Company to engage their stakeholders and to work systematically on its constructive role in the society. In that sense, by mapping processes of all stakeholders, this report clearly explains, illustrates and highlights the way in which the stakeholders effect the development of INA's corporate social responsibility strategy. Also, I would like to stress that the Report's clarity and transparency describes both the its achievements and future challenges. This creates a good balance between the achieved goals and future targets. The report indicates a concrete contribution to the local community and shows how to create value for individual stakeholders. However, it still lacks detailed information on the interaction with all stakeholders and the manner in which they influence on the content.

It is particularly important to emphasize the continuing commitment of the INA Group to balance between economic, social, environmental and governmental aspects of their business, while improving the quality of life of its employees, their families, local communities and society at large. This is verified by information that 86% of mid-level managers participated in sustainable development workshops. Particularly noteworthy is the focus on two elements which are linked to the social impact of this company. One aspect is the focus on the safety of its employees where through transparent reporting it indicates that there is room for improvement and it clearly shows how to overcome the gap between the current and desired future state. Another aspect is a series of innovative social projects of which the most important are SpajaLICA, FORa, the beneFIT platform and INA Academy.

Although it is obvious that INA has made extra effort to integrate financial and non-financial data, it is still not complete and there is room for improvements that would allow a clearer picture of the long-term plans of the company and its prospects. I would certainly suggest that in future reports they reinforce the narrative aspects of these cases, by describing the experience of those who are directly targeted.

Setting clear objectives and sustainability evaluation of their execution indicates the commitment of the organization to continuously improve its social performance. The content of the Report is comparable, clear, time-determined, reliable and well balanced. This document shows that reporting is not only linked by displaying all relevant information, but also by the documentation of progress, the presentation of trends and by a clear strategic corporate social responsibility orientation, which is seen as a platform for progress and competitiveness.

Mislav Ante Omazić

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Building a better working world

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

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

This report is intended solely for the management of INA-INDUSTRIJA NAFTE, d.d. (hereinafter "the Company") for the purpose of reporting on 6 Indicators (G4-EN3, G4-EN8, G4-EN15, G4-EN16, G4-EN23 and G4-LA6) within Sustainability in INA Group section of the Annual report ("the Sustainability Report") prepared by the Company for the year ended 31 December 2016 in accordance with GRI G4 Sustainability Reporting Guidelines ("the Guidelines").

Underlying Subject Matter and Applicable Criteria

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

- 6 Indicators (G4-EN3, G4-EN8, G4-EN15, G4-EN16, G4-EN23 and G4-LA6) within Sustainability Report prepared by the Company for the year ended 31 December 2016 in accordance with GRI G4 Sustainability Reporting Guidelines ("the Guidelines")

The 6 indicators are:

- Energy consumption within the organization (G4-EN3)
- Total water withdrawal by source (G4-EN8)
- Direct greenhouse gas (GHG) emissions (Scope 1) (G4-EN15)
- Energy indirect greenhouse gas (GHG) emissions (Scope 2) (G4-EN16)
- Total weight of waste by type and disposal method (G4-EN23)
- Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender (G4-LA6)

Specific Purpose

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

Responsible Party's Responsibilities

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

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

Practitioner's Responsibilities

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

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

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

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

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

1. Understanding of the Company's internal controls, processes and systems set up for the preparation of the Sustainability Report
2. Reconciliation of sample of input data for 6 G4 Indicators provided by the Company with the supporting documentation provided by the Company
3. Perform visit of 3 sites, in Rijeka Oil refinery, Crosco d.o.o. location Ivanić Grad and STSI d.o.o. headquarters, in order to understand how input data for Sustainability Report is collected
4. Read the Sustainability Report and confirm presentation of 6 indicators in accordance with the Guidelines

Practitioner's conclusion

Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that 6 Indicators (G4-EN3, G4-EN8, G4-EN15, G4-EN16, G4-EN23 and G4-LA6) within Sustainability Report were not prepared, in all material respects, in accordance with the Guidelines.

28 April 2017

____
Slaven Đuroković

Ernst & Young d.o.o.
Radnička cesta 50
10 000, Zagreb, Croatia

Attachment
1. Sustainability Report

GRI G4 CONTENT INDEX

The report has been developed in accordance with GRI G4 "core" option and successfully completed the Materiality Disclosures Service check from GRI.
Application level of the GRI G4 Guidelines and Oil and Gas Sector Supplement:
GRI G4 and Oil&Gas Sector Supplement (O&GSS) Content Index and the relation to UN Global Compact Principles
New GRI G4 Content Index according to Materiality assessment

General Standard Disclosures					
GRI G4 Indicator		PAGE NUMBER	COMMENT	GC PRINCIPLE	ASSURED
Strategy and Analysis					
G4-1	STATEMENT FROM THE CEO	10			NO
G4-3	NAME OF THE ORGANIZATION	2			NO
G4-4	PRIMARY BRANDS, PRODUCTS, AND/OR SERVICES	2			NO
G4-5	LOCATION OF ORGANIZATION'S HEADQUARTERS	158			NO
G4-6	NUMBER OF COUNTRIES WHERE THE ORGANIZATION OPERATES	61			NO
G4-7	NATURE OF OWNERSHIP AND LEGAL FORM	12			NO
G4-8	MARKETS SERVED	46			NO
G4-9	SCALE OF THE REPORTING ORGANIZATION	2			NO
G4-10	WORKFORCE BY EMPLOYMENT TYPE, EMPLOYMENT CONTRACT, AND REGION	142		6	NO
G4-11	PERCENTAGE OF TOTAL EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS.	142		3	NO
G4-12	DESCRIPTION OF SUPPLY CHAIN	83	VALUE CHAIN		NO
G4-13	SIGNIFICANT CHANGES DURING THE REPORTING PERIOD	76			NO
Commitments to external Initiatives					
G4-14	EXPLANATION OF WHETHER AND HOW THE PRECAUTION-ARY APPROACH OR PRINCIPLE IS ADDRESSED BY THE ORGANIZATION	18,88,92			NO
G4-15	EXTERNALLY DEVELOPED ECONOMIC, ENVIRONMENTAL, AND SOCIAL CHARTERS, PRINCIPLES, OR OTHER INITIATIVES TO WHICH THE ORGANIZATION SUBSCRIBES OR ENDORSES	10,14,134, 144		1-10	NO
G4-16	MEMBERSHIPS IN ASSOCIATIONS	144			
Identified material aspects and boundaries					
G4-17	ENTITIES INCLUDED IN FINANCIAL STATEMENT	223			No
G4-18	PROCESS FOR DEFINING REPORT CONTENT	76,84			NO
G4-19	LIST OF MATERIAL ASPECTS	81,82			NO
G4-20	ASPECTS MATERIAL INSIDE THE COMPANY	82			NO
G4-21	ASPECTS MATERIAL OUTSIDE THE COMPANY	82			NO
G4-22	RE-STATEMENTS OF INFORMATION PROVIDED IN EARLIER REPORTS		THERE ARE NO CORRECTIONS OF PREVIOUS REPORT.		NO
G4-23	SIGNIFICANT CHANGES FROM PREVIOUS REPORTING PERIODS IN THE SCOPE OF THE REPORT	76,81			
Stakeholder engagement					NE
G4-24	LIST OF STAKEHOLDER GROUPS ENGAGED BY THE ORGANIZATION	79,80			NO
G4-25	IDENTIFICATION AND SELECTION OF STAKEHOLDERS WITH WHOM TO ENGAGE	79,80			NO
G4-26	APPROACHES TO STAKEHOLDER ENGAGEMENT	79,80			NO
G4-27	KEY TOPICS AND CONCERNS THAT HAVE BEEN RAISED THROUGH STAKEHOLDER ENGAGEMENT	79,80,84			
Report Profile					NE
G4-28	REPORTING PERIOD	76			NO
G4-29	DATE OF MOST RECENT PREVIOUS REPORT	76			NO

G4-30	REPORTING CYCLE	76			NO
G4-31	CONTACT POINT FOR QUESTIONS REGARDING THE REPORT	76			NO
G4-32	GRI OVERVIEW	150			NO
G4-33	EXTERNAL ASSURANCE FOR THE REPORT	148			NO
Governance					
Governance structure and composition					
G4-34	GOVERNANCE STRUCTURE OF THE ORGANIZATION	66,87			NO
G4-36	EXECUTIVE LEVEL RESPONSIBILITY	87			NO
Ethics and Integrity					
G4-56	VALUES AND NORMS OF BEHAVIOUR, CODE OF CONDUCT	66,95		10	NO
G4-57	MECHANISM FOR SEEKING ADVICE ON ETHICAL BEHAVIOUR	95		10	NO
G4-58	MECHANISM FOR REPORTING CONCERNS ABOUT UNETHICAL BEHAVIOUR	95		10	NO
Economic Performance					
Disclosure of Management approach					
G4-EC1	DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED	138			NO
G4-EC2	FINANCIAL IMPLICATIONS AND OTHER RISKS AND OPPORTUNITIES FOR THE ORGANIZATION'S ACTIVITIES DUE TO CLIMATE CHANGE	103,105		7	NO
G4-EC4	SIGNIFICANT FINANCIAL ASSISTANCE RECEIVED FROM GOVERNMENT	138			NO
Market Presence					
G4-EC5	RATIOS OF STANDARD ENTRY LEVEL WAGE BY GENDER COMPARED TO LOCAL MINIMUM WAGE AT SIGNIFICANT LOCATIONS OF OPERATION		THERE ARE NO DIFFERENCES IN WAGES BY GENDER.	6	NO
G4-EC6	PROPORTION OF SENIOR MANAGEMENT HIRED FROM THE LOCAL COMMUNITY AT SIGNIFICANT LOCATIONS OF OPERATION	139		6	NO
Indirect Economic Impacts					
G4-EC7	DEVELOPMENT AND IMPACT OF INFRASTRUCTURE INVESTMENTS AND SERVICES SUPPORTED	140			NO
G4-EC8	SIGNIFICANT INDIRECT ECONOMIC IMPACTS, INCLUDING THE EXTENT OF IMPACTS	136,140			NO
G4-EC9	PROPORTION OF SPENDING ON LOCAL SUPPLIERS AT SIGNIFICANT LOCATIONS OF OPERATION	101			
Procurement practices					
OG1	VOLUME AND TYPE OF ESTIMATED PROVED RESERVES AND PRODUCTION.	22			NO
Environmental performance Indicators					
Disclosure of Management approach				**7,8,9**	
Energy					**NO**
G4-EN3	ENERGY CONSUMPTION BY THE COMPANY	104		7,8	YES
G4-EN4	ENERGY CONSUMPTION OUTSIDE OF THE ORGANIZATION		NOT APPLICABLE.		NO
G4-EN5	ENERGY INTENSITY	140		8	NO
G4-EN6	REDUCTION OF ENERGY CONSUMPTION	103		8,9	NO
OG2	TOTAL AMOUNT INVESTED IN RENEWABLE ENERGY.		INA DOES NOT PRODUCE RENEWABLE ENERGY.		NO
OG3	TOTAL AMOUNT OF RENEWABLE ENERGY GENERATED BY SOURCE.		INA DOES NOT PRODUCE RENEWABLE ENERGY.		NO
Water					NO
Disclosure of Management approach					
G4-EN8	TOTAL WATER WITHDRAWAL BY SOURCE	111,140		7,8	NO
G4-EN9	WATER SOURCES SIGNIFICANTLY AFFECTED BY WITHDRAWAL OF WATER		Neither of the water sources were significantly affected by the water withdrawal.	8	YES

G4-EN10	PERCENTAGE AND TOTAL VOLUME OF WATER RECYCLED AND REUSED	111		8	NO
Biodiversity					
Disclosure of Management approach					
G4-EN11	OPERATIONAL SITES OWNED, LEASED, MANAGED IN, OR ADJACENT TO, PROTECTED AREAS AND AREAS OF HIGH BIODIVERSITY VALUE OUTSIDE PROTECTED AREAS	115		8	NO
Emissions					
Disclosure of Management approach					
G4-EN15	DIRECT GREENHOUSE GAS EMISSIONS	103,106,108,109,140		7, 8	YES
G4-EN16	INDIRECT GREENHOUSE GAS EMISSIONS	103,106,140		7, 8	YES
G4-EN18	GREENHOUSE GAS (GHG) EMISSIONS INTENSITY	140		8	NO
G4-EN21	NOX, SOX, AND OTHER SIGNIFICANT AIR EMISSIONS	110,140		7	NO
Effluents, and Waste			8		
Disclosure of Management approach					
G4-EN22	TOTAL WATER DISCHARGE BY QUALITY AND DESTINATION	111,140		8	NO
OG5	VOLUME OF FORMATION OR PRODUCED WATER	112			NO
G4-EN23	TOTAL WEIGHT OF WASTE BY TYPE AND DISPOSAL METHOD	113,140		8	YES
OG6	VOLUME OF FLARED AND VENTED HYDROCARBON.	109,140			NO
OG7	AMOUNT OF DRILLING WASTE (DRILL MUD AND CUTTINGS) AND STRATEGIES FOR TREATMENT AND DISPOSAL.		In 2016 Exploration & Production BD produced 4,732 tons of drilling mud in 2016, which was disposed of by injecting into the deep well. The amounts of drilling mud increased in comparison with 2015, due to increase in drilling activities.		
G4-EN24	TOTAL NUMBER AND VOLUME OF SIGNIFICANT SPILLS			8	NO
Products and Services			8		
Disclosure of Management approach					
G4-EN27	INITIATIVES TO MITIGATE ENVIRONMENTAL IMPACTS OF PRODUCTS AND SERVICES	14,15,101		7,8,9	NO
G4-EN28	PERCENTAGE OF PRODUCTS SOLD AND THEIR PACKAGING MATERIALS THAT ARE RECLAIMED BY CATEGORY		INA MAZIVA COLLECTED 2,53% USED LUBRICANTS.	8	NO
OG8	BENZENE, LEAD AND SULPHUR CONTENT IN FUELS.		EURO V QOUALITY OF DIESEL AND GASOLINE.		NO
Compliance					
Disclosure of Management approach					
G4-EN29	MONETARY VALUE OF SIGNIFICANT FINES AND TOTAL NUMBER OF NON-MONETARY SANCTIONS FOR NON-COMPLIANCE WITH ENVIRONMENTAL LAWS AND REGULATIONS		There were no significant fines or monetary sanctions for non-compliance with environmental laws and regulations.	8	NO
Overall					
Disclosure of Management approach					
G4-EN31	TOTAL ENVIRONMENTAL EXPENDITURES AND INVESTMENTS BY TYPE	94			NO
Supplier environmental assessment					
G4-EN32	PERCENTAGE OF NEW SUPPLIERS THAT WERE SCREENED USING ENVIRONMENTAL CRITERIA		New bidders, cooperators and producers are pre-screened in order to mitigate risks.	8	NO
Environmental grievance mechanisms					
Disclosure of Management approach					

G4-EN34	NUMBER OF GRIEVANCES ABOUT ENVIRONMENTAL IMPACTS FILED, ADDRESSED, AND RESOLVED THROUGH FORMAL GRIEVANCE MECHANISMS	136		8	NO
Labour Practices and Decent Work			1,3,6		
Disclosure of Management approach					
Employment					
G4-LA1	NUMBER AND RATE OF EMPLOYEE TURNOVER BY AGE GROUP, GENDER, AND REGION	142		6	NO
G4-LA2	BENEFITS PROVIDED TO FULL-TIME EMPLOYEES THAT ARE NOT PROVIDED TO TEMPORARY OR PART-TIME EMPLOYEES, BY SIGNIFICANT LOCATIONS OF OPERATION	130			NO
G4-LA3	RETURN TO WORK AND RETENTION RATES AFTER PARENTAL LEAVE, BY GENDER	142		6	NO
Disclosure of Management approach					
G4-LA4	MINIMUM NOTICE PERIODS REGARDING OPERATIONAL CHANGES, INCLUDING WHETHER THESE ARE SPECIFIED IN CA		Before implementing an organizational change, the Employer is obligated to conduct a consultation process on the change with the Works Council. An organizational change cannot be implemented before obtaining the Works Council opinion (deadline for giving the opinion is eight days), otherwise such a change would be void.	3	NO
Occupational Health and Safety					
Disclosure of Management approach					
G4-LA5	PERCENTAGE OF TOTAL WORKFORCE REPRESENTED IN FORMAL JOINT MANAGEMENT–WORKER HEALTH AND SAFETY COMMITTEES THAT HELP MONITOR AND ADVISE ON OCCUPATIONAL HEALTH AND SAFETY PROGRAMS		100% All employees are represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs		NO
G4-LA6	RATES OF INJURY, OCCUPATIONAL DISEASES, LOST DAYS, AND ABSENTEEISM, AND NUMBER OF WORK-RELATED FATALITIES	141		1	YES
G4-LA7	WORKERS WITH HIGH INCIDENCE OR HIGH RISK OF DISEASES RELATED TO THEIR OCCUPATION	141			NO
Training and Education					
Disclosure of Management approach					
G4-LA9	AVERAGE HOURS OF TRAINING PER YEAR PER EMPLOYEE	134,142		6	NO
G4-LA10	PROGRAMS FOR SKILLS MANAGEMENT AND LIFELONG LEARNING THAT SUPPORT THE CONTINUED EMPLOYABILITY OF EMPLOYEES	128			NO
G4-LA11	PERCENTAGE OF EMPLOYEES RECEIVING REGULAR PERFORMANCE AND CAREER DEVELOPMENT REVIEWS	130		6	NO
Equal remuneration for women and men					
Disclosure of Management approach					
G4-LA13	RATIO OF BASIC SALARY AND REMUNERATION OF WOMEN TO MEN BY EMPLOYEE CATEGORY, BY SIGNIFICANT LOCATIONS OF OPERATION		There is no difference between the basic salary and remuneration of women to men.	6	NO
G4-LA14	PERCENTAGE OF NEW SUPPLIERS THAT WERE SCREENED USING LABOUR PRACTICES CRITERIA	101			
G4-LA15	SIGNIFICANT ACTUAL AND POTENTIAL NEGATIVE IMPACTS FOR LABOUR PRACTICES IN THE SUPPLY CHAIN AND ACTIONS TAKEN	101			
Labor practices grievance mechanisms					
Disclosure of Management approach					
G4-LA16	NUMBER OF GRIEVANCES ABOUT LABOR PRACTICES FILED, ADDRESSED, AND RESOLVED THROUGH FORMAL GRIEVANCE MECHANISMS	95			
Human rights			1-6		

Disclosure of Management approach					
Non-discrimination					
G4-HR3	TOTAL NUMBER OF INCIDENTS OF DISCRIMINATION AND CORRECTIVE ACTIONS TAKEN	95		6	NO
Freedom of Association and Collective Bargaining					
Disclosure of Management approach					
G4-HR4	OPERATIONS IDENTIFIED IN WHICH THE RIGHT TO EXERCISE FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING MAY BE AT SIGNIFICANT RISK		There are no operations in which the right to exercise freedom of association and collective bargaining may be at significant risk.	1,2,3	NO
Security practices					
Disclosure of Management approach					
G4-HR7	PERCENTAGE OF SECURITY PERSONNEL TRAINED IN THE ORGANIZATION'S HUMAN RIGHTS POLICIES OR PROCEDURES THAT ARE RELEVANT TO OPERATIONS	96			
Human rights grievance mechanisms					
Disclosure of Management approach					
G4-HR12	NUMBER OF GRIEVANCES ABOUT HUMAN RIGHTS IMPACTS FILED, ADDRESSED, AND RESOLVED THROUGH FORMAL GRIEVANCE MECHANISMS	95			
SOCIETY					
Local Communities					
Disclosure of Management approach					
G4-SO1	PERCENTAGE OF OPERATIONS WITH IMPLEMENTED LOCAL COMMUNITY ENGAGEMENT, IMPACT ASSESSMENTS, AND DEVELOPMENT PROGRAMS	136		1	NO
Anti-Corruption					
Disclosure of Management approach					
G4-SO4	COMMUNICATION AND TRAINING ON ANTI-CORRUPTION POLICIES AND PROCEDURES	96		10	NO
G4-SO5	CONFIRMED INCIDENTS OF CORRUPTION AND ACTIONS TAKEN	95,96		10	NO
Public policy					
Disclosure of Management approach					
G4-SO6	TOTAL VALUE OF POLITICAL CONTRIBUTIONS BY COUNTRY AND RECIPIENT/BENEFICIARY		INA does not give any financial or non-financial contributions to political parties or country.		
Compliance					
Disclosure of Management approach					
G4-SO8	VALUE OF SIGNIFICANT FINES AND TOTAL NUMBER OF NON-MONETARY SANCTIONS FOR NON-COMPLIANCE WITH LAWS AND REGULATIONS		In 2016 there were no monetary fines for non-compliance with laws and regulations.		NO
Product responsibility			1,8		
Product and service labelling					
Disclosure of Management approach					
G4-PR3	TYPE OF PRODUCT AND SERVICE INFORMATION REQUIRED BY THE ORGANIZATION'S PROCEDURES FOR PRODUCT AND SERVICE INFORMATION AND LABELLING, AND PERCENTAGE OF SIGNIFICANT PRODUCT AND SERVICE CATEGORIES SUBJECT TO SUCH INFORMATION REQUIREMENTS	101			NO
G4-PR5	RESULTS OF SURVEYS MEASURING CUSTOMER SATISFACTION	99			NO
Biofuels					
OG14	VOLUME OF BIOFUELS PRODUCED AND PURCHASED MEETING SUSTAINABILITY CRITERIA		INA DOES NOT PRODUCE BIOFUEL.		NO

GLOSSARY OF TERMS AND ACRONYMS

SUSTAINABILITY

BAT - Best available technology

BD - Business division

BF - Business function

BREF - Best available techniques Reference document

CGS - Central gas station

CLP - Classification, labelling and packaging of substances and mixtures

COMPASS - Comprehensive risk assessment

CSR - Corporate social responsibility

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

d.d. - PLC (public limited company)

DJSI - Dow Jones Sustainability Index

DS - Downstream

EL - Environmental liability

EU ETS - European Union Emission Trading Scheme

ER - Emergency response (Intervention system during emergency situations (ERS))

E&P - Exploration & Production

GRI - Global reporting initiative

OGSS - Oil & Gas Sector Supplement

GHG - Greenhouse gases

HiPo - High Potential

HW - Hazardous waste

HR (M) - Human resources (management)

HSE - Health, safety and environment

IRIS - Incident Reporting and Investigation System

IPPC - Integrated pollution prevention control

IIR - Incident inquiry rate

LV - Limit value

LTI - Lost time injury

LTIF - Lost time injury frequency

LDR - Lost day rate

MSDS - Material safety data sheet

OH&S - Occupational health and safety

PPE - Personal protective equipment

PSM - Process safety management

REACH - Registration, evaluation, authorization and restriction of chemicals

RNS - Sisak Refinery

RNR - Rijeka Refinery

R&M - Refining & Marketing

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

SD - Sustainable development

SD&HSE - Sustainable development & health, safety and environment

TROIF - Total reportable occupational illnesses frequency

UNGC - UN Global Compact

VOC - Volatile organic compounds

FINANCIAL

CAPEX
Capital Expenditures

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

EBITDA (Earnings before interest, tax, depreciation and amortisation)
Operating profit plus depreciation and amortisation

EPS

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

Financial Covenant

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

Gearing

Ratio of net debt to net debt plus equity

IFRS

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

Net debt

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

Net income

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

Operating cash flow

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

ROACE (Return on average capital employed)

Operating profit after taxation / average capital employed

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

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

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

ROE (Return on Equity)

Net income divided by shareholders equity

SHAREHOLDERS INFORMATION

Corporate address
INA-Industrija nafte,d.d.
Av. Većeslava Holjevca 10
10 000 Zagreb
Phone: +358 1 645 0000
Web: www.ina.hr

Central Depository and Clearing Company Inc.
Heinzelova 62a
10 000 Zagreb
Phone: +385 1 4607 300
Web: www.skdd.hr

Zagreb Stock Exchange
Ivana Lučića 2a
10 000 Zagreb
Phone: +385 1 4686 800
Web: www.zse.hr

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

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IVANA-A
IVANA-A

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

CONTENT

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

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

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

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed and
- the financial statements are prepared on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and Group and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Group:

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

Niko Dalić, member of the Management Board

Gábor Horváth, member of the Management Board

Ivan Krešić, member of the Management Board

Davor Mayer, member of the Management Board

Peter Ratatics, member of the Management Board

INA - Industrija Nafte, d.d.
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Republic of Croatia

14 March 2017

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Independent auditor's report

To the Shareholders of INA – Industrija Nafte, d.d.
Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of INA – Industrija Nafte, d.d. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated and separate statement of financial position as at 31 December 2016, consolidated and separate income statement, consolidated and separate statement of other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS as adopted by EU").

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Key Audit Matter	How we addressed Key Audit Matter
BA 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 Company's share of reportable volumes. Hydrocarbon reserves are also a fundamental indicator of the future potential of the Group's and Company's performance and these estimates affect significant income statement and balance sheet amounts. Therefore we believe that estimation of hydrocarbon reserves is key audit matter.	Audit procedures included understanding of the process for determination of the hydrocarbon reserves and walkthrough of controls implemented in the process. We also assessed the competence and objectivity of technical experts, to assess whether they are appropriately qualified to carry out the hydrocarbon reserve volumes estimation. We performed specific inquiry to the Management of the Company and in respect of consistency of the applied methodology for reserves estimate with previous year. We have performed the test of details and for the significant changes in reserve volumes we tested whether the appropriate methodology was applied, the assumptions used are reasonable and adequately supported by underlying information provided by the management. We also performed analytical procedures on movements in hydrocarbon reserves during the year and reviewed that all significant changes were approved by the "Reserves and Resources Committee" and are in line with our expectations. We also assessed on the adequacy of the disclosures in Consolidated and Separate Financial Statements.
Impairments of the Group's long lived assets Impairments of the Group's and 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 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 operations and cash flows. We assessed the principal risk arising in relation to the Consolidated and Separate Financial Statements to be associated with the carrying value of long lived assets, many of which are supported by an assessment of future cash flows. The assessment of recoverability of the asset carrying values is complex and judgmental as external market evidence, such as market transactions, become less reliable in a period of significant changes to the price of oil as these may have significant effect on the future cash flows generated from the long lived assets. Therefore, due to complexity and judgement used in the assessment of impairment indicators and impairment models, impairment of Group's and Company's long lived assets is key audit matter.	We performed understanding of the process and walked through the controls designed and operated by the Group and the Company relating to the assessment of the carrying value of respective long lived assets. We examined the methodology used by management to assess the carrying value of respective long lived assets, to determine its compliance with accounting standards and consistency of application. For the upstream, downstream and retail assets where the impairment indicators were not identified by the Group and the Company we have assessed the Management's competence in respect of impairment assessment by comparing the assumptions used in prior year impairment models to the achieved results in the current year. Furthermore, we evaluated the assumptions used in the current year assessment of impairment indicators and tested whether these assumptions are in line with the results achieved in current year as well as current development in the industry as well as Group's and 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, reserves and resources volumes and discount rates. We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis, tested the appropriateness of discount rates used in the calculation with the assistance of the specialists and procedures to assess the completeness of the impairment charges.

	We also assessed on the adequacy of the disclosures in Consolidated and Separate Financial Statements and if these are in line with the requirements of the International Accounting Standard 36 Impairment of Assets.
Estimation of decommissioning provisions Provisions associated with decommissioning of the assets are disclosed in Note 29 to the Consolidated and Separate Financial Statements; a description of the accounting policy and key judgements and estimates are included in Note 2 and Note 3 respectively. Management reviews decommissioning provisions on an annual basis. This review incorporates the effects of any changes in local regulations, management's expected approach to decommissioning, cost estimates and discount rates. Decommission assets are recorded in an amount equal to the estimated provision, which is also amortized as part of the capital asset costs. Any change to the present value of the estimated costs is reflected as an adjustment of the provisions and the decommission assets. The calculation of decommissioning provisions requires significant management judgement because of the inherent complexity in estimating future costs and is therefore considered as key audit matter.	Audit procedures involved understanding the mandatory or constructive obligations with respect to the decommissioning of each asset based on the contractual arrangements and relevant local regulation to validate the appropriateness of the cost estimate. We obtained calculation of decommissioning provision from the 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 Company's experts who produced the cost estimates. We also assessed on the adequacy of the disclosures in Consolidated and Separate Financial Statements and if these are in line with the requirements of the International Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets.

Other information included in The Group's and Company's 2016 Annual Report
Management is responsible for the other information. Other information consists of the information included in the Annual Report other than the consolidated and separate financial statements and our auditor's report thereon. Our opinion on the consolidated and separate financial statements does not cover the Other information. The Group's and Company's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.
Our opinion on the consolidated and separate financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.
In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information 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 and Supervisory Board for the consolidated and separate financial statements
Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRSs as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.
Audit Committee and Supervisory Board are responsible for overseeing the Group's and Company's financial reporting process.

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Slaven Đuroković, Member of the Board and Certified auditor

14 March 2017
Radnička cesta 50
Zagreb, Republic of Croatia


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For the year ended 31 December 2016
(all amounts are presented in HRK millions

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

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

For the year ended 31 December 2016
(all amounts are presented in HRK millions

	NOTE	YEAR ENDED 31 DECEMBER 2016	YEAR ENDED 31 DECEMBER 2015
Profit/(loss) for the year		95	(1,418)
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	33	3	36
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	33	3	358
Gain on available-for-sale financial assets	32	83	95
Other comprehensive gain, net of income tax		**89**	**489**
Total comprehensive gain/(loss) for the year		**184**	**(929)**
Attributable to:			
Owners of the Company		190	(929)
Non-controlling interests		(6)	-

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

For the year ended 31 December 2016
(all amounts are presented in HRK millions

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

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

For the year ended 31 December 2016
(all amounts are presented in HRK millions

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

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

For the year ended 31 December 2016
(all amounts are presented in HRK millions

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

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

For the year ended 31 December 2016
(all amounts are presented in HRK millions

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

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

For the year ended 31 December 2016
(all amounts are presented in HRK millions

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

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

For the year ended 31 December 2016
(all amounts are presented in HRK millions

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

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

For the year ended 31 December 2016
(all amounts are presented in HRK millions

	SHARE CAPITAL	LEGAL RESERVES	REVALUATION RESERVES	OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSS)	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	NON CONTROLLING INTEREST	TOTAL
Balance at 1 January 2015	**9,000**	**330**	**121**	**2,851**	**(641)**	**11,661**	**(1)**	**11,660**
Transfer from other reserves to retained earnings	-	-	-	(1,640)	1,640	-	-	-
Dividend paid	-		-	-	(150)	(150)	-	(150)
Subtotal	**9,000**	**330**	**121**	**1,211**	**849**	**11,511**	**(1)**	**11,510**
Loss for the year	-	-	-	-	(1,418)	(1,418)	-	(1,418)
Other comprehensive gain, net	-	-	95	394	-	489	-	489
Total comprehensive income/(loss) for the year	**-**	**-**	**95**	**394**	**(1,418)**	**(929)**	**-**	**(929)**
Foreign exchange differences transferred of other reserves and other changes	-	-	-	36	(33)	3	1	4
Balance at 31 December 2015	**9,000**	**330**	**216**	**1,641**	**(602)**	**10,585**	**-**	**10,585**
Transfer from legal reserves to retained earnings	-	(310)	-	-	310	-	-	-
Purchase of subsidary	-	-	-	-	(42)	(42)	(130)	(172)
Subtotal	**9,000**	**20**	**216**	**1,641**	**(334)**	**10,543**	**(130)**	**10,413**
Profit for the year	-	-	-	-	101	101	(6)	95
Other comprehensive income, net	-	-	83	6	-	89	-	89
Total comprehensive income/(loss) for the year	-	-	83	6	101	190	(6)	184
Balance at 31 December 2016	**9,000**	**20**	**299**	**1,647**	**(233)**	**10,733**	**(136)**	**10,597**

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

For the year ended 31 December 2016
(all amounts are presented in HRK millions

	SHARE CAPITAL	LEGAL RESERVES	REVALUATION RESERVES	OTHER RESERVES	RETAINED EARNINGS/ (ACCUMULATED LOSS)	TOTAL
Balance at 1 January 2015	**9,000**	**330**	**121**	**2,529**	**(504)**	**11,476**
Transfer other reserves to retained earnings	-	-	-	(1,640)	1,640	-
Dividend paid	-	-	-	-	(150)	(150)
Loss brought forward from legal merger	-	-	-	-	(94)	(94)
Subtotal	**9,000**	**330**	**121**	**889**	**892**	**11,232**
Loss for the year	-	-	-	-	(1,202)	(1,202)
Other comprehensive income, net	-	-	95	384	-	479
Total comprehensive income/(loss) for the year	-	-	95	384	(1,202)	(723)
Balance at 31 December 2015	**9,000**	**330**	**216**	**1,273**	**(310)**	**10,509**
Transfer from legal reserves to retained earnings	-	(310)	-	-	310	-
Subtotal	**9,000**	**20**	**216**	**1,273**	**-**	**10,509**
Profit for the year	-	-	-	-	160	160
Other comprehensive income, net	-	-	83	15	-	98
Total comprehensive income for the year	**-**	**-**	**83**	**15**	**160**	**258**
Balance at 31 December 2016	**9,000**	**20**	**299**	**1,288**	**160**	**10,767**

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

For the year ended 31 December 2016
(all amounts are presented in HRK millions

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

For the year ended 31 December 2016
(all amounts are presented in HRK millions

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

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

For the year ended 31 December 2016
(all amounts are presented in HRK millions

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

For the year ended 31 December 2016
(all amounts are presented in HRK millions

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(all amounts are presented in HRK millions)

1. GENERAL

HISTORY AND INCORPORATION

INA was founded on 1 January 1964 through the merger of Naftaplin Zagreb (oil and gas exploration and production company) with the Rijeka Oil Refinery and the Sisak Oil Refinery. Today, INA, d.d. is a medium-sized European oil company with the leading role in Croatian oil business and a strong position in the region in oil and gas exploration, refining and distribution of oil and oil derivatives. INA-Industrija nafte, d.d. Zagreb is a joint stock company owned by the Hungarian oil company MOL Nyrt (49.08%), the Republic of Croatia (44.84%) and institutional and private investors (6.08%). On 30 January 2009 MOL Nyrt and the Government of Croatia signed the Amendment to the Shareholders Agreement. Under the Amendment MOL Nyrt delegates five out of the nine members in the Supervisory Board and three out of six members of the Management Board including the President.

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

	31 December 2016		31 December 2015	
	Number of shares	Ownership in %	Number of shares	Ownership in %
Zagrebačka banka d.d./Unicreditbank Hungary Zrt, for MOL Nyrt, Hungary	4,908,207	49.08	4,908,207	49.08
Government of the Republic of Croatia	4,483,552	44.84	4,483,552	44.84
Institutional and private investors	608,241	6.08	608,241	6.08
	10,000,000	100	10,000,000	100

*Source: Central Depository & Clearing Company Inc.

PRINCIPAL ACTIVITIES

Principal activities of INA, d.d. and its subsidiaries (Group) are:
(i) exploration and production of oil and gas deposits, primarily onshore and offshore within Croatia; other licence interests are held in abroad; Angola and Egypt;
(ii) import of natural gas and sale of imported and domestically produced natural gas to industrial consumers and municipal gas distributors;
(iii) refining and production of oil products through refineries located at Rijeka (Urinj) and Sisak, and Zagreb lubricants plants;
(iv) distribution of fuels and associated products through a chain of 495 retail outlets in operation as of 31 December 2016 (of which 387 in Croatia and 108 outside Croatia).
(v) trading in petroleum products through a network of foreign subsidiaries and representative offices, principally in Ljubljana and Sarajevo; and
(vi) service activities incidental to on-shore and off-shore oil extraction through its drilling and oilfield services subsidiary Crosco d.o.o.

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

The headquarters of the Group are located in Zagreb, Avenija V. Holjevca 10, Croatia. As at 31 December 2016 there were 10,861 persons employed at the Group (11,256 as at 31 December 2015). As at 31 December 2016 there were 4,387 persons employed at INA, d.d. (7,352 as at 31 December 2015).

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

Directors, Management and Supervisory Board

Supervisory Board

Supervisory Board since 10 July 2014 until 9 June 2016

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

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

Supervisory Board since 10 June 2016 until 18 December 2016

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

Representative of employees in the Supervisory Board

Supervisory Board since 19 December 2016 until 18 December 2020

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

Representative of employees in the Supervisory Board

Management Board

Management Board since 1 April 2015 until 31 March 2016

Zoltán Sándor Áldott	President of the Management Board
Horváth Gábor	Member of the Management Board
Péter Ratatics	Member of the Management Board

Niko Dalić	Member of the Management Board
Davor Mayer	Member of the Management Board
Ivan Krešić	Member of the Management Board

Management Board since 1 April 2016 until 31 March 2017

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

Executive Directors

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

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

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

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

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

Council of Directors

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

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

Company secretary

Acting Company Secretary since 1 June 2015 until 28 February 2016

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

Secretary since 1 March 2016 for an unlimited period of time

Nives Troha	Secretary of INA, d.d.

2. ACCOUNTING POLICIES

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

Presentation of the financial statements

These consolidated and separate financial statements are prepared on the consistent presentation and classification basis. When the presentation or classification of items in the consolidated and separate financial statements is amended, comparative amounts are reclassified unless the reclassification is impracticable.
The Company´s and the Group´s financial statements are prepared in millions of HRK, which is the Company's functional currency.

Basis of accounting

The Company maintains its accounting records in Croatian language, in Croatian kuna and in accordance with Croatian law and the accounting principles and practices observed by enterprises in Croatia. The accounting records of the Company's subsidiaries in Croatia and abroad are maintained in accordance with the requirements of the respective local jurisdictions.
The Company's and Group's financial statements are prepared under the historical cost convention, modified by the revaluation of certain assets and liabilities under conditions of hyperinflation in the period to 1993 and except for certain financial instruments that are measured at fair values at the end of each reporting period, and in accordance with International Financial Reporting Standards as adopted by EU.
Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

Adoption of new and revised International Financial Reporting Standards

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

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

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

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

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

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

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

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

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

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

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

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

• **IFRS 9 Financial Instruments,** issued in July 2014 the final version that replaced the IAS 39 Financial Instruments: Recognition and Measurement, adopted in EU 22 November 2016 (effective for annual periods beginning on or after 1 January 2018).
Management anticipates that the adoption of IFRS 9 Financial instruments will have impact on disclosure of financial instruments and no impact on measurement of financial instruments.

• **IFRS 15 Revenue from Contracts with Customers,** issued in May 2014 including amendment to IFRS 15. Effective dates of IFRS 15, adopted in EU 22 September 2016 (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018).
The new standards IFRS 15 Revenue from Contracts with Customers will have an impact on revenue recognition. The Company is in the process of assessment of the impact that the adoption of the standard will have on disclosure of the revenue.

Standards and Interpretations issued by IASB but not yet adopted by the EU
At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue by the International Accounting Standards Board but not yet adopted by the EU:

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

• **IFRS 16 Leases,** issued in January 2016 replaces accounting treatment for leases and is a major revision of the way in which companies account for leases (effective date for annual periods beginning on or after 1 January 2019). The endorsement might be expected in 2017.

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

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

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

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

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

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

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

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

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

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

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

Basis of consolidated financial statements (INA Group)

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

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date when the Company ceases to control the subsidiary.
Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.
A change in the ownership interest of a subsidiary, without a loss of a control, is accounted for as equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other

components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.
All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate.

Legal merger

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

Business combination

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

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

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.
Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.
On disposal of the relevant cash-generating unit, the attribute amount of goodwill is included in the determination of the gain or loss on disposal.

Acquisition of entities under common control
Business combinations arising from transfers of interests in entities that are under the control of the shareholder that ultimately controls the Group are accounted for using pooling of interest accounting at the date of acquisition. The assets and liabilities

acquired are recognised at the carrying amounts recognised previously in the consolidated financial statements of the parent group. The components of equity of the acquired entities are added to the same components within Group equity except for issued capital. Consolidated financial statements reflect the results of combining entities from the date of acquisition.
Business combinations under common control are accounted for based on carrying values, with any effects directly recognised in equity.

Investments in associates and joint ventures

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

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

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

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment.

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

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

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.
The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

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

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

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.
When a Group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:
- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

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

When a Group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.
When a Group entity transacts with a joint operation in which a Group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

Oil and gas properties

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

License and data provision costs and costs associated with geological and geophysical activities are charged to the statement of profit or loss in the period in which they are incurred.
If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are charged to the statement of profit or loss in the period. If the prospects are deemed to be commercially viable, such costs are transferred to oil and gas properties. The status of such prospects is reviewed regularly by management.

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

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

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

Intangible assets

Intangible assets acquired separately are capitalized at cost and from a business acquisition are capitalized at fair value as at the date of acquisition. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably.
Amortisation is charged on assets with a finite useful life over the best estimate of their useful lives using the straight line method, except intangible assets on oil and gas fields are charged with a unit of production method. The amortisation period and the amortisation method are reviewed annually at each financial year-end. Intangible assets are tested for impairment annually either individually or at the cash generating unit level.
Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.
Following the initial recognition of the development expenditure the cost model is applied requiring the asset to be carried at cost less any accumulated impairment losses. Costs in development stage cannot be amortized. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment are shown at historical cost or valuation less accumulated depreciation and any accumulated impairment loss, except for land, which is stated at cost less any accumulated impairment loss. The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing an asset to its working condition and location for its intended use.
Expenditures incurred after property, plant and equipment have been put into operation are normally charged to statement of profit or loss in the period in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance, the expenditures are capitalised as an additional cost of property, plant and equipment. Costs eligible for capitalisation include costs of periodic, planned significant inspections and overhauls necessary for further operation.
The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss.

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

Software	5	years
Buildings	5 - 50	years
Refineries and chemicals manufacturing plants	3 - 15	years
Petrol service stations	30	years
Telecommunication and office equipment	2 - 10	years

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

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.
Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash

flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as expenditure, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.
When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Finance and operating leases

The determination whether an arrangement contains or is a lease depends on the substance of the arrangement at inception date.
If fulfilment of the arrangement depends on the use of a specific asset or conveys the right to use the asset, it is deemed to contain a lease element and are recorded accordingly.
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charges and reduction of the lease liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are charges directly against income of the period. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.
Initial direct costs incurred in negotiating a operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as the lease income. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of profit or loss on a straight-line basis over the lease term.

Receivables from customers

Trade receivables are carried at amortised cost less impairment. Receivables from customers are shown in amounts identified in the invoices issued to the customers in accordance with the agreement, order, delivery note and other documents which serves as basis for invoicing, decreased with impairment of receivables.
Accrued revenues are recorded at the end of reporting period for delivered goods or services if they have not been invoiced yet.
The accounting policies adopted by the Company, defining and recording impairment of short-term receivables for which there is uncertainty that receivables will be collected in accordance with the original contractual terms, is based on the following procedures:

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

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

Company records impairment on doubtful debt based on the estimate of recoverability of receivable with individual approach to the Company's strategic customers and impairment of all short-term receivables which are not included in the individual estimate, regardless of their financial amount but in amount of due doubtful debt that exceeds 60 days from the maturity date. Adequate impairment for estimated non-refundable amount is recognized in profit or loss when there is objective evidence that the assets should be reduced.

Inventories
Inventories of crude oil, finished and semi-finished products and natural gas are valued as follows:
– Crude oil is carried at the weighted average cost or the production cost. If finished i.e. refined products are impaired, a calculation is used to reduce the crude oil reserve by an aliquot share to its net recoverable amount.
– Finished products are valued at the lower of cost or approximately 96.5% of future average sales price, which approximates the net recoverable amount.
– Semi-finished products are measured using a calculation method, by which they are impaired to the extent that finished products on the basis of actual inventories at the period-end are impaired i.e. when the calculation shows that their net realisable value may not be recovered, by applying the impairment percentage to each individual semi-finished product on stock at the period-end.

– Imported natural gas held in underground storage is valued at the lower of cost, based on the price of imported gas at year-end including transport costs and weighted average sales price based on year-end prices.
– Domestic natural gas held in underground storage is valued at the lower of weighted average sales price and cost.
– Other inventories, which comprise mainly spare parts, materials and supplies, are valued at the lower of cost or valuation and net realisable value.

Cash and cash equivalents

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

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Used capitalisation rate for 2016 was 1.87% and for 2015 was 2.00%.

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

Foreign currencies

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

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

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

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Croatian kuna using exchange rates prevailing on the statement of financial position date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising from year-end translation, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.
On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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

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

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

Retirement Benefit and Jubilee Costs

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

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

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

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

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

Taxation

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

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

Deferred tax
Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and are accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if

the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.
Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax laws that have been enacted or substantively enacted by the statement of financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.
Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the INA, d.d. and the Group intend to settle its current tax assets and liabilities.

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

Financial assets

All financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract. The contract terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.
Financial assets are classified into available-for-sale (AFS) financial assets, financial assets at fair value through profit and loss and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

AFS financial assets
Listed shares held by the Company and Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 39. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve directly except for interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.
Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive payments is established.
The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the statement of financial position date. The foreign exchange gains and losses that are recognized in profit and loss are determined based on the amortized cost of the monetary assets. Other foreign exchange gains and losses are recognized in other comprehensive income.

Financial assets at fair value through profit or loss
A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Attributable transaction costs are recognised in profit or loss as incurred. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

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

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

Impairment of financial assets
Financial assets are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.
When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.
With the exception of AFS equity instruments, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.
In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

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

Financial liabilities and equity instruments

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

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

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

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.
A financial liability is classified as held for trading if:
- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Group of financial assets or financial liabilities or both, which is managed and its perfor-

mance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

Other financial liabilities

Other financial liabilities (including borrowings and trade payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments in order to manage with exposure change in changing of commodity prices.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedging

The Group designates certain hedging instruments as fair value hedges.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk that could affect the statement of profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the statement of profit or loss.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to the statement of profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognized in the statement of profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.
An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

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

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

Segmental information

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

Provisions for decommissioning and other obligations

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

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

Provision for emission quotas

Liability for emission is not recognized until the amount of actual emission reaches the amount of quota allocated free of charge. This approach is due to the fact that allocated emission allowances are not recorded as intangibles, their asset value is zero. When actual emission exceeds the amount of emission rights granted, provision should be made on the actual market price for the exceeding emission allowances. It also means that it is not possible to record a provision earlier than the date when emissions reach the amount of allowances granted, nor is it possible to spread the expected shortfall through the calendar years.
Settlement with Government is carried out by offsetting the purchased rights with the provision recorded for the exceeding emissions. Penalty will be accounted for if the shortfall is not covered by purchased quotas.
Provision should be calculated for each installation separately and recorded on emitting segment.

Revenue recognition

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

Sale of goods

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

Sales of goods that result in award credits for customers are accounted for as multiple element revenue transactions. The consideration allocated to the award credits is measured by reference to their fair value, the amount for which the award credits could be sold separately.
The Group has not included extensive disclosure regarding the loyalty programme as the amounts are not significant.

Rendering of services

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

Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.
Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Construction contracts

According to Accounting policies and procedures the Group applied IAS 11 Construction Contracts meeting the following criteria:
- individual contract value is in excess of HRK 3 million
- the contract period is over twelve months.

The Company accounts for its construction contracts using the percentage of completion method, which is determined based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.
Determining the accounting treatment for construction contract revenue and costs:
- project costs are reported as costs incurred,
- revenue is recognised based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs,
- estimated losses are presented in full whenever loss is estimated as outcome and can be measured reliably.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements and estimates in applying accounting policies

In the application of the accounting policies, which are described in note 2, Management made certain judgements and estimates that had a significant impact on the amounts reported in the financial statements (irrespective of the underlying estimates referred to below).
The preparation of financial statements in conformity with International Financial Reporting Standards, as adopted by EU requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to employee benefits, impairment of assets, determination of fair values of assets and liabilities and estimated decommissioning costs as well as environmental provision and provision for legal cases. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements when determinable.

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

Consequences of certain legal actions

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

Carrying value of property, plant and equipment

The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are production volumes, operating and capital expenditures, discount rates, period of cash flow projections, as well as assumptions and judgments used in determining cash receipts and payments. The impairment of assets in the consolidated statement of profit or loss amounted to HRK 28 million in 2016 (2015: HRK 1,116 million).

Carrying value of goodwill

In 2016 there was no goodwill impairment, while in 2015 based on impairment testing for goodwill impairment in amount of HRK 31 million was recorded (see note 13). The carrying amount of goodwill amounted to HRK 152 million as of 31 December 2016 and 2015 (see note 13).
Carrying value of intangible exploration and appraisal assets
The carrying amount of intangible exploration and appraisal assets amounted to HRK 197 million as of 31 December 2016 and HRK 196 million 2015 (see note 13). In 2016 in INA Group there was no impairment of intangible exploration and appraisal assets while in 2015 impairment was recognized in amount of HRK 102 million (see note 13).

Carrying value of production oil and gas assets

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

Key assumptions used

Refining and Marketing BD

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

Upstream BD

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

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

Investments in Syria

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

Current situation

Main production activities have been taken over by Hayan Petroleum Company's local workforce, which INA, d.d. considers illegal. In January, 2017 there was an attack by ISIS militia on the Hayan gas treatment plant. Based on the available information the majority of the damage from the explosion was caused to the control room. However, the most significant and expensive equipment used in the gas production, such as turbines, remained intact from the explosion.

Impairment of non-current assets and current assets in Syria

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

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

The most significant variables in determining cash flows are the assumptions and estimates used to determine the future annual production volumes, the amount and timing of cash inflows and outflows, including crude oil and natural gas prices (considering the price formulae set out in the respective Production Sharing Agreement), operating expenses, probabilities relating to different scenarios, discount rates, the period for which cash flow projections are made as well as the incremental rebuilding costs.
While such cash flows reflect the management's best estimate for the future, these estimates are exposed to an increased uncertainty as a result of the political, security and economic conditions in Syria. The possible impacts of multiple probability weighted settlement scenarios on Group's operation in Syria representing:

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

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

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

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

Political developments in Egypt

With regards to the INA, d.d. operations in Egypt the key uncertainty of business is the timing of receivables collection. At 31 December 2016 overdue receivables amounted to HRK 486 million and are up to two years past due date. The Company impaired total of HRK 462 millions of receivables at 31 December 2016.

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

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

Management makes estimates of future expenditure in connection with decommissioning obligations using prices by reference to prior similar activities, as well as other assumptions. Furthermore, the time determined for the cash flows reflects the current estimates of priorities, technical equipment requirements and urgency of the obligations. The obligation with respect to the decommissioning provision for oil and gas properties amounted to HRK 2,475 million as at 31 December 2016 (31 December 2015: HRK 2,457 million) for INA, d.d. (see note 29).

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

Generally, the timing of provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. In determining the level of provisions for environmental obligations, the management relies on prior experience and their own interpretation of the related legislation. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure. At 31 December 2016 INA Group recognized environmental provision in amount HRK 308 million (2015: HRK 333 million) (see note 29), which covers investigation to determine the extent of contamination at specific site, treatment of accumulated waste generated by former activity, preliminary site investigation with corresponding laboratory analyses, soil excavation and replacement during the reconstruction of filling stations. It does not cover the cost of remediation in lack of detailed National regulations.

Availability of taxable profit against which the deferred tax assets can be utilised
A deferred tax asset is recognized for unused tax losses and other temporary tax differences to the extent that it is probable that the related tax benefit will be realised against future taxable profits. Determining the amount of deferred taxes that can be recognised requires a significant level of judgement, which is based on the probable quantification of the time and level of future taxable profits, together with the future tax planning strategy. Management believes that deferred tax asset recognized is recoverable. At 31 December 2016 the carrying amount of deferred tax assets of the INA Group amounted to HRK 1,769 million (2015: HRK 2,094 million) and deferred tax liabilities amounted HRK 13 million (2015: HRK 22 million). At 31 December 2016 the carrying amount of deferred tax assets of INA, d.d. amounted to HRK 1,684 million, (31 December 2015: HRK 1,995 million respectively) (see note 11). Not recognized deferred tax asset for INA Group amounts to HRK 43 million and relates to tax losses carried forward.

Actuarial estimates used determining the retirement bonuses
The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions of discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. Provisions for retirement bonuses and jubilee awards for INA Group amounted to HRK 95 million as at 31 December 2016 (31 December 2015: HRK 109 million), and INA, d.d. amounted to HRK 48 million as at 31 December 2016 (31 December 2015: HRK 70 million) (see note 30).

Useful life of the assets
The INA Group and INA, d.d. review the estimated useful lives of property, plant and equipment at the end of each reporting period. Estimation of useful life is considered to be a significant accounting estimation that effects on the change in depreciation rates. The new review of asset useful life at the end of 2016 had no significant changes compared to the previous estimate.

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

Oil and natural gas exploration and drilling activities are subject to a wide range of inherent risks, including the risk of eruption, deposit damage, loss of control over the wells, perforation, craters, fire and natural disasters.
The Group estimates and reports hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:

- The carrying value of exploration and evaluation assets; oil and gas properties; property, plant and equipment; and goodwill may be affected due to changes in estimated future cash flows;
- Depreciation and amortization charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the Units of Production (UOP) method, or where the useful life of the related assets change;

• Provisions for decommissioning may require revision where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities;
• The recognition and carrying value of deferred tax assets may change due to changes in the judgments regarding the existence of such assets and in estimates of the likely recovery of such assets.

Reclassification position of statement of financial position

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

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

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

4. SEGMENT INFORMATION

The INA Group operates through three core business segments. The strategic business segments offer different products and services.
Reporting segments, which is in INA Group represent business division (BD), have been defined along value chain standard for the oil companies:
• BD Exploration and Production of Oil and Gas – exploration, production and selling of crude oil and natural gas;
• BD Refining and Marketing – crude oil processing, wholesale of refinery products, selling of fuels and commercial goods in retail stations and logistics; and
• Business function - in addition to the core business segments in above, the operations of the INA Group include segment Business function which provides services for core activities.
Information regarding the results of each reportable segment is included below. Profit from operations is used to measure performance as management believes that such information is the most relevant in evaluating the result of certain segments. However, Group financing (including finance costs and finance income) and income taxes are managed on Group basis and are not relevant to making business decisions at the level of business segments.
Intersegment transfer represents the effect of unrealized profit arising in respect of transfers of inventories from BD Exploration and Production of Oil and Gas to BD Refining and Marketing. Evaluation of inventories of domestic crude, finished and semi-finished products in BD Refining and Marketing is based on the transfer price from BD Exploration and Production to BD Refining and Marketing. Elimination of unrealized profit (difference between transfer price and cost of domestic crude) is performed through intersegment transfer.
For segmental reporting purposes the transferor segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place.

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

2016	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Sales to external customers	2,023	13,062	490	-	15,575
Intersegment sales	1,867	32	1,120	(3,019)	-
Total revenue	**3,890**	**13,094**	**1,610**	**(3,019)**	**15,575**
Operating expenses, net of other operating income	(2,718)	(13,020)	(2,106)	2,876	(14,968)
Profit/(loss) from operations	**1,172**	**74**	**(496)**	**(143)**	**607**
Net finance loss					(146)
Profit before tax					461
Income tax expense					(366)
Profit for the year					**95**

The following table presents information on revenues and expenditures of INA Group division for 2015:

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

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

31 December 2016 **Assets and liabilities**	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Intangible assets	228	42	266	-	536
Property, plant and equipment	5,787	5,472	1,502	(188)	12,573
Investments in associates	22	-	-	-	22
Inventories	151	1,957	220	(278)	2,050
Trade receivables, net	456	1,006	392	(263)	1,591
Not allocated assets					3,520
Total assets					**20,292**
Trade payables	410	1,358	351	(262)	1,857
Not allocated liabilities					7,838
Total liabilities					**9,695**
Other segment information					
Property, plant and equipment	701	603	73	(35)	1,342
Intangible assets	13	5	25	-	43
Capital expenditure:	**714**	**608**	**98**	**(35)**	**1,385**
Depreciation and amortisation	**972**	**538**	**167**	**-**	**1,677**
Total impairment charges, net*	**67**	**31**	**167**	**7**	**272**

* See note 8.

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

31 December 2016 **Assets and liabilities**	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Intangible assets	224	45	271	-	540
Property, plant and equipment	6,056	5,130	1,692	(148)	12,730
Investments in associates	22	-	-	-	22
Inventories	164	1,604	227	(175)	1,820
Trade receivables, net	582	790	611	(259)	1,724
Not allocated assets					3,546
Total assets					**20,382**
Trade payables	371	837	451	(259)	1,400
Not allocated liabilities					8,397
Total liabilities					**9,797**
Other segment information					
Property, plant and equipment	814	608	208	(37)	1,593
Intangible assets	16	5	26	-	47
Capital expenditure:	**830**	**613**	**234**	**(37)**	**1,640**
Depreciation and amortisation	**1,468**	**533**	**190**	**-**	**2,191**
Total impairment charges, net*	**1,218**	**8**	**301**	**19**	**1,546**

* See note 8.

BY GEOGRAPHICAL

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

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

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

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

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

5. OTHER OPERATING INCOME

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

6. DEPRECIATION AND AMORTISATION

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

7. STAFF COSTS

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

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

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

8. IMPAIRMENT CHARGES (NET)

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

* See note 13 and 14

9. PROVISIONS FOR CHARGES AND RISKS (NET)

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

10. FINANCE INCOME AND FINANCE EXPENSES

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

11. TAXATION

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

Tax on profit generated in Croatia is determined by applying the rate of 20 percent in 2016 and 2015, on pre-tax profit for the year. Income taxes are recorded on the basis of estimated taxable income in accordance with the fiscal laws prevailing in the country in which they originate. INA, d.d. is subject to corporate income tax on its taxable profits in Croatia.

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

	INA Group		INA, d.d.	
	2016	2015	2016	2015
Profit/(loss) before tax	461	(1,749)	502	(1,499)
(Benefit)/expense tax calculated at 20%	92	(350)	101	(300)
Tax loss previously not recognized and recognition of deffered tax assets previously not recognised	(4)	(29)	7	(18)
Effect on deferred tax balances due to the change in income tax rate from 20% to 18% (effective from 1 Jan 2017)	204	-	194	-
Effect of different tax rates of entities operating in other jurisdictions	7	37	15	23
Tax effect of permanent differences	39	(16)	(3)	(21)
Tax effect of previous years	28	27	28	20
Income tax expense/(benefit)	**366**	**(331)**	**342**	**(296)**

Deferred tax assets and liabilities are measured by applying tax rates to be implemented in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or put into effect at the end of the reporting period. Reducing the corporate income tax rate from 20% to 18% (effective from 1 January 2017) had effect on reduction of deferred tax assets due to the need of adjustments of deferred tax according to the tax rate to be implemented in the period of realization of deferred tax assets. The negative effect of the decrease of deferred tax assets on the income statement as a result of reduced rates on INA Group level amounted to HRK 204 million, and for INA, d.d. HRK 194 million.

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

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

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

12. EARNINGS PER SHARE

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

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

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

In 2016, there was no dividend approved.
On 12 June 2015 Regular Shareholders' Assembly of INA, d.d. was held and decision on dividend pay-out in amount of HRK 150 million was voted (HRK 15 per share).

13. INTANGIBLE ASSETS

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

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

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

Goodwill

Net book value	31 December 2016	31 December 2015
Investment of Crosco, d.o.o. in Rotary Zrt. Hungary	152	152
Total	**152**	**152**

During 2016 and 2015 goodwill relating to the company Rotary Zrt. was tested for impairment and the test showed that the impairment is not required for 2016 while in 31 December 2015 the impaired was recorded in amount of HRK 31 million.
The recoverable amount of Rotary Zrt. business as at 31 December 2016, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by Company management covering a five-year period. The projected cash flows have been updated to reflect the decreased demand for services.
The weighted average cost of capital applied to cash flow projections is 9.5% (2015: 9.6%) and cash flows beyond the five-year period are prepared taking into consideration utilization days of Rotary's assets, average daily rates based on past experience and future predictions in the projected period without subsequent growth. Expenses are determined also in relation to the utilization of the assets.
It was concluded that the fair value has reached NBV of goodwill recognized in books and impairment has not been charged.
The calculation of Rotary's net present value is most sensitive to the following assumptions:

- Daily rates
- Utilization
- Discount rates
- Employee cost

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

Forecast daily rate prices and utilization days are based on management's estimates and available market data. Discount rates represent the current market assessment of the risks specific to Rotary Zrt., taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rates are based on the specific circumstances of the Group and its operating segments and are derived from its WACC, with appropriate adjustments made to reflect the risks specific to the Rotary Zrt.

BY BUSINESS SEGMENT

INA GROUP	Oil and gas exploration and production	Refining and marketing	Other	Total
Balance at 31 December 2015				
Cost	38,159	20,771	7,015	65,945
Accumulated depreciation	32,226	15,665	5,324	53,215
Net book value	**5,933**	**5,106**	**1,691**	**12,730**
Balance at 31 December 2016				
Cost	38,684	21,405	6,160	66,249
Accumulated depreciation	33,042	15,971	4,663	53,676
Net book value	**5,642**	**5,434**	**1,497**	**12,573**

INA, D.D.	Oil and gas exploration and production	Refining and marketing	Other	Total
Balance at 31 December 2015				
Cost	38,365	20,244	1,921	60,530
Accumulated depreciation	32,254	15,208	1,526	48,988
Net book value	**6,111**	**5,036**	**395**	**11,542**
Balance at 31 December 2016				
Cost	38,915	20,338	1,921	61,174
Accumulated depreciation	33,117	15,340	1,548	50,005
Net book value	**5,798**	**4,998**	**373**	**11,169**

BY ASSET TYPE

INA GROUP	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Cost							
Balance at 1 January 2015	**32,239**	**12,005**	**14,392**	**2,357**	**39**	**3,370**	**64,402**
Additions	-	-	-	-	-	1,593	1,593
Change in capitalised decommissioning costs	127	-	-	-	-	-	127
Foreign exchange translation of foreign operations	321	-	-	-	-	-	321
Assets put in use	1,421	206	480	57	-	(2,164)	-
Transfer from intangible assets	-	-	4	-	-	(1)	3
Disposal of subsidiaries	-	-	(9)	(22)	-	-	(31)
Disposals	(84)	(101)	(129)	(42)	(1)	(13)	(370)
Currency translation	-	(1)	(26)	4	-	(2)	(25)
Assets held for sale	**-**	**(1)**	**(13)**	**(2)**	**-**	**-**	**(16)**
Other movements	**-**	**4**	**(1)**	**(1)**	**-**	**(61)**	**(59)**
Balance at 31 December 2015	**34,024**	**12,112**	**14,698**	**2,351**	**38**	**2,722**	**65,945**
Additions	-	-	-	-	-	1,342	1,342
Change in capitalised decommissioning costs	(1)	-	-	-	-	-	(1)
Foreign exchange translation of foreign operations	18	-	-	-	-	-	18
Assets put in use	1,139	198	485	47	-	(1,869)	-
Transfer	(10)	10	-	-	-	-	-
Transfer from intangible assets	-	7	7	-	-	(3)	11
Surplus	-	17	-	1	-	-	18
Acquisition of subsidiary	-	431	61	29	-	2	523
Disposals	(41)	(289)	(1,131)	(125)	-	-	(1,586)
Correction of prior years	-	(1)	(6)	-	-	-	(7)
Currency translation	-	4	(5)	-	-	(1)	(2)
Other movements	-	-	(1)	-	-	-	(1)
Balance at 31 December 2016	**35,129**	**12,489**	**14,108**	**2,303**	**38**	**2,193**	**66,260**

BY ASSET TYPE

INA GROUP	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Accumulated depreciation							
Balance at 1 January 2015	**27,907**	**8,674**	**11,166**	**2,184**	**26**	**407**	**50,364**
Charge for the year	1,441	215	422	78	-	-	2,156
Impairment (net)	951	(44)	207	1	-	1	1,116
Reclassification between categories	-	8	163	3	-	(174)	-
Assets held for sale	-	(1)	(12)	(2)	-	-	(15)
Sale of subsidiaries	-	-	(9)	(21)	-	-	(30)
Disposals	(84)	(47)	(160)	(17)	(1)	(51)	(360)
Currency translation	-	-	(22)	4	-	-	(18)
Other	(64)	(34)	(1)	(1)	-	102	2
Balance at 31 December 2015	**30,151**	**8,771**	**11,754**	**2,229**	**25**	**285**	**53,215**
Charge for the year	934	238	388	75	-	-	1,635
Impairment (net)	24	-	2	-	-	-	26
Impairment of assets under constraction	2	-	-	-	-	-	2
Transfer	(10)	15	75	1	-	(81)	-
Transfer from intangible assets	-	4	-	-	-	-	4
Surplus	-	17	-	1	-	-	18
Acquisition of subsidiary	-	147	36	17	-	2	202
Disposals	(41)	(292)	(950)	(122)	-	-	(1,405)
Correction of prior years	-	-	(6)	-	-	-	(6)
Currency translation	-	3	(5)	-	-	-	(2)
Other	-	-	(1)	(1)	-	-	(2)
Balance at 31 December 2016	**31,060**	**8,903**	**11,293**	**2,200**	**25**	**206**	**53,687**
Carrying amount							
Balance at 31 December 2016	**4,069**	**3,586**	**2,815**	**103**	**13**	**1,987**	**12,573**
Balance at 31 December 2015	**3,873**	**3,341**	**2,944**	**122**	**13**	**2,437**	**12,730**

BY ASSET TYPE

INA, D.D.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Cost							
Balance at 1 January 2015	**32,278**	**10,343**	**10,731**	**1,918**	**28**	**3,334**	**58,632**
Additions	-	-	-	-	-	1,402	1,402
Change in capitalised decommissioning costs	197	-	-	-	-	-	197
Foreign exchange translation of foreign operations	321	-	-	-	-	-	321
Transfer from intangible assets	-	-	4	-	-	(1)	3
Transfer of assets (mergers/ liquidation)	-	75	10	7	-	-	92
Assets put in use	1,485	203	268	38	-	(1,994)	-
Disposals	(84)	(91)	(98)	(55)	(1)	(13)	(342)
Other	(64)	167	16	31	11	64	225
Balance at 31 December 2015	**34,133**	**10,697**	**10,931**	**1,939**	**38**	**2,792**	**60,530**
Additions	-	-	-	-	-	1,269	1,269
Change in capitalised decommissioning costs	(7)	-	-	-	-	-	(7)
Foreign exchange translation of foreign operations	18	-	-	-	-	-	18
Transfer from intangible assets	-	4	6	-	-	(3)	7
Capital increase from transfer of assets to subsidiary	-	(119)	(6)	(7)	-	-	(132)
Surplus	-	17	-	1	-	-	18
Assets put in use	1,138	142	382	47	-	(1,709)	-
Transfers	(10)	10	-	-	-	-	-
Disposals	(41)	(217)	(167)	(103)	-	-	(528)
Other	-	-	(3)	2	-	-	(1)
Balance at 31 December 2016	**35,231**	**10,534**	**11,143**	**1,879**	**38**	**2,349**	**61,174**

BY ASSET TYPE

INA, D.D.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Accumulated depreciation							
Balance at 1 January 2015	**27,910**	**7,327**	**8,644**	**1,629**	**23**	**535**	**46,068**
Charge for the year	1,441	192	346	64	1	-	2,044
Impairment (net)	951	(44)	(3)	1	-	1	906
Transfer of assets (mergers/ liquidation)	-	50	10	6	-	-	66
Transfers	-	8	163	3	-	(174)	-
Disposals	(84)	(76)	(95)	(53)	(1)	(13)	(322)
Other	(64)	167	17	31	11	64	226
Balance at 31 December 2015	**30,154**	**7,624**	**9,082**	**1,681**	**34**	**413**	**48,988**
Charge for the year	949	207	339	65	-	-	1,560
Impairment (net)	24	-	-	-	-	-	24
Impairment of assets under constraction	2	-	-	-	-	-	2
Capital increase from transfer of assets to subsidiary	-	(89)	(3)	(5)	-	-	(97)
Surplus	-	17	-	1	-	-	18
Transfers	(10)	16	75	-	1	(82)	-
Disposals	(41)	(188)	(161)	(100)	-	-	(490)
Other	-	-	(1)	1	-	-	-
Balance at 31 December 2016	**31,078**	**7,587**	**9,331**	**1,643**	**35**	**331**	**50,005**
Carrying amount							
Balance at 31 December 2016	**4,153**	**2,947**	**1,812**	**236**	**3**	**2,018**	**11,169**
Balance at 31 December 2015	**3,979**	**3,073**	**1,849**	**258**	**4**	**2,379**	**11,542**

I) Oil and gas reserves
The ability of INA Group and INA, d.d. to realise the net book value of oil and gas properties (see b) above) in the future is dependent upon the extent to which commercially recoverable oil and gas reserves are available. During 2016 Exploration and Production segment performed assessment of the quantities of the Company's remaining proved developed oil and gas reserves which were commercially recoverable.

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

III) Collective consumption assets
Collective consumption assets principally comprise domestic residential and holiday accommodation for the workforce of the Company and some of its subsidiaries.

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

– Exploration and Production BD recorded an impairment of property, plant and equipment in amount of HRK 26 million in 2016, compared to impairment in amount of HRK 951 million in 2015. Assumed hydrocarbon prices applied in the value in use calculations are based on market forward curves, with respect to oil being between 55-60 USD/bbl in mid-term (1-3 years),

afterwards continuing as 60 USD/bbl in real terms. Based on the value in use calculation following recoverable amount and impairment by CGU have been determined at 31 December 2016:
o Croatia onshore - assessed recoverable amount for Obod field of HRK 2 million. Related impairment of HRK 24 million was recognized at 31 December 2016.
o Negative wells – impairment in amount of HRK 2 million (Hrastilnica 5).
– Refinery and Marketing BD did not record impairment or reversal of impairment of property, plant and equipment in 2016, while in 2015 reversal of impairment in amount of HRK 45 million was recorded (HRK 16 million retail impairment assets and HRK 61 million reversal of retail impairment).
– Business functions BD and others recorded an impairment of property, plant and equipment in amount of HRK 139 million in 2016, compared to 2015 when impairment was in amount of HRK 209 million. In 2016, the impairment loss recognized in profit and loss statement in amount of HRK 139 million represent the write-down of Platform Zagreb-1 to the fair market value.

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

Exploration and Production	**2016**	**2015**
Croatia	9.2%	9.6%
Syria	17.7%	17.1%
Egypt	13.7%	14.1%
Angola	13.7%	13.1%

Refining and Marketing		
Croatia	9.2%	9.6%
Bosnia and Herzegovina	11.7%	13.1%

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

V) Review of the residual value

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

VI) Held-for-sale assets

In 2016 divestiture process for Zagreb 1 platform has started resulting in classification as held-for-sale assets in the value of HRK 7 million at 31 December 2016 and HRK 1 million relating to Hostin asset. During 2016 impairment was recognized in amount of HRK 139 million for Zagreb 1 platform (see note 8), which was finally the amount of loss on sale for part of platform.
Management expects that sales transactions will be closed within the following twelve months.

	INA Group	
	31 December 2016	31 December 2015
Held-for-sale assets		
Property, plant, equipment	8	1
Assets classifield held-for-sale	**8**	**1**

15. INVESTMENTS IN SUBSIDIARIES (IN SEPARATE FINANCIAL STATEMENT OF INA, D.D.)

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

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

The following portfolio changes were recorded in 2016:
At 12 July 2016, INA, d.d. took over 1,840,128 or 33.50% of Energoptrol shares that were owned by MOL. INA, d.d. increased investment in Energopetrol, to 67% and became the majority owner of the company whose financial results are consolidated in the result of INA Group (see note 40). In 2015 INA, d.d.' s investment in Energopetrol was recorded as investment in associate (see note 16).

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

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

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

In June 2016, Crosco d.o.o. sold its share in CorteCros d.o.o. Before the sale, Crosco d.o.o. held 60% of share capital in CorteCros d.o.o.

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

Composition of the Group				
The name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			31 December 2016	31 December 2015
Oilfield services				
*CROSCO Naftni Servisi d.o.o.	Oilfield services	Croatia	100%	100%
Crosco B.V.	Oilfield services	Netherland	**100%**	**100%**
NORDIC SHIPPING LIMITED	Lease of drilling platforms	Marshall Islands	100%	100%
SEA HORSE SHIPPING Inc	Lease of drilling platforms	Marshall Islands	100%	100%
CROSCO INTERNATIONAL d.o.o.	Oilfield services	Slovenia	100%	100%
ROTARY Drilling Company Limited	Oilfield services	Hungary	100%	100%
CROSCO International d.o.o.	Oilfield services	Bosnia and Herzegovina	100%	100%
CROSCO International d.o.o. (until June 2016)	Oilfield services	Gurnsey	-	100%
Crosco S.A. DE C.V.	Oilfield services	Mexico	99.90%	99.90%
CorteCros d.o.o. (until June 2016)	Distribution of anti-corrosion products	Croatia	-	60%
Oil exploration and production				
*INA Naftaplin International Exploration and Production Ltd	Oil exploration and production	Guernsey	100%	100%
Tourism				
*Hostin d.o.o. Zagreb	Tourism	Croatia	100%	100%
Ancillary services				
*STSI integrirani tehnički servisi d.o.o.	Technical services	Croatia	100%	100%
*Top računovodstvo servisi d.o.o.	Accounting services	Croatia	100%	100%
*Plavi Tim d.o.o.	Informatical service	Croatia	100%	100%
Production and trading				
*INA Maziva d.o.o.	Production and lubricants trading	Croatia	100%	100%
Trading				
*Ina Slovenija d.o.o.	Foreign trading	Slovenia	100%	100%
*INA BH d.d.	Foreign trading	Bosnia and Herzegovina	100%	100%
*HOLDINA d.o.o.	Foreign trading	Bosnia and Herzegovina	100%	100%
*INA d.o.o.	Foreign trading	Serbia	100%	100%
*INA-KOSOVO d.o.o.	Foreign trading	Kosovo	100%	100%
*Adriagas S.r.l.	Pipeline project company	Italy	100%	100%
*INA - CRNA GORA d.o.o.	Foreign trading	Montenegro	100%	100%

*PETROL d.d.	Trading	Croatia	100%	100%
*CROPLIN d.o.o.	Production of gas, distribution network of gas fuels	Croatia	100%	100%
*INA Maloprodajni servisi d.o.o.	Trade agency in the domestic and foreign market	Croatia	100%	100%
*ENERGOPETROL d.d.	Retail (oil and lubricant)	Bosnia and Herzegovina	67%	33.5%
*INA BL d.o.o.	Trading	Bosnia and Herzegovina	100%	100%

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

16. INVESTMENTS IN ASSOCIATES

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

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

			INA Group and INA, d.d.	
Name of company	Activity	Place of incorporation and operation	31 December 2016	31 December 2015
Hayan Petroleum Company*	Operating company (oil exploration, development and production)	Damascus, Syria	50%	50%
TERME Zagreb d.o.o.	Recreation and medical tourism	Zagreb, Croatia	50%	50%
INAgip d.o.o. Zagreb*	Exploration and production operator	Zagreb, Croatia	50%	50%
ED INA d.o.o. Zagreb*	Research, development and hydrocarbon production	Zagreb, Croatia	50%	50%
Marina Petroleum Company *	Exploration and production operator	Cairo, Egypt	50%	50%
Belvedere d.d.	Hotel trade	Dubrovnik, Croatia	31.80%	31.80%

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

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

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

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

	INA Group and INA, d.d.	
	31 December 2016	31 December 2015
Aggregate carrying amount of the interests in these associates	22	22

17. OTHER INVESTMENTS

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

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

18. LONG-TERM RECEIVABLES AND OTHER ASSETS

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

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

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

19. AVAILABLE-FOR-SALE ASSETS

Equity instruments available-for-sale				
			INA Group and INA, d.d.	
Name of the Company	% shareholding held by INA, d.d.	Activity	31 December 2016	31 December 2015
Jadranski Naftovod d.d.	11.795%	Pipeline ownership and operations	321	321
OMV Slovenia d.o.o., Koper	7.75%	Oil trading	31	31
Plinara d.o.o. Pula	49.00%	Distribution and oil trading	17	17
HOC Bjelolasica d.o.o. Ogulin	7.17%	Operations of sports facilities	5	5
BINA-FINCOM d.d. Zagreb	5.00%	Construction of highways and other roads, airfields airports	12	12
Total cost			386	386
Fair value adjustment of Jadranski Naftovod d.d.			309	214
Fair value adjustment of Plinara d.o.o. Pula			(2)	(2)
Fair value adjustment of HOC Bjelolasica d.o.o. Ogulin			(5)	(5)
Fair value adjustment of BINA-FINCOM d.d. Zagreb			(12)	(12)
Total fair value adjustment			290	195
			676	**581**

As explained in note 36, a substantial portion of the trading income of JANAF d.d. is derived from INA, d.d.
The value of equity share in JANAF was reported by reference to the market value of a shares as quoted on the Zagreb Stock Exchange as of 31 December 2016. The net book value of the equity investment in JANAF increased by HRK 95 million compared to the balance as of 31 December 2015 due to increase in the market value of the JANAF shares on Zagreb Stock Exchange. The market value of the shares (118,855 shares) as of 31 December 2016 amounted 5,300.00 per share (31 December 2015: 4,500.00 per share).

20. INVENTORIES

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

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

21. TRADE RECEIVABLES, NET

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

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

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

Impairment of trade receivables:

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

The ageing analysis of impaired trade receivables:

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

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

22. OTHER RECEIVABLES

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

23. OTHER CURRENT ASSET

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

24. CASH AND CASH EQUIVALENTS

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

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

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

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

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

The most significant short-term loans as at 31 December 2016 are credit facilities with the first class banks with the purpose of financing purchases of crude oil and petroleum products (''trade finance''), framework agreements concluded with domestic banks for granting loans, issuing bank guarantees and opening letters of credits, as well as short-term credit lines with foreign creditors. Short-term loans are contracted as multicurrency lines with variable interest rates. INA, d.d. loans are unsecured and majority of them do not contain financial covenants.
In order to secure INA Group subsidiaries short–term credit facilities, INA, d.d. issued corporate guarantees.

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

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

The management considers that the carrying amount of trade payables approximates their fair values.
Trade payables, net balance also includes payables of HRK 113 million as of 31 December 2016 (2015: HRK 56 million) with related party entities out of INA Group (see note 36).

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

27. LONG-TERM LOANS

Long-term loans are denominated in a different foreign currencies and are subject to different interest rates. Long-term loans of INA, d.d. are unsecured and the majority of these loans contain financial covenants which are fulfilled.
The outstanding loans of the Group are analysed as follows:

PURPOSE OF THE LOAN	Loan currency	31 December 2016	31 December 2015
Project financing	USD, EUR	406	533
		406	533
Due within one year		(135)	(133)
Total long-term loans INA, d.d.		**271**	**400**
Other long term loans INA Group	EUR, USD, HUF, HRK	-	6
		-	6
Due within one year		-	(6)
Total long-term loans INA Group		**271**	**400**

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

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

The maturity of the loans may be summarised as follows:

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

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

	INA Group	INA, d.d.
Balance at 1 January 2015	**827**	**806**
New borrowings raised	1,602	1,602
Amounts repaid	(1,931)	(1,913)
Foreign exchange losses	41	38
Balance at 31 December 2015	**539**	**533**
Payable within one year (included within bank loans – note 25)	139	133
Payable after more than one year	400	400
Balance at 1 January 2016	**539**	**533**
New borrowings raised	1,192	1,192
Amounts repaid	(1,316)	(1,310)
Foreign exchange losses	(9)	(9)
Balance at 31 December 2016	**406**	**406**
Payable within one year (included within bank loans – note 25)	135	135
Payable after more than one year	271	271

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

EBRD

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

ING BANK N.V., LONDON BRANCH

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

MOL Group

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

Compliance with loan agreements

During 2016 INA Group and INA, d.d repaid all of their liabilities in respect of loans (principal, interest and fees) on a timely basis, and there were no instances of default or delinquency.

28. OTHER NON-CURRENT LIABILITIES

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

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

29. PROVISIONS

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

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

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

Environmental provision

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

Emission allowances

Under European Union Emission Trading Scheme, INA' plants receive a certain amount of emission allowances for free. The allowances are received on an annual basis, and in return, INA, d.d. is required to surrender allowances equal to its actual verified emissions. The number of emission allowances allocated for free is calculated by European Commission filled in by installations, and submitted to Ministry of Environmental and Nature protection 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 2016, the Company recognised a decommissioning provision for 46 oil and gas production fields, 6

non-production fields, 10 positive non-production wells and 359 negative non-production wells. As of 31 December 2015, the Company recognised a decommissioning provision for 44 oil and gas production fields, 6 non-production fields, 11 positive non-production wells and 359 negative non-production wells.

Provision for Angolan tax

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

Legal case

Provisions for legal claims are based on the advice of the legal counsel, taking into consideration claim value and probability that outflow of resources will be required to settle the obligation.

Redundancy cost

Provisions for redundancy are recorded based on Management Decision on Redundancy for the termination of employment in order to decrease the number of employees due to economic, technical and organizational reasons.

Other provision

Other provisions of INA, d.d. in amount of HRK 303 million relate to provision for contractual liability for investments in Iran of HRK 263 million initially recognized in 2012. INA, d.d. is committed to spend certain resources by Production Agreement. Since Iran activities have been discontinued, the difference between contractual liability and actual spent funds was recognized as provisions. Remaining amount mainly relates to provision for sediment and non-pumpable inventories in amount of HRK 40 million.

30. RETIREMENT AND OTHER EMPLOYEE BENEFITS

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

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

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

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

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

Actuarial estimates were derived based on the following key assumptions:

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

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

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

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

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

31. SHARE CAPITAL

	INA Group and INA, d.d.	
	31 December 2016	31 December 2015
Issued and fully paid:		
10 million shares (HRK 900 each)	**9,000**	**9,000**

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

32. FAIR VALUE RESERVES

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

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

33. OTHER RESERVES

On the regular general shareholders' meeting of INA, d.d. held on 12 June 2015 approval was given for transfer part of other reserves relating to profit from the 1993 year amounting to HRK 1,448 million and PSP Okoli gas inventory amounting to HRK 192 million, all in total amount HRK 1,640 million to retained earnings. After transfer of other reserves to retained earnings in INA, d.d. in amount of HRK 1,640 million, same was used for coverage of losses from prior periods. Legal reserves are disclosed as the separate reporting item.
The remaining amount of combined reserves of the Group include amounts in respect of accumulated surpluses and deficits, revaluations of property, plant and equipment and foreign exchange gains and losses which have arisen over many years prior to 1993. For several years, the Croatian economy was subject to hyperinflation and, prior to 31 December 1993, neither the Company nor the Group had been subject to audit. For these reasons, it was not practicable to analyse the composition of the reserves of the Company or the Group as at 31 December 1993 into their constituent parts.

Movements on reserves during the year were as follows:

INA Group	Combined reserves at 31 December 1993	Foreign currency translation reserves	Reserve of defined benefit obligation	Other reserves	Total
Balance at 1 January 2015	2,132	283	(11)	447	2,851
Movements during 2015	(1,640)	358	36	-	(1,246)
Foreign exchange differences transferred of other reserves and other changes	-	36	-	-	36
Balance at 31 December 2015	**492**	**677**	**25**	**447**	**1,641**
Movements during 2016	-	-	3	-	3
Foreign exchange differences transferred of other reserves and other changes	-	3	-	-	3
Balance at 31 December 2016	**492**	**680**	**28**	**447**	**1,647**
INA, d.d.	Combined reserves at 31 December 1993	Foreign currency translation reserves	Reserve of defined benefit obligation	Other reserves	Total
Balance at 1 January 2015	**1,667**	**586**	**(9)**	**285**	**2,529**
Movements during 2015	(1,640)	355	29	-	(1,256)
Balance at 31 December 2015	**27**	**941**	**20**	**285**	**1,273**
Movements during 2016	-	14	1	-	15
Balance at 31 December 2016	**27**	**955**	**21**	**285**	**1,288**

34. RETAINED EARNINGS

	INA Group	INA, d.d.
	Retained earnings	Retained earnings
Balance at 1 January 2015	**(641)**	**(504)**
Transfer other reserves to retained earnings	1,640	1,640
Transfer exchange curreny translation from foreign operation	(33)	-
Loss for the year	(1,418)	(1,202)
Loss brought forward from merger of INA-Osijek Petrol	-	(94)
Dividends paid	(150)	(150)
Balance at 31 December 2015	**(602)**	**(310)**
Transfer legal reserves to retained earnings	310	310
Profit for the year	101	160
Purchase of subsidiary	(42)	-
Balance at 31 December 2016	**(233)**	**160**

On the regular general shareholders' meeting of INA, d.d. held on 9 June 2016 approval was given for transfer part of legal reserves amounting to HRK 310 million to retained earnings. After transfer part of legal reserves to retained earnings in INA, d.d. same was used for coverage part of loss from 2015.

35. NON-CONTROLLING INTEREST

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

The Group elected to measure the non-controlling interest as proportionate share of its interest in identifiable net assets. Proportion of equity interest of Energopetrol d.d. held by non-controlling interests:

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

The table below is presenting financial information for subsidiary Energopetrol d.d. that has non-controlling interests that are material to INA Group. The amounts disclosed for Energopetrol d.d. are before inter-company eliminations.

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

36. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

INA, d.d. has provided loans at rates comparable to those that prevail in arm's length transactions. The loans from the ultimate controlling party are unsecured.
During the year, INA, d.d. entered into the following trade transactions with related parties:

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

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

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

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

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

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

In 2016 INA, d.d. recognised impairment on receivables from related parties in the amount of HRK 0.4 million, while income from collection of impaired receivables from related parties amounted to HRK 1.7 million, while in 2015 INA, d.d. recognised impairment on receivables from related parties in the amount of HRK 2 million, while income from collection of impaired receivables from related parties amounted to HRK 43 million.

Loan to and from related parties:

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

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

Hedge transactions with related parties:

INA GROUP AND INA, D.D.	Expense from hedge transactions -net effect	Income from hedge transactions -net effect
	2016	2015
Companies controlled by strategic partner		
MOL Commodity Trading Kft.	8	42

Product sales between related parties were made at the usual prices of the Group, reduced by discounts and rebates depending on each particular relationship. Purchases of products between related parties were made at market prices, including appropriate discounts depending on each particular relationship.
INA, d.d. generally seeks collateral for oil product sold to its related parties, depending on risk exposure, except from customers who are state budget beneficiaries or fully owned by the state.

Compensation of key management personnel

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

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

Included above is the remuneration to the Management Board Members, executive directors of the business segments and functions, sector directors, assistant directors and secretary of INA, d.d.
A number of key management in INA, d.d. or their related parties, hold positions in other companies of INA Group that result in them having control or significant influence over these companies.

Other related party transactions

In 2016 INA, d.d. sold five petrol stations to company Holdina Sarajevo. Net book value of the petrol stations is HRK 9.8 million while INA, d.d. sold petrol stations under market price of HRK 19.7 million. In 2015 INA, d.d. sold four petrol stations to company Holdina Sarajevo. Net book value of the petrol stations is HRK 4.7 million while INA, d.d. sold petrol stations under market price of HRK 16.9 million.
The Company remains the customer of company JANAF d.d., in which it has a holding of 11.795% (see note 19). During 2016, approximately HRK 52 million of JANAF's sales revenue in the amount of HRK 709 million account for sales revenue in respect of INA, d.d. as user of the pipeline system of JANAF d.d. (2015: HRK 50 million out of HRK 683 million sales revenue).
During 2015, Rotary Drilling Co Ltd Hungary incurred revenue in respect of termination of contract with Kalegram Ltd. based on rights for an early termination fee and demobilization fees revenue in amount of USD 13.5 million. Termination of contract occurred due to change of working plan of Kalegran Ltd. in Kurdistan.

37 COMMITMENTS

The Company and the Group have a number of continuing operational and financial commitments in the normal course of their businesses including:
- exploration and development commitments arising under production sharing agreements,
- exploratory drilling and well commitments abroad,
- take or pay contract, gas transportation contract and gas selling contract,
- guarantees, performance bonds and letters of credit with Croatian and foreign banks,
- completion of the construction of certain assets.

Investment in contract areas of North Adriatic

Activity of bringing the production of natural gas reserves in the geographic area of North Adriatic, mostly within the epicontinental shelf of Republic of Croatia, is taking place through Production Sharing Agreements (PSA) which INA has signed with foreign companies in the so - called contract areas:
• INA, d.d. and ENI Croatia B.V. have closed down in 1996 and 1997 Production Sharing Agreements in contract areas Aiza - Laura and Ivana, and realization of the partnership takes place through a joint operating company INAgip with interests 50% : 50%,
• INA, d.d. and EDISON INTERNATIONAL S.p.A. have closed down in the 2002 Production Sharing Agreement in the contract area Izabela & Iris / Iva. Partnership with EDISON takes place through a joint operating company ED-INA with shareholding: 50% : 50%.
North Adriatic Area (3 development concession) comprises of 19 production platforms and 1 compressor platform, with a total of 52 production wells.

Until now, in the contract areas North Adriatic and Aiza-Laura, INA, d.d. has invested in capital construction of mining facilities and plants HRK 4.8 billion, while of the total gained reserves INA´s share will range about 63% of the produced gas, which is further placed on the Croatian gas market.

On 31 December 2016 INAgip had in both contract areas 137 active contracts amounting in total to HRK 336.44 million. The remaining commitments under these contracts on 31 December 2016 amounted to HRK 167.51 million (2015: HRK 206.7 million).
Until 31 December 2016, total INA, d.d. capital investments on the Izabela contract area amounted to HRK 353 million, which have been invested for construction of production-gathering-transportation system of Izabela gas field. Gas production from Izabela field. Gas production from Izabela field during 2016 is stable and in comparison with original production plan higher about 13.8%. Total INA share of gas, delivered from Izabela field to Ivana K platform, from production start-up to December 31st 2016 is about 44,19% (280.1 million Sm3).

Gas Transportation Contract

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

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Minimum lease payments under non-cancellable operating leases are as follows:

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

Out of the outstanding operating lease liabilities as of 31 December 2016 HRK 57 million were contracted by INA, d.d., HRK 16 million were contracted by STSI and HRK 14 million were contracted by Rotary Zrt., while for 31 December 2015 HRK 81 million were contracted by INA, d.d. and HRK 13 million were contracted by Rotary Zrt.

38. CONTINGENT LIABILITIES

Environmental matters

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

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

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

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

suitable for oil refining sites because it allows refineries to treat all their stacks as they are enclosed by a giant bubble, which provides flexibility in choosing which unit shall be upgraded based on the lowest cost, so long as overall resulting emissions are equal to or lower than emissions that would be achieved through a unit-by-unit application of the individual BAT-AELs.
During 2016 INA signed the contract for refineries environmental permit revision which is necessary because of new BAT Conclusions, change of selected technology (FCC), expired deadlines for some projects and intention to use a bubble concept.

Harmonization of INA's operations with the greenhouse gas emission (GHG) legislation
European Union Emissions Trading Scheme, EU ETS, is one of the fundamental mechanisms of the European Union in the fight against climate change with a view to meeting the commitments made under the Kyoto Protocol. Inside the Scheme, a part of the emission allowances (one allowance = 1 tonne of CO2) are allocated to installations for free and they are used to "cover" the emissions from the previous year. If the installation has a shortage of allowances in respect to verified emissions, the rest must be bought on the market through auctioning.

From 1 January 2013 Rijeka Refinery, Sisak Refinery, Fractionation Facilities Ivanić Grad and Gas Processing Facilities Molve are a part of the ETS. All four INA's ETS installations have open Operator Holding Account in the Union Registry. Verified Annual Greenhouse Gas Report had been submitted to Croatian Environment and Nature Agency on time, until 31 March 2016, verifier then confirmed verified emissions entered into the Registry and emission allowances have been surrendered in amount equal to verified emissions until 30 April 2016.

Harmonization of INA's operations with the air protection legislation
From 1 January 2016 existing plants have to comply with more stringent emission limit values (ELV), as stipulated by Industrial Emissions Directive (IED). The provisions of this Directive have been transposed into Croatian legislation by Regulation on limit values for pollutant emissions from stationary sources into the air (OG 117/12, OG 90/14). To achieve the prescribed emission limit values, IED provides a possibility to use the exemption for existing plants and one of them is the inclusion in the Transitional National Plan (TNP), in addition to meeting certain conditions. Sisak and Rijeka Refineries have submitted an application for inclusion of its existing large combustion plants in the TNP, which was approved by the European Commission during 2014.
By inclusion in the TNP, refineries are given the possibility of gradual emission reduction of nitrogen oxides, sulphur dioxide and particulate matter through the period of 1 January 2016 to 30 June 2020 for the realization of investments and measures for emission reduction which ensure compliance with more stringent ELVs.

Regarding compliance with the technical environmental standards for Volatile Organic Compound (VOC) emissions resulting from the storage and distribution of petrol, is the entire INA's retail network as well as tank truck loading station in Sisak Refinery is compliant. During 2016 INA continued with modernization projects of the rail tank car (RTC) loading and unloading stations in Sisak and Rijeka refineries, modernization of existing tank truck loading station and port Bakar in Rijeka refinery (VRU units are installed) and with improvement of storage tanks in both refineries, to achieve full compliance with the technical environmental standards for VOC's.

Environmental provisions
Environmental obligations are the obligations of a company to recover pollutions caused by the company's operations. They can be divided into two categories: environmental provisions and contingencies. Typical provision based actions are soil and groundwater pollution assessment, remediation, monitoring actions in order to control the long-term compliance and re-cultivation of old waste storage depots. Provision based environmental liabilities are audited in every quarter using internal resources. At 31 December 2016, INA, d.d. made environmental provisions in the amount of HRK 296 million, whereas the provisions at the Group level amounted to HRK 308 million, while at 31 December 2015, INA, d.d. made environmental provisions in the amount of HRK 322 million, whereas the provisions at the Group level amounted to HRK 333 million. At 31 December 2016, contingencies at INA Group and INA, d.d. levels were estimated at HRK 636 million and HRK 427 million, while at 31 December 2015 contingencies at INA Group and INA, d.d. levels were estimated at HRK 637 million and HRK 427 million respectively . The estimates were not recognised because the timing of the event is uncertain and there is no evidence of pollution.

Litigation

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

GWDF

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

EKO MEDIA d.o.o.

In September 2012 INA entered into an agreement with company EKO MEDIA d.o.o. EKO MEDIA failed to regularly comply with its obligations. INA terminated the agreement with EKO MEDIA at the beginning of 2014. On 19 December 2014 EKO MEDIA filed a lawsuit against INA in which EKO MEDIA specified its claim in amount of HRK 106 million. INA filed its official reply to such EKO MEDIA's lawsuit and filed a counterclaim for the return of unjust enrichment in amount of HRK 380 thousand and asked for the issuance of interim measure for prohibition of use of advertising boards. The proceedings based on the claim and based on the counterclaim have been separated into two proceedings. Until 31 December 2016 no evidence have been presented.

URO AKOVIĆ

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

LJUBLJANSKA BANKA

The claims of plaintiff LJUBLJANSKA BANKA, Ljubljana, Slovenia against INA, d.d. in amount of HRK 60 million have arisen from two contracts of 1982 on the use of short-term foreign currency loan abroad which were concluded between INA-Rafinerija nafte Rijeka and Ljubljanska banka - Osnovna banka Zagreb. The outcome of the procedure is still uncertain due to the complexity of the legal matter (claims for altered default interest). The Supreme Court has not decided on review to this date, so no legal actions were taken in 2016.

CONCESSIONS

On 29 July 2011 the Ministry of Economy, Labour and Entrepreneurship (hereinafter: the Ministry) rendered three Decisions depriving INA of the license to explore hydrocarbons in exploration areas "Sava", "Drava" and "North-West Croatia". On 29 August 2011, INA filed three administrative lawsuits against the Ministry's Decisions. The Administrative Court annulled the Ministry's Decisions. On 10 November 2014, and on 20 February 2015 the Ministry adopted new Decisions in which it again deprived INA of the license to explore hydrocarbons in exploration areas "Sava" and "North-West Croatia" and "Drava", with the same explanations. INA filed lawsuits against new Ministry Decisions regarding exploration areas "Sava", "Drava" and "NW Croatia" and requested the Court to order a temporary measure. During April, 2015, the Administrative Court passed Resolution in which it rejected INA's request for temporary measure. INA filed its Appeal, but in June 2015, High Administrative court rejected such INA's Appeal. In November 2016 the Administrative Court reached a decision and rejected INA's claim in the case regarding exploration area "Drava". INA has filed an appeal against that decision in December 2016. The Administrative court did not reach decisions regarding INA's lawsuits regarding exploration areas "Sava" and "North-West Croatia".

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

R.I.G.-TEHNIČKI SERVISI GRUPA d.o.o. initiated lawsuit against CROSCO, naftni servisi d.o.o. (member of the INA Group, INA is a 100% shareholder) over a value equalling HRK 82 million (approximately EUR 11 million) with the interest running from 10 March 2010, for damages caused by non-payment of extra and unforeseen works and, to a minor extent, for damages due to loss of computer equipment (approximately HRK 520.4 thousand with the default interest). The last hearing was held on 27 March 2015. Hearing was postponed, due to the fact that Assembly of creditors (RIG bankruptcy procedure) was scheduled (9 April 2015). It is still in preparation phase, Court is collecting valid data and each Party is proposing evidence and actions.

SALBATRING ENERGIJA

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

BELVEDERE cases (CLEOSTONE claim included)

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

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

In March 2016 two, out of three court proceedings regarding Belvedere, were closed before first instance courts. Both courts decisions are in INA's favour i.e. Court rejected CLEOSTONE Ltd. claim submitted in 2011 for annulment of sale of Belvedere assets to a Russian investor as well as BELVEDERE d.d. claim to declare Fiduciary agreement as null and void.
Court refused the request for the annulment of sale of Belvedere assets by stating that plaintiffs arguments are not in connection with any material breach of law resulting in contract invalidity, yet in connection with procedural mistakes of public notary who carried out the sale, that such procedural mistakes didn`t have influence on the validity of the procedural decisions. Therefore, plaintiff was supposed to challenge public notary activities in different proceeding, within given deadlines, and that failure of him doing so cannot be solved throughout subject court procedure. Court also refused to declare Fiduciary agreement as null and void since, despite plaintiffs' standpoints, all legal prerequisites for its enforceability according to relevant laws were met. Plaintiffs submitted an appeal against both decisions. Second instance decision hasn't been reached so far.

Gearing ratio
The primary objective of INA Group in managing its capital is to ensure good capital ratios in order to support all business activities and maximize the value to all shareholders through optimization of the ratio between the debt and equity.
The capital structure of INA Group consists of debt part which includes borrowings as detailed in notes 25 and 27 offset by cash and bank balances (so called net debt) and shareholder equity comprising of issued capital, reserves, retained earnings and non-controlling interests as detailed in notes 34 to 35.

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

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

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

Debt is defined as long–term and short-term borrowings and credit lines (excluding derivatives and financial guarantee contracts), as described in notes 25 and 27.
Total equity includes capital, reserves, retained earnings or transferred loss and non-controlling interests of the Group that are managed as capital.

Categories of financial instruments

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

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

By taking this general approach, INA, d.d. assumes the business activities as a well-balanced integrated portfolio and does not hedge individual elements of its exposure to financial risks in a normal course of business. Therefore, INA, d.d. actively manages its financial risk exposure for the following purposes:
• corporate level – maintaining financial ratios, covering exposure to significant monetary transactions, etc;
• business segment level – decreasing the exposure to market prices fluctuation in case of deviations from the normal course of business (e.g. planned regular shutdown of refinery units for the purpose of overhaul).
INA, d.d. Treasury Sector carries out finance activities of INA, d.d., coordinates finance operations of INA Group on domestic and international financial markets, monitors and manages the financial risks related to the operations of INA Group. The most significant risks, together with methods used for management of these risks are described below.
INA Group used derivative financial instruments to a very limited extent in order to manage financial risks. Derivative financial instruments are regulated by signing an ISDA (International Swaps and Derivatives Association) Agreement with counterparties. INA Group does not use derivative financial instruments for speculative purposes.

Market risk
Commodity price risk management
The volatility of crude oil and gas prices is the prevailing element in the business environment of INA Group. INA Group buys crude oil mostly through short-term arrangements in USD at the current spot market price. Necessary natural gas quantities in 2016 INA Group imported in EUR based on spot price.
In addition to exploration and production, and refinery operations, one of the main core activities of INA, d.d. are marketing and sale of refinery products and natural gas. Prices of crude products were determined weekly based on market principles, which enables quicker responses to market prices fluctuations.

In accordance with Risk Management and Hedging Policy for INA Group, for the purpose of hedging financial risk exposure on corporate and business segments level, INA, d.d. may use forward (swap) and option instruments. In 2015 INA, d.d. entered into short-term forward swap transactions to hedge its exposure on changes in inventory levels, changes in pricing periods and fixed price contracts. The transactions were initiated to reduce exposures to potential fluctuations in prices over the period of decreasing inventories at the refineries, as well as to match the pricing period of purchased crude oil and crude products with the crude oil processing and refinery product retail pricing periods. These transactions were hedging transactions and qualify for hedge accounting treatment under IFRS in case of matching the pricing period of purchased crude oil and crude products with the crude oil processing and refinery product sales pricing periods.
At 31 December 2016 fair value of hedged items under commodity derivative transaction designated as fair value hedge was a net receivable of HRK 17 million and HRK 19 million net payable. The corresponding figures at 31 December 2015 were HRK 18 million receivable and no net payable (see Note 23 and Note 26).

Foreign currency risk management
As INA Group operates both in Croatia and abroad, many of its transactions are denominated and executed in foreign currencies, hence INA, d.d. is exposed to exchange rate risks.
INA Group has a net long USD and EUR, and a net short HRK operating cash flow position. Generally, INA Group manages its currency risk using natural hedging, which is based on the principle that the combination of currencies in the debt portfolio should reflect the currency position of INA Group's free cash flow. Furthermore, in order to avoid excessive exposures to fluctuations in the foreign exchange rate with respect to a single currency (i.e. USD), INA, d.d. applies a portfolio-based approach while selecting the currency mix for its debt portfolio.
INA, d.d. may use a cross-currency swap to adjust its currency mix in the debt portfolio. At 31 December 2016 there were no outstanding cross-currency transactions.

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

INA Group				
	Liabilities		Assets	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Currency EUR	1,936	1,951	272	489
Currency USD	2,131	1,789	1,287	1,149
	4,067	**3,740**	**1,559**	**1,638**
INA, d.d.				
Currency EUR	1,814	1,855	156	564
Currency USD	2,076	1,657	1,077	1,520
	3,890	**3,512**	**1,233**	**2,084**

Foreign currency sensitivity analysis

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

The following table details INA Group's and INA, d.d.'s sensitivity to a 10% weakening of HRK at 31 December 2016 (in 2015: 10%) against the relevant foreign currencies The sensitivity rates used represent management's assessment of the usual change in foreign exchange rates. The sensitivity analysis includes monetary assets and liabilities in foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a change in foreign currency rates expressed as percentage. A negative number below indicates a decrease in profit where HRK changes against the relevant currency by the percentage specified above. For the same change of HRK versus the relevant currency in the opposite direction, there would be an equal and opposite impact on the profit.

INA Group				
	Currency USD Impact		Currency EUR Impact	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Loss	(84)	(64)	(166)	(146)
	(84)	**(64)**	**(166)**	**(146)**
INA, d.d.				
Loss	(100)	(14)	(166)	(129)
	(100)	**(14)**	**(166)**	**(129)**

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

Interest rate risk management

INA Group is exposed to interest rate risk, since entities in INA Group generally borrow funds at floating interest rates.
INA Group does not speculate on fluctuations in interest rates, and therefore primarily chooses floating interest rates. However, in certain instruments and certain macro environment, the selection of fixed interest rate could be more favorable.

INA, d.d. in accordance with Risk Management and Hedging Policy for INA Group, can use interest rate swap transactions in order to manage the relative level of exposure to interest rate risk on cash flows related to borrowings with floating interest rates. As of 31 December 2016 there were no outstanding interest rate swap transactions.

Interest rate risk analysis

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

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

	INA Group		INA, d.d.	
	2016	2015	2016	2015
Short-term interest expense change	54	55	50	50
Long-term interest expense change	8	11	8	11
Total change:	**62**	**66**	**58**	**61**

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

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

Other price risks

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

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.
If equity prices had been 10% higher:
- net profit for the year ended 31 December 2016 would have been unaffected as the equity investments are classified as available-for-sale; and
- other equity reserves of INA, d.d. would increase by HRK 62,9 million as a result of the changes in fair value of available-for-sale shares.

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

Credit risk management

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

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

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

Liquidity risk management

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

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

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

Based on international practice, INA, d.d. has contracted short term credit facilities ("trade finance") with first class banking groups for financing crude oil and oil products purchase. As of 31 December 2016 INA Group had contracted and available short-term credit facilities for financing crude oil and oil products purchase amounting to USD 1.21 billion (2015: USD 1.18 billion).

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

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

Liquidity and interest risk tables

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

INA Group					
	Less than 1 month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2016					
Non-interest bearing	1,807	540	53	15	2,415
Interest bearing	1,345	1,512	282	-	3,139
	3,152	**2,052**	**335**	**15**	**5,554**
31 December 2015					
Non-interest bearing	1,288	628	47	14	1,977
Interest bearing	2,514	405	419	-	3,338
	3,802	**1,033**	**466**	**14**	**5,315**
INA, d.d.					
	Less than 1 month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2016					
Non-interest bearing	1,645	506	37	14	2,202
Interest bearing	1,345	1,538	282	-	3,165
	2,990	**2,044**	**319**	**14**	**5,367**
31 December 2015					
Non-interest bearing	1,141	459	44	14	1,658
Interest bearing	2,507	357	418	-	3,282
	3,648	**816**	**462**	**14**	**4,940**

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

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

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

Fair value of financial instruments

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

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

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

Fair value measurements of financial instruments

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

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

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

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

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

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

* only assets available-for-sale at fair value are presented in tables above, the remaining equity instruments classified as available-for-sale in total amount of HRK 47 million are measured at cost (2015: HRK 46 million) and therefore not included in tables above. There were no transfers between levels 1 and 2 during the year.

(a) Financial instruments in level 1
The fair value of financial instruments included in Level 1 comprise JANAF shares equity investments classified as available for sale and is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available.

(b) Financial instruments in level 2 and level 3
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Specific valuation techniques used to value financial instruments include:
• The fair value of hedge commodity transactions is calculated on the basis of actual historic quotations from Platts and market forward quotations of the underlying commodities.
• The fair value of forward foreign exchange contracts has been determined on the basis of exchange rates effective at the statement of financial position date and an embedded derivative has been determined as the difference between the cumulative inflation index of the contracted inflation escalation index and the inflation rate in the country of contract execution.

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

40. ACQUISITION OF ENERGOPETROL

Energopetrol d.d.	Headquarters	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Consideration transferred
	Sarajevo, Federation of Bosnia and Herzegovina	Retail of fuels and lubricants	1 July 2016	33.5%	-

Pursuant to Assignment and Option Agreement signed with MOL at 1 July 2016, INA, d.d. acquired control over Energopetrol d.d., Sarajevo, since by the same Agreement, INA acquired Option to buy shares of Energoletrol owned by MOL.
As at 12 July 2016 INA, d.d. realized Option whereby INA, d.d. took 1,840,128, or 33.50% of Energopetrol shares owned by MOL. With this transaction, INA, d.d. has increased its stake in Energopetrol d.d. to 67% and became the majority owner of the company whose financial results are consolidated into the results of the INA Group.

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

INA, d.d. also took over from MOL the loan previously given to Energopetrol d.d. meaning that INA, d.d. is financing Energopetrol d.d. independently.
This transaction between INA, d.d. and MOL is considered as transaction under common control. The most commonly used method for accounting for business combination under common control is the ‘predecessor method’ (also known as ‘pooling of interest method’ which INA has used in the past).
Under predecessor method, the acquired assets and liabilities shall be recorded at predecessor (MOL) carrying values. In this approach, the assets and liabilities are not restated to their fair values and no goodwill is recognised. The fair value of acquired assets and liabilities of Energopetrol d.d. are the same as they were at MOL's records.
The deferred tax liabilities acquired is related to fair valuation of Energopetrol d.d. previously recorded in MOL's records.
The difference between the consideration paid and aggregate book value of the acquirer’s assets and liabilities is reflected in a component of equity such as retained earnings.

The consideration is the sum of cash paid by INA, d.d. to MOL. Besides the consideration paid, the book value of INA’s investment in Energopetrol d.d. and the loan originated by INA, d.d. is also taken into account.
Following the obtaining the control and acquisition of 67% ownership in INA, d.d. financial statements, a total investment amounting to HRK 132 million and impairment of investment in the amount of HRK 132 million is transferred from investment in associates to investment in subsidiaries.

	Carrying value recognized at acquisition
Non-current assets	
Intangible assets	1
Property, plant and equipment	320
Current assets	
Inventories	24
Trade and other recivables	6
Cash and cash equivalents	2
	353
Liabilities	
Provisions for litigations	79
Loan liabilities to related parties	550
Other provisions	20
Trade payables	54
Other liabilites	39
Deferred tax liability	8
	750
Total identifiable net assets acquired	**(397)**
Non-controlling interest at fair value	(130)
Goodwill arising on acquisition	-
Consideration transferred	(267)
Net cash outflow on acquisition of subsidiaries	
Consideration paid in cash	-
Less: cash and cash equivalent balances acquired	(2)

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

41. SUBSEQUENT EVENTS

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

42. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 14 March 2017.
Signed on behalf of the Company on 14 March 2017 by:

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

Niko Dalić, member of the Management Board

Gábor Horváth, member of the Management Board

Ivan Krešić, member of the Management Board

Davor Mayer, member of the Management Board

Peter Ratatics, member of the Management Board

INA - INDUSTRIJA NAFTE, D.D. REPORT ON PAYMENTS TO GOVERNMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. INTRODUCTIONS

INA – INDUSTRIJA NAFTE, d.d. has prepared the present Report on Payments to Government in accordance with Accounting Act (Official Gazette 78/15) compliance with Chapter 10 of DIRECTIVE 2013/34/EU (26 June 2013) on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.
The „Reporting Principles"section below contains information about the content of the Report, the types of payments included and the principles that have been applied in preparing the Report.

2. REPORTING PRINCIPLES

The Directive requires extractive sector companies listed on a stock exchange to publicly disclose payments made to the governments of those countries where they carry out extractive operations (involving the exploration, prospection, discovery, development and extraction of minerals, oil and natural gas deposits or other materials).
Under the Accounting Act, INA, d.d. is required to prepare a consolidated report on payments made to governments for each financial year in relation to relevant activities of both INA, d.d. and any of its subsidiary undertakings included in the consolidated group accounts.
The Report also provides details on the total amount of such payments by type, specific project and government paid. In light of these requirements INA Group has assessed its reporting obligations to be as follows:

- Where INA Group has made a payment to a government, such payment is reported in full, whether made in INA Group's sole capacity or in INA Group's capacity as the operator of a joint-arrangement
- When a national oil company is the operator of a project to whom INA Group makes a reportable payment which is distinguishable in the cash-calls, it is included in this Report.
- Payments made by an incorporated joint arrangement where INA Group is not the operator are not included within this Report.
- For some payments it may not be possible to attribute a payment to a single project and therefore such payments may be reported at the country level. Corporate income taxes, which are typically not levied at a project level, are an example of this.

In-kind payments

Production entitlement and Royalties paid in kind owed to Governments pursuant to legal or contractual provisions (not booked in the Extractive Companies' accounts pursuant to the accounting standards) are reported in proportion to the interest held in the Project. Payments in kind are estimated at fair value which corresponds to the contractual price of oil and gas, market price (if available) or an appropriate benchmark price. These prices may be calculated on an averaged basis over a given period.

Cash basis

Payments are reported on a cash basis, meaning that they are reported in the period in which they are paid, as opposed to being reported on an accruals basis (which would mean that they were reported in the period for which the liabilities arise).

Reporting currency

All amounts presented in the Report are stated in Croatian kuna. Payments made to Governments in foreign currencies (currencies other than the Croatian kuna) were translated into the equivalent Croatian kuna amount using a weighted average of the relevant exchange rates during the reporting period.

3. DEFINITIONS

Payment Types

A single payment or multiple interconnected payments, whether in cash or in kind, for extractives activities.
The payment types included in this Report
Production entitlement: host Government's share of production in the reporting period derived from projects operated by INA Group. This payment is generally paid in kind. The value of these payments is calculated based on the market price at the time of the in-kind payment.
Taxes: taxes and levies paid on income, production or profits, excluding taxes levied on consumption such as value added tax, personal income taxes, sales taxes and property and environmental taxes.
Royalties: payments for the rights to extract oil and gas resources, typically at set percentage of revenue less any deductions that may be taken
Dividends: dividends, other than dividends paid to a government as an ordinary shareholder unless they are paid in lieu of a production entitlement or royalty.
Bonuses: bonuses paid for and in consideration of signature, discovery, production, awards, grants and transfers of extraction rights; bonuses related to achievement or failure to achieve certain production levels or targets, and the discovery of additional mineral reserves or deposits.
License and other fees: license fees, rental fees, entry fees and other considerations for licenses and/or concessions that are paid for access to the area where the extractive activities will be conducted. Administrative government fees that are not specifically related to the extractive sector, or to access to extractive resources, are excluded. Also excluded are payments made in return for services provided by a government.
Infrastructure improvements: payments for local infrastructure development, including the improvement of infrastructure, except where the infrastructure is exclusively used for operational purposes. Payments which are of a social investment in nature, for example building of a school or hospital, are excluded.

Government

Under the Regulations, a 'government' is defined as any national, regional or local authority of a country, and includes a department, agency or undertaking that is a subsidiary undertaking controlled by such an authority.

Project definition

Operational activities governed by a single contract, license, lease, concession or similar legal agreement that form the basis for payment liabilities with a Government. If multiple such agreements are substantially interconnected (meaning that the agreements are governed by a single overarching agreement, that the agreements have more or less identical terms, and that the agreements are geographically and operationally interconnected), they are considered as a single Project.

4. SUMMARY REPORT

The table below shows the relevant payments to governments made by INA, d.d. in the year ended 31 December 2016 shown by country and payment type.
In the summary report all amounts are stated in million HRK.

Summary by countries:

Payments by countries	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infra-structure improve-ments	TOTAL
Croatia			387		1	30		418
Egypt	21							21
Angola		37						37
TOTAL	21	37	387		1	30		476

5. PAYMENTS TO GOVERNMENT BY COUNTRIES

Croatia

Payments by goverments	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infra-structure improve-ments	TOTAL
Croatian Ministry of finance			146		1	9		156
Local munci-palities			241			21		262
TOTAL			387		1	30		418

Payments by goverments	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infra-structure improve-ments	TOTAL
Croatia on shore			241			19		260
Croatia off shore			146			9		155
Drava PSA					1	2		4
TOTAL			387		1	30		418

Egypt

Payments by govern-ments	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infra-structure improve-ments	TOTAL
Egyptian Government (EGPC)	21							21
TOTAL	21							21

Payments by govern-ments	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infra-structure improve-ments	TOTAL
Egypt oper-ation - East Yidma	21							21
TOTAL	21							21

Angola

Payments by goverments	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infra-structure improve-ments	TOTAL
Angolan Tax Authority		37						37
TOTAL		37						37

Payments by goverments	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infra-structure improve-ments	TOTAL
Block 3/05		34						34
Block 3/05A		3						3
TOTAL		37						37

6. CONTACT INFORMATION

INA - INDUSTRIJA NAFTE, d.d. Zagreb
Avenija Većeslava Holjevca 10
Zagreb

Based on art. 22 Accounting Act, Management Board of INA – INDUSTRIJA NAFTE, d.d. Zagreb makes the following:

STATEMENT ON THE CORPORATE GOVERNANCE CODE

Given the fact that INA's shares are listed on a regulated market, INA – Industrija nafte, d.d. applies the Corporate Governance Code, effective from January 1, 2011, which was jointly prepared by the Croatian Financial Services Supervisory Agency (hereinafter: Agency) and the Zagreb Stock Exchange (Zagrebačka burza d.d. Zagreb) and is published on the Internet page of the Zagreb Stock Exchange (http://www.zse.hr).

In addition to the Corporate Governance Code, INA Group also applies its own Code of Ethics, which defines the basic values and principles of conduct of the management and the employees of INA Group regarding their attitude towards work, associates, business partners and the public. The Code also sets forth the obligations of INA Group to secure appropriate work conditions and professional development to employees and ensure avoidance of unacceptable forms of behaviour. The Code covers a broad area of business relationships and processes and has to be observed by all persons acting in the name and on behalf of INA Group, including natural persons and legal entities who are in a contractual relationship with INA Group (business partners, consultants, suppliers, sellers etc.). The Code can be accessed at INA, d.d. website (http://www.ina.hr). INA, d.d. generally abides by the provisions of the Corporate Governance Code, with the exceptions stated in the Annual Corporate Governance Questionnaire published on INA's website.

Some of the exceptions are as follows:

- INA, d.d. does not publish or update the list of shareholders. The ownership structure is available on the Company's website, whereas a detailed list of shareholders is kept by the Central Depository & Clearing Company Inc., which publishes a list of the ten largest shareholders on its website in accordance with the law.
- INA, d.d. does not publish data on the Company's shares held by the Management Board or Supervisory Board members on its website. Instead, all announcements in reference to the new securities transactions by the Management Board or Supervisory Board members can be found on the Company's website.
- INA, d.d. does not provide proxies to the Company's shareholders who are not able to vote at the General Assembly, for any reason. The shareholders who are not able to vote themselves should, at their own discretion, appoint appropriate proxies who are obliged to vote in accordance with their instructions. The Company has not received any such requests from any of its shareholders in this respect.
- The Company sets the terms and formal conditions for participation of the shareholders in the General Assembly in accordance with the Companies Act and the Company's Articles of Association in order to protect the shareholders' rights in conditions of a large number of shareholders.
- The Supervisory Board is not composed of a majority of independent members. It is composed of major shareholders' representatives and a workers' representative in accordance with the Companies Act.
- The long-term succession plan has not been published; however, the existing systems of electing members to the Supervisory Board, Management Board and upper management take account of the continuity in performing supervisory, management and administrative functions.
- The Company's bonus policy is part of the internal rules published on the Company's website. Data on remunerations to the Management Board and Supervisory Board members are published in the annual report in their full amount. The current internal regulations do not envisage the possibility of public announcement of these data.
- The amounts of remunerations paid to independent auditors for rendered services have not been published and constitute a business secret.

Internal supervision and risk management

The main responsibilities of the Audit Committee, as a body founded by the Supervisory Board, are assisting the Supervisory Board and supervision of its decisions related to controlling, financial reporting and audit within Company. Audit committee monitors audit processes in the Company (internal and external), discusses certain topics raised by auditor or management and advises Supervisory Board. Audit Committee is responsible to ensure objective and credible information and reports are submitted to the Supervisory Board.

Audit Committee is in charge of and has the following responsibilities:

- passing decisions on the approval of flash reports for the stock exchange reporting purposes.

• giving recommendations to Supervisory and Management Board on appointment or withdrawal of the appointment of the Company's external auditors responsible for annual audit of financial reports, taking into account the independence, objectivity, efficiency and expenses of external auditors.
• meeting with external auditors to evaluate the scope and contents of annual audit and appraise the results of their work.
• at least once a year a discussion of INA, d.d. - auditor relation and other services provided by the audit firm to ensure that none of the non-audit services influences the independence and objectivity of external audit.
• discussing the results of the annual audit with external auditors, including:
• assessment of audited financial reports;
• analysis of external auditors' recommendations for improvement of accounting processes and internal control;
• assessment of application of external auditors' recommendations.
• assessment of accounting processes and policies in INA, d.d. in comparison with other entities in the sector.
• approval of accounting policies and principles used by INA, d.d.
• assessment of the completeness and accuracy of data in the overall picture presented by INA's financial reports to INA's shareholders and creditors.
• assessment in cooperation with the Management Board and external auditors, of all important issues connected to legal disputes, contingencies, requests, taxes or penalties and all important accounting issues that have to be included in the financial reports.
• assessment of the scope and efficiency of risk management system.
• assessment of the work of Internal Audit Sector, including:
• competence of Internal Audit Sector;
• planned scope of Internal Audit Sector, objectives, authorities and human resources necessary for achieving subject objectives;
• Internal Audit Sector activities in the previous period and summary of Internal Audit's report in written form;
• cooperation of Internal Audit Sector and external audit.
• meeting with the director of Internal Audit Sector upon the request of Audit Committee's members or the director of Internal Audit Sector; and Meeting with the director of Accounting and Tax Sector upon the request of Audit Committee's members or the director of Accounting and Tax Sector.
• submitting a report to Supervisory Board about the activities and conclusions of Audit Committee.

Internal Audit Sector enables independent and objective assessment of financial, operative and control activities carried out within the Group on behalf of Management Broad and report management through comprehensive reports on audits carried out. Internal Audit Sector also reports on the adequacy of internal controls and the level of compliance with internal and external regulation. Charter of Internal Audit is a strategic document that defines main principles and scope of work used in internal audit sector work in the Group.

Main task of Internal Audit Sector include, but are not limited to:
• Testing, analysis, assessment and reporting of data in an objective and independent way as well as recommending preventive measures, aimed to add value and improving Company's operations, through the use of professional audit standards and ethical standards determined by Internal Audits Institute (IIR);
• Check of operational and functional activities carried out in the Group and determining, understanding, testing and assessing existing controls with the aim to minimize the operational determined risks to the most favorable cost/benefit level;
• Testing and assessing adequacy and efficiency of internal control mechanisms, assessment of information technology system and related risk areas as well as assessment of effect quality in performing assigned duties;
• Assessment of work or program to establish whether the results are in line with the set targets and the work and programs are carried out in a planned manner;
• Assessment of reliability and accuracy of financial and operative reports, as well as the manner of identifying, measuring, sorting and reporting on this data;
• Assessment of system established by management to ensure compliance with laws, regulations, procedures, politics and plans that might significantly affect the work and reporting;
• Carrying out special checks or investigations as requested by Management or Supervisory Board of the Company;
• Identification of possible frauds and reporting to Corporate Security Sector for the purpose of further investigations.

Significant shareholders of the Company
Od 31 December 2016, significant shareholders of the Company are as follows:
• MOL Nyrt (49.08%),
• Republic of Croatia (44.84%),
the remaining 6.08% is owned by institutional and retail investors.

General Meeting mode of operations

General Meetings shall be held at least once a year (ordinary meeting) and whenever a meeting is required in the Company's interest (extraordinary meeting). The General Meeting is convened by the Management Board, and may also be convened by the Supervisory Board as well as, under conditions determined by law, shareholders who hold shares representing at least one-twentieth of the Company's share capital. The right to participate in General Assembly shall have each shareholder registered within the computer system of the Central Depository and provided that he sent an application for participation at the General Assembly meeting prior. The notification of his intention to participate at the General Meeting needs to be delivered to Company by the deadline set by invitation, six days before the General Meeting.
The President of the Supervisory Board, or any other person as appointed by the Supervisory Board to chair the General Meeting shall preside as Chairman of the General Meeting. The General Meeting shall be entitled to pass valid resolutions if shareholders representing at least 50% of the total number of votes are present (quorum). Resolutions of the General Meeting are passed by an ordinary majority of the votes cast, except for cases where a larger majority is required by the law or these Articles (qualified majority).

Composition and operations of management and supervisory bodies

The Company's Management Board shall consist of six members. The Management Board has a President, and it may also have a Vice-President specified by the Rules of Procedure of the Management Board. The President of the Management Board may have assistants and advisers appointed by the President. The President and members of the Management Board shall be appointed and recalled by the Supervisory Board.
The Supervisory Board shall decide on the term of office of the members of the Management Board, but their term of office shall not exceed 5 years. Once their term expires, members of the Management Board can be reappointed without limitation as to the number of terms they may serve. The Company is represented by two members of the Management Board acting jointly, or one member of the Management Board acting jointly with one "prokurist".

Composition of the Management Board of the Company on 31 December 2016:
- Zoltán Áldott, president of the Management Board
- Niko Dalić, member of the Management Board
- Gábor Horváth, member of the Management Board
- Ivan Krešić, member of the Management Board
- Davor Mayer, member of the Management Board
- Péter Ratatics, member of the Management Board

The Supervisory Board consists of nine members. The term of office of the members of the Supervisory Board is four years. After the expiry of their term the members of the Supervisory Board may be re-elected without any restriction as to the number of terms.
The General Meeting appoints and dismisses eight members of the Supervisory Board. One member of the Supervisory Board will be elected and recalled by employees pursuant to the Employment Act. The members of the Supervisory Board to be elected and dismissed by the General Meeting may resign from their position by delivering a letter of resignation to the President or Vice President of the Supervisory Board and to the Management Board of the Company. A member of the Supervisory Board elected and recalled by employees may give resignation to the Supervisory Board pursuant to provisions of the Employment Act. The Supervisory Board elects a President and Vice President of the Supervisory Board from among its members by simple majority of votes cast. The President and Vice President of the Supervisory Board are elected for a term not exceeding four years and may be re-elected.

Composition of the Supervisory Board of the Company on 31 December 2016:

- Damir Vanđelić, Supervisory Board President
- József Molnár, Supervisory Board Vice President
- József Simola, member
- Szabolcs I. Ferencz, member
- Ferenc Horváth, member
- Jasna Pipunić, member
- Dario Čehić, member
- Luka Burilović, member
- László Uzsoki, member

Diversity policy

INA, d.d. as a company is building a culture of diversity and acceptance of differences in line with its fundamental values and with the aim of attracting, hiring and retaining talents and its employees. In INA, d.d., under diversity management we imply introduction of diversity into the work environment in any form (gender, age, ethnicity, religion, language, sexual orientation, social background, hobbies, styles of learning, political attitude etc.), while under diversity acceptance we imply creation of an organizational culture where differences are respected and where everybody has the opportunity to develop their skills and talents.

Procedure of career and succession management for positions in INA d.d. is carried out for all managerial positions, and since it is an objective and unbiased system it ensures representation of all important competences/areas of activities aimed to achieve efficient and professional performance in their future managerial position. Currently there is a total of 42% female successors prepared to take over managerial positions from the total successors' population.
Through the use of the mentioned Procedure for Managers, and for the employees of operative companies "Employee Performance Management System in INA Group" ", a system of identifying and developing talents is carried out, for both managers and other employees. This is also an objective and unbiased tool, to ensure gender diversity in executive, management and supervisory bodies.

Beside the mentioned, diversity culture is built through specific projects and initiatives such as:

Mamforce certification
INA has been certified as „Mamforce company" in 2015. This important certification that confirms commitment to „family friendly" human resources management is based on a survey carried out with female employees on flexible work hours, working conditions of parents of small children, promotion and equal gender representation on higher management levels etc. In 2017, INA will be recertified and acquire the full Mamforce standard following an extensive audit process.

INA Growww 2016 – encouraging gender balance
Through Growww program 2016, a significant number of female employees was hired (60% of the total number of the employed Growwwers), which is a result of attributing greater importance to providing equal opportunities to all employees and quality and an objective selection process.

One of the stronger tools INA uses is known as Strength Deployment Inventory (SDI), which improves understanding of motives and values that drive the behavior, with the aim of improving and encouraging cooperation and teamwork among employees. SDI is based on a basic human need for better understanding of yourself and others, leading with clarity and empathy, building teams and more effective conflict resolution. During 2016, 10 workshops were held with more than 100 employees attending.

Building a better working world

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To the Shareholders of INA-Industrija Nafte, d.d.:

I. Independent auditor's report on the audit of financial statements

We have audited financial statements of INA-Industrija Nafte, d.d. ("the Company") and its subsidiaries (together the Group) as at 31 December 2016 which have been issued on 14 March 2017. We issued the following audit report dated 14 March 2017 on the consolidated and separate financial statements (presented in the Annual report on pages 160 to 258):

Independent auditor's report

To the Shareholders of INA – Industrija Nafte, d.d.
Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of INA – Industrija Nafte, d.d. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated and separate statement of financial position as at 31 December 2016, consolidated and separate income statement, consolidated and separate statement of other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS as adopted by EU").

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Key Audit Matter	How we addressed Key Audit Matter
Estimation of hydrocarbon reserves A description of the key judgements and estimates regarding estimation of hydrocarbon reserves are included in Note 3 in the Consolidated and Separate Financial Statements. The estimation of hydrocarbon reserves is a significant area of judgement due to the technical uncertainty in assessing quantities and complex contractual arrangements dictating the Group's and the Company's share of reportable volumes. Hydrocarbon reserves are also a fundamental indicator of the future potential of the Group's and the Company's performance and these estimates affect significant income statement and balance sheet amounts. Therefore we believe that estimation of hydrocarbon reserves is key audit matter.	Audit procedures included understanding of the process for determination of the hydrocarbon reserves and walkthrough of controls implemented in the process. We also assessed the competence and objectivity of technical experts, to assess whether they are appropriately qualified to carry out the hydrocarbon reserve volumes estimation. We performed specific inquiry to the Management of the Company and the Group and in respect of consistency of the applied methodology for reserves estimate with previous year. We have performed the test of details and for the significant changes in reserve volumes we tested whether the appropriate methodology was applied, the assumptions used are reasonable and adequately supported by underlying information provided by the management. We also performed analytical procedures on movements in hydrocarbon reserves during the year and reviewed that all significant changes were approved by the "Reserves and Resources Committee" and are in line with our expectations. We also assessed on the adequacy of the disclosures in Consolidated and Separate Financial Statements.
Impairments of the Group's long lived assets Impairments of the Group's and the Company's long lived assets are disclosed in Note 8 and in respective notes disclosing the underlying assets in the Consolidated and Separate Financial Statements; a description of the accounting policy and key judgements and estimates are included in Note 2 and Note 3 respectively. Movements in oil and gas prices can have a significant effect on the carrying value of the Group's and the Company's long lived assets including upstream offshore and onshore, refining, retail and service related long lived assets as well as goodwill. A significant and rapid drop in prices also quickly impacts the Group's and the Company's operations and cash flows. We assessed the principal risk arising in relation to the Consolidated and Separate Financial Statements to be associated with the carrying value of long lived assets, many of which are supported by an assessment of future cash flows. The assessment of recoverability of the asset carrying values is complex and judgmental process as external market evidence, such as market transactions, become less reliable in a period of significant changes to the price of oil as these may have significant effect on the future cash flows generated from the long lived assets. Therefore, due to complexity and judgement used in the assessment of impairment indicators and impairment models, impairment of Group's and Company's long lived assets is key audit matter.	We performed understanding of the process and walked through the controls designed and operated by the Group and the Company relating to the assessment of the carrying value of respective long lived assets. We examined the methodology used by management to assess the carrying value of respective long lived assets, to determine its compliance with accounting standards and consistency of application. For the upstream, downstream and retail assets where the impairment indicators were not identified by the Group and the Company we have assessed the Management's competence in respect of impairment assessment by comparing the assumptions used in prior year impairment models to the achieved results in the current year. Furthermore, we evaluated the assumptions used in the current year assessment of impairment indicators and tested whether these assumptions are in line with the results achieved in current year as well as current development in the industry as well as the Group's and the Company's expectations for the key inputs to impairment models. In respect of performed impairment tests, we used external data in assessing and corroborating the revised assumptions used in impairment analysis, the most significant being future market oil prices, reserves and resources volumes and discount rates. We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis, tested the appropriateness of discount rates used in the calculation with the assistance of the specialists and procedures to assess the completeness of the impairment charges. We also assessed on the adequacy of the disclosures in Consolidated and Separate Financial Statements and if these are in line with the requirements of the International Accounting Standard 36 Impairment of Assets.

Estimation of decommissioning provisions Provisions associated with decommissioning of the assets are disclosed in Note 29 to the Consolidated and Separate Financial Statements; a description of the accounting policy and key judgements and estimates are included in Note 2 and Note 3 respectively. Management reviews decommissioning provisions on an annual basis. This review incorporates the effects of any changes in local regulations, management's expected approach to decommissioning, cost estimates and discount rates. Decommission assets are recorded in an amount equal to the estimated provision, which is also amortized as part of the capital asset costs. Any change to the present value of the estimated costs is reflected as an adjustment of the provisions and the decommission assets. The calculation of decommissioning provisions requires significant management judgement because of the inherent complexity in estimating future costs and is therefore considered as key audit matter.	Audit procedures involved understanding the mandatory or constructive obligations with respect to the decommissioning of each asset based on the contractual arrangements and relevant local regulation to validate the appropriateness of the cost estimate. We obtained calculation of decommissioning provision from the Group and the Company and tested that all of the fields are included in the calculation, tested the appropriateness of discount rates used in the calculation, tested actual expenses that occurred during the current accounting period, inspected that decommissioning provision for the similar types of assets is in line with the expenses occurred in the current accounting period and assessed that the last year of production is aligned with the evaluation of reserves. As a part of our testing, we considered the competence and objectivity of the Group's and the Company's experts who produced the cost estimates. We also assessed on the adequacy of the disclosures in Consolidated and Separate Financial Statements and if these are in line with the requirements of the International Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets.

Other information included in The Group's and Company's 2016 Annual Report
Management is responsible for the other information. Other information consists of the information included in the Annual Report other than the consolidated and separate financial statements and our auditor's report thereon. The Group's and Company's 2016 Annual Report is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated and separate financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.
In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and Audit Committee for the consolidated and separate financial statements
Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRSs as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Company or to cease operations, or has no realistic alternative but to do so.
Audit Committee responsible for overseeing the Group's and the Company's financial reporting process.

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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Slaven Đuroković, Member of the Board and Certified auditor

14 March 2017
Radnička cesta 50
Zagreb
Republic of Croatia

II. Other information included in The Company's 2016 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Annual Report which includes the Management report, Corporate Governance Statement and Report on payments to governments other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the Other information including the Management report, Corporate Governance Statement and Report on payments to governments.

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

With respect to the Management Report, Corporate Governance Statement and Report on payments to governments, we also performed procedures required by the Accounting Act (NN 78/15, 34/15, 120/16) in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act and whether the Report on the payments to governments includes the information specified in Article 27 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management report for the 2016 financial year are consistent, in all material respects, with the enclosed financial statements;

2. the enclosed Management report for 2016 financial year is prepared in accordance with requirements of Article 21. of the Accounting Act;

3. Corporate Governance Statement, included in the Company's annual report, includes the information referred to in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act;

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Company's annual report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed financial statements; and

5. Report on payments to governments, included in the Company's annual report, includes the information referred to in Article 27, paragraph 4, items 1, 2 and 3 and paragraph 5 of the Accounting Act.

In addition, in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report, Corporate Governance Statement, Report on payments to governments and Annual report. We have nothing to report in this respect.

Ernst & Young d.o.o.
Republic of Croatia
Zagreb, 28 April 2017

Slaven Đuroković
Board member and certified auditor