

# ANNUAL REPORT

# 2018



**INA**

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# OVERVIEW

# MISSION

# VISION

INA, d.d. plays a major role in the oil, oil products and gas markets in Croatia and neighboring countries, and which is committed to creating higher value by continuously improving its business and quality of products and services.

To be a well-reputed and desirable partner that is known for its excellent products and services, for honest and nurtured relationships, and for protection of the interests of our owners, customers, employees and other partners.

# CORE VALUES

At INA Group we all share four main values that are just as important at our sites as they are in our offices or at any of our retail sites. Values lead us to make the right decisions, support us in our everyday work, help us create the corporate culture we desire and enable us to transform INA Group for the better.

## PEOPLE We put people first

INA Group is a people-driven company – our colleagues are the foundation our business is built on.



## CUSTOMERS All for the customer, and for the customers all

Customer service is not a department - it is part of our brand DNA.



## OWNERSHIP Our company, our responsibility

We empower and inspire each other. This is what makes INA Group dynamic and forward-thinking.



## AGILITY We drive the change that will shape our future

We make sure we are relevant in new situations, and do things better to take the lead.



# INA GROUP AT A GLANCE

## REFINING AND MARKETING

Headquarters  
**Zagreb**  
Croatia

Expansive  
logistics  
infrastructure

Market share  
approx. **68%**  
Croatia  
approx. **44%**  
B&H

Total oil  
product sales  
**4.3 Mt**  
in 2018



**15**  
imported  
crude  
oil grades  
processed in 2018

**2** Production  
sites (Rijeka and  
Sisak Refinery)  
**1** lubricant  
blending plant  
in Zagreb

## EXPLORATION AND PRODUCTION

## CONSUMER SERVICES AND RETAIL

Over  
**65**  
years of  
experience

**115**  
MMboe  
2P reserves

Active in  
**Croatia,  
Egypt and  
Angola**



Production  
**34.9**  
Mboe/d

Over  
**1,200**  
production  
wells

**61**  
FRESH  
CORNER

**506**  
retail  
locations\*

Over  
**70**  
investments  
projects finished



More than  
**222,000**  
daily users at INA  
service stations

**3.6 mln**  
liters of fuel  
sold daily

\*Retail locations implies: 500 service stations and other retail locations (auto bar / restaurants, carwash, shop, Heating Oil sales point, LPG sales point)

**KEY FINANCIAL AND OPERATING DATA**

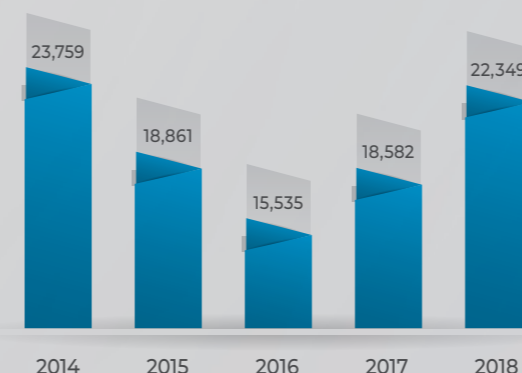
KEY FINANCIAL DATA (HRK MLN)*	2017	2018	CH %
Revenue from contracts with customers	18,582	22,349	20
EBITDA <sup>1</sup>	3,373	3,489	3
EBITDA excluding special items <sup>2</sup>	3,234	3,291	2
o/w Exploration and Production	2,449	3,014	23
o/w Refining and Marketing including Retail	1,049	461	(56)
CCS EBITDA excluding special items	3,053	3,116	2
Profit for the year	1,222	1,177	(4)
Net cash inflow from operating activities	2,484	2,831	14
Capital expenditures	1,393	1,817	30
o/w Exploration and Production	618	649	5
o/w Refining and Marketing	550	857	56
o/w Consumer Services and Retail	163	213	31
Basic and diluted earnings per share (HRK per share)	121.99	117.75	(3)
Gearing ratio (%) <sup>3</sup>	10.8	12.2	13

\*Detailed data analysis is provided in the Management Discussion and Analysis chapter  
<sup>1</sup> EBITDA = EBIT + Depreciation, amortization and impairment (net), restatement of comparable previous periods was made – see page 74  
<sup>2</sup> 2018 result negatively impacted by HRK (93) mln of net impact of severance payments and related provisions together with the positive impact of HRK 291 mln of gain on INAGIP, d.o.o. acquisition  
<sup>3</sup> Gearing ratio = Net debt/Net debt + equity including non-controlling interest

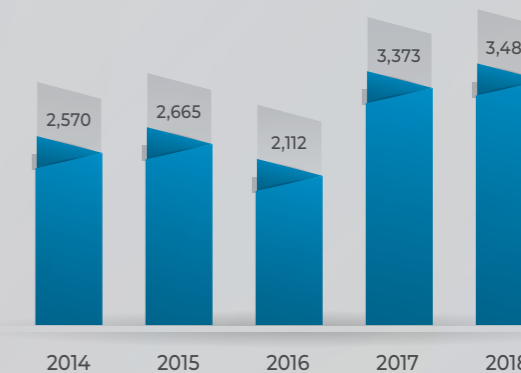
KEY OPERATING DATA	2017	2018	CH %
<b>KEY EXPLORATION AND PRODUCTION DATA</b>			
Total gross hydrocarbon reserves (MM boe) 2P	150	115	(23)
Total hydrocarbon production (M boe/d)	37.6	34.9	(7)
<b>KEY REFINING AND MARKETING DATA</b>			
Total refining throughput (kt)	4,092	4,189	2
Total crude oil product sales (kt)	4,227	4,331	2
<b>KEY CONSUMER SERVICES AND RETAIL DATA</b>			
Total number of service stations	494	500	1
Total sales (kt)	1,056	1,082	2
<b>ENVIRONMENTAL AND SOCIAL PERFORMANCE DATA</b>			
Carbon dioxide emissions (Mt)	1.91	1.85	(3)
Total Recordable Injury Rate (TRIR)*	2.55	2.70	6
Total score in Croatian Corporate Social Responsibility Index	632	631	(0)

\*Own staff + contractors

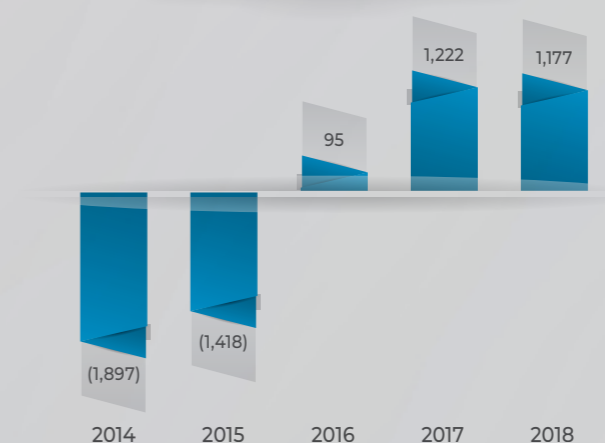
REVENUE FROM CONTRACTS WITH CUSTOMERS (HRK mln)



EBITDA (HRK mln)



(LOSS)/PROFIT FOR THE YEAR (HRK mln)



**COMPANY AND SHAREHOLDER INFORMATION**

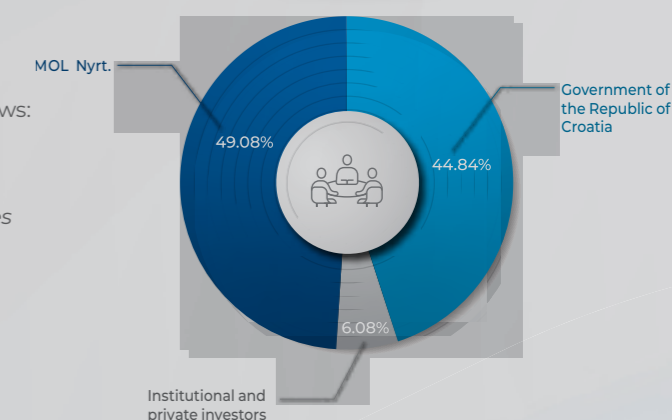
The company's share capital is divided into 10,000,000 ordinary shares with every share carrying one vote, dividend right and a nominal value of HRK 900.00.

INA - Industrija nafte, d.d. was officially listed on the Zagreb Stock Exchange on 30 November 2006 with ticker symbol INA-R-A. INA's global depository receipts ("GDR") were also listed on the London Stock Exchange until September 2014.

**OWNERSHIP STRUCTURE**

As at 31 December 2018, INA's ownership structure is as follows:

- ▶ MOL Nyrt. – 4,908,207 shares
- ▶ Government of the Republic of Croatia – 4,483,552 shares
- ▶ Institutional and private investors – 608,241 shares





# Letter

from the President  
of the Management Board



**Sándor Fasimon**

In 2018 INA Group once again managed to achieve a very strong result. We utilized the favorable market conditions and increased both our sales and EBITDA, with revenues growing over the strong 2017 result by further 20% and exceeding HRK 22 billion. I'm pleased to say that in 2018 INA achieved growth in revenues in all business segments. INA is Croatia's leading company and we plan to maintain that position in the future, staying proud of our company.

Exploration and Production was once again the main cash generator for the company. The segment benefited from the increased Brent price as well as growth projects. We are strongly focused on investments where return can be achieved and the best demonstration of this commitment was the purchase of ENI's share in the Northern Adriatic offshore gas fields, which was the biggest M&A in recent years. Natural decline in the production is still a challenge due to the maturity of INA upstream assets, however multiple projects aimed at addressing this are underway.

On the other hand, Refining and Marketing is still burdened with the negative cash generation of Refining operations. With negative simplified free cash flow of the segment amounting to HRK (784) million, the need for the execution of the INA Downstream 2023 New Course program is evident. However, INA Group Capital expenditures spending increased by 30%, majority of which in Refining, mostly focused on Propane-Propylene Splitter project in Rijeka, as well as other refining development projects. When it comes to Retail, we are focused on expanding the portfolio of goods and services offered to customers, together with the regional expansion. Furthermore, an increase of the Montenegro network is an indicator of company's future focus in regional markets.

In 2019 we expect further company investments alongside with the implementation of the comprehensive INA Downstream 2023 New Course program. Our main goal is to ensure long-term sustainability of all our businesses and maintain our integrated business model. Along with the development of our core businesses, we have been continuously evaluating all available opportunities to expand our operations to other energy segments and to develop new businesses.

In line with the business growth and positive results, we have successfully continued to be a socially responsible company and a reliable partner to local communities as well. INA's Green Belt project was included in the International Chamber of Commerce Global Report on SDGs prepared for the 2018 UN High-Level Political Forum as a project that directly contributes to the Goal 15 (Life on

land). Furthermore, we are among top companies when it comes to corporative volunteering – INA volunteer's club has been continuously growing in terms of number of members and implemented projects.

As an acknowledgment of our comprehensive approach to organization and implementation of occupational safety measures, as well as promotion of risk prevention culture, INA received the "STOP work injuries" award from the Croatian Institute for the Advancement of Occupational Safety Promotion. We maintained zero fatalities trend in 2018 as well, and continued the multiyear "Safety Leadership Engagement" program.

Sustainability is one of INA's principles when it comes to business operations. As a signatory of the UN Global Compact since 2007, we are committed to promoting and supporting the 10 principles of the UNGC in the areas of human rights, labor, environment protection and anticorruption. We are also a signatory of the Diversity Charter which obliges us to implement a diversity and non-discrimination policy in our work and business environments.

Throughout 2018 we continued with the digitalization of our business processes. Introducing new technologies in everyday activities made the processes simpler and more efficient and created value for our business. Moreover, the company has been recognized as the largest user of the new RPA technology, both in Croatia and within MOL Group.

In everything we do, we always put our people first. They are our biggest asset and the key element responsible for company's results. We take special pride in our one-year internship program Growww, thanks to which we have been employing young specialists in various areas since 2010, most of whom stay at INA when their internship is over, contributing to our everyday activities with their expertise and fresh innovative ideas.

Only further positive operation in combination with a sustainable strategy and professional employees, as well as sharing knowledge and experience throughout MOL Group, can result in a successful and competitive INA. To retain our position as a regional leader and an important player in Croatia's economy, we are constantly investing efforts in successfully overcoming all challenges and are focused on adapting to the market demand, while constantly taking care of our employees.

# ABOUT INA GROUP INTEGRATED REPORTING

INA Group annual report is published as part of our commitment to stakeholders with the aim of transparent disclosure of the company's integrated financial and material sustainability performance overview. The report focuses on the material economic, environmental and social impacts of INA Group business activities and addresses the company's performance in the period from 1 January to 31 December 2018. INA Group publishes reports on an annual basis, and the last report was published in April 2018. To ensure that our report meets the highest standards, we follow:

- ▶ The Croatian Company Act, the Capital Market Act and the Accounting Act that prescribes the scope, contents and deadlines of the Annual Report
- ▶ International Financial Reporting Standards (IFRS) when reporting on financial results
- ▶ Global Reporting Initiative (GRI) Standards (Core option) when reporting on sustainability performance
- ▶ Oil & Gas Sector Supplement that provides reporting guidance for companies and organizations primarily involved in the exploration, extraction, production, refining, and transport and sale of oil, gas, petrochemicals and specialized oil service companies
- ▶ Reporting progress on the 10 principles of the United Nations Global Compact (UNGC)

This report is our disclosure in compliance with the Directive 2014/95/EU on disclosure of non-financial and other information by certain large undertakings and groups.

Also, we have taken into account the results of customer satisfaction research, recommendations from an independent assessment of the sustainability reports, Corporate Social Responsibility Index, results of internal and external audits, comments and suggestions from the employee survey, peers benchmarks, etc.

For this report, an independent assurance company has performed a limited assurance engagement for ten GRI indicators that are characterized as the most material. The conclusion of the independent assurance report can be found on pages 132 and 133.

We would appreciate and welcome any feedback on this report via e-mail address: [investitori@ina.hr](mailto:investitori@ina.hr), [odrzivi\\_razvoj@ina.hr](mailto:odrzivi_razvoj@ina.hr), or [PR@ina.hr](mailto:PR@ina.hr).

The scope of this report and sustainability material topics boundaries are determined by considering their relevance to business, availability of the information and operation performances, covering the sites and locations directly under operating control of INA Group companies (details on page 123). All GRI indicators can be found in [GRI content index](#).

## WE SUPPORT



As an UN Global Compact Signatory, since 2007, INA, d.d. has been committed to promoting and supporting UN Global Compact 10 principles.

This document also serves as our Communication on Progress for the UN Global Compact.



# MATERIALITY AND STAKEHOLDER ENGAGEMENT

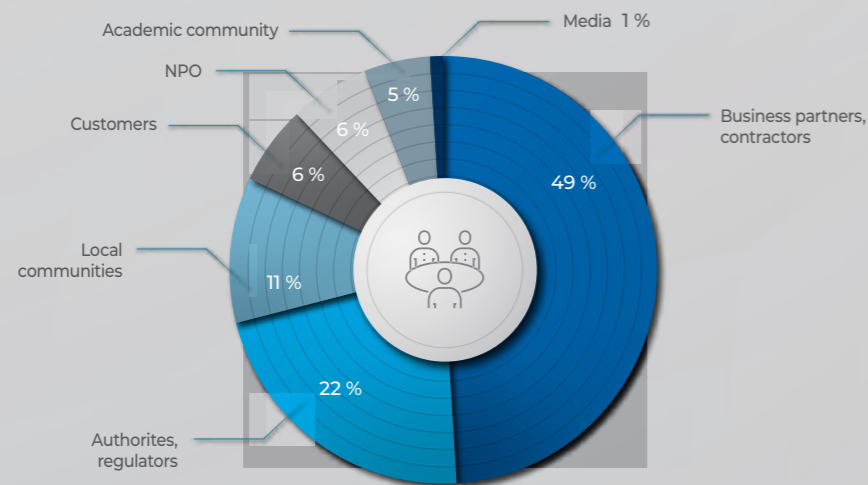
For INA Group, stakeholders' opinion is very important. Different communication channels, including our free toll phone, social media networks (Facebook, Instagram, LinkedIn) and e-mail addresses listed on the corporate website can be used depending on the subject of stakeholders' interest such as: donacije@ina.hr, eticko.povjerenstvo@ina.hr, investitori@ina.hr, lijecnici@ina.hr, odrzivi\_razvoj@ina.hr, PR@ina.hr, pitaj.suljr@ina.hr, sponzorstva@ina.hr, etc.

communities, non-profit organizations (NPOs), the media, and other important secondary stakeholder groups which include Trade unions (TU), financial analysts, academic community and the general public.

For the purpose of defining materiality topics, which are the foundation of this year's integrated report, stakeholder mapping was conducted. In total, 14 INA, d.d. organizational units and larger INA Group companies identified 65 key external stakeholders. The pie chart below shows distribution of identified INA Group key external stakeholders into stakeholder groups.

INA Group stakeholders are generally divided into primary stakeholder group: employees, customers, shareholders, government authorities and regulators, contractors, local

## INA GROUP KEY EXTERNAL STAKEHOLDERS



After key external stakeholder mapping, in June 2018, a survey was conducted in order to gather information from identified key external stakeholders and INA Group employees on sustainability topics they consider to be the most material. Stakeholder feedback is presented in the infographic below.



The survey had a humanitarian character. The company donated a total of HRK 20,000 to the hospital in Bjelovar (a donation was made for each completed survey).

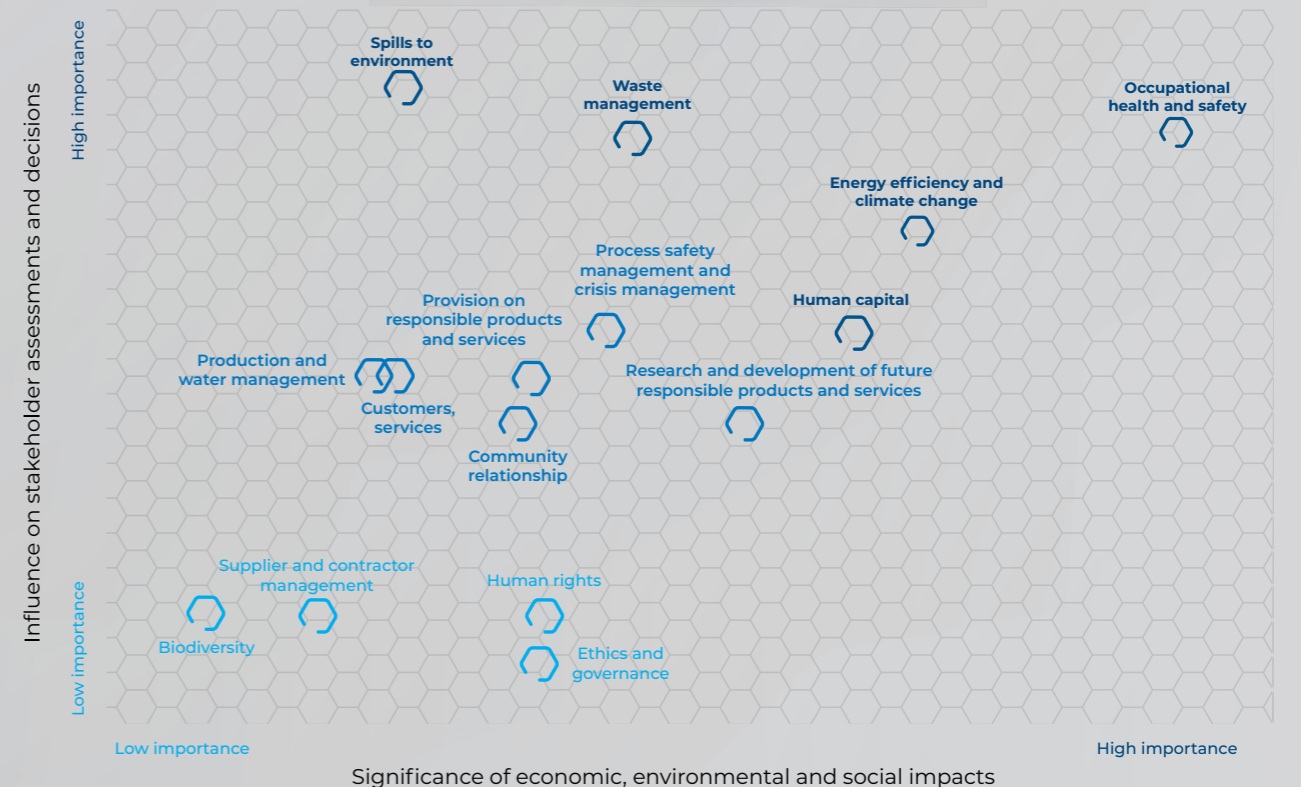
Based on the feedback from both external and internal stakeholders, materiality topics were prioritized and materiality matrix was developed. As shown in the materiality matrix below, topics of critical importance are:

## INA GROUP TOPICS OF CRITICAL IMPORTANCE



Material topics with **high importance** are: Research and development of future responsible products and services, Process safety management and crisis management, Provision of responsible products and services, Community relationship, Customers and services, Production and water management. Even though Human rights, Ethics and governance, Supplier and contractor management and Biodiversity are characterized as material topics of **moderate importance**, they are still managed.

## INA GROUP MATERIALITY MATRIX





# AWARDS AND RECOGNITIONS

## Employer Partner Certificate

For the seventh successive year, INA, d.d. 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 labor.

## Golden Index

INA, d.d. participated in the "Golden Index 2018" project organized by eSTUDENT, one of the most active student organizations in Croatia. The aim of "Golden Index" is to award companies which contributed to better student life, education and professional development of students. Companies are awarded by students themselves, and the goal of the project is to establish a closer cooperation between students and companies, which should contribute to the development of professional competencies and relations. INA, d.d. won the award in the "Scholarships" category.

## STOP Work Injury

On the occasion of the first national campaign "STOP work injuries" and the European Work Safety Week, the Institute for the Advancement of Occupational Safety Promotion has granted INA, d.d. a recognition for a comprehensive approach to organization and implementation of occupational safety measures, promotion of risk prevention culture and highlighting the contribution of the first National STOP Work Injury campaign.

## "Sjaj" Award

INA, d.d. won the "Sjaj" Award for visibility and affirmation of CSR and sustainability in digital media. The "Sjaj" Award is organized by Dobra Hrvatska (Good Croatia) business initiative, the Croatian Employers' Association and Global Compact Network for Croatia, and it has been awarded since 2017 with the aim of encouraging business entities to publish and make their CSR visible on digital communication platforms - portals and networks. That way, their strong communication potential is used for developing social awareness of sustainability. 41 applications were received in 2018, and the "Sjaj" Award for the best digital visibility of CSR was received by six organizations.

## Awards for INA Volunteers Club

In 2018, INA Group Volunteers Club received two awards: an award from Volunteer Centre Osijek for contribution of the business sector to the development of volunteering and an award from Local Volunteer Centre Orkas for the best company that supports volunteering.

## JUMP Award

INA, d.d. marketing campaign "European Handball Championship 2018" won the JUMP award in the "Sports marketing" category at the Sport Fest conference 2018. JUMP awards have been introduced to highlight and award individuals and institutions that promote and enhance sport. Sports marketing category represents brands and companies which inspire other sportsmen, fans and the public through their successful sports community cooperation.



# 2

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, d.d. in accordance with INA's Articles of Association and the Companies Act.

**The Supervisory Board** is responsible for the appointment and recall of the Management Board members and supervises the conduct of the 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.

**Members of the Council of Directors** are appointed based on a Management Board's decision. They are authorized and responsible for the management of operations of INA's individual business divisions (Exploration and Production, Refining and Marketing, Consumer Services and Retail, Finance and Industrial Services).

The business address for all members of the Management Board, Supervisory Board and members of the Council of Directors is Avenija Većeslava Holjevca 10, 10 020 Zagreb, Croatia.

## Supervisory Board

Members of the Supervisory Board from 14 June 2017 until 18 December 2020:

- ▶ Damir Vandelić - President of the Supervisory Board
- ▶ József Molnár - Vice President of the Supervisory Board
- ▶ Luka Burilović - member of the Supervisory Board
- ▶ Szabolcs I. Ferencz - member of the Supervisory Board

- ▶ Ferenc Horváth - member of the Supervisory Board
- ▶ Damir Mikuljan - member of the Supervisory Board
- ▶ József Simola - member of the Supervisory Board
- ▶ László Uzsocki - member of the Supervisory Board
- ▶ Jasna Pipunić - representative of employees in the Supervisory Board

## Management Board

Members of the Management Board from 1 July 2018 until 30 June 2021:

- ▶ Sándor Fasimon - President of the Management Board
- ▶ Niko Dalić - member of the Management Board
- ▶ Ivan Krešić - member of the Management Board
- ▶ Davor Mayer - member of the Management Board
- ▶ Zsolt Pethő - member of the Management Board
- ▶ Dr. Ákos Székely - member of the Management Board

## Council of Directors

Members of the Council of Directors appointed by the decision of the Management Board from 1 December 2018 until recall:

- ▶ Gábor Horváth - Chief Financial Officer
- ▶ Darko Markotić - Operating Director of Consumer Services and Retail; Acting Operating Director of Industrial Services
- ▶ Stjepan Nikolić - Operating Director of Refining and Marketing
- ▶ Tvrtko Perković - Operating Director of Exploration and Production

## Issuer's Audit Committee

The Audit Committee is a body appointed by the Supervisory Board with the purpose of assisting the Supervisory Board 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:

- ▶ Accounting segment
- ▶ External auditor segment
- ▶ Financial segment
- ▶ Risk-management segment

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

Members of the INA, d.d. Audit Committee as at 31 December 2018 are:

- ▶ Judit Szilágyi - Chairman of the Audit Committee
- ▶ József Simola - member of the Audit Committee
- ▶ Damir Vandelić - member of the Audit Committee

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 (Hrvatska agencija za nadzor financijskih usluga) and the Zagreb Stock Exchange (Zagrebačka burza d.d. Zagreb) and is published on the Zagreb Stock Exchange website ([www.zse.hr](http://www.zse.hr)) and Croatian Financial Services Supervisory Agency website ([www.hanfa.hr](http://www.hanfa.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 INA Group management and employees 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 behavior. 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 ([www.ina.hr](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 and Clearing Company Inc. (Središnje klirinško deponitarno društvo d.d.), 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 requests from 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 cases when there is 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 top management take into account the continuity in performing supervisory, management and administrative functions.

The Company's bonus policy is a part of internal rules and is not 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 a 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.

**Sándor Fasimon** - *President of the Management Board*

Mr. Fasimon was appointed President of INA Management Board on 1 July 2018. From 1991, he held various leadership positions in the oil and gas trading company Mineralimpex. Between 1996 and 1997, he served as Head of the Hungarian Commercial Section in Tripoli, Libya. Mr. Fasimon joined MOL in 1998 when he was appointed Supply Director in the field of crude oil and crude oil products. In 2002, he became the CEO of Moltrade - Mineralimpex. A year later, he was appointed Managing Director of the Natural Gas Division. Between 2006 and 2009, he was Chief Executive Officer of MOL's Russia Office, after which he continued his career as Senior Vice President of Supply & Trading. In 2011, he became the Managing Director of the Exploration and Production Division and he served as Chief Operating Officer of MOL Hungary from 2012.

Sándor Fasimon graduated from the Moscow State Institute of International Relations (IMO) with an economics degree in 1990. Between 1990 and 1991, he attended postgraduate studies at the University of Cairo, where he studied Arabic.

**Niko Dalić** - *member of the Management Board*

Mr. 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 ED-INA d.o.o., a joint venture of INA, d.d. and Italian company Edison, where he has focused on the activities in the Izabela field in Northern Adriatic.

Niko Dalić graduated from the Faculty of Science at Zagreb University, where he later acquired his master's degree. He passed his state license 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 2005 to 2009, he was the President of the Croatian Geological Society. From December 2014 to October 2018, Mr. Dalić served as Vice President for Geology in HUNIG (Croatian Association of Petroleum Engineers and Geologists).

**Ivan Krešić** - *member of the Management Board*

Mr. Krešić was appointed member of INA Management Board in February 2011, after serving as Rijeka Refinery Director from 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 INA MAZIVA d.o.o. and STSI d.o.o.

Ivan Krešić 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 as He is a member of the Alumni Club of Bled School of Management and executive education alumni of London Business School.

**Davor Mayer** - *member of the Management Board*

Mr. Mayer was appointed member of INA Management Board in February 2011. He started his career as an intern in INA Refinery Zagreb (today: INA MAZIVA d.o.o.) and Sisak Refinery, after which he worked on INA refinery processing optimization and then in international trade. He served as 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 Fleet Card Management Sector Director in INA, d.d., alongside his seat in Tifon Management Board.

Davor Mayer 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.

**Zsolt Pethő** - *member of the Management Board*

Mr. Pethő was appointed member of INA Management Board on 1 July 2018. Mr. Pethő joined MOL in 1998 and has since held several senior managerial roles within the Downstream business. He worked as LPG (propane-butane) Product Director, Fuel Products Director and as Sales Director, before being appointed Commercial Director of Refining and Marketing in 2006. He was appointed Senior Vice President of MOL Group Petrochemical Division and CEO of TVK Plc. in 2011. In 2012, he became the head of MOL Hungary's Downstream operations. In 2016, he was appointed Senior Vice President for the Group Supply, Trading & Optimization organization and he has been serving as Senior Vice President for Downstream Commerce & Optimization in MOL Group since the organization's establishment in May 2017.

Zsolt Pethő graduated from the Donát Bánki Faculty of Mechanical and Safety Engineering in Budapest. He also acquired an Advanced Certificate in Marketing from the Marketing Academy of Budapest in 1997.

**Dr. Ákos Székely** - *member of the Management Board*

Dr. Székely was appointed member of INA Management Board on 1 July 2018. Dr. Székely started his career at Budapest Waterworks, and in 2003, he became the 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. Dr. Székely was appointed Chief Financial Officer in INA, d.d. in February 2016, and in November 2017, he returned to his previous position in MOL Hungary. Dr. Székely has been serving as Senior Vice President for Financial Planning and Reporting in MOL Group since February 2018.

Dr. Ákos Székely graduated from the Faculty of Management and Business Administration at the Budapest University of Economic Sciences in 1999. He also holds a Ph.D. in Business Administration and Management.





**Gábor Horváth -**  
Chief Financial  
Officer

Mr. Horváth was appointed Chief Financial Officer on 1 November 2017. Before that, Mr. Horváth held the position of Director of Controlling. He began his career in Ernst & Young auditing company in Budapest, and in 2006, he started working in MOL. In January 2010, he became the Advisor to the Executive Director of Finance BF in INA, d.d. where he stayed until 2011. In May 2011, Mr. Horváth became the Head of MOL Group Risk Management, and from March 2015, he served as Director of INA, d.d. Controlling Sector.

Gábor Horváth studied at Budapest University of Economic Sciences and Public Administration where he earned his Master's Degree in Economics. Additionally, he completed ACCA (Association of Chartered Certified Accountants) exams.



**Darko Markotić -**  
Operating Director of Consumer  
Services and Retail; Acting Operating  
Director of Industrial Services

Mr. Markotić was appointed to the position of Operating Director of Consumer Services and Retail in July 2017. In addition to the position of Operating director for Consumer Services and Retail, since 1 October 2018, he has been serving as acting Operating Director of Industrial Services. Mr. Markotić joined INA, d.d. in 2000 and held various positions in different organizational units within the company. At the very beginning of his career in INA, d.d., 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 coordination of the privatization of INA, d.d. 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 the position, he was appointed Executive Director of Corporate Services BF in 2009. From October 2010, he served as Executive Director of Retail Business Division.

Darko Markotić graduated from the Faculty of Law at Zagreb University in 1998.



**Stjepan Nikolić -**  
Operating Director of  
Refining and Marketing

Mr. Nikolić was appointed Operating Director of Refining and Marketing on 1 December 2018. Before that, Mr. Nikolić held the position of Director of Logistics. He started his career in 1995, as a designer of process and energy utilities in Mundus. From 1998 to 2000, he worked in the head office of Crodux as a fuel supply chain analyst and planner. In 2000, he joined Coca-Cola Beverages Croatia where he held various positions in the operations sector for a period of ten years, ranging from a Production analyst, Production manager and Plant manager to Country manufacturing manager and Country supply manager.

Stjepan Nikolić graduated from the Faculty of Mechanical Engineering and Naval Architecture at the University of Zagreb in 1995 at process-energy department, and holds a degree in mechanical engineering. He was active in the founding of the Lean association and temporarily worked as an assistant - external associate at the Department of Industrial Engineering. He has enrolled in the international MBA program at the Faculty of Economics and has completed a series of business educations at international universities in South Africa, the United Kingdom, Switzerland and the USA.



**Tvrtko Perković -**  
Operating Director of  
Exploration and Production

Mr. Perković was appointed to this position in July 2017 after serving as Corporate Centre Operating Director since September 2012. He began his career as an intern in INA, d.d. in 1986 in the Exploration and Production business division, 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, after 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 in CROSCO d.o.o. In July 2009, he returned to INA, d.d. to serve as Director of the Upstream Support Sector and was appointed to the position of president of the Management Board of STSI d.o.o. in 2010, which he held until July 2012.

Tvrtko Perković graduated from the Faculty of Mining, Geology and Petroleum Engineering at the University of Zagreb in 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 and Business in Zagreb in 1993.



# QUALITY MANAGEMENT

## INNOVATION AND AWARDS

For more than half a century, INA, d.d. workers have been applying their innovation proposals categorized as patent (invention), industrial design, technical improvement, business rationalization or useful idea. They have received a large number awards for these innovations at numerous innovation exhibitions in the country and abroad. For example, in 2018, within INA Group, INA MAZIVA d.o.o. received two gold medals for new products - INA Epol HC and INA Ostrea LA 4000 SAE 40. In 2018, INA Group Innovation Proposal Evaluation Committee accepted five innovation proposals to improve the business processes of logistics, retail and security.

## QUALITY

Quality management is applied in all business processes through the integrated company system which was also introduced by major INA Group companies. The goal is to continuously improve processes and to further develop the quality of products and services. INA, d.d. has certificates according to ISO 9001, ISO 14001, ISO 50001, OHSAS 18001 standards and EU-ISCC certificate on biofuels sustainability, which is a required condition for the sale of biofuels on the EU market. Monitoring of the entire system is implemented with external monitoring management system (MS) audits, MS internal audits and supplier audits. Through the cooperation with health and safety audits, internal audits, compliance with the regulations audits and security audits, a better control of processes is accomplished. In 2018, improvements were made in the oversight of internal audits, document management, and quality education.

INA, d.d. experts actively participate in the work of the Croatian Society for Quality (CCS) and Croatian Standards Institute, 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.

## STANDARDIZATION

INA standards define and specify the quality of our products and raw materials, as well as the elements of the company's visual identity, and prescribe rules and standards in the field of business communication. In 2018, four standards and nine safety technical lists were revised. A "Guide to Identifying Compatibility of Corresponding Fuel and Vehicles for Road Transport" was prepared, which is available on the websites of the ministries responsible for the subject-matter. INA, d.d. experts actively participate in the work of more than 34 technical committees and numerous subcommittees and working groups at the Croatian Standardization Institute (CSI) where they help improve the process of sustainable development of our company.

## INTELLECTUAL PROPERTY

Protection of intellectual property rights includes the protection of inventions (patents), trade and service mark, product names and elements of the visual identity of service stations (trademark), and the protection of the external appearance, i.e. product appearance (industrial design). In line with its business interests, INA, d.d. protects: INA's name through international registration, which ensures protection of INA's name in 27 countries (Republic of Croatia, Albania, Algeria, Austria, Benelux, Bosnia and Herzegovina, Bulgaria, Montenegro, Czech Republic, Egypt, Italy, Kosovo, Liberia, Hungary, Macedonia, Morocco, Germany, Poland, Romania, Russian Federation, Slovakia, Slovenia, Serbia, Swiss, Ukraine), 50 trademarks in Croatia, 23 trademarks in Slovenia, 20 in Macedonia, 25 in Bosnia and Herzegovina, 15 in Serbia, 11 in Albania, 13 in Kosovo, 16 in Montenegro, nine in Hungary, seven industrial designs in Croatia, five industrial designs in Bosnia and Herzegovina and Slovenia, four industrial designs in Serbia, Macedonia, Montenegro and Kosovo, and INA web domain in Macedonia and Bosnia and Herzegovina. In the year 2018, six new trademarks were registered (INA HIDRAOL, INA HIPENOL, INA AUTOGLAS, INA ANTIFRIZ, INA PLIN, Plava boca / Blue Bottle).

Trademark protection was extended for trademarks of the visual identity of service stations (PLAVI KONCEPT) and INA ULTRA, INA 2T, INA LIS and industrial design totem. At the same time, protection was provided for the CROSCO logo (Albania, Azerbaijan, Egypt, Hungary, Italy, Liberia, Tunisia, Ukraine and Kuwait) and STSI (Belarus).

The other part of INA, d.d. intellectual property are employees and all their knowledge, ideas and skills applied in their work. The Company Knowledge Base in which one can find all information related to the creative work of INA, d.d. employees is continuously maintained.

## PROTECTION OF PERSONAL DATA

Protection of personal data is actively conducted in INA Group companies, according to the legislation in force. In 2018, a new version of the INA Group operative regulation was published. This regulation includes all provisions of EU Regulation 2016/679 of the European Parliament and of the Council of 27 April 2016, for the protection of individuals regarding the processing of personal data and the free movement of such data. In 2018, the practice of checking this process was successfully continued through internal audits of INA, d.d. organizational units, where there is a need for setting up personal data filing systems, and in audits of other INA Group companies.



3

OUR  
BUSINESSES

# EXPLORATION AND PRODUCTION OVERVIEW



## Achievements

- ▶ Zero fatalities and zero LTIF
- ▶ North Adriatic assets acquisition increased 2P reserves and production and opened up field development opportunities
- ▶ Fifth consecutive year of domestic oil production increase on existing assets



## Challenges

- ▶ Maintaining our HSE track record
  - ▶ Increasing our operating efficiency and productivity
- ▶ Participating in Croatia's second onshore bid round and continuing international business development activities

### Key message from the Operating Director

“ We are now the sole owner and operator on our North Adriatic concessions, which opens the door for future investments. This is the first step in our key focus area of reserve replacement and sustainable growth for which we now have a solid stronghold and a clear sense of direction. ”

At the same time, our existing assets remain strong, as production optimization efforts enabled us to maintain the domestic oil production growth trend for the fifth year in a row, while our HSE results improved even further. Business operations in Egypt improved significantly and we submitted two international concession bids after more than 15 years. ”

**Tvrko Perković**  
Operating Director of  
Exploration and Production





## OVERVIEW AND KEY ACHIEVEMENTS FOR THE YEAR 2018

At the end of 2018, INA Group had 115 MMboe of proven and probable (2P) hydrocarbon reserves with an average daily hydrocarbon production of 34.9 Mboe.

### Croatia Onshore

#### Exploration

Drava-02 exploration block 2018 work program is comprised of drilling two exploratory wells, 2D seismic acquisition and the related G&G activities. Severovci-1 well tested gas with small quantities of condensate (commerciality decision to be made in 2019), while Mala Jasenovača-1 was dry (P&A status).

Other key exploration activities included the preparations for the Second Croatian Onshore Bid Round. INA, d.d. is interested in participating and looking forward to winning bids which would enable exploration of the remaining Croatia onshore potential and utilizing full company capacities.

#### Early Field Development

Legrad-1J RE well was drilled in 2018 and stimulation and well testing are to follow in 2019.

#### Field Development

Full Field Optimization (FFO) concept implementation continued in 2018 covering ten fields in total since introduction in 2016. The FFO concept includes improvements across the entire production system – reservoir, well, pipeline network and facility performance – which are all made possible using integrated computer models. The concept implementation is planned to continue in the future, across new prospective mature onshore fields and on the fields already covered.

Idle wells revitalization concept aiming to produce additional hydrocarbon quantities by performing workover operations on idle wells successfully continued in 2018. There is very limited data available for these idle wells, such as hydrocarbon saturation and reservoir parameters required to estimate reservoir and production capacity, which makes putting these wells back into production an even greater achievement.

Locations for eight new development wells have been proposed for further evaluation after interpretation of the Jamarice, Lipovljani and Kozarice fields seismic data originally recorded in 2016.

With all the above activities, 91 capital well workover operations were performed in 2018.

#### Enhanced Oil Recovery (EOR)

EOR project in the Ivanić and Žutica North fields continued throughout 2018. Results show positive incremental response in both fields. Almost 50% of the total produced hydrocarbon volumes in the Ivanić field and almost 90% produced in the Žutica North field are now the result of EOR.

A new EOR Program Team has been formed for integrated multidisciplinary management of existing and future EOR projects. The Team will monitor and optimize the injection and production systems in the Ivanić and Žutica fields, implement the EOR pilot project in the Šandrovac field, prepare the EOR feasibility study for Stružec field, evaluate opportunities for polymer flooding type of EOR, and evaluate the model of EOR pilot project in the Beničanci field. Furthermore, in 2018, Stružec field Block 3 evaluation started, supported by advanced reservoir simulation tools.

#### Maintenance

Major maintenance activities of surface facilities took place at Molve Gas Treatment Plant, Ivanić Grad Fractionation Facilities and onshore gas fields in the Northern Croatia Production Region. This complex project was finished successfully and ahead of schedule but, most importantly, without HSE incidents, despite performing very risky operations and involving over 600 workers.

Corrosion Management System (CMS) was developed and introduced in 2018 to ensure safe and reliable operation of production systems, improving maintenance plans and avoiding unplanned downtime and environmental pollution.

#### New Technologies

In 2018, 13 Linear Rod Pump (LRP) systems were installed on four oil fields with the purpose of putting idle wells back into production and improving the efficiency of artificial lift on individual wells. LRPs have proven to be very efficient, both in terms of increasing production from mature fields and in reducing operating costs.

Following encouraging results of previous years, 20 sucker-rod pump (SRP) wells were automated in 2018, raising the total number of automated wells to 67.

With the aim of reducing the number of well workovers and consequently operating costs, additional subsurface production equipment was installed on 40 SRP production wells. First results show a significant extension of the meantime between failures of production equipment.

The artificial lift method in the Ivanić oil field is being changed from inadequate sucker-rod pumps (SRP) to electrical submersible pumps (ESP) with continuous downhole corrosion inhibition. This will result in significant operating cost reductions based on lower number of workovers. Also, the required production flexibility will be achieved in line with CO<sub>2</sub> injection cycles. Four ESPs and inhibition systems were installed, and 20 more are expected in 2019.

### Croatia offshore

In 2018, INA, d.d. completed the acquisition of Eni's share in the Northern Adriatic offshore gas fields. In legal terms, INA, d.d. became the sole shareholder of Eni Croatia B.V. and subsequently the sole owner of concessions for ten offshore gas fields in the Croatia's Northern Adriatic area. The deal has increased INA's natural gas reserves and production, while also opening the door to further development of said fields.

Workovers, maintenance and optimization activities were performed throughout the year, ensuring operational stability and helping partially offset the natural production decline. Preparations for drilling the Irena-2 well in 2019 were intensified. A joint study with partner company Edison was made for upside gas potential evaluation in the broader Northern Adriatic area in order to define further activities.



### Egypt

INA's assets in Egypt include one operated concession - East Yidma and three non-operated concessions with a minority stake; North Bahariya, Ras Qattara and West Abu Gharadig.

Issues with delayed receivables payments negatively affected INA's business in Egypt in 2017, however, the situation took a positive turn in 2018, reducing the outstanding receivables amount by around half during the year.

**East Yidma:** In 2018, workovers were performed on two wells and preparatory activities for drilling the Rizk-2D exploration well began, with spud-in expected in February 2019.

**North Bahariya:** By implementing the intensified drilling program with water injection system, maximum reserve recovery is targeted to be achieved until license expiry. Scope of the work in 2018 included eight producer and two water injector wells, 25 workovers and surface facilities upgrades. In total, eight new producers were put into production.

**Ras Qattara:** In August 2018, the concession license extension (until March 2023) was signed. Due to the long lasting concession extension procedure, only five out of nine planned development wells were drilled. In addition, well interventions, surface facilities overhaul and other related activities were implemented in order to maintain the production rate.

**West Abu Gharadig:** In 2018, one development well was drilled. In addition, well interventions, surface facilities overhauling activities and other related project activities were implemented in order to maintain the production rate.

### Angola

**Block 3/05:** The 2018 work program included facilities maintenance and well workovers.

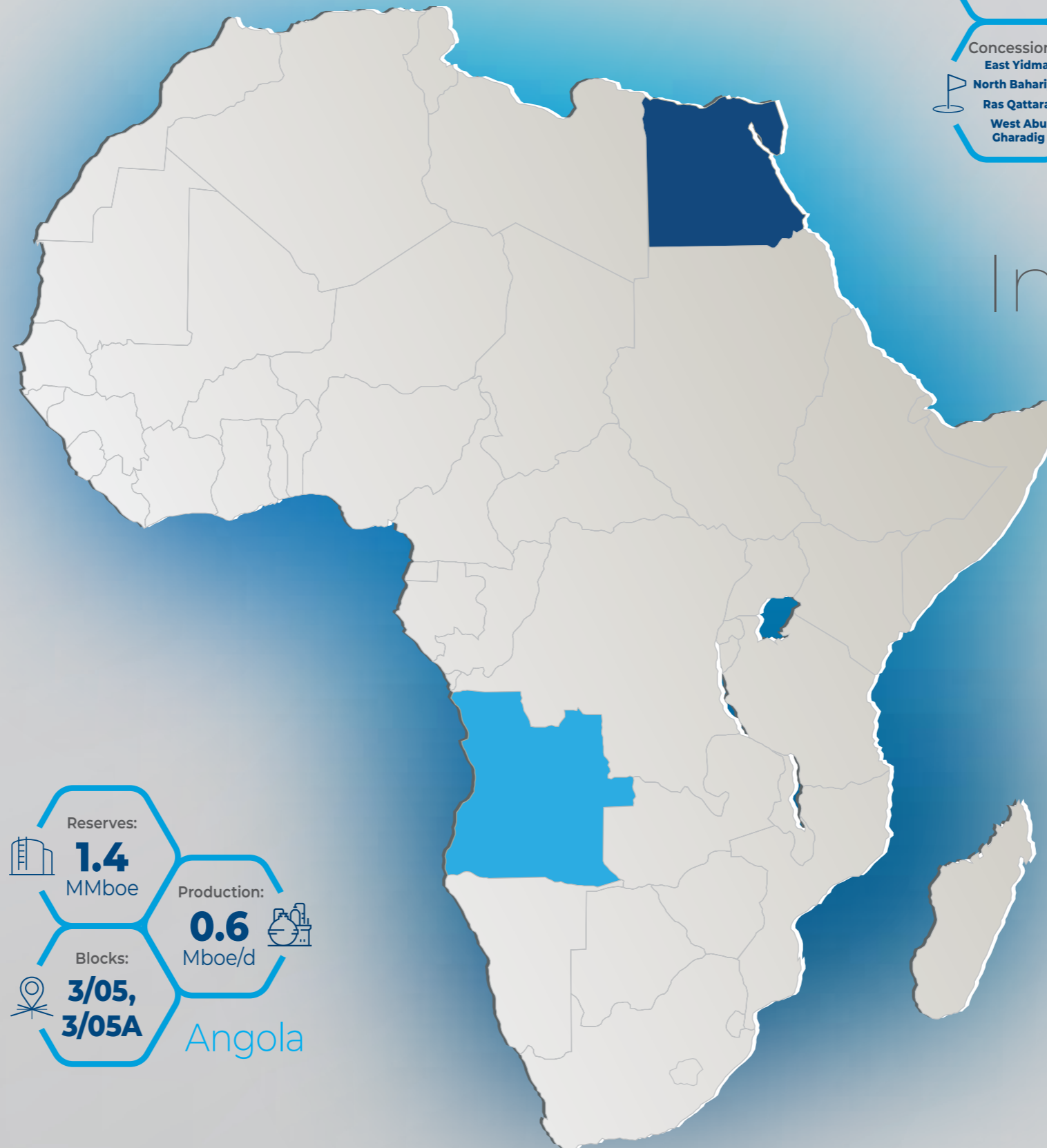
**Block 3/05 A:** The 2018 work program included re-evaluation process of the upside potential of the Punja discovery, led by Eni. Due to technical issues, there was no production on the Block in 2018.

### Portfolio development

With portfolio diversification being one of the Exploration and Production priorities, endeavours were made to identify new opportunities with sufficient potential for reserves and production growth in terms of either exploration, field development or mature field management.

The majority of projects considered in 2018 came from countries in which we are already present (Croatia and Egypt), but the scope of attention is being broadened from INA's traditional regions, such as MENA and South East Europe, to Western Europe and CIS countries. Selected projects of interest were mostly related to onshore exploration with low to moderate risk profile.

As a result of intensified efforts in creating foundation for future Exploration and Production portfolio solid structure, INA, d.d. took an active part in 2018 EGPC and EGAS Bid Rounds by submitting bids in a consortium with reputable international oil companies for two onshore exploration concessions in Egypt.



# International

### STRATEGY AND OUTLOOK

Reserve replacement and maintaining a stable production rate remain our key priorities in order to enable sustainable growth in the future. This can be achieved by developing a diversified portfolio as a collection of both organic and inorganic projects. In 2018, INA, d.d. made a strong base for this and made strong efforts to support growth in the upcoming years. INA, d.d. will keep participating in international tenders with the aim of acquiring both discovered reserves and new exploration licenses. The outcome of such ventures will largely depend on the crude oil price trend on the market, as well as the optimal strategic fit for the company.

Current growth opportunities in Croatia are limited, as aside from the Drava-02 block, INA, d.d. is allowed to explore only the areas for which it wins bids as part of public bidding rounds for exploration blocks. INA, d.d. looks forward to participating in the only bid round announced in 2018, the Second Croatian Onshore Bid Round, as well as any other bid rounds should they be opened in the near future.

Regarding current assets, INA, d.d. plans to continue to utilize their full potential. The Drava-02 exploration program will continue while we further implement our Full Field Optimization concept, expand the EOR project to other onshore oil fields deemed suitable for such activities and start a multi-year drilling campaign on offshore assets where we are now the operator.



## FINANCIAL AND OPERATING PERFORMANCE

In 2018, EBITDA reached HRK 3,287 million and was 22% higher than in 2017. The robust EBITDA result was driven by 32% higher Brent price which had a positive effect on oil and condensate sales revenues.

SEGMENT RESULTS*	HRK MLN			USD MLN**		
	2017	2018	CH %	2017	2018	CH %
Total revenue	3,760	4,187	11	568	667	17
EBITDA <sup>1</sup>	2,702	3,287	22	408	524	28
EBITDA excluding special items <sup>2</sup>	2,449	3,014	23	370	480	30
Profit from operations	1,586	2,256	42	239	359	50
Profit from operations excluding special items <sup>2</sup>	1,333	1,983	49	201	316	57
Simplified Free Cash Flow <sup>3</sup>	1,831	2,365	29	276	377	37
Capital expenditures	618	649	5	93	103	11

\* Refers to Exploration and Production of INA, d.d. and the following subsidiaries: Adriagas S.r.l. Milano, Croplin d.o.o., INA Adria B.V. and INA Jadran d.o.o.

\*\* In converting HRK figures into USD, the following average CNB (HNB) rates were used: for 2017 – 6.6224 HRK/USD; for 2018 – 6.2784 HRK/USD

<sup>1</sup> EBITDA = EBIT + Depreciation, amortization and impairment (net), restatement of comparable previous periods was made – see page 74

<sup>2</sup> 2018 result negatively impacted by HRK (18) mln of net impact of severance payments and related provisions together with the positive impact of HRK

291 mln of gain on INAGIP, d.o.o. acquisition

<sup>3</sup> Simplified free cash flow = CCS EBITDA excluding special items – Capital expenditures

Domestic crude oil production increased as a result of production optimization projects and the EOR project in the Ivanić and Žutica fields, as well as full year production from two new wells on Hrastilnica field. Natural gas production drop across both onshore and offshore fields, driven by natural decline and increasing watercut, was only partially mitigated by Eni offshore share acquisition together with higher Vučkovec and Zebanec onshore gas fields production as well as higher associated gas production from onshore oil fields resulting from production optimization projects.

In Egypt, natural decline was only partially offset by workover and drilling activities on North Bahariya concession, while Angola production decrease was driven by the turnaround on block 3/05 and production stoppage on block 3/05A, in addition to natural decline.

HYDROCARBON PRODUCTION (boe/d)	2017	2018	CH %
<b>CRUDE OIL PRODUCTION</b>	<b>14,515</b>	<b>14,550</b>	<b>0</b>
Croatia	12,165	12,443	2
Egypt	1,536	1,496	(3)
Angola	815	611	(25)
<b>NATURAL GAS PRODUCTION</b>	<b>21,287</b>	<b>18,926</b>	<b>(11)</b>
Croatia onshore	13,564	12,419	(8)
Croatia offshore	7,723	6,507	(16)
<b>CONDENSATE</b>	<b>1,786</b>	<b>1,441</b>	<b>(19)</b>
Croatia	1,786	1,441	(19)
<b>TOTAL HYDROCARBON PRODUCTION</b>	<b>37,588</b>	<b>34,917</b>	<b>(7)</b>
<b>AVERAGE REALISED HYDROCARBON PRICE</b>			
Total hydrocarbon price (USD/boe)*	40	53	33

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

RESERVES BREAKDOWN (MMboe)	1P		2P	
	2017	2018	2017	2018
<b>BY COUNTRY</b>				
Croatia onshore	108	76	136	100
Croatia offshore	5	6	9	11
Egypt	2	1	3	3
Angola	1	1	2	1
<b>TOTAL</b>	<b>116</b>	<b>84</b>	<b>150</b>	<b>115</b>
<b>BY PRODUCT</b>				
Oil	56	44	76	58
Gas	54	37	67	52
Condensate	6	3	7	5
<b>TOTAL</b>	<b>116</b>	<b>84</b>	<b>150</b>	<b>115</b>

CAPITAL EXPENDITURES 2018 (HRK MLN)	CROATIA	EGYPT	ANGOLA
Exploration	85	1	-
Development	324	78	9
Other	152	-	-
<b>TOTAL</b>	<b>561</b>	<b>79</b>	<b>9</b>

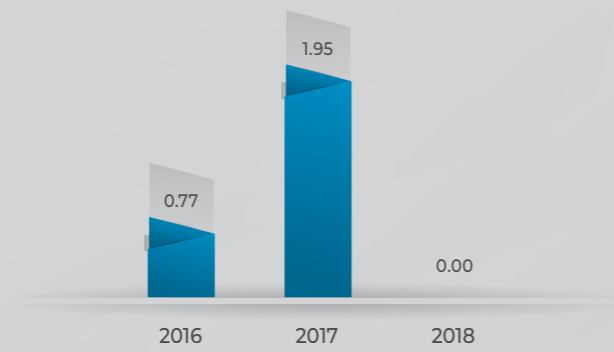


## SUSTAINABILITY HIGHLIGHTS

### Health and Safety

In 2018, Exploration and Production achieved excellent results in Occupational Health and Safety, which resulted in a zero Total Recordable Injury Rate (TRIR). There were no work-related injuries or occupational illnesses.

TRIR EXPLORATION AND PRODUCTION



### Environment

The reason for increase in the amount of total waste in 2018 was the turnaround of Molve and Ivanić Grad facilities (80% more non-hazardous type of waste than in 2017).

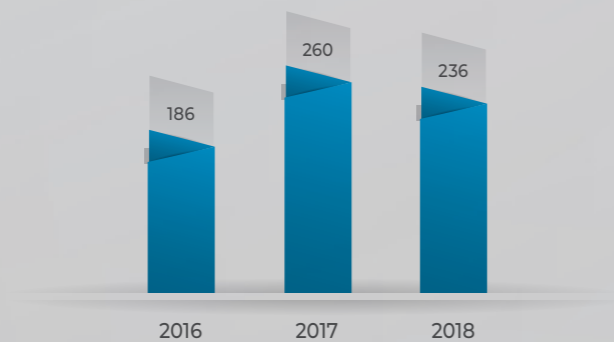
TOTAL WASTE GENERATED (t)



### Climate change

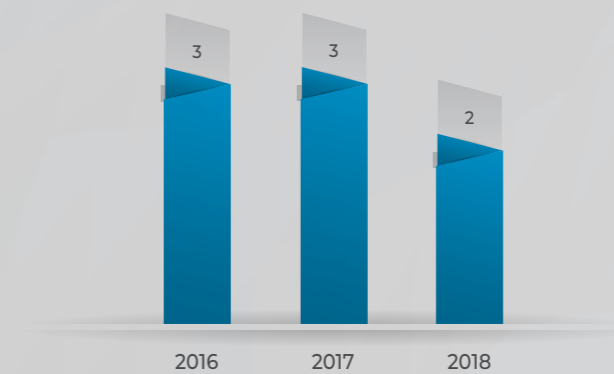
In 2018, emissions from venting decreased compared to 2017 due to the fact that turnaround was performed at Molve and Ivanić Grad facilities in 2018.

DIRECT GHG EMISSIONS FROM VENTING  
(in thousand tCO<sub>2</sub>eq)



In 2017, two major spills occurred due to mechanical failure and corrosion of pipes. For this reason, thanks to the pipelines replacement project (old steel pipes were replaced with fiberglass, steel, or composite pipes) and rehabilitation of old steel pipelines with PolyEthilene High Density (PEHD) pipes, the number of spills decreased in 2018. Two spills in 2018 were caused by illegal connections.

NUMBER OF SPILLS >1 m<sup>3</sup>



# REFINING AND MARKETING OVERVIEW



## Achievements

- ▶ Full extent of the new operating mode of both refineries was implemented
- ▶ Strong market position with increased market share on core markets
- ▶ Increasing throughput in logistics infrastructure

## Key message from the Operating Director

“ After a shaky start in challenging winter conditions, the rest of 2018 was characterized by stable operations and market supply and by intense preparation for the Rijeka 2019 turnaround.

The integrated operating mode for the refineries has proven successful and is a tribute to continuous improvement, capturing market opportunities, and cooperation culture in INA Refining and Marketing. This is all tangible proof of the fantastic capability of the INA Refining and Marketing team. ”

**Stjepan Nikolić**  
Operating Director of  
Refining and Marketing

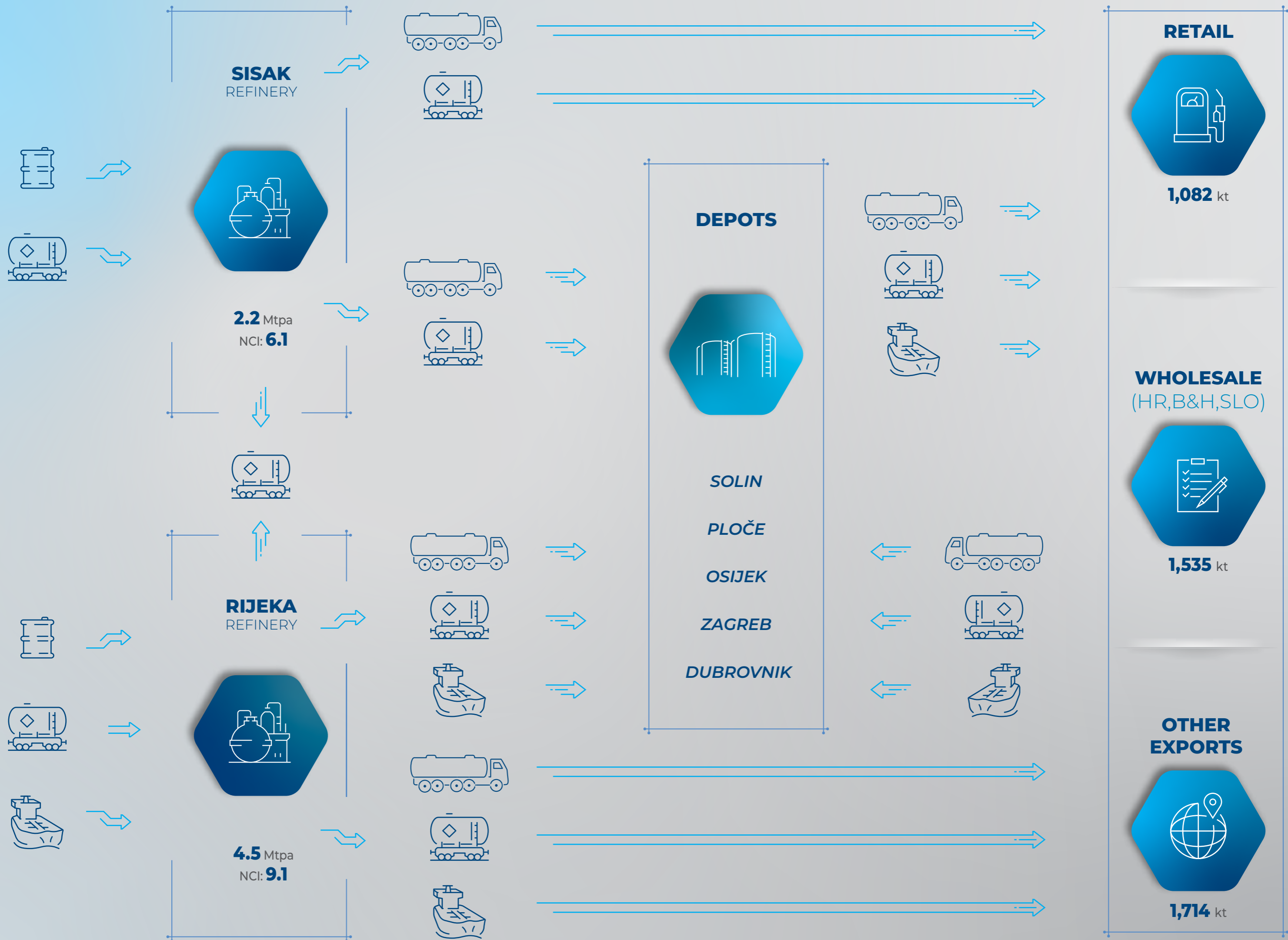


## Challenges

- ▶ Largest turnaround of the Rijeka Refinery to be implemented in the first quarter of 2019
- ▶ Start and implementation of the INA Downstream 2023 New Course program
- ▶ Adapting for the upcoming market challenges (i.e. IMO 2020)



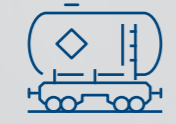




**SISAK**  
REFINERY



**2.2 Mtpa**  
NCI: **6.1**



**RIJEKA**  
REFINERY



**4.5 Mtpa**  
NCI: **9.1**

**DEPOTS**



SOLIN

PLOČE

OSIJEK

ZAGREB

DUBROVNIK

**RETAIL**



**1,082 kt**

**WHOLESALE**  
(HR, B&H, SLO)



**1,535 kt**

**OTHER EXPORTS**



**1,714 kt**

## OVERVIEW AND KEY ACHIEVEMENTS FOR THE YEAR 2018

### Commercial activities

INA, d.d. kept a strong market position with increased market share on its core markets in Croatia and Bosnia and Herzegovina. Higher sales of motor fuels were supported by strong wholesale performance. Performance improved in terms of sales spreads as well. Capturing market opportunities (i.e. unplanned shut-down in the Brod Refinery and Ploče Port closure in the latter part of the year) allowed for increased motor fuel sales in Bosnia and Herzegovina. Increased sales in Montenegro were supported by retail network development. LPG sales increased there, just as in Slovenia. Italian market fuel sales exceeded 300kt in 2018, while steady progress in sales was achieved in the southern markets. In line with the customer needs, gasoline and fuel oil product portfolio has been further diversified. Increased jet fuel sales in 2018 were driven by stronger demand and were supported by higher production while reducing the need for imports during the summer season.

### Refining operations

The full extent of the new operating mode of both refineries was implemented, owing to which increased synergies between both sites are utilized (i.e. increased transfer of semi-finished products in order to better utilize conversion units in both refineries). Primary units in Sisak Refinery operated in block mode, while secondary units operated continuously. Diversified crude supply continued in 2018 by processing new grades and cooperating with new suppliers. A total of 15 crude grades were processed in 2018, while increasing the share of alternative crude grades processed in Rijeka Refinery. After a rough start-up at the beginning of the year due to severe winter weather conditions, Rijeka Refinery operations remained stable resulting in considerable improvement in operational availability and energy consumption. Maintenance of Sisak Refinery was executed in the middle of the year, while intense preparations for the upcoming 2019 Rijeka Refinery turnaround marked the majority of the year.

### Logistics and Distribution

Modernization of logistics infrastructure continued in 2018. The Bakar Port continued to operate at similar throughput as in previous years, while half of its capacity underwent reconstruction. The new logistics installations for rail and road loading in Rijeka achieved the largest volumes in history. Jet fuel volumes in into plane terminals increased by 30% compared to the previous year. Modernization of into plane terminals continued in 2018 with the delivery of ten new aircraft refuellers. Renewal of INA's fleet was completed with the purchase of new towing trucks and LPG road tanker trucks. In preparation for the Rijeka turnaround in 2019, finished product stocks have been built up to ensure safe and stable market supply.

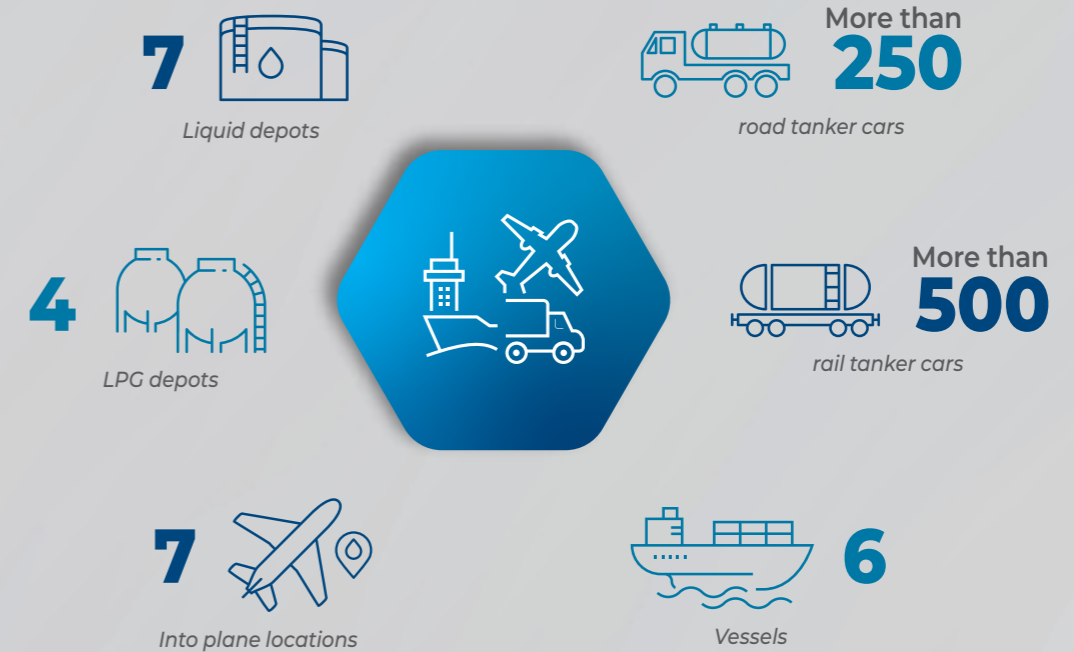
### Gas and Power

In October 2018, natural gas trading activities were transferred from the Exploration and Production segment to Refining and Marketing. INA, d.d. natural gas sales on the domestic market (excluding internal consumption of 0.233 bcm) amounted to 1.126 bcm, keeping INA, d.d. as one of the major suppliers on the Croatian market. In June 2018, INA, d.d. contracted the sale of natural gas (approximately 1.5 bcm) for the gas year 2018/2019, which has ensured the leading role for INA, d.d. among traders/suppliers in Croatia. Three main flexible natural gas procurement contracts with three different suppliers enabling import up to 750 mcm/year were concluded as well. In Q4 2018, INA, d.d. and Prvo Plinarsko Društvo d.o.o., as investors, jointly signed the Recapitalization Agreement for Petrokemija d.d. with CERP (Center for Restructuring and Sales) as the representative of the Republic of Croatia, after which they became majority owners of the company holding more than half of the share capital and respective management rights. Natural gas deliveries toward Petrokemija d.d. continued in November, after being suspended from February 2018. INA, d.d. also submitted a bidding offer for LNG capacity on Krk Island and applied for a capacity lease of 100 mcm of natural gas per year for a period of 20 years (2021-2040). A yearly power procurement contract to cover the overall INA, d.d. electricity consumption was concluded as well.

### Residue Upgrade Project

INA, d.d. continued the preparation activities for the investment in the Delayed Coker Unit in Rijeka Refinery by conducting tendering procedures which encompass construction of the DCU, port and coke storage and facility for product processing, as well as related pipelines, services and new electrical power line and substation. The total value of this very complex and time consuming project amounts to more than HRK 4 billion and INA, d.d. is in the negotiation process with international companies with references for this type of projects. Along with the main contractor, it is expected that Croatian companies would largely participate in the execution of the project, through design, material and equipment delivery and construction, engineering and other works. Selection of the contractor is planned for mid-2019 and expected construction duration is three years.

## LOGISTICS INFRASTRUCTURE\*



\*includes rented and owned assets

## STRATEGY AND OUTLOOK

In 2018, intense preparations were undertaken for the 2019 turnaround of the refinery planned for the first quarter. This will be the largest turnaround in history for Rijeka Refinery where, apart from maintenance activities, a number of investment projects will be completed. The target is to ensure safe and reliable future operations, complete environmentally-related projects, and fulfil legal obligations to ensure a four-year operating cycle. Several efficiency projects will be completed as well, which will result in a reduction of emissions. Connections to future growth projects are planned as well.

When it comes to Refining and Marketing, which has so far generated on average HRK 1 billion cash loss per year, the new INA Downstream 2023 New Course program has been launched. It is a comprehensive program focused on ensuring sustainability and profitability of Refining and Marketing operations, as well as the whole company through changes of the current downstream business model. The program will include concentration of crude refining activity in Croatia in Rijeka Refinery and, as a part of this move, conversion of Sisak Refinery to an industrial site, as well as implementation of other Refining and Marketing transformation projects in line with strategic directions.

Thanks to the investment in the Residue Upgrade Project, reconstruction of the existing units, a new port with closed petroleum coke storage and increased overall complexity, Rijeka Refinery will become a top-level European refinery. Total investments are worth more than HRK 4 billion, which represents the single largest investment project in the history of the company. The final investment decision regarding the DCU project is planned for 2019, given that all the prerequisites that will assure return on investment will be met, and the commission is expected in 2023.

The Sisak industrial site will remain a valuable part of INA, d.d. operations and INA, d.d. will continue its business activities there, keeping its position as a major employer and investor, for which it is necessary to change from loss making crude oil processing to viable alternative industrial activities. The alternatives would include the development of bio-component refining, which is conditional on a viable business case and positive development of the EU and Croatian legislation. It would also include a modern logistics hub, bitumen production, lubricant production, and other sustainable and economically viable operations. The program implementation is expected in 2019, after all the necessary decisions are made. By implementing all the activities covered by this program, after 2023, Refining and Marketing is expected to be a profitable, sustainable business.

INA, d.d. is continually focused on maintaining high supply security of its core markets (Croatia and Bosnia and Herzegovina), while further strengthening its market presence by serving those markets with high-quality fuels at the lowest possible cost and maintaining the highest level of service and customer-oriented operations. Commercial activities will be focused on becoming the customer's first choice and a reliable partner through a developed sales force, digitalization of business processes, and recognizing customer needs. This is to be supported by a modernized logistics infrastructure (for which investments are continuing) and utilizing the INA, d.d. fleet for top-quality customer interaction. As in production, sales flexibility is to be maintained by continuous monitoring of the external environment, which can support fast decision-making and adequate daily planning and result in the highest value for the company. Optimizing a mix of term and spot contracts for buying raw materials will ensure flexible supply. Market share on core markets is to remain stable, while the aim is to increase it in the region by using the market maker position advantages such as refinery location, warehouse coverage, efficient distribution, expanded retail network, and high-quality fuels.

When it comes to natural gas trading, the main objective is to maintain a strategic position by holding our present market position in all customer segments (i.e. keeping sales volumes at similar levels). In order to secure the current market share, additional import will be required in the forthcoming years due to the declining domestic natural gas production. Despite a challenging natural gas market environment in terms of strong competition, gas trading operations are aimed at ensuring positive margins in all segments.



**-0.6  
bn HRK**  
average yearly EBITDA  
in the last 10 years



**UPGRADE OF THE  
RIJEKA REFINERY**

Execution of the Residue Upgrade Program  
to become a world-class refinery



**INDUSTRIAL SITE  
IN SISAK**

Transformation of the Sisak Refinery  
into a sustainable industrial centre



**STRONG REGIONAL  
MARKET POSITION**

and **FIRST CHOICE  
OF CUSTOMERS & EMPLOYEES**

**+1.0  
bn HRK**  
average yearly EBITDA  
after 2023





## FINANCIAL AND OPERATING PERFORMANCE

In 2018, Refining and Marketing performance was under the influence of less favorable external environment, led by the negative impact of higher Brent price, which increased from 54 USD/bbl in 2017 to 71 USD/bbl in 2018, together with lower crack spreads on gasoline (-15 USD/t) and fuel oil (-34 USD/t), which was partially mitigated by higher diesel crack spread (+17 USD/t). Total wholesale volumes increased on the back of higher sales on the domestic (+25 kt) and B&H markets (+85 kt) supported by stable sales margins, as well as higher jet fuel sales driven by strong demand, which was successfully met by increased production while lowering the import need. In order to utilize synergy of the two refineries, full extent of the new operating mode was implemented, resulting in a higher processing level (+97 kt) and therefore supporting increased sales, with continued utilization of an extended crude basket.

Refining and Marketing capital expenditures amounted to HRK 857 million compared to HRK 550 million in 2017. Engineering Procurement and Construction tender for the Residue Upgrade Project was finalized. Preparation of Front-End engineering design for all units was completed. Main design was prepared for all units and submitted to the Ministry for issuing Construction permits. Activities on the Propane-Propylene Splitter project are on-going and civil works on the site are in progress. Preparation for the Rijeka Refinery turnaround will be executed during Q1 2019. Investment activities in logistics and refining development projects will be continued with the focus on environmental related projects.

SEGMENT RESULTS*	HRK mln			USD mln**		
	2017	2018	CH %	2017	2018	CH %
Total revenue	17,999	21,420	19	2,718	3,412	26
EBITDA <sup>1</sup>	934	419	(55)	141	67	(52)
EBITDA excluding special items <sup>2</sup>	1,049	461	(56)	158	73	(54)
CCS-based DS EBITDA excluding special items <sup>2</sup>	867	286	(67)	131	46	(65)
Profit/(loss) from operations	365	(158)	N.A.	55	(25)	N.A.
Profit/(loss) from operations excluding special items <sup>2</sup>	481	(116)	N.A.	73	(18)	N.A.
CCS-based DS profit/(loss) from operations	299	(291)	N.A.	45	(46)	N.A.
Simplified Free Cash Flow <sup>3</sup>	154	(784)	N.A.	23	(125)	N.A.
Capital expenditures	713	1,070	50	108	170	57
o/w Refining and Marketing	550	857	56	83	136	64

\* Refers to Refining and Marketing including Retail INA, d.d. and the following subsidiaries: INA MAZIVA d.o.o., INA Slovenija d.o.o., Holdina d.o.o., INA Crna Gora d.o.o., INA d.o.o. Beograd, INA Kosovo d.o.o., Petrol d.d., Energopetrol d.d., INA MALOPRODAJNI SERVISI d.o.o.

\*\* In converting HRK figures into USD, the following average CNB (HNB) rates were used: for 2017 – 6.6224 HRK/USD; for 2018 – 6.2784 HRK/USD

<sup>1</sup> EBITDA = EBIT + Depreciation, amortization and impairment (net), restatement of comparable previous periods was made – see page 74

<sup>2</sup> In 2018, Operating profit and EBITDA were negatively impacted by HRK (42) mln of special items related to severance payment and related provision

<sup>3</sup> Simplified free cash flow = CCS EBITDA excluding special items – Capital expenditures

REFINING AND MARKETING INCLUDING RETAIL	2017	2018	CH %
<b>REFINING PROCESSING (kt)</b>			
Domestic crude oil	587	552	(6)
Imported crude oil	2,803	2,965	6
Condensate	80	59	(26)
Other feedstock	622	613	(1)
<b>TOTAL</b>	<b>4,092</b>	<b>4,189</b>	<b>2</b>
<b>REFINING PRODUCTION (kt)</b>			
LPG	242	215	(11)
Naphtha	52	39	(25)
Gasoline	1,058	979	(7)
Kerosene	133	192	44
Diesel	1,355	1,406	4
Heating oil	143	144	1
Fuel oil	512	622	21
Other products*	140	137	(2)
<b>TOTAL</b>	<b>3,635</b>	<b>3,734</b>	<b>3</b>
Refining loss	43	55	28
Own consumption	415	400	(4)
<b>TOTAL REFINING PRODUCTION</b>	<b>4,092</b>	<b>4,189</b>	<b>2</b>
<b>REFINED PRODUCT SALES BY COUNTRY (kt)</b>			
Croatia	1,814	1,839	1
Bosnia and Herzegovina	616	701	14
Slovenia	70	77	10
Other markets	1,727	1,714	(1)
<b>TOTAL</b>	<b>4,227</b>	<b>4,331</b>	<b>2</b>
<b>REFINED PRODUCT SALES BY PRODUCT (kt)</b>			
LPG	291	267	(8)
Naphtha	50	40	(20)
Gasoline	1,044	862	(17)
Kerosene	175	201	15
Diesel	1,755	1,926	10
Heating oil	163	159	(2)
Fuel oil	536	579	8
Bitumen	51	60	18
Other products*	162	237	46
<b>TOTAL</b>	<b>4,227</b>	<b>4,331</b>	<b>2</b>
o/w Retail segment sales	1,056	1,082	2
<b>TOTAL NATURAL GAS SALES (mcm)</b>	<b>1,416</b>	<b>1,360</b>	<b>(4)</b>
<b>TOTAL NUMBER OF SERVICE STATIONS</b>	<b>494</b>	<b>500</b>	<b>1</b>

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

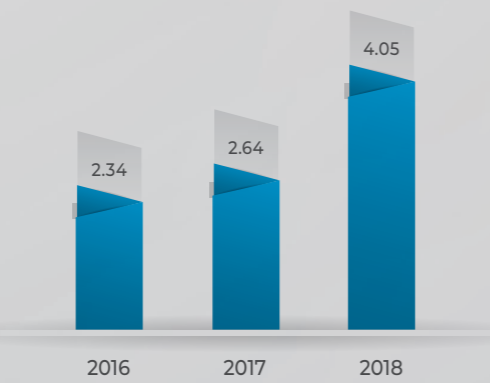


**SUSTAINABILITY HIGHLIGHTS**

**Health and safety**

Total Recordable Injury Rate (TRIR) in Refining and Marketing increased in 2018 due to more work-related injuries with low severity. The main cause of injuries are slips and trips on the same level (56%), following the second most common cause struck by ( tools and/or other objects that can cause injury, 18%).

TRIR REFINING AND MARKETING\*

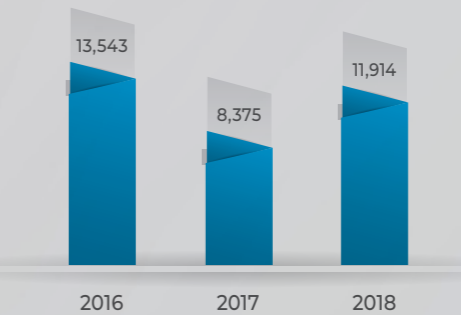


\*results include Rijeka Refinery, Sisak Refinery and Logistics

**Environment**

In 2018, the total amount of generated waste increased by 30% due to a higher amount of hazardous alkaline disposed both in Rijeka Refinery and Sisak Refinery. Also, in 2018, cleanup of storage tanks was performed in Rijeka Refinery and Logistics. An increased amount of non-hazardous waste (mostly iron equipment) was recorded in Rijeka Refinery as part of the preparation of the refinery for the turnaround in 2019.

TOTAL WASTE GENERATED (t)\*

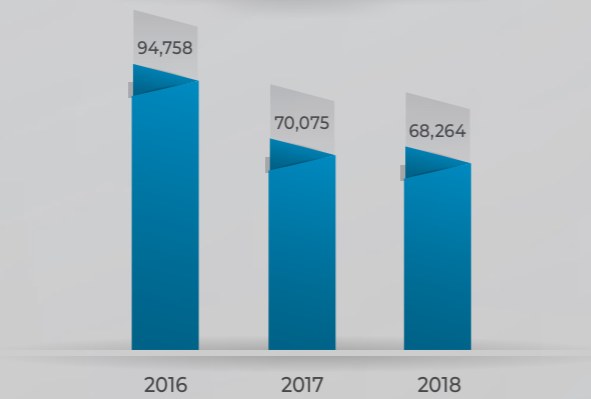


\*results include Rijeka Refinery, Sisak Refinery and Logistics

**Climate change**

Total CO<sub>2</sub> emission from flaring in Refining and Marketing slightly decreased compared to 2017, mainly due to lower production in Sisak Refinery.

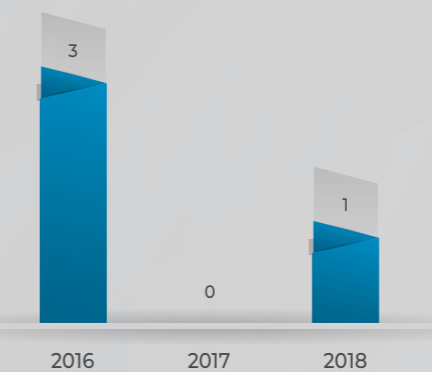
TOTAL CO<sub>2</sub> EMISSIONS FROM FLARING (t)\*



\*results include Rijeka Refinery and Sisak Refinery

In 2018, there were no spills over 1 m<sup>3</sup> in the refineries. One spill over 1 m<sup>3</sup> recorded in Refining and Marketing was caused by third party negligence during bunkering. This case is still under investigation in court.

NUMBER OF SPILLS >1 m<sup>3</sup>\*



\*results include Rijeka Refinery, Sisak Refinery and Logistics

# CONSUMER SERVICES AND RETAIL OVERVIEW



## Achievements

- ▶ Successful organizational transformation of Consumer Services and Retail
- ▶ Strengthening of our retail position in Montenegro with organic and inorganic growth projects
- ▶ Strong sales performance in Retail with high contribution of non-fuel part of business



## Challenges

- ▶ Implementation of strong investment program in Retail with a special focus on new Fresh corners
- ▶ Timely implementation of digital stream projects in retail operation
- ▶ Launching of the Innovation hub and other potential projects within New Businesses

### Key message from the Operating Director

“ 2018 was a year of transformation for Consumer Services and Retail with the focus on strengthening our retail position on core and regional markets (Croatia, Bosnia and Herzegovina and Montenegro) and establishing Customer Relations Management with the focus on customer relations, data management, digitalization and card centre.

In New Businesses, the focus was put on preparing and analyzing various projects outside of core INA activities, such as successful entering in Petrokemija d.d. business. ”

**Darko Markotić**  
Operating Director  
of Consumer Services and Retail



### OVERVIEW AND KEY ACHIEVEMENTS FOR THE YEAR 2018

The new organizational structure of Consumer Services and Retail established on 1 October 2018 implied the use of the existing retail network as a platform for expanding new initiatives to provide the best and most desirable services for people on the move. Therefore, a new Retail unit was established, comprising all direct retail activities and the new Customer Relations Management unit was established, focusing on customer relation, data management, digitalization and card center. With the ever faster development of the digital environment, we are more aware that our customers have become a lot more demanding, and for this reason Consumer Services and Retail launched a series of projects (Bi-No-Reply, Digital platforms developing, Mobile payment, marketing via SMS and Viber towards the INA customer base, INA Gift Card, Paysafe card) aimed at greater understanding and better interaction with our existing customers and attracting new ones.

Fuel/Non-fuel marketing and promotional activities at service stations such as: campaign for Winter Diesel Arktik, Class Plus fuels, Scandinavia gardening tools, Nutribullet, Bosch, Umbro sports and Samsung assortment related to FIFA World Cup, Gorenje assortment, used cooking oil collection at service stations etc., led to better customer recognition and acceptance of fuel and non-fuel service offer which had a positive impact on larger sales volume and larger quantities of sold non-fuel goods and resulted in a better negotiation position with the suppliers.

In 2018, implementation of a non-fuel strategy continued through implementation of a new layout for service stations, gastro concept introduction, further improvement in shop assortment and offer, planogram maintenance, shelf management and optimization of space at service stations.

The SMILE program successfully continued through practical trainings for Sales Area Managers and service station employees. In addition to the SMILE program, "Onboarding days for newcomers at service stations" workshop was held with the aim of familiarizing new employees at service stations (or the existing ones) with the advantages of working in INA Group. The workshop covered topics such as: Company profile, introduction of the Company's main business activities, introduction of the Consumer Services and Retail organizational unit within the Company, main information about the number of retail areas and locations, number of employees, presentation of new fuels, getting to know the importance of the SMILE project, the possibility of a career path in INA, etc.

Also, in order to successfully plan the workforce needs at service stations in the future, during and outside the tourist season, Consumer Services and Retail launched an internal campaign of rotating the service station staff from continental retail locations to the coastal part of Croatia in which all employees interested in seasonal work at INA Group coastal and island service stations participate (considering the almost doubled number of Fresh corner service stations compared to the previous summer, more than 200 seasonal workers were employed).

### STRATEGY AND OUTLOOK

As at 31 December 2018, INA Group operated a network of 506 retail locations – 390 in Croatia (60 of which have been included in the Partnership System of Operation of Retail), 105 in Bosnia and Herzegovina (50 in Holdina d.o.o. and 55 in Energopetrol d.d.), six in Slovenia and five in Montenegro.

Further network expansion is expected to be orientated on potential acquisition/greenfield investments in Croatia and abroad (Montenegro projects), possible implementation of unmanned service stations, and installation of additional electric vehicle chargers at INA Group service stations.

In **Croatia**, in the upcoming period, special emphasis will continue to be put on non-fuel segment and margin improvement by upgrading the existing Fresh corner models (service stations on highways and convenience stores in cities) and further development of Fresh corner store format concept (restaurants, C-store, stand-alone).

In **Montenegro**, purchasing of three CMC A.D. service stations (Inpek, Pljevlja and Podgorica Delta) was successfully completed. A newly built service station INA Montenegro Podgorica Mareza was opened in March, 2018 and purchase transaction for five PAVGORD CG d.o.o. service stations is in the completion phase. Following the potential purchasing and projects related to growth options, INA Group could become #2 retail player in Montenegro with a stable market position. New opportunities could also provide INA Group a captive market and strong position for further regional expansion.

In **Bosnia and Herzegovina**, retail network restructuring and modernization program will continue through implementation of a Fresh corner concept visual identity. In April 2018, new Brod service station (including Fresh corner) opened, while Prijedor service station has been in operation since July (rental/Holdina) and Grbavica service station started operating at the beginning of August.

### FINANCIAL AND OPERATING PERFORMANCE

In 2018, total retail sales volumes reached 1,082 kt and were moderately improved (+2%), including the significant contribution of the network in Bosnia and Herzegovina (+7 kt) and volume realization in Montenegro which was increased by 4 kt due to network expansion from one to five service stations. In correlation with the increased demand and market dieselization, the sales of diesel and gas oils grew by 5%, while the gasoline sales dropped by 3%. Fuel sales remained stable as a result of KDRs (Knock down rebuilt) and modernization programs, including the implementation of additional LPG units.

Revenue from non-fuel margin increased by 11% and contributed 55% of the total Retail margin growth compared to the same period last year, resulting from continuous expansion of consumer goods offer, implementation of Fresh Corner concept and development of new additional services at service stations, including car gas services.

Retail capital expenditures amounted to HRK 213 million compared to HRK 163 million in 2017. In 2018, over 70 investments projects were completed in INA Group Consumer Services and Retail, including greenfield constructions, acquisitions, service station reconstructions, modernizations, new car LPG sales

point, new car washes and double-wall tanks. Out of total investments, 33 projects are aimed at expanding and improving the non-fuel offer in line with the "Fresh corner" concept. Inorganic growth in Montenegro was on top of capital expenditures.

CONSUMER SERVICES AND RETAIL	2017	2018	CH %
<b>RETAIL SALES (kt)</b>			
Gasoline	286	278	(3)
Gasoil	741	775	5
Autogas	11	12	9
Other	18	17	(6)
<b>TOTAL RETAIL SALES</b>	<b>1,056</b>	<b>1,082</b>	<b>3</b>
<b>NON FUEL MARGIN (HRK MLN)</b>	<b>264</b>	<b>294</b>	<b>11</b>
<b>NUMBER OF SERVICE STATIONS</b>	<b>494</b>	<b>500</b>	<b>1</b>
<b>CAPITAL EXPENDITURES (HRK MLN)</b>	<b>163</b>	<b>213</b>	<b>31</b>

### NUMBER OF RETAIL LOCATIONS



\*Retail locations implies: 500 service stations and other retail locations (auto bar / restaurants, carwash, shop, Heating Oil sales point, LPG sales point)

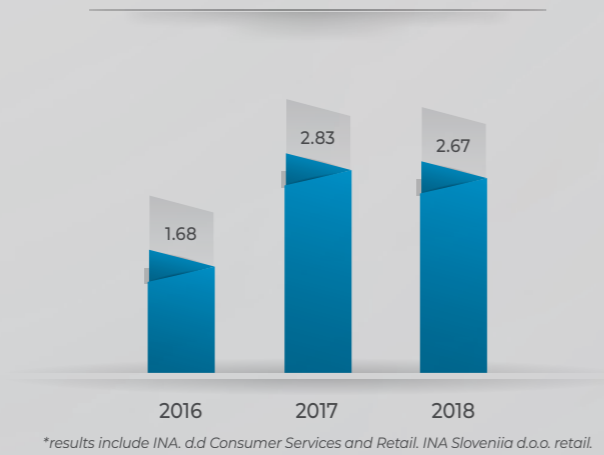


### SUSTAINABILITY HIGHLIGHTS

#### Health and safety

Even though the results of Total Recordable Injury Rate (TRIR) for 2018 are lower than in 2017, the number of work-related injuries remains the same as in 2017, with the most common cause of injuries being slip and trip at the same height (41% injuries), followed by cut, puncture, scrap as the second most common type of injuries (30% injuries).

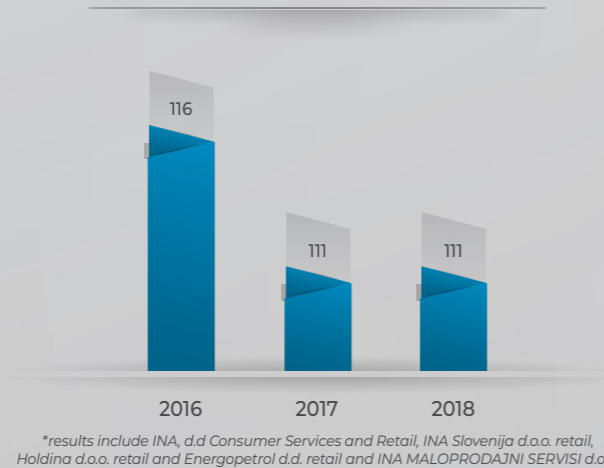
TRIR CONSUMER SERVICES AND RETAIL\*



#### Climate change

In 2018 total energy consumption in INA Group retail network remained at the same level as in 2017.

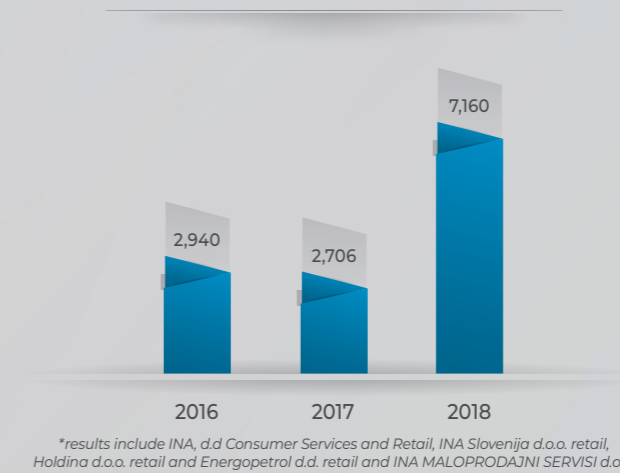
TOTAL ENERGY CONSUMPTION (thousand GJ)\*



#### Environment

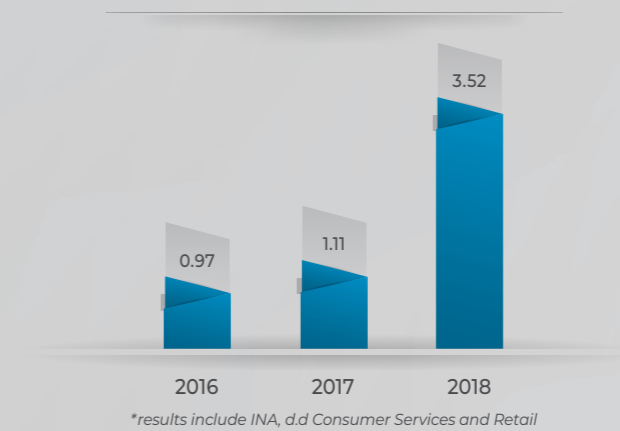
Increase in the total amount of generated waste in 2018 occurred due to capital reconstructions on two INA, d.d. retail service stations and five tank replacements. Typically, increase in the volume of hazardous waste from remediation occurs in capital reconstructions (over six tons of contaminated soil). This type of contaminated soil will undergo bioremediation process and will be used again in the construction of service stations.

TOTAL WASTE GENERATED (t)\*



In 2018, due to the roll-out of the "Collection of used cooking oil" pilot project which was conducted on 30 service stations in Croatia, a total of 3.52 t of used cooking oil was collected and sent to treatment.

TOTAL AMOUNT OF RECOLLECTED USED COOKING OIL (t)\*



# 4

MANAGEMENT  
DISCUSSION  
AND ANALYSIS

# OVERVIEW OF THE MACROECONOMIC AND INDUSTRY ENVIRONMENT

## THE GLOBAL ECONOMY

### Global economic growth is slowing down

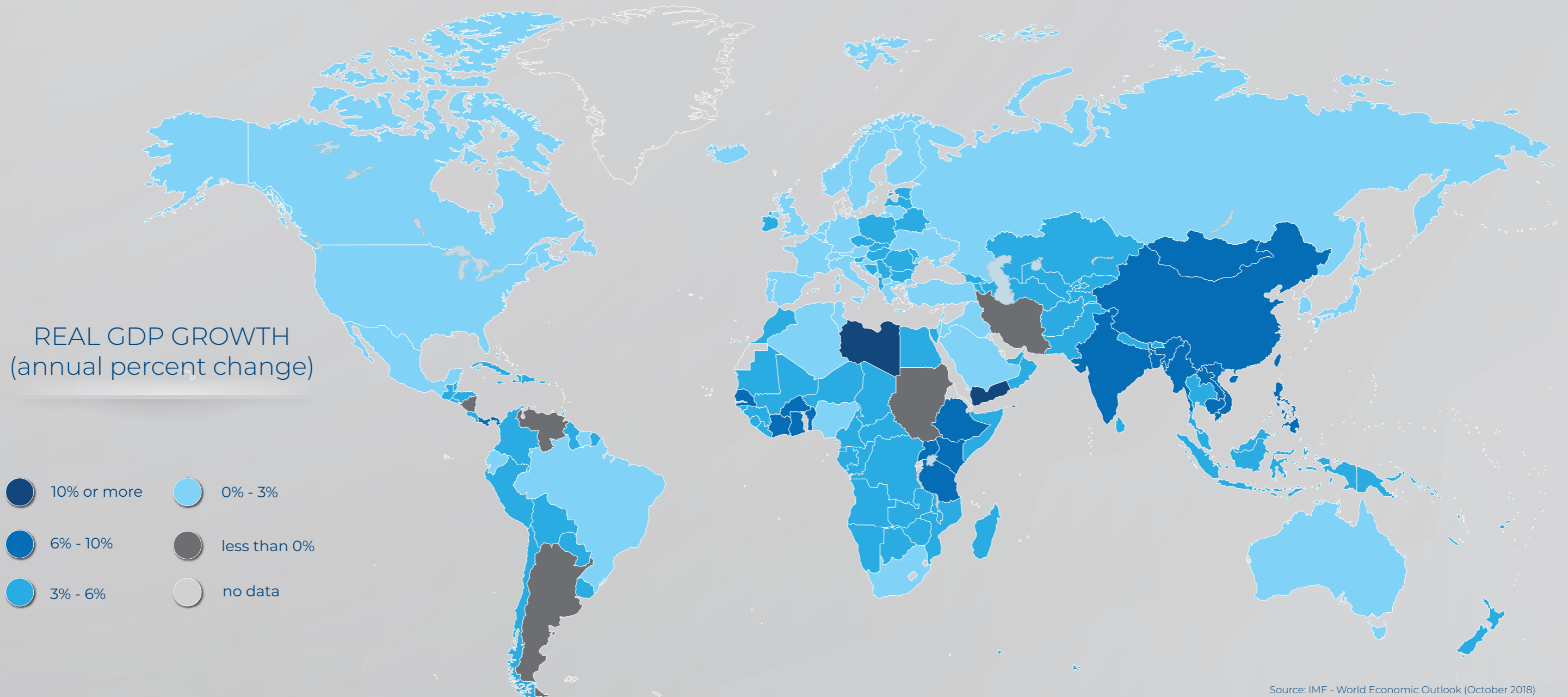
Global economic growth has begun to slow down in response to the progressive removal of liquidity, higher energy prices, raised trade tensions, especially between the United States and China, and political risks. The combined effects of policy uncertainty and the surge in financial volatility are damaging business sentiment and capital spending. These factors, combined with concerns about softening global growth prospects, have weighed on investor sensitivity and contributed to declines in global equity prices.

The World Bank estimates that global GDP will grow to around 3.0% in 2018 and 2.9% in 2019, as economic calm dissipates, monetary policy accommodation in advanced economies is removed and global trade gradually slowing down. Growth in the United States has remained solid, supported by fiscal stimulus and still accommodative monetary policy, and is estimated to 2.9%. Fiscal stimulus will continue to support growth in 2019, but inflationary

pressures and policy tightening will restrain growth in the upcoming years. Europe's growth is slowing in response to higher energy prices, euro appreciation and weakening global trade dynamics.

Activity in the Euro Area has been weaker than expected, owing to slowing net exports and accordingly, growth is slowed down to 1.9%. Unemployment has declined, but inflation remains low. Monetary stimulus, better access to credit and reduced fiscal headwinds will support growth.

In China, growth is slowed down to 6.5% in 2018, but is still robust, supported by resilient consumption. Industrial production and export growth have decelerated, reflecting easing global manufacturing activity. China's future growth may be slowed down by United States tariffs and the deceleration in fixed investment.



Source: IMF - World Economic Outlook (October 2018)



## GLOBAL OIL AND DEMAND SUPPLY

### Oil prices increased, tensions and geopolitics in focus

In 2018, the average oil prices were higher by 30% compared to 2017. Brent averaged 71.3 USD/barrel in 2018, WTI traded at an average price of 64.9 USD/barrel, and on the Mediterranean market, Urals averaged 70.2 USD/barrel. Although there was a significant rise of oil prices in 2018, which positively impacted the global oil industry, last year was marked by a sudden drop in oil prices in the last quarter of 2018. Prices peaked at 86 USD/barrel in early October and collapsed to 50 USD/barrel in late December. The 2018 price peak was fuelled by concern of too little oil owing to an expectation of tough implementation of US trade sanctions on Iranian oil exports. But prices reversed course because of a series of bearish developments such as recognition that US crude oil production in September was higher than expected and a new all-time high, Trump's waivers granted to most buyers of Iranian oil in November reversing his administration's hawkish stance about getting Iranian oil exports to "zero", Russia and Saudi Arabia's record-level production in October and November, negative economic sentiment fuelled by United States and China trade tensions and stock market declines. Crude oil output from Saudi Arabia, Russia and the United States has grown far in excess of the decline in Iranian crude output, which forced the Vienna Alliance back into a market management stance. The Vienna Alliance (OPEC, Russia, and other non-OPEC countries), which enters its third year, decided on 7 December 2018 to reduce oil supply by 1.2 MMbpd, from October levels, in the first half 2019, essentially reversing a June 2018 decision to increase supply by about 1.0 MMbpd. Even with the expected higher oil production from the United States, these cuts, in addition to an expected steep fall in Iranian supply, should keep the market balanced in 2019. A 60-70 USD/barrel oil price level appears adequate to incentivize sufficient long-term supply. The cost to develop both tight oil resources and conventional upstream oil projects has declined significantly since the oil price collapse in 2015/2016. Full-cycle breakeven levels for deepwater projects are now comparable to typical United States tight oil wells. Estimation shows that most of the gross

supply needed in the long-term period can be supplied at 70 USD/barrel or below.

Global refining margins remain slightly below the 2017 levels. In 2018, refinery margins were supported by economic and trade growth, robust distillate demand globally, and low distillate and fuel oil inventories. The rate of global refinery closures has slowed down over the past few years. Europe was once the leading region of global refinery rationalization, but no facility was permanently closed in 2018. Although refinery expansion is still limited, a new refinery "STAR" in Turkey was opened at the end of the year, with a processing capacity of 244,000 barrels a day. European refining continues to be subject to competition from global export refiners. IMO 2020 bunker fuel sulphur regulation will have a very significant impact on the refining industry. The refining industry will have to alter its current product slate, increase the supply of low-sulphur fuels and manage excess supply of high-sulphur fuels. IMO 2020 is an opportunity to generate revenue to help reposition Europe's refineries for the longer term.

Europe continues to be the global balancing gas market. European prices are influenced by multiple factors outside Europe and not directly related to Europe's supply/demand balance. European gas demand has stayed robust, and Russian pipeline supply has stepped in to meet the deficit.

Global liquids demand growth remains strong at 1.5 MMbpd in 2018 and is expected to be at the same level in 2019. World oil demand growth in 2019 will be tested by the possibility of economic weakness spreading from several emerging markets and the trailing effect of tariff wars.

Tensions and collaboration among the three oil superpowers - Russia, Saudi Arabia, and the United States, which account for 40% of global crude oil production in 2018, as well as among the two largest consumers - the United States and China, will be prominent. Geopolitics will continue to swing the oil market in 2019.

CRUDE OIL PRICES



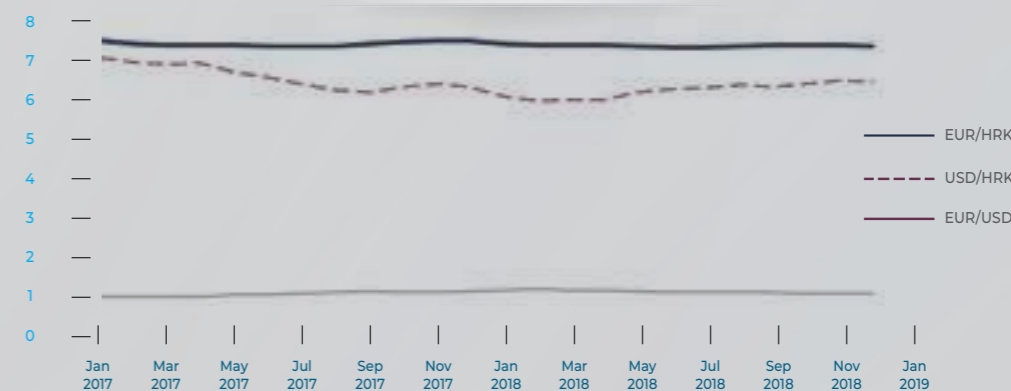
## CROATIA'S ECONOMY IN 2018

### Sustained, but less dynamic growth

In 2018, Croatia's economy continued its solid and widespread growth streak of 2.6%, albeit at a slower pace than in the last two years. There was a strong growth in retail trade turnover, but industrial production continued to record negative values.

The number of unemployed persons continued to decline, with employment growth being disproportionately low, despite the fact that there was a strong growth in demand for labor force. Due to a significant decrease in the number of registered unemployed persons and a significantly lower number of active population, the average registered unemployment rate fell below 10% for the first time, amounting to 9.9% in 2018.

FOREIGN EXCHANGE



The growth in arrivals and the number of nights spent in tourist accommodation establishments slowed down in the summer season, but it was reversed by the prolongation of the tourist season.

Although the share of commodity exports grew, trade deficit continued to deepen, mainly due to the negative balance with EU member states, some of which are experiencing a slowdown in economic growth. The average annual inflation rate was 1.5%, and inflationary pressures were mainly generated by the price of energy with the predominant influence of petroleum products. The EUR/HRK exchange rate was stable due to high liquidity in the domestic financial market and weak inflationary pressures. The continued growth of exports of goods, the strengthening of tourist activity in the winter months and, to a lesser extent, foreign exchange inflows from abroad supported the stability of the Croatian Kuna. EUR/HRK exchange rate is expected to remain stable, with usual seasonal oscillations, as was the case in 2018.

In 2019, the economy growth is expected to rise by about 2.5% with a slight slowdown in personal spending and a negative contribution of foreign demand, which should be alleviated by strengthening the positive contribution of investment. The expected increase in investment will be significantly affected by an increased use of the contracted EU funds, where a more active public sector approach is expected. Human capital will represent the biggest challenge and obstacle to the stronger and more sustainable growth of the Croatian economy.

MAIN EXTERNAL PARAMETERS	2017	2018	CH %
<b>CRUDE OIL PRICES</b>			
Brent dtd (USD/bbl)	54	71	31.5
Brent-Ural spread (USD/bbl)	0.92	1.09	18.5
<b>FOB MED PRODUCT PRICES AND CRACK SPREADS</b>			
Gasoline - premium unleaded 10 ppm (USD/t)	548	662	20.8
Diesel - ULSD 10 ppm (USD/t)	490	638	30.2
Fuel oil 3.5% (USD/t)	298	394	32.2
LPG (USD/t)	512	552	7.8
Crack spread - gasoline (USD/t)	138	123	(10.9)
Crack spread - diesel (USD/t)	81	98	21.0
Crack spread - fuel oil 3.5% (USD/t)	(112)	(146)	30.4
Crack spread - LPG (USD/t)	102	13	(87.3)
Indicative refining margins (USD/bbl)*	1.80	(0.03)	N.A.
<b>FOREIGN EXCHANGE</b>			
HRK/USD average	6.62	6.28	(5.1)
HRK/USD closing	6.27	6.47	3.2
HRK/EUR average	7.46	7.41	(0.7)
HRK/EUR closing	7.51	7.42	(1.2)
3m USD LIBOR (%)	1.26	2.31	83.3
3m EURIBOR (%)	(0.33)	(0.32)	(3.0)

\*Indicative refining margins based on 2016 Solomon yields, dated Ural price used for all feedstock

**Disclaimer:**

- This chapter is based on information available for the period ending 28 February 2019
- Crude oil figures are based on IHS and Platt's

# FINANCIAL RISK MANAGEMENT

INA Group continuously monitors and manages financial risks. Regulations "Financial risk management on INA Group level" and "INA Group Treasury Guideline" provide a 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 Group to achieve its strategic objectives while protecting the future financial stability and flexibility of INA Group.

In addition to financial (market) risks, the most important risks include credit risk and liquidity risk.

## MARKET RISK

### Commodity price risk

INA, d.d. purchases crude oil and oil products on a spot market in USD, mostly using short-term credit facility arrangements. The required quantities of natural gas were purchased in EUR based on spot prices. Derivative instruments are available for managing company's commodity exposure. As at 31 December 2018, INA, d.d. had opened short-term forward commodity swap transactions to hedge its exposure to changes in inventory, pricing periods and refinery margins.

### Foreign currency risk

Many INA Group's transactions are priced and denominated in a foreign currency. Thus, INA Group is exposed to foreign currency risk. INA Group has net long USD and EUR and net short HRK exposure of operative cash flow position. INA, d.d. may use cross currency swaps to adjust the currency mix of its debt portfolio. As at 31 December 2018, there were no open cross currency swap transactions.

### Interest rate risk

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 interest rate developments. INA, d.d. may use interest rate swap to manage the interest rate risk. As at 31 December 2018, there were no open interest rate swap transactions.

### Other price risks

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

## CREDIT RISK

When selling goods and services on a deferred payment term, credit risk is present. Credit risk means a risk that the counterparty will default on its contractual obligations, i.e. risk of non-payment. According to the "Customer Credit Management Procedure", customer credit risk is estimated by internal credit assessment model and, additionally, by external creditworthiness assessment agencies. Depending on their creditworthiness, customers provide payment security instruments. There is no significant credit risk exposure of INA Group that is not covered by payment security instruments, other than the exposure toward the institutions and entities controlled by the state and the local government, and customers under certain concession agreements abroad. In addition to the above stated, in order to minimize credit risk, INA Group also uses credit risk insurance services, services of agencies and attorneys-at-law offices for "out-of-court" collection of receivables.

## LIQUIDITY RISK

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

As at 31 December 2018, INA Group's contracted and available short-term credit lines amounted to HRK 2,332 million (CNB middle rate), excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, while the contracted and available long-term credit lines amounted to HRK 2,713 million (CNB middle rate).

# SUMMARY OF 2018 FINANCIAL RESULTS

In 2018, INA Group revenues increased by 20%, driven by growth in all segments, utilizing higher hydrocarbon price and sales. At the same time, EBITDA remained at last year's level with CCS EBITDA excluding special items of HRK 3,116 million in 2018, 2% higher year-on-year. Profit for the year excluding special items decreased by 17% to HRK 980 million, primarily due to higher financial expenses.

Exploration and Production EBITDA excluding special items grew by 23% to HRK 3,014 million, with significantly higher realized hydrocarbon price (+33% year-on-year in USD terms) which compensated the mature structure of assets and 7% decrease in hydrocarbon production. CCS-based DS EBITDA was at HRK 286 million in 2018, HRK 581 million lower compared to 2017, with negative simplified free cash flow of the segment amounting to HRK (784) million, underlining the need for the execution of the INA Downstream 2023 New Course program.

Compared to 2017, capital expenditures increased by 30% to the level of HRK 1,817 million. Gearing ratio remained low at 12.2% with year-end net debt at HRK 1,642 million.

INA GROUP FINANCIAL RESULTS	HRK mln			USD mln*		
	2017	2018	CH %	2017	2018	CH %
Revenue from contracts with customers	18,582	22,349	20	2,806	3,560	27
EBITDA <sup>1</sup>	3,373	3,489	3	509	556	9
EBITDA excluding special items <sup>2</sup>	3,234	3,291	2	488	524	7
CCS EBITDA excluding special items	3,053	3,116	2	461	496	8
Profit from operations	1,418	1,687	19	214	269	26
Profit from operations excluding special items <sup>2</sup>	1,379	1,489	8	208	237	14
CCS profit from operations excluding special items	1,198	1,314	10	181	209	15
Net gain/(loss) from financial activities	146	(167)	N.A.	22	(27)	N.A.
Profit for the year	1,222	1,177	(4)	185	187	1
Profit for the year excluding special items <sup>2</sup>	1,181	980	(17)	178	156	(12)
Simplified Free Cash Flow <sup>3</sup>	1,660	1,299	(22)	251	207	(18)
Net cash inflow from operating activities	2,484	2,831	14	375	451	20
Earnings per share						
Basic and diluted earnings per share (HRK per share)	121.99	117.75	(3)	18.42	18.75	2
Net debt	1,397	1,642	18	223	254	14
Gearing ratio (%)	10.8	12.2				
Capital expenditures	1,393	1,817	30	210	289	38
o/w Domestic	1,262	1,587	26	191	253	32
o/w International	131	230	76	20	37	85

\*In converting HRK figures into USD, the following average CNB (HNB) rates were used: for 2017 – 6.6224 HRK/USD; for 2018 – 6.2784 HRK/USD; as at 31 December 2017 – 6.2697 HRK/USD; as at 31 December 2018 – 6.469192 HRK/USD

<sup>1</sup> EBITDA = EBIT + Depreciation, amortization and impairment (net), restatement of comparable previous periods was made – see page 74

<sup>2</sup> 2018 result negatively impacted by HRK (93) mln of net impact of severance payments and related provisions together with positive impact of HRK 291 mln of gain on INACIP, d.o.o. acquisition

<sup>3</sup> Simplified free cash flow = CCS EBITDA excluding special items – Capital expenditures



KEY FINANCIAL DATA BY BUSINESS SEGMENTS	HRK mln			USD mln*		
	2017	2018	CH %	2017	2018	CH %
<b>TOTAL REVENUE</b>						
Exploration and Production	3,760	4,187	11	568	667	17
Refining and Marketing including Retail	17,999	21,420	19	2,718	3,412	26
Corporate and other	1,451	1,829	26	219	291	33
Inter-segment transfers and consolidation adjustments	(4,628)	(5,087)	10	(699)	(810)	16
<b>TOTAL</b>	<b>18,582</b>	<b>22,349</b>	<b>20</b>	<b>2,806</b>	<b>3,560</b>	<b>27</b>
<b>EBITDA**</b>						
Exploration and Production	2,702	3,287	22	408	524	28
Refining and Marketing including Retail	934	419	(55)	141	67	(53)
Corporate and other	(157)	(88)	(44)	(24)	(14)	(41)
Inter-segment transfers and consolidation adjustments	(105)	(129)	23	(16)	(21)	30
<b>TOTAL</b>	<b>3,373</b>	<b>3,489</b>	<b>3</b>	<b>509</b>	<b>556</b>	<b>9</b>
<b>EBITDA EXCLUDING SPECIAL ITEMS</b>						
Exploration and Production	2,449	3,014	23	370	480	30
Refining and Marketing including Retail	1,049	461	(56)	158	73	(54)
Corporate and other	(157)	(55)	(65)	(24)	(9)	(63)
Inter-segment transfers and consolidation adjustments	(105)	(129)	23	(16)	(21)	30
<b>TOTAL</b>	<b>3,234</b>	<b>3,291</b>	<b>2</b>	<b>488</b>	<b>524</b>	<b>7</b>
<b>PROFIT/(LOSS) FROM OPERATIONS</b>						
Exploration and Production	1,586	2,256	42	239	359	50
Refining and Marketing including Retail	365	(158)	N.A.	55	(25)	N. A.
Corporate and other	(428)	(282)	(34)	(65)	(45)	(31)
Inter-segment transfers and consolidation adjustments	(105)	(129)	23	(16)	(21)	30
<b>TOTAL</b>	<b>1,418</b>	<b>1,687</b>	<b>19</b>	<b>214</b>	<b>269</b>	<b>25</b>
<b>PROFIT/(LOSS) FROM OPERATIONS EXCLUDING SPECIAL ITEMS</b>						
Exploration and Production	1,333	1,983	49	201	316	57
Refining and Marketing including Retail	481	(116)	N.A.	73	(18)	N. A.
Corporate and other	(328)	(249)	(24)	(50)	(40)	(20)
Inter-segment transfers and consolidation adjustments	(105)	(129)	23	(16)	(21)	30
<b>TOTAL</b>	<b>1,379</b>	<b>1,489</b>	<b>8</b>	<b>208</b>	<b>237</b>	<b>14</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>						
Exploration and Production	5,329	5,228	(2)	850	808	(5)
Refining and Marketing including Retail	5,607	6,069	8	894	938	5
Corporate and other	1,418	1,385	(2)	226	214	(5)
Inter-segment transfers and consolidation adjustments	(338)	(398)	18	(54)	(62)	14
<b>TOTAL</b>	<b>12,016</b>	<b>12,284</b>	<b>2</b>	<b>1,917</b>	<b>1,899</b>	<b>(1)</b>

\*In converting HRK figures into USD, the following average CNB (HNB) rates were used: for 2017 – 6.6224 HRK/USD; for 2018 – 6.2784 HRK/USD; as at 31 December 2017 – 6.2697 HRK/USD; as at 31 December 2018 – 6.469192 HRK/USD

\*\* EBITDA = EBIT + Depreciation, amortization and impairment (net), restatement of comparable previous periods was made – see page 74

## Intersegment profit eliminations

Intersegment elimination indicates unrealized profit/(loss) on domestic crude oil being transferred from Exploration and Production to Refining and Marketing but still being kept on INA inventory as crude oil or finished / semi-finished product. Intersegment EBITDA effect on results in 2018 is HRK (129) million which is lower compared to HRK 105 million in 2017 due to a different schedule of domestic crude processing.



## INA Group Consolidated Statement of Financial Position

INA GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HRK MLN)	31 DEC 2017	31 DEC 2018	CH %
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	570	644	13
Property, plant and equipment	12,016	12,284	2
Investments in associates and joint venture	-	150	N.A.
Other investments	13	16	23
Long-term receivables	96	732	663
Deferred tax assets	1,451	1,199	(17)
Non-current financial assets	665	479	(28)
<b>Total non – current assets</b>	<b>14,811</b>	<b>15,504</b>	<b>5</b>
<b>Current assets</b>			
Inventories	2,264	2,645	17
Trade receivables (net)	1,393	1,837	32
Other receivables	210	121	(42)
Corporate income tax receivables	10	8	(20)
Other current assets	139	174	25
Marketable securities	-	27	N.A.
Cash and cash equivalents	428	422	(1)
	<b>4,444</b>	<b>5,234</b>	<b>18</b>
Held-for-sale assets	8	4	(50)
<b>Total current assets</b>	<b>4,452</b>	<b>5,238</b>	<b>18</b>
<b>TOTAL ASSETS</b>	<b>19,263</b>	<b>20,742</b>	<b>8</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	9,000	9,000	-
Legal reserves	28	99	254
Fair value reserves	289	135	(53)
Other reserves	1,516	1,544	2
Retained earnings	827	1,036	25
<b>Equity attributable to owners of the Company</b>	<b>11,660</b>	<b>11,814</b>	<b>1</b>
Non-controlling interest	(134)	9	(107)
<b>Total equity</b>	<b>11,526</b>	<b>11,823</b>	<b>3</b>
<b>Non – current liabilities</b>			
Long-term loans	122	4	(97)
Other non-current liabilities	52	45	(13)
Employee benefit obligation	73	77	5
Provisions	3,119	3,462	11
Deferred tax liabilities	14	14	-
<b>Total non-current liabilities</b>	<b>3,380</b>	<b>3,602</b>	<b>7</b>

INA GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HRK MLN)	31 DEC 2017	31 DEC 2018	CH %
<b>Current liabilities</b>			
Bank loans	1,581	1,962	24
Current portion of long-term loans	122	125	2
Trade payables	1,171	1,720	47
Taxes and contributions	626	612	(2)
Other current liabilities	540	590	9
Employee benefit obligation	5	5	-
Provisions	312	303	(3)
<b>Total current liabilities</b>	<b>4,357</b>	<b>5,317</b>	<b>22</b>
<b>Total liabilities</b>	<b>7,737</b>	<b>8,919</b>	<b>15</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>19,263</b>	<b>20,742</b>	<b>8</b>

In the period ended 31 December 2018, INA Group invested HRK 121 million in intangible assets. The effect of depreciation equals HRK 47 million. Acquisition of INA Adria B.V. entity increased NBV of intangible assets in the amount of HRK 48 million.

In the period ended 31 December 2018, INA Group invested HRK 1,696 million in property, plant and equipment. The effect of depreciation reduced net book value of property, plant and equipment in the amount of HRK 1,632 million.

Inventories amounted to HRK 2,645 million, and have increased by 17% compared to 31 December 2017 as a result of higher crude oil volume together with higher price.

Trade receivables (net) amounted to HRK 1,837 million, which is 32% higher than 31 December 2017 and in line with the sales revenues dynamic.

As at 31 December 2018, INA Group total assets amounted to HRK 20,742 million, 8% higher compared to 31 December 2017.

Share capital as at 31 December 2018 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.

Trade payables increased by 47% to HRK 1,720 million, as a result of INAGIP, d.o.o. acquisition.

As at 31 December 2018, total liabilities amounted to HRK 8,919 million, which is 15% or HRK 1,182 million higher compared to 31 December 2017. INA Group net debt amounted to HRK 1,669 million and increased by 18% compared to 31 December 2017. Gearing ratio increased from 10.8% as at 31 December 2017, to 12.2% as at 31 December 2018.

## INA Group Consolidated Statement of Profit or Loss

INA GROUP CONSOLIDATED STATEMENT OF PROFIT OR LOSS (HRK MLN)	2017	2018	CH %
<b>Revenue from contracts with customers</b>	<b>18,582</b>	<b>22,349</b>	<b>20</b>
Capitalized value of own performance	327	416	27
Other operating income*	174	529	204
<b>Total operating income</b>	<b>19,083</b>	<b>23,294</b>	<b>22</b>
Changes in inventories of finished products and work in progress	274	365	33
Cost of raw materials and consumables	(9,061)	(12,033)	33
Depreciation, amortization and impairment (net)*	(1,955)	(1,802)	(8)
Other material costs*	(1,871)	(2,188)	17
Service costs	(466)	(569)	22
Staff costs	(1,803)	(1,927)	7
Cost of other goods sold	(2,942)	(3,605)	23
Impairment charges (net)*	8	165	1,963
Provision for charges and risks (net)	151	(13)	N.A.
<b>Total operating expenses</b>	<b>(17,665)</b>	<b>(21,607)</b>	<b>22</b>
<b>Profit from operations</b>	<b>1,418</b>	<b>1,687</b>	<b>19</b>
Finance income	452	54	(88)
Finance costs	(306)	(221)	(28)
<b>Net gain/(loss) from financial activities</b>	<b>146</b>	<b>(167)</b>	<b>N.A.</b>
<b>Profit before tax</b>	<b>1,564</b>	<b>1,520</b>	<b>(3)</b>
Income tax expense	(342)	(343)	-
<b>Profit for the year</b>	<b>1,222</b>	<b>1,177</b>	<b>(4)</b>
<b>Attributable to:</b>			
Owners of the Company	1,220	1,178	(3)
Non-controlling interests	2	(1)	N.A.
	<b>1,222</b>	<b>1,177</b>	<b>(4)</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (HRK per share)	121.99	117.75	(3)

\*Restatement of comparable previous periods was made – 74

Revenue from contracts with customers in 2018 amounted to HRK 22,349 million and was 20% above the 2017 level, triggered mainly by higher crude oil and product prices and increased total sales volume on domestic and B&H market.

Costs of raw materials and consumables were 33% above the 2017 level at HRK 12,033 million, resulting mainly from higher processing and higher crude prices.

Other operating costs realized in 2018 include:

- ▶ Other material costs were higher by 17% and amounted to HRK 2,188 million, mainly as a result of increased oil prices and higher CROSCO d.o.o. engagement abroad
- ▶ Service costs in the amount of HRK 569 million were 22% higher than in 2017, mainly due to emission charge
- ▶ Depreciation, amortization and impairment (net) in the amount of HRK 1,802 million was 8% lower compared to 2017
- ▶ Impairment and provisions had a positive effect in the amount of HRK 152 million mainly related to collection of previously value adjusted EGPC receivables

Costs of other goods sold in 2018 recorded an increase of 23% compared to 2017, and amounted to HRK 3,605 million resulting from a different sales structure.

Staff costs in the amount HRK 1,927 million were 7% higher compared to 2017.

Net result from financial activities is negative in 2018 compared to positive 2017 impact, mainly as a result of:

- ▶ Net foreign exchange loss reached HRK 52 million in 2018, while in 2017 net foreign exchange gain reached HRK 223 million
- ▶ Interest expense amounted to HRK 95 million and interest received to HRK 3 million in 2018, while in 2017 interest expense amounted to HRK 59 million and interest received to HRK 4 million
- ▶ Other financial net expenses amounted to HRK 23 million and are higher compared to HRK 22 million financial expenses in 2017

Income tax expense in 2018 amounted to HRK 343 million compared to HRK 342 million income tax expense in 2017. Tax costs and deferred taxes during the interim period are calculated on the basis of actual results and the profit tax rate, 18% for the periods ended 31 December 2017 and 31 December 2018.

## INA Group Condensed Consolidated Statement of Cash Flows

INA GROUP CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (HRK MLN)	2017	2018	CH %
Net cash inflow from operating activities	2,484	2,831	14
Net cash used for investing activities	(1,300)	(2,242)	72
Net cash used in financing activities	(1,367)	(619)	(55)
<b>Net decrease in cash and cash equivalents</b>	<b>(183)</b>	<b>(30)</b>	<b>(84)</b>

The operating cash flow before changes in working capital amounted to HRK 3,131 million in 2018, representing a decrease of HRK 122 million compared to 2017, which is in line with the change in EBITDA performance excluding non-cash items compared to the previous year.

Movements in working capital affected the operating cash flow negatively by HRK 239 million, due to:

- ▶ Increased value of inventories in the amount of HRK 725 million mainly related to higher prices and domestic crude inventory volume change
- ▶ Increase in receivables in the amount of HRK 278 million as a result of higher sales revenues in 2018 compared to 2017
- ▶ Increase in trade and other payables in the amount of HRK 764 million affected by INAGIP, d.o.o. acquisition

Net cash used for investing activities amounted to HRK 2,242 million of outflows, compared to HRK 1,300 million of outflows in 2017.

## Impact of special items on profit from operations and EBITDA of INA Group

In addition to international accounting standards, international reporting standards and regulatory requests, the company discloses special items to achieve a higher level of transparency and to provide a better understanding of the usual business operations. Business events not occurring regularly and having a significant effect on operations and results are considered special items. INA Group has adopted the materiality level for the special items in the amount of USD 10 million or above. If special items reach materiality level on a cumulative basis, previous quarters are restated. Furthermore, in accordance with the adopted accounting policies and IFRS 36 – Impairment of Assets, INA Group performs impairment testing at the end of each reporting period if impairment indicators are assessed to be significant. In 2018, the result was materially impacted by gain on INAGIP, d.o.o. acquisition and severance payment as described below.

SPECIAL ITEMS IN OPERATING PROFIT AND EBITDA (HRK MLN)	2017	2018
<b>INA GROUP</b>		
Total impact of special items on operating profit	39	198
Total impact of special items on EBITDA	139	198
<b>EXPLORATION AND PRODUCTION</b>		
Total impact of special items on operating profit	253	273
Total impact of special items on EBITDA	253	273
<i>Severance payment and net provisions</i>	-	(18)
<i>Gain on INAgip acquisition</i>	-	291
<i>Retranslation related to Angola</i>	18	-
<i>Reversal of provisions for additional tax Angola including retranslation</i>	235	-
<b>REFINING AND MARKETING INCLUDING RETAIL</b>		
Total impact of special items on operating (loss)	(115)	(42)
Total impact of special items on EBITDA	(115)	(42)
<i>Environment related provision</i>	(115)	-
<i>Severance payment and net provisions</i>	-	(42)
<b>CORPORATE FUNCTIONS</b>		
Total impact of special items on operating loss	(100)	(33)
Total impact of special items on EBITDA	-	(33)
<i>Impairment of assets - Zagreb 1</i>	(100)	-
<i>Severance payment</i>	-	(33)

## Reclassification position of profit and loss

In 2018 INA Group and INA, d.d. adjusted its EBITDA methodology and classification between impairment and value adjustment lines to better align the reporting to business reporting standards with EBITDA now being calculated as EBIT plus Depreciation, amortization and impairment (net). The effect of reclassification of account of profit and loss can be found on page 196.

# BRANCH AND REPRESENTATIVE OFFICES

Branch and representative offices on 31 December 2018:

COMPANY	BRANCH OFFICE/REPRESENTATIVE OFFICE
INA, d.d.	Branch Office Damascus, Syria
	Branch Office Cairo, Egypt
	Representative Office Luanda, Angola
	Representative Office Moscow, Russia
CROSCO d.o.o.	Branch Office Zadar
	Branch Office CROSCO Naftni Servisi D.O.O. Dega Tirana
	CROSCO Integrated Drilling & Well Services Co. Ltd. - G.S.P.L.A.J. Branch
	CROSCO Integrated Drilling & Well Services Co. Ltd. - Syrian Branch Office, Damascus
	CROSCO Naftni Servisi d.o.o. - Prestations Petrolieres (in the reactivation process)
	CROSCO Integrated Drilling & Well Services Co. Ltd. - Egyptian Branch, Cairo
	CROSCO Integrated Drilling & Well Service Co. Ltd. - Hungarian Branch Office - Magyarorszag Fioktelepe
	CROSCO Integrated Drilling & Well Services Co. Ltd. - Azerbaijan Branch Office (in the reactivation process)
CROSCO Integrated Drilling & Well Service Co. Ltd. - Italian Branch Office	
Rotary Zrt.	Branch Office Erbil, Iraq
	Branch Office Albania
STSI d.o.o.	STSI - Integrirani tehnički servisi d.o.o. - Branch Office In Syria, Damask
	STSI - Representative Office Belarus, Novopolotsk
INA Adria BV	Branch Office Zagreb, Croatia
Holdina d.o.o.	17 retail locations registered as Branch Office
Energopetrol d.d.	Branch Office - Maloprodajno mjesto Varaš 2
KRAJINAPETROL a.d.	19 retail locations registered as Branch Office



5

SUSTAINABILITY  
IN INIA GROUP

# SUSTAINABLE DEVELOPMENT MANAGEMENT IN INA GROUP



## Achievements

- ▶ 20 years of successful nonfinancial reporting celebrated with key stakeholders
- ▶ Awareness raising Sustainable Development educational material for blue collars developed
  - ▶ Key external and internal stakeholder survey conducted



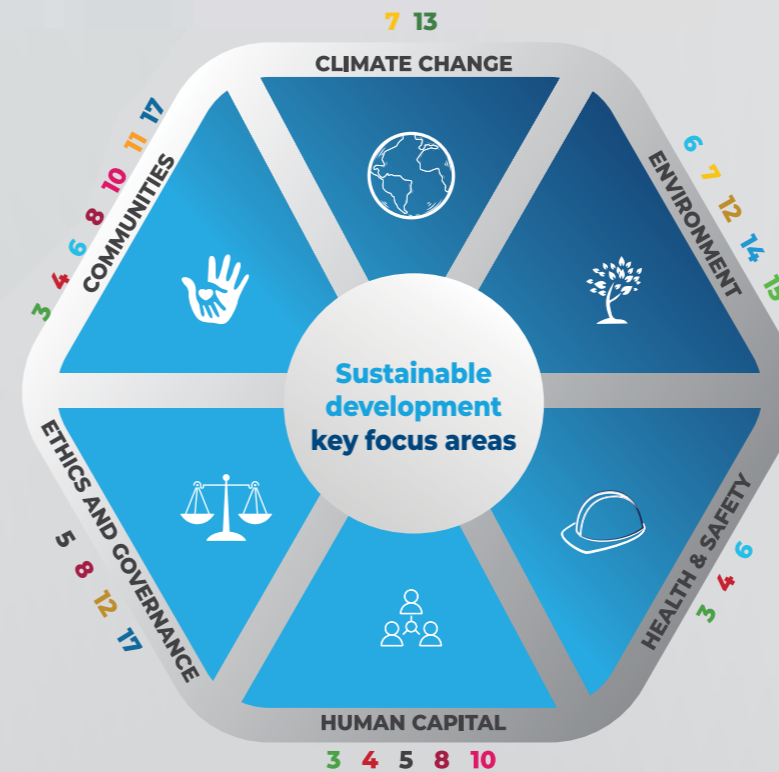
## Challenges

- ▶ Organization of dialog workshops with key external stakeholders
- ▶ Sustainable Development Goals promotion (Agenda 2030)
- ▶ Maintaining TOP 15% in the Croatian CRS Index

INA Group, as a leading oil and gas company in Croatia with a strong position in the region, plays a critical role in the life of the community and the economy. Through its products it can contribute to efficient traffic, transportation of goods, energy generation, etc. Nevertheless, it is a high risk business in respect of safety, with direct and indirect major impacts on the environment. As a consequence, along with the increasingly rigorous national and international legal environment, the stakeholders' expectations and investors' aspects also influence the appropriate management of the said risks.

That is why INA Group companies are committed to contribute to sustainable development (hereinafter: SD), meaning a permanent commitment to a balanced integration of economic, environmental and social factors in daily business operations, to increasing a long-term value for stakeholders, as well as to recognition, prevention and avoidance of potential negative impacts in order to safeguard the company's license to operate.

Implementation of SD to business (corporate sustainability) sector requires the establishment of processes for proactive management of risks and new business opportunities resulting from dialogue with stakeholders, related to long-term economic, environmental and social issues and with potential significant impact on sustainability of INA Group companies. In this regard, **INA Group Sustainable Development Key objectives and programs 2020** were developed in 2016. INA Group SD Programs and Actions are in direct correlation with the Global Sustainable Development Goals (hereinafter: SDGs) and by their execution INA Group directly contributes to 13 out of 17 SDGs. Through six focus areas consisting of 24 programs, annual action plans are developed and monitored on quarterly basis against targeted realization (at least 85% realization). Realization of Sustainable development, Health, Safety and Environment (hereinafter: SD&HSE) action plans are set as a divisional target. SD related actions and projects are an integral part of INA Group companies' business plan. In 2018, a total of 62 SD actions were conducted on INA Group level, with 98% realization.



13



Sustainable development goals supported by our initiatives



24 Programs

6 Key focus areas

## SUSTAINABLE DEVELOPMENT GOVERNANCE



MANAGEMENT BOARD



SD&HSE



SD&HSE organisational units in  
INA Group Companies



SD Working Group

In order to improve SD management practices and to assess a status of actions and programs, sustainable development internal audits are conducted on annual basis. Internal SD audit is not a formal audit, but a formalized discussion on how SD performance can be improved in audited organizational units. In 2018, three internal SD audits were performed.

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

# HEALTH AND SAFETY

“Ensure operational HSE excellence”



## Achievements

- ▶ There were no fatalities or high consequence injuries in 2018
- ▶ INA, d.d. was awarded in first national campaign „STOP injuries at work“ 2016 – 2018 by Institute for the Advancement of Occupational Safety
- ▶ Process Safety Management Event (PSE) Rate improved by 39% in Refining and Marketing compared to 2017, while there were no PSE in Exploration and Production in 2018

## Challenges

- ▶ Preparation for Rijeka Refinery turnaround activities
- ▶ Further improvement in realization of total recordable injuries tolerable limits
- ▶ Implementation of new INA Group firefighting strategy

## OCCUPATIONAL HEALTH AND SAFETY

In order to define the basic requirements related to SD&HSE in INA Group companies, as well as the impact on the community, to serve as support to the business objectives of INA Group and to create the basis for defining the guidelines for the management in the implementation of SD&HSE principles in daily business activities “Sustainable Development, Health, Safety and Environment Management System in INA Group Companies” was developed. The system is based on 16 basic elements with assigned general principles, as follows:

## SUSTAINABLE DEVELOPMENT, HEALTH, SAFETY AND ENVIRONMENT MANAGEMENT SYSTEM IN INA GROUP COMPANIES



### LEADERSHIP, COMMITMENT AND RESPONSIBILITY

Leaders, managers, employees and contractors understand their responsibilities and demonstrate leadership capabilities and commitment through visible and effective SD & HSE management.



### RISK & CHANGE MANAGEMENT

SD & HSE hazards and risks are identified, assessed and managed to prevent or reduce incidents.



### COMPETENCE, TRAINING AND AWARENESS

Employees, contractors and visitors are aware of the relevant SD & HSE requirements, hazards, risks and controls, they are competent to conduct their activities and behave responsibly.



### PLANNING AND TARGETS

SD & HSE Planning is an integral part of business planning, and includes strategic objectives, general, and annual targets aimed at performance improvement.



### SD & HSE MANAGEMENT IN CONTRACTING AND SERVICE PROCUREMENT PROCESSES

Contractors are assessed according to their capabilities and competencies to perform work for or on behalf of INA Group, and to ensure that their SD & HSE performance is aligned with the INA Group company requirements.



### DESIGN, CONSTRUCTION, COMMISSIONING AND DECOMMISSIONING

Assessment and management of SD & HSE risks is an integral part of designing, construction, commissioning and decommissioning which enables efficient SD & HSE performance throughout the construction and operational life of the facility.



### SAFE OPERATION AND WORK PRACTICES

All plants and assets are operated and maintained according to INA Group company internal regulations, programs, work instructions and standards in order to implement risk management.



### HEALTH PROTECTION AND PROMOTION

Programs / campaigns to protect employee health and provide medical treatment are in place. Employees are encouraged to lead a healthy lifestyle.



### ENVIRONMENTAL PROTECTION MANAGEMENT

INA Group companies' environmental footprint is reduced and environmental performance is improved through the implementation of requirements relating to the minimization and/or prevention of negative environmental impacts resulting from INA Group companies operations.



### REQUIREMENTS, INFORMATION AND DOCUMENTATION

The SD & HSE system is established for the purposes to identify, ensure the accessibility and understand the legal requirements, the governing law and voluntary requirements of INA Group companies.



### PRODUCT STEWARDSHIP

The lifecycle SD & HSE impacts of INA Group's products and services are assessed, managed and communicated to customers and users in order to enable responsible usage.



### COMMUNICATION AND CONSULTATION

Open, proactive and effective SD & HSE communication and consultation is maintained with stakeholders / majority or minority owners regarding the SD & HSE aspects of our business.



### INCIDENT REPORTING AND INVESTIGATION

Incidents are reported, investigated and analyzed to prevent their recurrence and to improve performance. Actions are applied and acquired knowledge and experiences are shared.



### EMERGENCY PLANNING AND RESPONSE

Plans, procedures and resources are introduced in order to effectively respond to emergency situations, to protect the employees and the environment, as well as to preserve the company's assets and reputation, with professional communication with the public in accordance with the INA Group company internal documents.



### AUDITS AND ENSURING THE SD & HSE SYSTEM EFFICIENCY

SD & HSE Performance and systems are monitored, audited and reviewed in order to identify trends, measure progress, assess compliance and ensure continuous improvement.



### SOCIAL IMPACT

INA Group companies manage the social impacts of its activities, enhance the trust of the communities where the INA Group companies operate.

SUSTAINABLE DEVELOPMENT, HEALTH, SAFETY AND ENVIRONMENT MANAGEMENT SYSTEM IN INA GROUP COMPANIES



### Occupational health and safety management

INA Group is committed to responsibly act and develop goals and actions in relation to the health and safety impacts, as integrative part of all our daily operations. We strive for high health protection standards and safety of our employees, contractors and customers, prevention of incidents, assurance of asset integrity and immediate response in emergency and crisis situations, as well as promotion of proactive health and safety corporate culture that is recognized by all our employees and contractors.

**Occupational Health and Safety System at INA Group Companies** (hereinafter: OHS system) defines the key elements of work safety in the INA Group Companies, with clearly stated duties and responsibilities of the employer, managers, employees and contracted workers through all phases of system. General principles of control and hierarchy of risk reduction measures are based principles in workplace safety culture development. OHS system is structured by OHSAS 18000 management system fully aligned with legal requirements and best oil and gas practices.

Four major policies issued by top management represent INA Group cornerstone to commitments in occupational health and safety and they are as follows:

- ▶ INA Group Health, Safety, Environment and Social Impact Policy
- ▶ The Major - Accidents Prevention Policy (Mapp)
- ▶ INA Group Road Safety Policy
- ▶ INA Group Personal Protective Equipment Policy

In order to reduce risk at workplace and increase safety besides legally obliged management documents, variety of documents based on OHS best oil and gas practices are in place as well. In the table below OHS management documents and regulations in INA Group which are in place are shown.



**HSE is integral part of the business**

LEGAL REQUIREMENT MANAGEMENT DOCUMENTS	OHS BEST OIL AND GAS PRACTICES
Occupational health and safety regulation in INA, d.d.	Occupational health and safety system at INA Group Companies
Rules of procedures, conditions and methods of obtaining safety at work in INA, d.d.	Risk and Change Management in Health, Safety and Environment Protection in INA Group Companies
Training program for work in safe manner in INA, d.d.	Process Safety Management in INA Group Companies
Work places with special conditions of work and other critical operations regulation in INA, d.d.	Safe operation and work practice in INA Group Companies
Training program for employer and employer authorized person in field of health and safety in INA, d.d.	Lifesaving rules at INA Group Companies
Personal protective equipment at INA Group Companies	Health, safety, environment and fire protection incident reporting and investigation system
Rules of central Occupational health and safety committee in INA, d.d.	Permits to work in INA Group Companies
Preparedness and emergency response at INA Group Companies	Fire hazard analysis
Health Protection and Promotion in INA Group Companies	Supervision procedure in the area of sustainable development, health, safety and environment protection at INA Group Companies
Implementation of REACH regulation at INA Group Companies	Sustainable development, health, safety and environment aspects of design construction, commissioning and decommissioning of plants/facilities in INA Group Companies
Instruction on the safety data sheet at INA, d.d.	Safe driving standard in INA Group Companies
Instruction on keeping the inquest register of hazardous chemicals in INA, d.d.	Regulation on conditions, priorities and method of sending INA, d.d. workers on medicine programed active vacation and health programed active vacation
Testing for alcohol and other addictive substances at INA Group Companies	Information and consultation in the area of sustainable development, health, safety and environment protection INA Group Companies

### Hazard identification, risk assessment and incident investigation

Within frames of OHS system it is prescribed that all work positions and work places must be assessed and that workers must be informed about hazards and protective measures, trained to work in a safe manner and in case of any hazardous situations how to stop work and notify local manager about hazards and risks. The risk assessment covers both employees and non-employees affected by the employer's undertaking. In addition to that, general standard describing specific hazards at local operating level **"Safe operation and work practice in INA Group Companies"** is incorporated as well. General regulation covers implementation of hazards and risk prevention programs such as: *Life Saving Rules, Safe operation and fire safety, Personal Protective Equipment, Lone working, Permit to Work, Testing of work environment, Hot work, Entry into confined space, Lifting and hoisting, Work at height, Ground disturbance, Energy control, Electrical safety, Opening process equipment and piping, Integrity check (pressure test) of process equipment, Temporary bypassing of a safety interlock, Continued operation with an activated process safety alarm and Road safety.*

Risk assessment team, including an employees representative, identifies hazards, decides who might be harmed and how, evaluates the risks and decides whether the existing precautions are adequate or additional measures need to be implemented, records significant findings, reviews the assessment and modifies it if necessary. Risk assessment findings are regularly discussed at OHS committees, integrated as a part of training materials, introduction presentation for specific sites and they represent a basis for specific work practice. All employees are familiar and aware of the work and workplace hazards, so they are obliged to work in a safe manner, stop the work and report if any potential hazard has occurred. The employees' commissioners are regular members of the OHS Committee and OHS Subcommittees, which are advisory bodies for improvement of occupational health and safety. All internal regulations of occupational health and safety have been approved by the Works' Council.

Pursuant to applicable regulations, relating to the works which entail an increased health and safety risk for employees and for the purpose of determining/control of the employee medical condition and ability to perform the works, the employees must meet specific requirements relating to age, professional qualifications, medical condition mental ability and to regularly take the prescribed medical examinations (e.g. workplaces with special working conditions). The main medical examination performed by occupational

medical doctor is **fitness for duty**, meant to determine the employee's ability to meet the job requirements without endangering their health and safety or the health and safety of other employees and persons at work, assistance in adapting the employee's working environment and prevention of occupational injuries and illnesses. In case a fitness for duty certificate cannot be issued, the occupational medicine specialist may notify the competent organizational unit within INA Group companies, occupational health and safety expert, of the reason for the established restriction and unfitness for duty only with voluntary consent and written approval of the employee. Based on the assessed health exposure and risks and in accordance with the **occupational safety training curriculum**, the employees are regularly trained workplace safety and working with computers. There are also trainings for the employer and authorized officer in the field of occupational safety and health and trainings for the employees' commissioner for occupational health and safety.

In order to achieve an optimal quantity and quality of the content, the trainings consists two levels: **a general program** (uniform and compulsory for all employees, it covers the basics of work safety) and **a special program** (refers to certain groups of employees, depending on the types of hazard, harm and strain that these employees encounter at their workplace).

In addition to the legally required training and education, each own and contractor employee must be introduced with INA Group Life Saving Rules (LSR), which represent minimum requirements that should be observed by all employees of INA Group companies. Furthermore, each employee and contractor representative involved in any high-risk process in INA Group companies is involved in a training on permit to work issuing.

In order to highlight positive examples and an incentive for creation of a safe working environment in 2018, **"SMART" awards** were awarded for the first time for extraordinary contribution in the field of sustainable development and protection of health, safety and environment, in three categories: **"SMART worker"**, **"SMART project cooperation"** and **"SMART contractor"**. The main goals of these awards were strengthening the culture of security, encouraging workers and contractors to maintain high levels of HSE awareness, promotion of a safe workplace, personal engagement of employees and cooperation between the project leader in the development and implementation phase and the engagement of the contractor regarding the HSE requirements, with the ultimate goal of achieving zero incidents, because our human health, safety, the environment and property are the first and foremost.



### Incident reporting

To ensure timely reporting and investigation of incidents and near-miss situations in the field of health, safety, environment and fire protection (hereinafter: all near miss and incidents are referred as to events), the company has implemented **Health, Safety, Environment and Fire Protection Incident Reporting and Investigation System**. The primary objective of incident investigation is to determine facts leading to the event, in order to prevent their reoccurrence.

According to our regulation **STOP CARD system**, not only incidents are reported and investigated, but also near misses (including unsafe acts and conditions). That gives us an opportunity to proactively minimize a consequence of some events that luckily have not occurred in form of an incident. Workers and their managers are highly involved in the investigation process, from recording events, to assessment and finally to its implementation. In case of any incident, all employees are informed about the incident reporting and investigation system and educated on emergency procedures depending on their role in the system.



### Health protection and promotion

INA Group culture of health and safety at work includes compliance with healthy workplace, with active participation of the employer and employees for a common goal of creating a healthy and safe work environment. The concept of health benefit is above legal compliance and it is being implemented through a six-year project **ZDRAVLJE+**.

## ZDRAVLJE+

In scope of ZDRAVLJE+ project in 2018, the focus was on leading campaign **“Heartbeat – the Music of Life”**, aiming at prevention of leading heart and vascular diseases, as well as promotion of healthy habits such as regular exercise, as well as prevention of musculoskeletal disorders.



The campaign included **“Change your life habits with Mario Valentić”**, a 30-day life-changing program for 30 selected INA Group employees. The employees participated in the campaign under the guidance of Mario Valentić, a kinesiology professor and healthy lifestyle promoter, by changing their nutritional habits and performing physical activities that included exercises aimed at weight loss, aerobic exercises and a one-day hiking tour.

Also, on the occasion of **Apple Day**, 22 October, employees learned that an apple can help their vascular system and heart stay healthy. A total of 1,000 kilograms of free apples were distributed in all INA, d.d. restaurants.

During November and December 2018, 430 employees across INA Group engaged in **humanitarian steps gathering**.

Each participant walked 92 kilometers on average, totaling 39,560 kilometers. For each kilometer crossed, INA, d.d. donated one HRK to **“Hrvatska kuća srca”** foundation and thus helped to purchase an automated external defibrillator with a communication cabinet. The defibrillator was installed in Primary School Janko Drašković in Zagreb, which is attended by a girl with Brugada syndrome (causing a dangerous irregular heart rate and unconsciousness or a sudden heart failure).

In addition to that, **“Join the heart health workshop”** was organized in Cardiovascular Diseases Clinic „Magdalena“, where employees learned more about health of their cardiovascular system. The workshop participants had their ECG measured within a presentation of telemedicine patient monitoring and consultation.

Further campaigns within project ZDRAVLJE+, such as: How to Manage Stress, Guided relaxation exercise, Physical and mental relaxation, A minute for health, Movements that make change, One hour without computer, Hormonal health, Everyone can save human life, are continuously ongoing, and there is also an internal application **“Ask Our Doctors”** through which a team of six contractual occupational medical specialists is available in person to all INA Group employees, for all types of medical consultation.

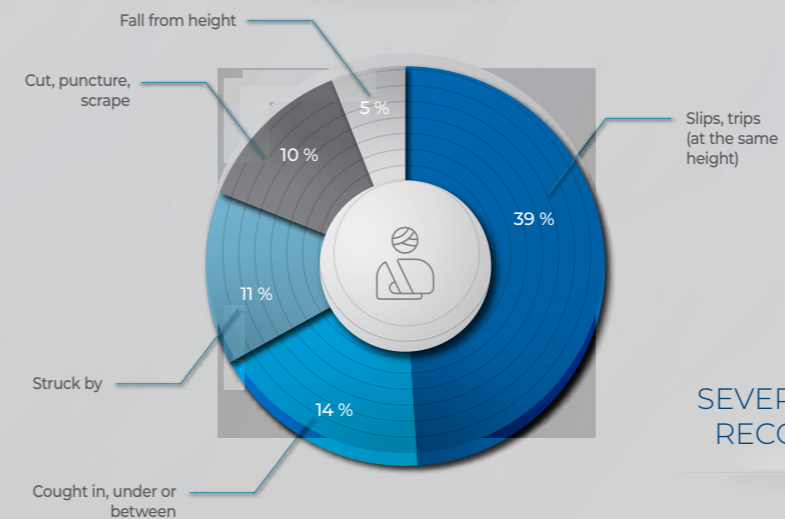
More than four thousands of INA Group employees annually participate in these activities. Our suppliers are included in these activities through operational support or sponsorship. Their employees working at INA Group locations can be actively included in the campaigns.

Since 2013, INA, d.d. has been conducting **Medically Programmed Active Vacation** (hereinafter: MPAV) in the duration of ten days, aiming at active employees with dissatisfactory health status, for the purpose of rehabilitation and health improvement within specialist health care. MPAV was introduced in 2016 in most INA Group companies. In addition, a new version of the program was introduced the same year, in the form of a five-day **Health Programmed Active Vacation** (hereinafter: HPAV), which is intended for all active employees with minor health issues and for the purpose of physical and mental relaxation and maintaining fitness. These programs are approved and supported by the workers' council and permanently available to our employees.

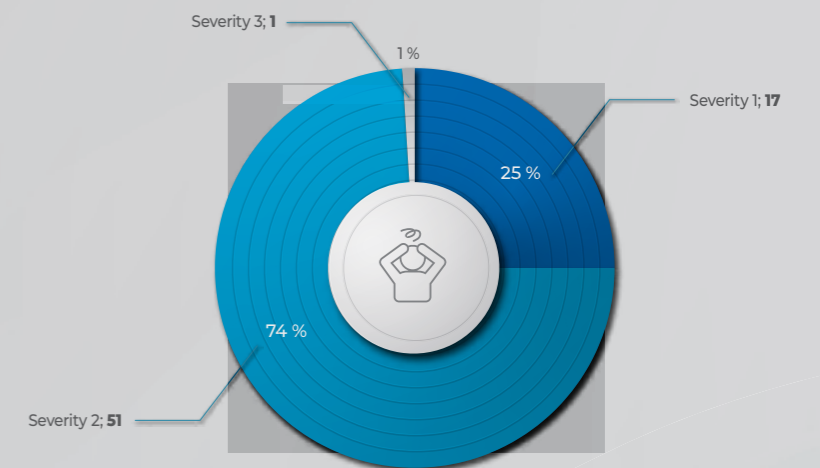
### Occupational safety performance

In 2018, INA Group recorded a slight increase in the number of recordable work-related injuries among all employees, both own and contractor staff, hence the recordable work-related injury rate increased from 2.55 to 2.70 in 2018. As in the last three years, the most common type of injuries are linked to slips and trips at same height (39% of all injuries). The second most common cause of work related injuries among INA Group employees is caught in, under or between (14%), then struck by (11%), cut, puncture, scrape (10%) and fall from height (5%). There were no types of ill health recorded, either in 2018 or in previous years, and no high consequence injuries related to recognized hazards (such as high pressure, high temperature, exposure to hazardous chemicals, etc.) at workplace that posed a risk of high consequence injuries in 2018.

#### 5 MAIN CAUSES OF TOTAL RECORDABLE INJURIES IN INA GROUP



#### SEVERITIES OF INA GROUP TOTAL RECORDABLE INJURIES IN 2018





In order to tackle the most common type of injuries, a slip, trip and fall prevention program called **“Unconscious behavior”** rolled-out at end of 2017 and started with full implementation in 2018. The aim of the program is to rise safety awareness and prevent slips and trip injuries. It is performed through interactive workshops for all INA Group blue collar workers (target 1,734 blue collars). Unconscious behavior program contains of four modules:

- ▶ Missing or wrong perception of hazards
- ▶ Missing or falsely placed optical signals
- ▶ False “focusing” while walking, ascending and climbing
- ▶ Incorrect workplace behavior patterns

### Unconscious behavior program

slip, trip and fall prevention program



In 2018, more than half of INA Group employees participated in the workshops. The main purpose of this program is to prevent slip, trip and fall type of injuries and reduce their number by 25% in 2019.

**“Hand protection program”** in CROSCO d.o.o. and STSI d.o.o. is based on education of employees with jobs including manual handling, educations on correct use of Personal Protective Equipment (hereinafter: PPE) and educations on providing safety and suitable tools for work.

Furthermore, **“Safety Leadership Engagement”**, a multiyear program aiming at raising awareness about the importance of work safety in daily activities and development of management skills in the field of safety, also continued in 2018. A total number of leaders participating in one-day Safety Leadership workshops was 384, out of which 121 (32%) participated in workshops held during 2017, while 244 (64%) participated in

workshops held during 2018. An overall outcome of the program since 2016, when the program was initiated, has been 95% (365/384) of the total number of leaders and team leaders.

### Safety Leadership Engagement program



Total number of leaders who participated on workshops

**384 (95%)**

In addition to the above mentioned activities relevant for delivering one-day workshops for leaders and team leaders, we also provided two-day workshops for newly appointed managers, who did not participate in safety workshops during 2016, as well as for managers of major contracted companies for high risk HSE works performing in INA Group. During 2018, we delivered seven workshops in which 63 managers participated, with a total response of 83% (63/76).

Our plan is to maintain the achieved engagement level efforts and raise INA Group safety culture through continuation of Leadership Engagement Program, in order to ensure the delivery of safety workshops to all newly appointed managers, leaders and team leaders.

For information on safety programs for contractors, please see chapter 5.7.4 Customers and contractors.

INA GROUP EMPLOYEES AND CONTRACTORS	2016	2017	2018
Number of fatalities as a result of work-related injury	0	0	0
Fatalities rates as a result of work-related injury*	0.0	0.0	0.0
Number of high-consequence work-related injury (excluding fatalities)	6	2	1
High-consequence work-related injury rate (excluding fatalities)*	0.24	0.08	0.04
Number of recordable work-related injury	45	63	69
Recordable work-related injury rate*	1.78	2.55	2.70
Number of hours worked	25,246,422	24,687,772	25,571,939

\*rates have been calculated based on 1,000,000 hours worked

INA GROUP CONTRACTORS	2016	2017	2018
Number of fatalities as a result of work-related injury	0	0	0
Fatalities rates as a result of work-related injury*	0.0	0.0	0.0
Number of high-consequence work-related injury (excluding fatalities)	2	0	0
High-consequence work-related injury rate (excluding fatalities)*	0.30	0.00	0.00
Number of recordable work-related injury	7	15	12
Recordable work-related injury rate*	1.04	2.29	1.77
Number of hours worked	6,711,648	6,550,571	6,779,520

\*rates have been calculated based on 1,000,000 hours worked

### FIRE PROTECTION AND PROCESS SAFETY MANAGEMENT

#### Process safety management

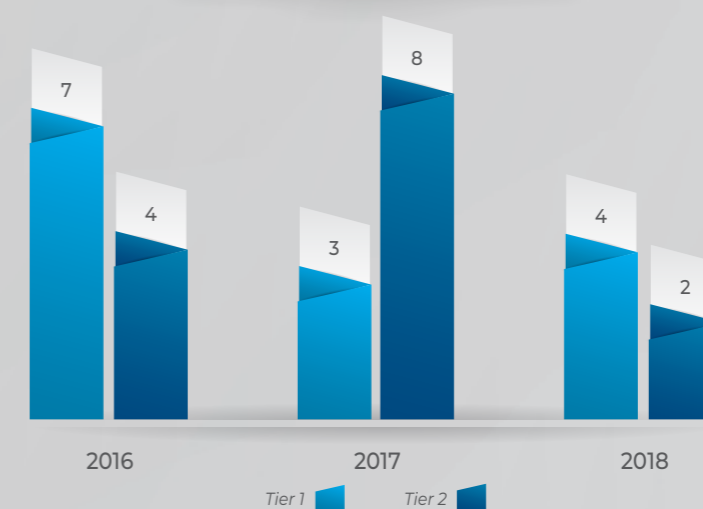
In order to identify, understand and control the process hazards, to prevent major fires, explosions, or toxic releases that could lead to fatalities or serious damage to assets and environmental consequences or impact the company reputation, INA Group implemented Process Safety Management System (hereinafter: PSM) in 2016. PSM is directed at preventing serious, process related incidents that might affect plant personnel, off-site communities or the environment and result in significant loss of property (company and/or community assets), business continuity and loss of reputation in general. It involves application of process and control systems relating to hazard substances/products, hazard operations/activities, which are systematically recognized and identified, understood and controlled in a manner preventing any process related incidents. One of the key HSE targets for the period 2017-2020 is PSM compliance with a minimum of 70%. In INA Group,

PSM network consists of Rijeka Refinery, Sisak Refinery, Logistics, Exploration and Production, INA Jadran d.o.o. (former INAGIP d.o.o.), Holdina d.o.o. and INA MAZIVA d.o.o. These business entities develop annual action plans with targeted minimum realization of 85%.

In 2019, the focus will be on implementation of Quality Assurance element in Investment Projects and Maintenance departments, Corrosion Management implementation in Exploration and Production and implementation of Flange Protocol for critical positions and PMI (Positive Material Identification).

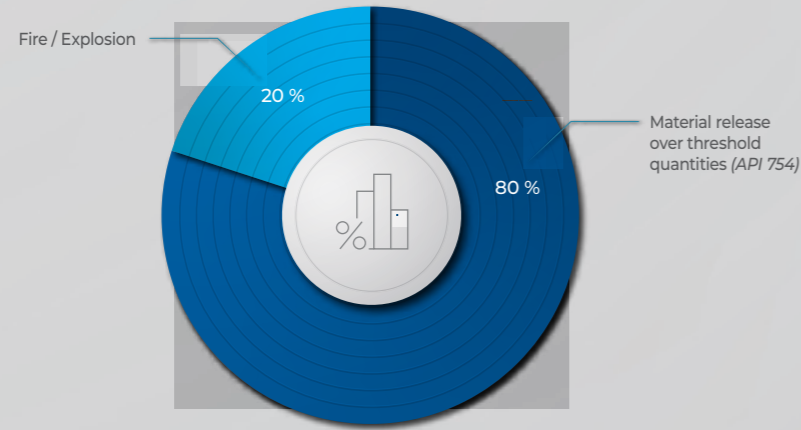
In 2018, four Tier 1 (process safety events with highest consequence) events and two Tier 2 (process safety event with lower consequence) events were recorded. Out of four Tier 1 incidents, one was related to fire caused by a “dead leg” freezing (a part of the pipeline that is not in use) in Rijeka Refinery. Three Tier 1 incidents were related to a pipeline rupture in Sisak Refinery. In order to tackle these kinds of incidents, “dead leg” management and Winter Book were introduced in Rijeka and Sisak refineries (a list of all “dead legs” in refineries for the purpose of their removal) and continuation of corrosion management in 2019 will continue.

#### PROCES SAFETY EVENTS IN INA GROUP

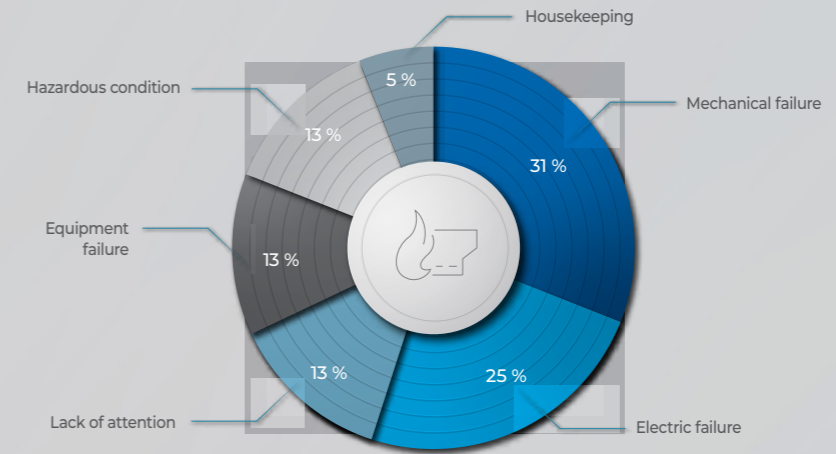




PSE TIER 1 AND 2 CATEGORIZED BY CAUSES



FIRE CASES CAUSES (2018)



Fire protection and risk and change management

INA, d.d. has six Professional Fire Brigades (PFB) for facilities categorized as Fire Risk Category 1, with up to 400 professional firefighters. A part of them are own workers and the other part are contracted (external) professional firefighters.

Firefighters (hereinafter: FFs) perform various tasks in their work where the specific degree of physical readiness is required for each firefighter. Therefore, with an obligatory medical examination (job requirement), an internal check of INA firefighters' physical capabilities

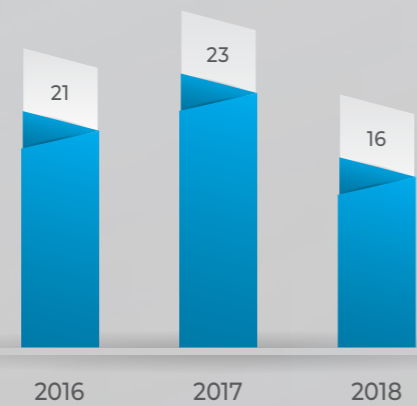
was introduced. Results from the 1st fitness test for INA FFs conducted at the end of 2017 showed that 49% of the tested FFs did not pass one or more of five prescribed tests in accordance with the Physical Examination Guidelines.

Therefore in 2018 in order to ensure the realization and retention of the required level of physical readiness of INA, d.d. professional firefighters in the future, unique training program (created by experts) with necessary sports equipment was developed and implemented in each INA Fire Brigade. Firefighters continuously train (during their working hours) and the firefighters' commanders are responsible for further implementation of the program by setting their personal goals.

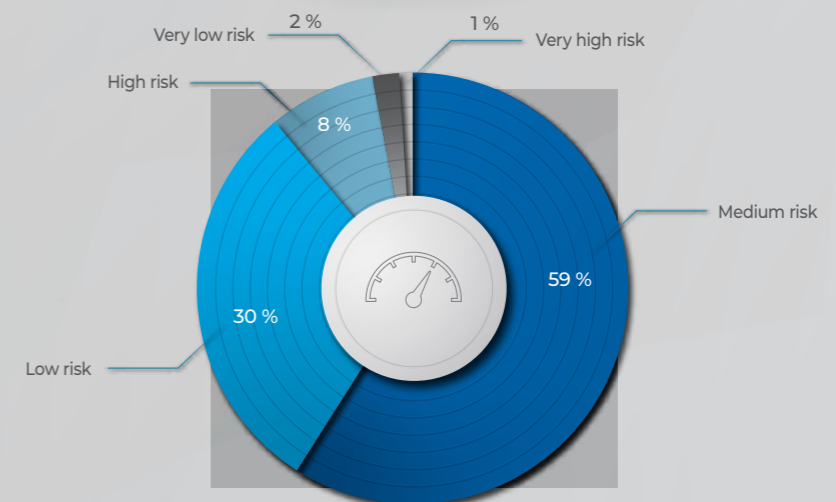
The **risk management system in INA Group companies** is defined by INA Group SD&HSE 2017 – 2020 key objectives and programs. The main objective is to enable identification of HSE hazards and risks related to company activities in order to prevent or reduce likelihood of incidents and their consequences. **INA Group Risk Register** was revised in 2018 for all risks in

the HSE area and a total of 1,457 risks were identified. Results of the estimated risks, proposed mitigation measures and defined financial costs of reducing all identified risks by priorities, from very high and high risks to medium and low risks (tolerable area), were presented by the evaluation team to the relevant managers of the assessed sites.

NUMBER OF FIRE CASES INA GROUP



IDENTIFIED RISKS (2018)



# CLIMATE CHANGE

“Manage risk and opportunities related to climate change”



## Achievements

- ▶ 203,005,827 m<sup>3</sup> of CO<sub>2</sub> injected in 2018 in the scope of Enhanced Oil Recovery project
  - ▶ 30 Energy Observation Tours completed
- ▶ ISO 50001 energy management recertification



## Challenges

- ▶ Upcoming EU ETS phase 4
- ▶ Increase in the price of CO<sub>2</sub> emission units
- ▶ Turnaround in Rijeka Refinery – improving energy efficiency

## GLOBAL OVERVIEW ON CLIMATE CHANGE

The main objective of the Paris Agreement is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. Together with 17 Sustainable Development Goals adopted, these agreements represent a global consensus on the need to restrain the climate change and to achieve sustainable development, meaning the climate change mitigation must be pursued in a manner consistent with ending of poverty, promotion of economic development, respecting human rights and ensuring social inclusion. The global demand for energy is likely to remain even higher than it is today, so European oil and gas industry will have a role to play in the energy future. The EU ETS system is one of the key instruments for implementation of the Paris Agreement. The aim of the new, 4th trading period, is to create and implement an efficient and stable emission market after 2021, with plans to improve cost-effective emission reductions and low carbon investment. One of the main challenges of the oil and gas industry in this period is to ensure growth and limiting the emission of greenhouse gases. Another major challenge is a constant rise in prices of quotas. In order to adapt to new challenges and reduce the impact on its business, INA, d.d. revised the internal procedures regarding the emission trading and continued to actively monitor all legal developments and through collaboration with local authorities, to participate in defining rules for a new trading period.

## ENERGY EFFICIENCY

Energy management plays a key role in the oil and gas business, which is an essential partner to sustainable development. INA Group is committed to responsible use of energy and continuously monitors and improves its energy performance in all business segments, industrial plants, equipment, facilities, office buildings, etc. Energy Management System was introduced at INA Group level (INA, d.d., STSI d.o.o., INA MAZIVA d.o.o. and CROSCO d.o.o.) three years ago and has three main goals:

- ▶ **Energy cost reduction**
- ▶ **Optimization of energy sources**
- ▶ **Introduction of best available techniques**

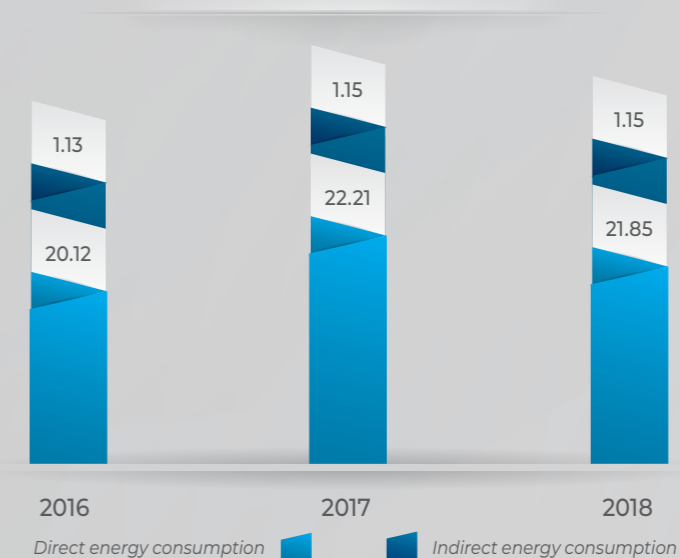
In addition to that, educational program was established for refinery employees, named **Energy Awareness Program** (hereinafter: EAP). After implementation of EAP in refineries, Logistics and INA MAZIVA d.o.o., this educational program was also rolled out in Retail in 2018.

**Energy observation tours**, introduced in 2017, continued in 2018 and 30 tours were carried out at different locations in INA Group. This practice will be extended and used as a mandatory energy performance indicator for managers and experts.

## Energy consumption

In 2018, the total energy consumption in INA Group was 23 million GJ, out of which 21.85 million of GJ direct energy consumption and 1.15 million GJ indirect energy consumption. Direct energy includes consumption of natural gas (7.53 million GJ) and other hydrocarbon energy source consumption (represents the sum of the quantities of fuel distilled from crude oil, including LPG, compressed natural gas, LNG, butane, propane, ethane and fuel, used for combustion in boilers, furnaces, heaters, turbines, flares, incinerators, generators, etc.) in the amount of 14.32 million GJ. Regarding indirect energy consumption, the total electricity purchased from external sources amounted to 1 million GJ and 0.15 million GJ of intermediate energy (steam, heat, etc.). The total energy consumed in 2018 in INA Group came from non-renewable sources. In Rijeka Refinery, 268 GJ of electricity was sold as a result of electricity surplus (used for safety reasons in case of a network failure).

TOTAL DIRECT AND INDIRECT ENERGY CONSUMPTION INA GROUP (million GJ)\*

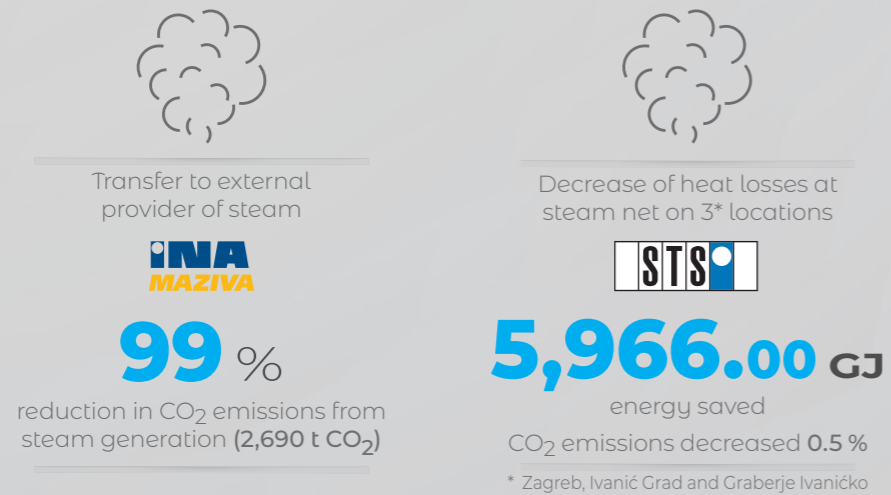


\*all data was collected in internal data collection system Enablon. Direct energy consumption is calculated based on laboratory analysis of used fuel when applicable or by usage of IPCC factors. Indirect energy consumption was calculated based on the bills received from external providers of heat, steam and electricity.

### Energy saving projects in INA Group

INA Group energy saving projects from 2015 to 2017 were based on more than 75 initiatives. As a result of these activities, Rijeka Refinery, being the biggest energy consumer, improved its Energy Intensity Index by 6% and Specific Carbon Dioxide Emissions by 3,8 %, in comparison to indicators for 2017. The next three-year cycle (2018 to 2020) continued with promotion of energy awareness, designing new ideas and concepts and expanding the list of energy relevant projects, all in order to further improve the system, bring successful energy performance and achieve better energy efficiency of the entire INA Group.

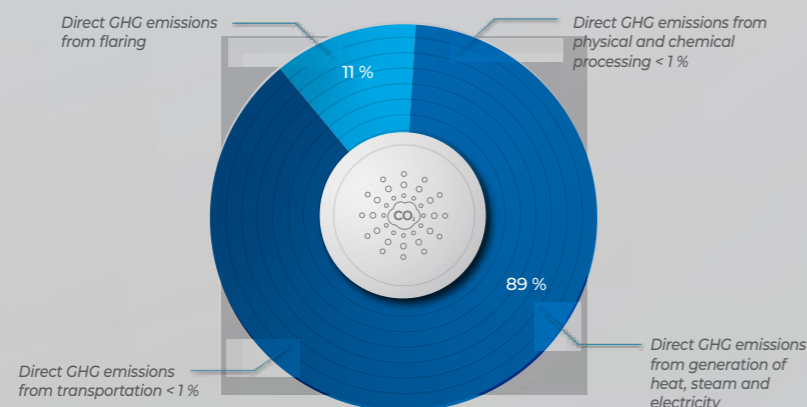
Acknowledging the fact that the major contributor to energy consumption in INA MAZIVA d.o.o. and STSI d.o.o is steam, two projects for reduction of the steam consumption and improvement of the energy efficiency were conducted in 2018.



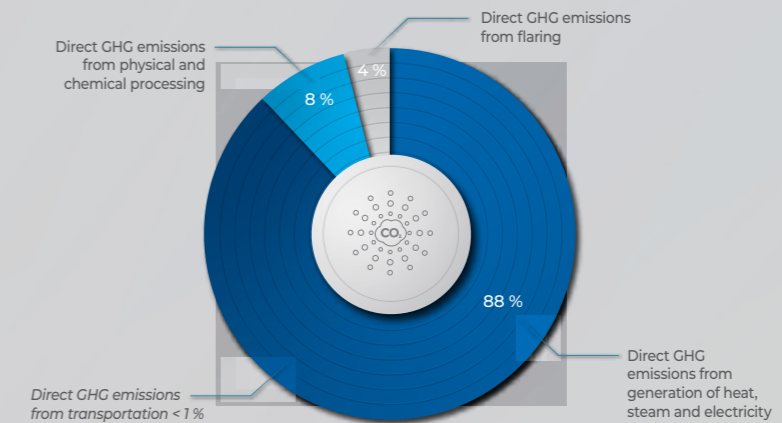
### OUR GHG EMISSIONS PERFORMANCE

The direct greenhouse gas (hereinafter: GHG) emissions (Scope 1) in 2018, from the facilities we operate, remained at the same level as in 2017 (1.83 million tons of CO<sub>2</sub> equivalent). The main contributors to direct GHG emission are refineries and upstream operations (total direct GHG emissions were 1.80 million tons of CO<sub>2</sub> equivalent). In 2018 total direct GHG emissions for Rijeka Refinery amounted to 1,002,642 tons CO<sub>2</sub> eq, for Sisak Refinery 312,136 tons CO<sub>2</sub> eq and for Exploration and Production 485,551 tons CO<sub>2</sub> eq. Diagrams below show the contribution of direct GHG emissions from physical or chemical processing, flaring, transportation, venting and generation of heat, steam and electricity in total direct GHG emissions.

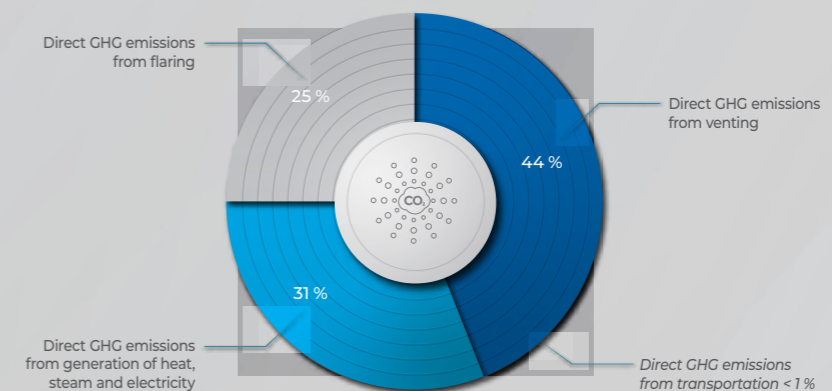
DIRECT GHG EMISSIONS PERFORMANCE  
Sisak Refinery



DIRECT GHG EMISSIONS PERFORMANCE  
Rijeka Refinery



DIRECT GHG EMISSIONS PERFORMANCE  
Exploration and Production



The indirect GHG emissions in 2018 from the energy we purchased (electricity, heat and steam) remained at the same level as in 2017 as well, 0.08 million tones of CO<sub>2</sub> equivalent (location based calculation).

Additional CO<sub>2</sub> emission reduction was achieved by the **Enhanced Oil Recovery (EOR)** project which started in INA Group in 2014. A total of 203,005,827 m<sup>3</sup> of CO<sub>2</sub> was injected in 2018 at Ivanić and Žutica locations, according to plan.



### European Union Emission Trading System emissions (EU ETS)

Total verified CO<sub>2</sub> emissions of INA, d.d. EU ETS facilities in 2018 were 1.7% lower than in 2017. CO<sub>2</sub> emissions in Rijeka Refinery, Gas Processing Facilities Molve and Fractionation Facilities Ivanić Grad remained similar to those in the previous year, only emissions in Sisak Refinery decreased by 13% due to FCC unit shutdown. All CO<sub>2</sub> emissions under EU ETS were verified by an accredited company, in line with the relevant European and national legislation.

VERIFIED CO <sub>2</sub> EMISSIONS UNDER EU ETS (t/YEAR)	2016	2017	2018
Rijeka Refinery	983,431	983,183	1,004,631
Sisak Refinery	318,271	360,703	312,069
Gas Processing Facilities Molve	76,583	84,840	88,189
Fractionation Facilities Ivanić Grad	36,383	46,757	46,140
<b>TOTAL</b>	<b>1,414,668</b>	<b>1,475,483</b>	<b>1,451,029</b>


### Emissions from flaring and venting

Venting and flaring are important operational and safety measures used in petroleum refining facilities to ensure that vapors and gases are safely disposed. On the other hand, flaring of natural gas wastes valuable resources and contributes to the climate change, which is why we are working on reduction of flaring associated with oil and gas production.

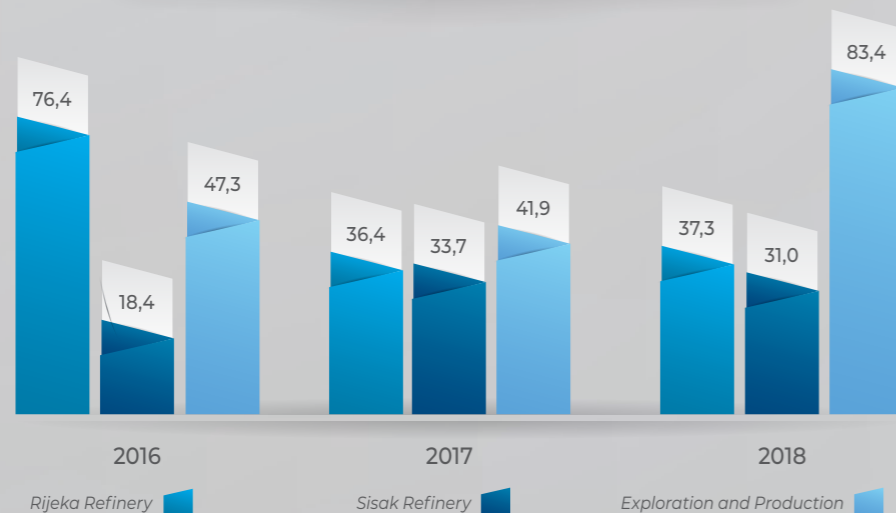
Direct GHG emissions from flaring in refineries stayed at approximately the same level compared to the previous year. When it comes to Exploration and Production, flaring is connected with exploration, initial well flow-back, well servicing, process upset, safety or emergency situations, equipment or gas handling infrastructure malfunction or depressuring equipment for maintenance, etc. In 2018, direct GHG emissions from flaring increased by 40%. The reasons for the increase was higher gas production at Measurement and Gathering Station (hereinafter: MGS) Đeletovci and turnaround in Gas Processing Facilities Molve and Fractionation Facilities Ivanić Grad.

INA, d.d. started with two **“Zero Routine Flaring”** projects. The aim of the projects was elimination of gas flaring at Mramor Brdo Gathering Station (hereinafter: GS) and MGS Đeletovci. At Mramor Brdo GS compressor plant with a rotary screw compressor (capacity of 15,000 m<sup>3</sup>/day) driven by an electric motor is to be installed. The compressor plant will be used for collecting produced associated gas, compress it to 45 bar and send it to the process, instead of burning it on the flares. A part of the compressed gas will be used for oil production by gas lift artificial method. The rest of the compressed gas will be dispatched for processing to Fractionation Facility Ivanić Grad.

**2**  
projects  
**“Zero Routine Flaring”**

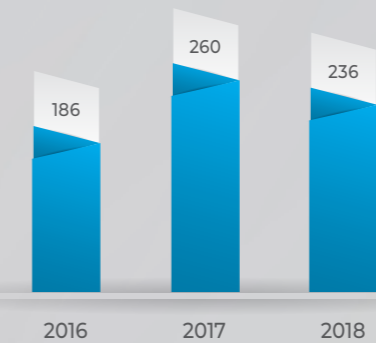


DIRECT GHG EMISSIONS FROM FLARING  
(in thousand tCO<sub>2</sub>eq)



Direct GHG emissions from venting in Exploration and Production decreased in 2018 by 9% because of a turnaround in Gas Processing Facilities Molve and Fractionation Facilities Ivanić Grad.

DIRECT GHG EMISSIONS FROM VENTING IN  
EXPLORATION AND PRODUCTION  
(in thousand tCO<sub>2</sub>eq)



# ENVIRONMENT

“Reduce environmental footprint”



## Achievements

- ▶ Non-hazardous waste landfill Šoići in Rijeka Refinery recovered and closed
- ▶ Revitalized waste water treatment plant put in operation in Rijeka Refinery
- ▶ 3.5 tons of used cooking oil collected from households on 30 INA Group Service stations



## Challenges

- ▶ High investments to achieve the highest standards according to the Industrial Emission Directive
- ▶ Implementation of European 2030 Climate and Energy framework
- ▶ Analysis of single use plastics entering INA with the aim of finding alternative replacement options

## ENVIRONMENTAL PROTECTION MANAGEMENT IN INA GROUP

There is no doubt that safeguarding the environment is one of the biggest imperatives of our time. Businesses across every size, geography and sectors are rising up to the challenge and setting the pace through ambitious commitments and actions to reduce their environmental footprint and integrate sustainability into their core operations. In a changing regulatory environment, the impact on the business must be continuously assessed in order to identify the most cost effective measures that must be implemented in order to comply with increasingly stringent legal requirements. By implementing such measures in production and processing, we are reducing our impact on the environment. At the same time, we are improving reporting obligations, implementation and enforcement of environmental regulation at every organizational level.

Since environmentally friendly solutions are the biggest business opportunity, we are continuing with implementation of programs from “INA Group SD&HSE 2017 – 2020 Key Objectives and Programs”. This document is based on five key principles:

- ▶ HSE is a part of business with a developed service orientation and involvement
- ▶ Higher focus on risk based implementation of programs
- ▶ Alignment with the business strategies, as well as initiatives
- ▶ Keeping SD&HSE culture development in focus
- ▶ Advanced level knowledge sharing

Moving toward providing more efficient, responsible, and sustainable methods of achieving the key objectives, INA Group annually prepares SD&HSE Action Plan where actions are tailored to fit specific business process needs in the environmental protection field. In order to accelerate our ambition in raising of the environmental standards and regulations and strengthening their implementation, we faced the challenge through significant and frank discussions with the relevant authorities and stakeholders. Because our employees are responsible for deploying our environmental approach in the front lines, training is an important part of our strategy. Both operators and managers receive the targeted training that raises their awareness about the environmental issues. Managing our environmental footprint, improving our energy efficiency and reducing our emissions are all important improvement objectives.

One of the key targets is development of a **risk based remediation strategy**, with an aim to improve soil and groundwater management practices, increase the coverage of liability register, and efficiently decrease the known soil and groundwater liabilities. We are on the right path to achieve this target, since we are conducting groundwater monitoring on 190 monitoring wells at all relevant sites. Also, we have prepared a tool for assessment of potential risks for non-investigated sites – **Initial Risk Assessment** (hereinafter: IRA) **Tool**, and assessed environmental risk for 60% of non-investigated sites in INA Group. The objective of the IRA is to perform a desktop analysis, including scoring, of all relevant INA Group sites, for which no soil and groundwater quality related data has been collected until this date, as well as to generate a comprehensive list of all site specific scores, in order to provide prioritization for the sites based on potential risks for humans or the environment and based on identified environmental and site specific parameters. Our approach is based on understanding the environment, because a better knowledge of risks makes it easier to anticipate them effectively and take appropriate preventive measures.

All potential and real incidents, including spills and Loss of Primary Containment (hereinafter: LOPC) are reported, investigated and analysed to prevent their recurrence and to improve the performance. Actions are applied and acquired knowledge and experiences are shared. Plans, procedures and resources are introduced in order to effectively respond to emergency situations, to protect the employees and the environment, as well as to preserve the company assets and reputation. Environmental performance and systems are monitored, audited and reviewed in order to identify trends, measure progress, assess compliance and ensure continuous improvement.

## WASTE MANAGEMENT IN INA GROUP

In 2018, **Key Waste Management Objectives in INA Group 2018-2021** were issued for further development of the existing waste management system. In order to achieve targeted objectives, activities for their implementation will be distributed to INA Group organizational units through their yearly waste management action plans in the next three years and some of the projects have already started.

Taking into account the principles of waste management and respecting the order of waste management priority and other legal requirements, priority actions that will improve the waste management system have been determined as follows:



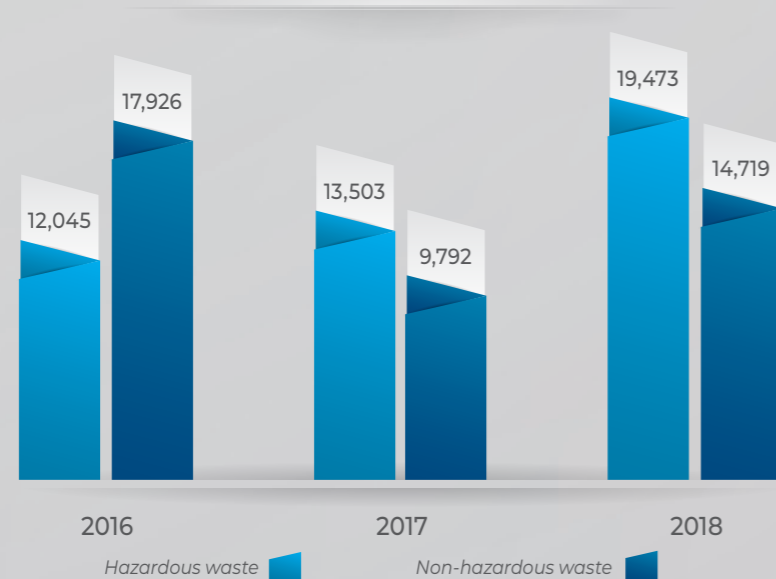


The focus in 2018 was on conducting audits and education of all participants in INA Group waste management process, on selective construction and municipal waste collection. Also, with the aim to simplify the monitoring and reporting of all hazardous and non-hazardous waste types and quantities, **IT solution for waste management for all INA Group locations** was implemented in the Republic of Croatia. Project **“Closing and recovery of non-hazardous waste landfill Šoići”** was carried out in accordance with obligations from the environmental permit for Rijeka Refinery. STSI d.o.o. obtained the environmental permit and at the end of the year the bioremediation treatment of contaminated soil commenced in the new hall in Moslavačka Gračenica, having obtained a new waste management permit with an extended capacity.

### Waste generation and disposal

Compared to results in 2017, there was an increase in the amount of generated waste. The total amount of waste generated in INA Group in 2018 was 34,192 tons (14,719 tons of non-hazardous and 19,473 tons of hazardous). Increase in waste generation in 2018 is due to need for disposal of waste alkalis and old equipment in Rijeka Refinery, increase in hazardous waste that arose during capital reconstructions in Retail, and Logistics disposed waste from two closed locations.

INA GROUP TOTAL WASTE GENERATED (t)



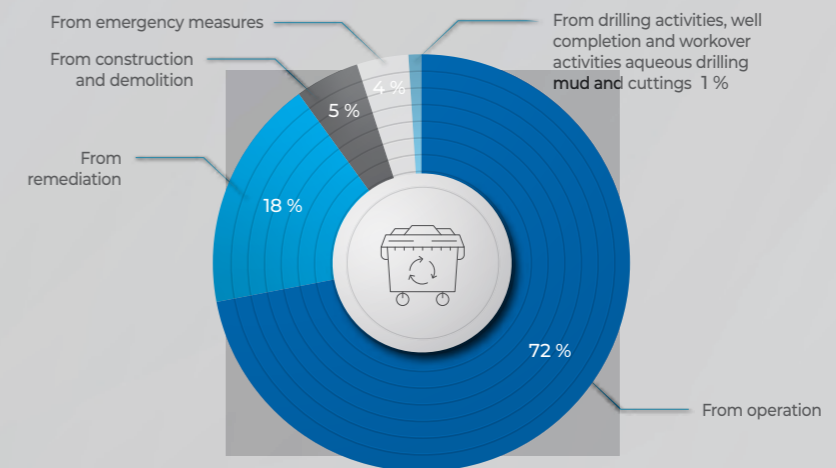
Out of total amount of waste generated in 2018, 12,498 tons were recycled and 21,726 tons disposed (32 tons of waste generated in 2017 was treated in 2018). Also, 4.2 tons of hazardous waste were exported in line with legal requirements. Hazardous and non-hazardous waste from drilling activities, well completion and work over activities in 2018 amounted to 273 tons and all of hazardous waste generated from this kind of activities (19.14 tons) was disposed by deep well injection. INA MAZIVA d.o.o. have accumulated 406 tons of waste oils in 2018 and for the first time 23.16 tons of waste oils were recovered for the production of its own products.

INA GROUP WASTE GENERATION AND DISPOSAL METHODS (t)*	2018
<b>TOTAL AMOUNT OF WASTE GENERATED</b>	<b>34,192</b>
Hazardous waste generated	19,473
Non-hazardous waste generated	14,719
<b>TOTAL AMOUNT OF WASTE DISPOSED</b>	<b>21,726</b>
Hazardous waste disposed	12,891
Non-hazardous waste disposed	8,835
<b>TOTAL AMOUNT OF WASTE RECYCLED</b>	<b>12,498</b>
Hazardous waste recycled	6,628
Non-hazardous waste recycled	5,870
<b>TOTAL AMOUNT OF WASTE DISPOSED AND RECYCLED</b>	<b>34,224</b>
Hazardous waste disposed and recycled	19,519
Non-hazardous waste disposed and recycled	14,705

\*In accordance with the Act on sustainable waste management (OG 94/13, 73/17, 14/19) and the Ordinance on waste management (OG 117/17), waste transfer note only includes information on "D" or "R" code, so in the process of waste handling by waste disposal contractor, waste producers in Croatia do not know which specific process will be used for treatment of their waste.

The most common types of waste generated during 2018 were drilling muds and other drilling wastes containing hazardous substances, oily sludge from maintenance operations of plants or equipment and iron and steel.

DISTRIBUTION OF INA GROUP WASTE FROM DIFFERENT ACTIVITIES





## Drain is not the solution!

### COLLECTING USED COOKING OIL FROM HOUSEHOLDS

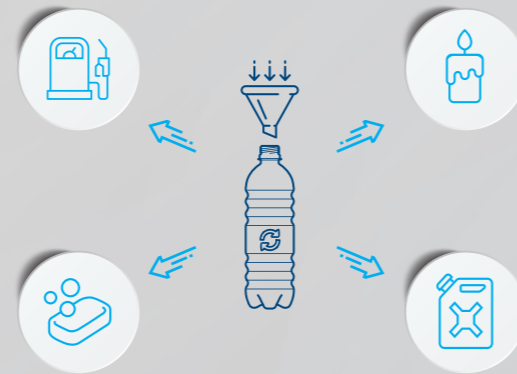
At the end of 2018, first year of **pilot project Collection of used cooking oil from households** was finished. Used cooking oil significantly pollutes water streams. In Croatia, **awareness of waste collection importance** and possibilities of used cooking oil management is insufficiently developed. Therefore, the project was presented via workshops, schools, and ecological events.

Households are not obliged to recycle used cooking oil, despite the fact that they are valuable material from which, by recovery, many useful products can be made, especially biofuels. **Biofuels produced from waste have significant contribution in achieving goals set by EU Directive on the promotion of the use of energy from renewable sources.**

In this project INA is in cooperation with Agroproteinka d.o.o., the company which is authorized for collection of such waste type.

### How is used COOKING OIL used?

Waste oils are an important raw material. Recycled used cooking oil can be used to produce soap, detergent, synthetic rubbers and biofuel production.



RECYCLE COOKING WASTE OIL WITH INA AND CONTRIBUTE TO ENVIRONMENTAL PROTECTION!

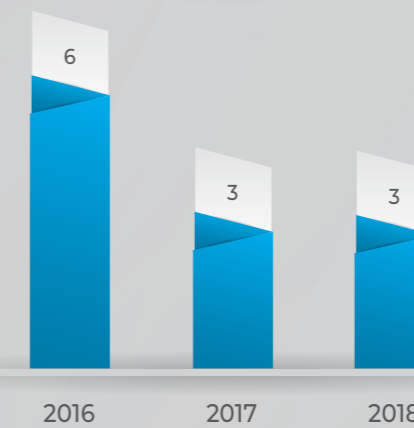
## SPILLS TO ENVIRONMENT

INA Group continuously puts effort in monitoring and reporting of spills, being aware of the importance of response to a spill. Therefore, hydrocarbon spills are assessed and cleaned up immediately after they occur, as well as reported according to internal regulation.

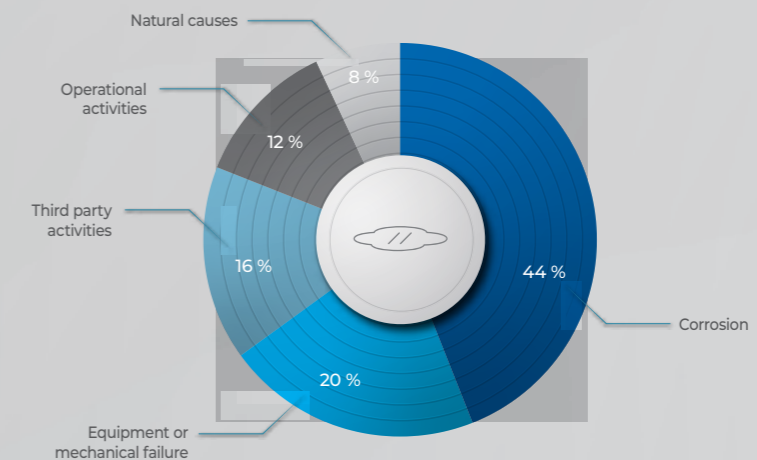
In 2018, the total number of spills in INA Group was 25, with a total volume of 57.55 m<sup>3</sup>, out of which 19.3 m<sup>3</sup> of hydrocarbon volume. There were three hydrocarbon spills with volume exceeding 1 m<sup>3</sup>, all caused by a third party. Two spills in Exploration and Production were caused by illegal connections. One spill occurred in December 2018, where 5 m<sup>3</sup> of crude oil polluted approximately 500 m<sup>2</sup> of arable land near Ivanić Grad. The other one was in March 2018, where 2.5 m<sup>3</sup> of gas condensate polluted 15 m<sup>2</sup> of ground and a ditch near the road to Sirova Katalena village. Luckily, watercourses were not threatened by these spills, remediation activities started immediately in both cases by authorized companies and total remediation costs were HRK 1,728,456. The third spill of 1 m<sup>3</sup> was due to negligence of a third party during bunkering of a ship. The spill is still under investigation at court. The total cost of all spills in 2018 was HRK 4.45 million.

Just as in the previous year, the most common causes of spills were corrosion (44%) and mechanical failures (20%). We aim to investigate and learn from all spills in order to improve our performance and decrease the risk of future spills. Therefore detection of illegal connections as rupture prevention presents a continuous task and a decreasing trend is noticeable on a yearly level. Implemented projects of rehabilitation and replacement of critical pipelines sections resulted in a multi-year trend of reduction in the total number of environmental pollution incidents in Exploration and Production, which is a confirmation for existence of a continuous and secure operating system.

### HYDROCARBON SPILLS ABOVE 1 m<sup>3</sup> IN INA GROUP



### DISTRIBUTION OF SPILLS BY CAUSE



### AIR EMISSIONS

INA Group has worked for years to reduce emissions within its operations, mostly through implementation of the best available techniques for emission reduction and energy efficiency projects. Combustion of fuels in boilers, furnaces, gas turbines and process heaters for power, steam and heat generation are responsible for the largest share of air pollutant emissions.

The total **emissions of SOx, NOx and CO were reduced by an average of 20%** in comparison to the last year, while dust emissions remained at approximately the same level, although the production was slightly higher. Emissions reduction in 2018 was mainly influenced by a higher use of natural gas as an energy source and suspension of the FCC unit in Sisak Refinery, a better quality of fuel gas and fuel oil with lower hydrogen sulfide, respectively sulfur, content in Rijeka Refinery and overhaul at the Upstream Fractionation Facilities Ivanić Grad and Gas Processing Facilities Molve.

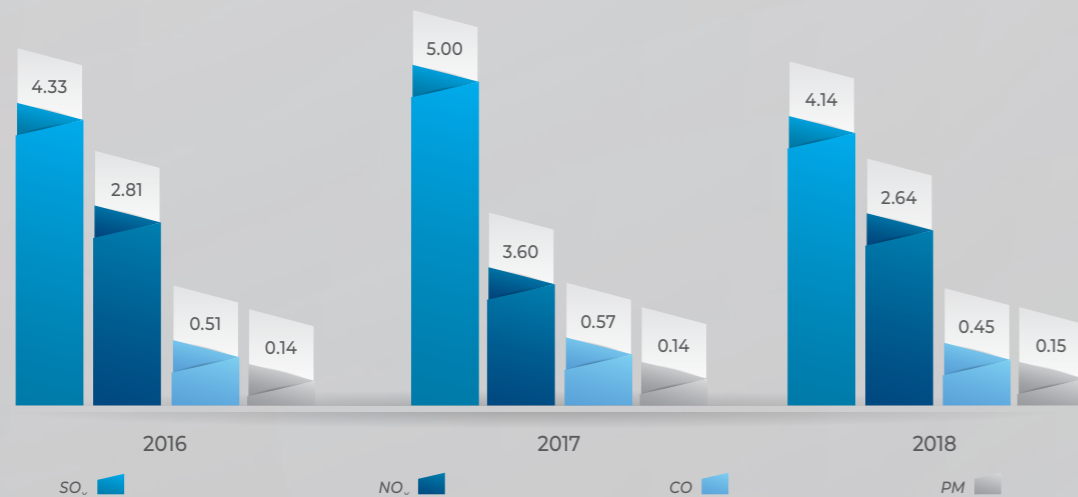
Over the past few years significant resources have been invested in air emission reduction technologies, primarily in the refineries, but also in our upstream facilities. The biggest improvement in production that affected the economy of Rijeka Refinery and the environment was successful commissioning of a new flare gas recovery system for the return of fuel gas from the flare back to the fuel gas system. After this unit was commissioned, the refinery material balance showed a noticeable reduction in total technological losses and smaller amount of total energy used, while specific energy consumption was better than the planned target value.

Works on modernization of two steam boilers in Rijeka Refinery were completed in 2018, in order to secure reliability of the boilers through installation of new instrumentation and control system and also to meet lower NOx emission limit values through installation of low-NOx burners.

**Continuous emission monitoring system** (hereinafter: CEMS) on large combustion plants is revitalized and improved in both refineries, and completely new CEMS is to be installed on fluid catalytic cracking unit with capability of following measurements: CO, NOx, SOx, dust, O<sub>2</sub>, flow, temperature and pressure. A new CEMS will be on the flue duct of a new electrostatic precipitator, which will be installed during a comprehensive Rijeka Refinery turnaround at the beginning of 2019, in order to decrease dust emissions.

We have also continued to perform Leak Detection and Repair (hereinafter: LDAR) program at our production facilities in Sisak and Rijeka. LDAR is performed on equipment with potential to emit fugitive emissions, equipped with a GasFindIR camera that visually displays the slightest leakages on equipment elements and installations through which fluid flows. Leak detection is performed annually and repair of leaks is undertaken immediately or within defined time frames, in accordance with the site maintenance plan.

AIR EMISSIONS  
(in thousands of tons)

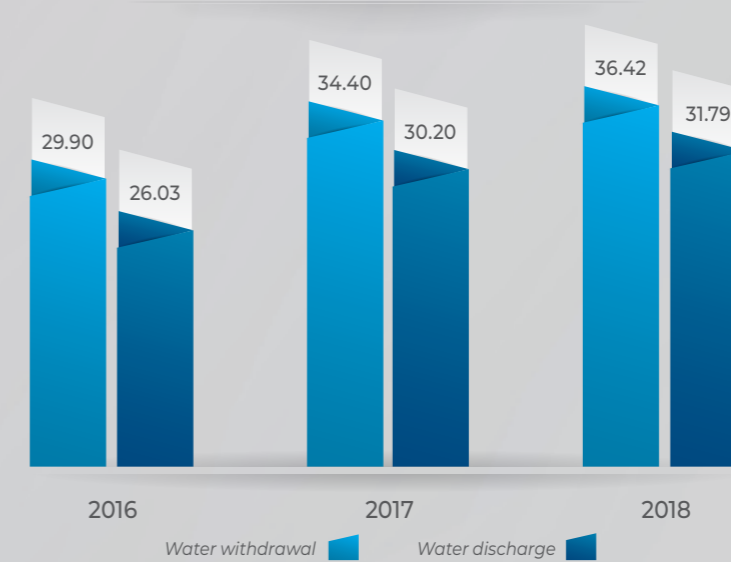


### WATER

In INA Group operations water is required for drilling and other upstream production processes, where it is an essential component in the refining process. Major water withdrawal sources in INA Group are freshwater sources (surface water, groundwater and municipal water) and non-freshwater sources, i.e. sea water that is used for cooling in Rijeka Refinery. None of the total water withdrawn comes from water stress areas. Water consumption data are collected in INA Group reporting system dedicated for that purpose and provided by Enablon.

Total water withdrawal in 2018 (36.42 million m<sup>3</sup>, i.e. 36,422 mega liters) increased by 6% compared to 2017. The increase was recorded mainly due to increased production in Rijeka Refinery, increased drilling activities in Ukraine and the fact that water station Prerovec (groundwater source for Exploration and Production operations) became operational in 2018. Total volume of discharged water in 2018 was 31.79 million m<sup>3</sup> (e.g. 31,797 mega liters). Regarding discharged water treatment, only water discharged to sea is not treated because the quality of water remains unchanged, while other discharged water is treated on site (physical, biological, chemical treatment or a combination of treatments) or transferred to a third party for treatment.

TOTAL INA GROUP WATER WITHDRAWAL AND DISCHARGE (million m<sup>3</sup>)



INA GROUP WATER WITHDRAWAL BY SOURCE 2018*	million m <sup>3</sup>	mega liters
Freshwater withdrawal - groundwater	1.59	1,590
Freshwater withdrawal - surface water	7.89	7,898
Freshwater withdrawal - municipal water	0.79	799
Non-freshwater withdrawal from sea	25.59	25,592
Produced Water - Sour Water stripper and/or tank bottom draws	0.54	543
<b>TOTAL</b>	<b>36.42</b>	<b>36,422</b>

\*INA neither collects rainwater nor uses waste water from another organization; 1 mega liter = 1,000 m<sup>3</sup>

A revitalized wastewater treatment plant system was commissioned at Rijeka Refinery in April 2018. This system is composed of new equalization basin and four API separators, which separate larger quantities of oil and suspended matter from wastewater effluent of the Refinery by gravitational separation. The reconstruction included a reassignment of existing tanks to retention for collecting rainwater and for connecting into a joint control management system, in order to improve the environmental protection and decrease the working costs. Implementation of this project provided a significant increase in capacity for entering flow and hydraulic relief of the main flow. It also ensured uniformity of wastewater treatment and better water quality at discharge. API separators tanks from A-7 to A-10 were covered with floating covers to decrease the emissions and unpleasant smell. Flotation tank A-12 was covered, because sludge clusters formed on the surface were sensitive to wind and rain. Tanks were also equipped with new scrapers for removing oils from the surface and for gathering sludge precipitate. This complex project was special because works had to be done during regular plant work. Also, because the building's location right next to the sea shore, special attention was dedicated to protection of the coastal belt along the construction site by setting floating dams and by constant supervision of the site.

# HUMAN CAPITAL

“Capitalize on human resources”



## Achievements

- ▶ Increased number of training hours per employee
- ▶ Full implementation of Flexible work arrangements in INA Group
- ▶ Diversity and inclusion day committed to raising awareness on this topic



## Challenges

- ▶ Further increase of the number of training hours (32 hours per employee)
- ▶ Ensure improvement and sustainable growth of beneFIT platform, which actively promotes wellbeing/work-life balance culture
- ▶ Learning Education Onboarding system implementation and advanced e-learning capabilities

## HUMAN CAPITAL MANAGEMENT IN INA GROUP

Regulation “Defining development needs, planning and delivery of development and educational programs in INA Group companies” was implemented in 2018. The regulation sets out the main steps, tasks and accountabilities in the process of implementing developmental and educational policy in INA Group companies, defining educational needs, planning development and education, types of developmental and educational processes, rights and obligations during the education and after completion of the education, as well as evaluation of return on investment through the application of acquired knowledge. The final goal of implementation of a selected developmental or educational program is increasing employees’ competencies with the aim of affecting their work performance and generating added value for the company.

## EMPLOYEE RELATIONS

### Social Dialogue with Trade Unions and Works Council

Social dialogue in INA Group has continuously improved through cooperation with the Works Council (hereinafter: WC) and Trade Unions (hereinafter: TU), which is practiced through regular meetings between HR and the social partners, including negotiations on employee fringe benefits (collective negotiations, negotiations on social clauses relating to compensation for employees included in optimization and restructuring projects). During 2018, 44 meetings with the TU and WC were held in INA, d.d.

In line with the Collective Agreement (hereinafter: CA), the employer sends quarterly reports to TU representative regarding overtime work, number and type of employees employed, structure of employment, etc. The employer informs the WC about business results and state of affairs, as well as organization of work, expected development of business activities and their impact on the economic and social position of workers, extent and changes in the salaries, number of employees and labour costs, extent and reasons for introduction of overtime, number and type of workers employed by the employer, structure of employment (part-time and dislocated employees, employees employed via temporary employment agencies, etc.), protection of health and safety at work and measures to improve working conditions, results of conducted inspections in the field of labour and safety at work, and other issues particularly important for the economic and social position of workers.

Five companies made the CA for indefinite term (INA, d.d., STSI d.o.o., INA MAZIVA d.o.o., TOP RAČUNOVODSTVO SERVISI d.o.o. and Hostin, d.o.o.), while two companies (INA MALOPRODAJNI SERVISI d.o.o. and CROSCO d.o.o.) for a definite term. PLAVI TIM d.o.o. does not have a CA, but material and other employment rights are regulated by Labour laws. In 2018, new collective negotiations started in INA MALOPRODAJNI SERVISI d.o.o. and CROSCO d.o.o.

Five TU are active in INA, d.d. and employees independently decide on their membership in either of them.

In INA Group, 67 % employees are members of a TU, while 10 % of them are members of more than one TU. The number of INA Group employees in TUs on 31 December 2018:

NAME OF TU	NUMBER OF EMPLOYEES
SING - Oil Industry Union	3,783
INAŠ - Oil Industries Trade Union	2,084
EKN - Autonomous Trade Union of Workers in Energy, Chemistry and Non-Metal Industry of Croatia	472
SNS - New Solidarity Trade Union	191
SHV - Croatian Drivers' Trade Union	9
<b>INA GROUP TOTAL</b>	<b>6,539</b>

### Employee assemblies and other ways of direct communication with employees

The purpose of **Employee Assemblies** (hereinafter: EA) is to improve the relationship and direct communication between employees and management and to inform the employees of the company strategy and strategy for specific organizational units, as well as the tasks and targets.

#### Safety-At-Work Commissioners

The selection procedure was redefined in the Labor Act and based on new stipulations, TU initiated and conducted elections of safety-at-work commissioners in INA Group companies. There are 84 commissioners in INA Group (44 in INA, d.d., ten in CROSCO d.o.o., five in TOP RAČUNOVODSTVO SERVISI d.o.o., nine in STSI d.o.o., 12 in INA MALOPRODAJNI SERVISI d.o.o., three in INA MAZIVA d.o.o. and one in PLAVI TIM d.o.o.)

#### Committee for Amicable Dispute Settlement

The committee for amicable dispute settlement is prescribed by the CA. The Committee consists of two employer’s representatives and three TU representatives.

#### Help for employees and their families in cases of serious illnesses

The committee for establishing the eligibility of employees to aid in case of illness reviews individual requests of employees, acquires expert opinions of the contracted primary health physician on the grounds of their request and the amount of necessary funds, and prepares proposals for decisions on allocation of aid within the framework of planned costs.





NUMBER AND PERCENTAGE OF EMPLOYEES RECEIVING REGULAR FEEDBACK	2016	2017	2018
INA Group (male)	8,580 (79%)	8,272 (76%)	8,143 (76%)
INA Group (female)	2,281 (21%)	2,612 (24%)	2,565 (24%)
<b>TOTAL INA GROUP</b>	<b>10,861 (100%)</b>	<b>10,884 (100%)</b>	<b>10,708 (100%)</b>

Implemented internal and external development programs 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".

**Technical career ladder program**

Technical career ladder program (hereinafter: 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 (hereinafter: PTP) and in accordance with that IDPs 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. As of 2016, both Exploration and Production and Refining and Marketing professionals are included in the program with new experts added every year due to scope expansion. In 2018 an expansion was made with inclusion of non-technical employees from functional divisions such as HR and IT while and further expansion is expected in 2019.

**Leadership development**

INA Group offers opportunities for leaders and potential leaders to participate in many different leadership development programs and workshops. The aim of programs such as **LEAD, Next DS, Intensity and First Time Manager** is to develop four leadership competencies: thought, result, people and personal. Expected outcome is to boost leaders for future challenges, upgrade their self-awareness and

make them effective and efficient in their everyday challenges as people leaders. New participants for the said programs were selected in 2018, when they started with their education and further development.

**"First time manager"**, a one-year development journey was launched in 2018. It is a structured, competency-based approach consisting of educations, group coaching and leadership mentoring. The target group are 48 new managers from INA Group. With this approach, the company will provide support not only to first-time managers and their teams, but also to line managers and the entire management chain in development of their new managers. First-time managers who receive the necessary tools, skills, and training, are set up to become effective leaders, capable to foster engaged, productive direct reports and drive greater results for the organization.

A six-month development program for Sales Managers was also launched in 2018. The aim was to empower managerial skills, skills required to manage sales teams and to support sales transformation.

**Sales Academy**

During 2018, a year-long, structured development program for sales representatives was delivered with the aim of strengthening and increasing the level of sales competencies. All INA Group sales representatives participated in program.

**INA Academy**

Internal knowledge sharing is one of the most effective sustainability tools when it comes to human capital. INA Academy provides structure and an application tool for a series of independent workshops held all year round on several different locations, with the goal of developing the employees through participation and through being a trainer.

**Talent Attraction**

For the last decade, INA Group has been strategically planning, attracting and employing white-collar young talents due to anticipated future business need caused by aging of the top oil and gas experts. Attraction and recruitment programs for young graduates have been continuously implemented, but this year they have been extended to blue collar population, as well.

The focus on graduate students consists of **Growww internship program**, strategic employment of fresh graduates and Growww pipeline projects such as **FRESHHH** (an online competition game in which students manage an oil and gas company), **Junior Freshhh** (high-school online competition in natural sciences), **Female Engineers MOL Program (FEMP)**, created to support young STEM (science, technology, engineering, and mathematics) female students by providing them with an opportunity to acquire a scholarship.

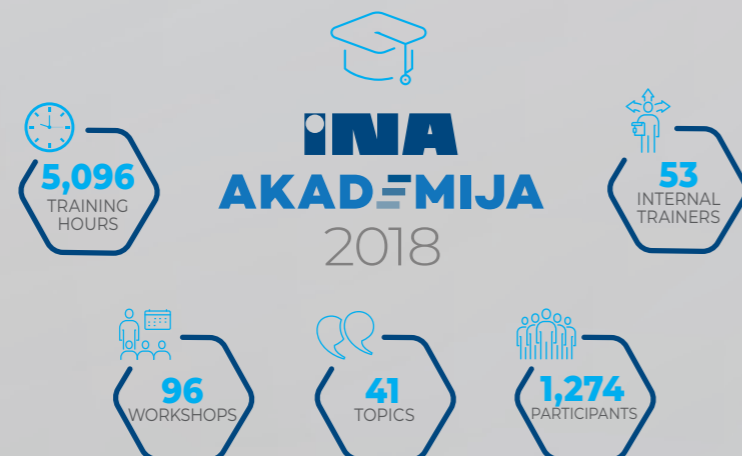
In 2018, a strategic approach to **attraction and retention of blue collar population** due to the increasing challenges in the labor market (due to the exile, ageing, less interest in vocational schools etc.) was initiated. Our main goal is to empower students in vocational schools, as well as elementary school students to develop expertise in the area of their future or future vocational education and be appreciated experts in the area of scholarships, internships, final thesis creation in cooperation with INA Group experts, donation of used INA's equipment (IT equipment, mechanical equipment, etc.).

**Engagement, Diversity and Inclusion**

Following 2017 Engagement survey, we created over 100 action plans to boost the drivers with an immediate effect on employees' engagement. Action planning roll out is done through a network of engagement champions who are guided, educated and mentored. The champion program includes not only workshops for action planning rollout, but also workshops for their own development in order to make the role model ambassadors of the engagement.

The strategy for managing diversity and inclusion in 2018 included several fundamental action plans such as publication of the operating document **Diversity, Inclusion and Non-Discrimination Management in INA Group Companies**, implementation of workshops in the area of awareness raising about diversity and successful communication with different people (communication workshops, workshops with DISC methodology with engagement champions etc.), **#svismoOK** conference and publication of the D&I memo brochure - INA Group's diversification guide.

Second in the row **diversity and inclusion conference #svismoOK** was held for internal and external audience from other successful Croatian companies supporting the theme of diversity and inclusion, with the goals of introduction of the topic to as many employees as possible, raising awareness about the importance of this topic, encouraging the employees to participate in the event and various workshops aimed at raising awareness of diversity and respect for their colleagues, introduction of employees to INA's corporate values.





# COMMUNITIES

“Enhance trust and credibility among stakeholders”



## Achievements

- ▶ INA, d.d. continues to support local community projects
- ▶ Green Belt project is included in ICC Global report on SDGs prepared for 2018 UN high-level political forum
  - ▶ INA, d.d. won “Sjaj” award for visibility and affirmation of CSR and sustainability in digital media



## Challenges

- ▶ Implementation of Green Belt projects in 2019
  - ▶ Proper reaction to local community demands
- ▶ Continuation in social investments: health care, children’s needs, educational projects

## COMMUNITY RELATIONS AND SOCIAL INVESTMENTS

In INA Group, relations with local communities are defined in the **Manual for the Management of Social Engagement Activities**. Local community members (individuals, local leaders, non-profit organizations, municipalities, associations, etc.) are involved in business activities that have an impact on the communities in which they take place.

### Relations with the local downstream and upstream communities

INA, d.d. continues to support projects in the area in which it operates, particularly in downstream locations in Primorje and Gorski Kotar County, Solin and Sisak and upstream locations in eastern, central and northern Croatia. The focus is especially on helping children, young people, health care institutions and projects that contribute to the quality of life in the local communities. In 2018, INA, d.d. supported **71 projects in Upstream operating areas and 84 projects in Downstream operating areas**.

### Projects supported in 2018 include the following:

- ▶ Free fuel to municipalities heavily damaged by snowfall in Primorje and Gorski Kotar County
- ▶ Humanitarian Carnival Ball, “Homo si teč” street race and “Fiumanka” regatta in Rijeka
- ▶ Installation of solar benches in the town and air conditioning units in Kostrena elementary school
- ▶ Support to gifted students in Sisak Technical School
- ▶ Equipment of a sports hall and a kindergarten In Sisak and Moslavina County,
- ▶ Cooperation on project “Hot meal, a meal of health” for all elementary schools in Sisak County
- ▶ Installation of playgrounds in kindergartens in Ivanić Grad
- ▶ Renovation of a school kitchen in Molve
- ▶ Realization of ecological project “Sustainable Development” in secondary school in Đurđevac
- ▶ Support to main cultural institutions and manifestations in upstream regions (e.g. Croatian National Theatre Osijek and “Vinkovačke jeseni”)

### Key CSR projects with internal public, non-profit organizations and local communities



#### CHRISTMAS IN INA

At the end of 2018 INA, d.d. organized several activities to complement holiday spirit: **Humanitarian Christmas fair, Donor’s exhibition, Christmas tree decoration, Visit of Santa Claus, Christmas with INA - theatre plays for children in five cities and the project „Bring a smile to children’s faces“.**



**189** projects applied

**18** best projects selected

**HRK 350,000**

INA’s Green Belt project has been included in the ICC Global report on SDGs prepared for 2018 UN high-level political forum, as a project that directly contributes to **SDG 15 - Life on land**, and it became one of the 80 most successful global examples of sustainable development from the corporate world.



#### INVESTMENTS IN IMPROVING HEALTH CARE OF COMMUNITY

during 2018 INA continued with project **„Donations to the hospitals“**

**HRK 800,000**

donated to the Croatian hospitals

**Key CSR projects 2018**

#### INA Klub Volontera

**1,368** members

**62** actions

**8,296** volunteer hours

**Award from Volunteer Centre Osijek** for contribution of the business sector to the development of volunteering. **Award from Local Volunteer Centre Orkas** for the best company that supports volunteering.

Cooperation with key volunteering institutions: **Zagreb Volunteer Centre and Red Cross**. Participating in **2<sup>nd</sup> Conference on Corporate Volunteering**.

#### SOS CHILDREN’S VILLAGE CROATIA

INA continues to support SOS Children’s Village Croatia through various donors’ projects and annual donation.

#### spajalica HUB

a platform through which INA, d.d., 6 spajalica associations and other INA’s partners are **sharing all kind of expert knowledge** with other non-profit associations and educational institutions.

**169** representatives attended educations

**69** non-profit organizations and educational institutions participated

#### #MismoINA

**INA Group Sport Tournament** was organized in April in Rijeka with football, volleyball and running competition.

more than **300** participants

#### Afforestation of Split-Dalmatia County

In 2018 INA organised volunteering action of afforestation of the fired area and donation to voluntary fire brigades from Split-Dalmatia County. Action included: **Raising awareness of the danger of fire**.

**750** seedlings where planted





# ETHICS AND GOVERNANCE

“Focus on responsible operations and long-term economic development.”



INA Group Code of Ethics (hereinafter: CoE) 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 CoE also sets obligations of INA Group to secure appropriate work conditions and professional development to employees and ensure avoidance of unacceptable forms of behaviour. The CoE 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.).

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 financial or any other kind of assistance to political parties, politicians and related institutions.

## INA GROUP ETHICS MANAGEMENT

The task of the **Ethics Council** (hereinafter: EC) is to monitor the implementation of INA Group Code of Ethics and its application in case of Code breaches.

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 procedures related to protection of dignity, ad hoc Council members will also partake, i.e. a Trade Union (hereinafter: TU) or Works Council (hereinafter: WC) representative, in addition to the permanent EC members.

**Preparatory Council** is a core EC team, composed of the President of INA Group EC and two Operating Directors. Its main tasks are:

- ▶ To examine whether the reported case falls within the competence of the INA Group EC
- ▶ To decide whether the information and evidence described in the report constitute grounds for the initiation of ethical procedures

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

INA Group CoE aims to provide all internal and external stakeholders with an overview of ethical norms which INA Group companies consider to be essential for their successful operation, both within and outside INA Group companies.

Internal and external stakeholders have a possibility to report an ethical misconduct or seek advice in writing (by post, via e-mail or the internet) and through a 24/7 phone message recording system. Anonymous complaints and questions may be submitted, with ensured confidentiality. When reporting an unethical conduct, the reporting person must respect the rights of the person that they have 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 HR or Legal, 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 EC or the ethics officer in the relevant INA Group member company.

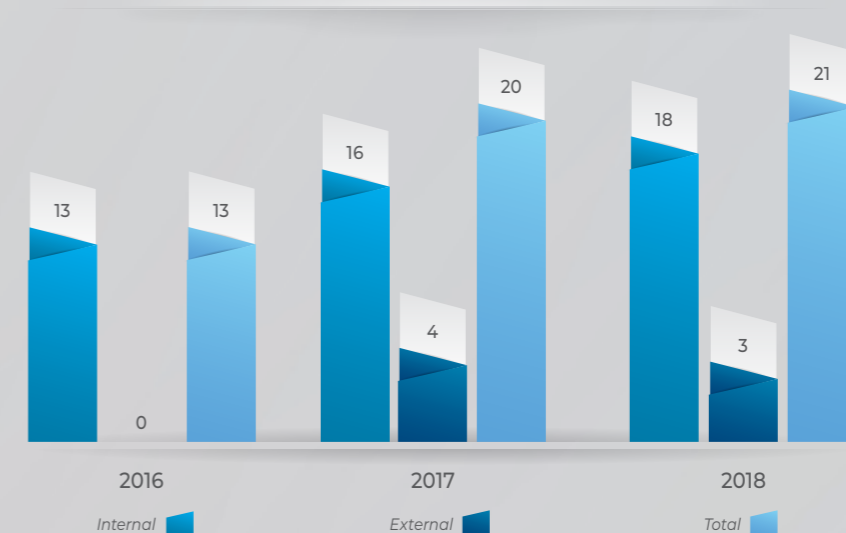
INA Group Code of Ethics is available on the intranet and INA web, and is translated to languages of countries where INA Group companies operates.

## Ethical Procedures

There were five established INA Group Code of Ethics breaches identified in investigations conducted based on reports submitted during 2018. One of them had elements of discrimination and resulted in regular dismissal due to misconduct.

The diagram represents an overview of ethical internal and external reports in INA Group in the period from 2016 until 2018.

INA GROUP ETHICAL REPORTS 2016-2018  
(internal and external)



## Education on code of ethics

In 2018, the President of INA Group EC held ethical trainings for several focus groups, 33 newcomers i.e. Growww population, managerial population (77 participants) and social partners (TUs) and INA Group WC members (53 participants).

Testing of the employees' understanding of business ethics was initiated at the end of 2018. The testing is regularly conducted in INA Group with the aim of promoting sustainable development, commitment to responsible business and long-term economic development. The managers also held ethics presentation to their co-workers and their subordinate managers communicated this topic to their colleagues, with the aim of raising awareness of the importance of ethical conduct and corporate social responsibility in INA Group.

## COMPLIANCE

As a part of the largest industrial company in Croatia, INA Group companies adhere to all laws of the Republic of Croatia and monitor risks associated with changes in the legislation, which may or will have a significant impact on their business.

In 2018, no criminal procedures or anti-competitive practices were initiated against INA Group companies. There were also no incidents recorded in 2018 regarding non-compliance in marketing communications and there were no complaints concerning breaches of customer privacy and losses of customer data.

In total **27 misdemeanor cases** were initiated against INA Group (ten against INA, d.d., three against STSI d.o.o., two against INA Slovenija d.o.o., ten against Holdina

d.o.o. and two against Energopetrol d.d.) for which a total amount of HRK 150,730 fines were imposed. Procedures were most often initiated due to failure to comply with provisions of the Act on Flammable Liquids and Gases, Fire Protection Act, Noise Protection Act, Excise Duties Act, Act on Enforcement of EU Customs Regulations, the Maritime Domain and Seaports Act, Road Traffic Safety Act, Compulsory Traffic Insurance Act, Road Act, Law on Internal Trade, Law on Waters, Law on Consumer Protection, Law on Catering Activity and the Law on Fiscal Systems.

Regarding disputes related to health, safety and environment and quality of products/services in 2018, **three disputes** were initiated (one against INA, d.d., one against INA MAZIVA d.o.o. and one against Energopetrol d.d.) The disputes were initiated for damage compensation due to seismic testing which affected plaintiff's property, damage compensation due to injury at work and for compensation of damage due to supply of goods and services.

In 2018, a final judgment was made in a case for damages initiated by an INA's employee due to injury at work which they suffered in 2000 and the compensation was paid. A final judgment was also made in a case for damages to the family of an employee of company ENEL d.o.o. who died as a co-operative of SIEMENS d.d. at INA Refinery. INA, d.d. paid the compensation as a solidary debtor.

Two final judgments were rendered in 2018, establishing that STSI d.o.o. was to pay damages relating to health and safety. A final verdict was also made in a case of damages, initiated by plaintiffs for the death of a close person. A worker of STSI d.o.o. subcontractor was injured while performing works at Sisak Refinery in 2006. The final verdict established that STSI d.o.o. and the subcontractor were obliged to compensate the plaintiff's



damages. The lawsuit was withdrawn against INA, d.d. A final verdict was also made in 2018 in a case that an employee of STSI d.o.o. initiated against STSI d.o.o. in 2015 due to an injury at work from 2013.

A total of **six discrimination procedures** were initiated against INA Group (one against INA, d.d. and five against Energopetrol d.d.)

In 2018, a total of **16 grievances** from local communities in Rijeka Refinery and Sisak Refinery vicinity were reported regarding environmental issues and all were resolved during the reporting period.

During 2018, **INA Free Phone 0800-1112** received a total of **33,001 contacts** from customers, which is 44% more than in the previous year. From the received contacts, there were 32,200 information including notifications related to LPG complaints for Wholesale, 427 complaints, 337 compliments and 17 proposals.

The new General Data Protection (GDPR) came into effect, defining the obligations of INA Group companies in processing and protection of personal data within their operations.

**TRANSPARENCY**

On its corporate website ([www.ina.hr](http://www.ina.hr)), INA Group provides information to stakeholders and comprehensively reports on SD performance of the company. Two-way communication is enabled via e-mail address [odrzivi\\_razvoj@ina.hr](mailto:odrzivi_razvoj@ina.hr). INA Group companies have their own webpages (e.g. INA MAZIVA d.o.o., STSI

d.o.o.) with SD section, for communicating with their stakeholders. INA Group Facebook page reached 100,000 fans in 2018. News from various aspects of company life are regularly published on Facebook page and INA Group often offers rewards to its fans.

In 2018, INA Volunteers Club was presented in book **"Good Croatia - Social Responsibility – case study of the best projects"**, together with project "spajaLICA", a socially responsible real estate management.

**Over 20 years of non-financial reporting in INA**

The importance of disclosing non-financial impacts was recognised in INA, d.d. 20 years ago, when the first non-financial report on environmental protection was published in INA, with an overview of environmental impacts in 1996 and 1997. After that, the Environmental protection, Health and Safety Report was issued in 2002, and in 2004, with just a few other Croatian companies, INA Group published Social Report in accordance with the Global Reporting Initiative (GRI) guidelines. In 2007, Sustainable Development Report was developed according to the GRI G3 methodology, which includes social and environmental reporting. The first integrated report was published in 2015. It was the first such report published in Croatia. Sustainability reports in 2016 and 2017 included selected material non-financial indicators in the scope of Independent practitioner assurance (6 indicators) and this year's scope has increased to 10 material non-financial indicators.

**Recognition of achievements in non-financial reporting**

In order to make improvements we strive to continuously incorporate feedback from our stakeholders and independent reviewers, so that the information in the reports is clearer, more concise, transparent and user friendly. This is an opportunity for us to present our sustainable practices and as an encouragement to improve ourselves even further every year.

INA Group was first awarded with Deloitte **"Green Frog Award" in 2015 for best sustainability report in Croatia, 2014 Sustainability report** and it received special recognition, i.e. **distinction**, on CEE level. After that, INA Group received another recognition, Deloitte Central European Sustainability Report Award for 2015 Annual Report, for its maturity in sense of accuracy and importance of the presented contents, as well as for standing out among other publications, with narration on significance in a value chain and also for progress made in reporting, especially in the field of data description, which is reported transparently. Yet another **INA Group Annual Report for 2016** was presented in form of **Green Frog Award** for the best sustainability report in Croatia.

**CUSTOMERS AND SUPPLIERS**

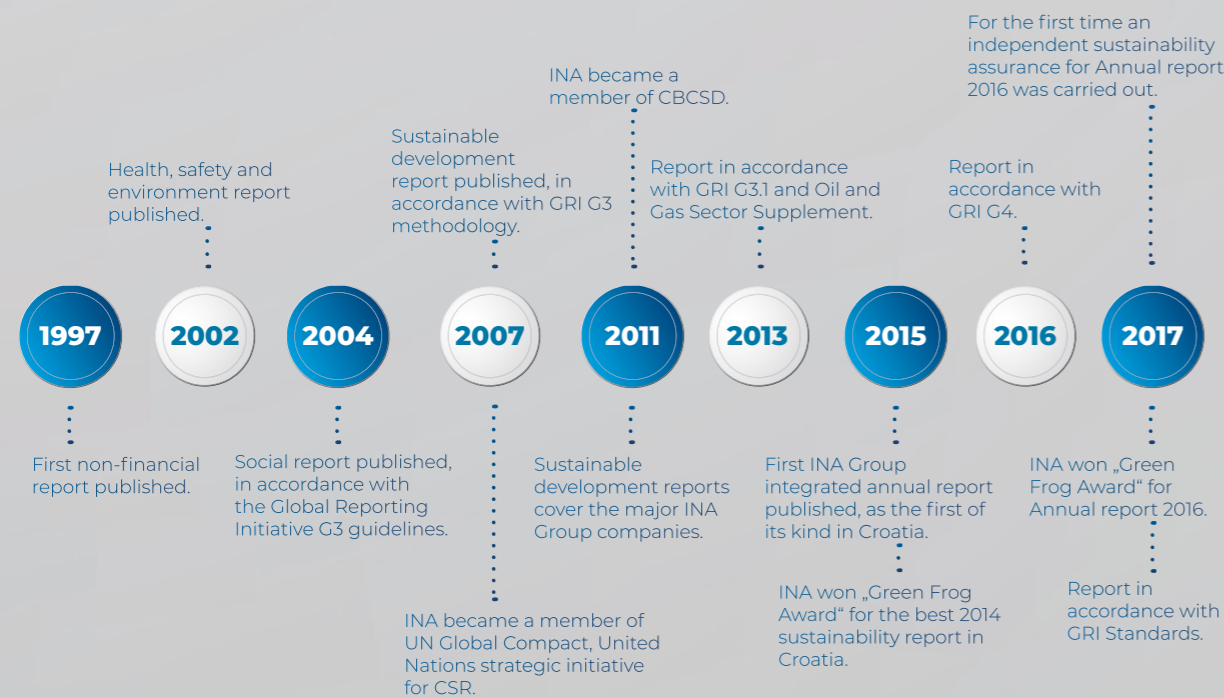
**Customers**

INA Group has been supplying products to people and businesses in Croatia and the region for over 50 years. Through high quality products, we endeavor to win and

retain the trust of our customers and clients. Our broad network encompassing 506 retail locations and the well-organized wholesale, offer different types of motor fuels produced in accordance with European standards. Our service stations offer Euro V fuels and our latest additized INA Class Plus fuels that both improve the features of your car and protect the environment. In addition to gasoline and diesel fuels, various types of oils and lubricants, LPG and heating oil, INA production program also includes a variety of products for our industrial customers.

**Customer satisfaction survey**

With the aim of improving partnership with our customers and fostering competitiveness, INA, d.d. regularly conducts an annual survey of customer satisfaction on the domestic market, by alternate implementation of internal and external survey every other year. In the course of 2018, customer value analysis (hereinafter: CVA) was carried out by an independent marketing research agency. The survey targeted companies that buy petroleum products (motor fuels/heating oil/ fuel oils/ bitumen/ liquefied petroleum gas) or use fuel cards for buying fuel at service stations on the domestic market. The sample was based on INA, d.d. wholesale customers base, amended with a general base of enterprises in the observed category. The survey was conducted by e-mail submission with a direct link to the questionnaire.



CBCSD - Croatian Business Council for Sustainable Development  
 CSR - corporate social responsibility  
 GRI - Global Reporting Initiative



**CUSTOMER SATISFACTION SURVEY IN CROATIA**

**Croatia**



would recommend INA, d.d. to their business partners and acquaintances



intend to extend cooperation/keep it at the same level

**CUSTOMER SATISFACTION SURVEY IN BOSNIA AND HERZEGOVINA**

**Bosnia and Herzegovina**



would recommend HOLDINA, d.d. to their business partners and acquaintances



intend to extend cooperation/keep it at the same level



SATISFACTION WITH THE SALES REPRESENTATIVES



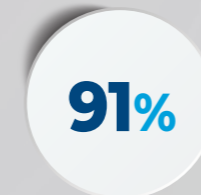
INA, d.d. IS AS A TRUSTWORTHY COMPANY



INA, d.d. VALUES THEM AS CLIENTS



INA, d.d. IS AS A COMPANY EASY TO WORK WITH



SATISFACTION WITH THE SALES REPRESENTATIVES



SATISFACTION WITH QUALITY OF PRODUCTS



SATISFACTION WITH BRAND IMAGE



ARE QUITE/EXCEPTIONALLY SATISFIED WITH COOPERATION



CONSIDER INA QUITE/SIGNIFICANTLY BETTER THAN COMPETITION

**DERIVATIVES**



ARE QUITE/EXCEPTIONALLY satisfied with cooperation

The survey results show **overall improvement** comparing to 2017. The most important factors when choosing a supplier are: price, quality of product, delivery accuracy (timeliness and quantity)

Customers are **most satisfied with:** sales representatives, invoicing, quality of products and regular communication.

**Improvement opportunities:** credit days/discounts /price/quality ratio, delivery timeliness and complaints handling.

**INA CARD USERS**



ARE QUITE/EXCEPTIONALLY satisfied with cooperation

The most important factors when choosing a supplier, for card users are: coverage, quality of motor fuels, price and payment terms. Majority of **surveyed areas improved compared to 2017.**

INA card users are most **satisfied with:** invoicing, sales representatives and speed of issuing a card. As a mayor **improvement opportunities** have been recognized: credit days / discounts and complaints handling.

**INA CARD USERS**



ARE QUITE/EXCEPTIONALLY satisfied with cooperation

INA card users in B&H are **most satisfied with:** sales representatives, brand image, product quality and use of card for highway toll payment.

As a mayor **improvement opportunities** have been recognized: payment terms, contracting / speed of issuing a card upon request / use of card for payment abroad.



### Image and reputation research

In December 2018, an independent agency conducted an image and reputation research.



95%

OF ALL RESPONDENTS USED INA'S SERVICES AT LEAST ONCE



Compared with other companies, INA has the most significant level of spontaneous memory

67%

SAYS THEY LIKE INA AND AVERAGE RATING IS 4 - "I LIKE IT".



In comparison to other oil companies, INA is most often associated with claims on a wide network of service stations, oil and gas production and processing petroleum products.

The most common choice for the use of oil companies - INA (over 60%) and the first competitor 11%.

63%

RESPONDENTS SAW INA'S PROMOTIONAL ACTIONS.



WHEN ASKED "INDICATE AN OIL COMPANY"

56%

RESPONDENTS CONSIDER INA TO BE THE MOST ACTIVE CROATIAN OIL COMPANY IN THE IMPLEMENTATION OF SPONSORSHIP ACTIVITIES.

94%

of respondent spontaneously state INA

86%

of respondent spontaneously state INA

### Product safety



For safe management of our products, INA Group complies with REACH Regulation (EC/1907/2006) on the Registration, Evaluation, Authorization and Restriction of Chemicals. Aim of the REACH Regulation is to generate information on all chemicals in use in the EU for their safe use, and the most hazardous of them phased out. INA, d.d. has registered all its substances, a total of 36, thus fulfilling the obligation of the REACH Regulation and can produce substances and place them on the EU market. Before placing chemicals on the market, the industry must classify, label and package them in accordance with the CLP Regulation (EC/1272/2008). The CLP Regulation ensures that the hazards posed by chemicals are clearly communicated to employees and consumers in the European Union through classification and labeling of the chemicals.

The final aim is to reduce exposure to hazardous chemicals and prevent diseases, injuries and accidents.

For information on REACH and CLP, please contact us at the address [reachINA@ina.hr](mailto:reachINA@ina.hr). Safety data sheets (hereinafter: SDSs) for all INA commercial products contain basic information about the product, risk data, toxicological and environmental data, recommendations on safety measures and transport information. SDSs for INA products are available on [INA website](http://INA website). For additional information, please contact us at [sds@ina.hr](mailto:sds@ina.hr).

In order to further raise awareness on chemicals, INA, d.d. promotes **Responsible Care®** commitment to the safe management of chemicals throughout their life cycle.

### Contractors

INA Group defines the mandatory minimal SD&HSE requirements for contractors performing hazardous works in INA Group companies, with the aim of protecting own and contractor's employees against occupational injuries and illnesses, as well as losses relating to extraordinary events, through all parts of the process (contracting, performance of works and works handover). Complexity of requirements depend on the risk level and work complexity. Depending on the preliminary risk assessment, contractors are required to provide certain certificates, management systems or regulations, for example:

- ▶ **Low risk level**, the Bidder shall be obliged by Statement that they and their subcontractors shall comply with legal requirements and INA Group SD & HSE requirements
- ▶ **Medium risk level** shall prove the existence of safety management systems:
  - ▶ Certificate on Contractor safety SCC\*\* SCCp or
  - ▶ OHSAS 18001 and ISO 14 001 (both) certificates or
  - ▶ A successful pre-qualification audit implemented by an accredited, certification authority, contracted by INA Group (renewed within two years), or
  - ▶ A successful pre-qualification audit based on pre-qualification supervision (valid for two years) and post-evaluation by INA Group companies, or
  - ▶ Bidders who are on the list of MOL Group contractors shall not be subject to pre-qualification
- ▶ **High risk level** shall be subject to pre-screening and pre-qualification by proving the established SCC\*\* or SCCp certification for the company and workers

The bidders in the bidding phase are introduced with INA Group HSE requirements in document Health, Safety and Environment Requirements - Annex to the contract, which is enclosed to each contract signed with INA Group companies. The content of the HSE Annex is defined as general for all type of works and in case of middle and high risk work it must contain additional roles specific for the type of work. Every contractor performing work for INA Group companies must pass the introduction training, including lifesaving rules and hazard specific to the site. Additional trainings are required for middle and high risk work. All educations are valid one year, or should be repeated if a worker intentionally violates some of our safety rules.

In order to improve contractor safety, STSI d.o.o. introduced **Safety Passport** for contracted workers at the end of 2017 and in 2018 it came into full implementation. Safety Passport is a personalized document in which all relevant health, safety and environment documents are introduced and that an individual worker possesses, provided that he has passed and internal training. The first part of the passport is educational material about the basic rules relating to HSE, so that a reminder is available to the contractor at any time. When performing work, the contractor must carry the passport with them and show it during controls. In case of violation of HSE rules or safe conduct, a supervised person can enter a note in it. This ensures that all necessary information about contractor are available in one place.

# ADDITIONAL SUSTAINABILITY DATA

Memberships, external initiatives and public policies

ASSOCIATION	PARTICIPATION STATUS
European Petroleum Refiners Association (joined INA-MOL membership)	Member of the Scientific Council
European Economic Senate	Economic Senator
UN Global Compact	Member
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
Lower Olefins and Aromatics Consortium (LOA)	Member
Croatian Chamber of Economy	Member of the International Chamber of Commerce (ICC) Croatia Executive Board, General Assembly and the ICC Commissions
Croatian Employers' Association	Member of the General Assembly and the Executive Board, member of the Economic and Social Council (GSV), INA's representative is the President of the Energy Branch Association
Croatian Gas Association	The main sponsor, member of the MB, INA's representative is the Vice-President
Croatian Association of Petroleum Engineers and Geologists	The principal founder
Croatian National Committee of World Petroleum Council	Member of the Presidency
Croatian Energy Association	Member of the Managing Board
Croatian Business Council for Sustainable Development	Member
Croatian Standards Institute	Member
Croatian Exporters	Member
Croatian Geological Association	INA's representative is the President of the MB, member of the SB
Academy of Technical Sciences	Member
Croatian Society for Quality	Member
Croatian Metrology Society	Member
Croatia Green Building Council	Member
Laboratoria Croatica	Member
Croatian Association of Corporate Treasurers	Member
International Chamber of Commerce (ICC)	Member

ASSOCIATION	PARTICIPATION STATUS
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
Croatian Society for Fuels and Lubricants	Member
Responsible Care Group	Member

## Economic sustainability data

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (HRK MLN)	2016	2017	2018
Realised revenues	15,575	18,582	22,349
Financial assistance received from government	-	-	-
Operating costs	15,519	17,665	21,607
Cash added value (company cash)	611	428	422
Employee wages and benefits	2,083	1,803	1,927
Capital investors	-	152	812
Payments to governments	8,132	-	495
Economic value retained	(233)	827	1,036

INA GROUP REALISED REVENUE BY COUNTRIES (HRK MLN)	2016	2017	2018
Croatia	9,355	10,352	12,289
Bosnia and Herzegovina	1,784	2,238	2,966
European countries	3,894	4,755	6,420
Other countries	542	1,237	674
<b>TOTAL</b>	<b>15,575</b>	<b>18,582</b>	<b>22,349</b>

COSTS OF PURCHASED MATERIALS, GOODS AND SERVICES IN INA GROUP, EBIT, ROA	2016	2017	2018
Costs of purchased materials, goods and services (HRK mln)	12,193	14,291	3,605
INA Group profit earned - EBIT (HRK mln)	607	1,418	1,687
INA Group Return on Assets Profitability indicator (%)	(6.96)	6.33	5.64

\*ROA (%) = Profit/(Total Assets) \* 100

INA GROUP PAYROLL COSTS (HRK MLN)	2016	2017	2018
Net	1,012	965	1,010
Taxes and contributions	771	615	657
Other salary expenses	362	223	260
<b>TOTAL</b>	<b>2,085</b>	<b>1,802</b>	<b>1,927</b>

INA, d.d. TOTAL TAXES PAID (HRK MLN)	2016	2017	2018
Croatia	8,105	8,406	8,882
Angola	27	55	11
Bosnia and Herzegovina	-	-	25
<b>TOTAL</b>	<b>8,132</b>	<b>8,461</b>	<b>8,918</b>

PAID VAT, EXCISE DUTIES, BIOFUELS FEE, PROFIT TAX, INCOME TAX AND SURTAX AND CROATIAN COMPULSORY OIL STOCKS AGENCY (HANDA) (HRK MLN)	2016	2017	2018
Value added tax	1,237	947	799
Value added tax (Import)	1,568	2,075	2,527
Corporate income tax (Profit tax)	7.80	0.83	0.32
Withholding tax	-	-	24.9
Excise duties	5,305	5,382	5,531
Biofuels fee	-	-	72.4
<b>TOTAL</b>	<b>8,177</b>	<b>8,404</b>	<b>8,955</b>

## Social investment data

CATEGORY	AMOUNT /PEOPLE/HOURS
Cash (HRK)	261,467
Time (hours)	66,461
In-kind giving (HRK)	40,140
Charitable gift (HRK)	248,288 (56.4%)
Community investment (HRK)	151,907 (43.2%)

## Consolidation approach to sustainability data

Table below shows INA Group subsidiaries consolidated in the reported environmental data (waste, water, air emissions, spills and direct and indirect GHG emissions), energy data, as well as health and safety data within this Annual Report. Other subsidiaries listed in the consolidated financial statement (page 224) are excluded, because these subsidiaries are either not active, or if active they operate as offices with only few employees and have none or insignificant impact on the environment, energy consumption and health and safety data. Environmental data (waste, water, air emissions, spills and direct and indirect GHG emissions), energy data, as well as health and safety data of associated and joint ventures companies are not included in this Annual Report.

NAME OF SUBSIDIARY	PROPORTION OF OWNERSHIP
INA MAZIVA d.o.o.	100%
HOSTIN, d.o.o.	100%
STSI d.o.o.	100%
CROSCO d.o.o.	100%
TOP RAČUNOVODSTVO SERVISI d.o.o.	100%
INA MALOPRODAJNI SERVISI d.o.o.	100%
PLAVI TIM d.o.o.	100%
INA Slovenija d.o.o.	100%
Holdina d.o.o.	100%
Rotary Zrt.	100%
Energopetrol d.d.	88.66%
NAME OF ASSOCIATED COMPANY	
INAGIP, d.o.o.*	50%
ED-INA d.o.o.	50%
Marina Petroleum Company Kairo, Egypt	50%
Hayan Petroleum Company Damask, Syria	50%
TERRA MINERALNA GNOJIVA d.o.o.	50%
PLINARA, d. o. o.	49%

\*in November 2018 INA has signed contract by which it has purchased Eni's company Eni Croatia BV and became the 100% owner



Environmental data

KEY ENVIRONMENTAL DATA INA GROUP	2016	2017	2018
TOTAL GHG emissions (Scope 1+Scope 2 – location based) (million tons)	1.79	1.91	1.91
Total CO <sub>2</sub> emissions employee transport by plane (tons CO <sub>2</sub> equivalent)	575	545	738
Flaring emissions (thousand tons CO <sub>2</sub> equivalent)	142.30	112.02	151.64
Total direct energy consumption <sup>(1)</sup> (million GJ)	20.14	22.20	21.85
Total indirect energy consumption <sup>(2)</sup> (million GJ)	1.13	1.16	1.15
Energy intensity Rijeka Refinery (total energy consumption (GJ) / production (t))	4.08	4.17	3.91
Energy intensity Sisak Refinery (total energy consumption (GJ) / production (t))	6.64	7.29	8.03
Energy intensity Exploration and Production (total energy consumption (GJ) / production (tOE))	1.71	1.96	2.07
TOTAL direct GHG emissions - Scope 1 (million tons) <sup>(7)</sup>	1.68	1.83	1.83
Total GHG emissions - Scope 2 (million tons) <sup>(3)</sup> location based	0.11	0.08	0.08
Total GHG emissions - Scope 2 (million tons) <sup>(4)</sup> market based	N.A.	0.14	0.11
Emission intensity Exploration and Production (t CO <sub>2</sub> eq / mboe)	30	38	43
Emission intensity Rijeka Refinery (t CO <sub>2</sub> / kt CWT) <sup>(5)</sup>	42.14	40.47	39.52
Emission intensity Sisak Refinery (t CO <sub>2</sub> / kt CWT)	77.72	80.44	80.42
Sulphur oxides (SOx) (thousand tons)	4.28	5.00	4.14
Nitrogen oxides (NOx) (thousand tons)	2.81	3.60	2.64
Total water withdrawal (million m <sup>3</sup> )	29.90	34.40	36.42
Total water discharge (million m <sup>3</sup> )	26.03	30.20	31.79
Chemical oxygen consumption (COD) (tons)	278.86	232.56	264.14
Biological oxygen consumption (BOD5) (tons)	59.25	48.24	87.01
Total suspended solids (tons)	85.50	81.44	92.05
Total petroleum hydrocarbons (tons)	11.17	10.17	4.73
Total hazardous waste (thousand tons)	12.05	13.97	19.47
Total non-hazardous waste (thousand tons)	17.93	9.87	14.72
Waste exported (tons)	1.08	2.66	4.17
Recycled waste (thousand tons)	15.32	6.96	12.49
Disposed waste (thousand tons) <sup>(6)</sup>	14.88	16.95	21.73
Spills > 1m <sup>3</sup>	6	3	3

<sup>(1)</sup> Total direct energy consumption = Total natural gas consumption (as energy source) + Total consumption of other HC energy sources  
<sup>(2)</sup> Total indirect energy consumption = Total electricity consumption + Total consumption of other indirect sources (steam, heat...)  
<sup>(3)</sup> Conversion factors for electricity source – International Energy Agency “CO<sub>2</sub> Emissions from Fuel Combustion 2017 publication” and Defra Decc Conversion factors, Annex 3 Electricity, Heat, Steam for steam and heat  
<sup>(4)</sup> Source for conversion factor - EU residual mix issued by AIB (for electricity) and Defra Decc Conversion factors, Annex 3 Electricity, Heat, Steam for steam and heat  
<sup>(5)</sup> CWT - Complexity Weighted Tone, a benchmark for oil refineries under EU ETS, defining the basis on which free allowances are allocated to refineries between 2013 and 2020 (third trading period)  
<sup>(6)</sup> Disposed waste amounts include hazardous and non-hazardous waste disposed with treatment methods with code 'D', based on the Act on sustainable waste management (OG 94/13, 73/17, 14/19). Information on disposed waste was provided by waste disposal contractors.  
<sup>(7)</sup> Calculation based on CO<sub>2</sub> only (i.e. CH<sub>4</sub>, N<sub>2</sub>O, HFCs, PFCs, SF<sub>6</sub>, NF<sub>3</sub> are not included in calculation). Calculation includes following methods: mass balance calculations, site-specific data, such as for fuel composition analysis or based on calculation by using IPCC factors. Within INA Group there are no combustion or biodegradation of biomass so there are no biogenic CO<sub>2</sub> emissions.

HSE costs and investments

A slight increase in total INA Group HSE costs in 2018 is mainly driven by fire protection costs increase, due to higher unit prices of hired firefighting services and their quantities, while occupational safety costs increase is driven by procurement of personal protection equipment (hereinafter: PPE) in accordance with improved PPE quality standards for own and hired workers. All other cost fluctuations reflect HSE cost changes that support changes in business activities.

SEGMENT (HRK MLN)	2016	2017	2018
Health protection	3.4	3.9	4.6
Occupational safety	14.0	21.7	27.6
Fire protection	29.1	36.1	44.7
Surface waters protection	11.4	10.8	8.6
Hazardous waste treatment	8.9	11.3	13.1
Non-hazardous waste treatment	2.5	2.7	2.6
Soil and groundwater protection	16.4	11.6	12.9
Air protection	3.4	3.6	3.7
Non-material HSE services	3.4	4.7	5.4
REACH and Product Safety	0.4	0.0	0.1
Fees and charges	30.7	22.4	26.1
<b>TOTAL</b>	<b>123.6</b>	<b>128.8</b>	<b>149.4</b>

INA Group HSE project investments in 2018 were realised in the amount of HRK 330 million. Majority of investments were related to environmental type of projects (HRK 196 million, or 59%).

The most intensive HSE investments were performed in Refining and Marketing (HRK 294 million, or 89%), out of which the most intensive in Rijeka Refinery (HRK 221 million), for modernisation projects.

Human resources data

INA GROUP HUMAN RESOURCES DATA	2016	2017	2018
No. of workers	10,861	10,884	10,849
No. of workers w. shortened working hours	207	47	45
No. of newly employed employees	1,514*	771	718
No. of departed employees	1,126	822	1,014
No. of employees working abroad	117	107	219
% of women in total workforce	21	24	24
% of disabled people in total work force	2.8	2.5	2.3

\*includes employees from INA MALOPRODAJNI SERVISI d.o.o.

HUMAN RESOURCES DATA, INA GROUP COMPANIES IN 2018	INA, d.d.	CROSCO d.o.o.	Rotary Zrt.	STSI d.o.o.	INA MAZIVA d.o.o.	HOSTIN, d.o.o.	INA MALOPRODAJNI SERVISI d.o.o.	PLAVI TIM d.o.o.	TOP RAČUNOVODSTVO SERVISI d.o.o.	INA Adria B.V.	INA Jadran d.o.o.	INA Slovenija d.o.o.	Holdina d.o.o.	INA Crna Gora d.o.o.	Energopetrol d.d.
<b>No. of workers</b>	<b>4,143</b>	<b>976</b>	<b>328</b>	<b>828</b>	<b>154</b>	<b>16</b>	<b>2,540</b>	<b>165</b>	<b>311</b>	<b>2</b>	<b>43</b>	<b>76</b>	<b>545*</b>	<b>35</b>	<b>520*</b>
No. of workers w. shortened working hours	22	2	7	1	2	0	1	2	5	0	0	3	29	0	29
No. of newly employed employees	142	40	7	45	8	37	375	28	5	0	1	4	90	4	74
No. of departed employees	332	23	35	76	15	33	325	11	31	3	0	6	61	2	61
No. of employees working abroad	9	163	35	11	0	0	0	0	0	0	0	0	1	0	0
No. of women in total workforce	1,090	41	23	76	49	12	691	55	280	1	15	29	155	12	72
% of woman in managerial positions	26%	4%	7%	9%	31%	75%	27%	33%	90%	50%	34%	38%	28%	34%	13%
% of disabled persons in total work force	37%	20%	0.3%	23%	37%	10%	0%	7%	86%	0%	50%	1%	50%	0%	0%
<b>EDUCATION LEVEL</b>															
No. of Unskilled workers	20	4	0	5	0	0	2	0	0	0	0	0	0	0	4
No. of Semi-skilled workers	11	0	0	14	0	0	2	0	0	0	0	0	1	0	0
No. of Primary school degree workers	13	10	3	5	11	0	2	0	1	0	0	0	0	0	0
No. of Skilled workers	160	111	134	76	9	0	77	0	1	0	0	29	174	0	230
No. of High school degree workers	2,089	630	18	361	67	11	2,272	54	167	0	10	31	252	15	238
No. of Highly skilled workers	178	25	99	115	1	0	16	1	0	0	3	0	5	1	3
No. of Assoc.degr./bacc. workers	305	26	40	75	12	2	121	21	46	0	3	5	37	3	20
No. of univ. degr. / mag. workers	1,174	160	6	160	44	3	44	70	83	2	26	11	76	15	25
No. of MA / univ. spec. workers	92	7	29	11	9	0	3	12	7	0	0	0	0	1	0
No. of PhD workers	101	3	0	6	1	0	1	7	6	0	1	0	0	0	0
<b>AGE STRUCTURE OF WORKERS</b>															
Under the age of 30	281	57	10	43	5	1	661	19	14	0	0	5	122	9	99
31-40 years	858	317	93	179	19	4	816	39	64	2	15	17	162	17	120
41-50 years	1,259	226	91	221	43	6	692	43	63	0	15	27	154	6	166
51-60 years	1,640	359	122	348	86	5	358	59	165	0	13	26	101	3	120
Over 61 years	105	17	12	37	1	0	31	5	5	0	0	1	6	0	15
<b>EDUCATION</b>															
Average training time per employee (hours)	24.40	43.00	43.90	17.70	23.56	0.00	0.00	15.00	26.87	0.00	0.00	9.86	8.00	0.00	13.90
Average cost of training per employee (HRK)	2,132	619	1,653	805	1,628	0	0	2,141	567	0	0	1,245	281	0	74.1
<b>FREEDOM OF ASSOCIATION</b>															
% of employees in trade unions	62%	80%	35%	74%	77%	37%	60	41%	50%	0%	0%	29%	50%	0%	55%
% of employees covered by the Collective agreement	100%	98%	99%	100%	94%	63%	100%	0%	100%	0%	0%	100%	0	0%	0
<b>DATA RELATED TO PARENTAL LEAVE IN INA GROUP, BY GENDER</b>															
	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M
Number of employees entitled to parental leave	20/50	5/27	3/0	0	2	0	75/24	1/0	10/0	0	0	0	2/0	1/0	10/0
Number of employees by gender that took parental leave	88/6	5/2	1/0	2/0	2	0	75/24	0	10/0	0	0	0/5	0	1/0	0
Number of employees who returned to work after their parental leave ended	76/6	4/1	1/0	1/0	0	0	60/23	1/0	5/0	0	0	0	2/0	0	5/0
Number of employees who returned to work after their parental leave ended who are still employed twelve months after their return to work	75/1	2/3	1/0	1/0	1	0	25/6	0	5/0	0	0	0	0	0	0
The return to work and retention rates of employees who returned to work after leave ended (%)	100	40/100	0	100	100	0	80/26	0	100	0	0	0	50	0	40

\*Holdina d.o.o. and Energopetrol d.d. employees work halftime for one company and other halftime for other

Proportion of senior management hired from the local community at significant locations of operation in 2018:

COMPANY	LOCAL/ EXTERNAL
CROSCO d.o.o.	100%
ED-INA d.o.o.	100%
Holdina d.o.o.	11%
Energopetrol d.d.	20%
HOSTIN, d.o.o.	100%
INA Crna Gora d.o.o.	0%
INA Kosovo d.o.o.	0%
INA MAZIVA d.o.o.	100%
INA, d.d.	97%
INA Slovenija d.o.o.	100%
PLAVI TIM d.o.o.	0%
Rotary Zrt.	100%
STSI d.o.o.	100%
TOP RAČUNOVODSTVO SERVISI d.o.o.	100%





# INDEPENDENT REVIEWS

## OPINION OF THE COMMISSION OF THE ADMINISTRATIVE COUNCIL OF THE CROATIAN BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT ON THE INA GROUP SUSTAINABILITY REPORT FOR 2018

INA Group Sustainability Report for 2018 meets the GRI standards core option and includes an overview of compliance with Global Sustainable Development Goals and Global Compact principles. INA integrated annual report maintains the quality of 20-year-long tradition of non-financial reporting by the company, as well as the pronounced awareness of the company's material impacts and the importance of systematic management with regard to these impacts.

The company has set goals and programs in the area of sustainable development in direct correlation with the Global Sustainable Development Goals, and points out the direct contribution to 13 out of 17 global Goals, with clear plans for their realization and measurability. INA Group has also, among other goals, set a goal to remain among the TOP 15% of companies in Croatia in terms of the CSR Index results.

For the purpose of defining the material topics presented in the subject report, INA has conducted a stakeholder analysis. With joint efforts of 14 INA organizations, a total of 65 key stakeholders were defined. All of them are included in the research with the aim of obtaining information on stakeholders' and employees' standpoints on material topics pertaining to sustainability. Therewith, INA significantly improved the manner of including stakeholders in the process of defining the material topics, which was one of the comments of the Administrative Commission of CBCSD with regard to the report from last year. We hereby thank INA for taking into account the opinion of the commission and continuing with the approach of continuous improvement of the reporting framework. Here it should be noted that the material topics offered to stakeholders do not correspond to the material topics of GRI Standards.

This year, INA has divided the report into very clear and surveyable business units, so that each chapter is marked with key goals and achievements, enabling the reader to inform themselves on the key impacts and achievements in the report by solely glancing over it.

The corporate governance chapter provides a very detailed overview of the governance structure, as well as the key managers leading the company. The following chapter is related to the main business activities divided by areas, an overview of the industry, risks and opportunities associated with INA business activities, as well as their financial results. The chapter on sustainability is provided as a separate part, with separate subchapters presenting the impact and management with regard to key material topics defined through the consultation process with the stakeholders.

The following topics have been reviewed: Health and Safety at Work, Climate Change, Environment, Human Capital, Community, Ethics and Governance.

The report focuses on areas of occupational health and safety as part of a comprehensive analysis of the area related to employees, as well as cooperation with social partners. Due to the specific environmental impacts and climate change caused by the very nature of INA's business, a number of key indicators, as well as related risk management, are presented, taking into account the aspect of the company's international business as well.

After an exceptionally thorough presentation of health and safety at work, a separate subchapter is devoted to climate change. Since INA is a member of the EU - ETS Emissions Trading System, it closely monitors, measures and reports on its emissions. In addition to the detailed presentation of the emissions, INA describes numerous energy efficiency programs, as well as emissions management performed during business processes and product transport. What we would like to see INA including in its sustainability reports is a report on Scope 3 emissions of the Greenhouse Gas Protocol, which includes a report on the emissions that occur during the consumption of products included in the GRI Standards in the topic-specific disclosure GRI 305-3 2016. This information would help in materializing this topic and potentially in managing the emissions produced.

When it comes to the environment, INA has well-developed systems of various warnings and actions in case of petroleum product release, as well as soil and water protection systems and a well-developed waste management system. The program of collecting waste edible oil on selected petrol stations was continued this year as well, with the project receiving support and collected quantities increasing.

INA's best results and initiatives have been recorded in the human resources area. A large number of projects that have been developed and implemented aim to increase employee satisfaction, create new work opportunities in line with family or health status, and indicate a high level of care the company provides to its employees. The employees return the favour by making INA one of the top most desirable employers in the Republic of Croatia for many years in a row. There are also numerous opportunities for additional education and training, with all these opportunities embedded into a unique lifelong learning system, whereby INA contributes to personal and business development of employees, as well as their employability.

A sound attitude towards investing into the community is confirmed with a large number of recognitions and awards that INA has received during the past year, awarded by various organizations that evaluate the company's attitude to different segments of social contribution. We would particularly like to point out the Green Frog Award awarded to INA last year for the best sustainability report published in Croatia. There is also a large number of projects supported by INA and in which INA is involved, as well as independent tenders for donations to the civil sector implemented by INA, such as the multi-annual environmental protection investment project - the Green Belt.

Another extremely complex and informative integrated report with a very detailed presentation of INA Group's non-financial impact is before us.

We hereby conclude that the subject INA Report demonstrated additional progress in reporting compared to previous year and we thank INA for the great efforts that have been made to provide a large number of extremely complex data in such a clear and surveyable manner. We congratulate INA and hope that this positive trend will be continued in the future.

## INDEPENDENT REVIEW 2

Corporate responsibility (hereafter CR) is a result of trends within society, therefore changes in society aren't a unidirectional affair. Although medium sized in Europe, INA Group has a large impact on Croatian economy being one of the largest and most influential organizations. The company clearly showed all the information specific to their sector and its own business. This report was again prepared in accordance consolidated GRI standards, Oil & Gas Sector Supplement, core option where a broader understanding of value is given and it describes in detail progress on the 10 principles of the United Nations Global Compact (UNGC). The report focuses on the material environmental, social and economic impacts of INA Group companies on their key stakeholders, and information presented refers to business activities of INA d.d. throughout the period from January 1st to December 31st, 2018.

Nonfinancial information in this report involves issues related to the constructive role of business in society; its environmental, social and governance (ESG) issues; risk management; climate change; business ethics; human and intellectual capital; health and safety; and influence on the local community. Similar to last year's report this document outlines four basic directions of corporate responsibility assessment:

(1) CR does not exist in a vacuum, the foundation of corporate social responsibility lies in the interaction of different stakeholders. Management in INA Group understands that they have obligations to society in large but also, more specifically, the firm's stakeholders. That's why they initiated a stakeholder mapping process where they identified 65 different external and 215 internal key stakeholders coming from various social domains. In accordance with GRI principles stakeholder's input was used to design a materiality matrix. After they gathered feedback from different key stakeholders materiality framework and assessment were developed in 5 different areas as a tool for focusing on the strategic sustainability agenda. In that process, they tried to estimate the expectations and interests of their key stakeholders and came to the conclusion that they should manage both, topics with high and moderate importance. One of the basic presumptions of CR is that companies adopt it due to increasing societal pressure so it is refreshing to perceive that in INA wants to take proactive role and become "transparent company in constant dialogue with its environment". In that sense, I would recommend in future to determine in more detail how and if they engage each of key stakeholder differently, depending on their strategic importance and relevance regarding 5 key sustainability areas. In addition, a detailed list of all key internal and external stakeholders would be a nice supplement in the report's appendix.

(2) Although the concept of corporate responsibility remains widely debated, in general, it has become much less controversial due to its orientation towards concrete impact, commitment, consciousness and taking responsibility for certain social dynamics. In the past, INA's management was aware of its capacity to lead so they were not afraid to take that role and foster some novelties (at least in the local sense). As they were one of the first companies that signed the UN Global Compact in 2007, Mamforce certification in 2015, STOP Work Injury in 2016, Diversity Charter in 2017 or/and #weareallOK initiative in 2017. In addition to those, initiatives such as BeneFIT platform, flexible work arrangements (FORa): Flexitime and Flexiplace, and comprehensive recognition system associated with corporate culture described in the report and undertaken by the company, make sense for all business, employees, and society. In that sense, it would be great to continue on the same path as it is generally acknowledged that innovation is prerequisite for growth and success of almost every sustainable business model. Although coming from so-called traditional industry INA proved to have innovation capabilities and mindset that are built on their diversity strategy so INA is well positioned to develop innovative CR solutions in the near future.

(3) Integrated reporting should overcome the tension between non-financial and financial reporting, by focusing on how different types of capital (economic, physical, knowledge, human, natural, social and relationship) interact and create sustainable value for the organization, community, and society. From that perspective, it is clear that CR is internally driven by a positive and innovative mindset of INA's employees in regard to addressing environmental and social challenges in ways that are also beneficial to the company. In that sense, management is well-aware how to balance short and long term initiatives.

(4) Although this report is INA's disclosure in compliance with the Directive 2014/95/EU on disclosure of non-financial and other information by certain large undertakings and groups, it is obvious that they have over 20 years on experience in that sense. By concentrating on and limiting their report to critical topics and major risk impacts this report shows that in the company they understand that less is more. From the reader's point of view, it is great that in INA's case, content wins over form in a balanced manner, so presented data and information are consistent, reflect all important issues, and show from constructive perspective positive and negative impacts of the business. This report offers the value of panorama without sacrificing detail.

Writing about trends within a dynamic environment is always based on oversimplification and generalization that usually downplay volatile, uncertain, complex and ambiguous (VUCA) reality. Although content is similar to last year's report, the key pillar of this year's report is that improvements are made in terms of its readability so it is much easier for the reader to find the relevant information. I still think that greater use of the internet for reporting could add value regarding information provision and comprehensibility. This is due to some of its basic functionalities where it is capable of providing access to a vast quantity of information, presenting an integrated view of different aspects of sustainability issues by establishing a connection between different sources and engaging various stakeholders. I think that in future we can expect further improvements regarding combined use of printed report and online reporting to boost information usefulness, accessibility, and relevance where INA would present the shared value it creates which (in)directly benefits its external and internal stakeholders.



Prof. dr. sc. Mislav Ante Omazić  
Department of Organisation and Management  
Faculty of Economics and Business  
University of Zagreb

## Independent Limited Assurance Report on indicators presented in the Sustainability Report of INA Group, as Part of the Annual Report for the year ended 31 December 2018.

To the Management Board of INA – INDUSTRIJA NAFTE d.d.

Avenija V. Holjevca 10  
10020 Zagreb  
Croatia

### Scope of work performed

We have undertaken a limited assurance engagement on indicators presented in the **Sustainability Report of INA Group, as part of the Annual Report for the year from 1<sup>st</sup> January 2018 – 31<sup>st</sup> December 2018** (the "Sustainability Report"), developed by INA-INDUSTRIJA NAFTE d.d. (the "Company"), and marked with "YES" in a column "External assurance" in a table "GRI Content Index" that are material specific indicators: 302-1 Energy consumption within the organization, 303-3 Water withdrawal, 305-1 Direct greenhouse gas (GHG) Emissions (Scope 1), 305-2 Energy indirect greenhouse gas (GHG) emissions (Scope 2), 306-2 Waste by type and disposal method, 306-3 Significant spills, 403-9 Work related injuries, 403-10 Work related ill health, 404-1 Average hours of training per year per employee, and 404-3 Percentage of employees receiving regular performance and career development reviews („Selected indicators"). The indicators have been prepared on the basis of the GRI Standards for "Core" option, issued by Global Reporting Initiative (GRI).

### Responsibility of the Management Board of the Company

The Management Board of the Company is responsible for the preparation and presentation of the indicators presented in the Sustainability Report in accordance with GRI Standards for "Core" option, issued by Global Reporting Initiative (GRI). This responsibility includes establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived. The Management Board of the Company is also responsible for reliable, correct and fair information and for correct preparation of the documentation provided to us.

### Our Independence and Quality Control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In compliance with International Standard on Quality Control No 1, issued by International Federation of Accountants Deloitte maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Our Responsibility

Our responsibility is to express a limited assurance conclusion on the ten indicators as marked in the GRI Content index presented in the Sustainability Report based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standards on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform this engagement to obtain limited assurance about whether the selected indicators presented in the Sustainability Report are free from material misstatement.

The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records. A limited assurance engagement is substantially shorter in scope than a reasonable assurance engagement in relation to both the risk assessment

procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

In order to form our conclusion on the selected ten indicators as marked in the GRI Content index presented in the Sustainability Report, we undertook in the period 17 December 2018 - 29 March 2019 the following procedures:

- Through inquiries, obtained an understanding of INA Group's control environment and information systems relevant to reporting the indicators under review, but did not evaluate the design of particular control activities, obtain evidence about their implementation or test their operating effectiveness.
- Obtained an understanding through inquiries, analytical procedures, observation and other applicable evidence gathering procedures on a sample basis on the key structures, systems, processes, procedures and internal controls relating to collation, aggregation, validation and reporting of data for the indicators under review.
- Evaluated whether Company's methods for developing calculations are appropriate and had been consistently applied.
- Compared the information included in the Sustainability Report to internal documentation of the Company.
- Undertook site visits to assess the completeness of the indicators under review, data collection methods, source data and relevant assumptions applicable to the indicators.

### Limitations

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

Our limited assurance engagement has been limited to the abovementioned selected ten indicators as marked in the GRI Content Index presented in the Sustainability Report and does not extend to the rest of the information included in the report nor the report as a whole. Accordingly, our conclusion below covers only these indicators and not all data presented or any other information included in the Sustainability Report.

The process the organization adopts to define, gather and report data on its non-financial performance is not subject to the formal processes adopted for financial reporting. Therefore, data of this nature is subject to variations in definitions, collection and reporting methodology with no consistent, accepted standard. This may result in non-comparable information between organizations and from year to year within the organization as methodologies develop. The accuracy and completeness of the information disclosed in the Sustainability Report are subject to inherent limitations given their nature and the methods for determining, calculating or estimating such information.

### Conclusion

Based on our work, we have obtained limited assurance that the information concerning the abovementioned selected ten indicators as marked in the GRI Content Index included in the Sustainability Report developed by INA-INDUSTRIJA NAFTE d.d. are not non-compliant with GRI Standards for 'Core' level issued by Global Reporting Initiative and no matters have come to our attention to cause us to believe that the reviewed indicators presented in the Sustainability Report are materially misstated.

Deloitte d.o.o.  
Zagreb

Date 18 April 2019





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## APPENDICES



# GLOSSARY OF TERMS AND ACRONYMS

TERM/ACRONYM	DEFINITION
1P reserves	Proven reserves
2P reserves	Proven and probable reserves
3P reserves	Proven, probable and possible reserves
BAT	Best available technology
bcm - mcm	Billion cubic meters – million cubic meters
BREF	Best available techniques Reference document
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
CGS	Central gas station
CLP	Classification, labelling and packaging of substances and mixtures
CNB	Croatian National Bank
CSR	Corporate Social Responsibility
d.d.	PLC (Public Limited Company)
d.o.o.	LLC (Limited Liability Company)
DCU	Delayed Coker Unit
DS	Downstream/Refining and Marketing
Earnings per share	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
EBITDA	Earnings before interest, tax, depreciation and amortization EBIT + Depreciation, amortization and impairment (net)
EU ETS	European Union Emission Trading System
EURIBOR	Europe Interbank Offered Rate
G&G activities	Geological and Geophysical
Gearing ratio	Net debt/Net debt + equity including non-controlling interest
GHG	Greenhouse gases
GJ	Giga Joules
GRI	Global Reporting Initiative
HiPo	High Potential
HR	Human Resources
HSE	Health, Safety and Environment
IFRS	International Financial Reporting Standards, formerly International Accounting Standards (IAS)
IRIS	Incident Reporting and Investigation System
KDR	Knock down rebuilt
LIBOR	London Interbank Offered Rate
LTI	Lost time injury

TERM/ACRONYM	DEFINITION
LTIF	Lost time injury frequency
Mboe/d – boe/d	Thousand barrels of oil equivalent per day - Barrels of oil equivalent per day
mIn USD/HRK	Million USD/HRK
MMboe - Mboe	Million Barrels of Oil Equivalent - Thousands of Barrels of Oil Equivalent
MMbpd	Million Barrels of Oil Per Day
Mt – kt - t	Million tons – kiloton - tonne
OGSS	Oil & Gas Sector Supplement
OHS	Occupational Health and Safety
P&A status	Plug & Abandon
PPE	Personal Protective Equipment
PSER	The number of Process Safety Events (TIER 1+TIER2)*1.000 .000/working hours
PSM	Process Safety Management
RAR	Road accident rate (number of road accidents per 1 million km driven)
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals
Retail locations	Service stations and other retail locations (auto bar/ restaurants, carwash, shop, Heating Oil sales point, LPG sales point)
RNR	Rijeka Refinery
RNS	Sisak Refinery
SD	Sustainable Development
SD&HSE	Sustainable Development and Health, Safety and Environment
SDS	Safety data sheet
Simplified free cash flow	CCS EBITDA excluding special items – Capital expenditures
TIER	Process Safety Events (Tier 1 higher consequence, Tier 2 lower consequence)
toe	Tons of oil equivalent
TROIF	Total recordable occupational illnesses frequency
UNGC	UN Global Compact

# REPORT ON PAYMENTS TO GOVERNMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## INTRODUCTIONS

INA – INDUSTRIJA NAFTE, d.d. has prepared the present Report on Payments to Government in accordance with Accounting Act (Official Gazette 78/15,134/15,120/16) 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.

## 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, prospecting, 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.

## 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, excises duties, 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.

## Summary by countries:

Payments by countries	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	License and other fees	Infrastructure improvements	TOTAL
Croatia	-	-	436	-	1	27	-	464
Angola	-	11	-	-	-	-	-	11
Egypt	12	-	-	-	8	-	-	20
<b>TOTAL</b>	<b>12</b>	<b>11</b>	<b>436</b>	<b>-</b>	<b>9</b>	<b>27</b>	<b>-</b>	<b>495</b>

## PAYMENTS TO GOVERNMENT BY COUNTRIES

### Croatia

Payments by governments	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	License and other fees	Infrastructure improvements	TOTAL
Local municipalities	-	-	327	-	-	17	-	344
Croatian Ministry of finance	-	-	109	-	-	9	-	118
Hydrocarbon agency	-	-	-	-	1	1	-	2
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>436</b>	<b>-</b>	<b>1</b>	<b>27</b>	<b>-</b>	<b>464</b>

## 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.

## SUMMARY REPORT

The table below shows the relevant payments to governments made by INA Group in the year ended 31 December 2018 shown by country and payment type.

In the summary report all amounts are stated in million HRK.

Payments by projects	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	License and other fees	Infrastructure improvements	TOTAL
Croatia on shore	-	-	327	-	-	17	-	344
Croatia off shore	-	-	109	-	-	9	-	118
Drava PSA	-	-	-	-	1	1	-	2
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>436</b>	<b>-</b>	<b>1</b>	<b>27</b>	<b>-</b>	<b>464</b>

## Angola

Payments by governments	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infrastructure improvements	TOTAL
Angolan Tax Authority	-	11	-	-	-	-	-	11
<b>TOTAL</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11</b>

Payments by projects	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infrastructure improvements	TOTAL
Block 3/05	-	11	-	-	-	-	-	11
<b>TOTAL</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11</b>

## Egypt

Payments by governments	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infrastructure improvements	TOTAL
Egyptian Government (EGPC)	12	-	-	-	8	-	-	20
<b>TOTAL</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>20</b>

Payments by projects	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infrastructure improvements	TOTAL
Egypt operation - East Yidma	12	-	-	-	-	-	-	12
Egypt operation- Ras Quatara	-	-	-	-	8	-	-	8
<b>TOTAL</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>20</b>

# STATEMENT ON THE CORPORATE GOVERNANCE CODE

Management Board of INA – INDUSTRIJA NAFTE, d.d. makes the Statement on the Corporate Governance Code based on article 22 of the Accounting Act.

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 (Hrvatska agencija za nadzor financijskih usluga) and the Zagreb Stock Exchange (Zagrebačka burza d.d. Zagreb) and is published on the Zagreb Stock Exchange website ([www.zse.hr](http://www.zse.hr)) and Croatian Financial Services Supervisory Agency website ([www.hanfa.hr](http://www.hanfa.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 INA Group management and employees 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 behavior. 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 ([www.ina.hr](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 and Clearing Company Inc. (Središnje klirinško deponitarno društvo d.d.), 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 requests from 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 cases when there is 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 top management take into account the continuity in performing supervisory, management and administrative functions.

The Company's bonus policy is a part of internal rules and is not 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 a 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.

## 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 implementation of its decisions related to controlling, financial reporting and audit within the Company. The Audit Committee monitors audit processes in the Company (internal and external), discusses certain topics raised by auditors or the management and advises the Supervisory Board. The Audit Committee is responsible for ensuring objectivity and credibility of information and reports that are submitted to the Supervisory Board.

The Audit Committee is in charge of and has the following responsibilities:

- ▶ Passing decisions on approval of flash reports for the stock exchange reporting purposes



- ▶ Giving recommendations to the 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 independence, objectivity, efficiency and expenses of external auditors
- ▶ Meeting with external auditors to evaluate the scope and contents of the 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 the external audit
- ▶ Discussing the results of the annual audit with external auditors, including:
  - Assessment of audited financial reports
  - Analysis of external and internal auditors' recommendations for improvement of accounting processes and internal control
  - Assessment of application of internal and 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 completeness and accuracy of data in the overall picture, presented in INA's financial statements to INA's shareholders and creditors
- ▶ Assessment of all important issues connected to legal disputes, contingencies, requests, taxes or penalties and all important accounting issues that have to be included in financial statements, in cooperation with the Management Board and external auditors
- ▶ Assessment of the scope and efficiency of the risk management system
- ▶ Assessment of the work of Internal Audit, including:
  - Competence of Internal Audit
  - Planned scope of Internal Audit, objectives, authorities and human resources necessary for achieving relevant objectives
  - Internal Audit activities in the previous period and a summary of Internal Audit report in written form
  - Cooperation of Internal Audit and the external audit
- ▶ Meeting with the director of Internal Audit upon request of the Audit Committee members or the director of Internal Audit
- ▶ Meeting with the director of Accounting and Tax upon request of the Audit Committee members or the director of Accounting and Tax
- ▶ Submitting a report about the activities and conclusions of the Audit Committee to the Supervisory Board

Internal Audit enables an independent and objective assessment of financial, operative and control activities

carried out within the Group on behalf of the Management Board and reports to the management through comprehensive reports on performed audits. Internal Audit also reports on adequacy of internal controls and level of compliance with internal and external regulations. Charter of Internal Audit is a strategic document that defines the main principles and scope of work used in the Internal Audit within the Group.

The main tasks of Internal Audit 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 at adding value and improving the company operations, through application of professional audit standards and ethical standards established by the Institute of Internal Auditors (IIA)
- ▶ Check of operational and functional activities carried out in the Group and establishing, understanding, testing and assessing existing controls with the aim to minimize identified operational 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 quality in performing assigned duties
- ▶ Assessment of work or program to determine 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 this data
- ▶ Assessment of the system established by the 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 the Management or Supervisory Board of the Company
- ▶ Identification of possible frauds and reporting to Corporate Security for the purpose of further investigations

### Significant shareholders of the Company

As at 31 December 2018, INA's ownership structure is as follows:

- ▶ MOL Nyrt. – 49.08%
- ▶ Government of the Republic of Croatia – 44.84%
- ▶ Institutional and private investors – 6.08%

### General Assembly operation

General Assembly shall be held at least once a year (ordinary meeting) and whenever a meeting is required

in the interest of the Company (extraordinary meeting). The General Assembly is convened by the Management Board, and may also be convened by the Supervisory Board, as well as under conditions determined by the law, by shareholders holding shares that represent at least one twentieth part share capital of the Company. Each shareholder registered within the computer system of the Central Depository has the right to participate in the General Assembly, provided that they have sent a prior application for participation in the General Assembly meeting. A notification of their intention to participate in the General Assembly needs to be delivered to the Company within the deadline set in the invitation, six days before the General Assembly.

The President of the Supervisory Board, or any other person appointed by the Supervisory Board to chair the General Assembly, shall preside as the Chairman of the General Assembly. The General Assembly 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 Assembly are passed by an ordinary majority of votes, except in 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 five years. Once their term expires, members of the Management Board may 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 procurator.

Members of the Supervisory Board from 14 June 2017 until 18 December 2020:

- ▶ Sándor Fasimon - President of the Management Board
- ▶ Niko Dalić - member of the Management Board
- ▶ Ivan Krešić - member of the Management Board
- ▶ Davor Mayer - member of the Management Board
- ▶ Zsolt Pethő - member of the Management Board
- ▶ Dr. Ákos Székely - member of the Management Board

The Supervisory Board consists of nine members. The term of office of the Supervisory Board members 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 Assembly appoints and dismisses eight members of the Supervisory Board. One member of the Supervisory Board is elected and recalled by employees pursuant to the Labor Act. The members of the Supervisory Board to be elected and dismissed by the General Assembly 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 Labor Act. The Supervisory Board elects a President and Vice President of the Supervisory Board from among its members by a simple majority of votes. The President and Vice President of the Supervisory Board are elected for a term not exceeding four years and may be re-elected.

Members of the Supervisory Board from 14 June 2017 until 18 December 2020:

- ▶ Damir Vanđelić - President of the Supervisory Board
- ▶ József Molnár - Vice President of the Supervisory Board
- ▶ Luka Burilović – member of the Supervisory Board
- ▶ Szabolcs I. Ferencz - member of the Supervisory Board
- ▶ Ferenc Horváth - member of the Supervisory Board
- ▶ Damir Mikuljan - member of the Supervisory Board
- ▶ József Simola - member of the Supervisory Board
- ▶ László Uzsoki - member of the Supervisory Board
- ▶ Jasna Pipunić - representative of employees in the Supervisory Board

### DIVERSITY STRATEGY

As a company, INA, d.d. builds 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 attitudes, 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.

The 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 competencies/areas of activities aimed to achieve efficient and professional performance of successors in their future managerial roles. Currently, there is a total of 45% female successors of the total successor population, prepared to take over managerial positions. Through the use of the mentioned Procedure for Managers, and for employees of operative companies,

"Employee Performance Management System in INA Group", a system for identifying and developing talents, is carried out both for managers and other employees. This is also an objective and unbiased tool, to ensure gender diversity in executive, management and supervisory bodies.

In addition to the above mentioned, a diversity culture is built through specific projects and initiatives, such as:

### Mamforce certification

INA, d.d. was certified a "Mamforce company" in 2015. This important certification that confirms commitment to a "family friendly" human resources management is based on a survey on flexible work hours, working conditions of parents with small children, promotion and equal gender representation on higher management levels, etc., carried out among female employees. In 2017, INA, d.d. was recertified and acquired the full Mamforce standard, following an extensive audit process. The next recertification is planned in 2019.

### #svismoOK (#wearealOK)

In 2018, a second #jošbolji #jošveći #jošraznolikiji #svismoOK day was held. This day was all about awareness of this important topic and we wanted to raise it through different communication channels, so the program consisted of the following:

**Formal part** – conference, that consisted from:

- ▶ Lecturers of the leading experts from the D&I field in Croatia and abroad
- ▶ Presenting INA practices
- ▶ Roundtable – a central part of the conference, where leaders of very successful companies in Croatia presented their view on D&I topic moderated by Diana Kobas Dešković (entrepreneur and founder of Mamforce certificate). Participants were as follows:
  - ▷ Gordana Deranja, President of HUP
  - ▷ Anita Letica, President of the Management Board, Philip Morris
  - ▷ Viktor Pavlinić, President of the Management Board, Tele 2
  - ▷ Medeja Lončar, President of the Management Board, Siemens
  - ▷ Boris Trupčević, CEO Styria Media Group

**Culture fair** – following 2030 MOL Group strategy, our aim was to incorporate a culture change primarily by raising awareness. It consisted of:

- ▶ Values stands – promoting values through games, quizzes, etc.
- ▶ Sustainable development market stall – they actually had their own agenda and program, which lasted the whole day
- ▶ INA Volunteers Club – we are proud to nurture a culture of helping others. This part also included a market stall held by external volunteering associations:
  - ▷ Hedona Ltd Križevci is a social enterprise founded by the Association of Disabled People of Križevci, led by Mr Pero Gatarić in spring 2013, as a part of "Chocolaterie Chris" project – a chocolaterie in Križevci
  - ▷ Klobook – a therapeutic group for oncological patients

### Workshops:

- ▶ Design Thinking – focused on innovation
- ▶ "All you know about me...." – Johari window – focused on self-awareness
- ▶ Executive presence – Communication with impact – focused on influence
- ▶ Personality types – DISC – focused on different personalities
- ▶ #HOBBY – short workshops where our employees presented their hobbies and others had an opportunity to try them (painting, dancing, logo therapy, jewelry creating)

Main messages were:

- ▶ Strength lies in diversity
- ▶ Diversity means all visible and invisible differences between us
- ▶ The power of organization is a result of mutual respect and acceptance

### D&I memo

We created D&I memo for managers, with a purpose to encourage them to respect diversity through various human resources management processes, such as recruitment, rewarding, performance evaluation and employee development. Memos were distributed to the managers at #svismoOK event.

### Diversity Charter

In October 2017, INA, d.d. signed and adopted the Diversity Charter, with a commitment to prepare and ensure the implementation of a diversity strategy and non-discrimination. The Diversity Charter is an initiative launched in 16 European Union countries and funded by the European Commission. The Diversity Charter Croatia was developed within the joint project of the Croatian Business Council for Sustainable Development (HR PSOR) and partners from Slovenia and Romania.

During October 2017, the Charter was signed and its decision was adopted by 34 companies and organizations, including INA, d.d. Many activities that were prescribed by the Charter were successfully carried out in 2018.

### Diversity policy

"Diversity Inclusion and Non-Discrimination Management in INA Group Companies" document was created and published in 2018. This document sets out a strategy for diversity, inclusion and non-discrimination management in INA Group companies as signatories to the Diversity Charter, as a systematic and planned orientation of the organization towards attracting and retaining employees of different profiles through various human resources management processes, such as recruitment, rewarding, performance evaluation and employee development, with the purpose of developing an organizational culture that is based on mutual respect and respect of diversity, and with the aim of achieving a competitive advantage and business results.

# INFORMATION FOR SHAREHOLDERS

## Corporate address

INA - Industrija nafte, d.d.  
Avenija Većeslava Holjevca 10  
10 020 Zagreb  
Phone: +358 1 645 0000  
Web: www.ina.hr

## Business Evaluation and Investor Relations

Avenija Većeslava Holjevca 10  
10 020 Zagreb  
Phone: +385 1 459 2718  
Fax: + 385 1 645 2444  
E-mail: [investitori@ina.hr](mailto:investitori@ina.hr)

## Sustainable Development and Health, Safety and Environment

Avenija Većeslava Holjevca 10  
10 020 Zagreb  
Phone: +385 1 64 50 71  
E-mail: [Odrzivi\\_Razvoj@ina.hr](mailto:Odrzivi_Razvoj@ina.hr)

## Corporate Communications

Avenija Većeslava Holjevca 10  
10 020 Zagreb  
Phone: +385 1 6450 552  
Fax: +385 1 6452 406  
E-mail: [PR@ina.hr](mailto:PR@ina.hr)

## Central Depository and Clearing Company Inc.

Heinzlova 62a  
10 000 Zagreb  
Phone: +385 1 4607 300  
Web: [www.skdd.hr](http://www.skdd.hr)

## Zagreb Stock Exchange

Ivana Lučića 2a  
10 000 Zagreb  
Phone: +385 1 4686 800  
Web: [www.zse.hr](http://www.zse.hr)

## Announcements

The company publishes its announcements on INA's website: [www.ina.hr](http://www.ina.hr), at Zagreb Stock Exchange's website: <http://www.zse.hr> and on Croatian news agency's website: [www.hina.hr](http://www.hina.hr)

7

# FINANCIAL STATEMENTS & INDEPENDENT AUDITOR'S REPORT



**INA GROUP and**

**INA - INDUSTRIJA NAFTE, d.d.**

**Consolidated and separate**

**Financial Statements for the year ended**

**31 December 2018**

**Together with Independent Auditors' Report**

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## Responsibility for the financial statements

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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.

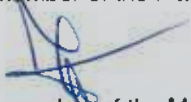
The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and the Group and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible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


Signed on behalf of the Company and the Group:


  
**Sándor Fasimon, President of the Management Board of INA, d.d.**

  
**Niko Dalić, member of the Management Board**

  
**Ákos Székely, member of the Management Board**

  
**Ivan Krešić, member of the Management Board**

  
**Davor Mayer, member of the Management Board**

  
**Zsolt Pethő, member of the Management Board**



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

13 March 2019





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## Independent auditor's report

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

### Report on the audit of the separate and consolidated financial statements

#### Opinion

We have audited the separate financial statements of INA - Industrija Nafte, d.d. ("the Company"), and consolidated financial statements of INA - Industrija Nafte, d.d. and its subsidiaries (together "the Group"), which comprise the separate and consolidated statement of financial position as at 31 December 2018, the separate and consolidated statement of profit or loss and the separate and consolidated statement of other comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Company and Group as at 31 December 2018 and of its separate and consolidated financial performance and its separate and consolidated 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 separate and consolidated financial statements* section of our report.

We are independent of the Company and Group 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 separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated 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 separate and consolidated 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 separate and consolidated 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 separate and consolidated financial statements.

Key Audit Matter	How we addressed Key Audit Matter
<p><b>Estimation of hydrocarbon reserves</b></p> <p>A description of the key judgements and estimates regarding estimation of hydrocarbon reserves are included in Note 3 Significant accounting judgements and estimates in the separate and consolidated financial statements.</p> <p>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 Company's and the Group's share of reportable volumes. Hydrocarbon reserves are also a fundamental indicator of the future potential of the Company's and the Group's performance and these estimates affect significant amounts in the separate and consolidated statement of financial position and the separate and consolidated statement of profit or loss. Therefore we believe that estimation of hydrocarbon reserves is a key audit matter.</p>	<p>Audit procedures included understanding of the process for determination of the hydrocarbon reserves and walkthrough of controls implemented in the process. We also assessed the competence and objectivity of technical experts to evaluate whether they are appropriately qualified to carry out the hydrocarbon reserve volumes estimation. We performed specific inquiry to the management of the Company and the Group in respect of consistency of the applied methodology for reserves estimate with previous year.</p> <p>We performed the test of details and for the significant changes in reserve volumes we tested whether the appropriate methodology was applied, the assumptions used are reasonable and adequately supported by underlying information provided by the management. We also performed analytical procedures on movements in hydrocarbon reserves during the year and reviewed that all significant changes were approved by the "Reserves and Resources Committee" and are in line with our expectations.</p> <p>We also assessed on the adequacy of the disclosures in the separate and consolidated financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>
<p><b>Impairments of the Company's and the Group's long lived assets</b></p> <p>Impairments of the Company's and the Group's long lived assets are disclosed in Note 6 Depreciation, amortization and impairment and in respective notes disclosing the underlying assets in the separate and consolidated financial statements; a description of the accounting policy and key judgements and estimates are included in Note 2 Accounting policies and Note 3 Significant accounting judgements and estimates respectively.</p> <p>Movements in oil and gas prices can have a significant effect on the carrying value of the Company's and the Group'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 Company's and the Group's operations and cash flows.</p>	<p>We performed understanding of the process and walked through the controls designed and operated by the Company and the Group 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 Company and the Group we assessed the management's competence in respect of impairment assessment by comparing the assumptions used in prior year to the achieved results in the current year.</p>

Key Audit Matter	How we addressed Key Audit Matter
<p><b>Impairments of the Company's and the Group's long lived assets (continued)</b></p> <p>Due to complexity and judgement used in the assessment of impairment indicators and impairment models, impairment of Company's and Group's long lived assets is a key audit matter.</p>	<p>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 the current year as well as current development in the industry and the Company's and the Group's expectations for the key inputs to the impairment models.</p> <p>In respect of performed impairment tests, we used external data in assessing and corroborating the assumptions used in the impairment analysis, the most significant being future market oil prices and discount rates. We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis, tested the appropriateness of discount rates used in the calculation with the assistance of the specialists and performed procedures to assess the completeness of the impairment charges.</p> <p>We also assessed on the adequacy of the disclosures in the separate and consolidated financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>
<p><b>Estimation of decommissioning provisions</b></p> <p>Provisions associated with decommissioning of the assets are disclosed in Note 29 Provisions to the separate and consolidated financial statements; a description of the accounting policy and key judgements and estimates are included in Note 2 Accounting policies and Note 3 Significant accounting judgements and estimates respectively.</p> <p>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.</p>	<p>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 the Group 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 and the Group's experts who produced the cost estimates.</p> <p>We also assessed on the adequacy of the disclosures in the separate and consolidated financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>



## **Other information included in the Company's and the Group's Annual Report for year 2018**

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 separate and consolidated financial statements and our auditor's report thereon. The Company's and the Group's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the separate and consolidated 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 separate and consolidated 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 separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Management is responsible for the preparation and fair presentation of the separate and consolidated 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 the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and the Group'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 Company and the Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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 separate and consolidated 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 separate and consolidated 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 Company's and the Group'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 Company's and the Group'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 separate and consolidated 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 Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated 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 separate and consolidated 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.



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## Report on Other Legal and Regulatory Requirements

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

### *Appointment of Auditor and Period of Engagement*

We were initially appointed as the auditors of the Company by the General Meeting of Shareholders on 24 June 2014 and our uninterrupted engagement has lasted for 5 years.

### *Consistence with Additional Report to Audit Committee*

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 13 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

### *Provision of Non-audit Services*

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

### *Report on Regulatory requirements*

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

Berislav Horvat, President of the Management Board and certified auditor

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

13 March 2019



INA - INDUSTRIJA NAFTE, d.d.  
INA Group Consolidated Statement of Profit or Loss  
For the year ended 31 December 2018  
(all amounts are presented in HRK millions)

		Year ended	Year ended
	Note	31 December 2018	31 December 2017
Revenue from contracts with customers	4	22,349	18,582
Capitalised value of own performance		416	327
Other operating income	5	529	174
<b>Total operating income</b>		<b>23,294</b>	<b>19,083</b>
Changes in inventories of finished products and work in progress		365	274
Cost of raw materials and consumables		(12,033)	(9,061)
Depreciation, amortisation and impairment (net)	6	(1,802)	(1,955)
Other material costs		(2,188)	(1,871)
Service costs		(569)	(466)
Staff costs	7	(1,927)	(1,803)
Cost of other goods sold		(3,605)	(2,942)
Impairment charges (net)	8	165	8
Provision for charges and risks (net)	9	(13)	151
<b>Total operating expenses</b>		<b>(21,607)</b>	<b>(17,665)</b>
<b>Profit from operations</b>		<b>1,687</b>	<b>1,418</b>
Finance income	10	54	452
Finance costs	10	(221)	(306)
<b>Net (loss)/gain from financial activities</b>		<b>(167)</b>	<b>146</b>
<b>Profit before tax</b>		<b>1,520</b>	<b>1,564</b>
Income tax expense	11	(343)	(342)
<b>Profit for the year</b>		<b>1,177</b>	<b>1,222</b>
<b>Attributable to:</b>			
Owners of the Company		1,178	1,220
Non-controlling interests		(1)	2
		<b>1,177</b>	<b>1,222</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (HRK per share)	12	117.75	121.99

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

INA - INDUSTRIJA NAFTE, d.d.

INA Group Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

		Year ended	Year ended
	Note	31 December 2018	31 December 2017
<b>Profit for the year</b>		<b>1,177</b>	<b>1,222</b>
Other comprehensive income, net of income tax:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of defined benefit obligation	33	(1)	12
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations	33	29	(143)
Loss on non-current financial assets	32	(154)	(10)
<b>Other comprehensive loss, net of income tax</b>		<b>(126)</b>	<b>(141)</b>
<b>Total comprehensive income for the year</b>		<b>1,051</b>	<b>1,081</b>
<b>Attributable to:</b>			
Owners of the Company		1,052	1,079
Non-controlling interests		(1)	2

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

INA - INDUSTRIJA NAFTE, d.d.  
INA, d.d. Separate Statement of Profit or Loss  
For the year ended 31 December 2018  
*(all amounts are presented in HRK millions)*

		Year ended	Year ended
	Note	31 December 2018	31 December 2017
Revenue from contracts with customers	4	21,070	17,578
Capitalised value of own performance		14	10
Other operating income	5	335	413
<b>Total operating income</b>		<b>21,419</b>	<b>18,001</b>
Changes in inventories of finished products and work in progress		364	288
Cost of raw materials and consumables		(11,819)	(8,816)
Depreciation, amortisation and impairment (net)	6	(1,688)	(1,781)
Other material costs		(2,162)	(1,881)
Service costs		(787)	(700)
Staff costs	7	(950)	(909)
Cost of other goods sold		(3,169)	(2,666)
Impairment charges (net)	8	162	18
Provision for charges and risks (net)	9	(17)	146
<b>Total operating expenses</b>		<b>(20,066)</b>	<b>(16,301)</b>
<b>Profit from operations</b>		<b>1,353</b>	<b>1,700</b>
Finance income	10	505	384
Finance costs	10	(201)	(310)
<b>Net gain from financial activities</b>		<b>304</b>	<b>74</b>
<b>Profit before tax</b>		<b>1,657</b>	<b>1,774</b>
Income tax expense	11	(323)	(348)
<b>Profit for the year</b>		<b>1,334</b>	<b>1,426</b>

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



INA - INDUSTRIJA NAFTE, d.d.  
 INA, d.d. Separate Statement of Other Comprehensive Income  
 For the year ended 31 December 2018  
 (all amounts are presented in HRK millions)

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		Year ended	Year ended
	Note	31 December 2018	31 December 2017
<b>Profit for the year</b>		<b>1,334</b>	<b>1,426</b>
Other comprehensive income, net of income tax:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of defined benefit obligation	33	(1)	11
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations	33	47	(161)
Loss on non-current financial assets	32	(154)	(10)
<b>Other comprehensive loss, net of income tax</b>		<b>(108)</b>	<b>(160)</b>
<b>Total comprehensive income for the year</b>		<b>1,226</b>	<b>1,266</b>

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

INA - INDUSTRIJA NAFTE, d.d.  
INA Group Consolidated Statement of Financial Position  
At 31 December 2018  
*(all amounts are presented in HRK millions)*

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<b>ASSETS</b>	<b>Note</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Non-current assets</b>			
Intangible assets	13	644	570
Property, plant and equipment	14	12,284	12,016
Investments in associates and joint venture	16	150	-
Other investments	17	16	13
Long-term receivables	18	732	96
Deferred tax assets	11	1,199	1,451
Non-current financial assets	19	479	665
<b>Total non – current assets</b>		<b>15,504</b>	<b>14,811</b>
<b>Current assets</b>			
Inventories	20	2,645	2,264
Trade receivables (net)	21,36	1,837	1,393
Other receivables	22	121	210
Corporate income tax receivables		8	10
Other current assets	23	174	139
Marketable securities		27	-
Cash and cash equivalents	24	422	428
		<b>5,234</b>	<b>4,444</b>
Held-for-sale assets		4	8
<b>Total current assets</b>		<b>5,238</b>	<b>4,452</b>
<b>TOTAL ASSETS</b>		<b>20,742</b>	<b>19,263</b>

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

INA - INDUSTRIJA NAFTE, d.d.

INA Group Consolidated Statement of Financial Position (continued)

At 31 December 2018

(all amounts are presented in HRK millions)

<b>EQUITY AND LIABILITIES</b>	<b>Note</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Capital and reserves</b>			
Share capital	31	9,000	9,000
Legal reserves		99	28
Fair value reserves	32	135	289
Other reserves	33	1,544	1,516
Retained earnings	34	1,036	827
<b>Equity attributable to owners of the Company</b>		<b>11,814</b>	<b>11,660</b>
Non-controlling interest	35	9	(134)
<b>TOTAL EQUITY</b>		<b>11,823</b>	<b>11,526</b>
<b>Non – current liabilities</b>			
Long-term loans	27	4	122
Other non-current liabilities	28	45	52
Employee benefit obligation	30	77	73
Provisions	29	3,462	3,119
Deferred tax liabilities	11	14	14
<b>Total non–current liabilities</b>		<b>3,602</b>	<b>3,380</b>
<b>Current liabilities</b>			
Bank loans	25	1,962	1,581
Current portion of long-term loans	25	125	122
Trade payables	26,36	1,720	1,171
Taxes and contributions	26	612	626
Other current liabilities	26	590	540
Employee benefit obligation	30	5	5
Provisions	29	303	312
<b>Total current liabilities</b>		<b>5,317</b>	<b>4,357</b>
<b>Total liabilities</b>		<b>8,919</b>	<b>7,737</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>20,742</b>	<b>19,263</b>

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



INA - INDUSTRIJA NAFTE, d.d.  
INA, d.d. Separate Statement of Financial Position  
At 31 December 2018  
*(all amounts are presented in HRK millions)*

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<b>ASSETS</b>	<b>Note</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Non-current assets</b>			
Intangible assets	13	431	408
Property, plant and equipment	14	10,586	10,578
Investment in subsidiaries	15	1,960	1,079
Investments in associates and joint venture	16	150	-
Other investments	17	752	669
Long-term receivables	18	743	105
Deferred tax assets	11	1,089	1,343
Non-current financial assets	19	479	665
<b>Total non-current assets</b>		<b>16,190</b>	<b>14,847</b>
<b>Current assets</b>			
Inventories	20	2,351	2,021
Intercompany receivables	36	256	225
Trade receivables (net)	21,36	1,490	1,118
Other receivables	22	73	144
Corporate income tax receivables		-	1
Other current assets	23	165	494
Marketable securities		27	-
Cash and cash equivalents	24	335	364
<b>Total current assets</b>		<b>4,697</b>	<b>4,367</b>
<b>TOTAL ASSETS</b>		<b>20,887</b>	<b>19,214</b>

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

INA - INDUSTRIJA NAFTE, d.d.

INA, d.d. Separate Statement of Financial Position (continued)

At 31 December 2018

(all amounts are presented in HRK millions)

<b>EQUITY AND LIABILITIES</b>	<b>Note</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Capital and reserves</b>			
Share capital	31	9,000	9,000
Legal reserves		99	28
Fair value reserves	32	135	289
Other reserves	33	1,184	1,138
Retained earnings	34	1,934	1,426
<b>TOTAL EQUITY</b>		<b>12,352</b>	<b>11,881</b>
<b>Non-current liabilities</b>			
Long term loans	27	-	122
Other non-current liabilities	28	44	51
Employee benefit obligation	30	33	31
Provisions	29	3,599	3,241
<b>Total non-current liabilities</b>		<b>3,676</b>	<b>3,445</b>
<b>Current liabilities</b>			
Bank loans	25	1,767	1,359
Current portion of long-term loans	25	125	122
Intercompany payables	36	584	495
Trade payables	26,36	1,242	787
Taxes and contributions	26	514	527
Other current liabilities	26	395	374
Employee benefit obligation	30	3	3
Provisions	29	229	221
<b>Total current liabilities</b>		<b>4,859</b>	<b>3,888</b>
<b>Total liabilities</b>		<b>8,535</b>	<b>7,333</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>20,887</b>	<b>19,214</b>

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

INA - INDUSTRIJA NAFTE, d.d.  
INA Group Consolidated Statement of Changes in Equity  
For the year ended 31 December 2018  
(all amounts are presented in HRK millions)

	Share capital	Legal reserves	Fair value reserves	Other reserves	(Accumulated loss)/ Retained earnings	Attributable to equity holders of the parent	Non controlling interest	Total
<b>Balance at 1 January 2017</b>	<b>9,000</b>	<b>20</b>	<b>299</b>	<b>1,647</b>	<b>(233)</b>	<b>10,733</b>	<b>(136)</b>	<b>10,597</b>
Transfer to legal reserves from retained earnings	-	8	-	-	(8)	-	-	-
Dividend paid	-	-	-	-	(152)	(152)	-	(152)
<b>Subtotal</b>	<b>9,000</b>	<b>28</b>	<b>299</b>	<b>1,647</b>	<b>(393)</b>	<b>10,581</b>	<b>(136)</b>	<b>10,445</b>
Profit for the year	-	-	-	-	1,220	1,220	2	1,222
Other comprehensive loss, net	-	-	(10)	(131)	-	(141)	-	(141)
<b>Total comprehensive (loss)/income for the year</b>	<b>-</b>	<b>-</b>	<b>(10)</b>	<b>(131)</b>	<b>1,220</b>	<b>1,079</b>	<b>2</b>	<b>1,081</b>
<b>Balance at 31 December 2017</b>	<b>9,000</b>	<b>28</b>	<b>289</b>	<b>1,516</b>	<b>827</b>	<b>11,660</b>	<b>(134)</b>	<b>11,526</b>
Opening changes due to effect of IFRS standard changes	-	-	-	-	58	58	-	58
<b>Balance at 1 January 2018</b>	<b>9,000</b>	<b>28</b>	<b>289</b>	<b>1,516</b>	<b>885</b>	<b>11,718</b>	<b>(134)</b>	<b>11,584</b>
Transfer to legal reserves from retained earnings	-	71	-	-	(71)	-	-	-
Dividend paid	-	-	-	-	(812)	(812)	-	(812)
Acquisition of non-controlling interest	-	-	-	-	(144)	(144)	144	-
<b>Subtotal</b>	<b>9,000</b>	<b>99</b>	<b>289</b>	<b>1,516</b>	<b>(142)</b>	<b>10,762</b>	<b>10</b>	<b>10,772</b>
Profit for the year	-	-	-	-	1,178	1,178	(1)	1,177
Other comprehensive (loss)/income, net	-	-	(154)	28	-	(126)	-	(126)
<b>Total comprehensive (loss)/income for the year</b>	<b>-</b>	<b>-</b>	<b>(154)</b>	<b>28</b>	<b>1,178</b>	<b>1,052</b>	<b>(1)</b>	<b>1,051</b>
<b>Balance at 31 December 2018</b>	<b>9,000</b>	<b>99</b>	<b>135</b>	<b>1,544</b>	<b>1,036</b>	<b>11,814</b>	<b>9</b>	<b>11,823</b>

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



INA - INDUSTRIJA NAFTE, d.d.  
INA, d.d. Separate Statement of Changes in Equity  
For the year ended 31 December 2018  
*(all amounts are presented in HRK millions)*

	Share capital	Legal reserves	Fair value reserves	Other reserves	Retained earnings	Total
<b>Balance at 1 January 2017</b>	<b>9,000</b>	<b>20</b>	<b>299</b>	<b>1,288</b>	<b>160</b>	<b>10,767</b>
Transfer to legal reserves from retained earnings	-	8	-	-	(8)	-
Dividend paid	-	-	-	-	(152)	(152)
<b>Subtotal</b>	<b>9,000</b>	<b>28</b>	<b>299</b>	<b>1,288</b>	<b>-</b>	<b>10,615</b>
Profit for the year	-	-	-	-	1,426	1,426
Other comprehensive loss, net	-	-	(10)	(150)	-	(160)
<b>Total comprehensive (loss)/income for the year</b>	<b>-</b>	<b>-</b>	<b>(10)</b>	<b>(150)</b>	<b>1,426</b>	<b>1,266</b>
<b>Balance at 31 December 2017</b>	<b>9,000</b>	<b>28</b>	<b>289</b>	<b>1,138</b>	<b>1,426</b>	<b>11,881</b>
Opening changes due to effect of IFRS standard changes	-	-	-	-	57	57
<b>Balance at 1 January 2018</b>	<b>9,000</b>	<b>28</b>	<b>289</b>	<b>1,138</b>	<b>1,483</b>	<b>11,938</b>
Transfer to legal reserves from retained earnings	-	71	-	-	(71)	-
Dividend paid	-	-	-	-	(812)	(812)
<b>Subtotal</b>	<b>9,000</b>	<b>99</b>	<b>289</b>	<b>1,138</b>	<b>600</b>	<b>11,126</b>
Profit for the year	-	-	-	-	1,334	1,334
Other comprehensive (loss)/income, net	-	-	(154)	46	-	(108)
<b>Total comprehensive (loss)/income for the year</b>	<b>-</b>	<b>-</b>	<b>(154)</b>	<b>46</b>	<b>1,334</b>	<b>1,226</b>
<b>Balance at 31 December 2018</b>	<b>9,000</b>	<b>99</b>	<b>135</b>	<b>1,184</b>	<b>1,934</b>	<b>12,352</b>

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

INA - INDUSTRIJA NAFTE, d.d.  
INA Group Consolidated Statement of Cash Flows  
For the year ended 31 December 2018  
*(all amounts are presented in HRK millions)*

	Year ended	Year ended
Note	31 December 2018	31 December 2017
<b>Profit for the year</b>	<b>1,177</b>	<b>1,222</b>
<b>Adjustments for:</b>		
Depreciation, amortisation and impairment (net)	1,802	1,955
Income tax expense recognised in profit and loss	343	342
Impairment charges (net)	(165)	(8)
Loss/(gain) on sale of property, plant and equipment	3	(16)
Gain on acquisition of subsidiary	(291)	-
Foreign exchange loss/(gain)	45	(223)
Interest expense (net)	26	45
Other finance costs recognised in profit and loss	58	11
Decrease in provisions	(23)	(155)
Decommissioning interests and other provision	62	21
Net loss on derivative financial instruments	96	48
Other non-cash items	(2)	11
	<b>3,131</b>	<b>3,253</b>
<b>Movements in working capital</b>		
Increase in inventories	(725)	(327)
Increase in receivables and prepayments	(278)	(76)
Increase/(decrease) in trade and other payables	764	(333)
<b>Cash generated from operations</b>	<b>2,892</b>	<b>2,517</b>
Taxes paid	(61)	(33)
<b>Net cash inflow from operating activities</b>	<b>2,831</b>	<b>2,484</b>
<b>Cash flows used in investing activities</b>		
Capital expenditures, exploration and development costs	(1,842)	(1,277)
Payments for intangible assets	(125)	(114)
Proceeds from sale of non-current assets	9	26
Acquisition of subsidiary (net)	(147)	-
Investment in joint venture	(150)	-
Amount related to sale of subsidiary and associates (net)	-	23
Dividends received from companies classified as non-current financial assets and from other companies	1	20
Interest received and other financial income	11	11
Loans and other investments (net)	1	11
<b>Net cash used for investing activities</b>	<b>(2,242)</b>	<b>(1,300)</b>

INA - INDUSTRIJA NAFTE, d.d.  
 INA Group Consolidated Statement of Cash Flows (continued)  
 For the year ended 31 December 2018  
*(all amounts are presented in HRK millions)*

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	Year ended	Year ended
Note	31 December 2018	31 December 2017
<b>Cash flows from financing activities</b>		
Repayment of long-term borrowings	(122)	(129)
Change in short-term borrowings (net)	376	(1,000)
Dividends paid	(812)	(152)
Interest paid on long-term loans	(5)	(8)
Interest paid on short-term loans and other interest charges	(56)	(78)
<b>Net cash used in financing activities</b>	<b>(619)</b>	<b>(1,367)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(30)</b>	<b>(183)</b>
At 1 January	428	611
Effect of foreign exchange rate changes	24	-
<b>At 31 December</b>	<b>422</b>	<b>428</b>
24		

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



INA - INDUSTRIJA NAFTE, d.d.  
INA, d.d. Separate Statement of Cash Flows  
For the year ended 31 December 2018  
*(all amounts are presented in HRK millions)*

	Year ended	Year ended
Note	31 December 2018	31 December 2017
<b>Profit for the year</b>	<b>1,334</b>	<b>1,426</b>
<b>Adjustments for:</b>		
Depreciation, amortisation and impairment (net)	1,688	1,781
Income tax expense recognised in profit and loss	323	348
Impairment charges (net)	(162)	(18)
Gain on sale of property plant and equipment	(7)	(268)
Foreign exchange loss/(gain)	49	(159)
Interest expense/(gain) (net)	6	(3)
Income from reversal of impaired loans	(222)	-
Income from reversal of impaired investment in subsidiaries	(111)	-
Other finance (gain)/costs recognised in profit and loss	(85)	67
Decrease in provisions	(20)	(150)
Decommissioning interests	56	21
Net loss on derivative financial instruments and hedge transactions	96	48
Other non-cash items	4	-
	<b>2,949</b>	<b>3,093</b>
<b>Movements in working capital</b>		
Increase in inventories	(645)	(314)
Increase in receivables and prepayments	(320)	(121)
Increase in trade and other payables	1,022	6
<b>Cash generated from operations</b>	<b>3,006</b>	<b>2,664</b>
Taxes paid	(35)	(13)
<b>Net cash inflow from operating activities</b>	<b>2,971</b>	<b>2,651</b>
<b>Cash flows used in investing activities</b>		
Capital expenditures, exploration and development costs	(1,726)	(1,241)
Payment for intangible assets	(120)	(107)
Proceeds from sale of non-current assets	8	14
Acquisition of subsidiary	(265)	-
Investment in joint venture	(150)	-
Amount related to sale of subsidiary and associates (net)	-	23
Dividends received from companies classified as non-current financial assets and from other companies	1	20
Payments received from subsidiaries	1	-
Interest received and other financial income	51	13
Loans and other investments (net)	(250)	(186)
<b>Net cash used in investing activities</b>	<b>(2,450)</b>	<b>(1,464)</b>

INA - INDUSTRIJA NAFTE, d.d.  
 INA, d.d. Separate Statement of Cash Flows (continued)  
 For the year ended 31 December 2018  
*(all amounts are presented in HRK millions)*

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	Year ended	Year ended
Note	31 December 2018	31 December 2017
<b>Cash flows from financing activities</b>		
Repayment of long-term borrowings	(122)	(129)
Change in short-term borrowings (net)	416	(939)
Dividends paid	(812)	(152)
Interest paid on long-term loans	(5)	(8)
Interest paid on short-term loans and other interest charges	(50)	(75)
<b>Net cash used in financing activities</b>	<b>(573)</b>	<b>(1,303)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(52)</b>	<b>(116)</b>
At 1 January	364	500
Effect of foreign exchange rate changes	23	(20)
<b>At 31 December</b>	<b>335</b>	<b>364</b>
	24	

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

## 1. GENERAL

### *History and incorporation*

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

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

The ownership structure\* of the INA Group as of 31 December 2018 and 31 December 2017:

	31 December 2018		31 December 2017	
	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
	<b>10,000,000</b>	<b>100</b>	<b>10,000,000</b>	<b>100</b>

\*Source: Central Depository & Clearing Company Inc.

### *Principal activities*

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

- (i) exploration and production of oil and gas deposits, primarily onshore and offshore within Croatia and other than that INA, d.d has concessions held 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 500 service stations in operation as of 31 December 2018 (of which 384 in Croatia and 116 outside Croatia);
- (v) trading in petroleum products through a network of foreign subsidiaries and representative offices, principally in Sarajevo, Ljubljana and Podgorica; and
- (vi) service activities incidental to onshore and offshore oil extraction through its drilling and oilfield services subsidiary Crosco d.o.o.



## 1. GENERAL (CONTINUED)

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

Headquarter of the Group is located in Zagreb, Avenija V. Holjevska 10, Croatia. As at 31 December 2018 there were 10,842 employees at the Group (10,782 as at 31 December 2017). As at 31 December 2018 there were 4,138 employees at INA, d.d. (4,292 as at 31 December 2017).

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 that generally act as distributors of INA Group products and as representative offices within their local markets.

### ***Supervisory Board, Management Board and Council of Directors***

#### **Supervisory Board**

*Supervisory Board since 14 June 2017 until 18 December 2020*

Damir Vandelić	President of the Supervisory Board
József Molnár	Vice President of the Supervisory Board
Luka Burilović	Member of the Supervisory Board
Szabolcs I. Ferencz	Member of the Supervisory Board
Ferenc Horváth	Member of the Supervisory Board
Damir Mikuljan	Member of the Supervisory Board
József Simola	Member of the Supervisory Board
László Uzsoki	Member of the Supervisory Board
Jasna Pipunić	Representative of employees in the Supervisory Board

#### **Management Board**

*Management Board since 1 July 2018 until 30 June 2021*

Sándor Fasimon	President of the Management Board
Niko Dalić	Member of the Management Board
Ivan Krešić	Member of the Management Board
Davor Mayer	Member of the Management Board
Zsolt Pethő	Member of the Management Board
Dr Ákos Székely	Member of the Management Board

#### **Council of Directors**

*Council of Directors appointed by the decision of the Management Board since 1 December 2018 until recall*

Gábor Horváth	Chief Financial Officer
Darko Markotić	Operating Director of Consumer Services and Retail; Acting Operating Director of Industrial Services
Stjepan Nikolić	Operating Director of Refining and Marketing
Tvrtko Perković	Operating Director of Exploration and Production

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

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

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

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

### ***Adoption of new and revised International Financial Reporting Standards***

#### *Standards and Interpretations effective in the current period*

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

- **IFRIC Interpretation 22:** *Foreign currency transaction and advance consideration*, issued on 8 December 2016 (effective date for annual reporting periods beginning on or after 1 January 2018).
- **Amendments to IAS 40:** *Transfers of investment property*, issued on 8 December 2016 (effective date for annual reporting periods beginning on or after 1 January 2018).

## 2. ACCOUNTING POLICIES (CONTINUED)

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

*Standards and Interpretations effective in the current period (continued)*

- **Amendments to IFRS 2: Classification and measurement of share-based payment transactions**, issued on 20 June 2016 and adopted in EU 26 February 2018 (effective date for annual periods beginning on or after 1 January 2018).
- **IFRS 9 Financial Instruments**, issued in July 2014 the final version that replaced the IAS 39 *Financial Instruments: Recognition and Measurement*, adopted in EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts** issued in September 2016 and adopted in EU 3 November 2017 (effective date for annual periods beginning on or after 1 January 2018).
- **IFRS 15 Revenue from Contracts with Customers**, issued in May 2014, including amendment to IFRS 15. Effective dates of IFRS 15, adopted in EU 22 September 2016 and **Clarifications to IFRS 15 Revenue from Contracts with Customers**, issued in April 2016 and adopted in EU on 31 October 2017 (effective date for annual periods beginning on or after 1 January 2018).

The adoption of these Standards and Interpretations had no significant impact on the financial statements of the Company and the Group. New standards are applied but comparative information has not been restated (e.g. recognising the cumulative effect of applying new standards in the opening balance of equity).

*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 16 Leases**, issued in January 2016 replaces accounting treatment for leases and is a major revision of the way in which companies account for leases, adopted in EU on 31 October 2017 (effective date for annual periods beginning on or after 1 January 2019). The standard will affect primarily the accounting for the Companies and the Group operating leases. During 2018, the Company and the Group have performed a detailed impact assessment of IFRS 16 based on review of valid contracts. Estimated impact of IFRS 16 transition on the Company is HRK 380 million and the Group level is around HRK 160 million in terms of increased lease liability and leased assets. The Company and the Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company and the Group has leases of certain office equipment (i.e. personal computers, printing and photocopying machines) that are considered of low value.



## 2. ACCOUNTING POLICIES (CONTINUED)

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

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

- **IFRIC Interpretation 23: *Uncertainty over Income Tax Treatments***, issued on 7 June 2017 (effective date for annual reporting periods beginning on or after 1 January 2019).
- **Amendments to IFRS 9: *Prepayment features with negative compensation***, issued on 12 October 2017 (effective date for annual periods beginning on or after 1 January 2019).
- **Amendments to IAS 28: *Long-term interests in associates and joint ventures***, issued on 12 October 2017 (effective date for annual periods beginning on or after 1 January 2019).

The Group does not anticipate that the adoption of these Standards and Interpretations will have a significant impact on the financial statements of the Company and the Group, except for the above-mentioned impact of adoption IFRS 16.

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

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue by the International Accounting Standards Board but not yet adopted by the EU. The endorsement might be expected in 2019:

- **IFRS 17: *Insurance contracts***, issued on 18 May 2017 to achieve the goal of a consistent, principle-based accounting for insurance contracts (effective date for annual periods beginning on or after 1 January 2021).
- **Annual Improvements Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement***, issued on 7 February 2018 (effective date for annual periods beginning on or after 1 January 2019).
- **Amendments to References to the Conceptual Framework in IFRS Standards**, issued on 29 March 2018 (effective date for annual periods beginning on or after 1 January 2020).
- **Amendment to IFRS 3: *Business Combinations***, issued on 22 October 2018 (effective date for annual periods beginning on or after 1 January 2020).
- **Amendments to IAS 1 and IAS 8: *Definition of Material***, issued on 31 October 2018 (effective date for annual periods beginning on or after 1 January 2020).
- **Annual Improvements to IFRS Standards 2015-2017 Cycle**, issued on 12 December 2017 (effective date for annual periods beginning on or after 1 January 2019).

## **2. ACCOUNTING POLICIES (CONTINUED)**

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

In the Company's financial statements, investments in subsidiaries are accounted for at cost and reduced for impairment.

### ***Basis of consolidated financial statements (INA Group)***

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

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

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

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

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

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

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

A change in the ownership interest of a subsidiary, without a loss of a control, is accounted for as equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

## **2. ACCOUNTING POLICIES (CONTINUED)**

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

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. 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 IFRS 9 *Financial Instruments* 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 IFRS 9 *Financial Instruments*, 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.



## **2. ACCOUNTING POLICIES (CONTINUED)**

### ***Business combination (continued)***

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 the Group equity except for issued capital. Consolidated financial statements reflect the results of combining entities from the date of acquisition.

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

### ***Investments in associates and joint ventures***

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

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

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

## **2. ACCOUNTING POLICIES (CONTINUED)**

### ***Interests in joint operations***

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

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

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

### ***Oil and gas properties***

#### *Exploration and appraisal costs*

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

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

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

#### *Fields under development*

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

#### *Depreciation*

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

#### *Commercial reserves*

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

## 2. ACCOUNTING POLICIES (CONTINUED)

### ***Intangible assets***

Intangible assets acquired separately are capitalized at cost and intangible assets acquired 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
Service stations	30	years
Telecommunication and office equipment	2 - 10	years

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



## **2. ACCOUNTING POLICIES (CONTINUED)**

### ***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***

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

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

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

## 2. ACCOUNTING POLICIES (CONTINUED)

### **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 adoption of IFRS 9 has changed the Company's and the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group recognises an allowance for ECL for all debt instruments not held at fair value through profit or loss and contract assets.

Expected credit loss model is used for calculation of impairment of receivables. The model incorporates forward-looking factors into assessment of impairment. INA Group applies the simplified approach for receivables. This means that allowance for the full lifetime expected credit loss is accounted for upon recognition of the financial instrument.

According to the impairment policy, following events are considered as objective evidence on impairment:

- legal claim against the customer;
- default of the issuer;
- total or partial release of claim;
- claim is under external connection;
- >180 days overdue;
- disappearance of an active market.

The calculation of loss rate:

- in case of performing third party items under simplified approach, loss rates are used to calculate the expected credit loss on these items at initial recognition;
- the loss rate is the arithmetic average of the yearly historical loss rates of the last three years. Upon calculating the historical loss rate for a given year, only receivables originated in given year are considered in the calculation;
- this average of yearly historical loss rates is adjusted by the forward-looking macroeconomic element.

### **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 96.88% of future average sales price, which approximates the net recoverable amount.

## **2. ACCOUNTING POLICIES (CONTINUED)**

### ***Inventories (continued)***

- 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 2018 was 1.19% and for 2017 it was 1.41%.

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

### ***Foreign currencies***

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

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

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



## **2. ACCOUNTING POLICIES (CONTINUED)**

### ***Foreign currencies (continued)***

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

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

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

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

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

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

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

### ***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.

## **2. ACCOUNTING POLICIES (CONTINUED)**

### ***Retirement Benefit and Jubilee Costs (continued)***

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 when the entity can no longer withdraw the offer of the termination benefit or 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 is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year and are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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

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

## **2. ACCOUNTING POLICIES (CONTINUED)**

### ***Taxation (continued)***

#### *Deferred tax (continued)*

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

#### *Current and deferred tax for the period*

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

### ***Financial assets***

#### *Initial measurement of financial instruments*

Financial assets are divided into two main categories, those measured at amortized cost and those measured at fair value. Fair value measurement is further divided into fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVTOCI).

#### *Subsequent measurement of financial assets*

Financial assets are classified in four categories:

#### *Financial assets at amortized cost (debt instruments)*

A debt instrument that meets the following two conditions is measured at amortized cost:

- Business model test: The financial asset is held to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes), and
- Cash flow characteristics test: The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### *Financial assets at fair value through other comprehensive income (debt instruments)*

A debt instrument that meets the following two conditions must be measured at FVTOCI unless the asset is designated at FVTPL under the fair value option:

- Business model test: The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- Cash flow characteristics test: The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's and the Group's debt instruments at FVTOCI includes only investments in short-term quoted debt marketable securities with very low credit risk.

#### *Financial assets at fair value through profit or loss (debt instruments)*

All other debt instruments must be measured at FVTPL (including derivatives).



## 2. ACCOUNTING POLICIES (CONTINUED)

### **Financial assets (continued)**

#### *Financial assets designated at fair value through other comprehensive income (equity instruments)*

Upon initial recognition, the Company and Group can elect to classify irrevocably its equity investments as equity instruments designated at FVTOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

The Company and the Group elected to classify its listed equity investments under this category (see note 39).

#### *Derecognition of financial assets*

The basic premise for the derecognition model is to determine whether the asset under consideration for derecognition is:

- an asset in its entirety,
- specifically identified cash flows from an asset (or a group of similar financial assets),
- fully proportionate (pro rata) share of the cash flows from an asset (or a group of similar financial assets), or
- fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

Once the asset under consideration for derecognition has been determined, an assessment is made as to whether the asset has been transferred, and if so, whether the transfer of that asset is subsequently eligible for derecognition.

#### *Impairment*

The impairment model is based on the premise of providing for expected losses.

#### *General approach*

With the exception of purchased or originated credit impaired financial assets, expected credit losses are measured through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date);
- or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to contract assets or trade receivables that do not constitute a financing transaction in accordance with IFRS 15.

#### *Simplified approach*

The Company and the Group apply the simplified approach for the following financial assets: trade receivables, IFRS 15 contract assets and lease receivables. For all other financial instruments, general approach is applied.

Independently of the two approaches mentioned above, the impairment method stayed the same under the new standard in case of financial assets where there is an objective evidence on impairment. These are required to be assessed on a case by case basis. The maximum amount of impairment accounted for by the Company and Group is 100% of unsecured part of the financial asset.

## **2. ACCOUNTING POLICIES (CONTINUED)**

### ***Financial liabilities***

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's and the Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

#### *Subsequent measurement*

The measurement of financial liabilities depends on their classification.

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company and the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. The Company and the Group do not have financial liabilities at fair value through profit or loss.

#### *Loans and borrowings*

This is the category most relevant to the Company and the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs.

#### *Derecognition of financial liabilities*

A financial liability is removed from the statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires.

Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognized in profit or loss.

The Group does not have any financial instrument whose classification has changed as a result of applying IFRS 9 and does not have any instrument that the Group designated upon initial recognition as at fair value through profit or loss in order to reduce a measurement or recognition inconsistency.

Impairment is only accounted for trade receivables. No impairment is recognised on the remaining financial instruments based on materiality, history and expectations.

## **2. ACCOUNTING POLICIES (CONTINUED)**

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

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

### ***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 from Contracts with Customers***

Under IFRS 15 the Company and the Group recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company and Group expect to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework.

The Company and the Group consider whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price, the Company and the Group consider the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer.



## **2. ACCOUNTING POLICIES (CONTINUED)**

### ***Revenue from Contracts with Customers (continued)***

#### *Presentation and disclosure*

Contracts with customers are presented in statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the performance of the Company and the Group and the customer's payment.

A contract liability is presented in the statement of financial position where a customer has paid an amount of consideration prior to the performing by transferring the related good or service to the customer.

Where the Company and the Group have performed the obligation by transferring a good or service to the customer and the customer has not yet paid the related consideration, a contract asset or a receivable is presented in the statement of financial position, depending on the nature of right to consideration. A contract asset is recognised when the Company's and the Group's right to consideration is conditional on something other than the passage of time, for example future performance of the Company and the Group. A receivable is recognised when the Company's and the Group's right to consideration is unconditional except for the passage of time.

Company's and Group's sales contracts generally comprise of only one performance obligation. As such, the Company and the Group do not disclose information about the allocation of the transaction price.

#### *Excise duties*

Excise duty is part of amounts collected on behalf of third parties.

#### *Construction – maintenance and service contracts*

For each performance obligation satisfied over time, the company and the Group recognizes revenue over time by measuring the progress towards complete satisfaction of that performance obligation. Management elected to use input method of calculating progress (costs incurred to date) in revenue recognition from construction contracts.

### **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, estimated decommissioning costs, environmental provision and provision for legal cases as well as carrying value of investments and given loans to subsidiaries and contract balances. 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*

The Group is 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 expected oil and gas prices, 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 32 million in 2018 (2017: HRK 145 million).

#### *Carrying value of goodwill*

In 2018 and 2017 there was no goodwill impairment (see note 13). The carrying amount of goodwill amounted to HRK 152 million as of 31 December 2018 and 31 December 2017 (see note 13).

#### *Carrying value of intangible exploration and appraisal assets*

The carrying amount of intangible exploration and appraisal assets amounted to HRK 229 million as of 31 December 2018 and HRK 201 million as of 31 December 2017 (see note 13). In 2018 impairment amounted of HRK 71 million and in 2017 there was no impairment of intangible exploration and appraisal assets (see note 13).

### **3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)**

#### ***Critical judgements and estimates in applying accounting policies (continued)***

##### *Carrying value of production oil and gas assets*

The carrying amount of production oil and gas assets amounted to HRK 3,491 million as of 31 December 2018 and HRK 3,794 million as of 31 December 2017 (see note 14). In 2018 the Group recognized impairment in the amount of HRK 32 million (2017: HRK 45 million) (see note 14).

#### ***Key assumptions used***

##### *Refining and Marketing*

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

##### *Exploration and Production*

Hydrocarbon price outlook, as the key value driver for upstream assets, has improved compared to the reporting period last year, which led to the conclusion that generally there are no impairment indicators for most of INA's upstream asset groups.

During 2018, INA's management identified five onshore fields with negative reserves change compared to 2017 reserves. The change was above -1MMboe which is considered as materiality threshold on asset level (Molve, Kalinovac, Hrastilnica, Ivanić and Žutica) with a total impact of -23.8 MMboe. The volume change for above five fields was identified as a triggering event for impairment testing, which was prepared for each field since they are identified as separate cash generating units. However, these revisions are on the fields with significant production volumes and quite low breakeven prices, so no impairment was recorded as at 31 December 2018.

##### *Investments in Syria*

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

##### *Current situation*

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

Company has assessed situation in Syria and identified no material change compared to 2017. EU sanctions remain in place and the political situation has not changed significantly either for the better or worse from INA's investment perspective. INA, d.d. expects similar costs and benefits in case of return to operation of Syrian fields. Therefore, no triggering event for asset impairment was identified in 2018.

In line with the Petroleum Resources Management System (PRMS) rules, and the fact that Syrian assets are under Force Majeure and INA, d.d. has no control for a period of almost 7 years, the reserves are shifted from 2P to 2C category in 2017. No changes in 2018.



### **3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)**

#### ***Critical judgements and estimates in applying accounting policies (continued)***

##### *Political developments in Egypt*

Concerning the INA, d.d. operations in Egypt the key uncertainty of business is the timing of receivables collection. At 31 December 2018 gross book value of Egyptian General Petroleum Corporation receivables amounted to HRK 212 million out of which HRK 69 million was value adjusted. During 2018, INA, d.d. impaired HRK 72 million of receivables and managed to collect previously value adjusted receivables in the amount of HRK 315 million. Improvement in collection of receivables is due to better market environment in Egypt.

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

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

Management makes estimates of future expenditure in connection with decommissioning obligations using prices by reference to prior similar activities, as well as other assumptions like the estimated effects of any changes in local regulations, management's expected approach to decommissioning, cost estimates and discount rates. 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 3,029 million as at 31 December 2018 (31 December 2017: HRK 2,701 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) because 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 2018 INA Group recognized environmental provision in the amount of HRK 412 million (2017: HRK 335 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 service stations. It does not cover the cost of remediation in lack of detailed National regulations.

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

#### ***Critical judgements and estimates in applying accounting policies (continued)***

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

A deferred tax asset is recognized for unused tax losses to the extent that is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning savings. Determining the amount of deferred taxes that can be recognised requires a significant level of judgement, which is based on the probable quantification of the time and level of future taxable profits, together with the future tax planning strategy.

Management believes that deferred tax asset recognized is recoverable. At 31 December 2018 the carrying amount of deferred tax assets of the INA Group amounted to HRK 1,199 million (2017: HRK 1,451 million) and deferred tax liabilities amounted to HRK 14 million at 31 December 2018 (2017: HRK 14 million). At 31 December 2018 the carrying amount of deferred tax assets of INA, d.d. amounted to HRK 1,089 million, (31 December 2017: HRK 1,343 million respectively) (see note 11).

If the Group was able to recognise all unrecognised deferred tax assets, profit and equity would have increased by HRK 31 million at 31 December 2018, (31 December 2017: HRK 62 million).

##### *Actuarial estimates used determining the retirement bonuses*

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions of discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. Provisions for retirement bonuses and jubilee awards for INA Group amounted to HRK 82 million as at 31 December 2018 (31 December 2017: HRK 78 million), and INA, d.d. amounted to HRK 36 million as at 31 December 2018 (31 December 2017: HRK 34 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 2018 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 Company and the 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.

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

#### ***Critical judgements and estimates in applying accounting policies (continued)***

##### *Hydrocarbon reserves (continued)*

The Company and the Group estimate and report hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. Estimation of hydrocarbon reserves is a significant area of judgement due to the technical uncertainty in assessing quantities and complex contractual arrangements dictating the Company's and the Group's share of reportable volumes.

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 affect the Company's and 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.

##### *Carrying value of investments and given loans to subsidiaries (INA, d.d.)*

The carrying amount of the investment in subsidiaries amounts to HRK 1,960 million as at 31 December 2018 and HRK 1,079 million as at 31 December 2017. During 2018, a net reversal of impairment in the amount of HRK 107 million was recorded (2017: impairment HRK 34 million). Due to the significance exposure to subsidiaries (calculated as the sum of carrying value of investment and given loans, net) the existence of impairment indicators requires significant Management judgment in determining the appropriate approach for testing impairment.

The carrying amount of loans granted to subsidiaries amounts to HRK 755 million as at 31 December 2018 and HRK 1,257 million at 31 December 2017. During 2018, INA, d.d. collected previously impaired loan given to subsidiary Energopetrol d.d and recorded reversal of impairment in the amount of HRK 222 million.

##### *Contract balances*

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Trade receivables	1,837	1,393	1,490	1,118
Contract asset	2	-	-	-
Contract liabilities	28	26	-	-



### **3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)**

#### ***Critical judgements and estimates in applying accounting policies (continued)***

##### *Contract balances (continued)*

Trade receivables are non-interest bearing and are generally on terms of 3 to 30 days. The acquisition of a subsidiary resulted in increase in trade receivables of HRK 29 million in 2018 (note 40). In 2018, HRK 1 million (2017: 3 HRK million) was recognised as impairment for expected credit losses on trade receivables.

Contract assets are initially recognised for revenue earned from construction services as receipt of consideration is conditional on successful completion of construction. Upon completion of construction services and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables.

Contract liabilities include short-term advances received for construction services in amount of HRK 28 million in 2018 as well as HRK 26 million in 2017. The remaining performance obligations are expected to be recognised in following year.

Due to non-material amount, these categories are not presented in separate line in statement of financial position. Contract assets are presented in line other current asset while contract liabilities are presented in line other current liabilities in statement of financial position.

Contract assets and contract liabilities are not presented in separate line in statement of financial position because they are not considered to be significant for the Company and the Group. Contract assets are presented in line other current asset while contract liabilities are presented in line other current liabilities in statement of financial position.

##### *Performance obligations*

Revenue from the sale and transportation of crude oil, natural gas, petroleum products and other merchandise is recognised when the customer obtains control of the goods, which is normally when title passes to the customer and the customer takes the physical possession, based on the contractual terms of the agreements.

Sales agreements mainly represent one performance obligation and the Company and the Group principally satisfies its performance obligations at a point in time.

#### ***Reclassification position of profit and loss***

In 2018 INA Group and INA, d.d. adjusted its EBITDA methodology and classification between impairment and value adjustment lines to better align the reporting to business reporting standards with EBITDA now being calculated as EBIT plus Depreciation, amortization and impairment (net). The effect of reclassification of account of profit and loss are as follows:

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

#### **Reclassification position of profit and loss (continued)**

##### INA Group

	2017 before reclassification	Impairment of tangible asset	2017 reclassified
Impairment charges (net)	(143)	151	8
Depreciation, amortisation and impairment (net)	(1,804)	(151)	(1,955)
<b>Total</b>	<b>(1,947)</b>	<b>-</b>	<b>(1,947)</b>

##### INA, d.d.

	2017 before reclassification	Impairment of tangible asset	2017 reclassified
Impairment charges (net)	(30)	48	18
Depreciation, amortisation and impairment (net)	(1,733)	(48)	(1,781)
<b>Total</b>	<b>(1,763)</b>	<b>-</b>	<b>(1,763)</b>

In 2018 INA Group and INA, d.d. reclassified negative non-hedging commodity derivative from other operative income to other material cost. The effect of reclassification of account of profit and loss are as follows:

##### INA Group

	2017 before reclassification	Non-hedging commodity derivative	2017 reclassified
Other operating income	126	48	174
Other material costs	(1,823)	(48)	(1,871)
<b>Total</b>	<b>(1,697)</b>	<b>-</b>	<b>(1,697)</b>

##### INA, d.d.

	2017 before reclassification	Non-hedging commodity derivative	2017 reclassified
Other operating income	365	48	413
Other material costs	(1,833)	(48)	(1,881)
<b>Total</b>	<b>(1,468)</b>	<b>-</b>	<b>(1,468)</b>

#### **4. SEGMENT INFORMATION**

The INA Group operates through three core business segments. The strategic business segments offer different products and services. Reporting segments, which in INA Group represent business operations, have been defined along value chain standard for the oil companies:

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

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

Intersegment transfer represents the effect of unrealized profit arising in respect of transfers of inventories from Exploration and Production to Refining and Marketing. Evaluation of inventories of domestic crude, finished and semi-finished products in Refining and Marketing is based on the transfer price from Exploration and Production to Refining and Marketing. Elimination of unrealized profit (difference between transfer price and cost of domestic crude) is performed through intersegment transfer. For segmental reporting purposes, the transferor segment records a profit immediately at the point of transfer. However, at the Company level profit is only reported when the related third party sale has taken place.



#### 4. SEGMENT INFORMATION (CONTINUED)

The following table presents information on revenues and expenditures of INA Group operations for 2018:

	Exploration and Production	Refining and Marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
<b>2018</b>					
Sales to external customers	358	21,375	616	-	22,349
Intersegment sales	3,829	45	1,213	(5,087)	-
<b>Total revenue</b>	<b>4,187</b>	<b>21,420</b>	<b>1,829</b>	<b>(5,087)</b>	<b>22,349</b>
Operating expenses, net of other operating income	(1,931)	(21,578)	(2,111)	4,958	(20,662)
<b>Profit/(loss) from operations</b>	<b>2,256</b>	<b>(158)</b>	<b>(282)</b>	<b>(129)</b>	<b>1,687</b>
Net finance loss					(167)
Profit before tax					1,520
Income tax expense					(343)
<b>Profit for the year</b>					<b>1,177</b>

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

	Exploration and Production	Refining and Marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
<b>2017</b>					
Sales to external customers	348	17,848	386	-	18,582
Intersegment sales	3,412	151	1,065	(4,628)	-
<b>Total revenue</b>	<b>3,760</b>	<b>17,999</b>	<b>1,451</b>	<b>(4,628)</b>	<b>18,582</b>
Operating expenses, net of other operating income	(2,174)	(17,634)	(1,879)	4,523	(17,164)
<b>Profit/(loss) from operations</b>	<b>1,586</b>	<b>365</b>	<b>(428)</b>	<b>(105)</b>	<b>1,418</b>
Net finance gain					146
Profit before tax					1,564
Income tax expense					(342)
<b>Profit for the year</b>					<b>1,222</b>

**4. SEGMENT INFORMATION (CONTINUED)**

The following table presents information of financial position of INA Group operations for 2018:

<b>31 December 2018</b>	<b>Exploration and Production</b>	<b>Refining and Marketing</b>	<b>Corporate and other</b>	<b>Intersegment transfers and consolidation adjustments</b>	<b>Total</b>
<b>Assets and liabilities</b>					
Intangible assets	265	103	276	-	644
Property, plant and equipment	5,228	6,069	1,385	(398)	12,284
Investments in associates and joint venture	-	150	-	-	150
Inventories	196	2,538	246	(335)	2,645
Trade receivables, net	218	1,583	420	(384)	1,837
Not allocated assets					3,182
<b>Total assets</b>					<b>20,742</b>
Trade payables	306	1,339	459	(384)	1,720
Not allocated liabilities					7,199
<b>Total liabilities</b>					<b>8,919</b>
<b>Other segment information</b>					
Property, plant and equipment	581	1,057	119	(61)	1,696
Intangible assets	68	13	40	-	121
<b>Capital expenditure:</b>	<b>649</b>	<b>1,070</b>	<b>159</b>	<b>(61)</b>	<b>1,817</b>
<b>Depreciation, amortisation and impairment (net)</b>	<b>1,031</b>	<b>577</b>	<b>194</b>	<b>-</b>	<b>1,802</b>
<b>Impairment charges (net)</b>	<b>225</b>	<b>(78)</b>	<b>9</b>	<b>9</b>	<b>165</b>

\* See note 8

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

<b>31 December 2017</b>	<b>Exploration and Production</b>	<b>Refining and Marketing</b>	<b>Corporate and other</b>	<b>Intersegment transfers and consolidation adjustments</b>	<b>Total</b>
<b>Assets and liabilities</b>					
Intangible assets	238	59	273	-	570
Property, plant and equipment	5,329	5,607	1,418	(338)	12,016
Inventories	148	2,177	206	(267)	2,264
Trade receivables, net	62	1,266	375	(310)	1,393
Not allocated assets					3,020
<b>Total assets</b>					<b>19,263</b>
Trade payables	325	788	369	(311)	1,171
Not allocated liabilities					6,566
<b>Total liabilities</b>					<b>7,737</b>
<b>Other segment information</b>					
Property, plant and equipment	584	698	68	(47)	1,303
Intangible assets	34	15	41	-	90
<b>Capital expenditure:</b>	<b>618</b>	<b>713</b>	<b>109</b>	<b>(47)</b>	<b>1,393</b>
<b>Depreciation, amortisation and impairment (net)</b>	<b>1,116</b>	<b>568</b>	<b>271</b>	<b>-</b>	<b>1,955</b>
<b>Impairment charges (net)</b>	<b>(66)</b>	<b>45</b>	<b>10</b>	<b>3</b>	<b>(8)</b>

\* See note 8

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

#### 4. SEGMENT INFORMATION (CONTINUED)

##### BY GEOGRAPHICAL

###### INA Group

31 December 2018	Republic of				Other	Total
	Croatia	Egypt	Angola	Syria	countries	
Intangible assets	459	1	-	-	184	644
Property, plant and equipment	10,910	131	82	255	906	12,284
Investments in joint venture	150	-	-	-	-	150
Inventories	2,491	7	7	-	140	2,645
Trade receivables, net	1,145	157	-	-	535	1,837
Not allocated assets						3,182
<b>Total assets</b>						<b>20,742</b>
<b>Other segment information</b>						
Property, plant and equipment	1,416	78	9	-	193	1,696
Intangible assets	115	1	-	-	5	121
<b>Capital expenditure:</b>	<b>1,531</b>	<b>79</b>	<b>9</b>	<b>-</b>	<b>198</b>	<b>1,817</b>

###### INA Group

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



#### 4. SEGMENT INFORMATION (CONTINUED)

##### INA Group

	<i>Revenues from external customers</i>	
	<b>2018</b>	<b>2017</b>
Republic of Croatia	12,289	10,352
Bosnia and Hercegovina	2,966	2,238
Switzerland	2,142	700
Great Britain	1,030	1,676
Italy	789	656
Other countries	3,133	2,960
	<b>22,349</b>	<b>18,582</b>

##### INA, d.d.

	<i>Revenues from external customers</i>	
	<b>2018</b>	<b>2017</b>
Republic of Croatia	12,207	10,257
Bosnia and Hercegovina	2,538	1,845
Switzerland	2,127	698
Great Britain	1,027	1,669
Italy	789	656
Other countries	2,382	2,453
	<b>21,070</b>	<b>17,578</b>

##### *Information about major customers*

In 2018 and 2017 there was no single customer which would contribute to 10% or more of Group's revenue.

#### 5. OTHER OPERATING INCOME

	<b>INA Group</b>		<b>INA, d.d.</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Gain on acquisition*	291	-	103	-
Income from rental activities	46	40	43	43
Income from revaluation of emission quotas	44	3	44	3
Surpluses	27	16	29	19
Penalty interest from customers	25	11	25	10
Commission fee and charges	14	14	13	13
Fee for sales of goods	11	-	11	-
Payment in kind	8	8	7	8
Profit from sale of assets	4	21	12	11
Income from tax refund	-	13	-	13
Income from sale of asset to subsidiary	-	-	-	261
Other	59	48	48	32
<b>Total</b>	<b>529</b>	<b>174</b>	<b>335</b>	<b>413</b>

\*Please see note 40 for more details on gain recognised on acquisition.

## 6. DEPRECIATION, AMORTISATION AND IMPAIRMENT (NET)

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Depreciation of property, plant and equipment (note 14 b)	1,639	1,758	1,533	1,688
Impairment of tangible and intangible assets (net) (note 13 and 14)	103	145	103	45
Amortisation of intangible assets (note 13)	47	46	46	45
Write-off PP&E, net	13	6	6	3
	<b>1,802</b>	<b>1,955</b>	<b>1,688</b>	<b>1,781</b>

## 7. STAFF COSTS

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Net payroll	1,010	965	486	476
Tax and contributions for pensions and health insurance	657	615	348	334
Other payroll related costs	260	223	116	99
	<b>1,927</b>	<b>1,803</b>	<b>950</b>	<b>909</b>

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

	INA Group		INA, d.d.	
	2018	2017	2018	2017
	Number of employees	Number of employees	Number of employees	Number of employees
Refining and Marketing	6,227	6,132	2,422	2,445
Corporate and other	3,445	3,438	592	636
Exploration and Production	1,170	1,212	1,124	1,211
	<b>10,842</b>	<b>10,782</b>	<b>4,138</b>	<b>4,292</b>

## 8. IMPAIRMENT CHARGES (NET)

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Impairment of inventory, net	85	60	78	52
Impairment of trade receivables, net*	(259)	(77)	(246)	(77)
Other impairment, net	9	9	6	7
	<b>(165)</b>	<b>(8)</b>	<b>(162)</b>	<b>(18)</b>

\*see note 3

## 9. PROVISIONS FOR CHARGES AND RISKS (NET)

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Provision for emission rights	82	11	82	11
Provision/(utilisation) of provision for legal claims	5	(22)	(7)	(29)
Utilisation of provision for incentives	(6)	(2)	(4)	(10)
(Utilisation)/provision for environmental liabilities	(13)	13	(6)	12
Provision for renewable energy	(39)	115	(39)	115
Utilisation of provision for retirement and jubilee benefits	-	(5)	-	(2)
Reversal of provision for Angolan taxes	-	(249)	-	(249)
Other provisions	(16)	(12)	(9)	6
	<b>13</b>	<b>(151)</b>	<b>17</b>	<b>(146)</b>



## 10. FINANCE INCOME AND FINANCE COST

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Foreign exchange gains from loans and cash	26	247	19	160
Foreign exchange gains from trade receivables and payables	17	179	1	130
Reversal of impairment from investment	6	-	111	-
Interest received and other financial income	4	6	32	54
Dividends received	1	20	-	20
Profit allocation received from subsidiaries	-	-	120	20
Reversal of impairment from loans given to subsidiaries	-	-	222	-
<b>Finance income</b>	<b>54</b>	<b>452</b>	<b>505</b>	<b>384</b>
Interest expense	90	51	92	51
Foreign exchange losses from trade receivables and payables	61	88	43	18
Fees on bank loans	29	25	28	24
Foreign exchange losses from loans and cash	27	115	23	113
Foreign exchange losses from provisions	7	-	7	-
Interest for long-term loans	5	8	5	8
Interest expense regarding legal cases	3	21	3	21
Capitalized borrowing costs	(3)	(3)	(3)	(3)
Impairment of investment in subsidiaries and interest from subsidiaries	-	-	-	77
Other financial costs	2	1	3	1
<b>Finance costs</b>	<b>221</b>	<b>306</b>	<b>201</b>	<b>310</b>
<b>Net (loss)/gain from financial activities</b>	<b>(167)</b>	<b>146</b>	<b>304</b>	<b>74</b>

## 11. TAXATION

	INA Group		INA, d.d.	
	2018	2017	2018	2017
Deferred tax charge related to origination and reversal of temporary differences	286	319	287	341
Current tax expense	57	23	36	7
Income tax expense	<b>343</b>	<b>342</b>	<b>323</b>	<b>348</b>

Tax on profit generated in Croatia is determined by applying the rate of 18 percent, 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.	
	2018	2017	2018	2017
Profit before tax	1,520	1,564	1,657	1,773
Expense tax calculated at 18%	274	281	298	319
Effect of different tax rates of entities operating in other jurisdictions	45	13	36	13
Adjustment of deferred tax assets as a result of new estimation of utilization	42	32	2	15
Tax effect of permanent differences	(17)	22	(13)	7
Tax effect of previous years	(1)	(6)	-	(6)
Income tax expense	<b>343</b>	<b>342</b>	<b>323</b>	<b>348</b>

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.

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

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

## 11. TAXATION (CONTINUED)

INA Group	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Tax losses	Deferred taxes on fair value	Total
<b>Balance at 1 January 2017</b>	<b>52</b>	<b>1,238</b>	<b>(441)</b>	<b>174</b>	<b>164</b>	<b>577</b>	<b>(8)</b>	<b>1,756</b>
Charge directly to equity	-	-	-	(3)	2	-	-	(1)
Reversal of temporary differences	(7)	(22)	(97)	(72)	(10)	(245)	-	(453)
Origination of temporary differences	2	31	-	57	26	19	-	135
<b>Balance at 31 December 2017</b>	<b>47</b>	<b>1,247</b>	<b>(538)</b>	<b>156</b>	<b>182</b>	<b>351</b>	<b>(8)</b>	<b>1,437</b>
Charge directly to equity	-	-	-	-	34	-	-	34
Reversal of temporary differences	(4)	(21)	(97)	(56)	(55)	(207)	-	(440)
Origination of temporary differences	23	48	-	66	13	4	-	154
<b>Balance at 31 December 2018</b>	<b>66</b>	<b>1,274</b>	<b>(635)</b>	<b>166</b>	<b>174</b>	<b>148</b>	<b>(8)</b>	<b>1,185</b>



INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

## 11. TAXATION (CONTINUED)

INA, d.d.	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Tax losses	Total
<b>Balance at 1 January 2017</b>	<b>42</b>	<b>1,230</b>	<b>(442)</b>	<b>162</b>	<b>118</b>	<b>574</b>	<b>1,684</b>
Charge directly to equity	-	-	-	(3)	2	-	(1)
Reversal of temporary differences	(2)	(17)	(96)	(66)	(6)	(245)	(432)
Origination of temporary differences	1	31	-	48	12	-	92
<b>Balance at 31 December 2017</b>	<b>41</b>	<b>1,244</b>	<b>(538)</b>	<b>141</b>	<b>126</b>	<b>329</b>	<b>1,343</b>
Charge directly to equity	-	-	-	-	34	-	34
Reversal of temporary differences	(2)	(19)	(97)	(49)	(55)	(208)	(430)
Origination of temporary differences	22	45	-	59	12	4	142
<b>Balance at 31 December 2018</b>	<b>61</b>	<b>1,270</b>	<b>(635)</b>	<b>151</b>	<b>117</b>	<b>125</b>	<b>1,089</b>

## 12. EARNINGS PER SHARE

	<b>INA Group</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Basic and diluted earnings per share (HRK per share)</b>	<b>117.75</b>	<b>121.99</b>
<b>Earnings</b>	<b>INA Group</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Earnings used in the calculation of total basic earnings per share	1,178	1,220
	<b>1,178</b>	<b>1,220</b>
<b>Number of shares</b>	<b>INA Group</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share (in millions)	10	10

On 27 June 2018 Regular Shareholders' Assembly of INA, d.d. was held and decision on dividend pay-out in amount of HRK 812 million was voted (HRK 81.20 per share) and in 2017 it was HRK 152 million (HRK 15.20 per share).

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

### 13. INTANGIBLE ASSETS

INA Group	Oil and gas properties	Software	Patents, Licences and other rights	Intangible assets under construction	Goodwill	Total
<b>Balance at 1 January 2017</b>	<b>197</b>	<b>128</b>	<b>32</b>	<b>27</b>	<b>152</b>	<b>536</b>
Additions	22	-	-	68	-	90
Amortisation	-	(42)	(4)	-	-	(46)
Foreign exchange translation of foreign operations	(18)	-	-	-	-	(18)
Emission allowances (net)	-	-	8	-	-	8
Transfer	-	45	-	(45)	-	-
<b>Balance at 31 December 2017</b>	<b>201</b>	<b>131</b>	<b>36</b>	<b>50</b>	<b>152</b>	<b>570</b>
Additions	64	-	-	57	-	121
Amortisation	-	(44)	(3)	-	-	(47)
Impairment of assets under construction	(71)	-	-	-	-	(71)
Acquisition of subsidiary	48	-	-	-	-	48
Foreign exchange translation of foreign operations	(12)	-	-	-	-	(12)
Emission allowances (net)	-	-	49	-	-	49
Transfer	(1)	35	10	(58)	-	(14)
<b>Balance at 31 December 2018</b>	<b>229</b>	<b>122</b>	<b>92</b>	<b>49</b>	<b>152</b>	<b>644</b>

In 2018, INA Group impaired asset under construction in amount of HRK 71 million. In 2017, there was no impairment of intangible asset of oil and gas properties at INA Group.



INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

*(all amounts are presented in HRK millions)*

### 13. INTANGIBLE ASSETS (CONTINUED)

INA, d.d.	Oil and gas properties	Software	Patents, Licences and other rights	Intangible assets under construction	Total
<b>Balance at 1 January 2017</b>	<b>197</b>	<b>126</b>	<b>31</b>	<b>26</b>	<b>380</b>
Additions	22	-	-	61	83
Amortisation	-	(42)	(3)	-	(45)
Foreign exchange translation of foreign operations	(18)	-	-	-	(18)
Transfer	-	45	-	(45)	-
Emission allowances (net)	-	-	8	-	8
<b>Balance at 31 December 2017</b>	<b>201</b>	<b>129</b>	<b>36</b>	<b>42</b>	<b>408</b>
Additions	64	-	-	52	116
Amortisation	-	(44)	(2)	-	(46)
Impairment of assets under construction	(71)	-	-	-	(71)
Foreign exchange translation of foreign operations	(12)	-	-	-	(12)
Emission allowances (net)	-	-	49	-	49
Transfer	(1)	36	3	(51)	(13)
<b>Balance at 31 December 2018</b>	<b>181</b>	<b>121</b>	<b>86</b>	<b>43</b>	<b>431</b>

### 13. INTANGIBLE ASSETS (CONTINUED)

#### **Goodwill**

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

	<b>INA Group</b>	
	<b>2018</b>	<b>2017</b>
Cost	296	296
Accumulated impairment losses	(144)	(144)
<b>Net book value</b>	<b>152</b>	<b>152</b>

During 2018 and 2017 goodwill relating to the company Rotary Zrt. was tested for impairment and the test showed that the impairment is not required.

The recoverable amount of Rotary Zrt. business as at 31 December 2018, 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 discount rate applied to cash flow projections is 8.6% (7.6% used in 2017) and cash flows beyond the five-year period are prepared taking into consideration utilization days of Rotary's assets, average daily rates based on past experience and future predictions in the projected period. Expenses are determined also in relation to the utilization of the assets.

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

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

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

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

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

INA - INDUSTRIJA NAFTE, d.d.  
Notes to the financial statements (continued)  
For the year ended 31 December 2018  
*(all amounts are presented in HRK millions)*

#### 14. PROPERTY, PLANT AND EQUIPMENT

##### a) By business operations

###### INA Group

	Exploration and Production	Refining and Marketing	Corporate and other	Total
<b>Balance at 31 December 2017</b>				
Cost	38,522	21,775	5,897	<b>66,194</b>
Accumulated depreciation	33,371	16,242	4,565	<b>54,178</b>
<b>Net book value</b>	<b>5,151</b>	<b>5,533</b>	<b>1,332</b>	<b>12,016</b>
<b>Balance at 31 December 2018</b>				
Cost	44,603	22,516	5,953	<b>73,072</b>
Accumulated depreciation	39,591	16,543	4,654	<b>60,788</b>
<b>Net book value</b>	<b>5,012</b>	<b>5,973</b>	<b>1,299</b>	<b>12,284</b>

###### INA, d.d.

	Exploration and Production	Refining and Marketing	Corporate and other	Total
<b>Balance at 31 December 2017</b>				
Cost	38,791	20,586	1,610	<b>60,987</b>
Accumulated depreciation	33,473	15,578	1,358	<b>50,409</b>
<b>Net book value</b>	<b>5,318</b>	<b>5,008</b>	<b>252</b>	<b>10,578</b>
<b>Balance at 31 December 2018</b>				
Cost	39,259	21,304	1,629	<b>62,192</b>
Accumulated depreciation	34,335	15,890	1,381	<b>51,606</b>
<b>Net book value</b>	<b>4,924</b>	<b>5,414</b>	<b>248</b>	<b>10,586</b>



INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

#### 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

##### b) By asset type

##### INA Group

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
<b>At cost</b>							
<b>Balance at 1 January 2017</b>	<b>34,397</b>	<b>12,489</b>	<b>14,108</b>	<b>2,303</b>	<b>38</b>	<b>2,193</b>	<b>65,528</b>
Additions	-	-	-	-	-	1,303	1,303
Change in capitalised decommissioning costs	199	-	-	-	-	-	199
Foreign exchange translation of foreign operations	(141)	-	-	-	-	-	(141)
Assets put in use, Transfer	708	161	253	45	5	(1,173)	(1)
Transfer from assets held for sale	-	-	8	-	-	-	8
Disposals	(23)	(367)	(188)	(61)	-	(62)	(701)
Reclassification between categories	(1)	(40)	(44)	85	4	(4)	-
Currency translation	-	(3)	(5)	(1)	-	-	(9)
Other	-	(1)	5	4	-	-	8
<b>Balance at 31 December 2017</b>	<b>35,139</b>	<b>12,239</b>	<b>14,137</b>	<b>2,375</b>	<b>47</b>	<b>2,257</b>	<b>66,194</b>
Additions	-	-	-	-	-	1,696	1,696
Change in capitalised decommissioning costs	(32)	-	-	-	-	-	(32)
Foreign exchange translation of foreign operations	29	-	-	-	-	-	29
Assets put in use, Transfer	441	292	406	124	-	(1,256)	7
Acquisition of subsidiary	4,970	721	52	4	-	1	5,748
Transfer to assets held for sale	-	(12)	136	(2)	-	-	122
Share capital increase of subsidiary	-	(11)	-	(1)	-	-	(12)
Disposals	(43)	(49)	(289)	(45)	-	(93)	(519)
Currency translation	-	(101)	(61)	(1)	-	(1)	(164)
Other	-	-	-	3	-	-	3
<b>Balance at 31 December 2018</b>	<b>40,504</b>	<b>13,079</b>	<b>14,381</b>	<b>2,457</b>	<b>47</b>	<b>2,604</b>	<b>73,072</b>

INA - Industrija nafte, d.d.

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

#### 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

##### b) By asset type (continued)

##### INA Group

Accumulated depreciation	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
<b>Balance at 1 January 2017</b>	<b>30,328</b>	<b>8,903</b>	<b>11,293</b>	<b>2,200</b>	<b>25</b>	<b>206</b>	<b>52,955</b>
Charge for the year	1,022	248	414	69	-	-	1,753
Impairment (net)	(3)	-	98	2	-	-	97
Impairment of assets under construction	48	-	-	-	-	-	48
Transfer	(22)	12	14	(1)	5	(9)	(1)
Transfer from asset held from sale	-	-	8	-	-	-	8
Disposals	(23)	(359)	(184)	(58)	-	(61)	(685)
Reclassification between categories	(5)	57	(126)	(65)	13	126	-
Currency translation	-	(1)	(3)	-	-	(1)	(5)
Other	-	-	4	4	-	-	8
<b>Balance at 31 December 2017</b>	<b>31,345</b>	<b>8,860</b>	<b>11,518</b>	<b>2,151</b>	<b>43</b>	<b>261</b>	<b>54,178</b>
Charge for the year	905	244	405	78	-	-	1,632
Change in capitalised decommissioning costs	(5)	-	-	-	-	-	(5)
Impairment (net)	(4)	-	-	-	-	-	(4)
Impairment of assets under construction	36	-	-	-	-	-	36
Transfer	-	-	4	-	-	(11)	(7)
Acquisition of subsidiary	4,778	665	48	4	-	(3)	5,492
Transfer from assets held for sale	-	(8)	128	(2)	-	-	118
Share capital increase of subsidiary	-	(11)	-	(1)	-	-	(12)
Disposals	(43)	(25)	(290)	(43)	-	(93)	(494)
Currency translation	1	(89)	(54)	(2)	-	-	(144)
Other	-	(1)	(3)	2	-	-	(2)
<b>Balance at 31 December 2018</b>	<b>37,013</b>	<b>9,635</b>	<b>11,756</b>	<b>2,187</b>	<b>43</b>	<b>154</b>	<b>60,788</b>

INA - Industrija nafte, d.d.

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

*(all amounts are presented in HRK millions)*

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**14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

***b) By asset type (continued)***

INA Group

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Carrying amount							
Balance at 31 December 2018	3,491	3,444	2,625	270	4	2,450	12,284
Balance at 31 December 2017	3,794	3,379	2,619	224	4	1,996	12,016



INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

#### 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

##### b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
<b>At cost</b>							
<b>Balance at 1 January 2017</b>	<b>34,499</b>	<b>10,534</b>	<b>11,143</b>	<b>1,879</b>	<b>38</b>	<b>2,349</b>	<b>60,442</b>
Additions	-	-	-	-	-	1,269	1,269
Change in capitalised decommissioning costs	214	-	-	-	-	-	214
Foreign exchange translation of foreign operations	(141)	-	-	-	-	-	(141)
Assets put in use	728	177	210	42	-	(1,157)	-
Transfers	(22)	5	13	-	5	(2)	(1)
Disposals	(23)	(530)	(147)	(41)	-	(62)	(803)
Other	-	1	4	2	-	-	7
<b>Balance at 31 December 2017</b>	<b>35,255</b>	<b>10,187</b>	<b>11,223</b>	<b>1,882</b>	<b>43</b>	<b>2,397</b>	<b>60,987</b>
Additions	-	-	-	-	-	1,559	1,559
Change in capitalised decommissioning costs	(29)	-	-	-	-	-	(29)
Foreign exchange translation of foreign operations	29	-	-	-	-	-	29
Capital increase from transfer of assets to subsidiary	-	(15)	(1)	-	-	-	(16)
Assets put in use	442	208	353	95	-	(1,098)	-
Transfers	-	-	14	-	-	(8)	6
Disposals	(42)	(15)	(163)	(31)	-	(93)	(344)
Other	-	1	-	(2)	-	1	-
<b>Balance at 31 December 2018</b>	<b>35,655</b>	<b>10,366</b>	<b>11,426</b>	<b>1,944</b>	<b>43</b>	<b>2,758</b>	<b>62,192</b>

INA - Industrija nafte, d.d.

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

#### 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

##### b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumpti on assets	Assets under construction	Total
<b>Accumulated depreciation</b>							
<b>Balance at 1 January 2017</b>	<b>30,346</b>	<b>7,587</b>	<b>9,331</b>	<b>1,643</b>	<b>35</b>	<b>331</b>	<b>49,273</b>
Charge for the year	1,045	203	375	60	-	-	1,683
Impairment (net)	(3)	-	-	-	-	-	(3)
Impairment of assets under construction	48	-	-	-	-	-	48
Transfers	(22)	11	12	2	5	(9)	(1)
Disposals	(22)	(335)	(141)	(38)	-	(62)	(598)
Other	-	1	4	2	-	-	7
<b>Balance at 31 December 2017</b>	<b>31,392</b>	<b>7,467</b>	<b>9,581</b>	<b>1,669</b>	<b>40</b>	<b>260</b>	<b>50,409</b>
Charge for the year	914	181	363	68	-	-	1,526
Change in capitalised decommissioning costs	(5)	-	-	-	-	-	(5)
Impairment (net)	(4)	-	-	-	-	-	(4)
Impairment of assets under construction	36	-	-	-	-	-	36
Capital increase of subsidiary	-	(11)	-	(1)	-	-	(12)
Transfers	-	-	3	1	-	(11)	(7)
Disposals	(42)	(13)	(158)	(31)	-	(93)	(337)
Other	1	1	-	(2)	-	-	-
<b>Balance at 31 December 2018</b>	<b>32,292</b>	<b>7,625</b>	<b>9,789</b>	<b>1,704</b>	<b>40</b>	<b>156</b>	<b>51,606</b>

INA - Industrija nafte, d.d.

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

#### 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

##### b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption on assets	Assets under construction	Total
<b>Carrying amount</b>							
<b>Balance at 31 December 2018</b>	<b>3,363</b>	<b>2,741</b>	<b>1,637</b>	<b>240</b>	<b>3</b>	<b>2,602</b>	<b>10,586</b>
<b>Balance at 31 December 2017</b>	<b>3,863</b>	<b>2,720</b>	<b>1,642</b>	<b>213</b>	<b>3</b>	<b>2,137</b>	<b>10,578</b>

##### 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 14 b) above) in the future is dependent upon the extent to which commercially recoverable oil and gas reserves are available. During 2018, Exploration and Production performed assessment of the quantities of the Company's remaining proved developed oil and gas reserves which were commercially recoverable.

##### II) Ownership of land and buildings

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

##### III) Collective consumption assets

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



#### 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

##### IV) Carrying value of property, plant and equipment

The Management Board performed identification and assessment of indicators in accordance with IAS 36. Impairment test was performed on assets where indicators of impairment have been identified. The total net impairment charge of INA Group is HRK 103 million in 2018 (2017: HRK 145 million).

- a) Exploration and Production recorded an impairment of property, plant and equipment in amount of HRK 103 million in 2018 (compared to impairment in amount of HRK 45 million in 2017):
- o Dry wells impairment of HRK 107 million was recorded on Božica HRK 60 million, Bunjani 2 South HRK 33 million, Drava II HRK 14 million (2017: dry wells impairment of HRK 48 million (Iva Duboka))
  - o Reversal of impairment of decommissioning assets in amount of HRK 4 million (2017: HRK 3 million).

Assumed hydrocarbon prices are based on stable expectations above 70 USD/bbl in middle-term periods (after 2021) while at 31 December 2017 the expectations were based on 50 USD/bbl. Therefore, impairment indicators in respect of hydrocarbon prices were not identified and no year-end impairment test were prepared.

However, impairment indicators were identified on five onshore fields with negative reserves change compared to 2017 reserves, i.e. -1 MMboe change on Molve, Kalinovac, Hrastilnica, Ivanić and Žutica with a total impact of 23.8 MMboe. Impairment tests were prepared for each field since they are identified as separate cash generating units. However, these revisions are on the fields with significant production volumes and quite low breakeven prices, so no impairment was recorded as at 31 December 2018.

- b) Since no impairment indicators were identified, impairment test for Refining and Marketing was not performed and no impairment or reversal of impairment of property, plant and equipment in 2018, neither in 2017 were recorded.
- c) Corporate and other recorded no impairment or reversal of impairment of property, plant and equipment in 2018, compared to 2017 when impairment was in amount of HRK 100 million regarding Labin platform. Impairment test of the Labin platform was triggered by low utilization of the asset. The test was based on planned rig utilization in the coming years and showed no need for additional impairment in 2018.

Discount rates used in the current assessment in 2018 and for 2017 are assets specific and are as follows:

	<b>2018</b>	<b>2017</b>
<b>Exploration and Production</b>		
Croatia	8.5%	9.1%
Syria	17.0%	17.6%
Egypt	12.0%	13.6%
Angola	12.0%	13.6%
<b>Refining and Marketing</b>		
Croatia	9.5%	9.1%
Bosnia and Herzegovina	12.0%	11.6%

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

#### **14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

##### *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 have been adjusted to reflect the economic life of fields.

##### *VI) Held-for-sale assets*

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

	<b>INA Group</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Held-for-sale assets</b>		
Property, plant and equipment	4	8
<b>Assets classified held-for-sale</b>	<b>4</b>	<b>8</b>

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

	<b>INA, d.d.</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Investments in subsidiaries	1,960	1,079
	<b>INA, d.d.</b>	
	<b>2018</b>	<b>2017</b>
Investments in subsidiaries at 1 January	<b>1,079</b>	<b>805</b>
ENERGOPETROL d.d. - share capital increase	496	-
INA Adria B.V. - investment	265	-
STSI, Integrirani tehnički servisi d.o.o. - reversal of impairment	39	-
INA SLOVENIJA d.o.o., - reversal of impairment	30	-
CROPLIN d.o.o. - reversal of impairment	25	-
CROSCO, naftni servisi d.o.o. - reversal of impairment	24	-
INA CRNA GORA d.o.o. - reversal of impairment	18	-
Holdina d.o.o. Sarajevo - share capital increase	13	-
Holdina d.o.o. Sarajevo - reversal of impairment	7	-
Hostin d.o.o. - reversal of impairment	7	-
PETROL d.d. RIJEKA - reversal of impairment	2	-
INA Maloprodajni servisi d.o.o. - reversal of impairment	1	-
Adrigas S.r.l. Milano - reversal of impairment	1	-
ENERGOPETROL d.d. - impairment	(47)	-
CROSCO, naftni servisi d.o.o. - impairment	-	(34)
CROSCO, naftni servisi d.o.o.- share capital increase	-	433
STSI, Integrirani tehnički servisi d.o.o. - share capital decrease	-	(40)
Hostin d.o.o. - share capital decrease	-	(15)
INA MAZIVA d.o.o. - share capital decrease	-	(70)
<b>Total as of 31 December</b>	<b>1,960</b>	<b>1,079</b>



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

The following portfolio changes were recorded in 2018:

At 9 March 2018 Commercial Court in Sarajevo, registered the increase of share capital in HOLDINA Sarajevo d.o.o. by entering ownership of five properties. Properties in INA d.d. books were written off by net book value in amount HRK 4 million, while Holdina Sarajevo's share increased by the appraised value in amount of HRK 13 million. The difference of HRK 9 million was recognized within other operating income.

At 18 April 2018 Commercial Court in Sarajevo, registered the increase of share capital in ENERGOPETROL d.d. in the amount of HRK 496 million by issuing new 10,480,000 shares. In accordance with this transaction, INA d.d. increased investment from 67.02% to 88.66% in ENERGOPETROL d.d.

At 15 November 2018 INA, d.d. acquired the investments of ENI B.V. in the amount of HRK 265 million, and the company changed its name to INA Adria B.V. By acquiring investment at INA Adria, INA, d.d. has become the sole owner of INAgip, a company that has changed its name to INA Jadran d.o.o. and is continuing to operate as the joint operation.

In 2018, based on using discounted cash flow method for valuation of investment in subsidiaries, INA, d.d. recognised reversal of impairment of investment in amount of HRK 107 million. Impairment of investments and reversal of impaired investment are recorded in INA Group companies as presented in the table above.

The following portfolio changes were recorded in 2017:

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

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

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

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

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

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

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

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

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

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

The name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			31 December 2018	31 December 2017
<i>Oilfield services</i>				
*CROSCCO, naftni servisi d.o.o.	Oilfield services	Croatia	100%	100%
Croscos B.V.	Oilfield services	Netherlands	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%
Rotary Zrt.	Oilfield services	Hungary	100%	100%
CROSCCO UKRAINE LLC.	Oilfield services	Ukraine	100%	100%
CROSCCO International d.o.o.	Oilfield services	Bosnia and Herzegovina	100%	100%
Croscos S.A. DE C.V.	Oilfield services	Mexico	99.90%	99.90%
<i>Oil exploration and production</i>				
*INA Naftaplin International Exploration and Production Ltd	Oil exploration and production	Guernsey	100%	100%
*INA ADRIA B.V. (former ENI CROATIA B.V.)	Extraction of natural gas	Netherlands	100%	-
INA Jadran d.o.o. (former INAgip d.o.o.)	Extraction of natural gas	Croatia	100%	50%
<i>Tourism</i>				
*Hostin d.o.o.	Asset management, tourism	Croatia	100%	100%
<i>Ancillary services</i>				
*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.	Informatics service	Croatia	100%	100%
<i>Production and trading</i>				
*INA MAZIVA d.o.o.	Production and lubricants trading	Croatia	100%	100%
<i>Trading</i>				
*INA Slovenija d.o.o. Ljubljana	Foreign trading	Slovenia	100%	100%
*INA BH d.d. Sarajevo	Foreign trading	Bosnia and Herzegovina	100%	100%
*Holdina d.o.o. Sarajevo	Foreign trading	Bosnia and Herzegovina	100%	100%
*INA d.o.o. Beograd	Foreign trading	Serbia	100%	100%
*INA Kosovo d.o.o.	Foreign trading	Kosovo	100%	100%
*Adrigas S.r.l. Milano	Pipeline project company	Italy	100%	100%
*INA Crna Gora d.o.o. Podgorica	Foreign trading	Montenegro	100%	100%
*PETROL d.d.	Trading	Croatia	100%	100%
*CROPLIN d.o.o.	Production of gas, distribution network of gas	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	88.66%	67.02%
*INA BL d.o.o. Banja Luka	Trading	Bosnia and Herzegovina	100%	100%

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

At 31 December 2018 and 31 December 2017 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 AND JOIN VENTURE

Name of company	Activity	Proportion of ownership	INA Group		INA, d.d.	
			31 December 2018	31 December 2017	31 December 2018	31 December 2017
Terra mineralna gnojiva d.o.o.	Purchase and sale of goods, performing	50.00%	150	-	150	-
Elektrometal d.d.	Gas distribution	30.75%	-	-	-	-
			<b>150</b>	<b>-</b>	<b>150</b>	<b>-</b>

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

The Company has interests in other entities as follows:

Name of company	Activity	Place of incorporation and operation	INA Group and INA, d.d.	
			31 December 2018	31 December 2017
Hayan Petroleum Company*	Operating company (oil exploration, development and production)	Damascus, Syria	50%	50%
TERME Zagreb d.o.o.	Recreation and medical tourism	Zagreb, Croatia	50%	50%
INAgip d.o.o. Zagreb*	Exploration and production gas operator	Zagreb, Croatia	-	50%
ED INA d.o.o. Zagreb*	Research, development and hydrocarbon production	Zagreb, Croatia	50%	50%
Marina Petroleum Company *	Exploration and production oil operator	Cairo, Egypt	50%	50%
TERRA MINERALNA GNOJIVA d.o.o.	commercial mediation on domestic and foreign markets	Zagreb, Croatia	50%	-
Belvedere d.d.	Hotel trade	Dubrovnik, Croatia	31.80%	31.80%
ELEKTROMETAL d.d	Installing and mounting works, production of fire-proof elements, gas distribution	Bjelovar, Hrvatska	30.75%	30.75%

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

After 15 November 2018, INAgip is reclassified from investments in associates and joint venture to investments in subsidiaries since INA, d.d. acquired 100% investments in INA Adria B.V.



## 16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (CONTINUED)

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

	INA Group and INA, d.d.	
	31 December 2018	31 December 2017
Aggregate carrying amount of the interests in these associates	-	-
The Group's share of profit from interest in non individually material associates	-	-
The Group's share of other comprehensive income	-	-
The Group's share of total comprehensive income	-	-

At 2 July 2018, based on the Commercial Court decision, Terra mineralna gnojiva d.o.o. was incorporated. INA, d.d. has 50% ownership of Terra mineralna gnojiva d.o.o. and participated with an investment of HRK 50,000.00 in share capital.

At 31 October 2018, INA, d.d. and Prvo plinarsko društvo d.o.o. as investors signed the Recapitalization Agreement on Petrokemija d.d. with CERP as a representative of the Republic of Croatia. INA, d.d. and Prvo plinarsko društvo d.o.o. paid HRK 300 million (HRK 150 million each), for 30,000,000 Petrokemija's shares after which they became majority owners of Petrokemija d.d., holding more than 50% of the share capital and respective management rights. The transaction was conducted through INA's and PPD's joint venture company Terra mineralna gnojiva d.o.o., which operates the company in accordance with the signed Shareholders' Agreement.

As at 31 December 2018, two months result share of INA d.d. and Group, in Petrokemija Group, is not included in INA Group financial statements.

## 16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (CONTINUED)

### Summarised statements of financial position of Terra mineralna gnojiva d.o.o. - consolidated

	<b>Petrokemija d.d.</b>
<b>Place of business</b>	Kutina; Hrvatska
<b>Percentage of interests</b>	54.00%
	<b>31 October 2018*</b>
Current assets	854
Non-current assets	719
Current liabilities	(645)
Non-current liabilities	(612)
	<b>31 October 2018*</b>
Operating income	-
Operating expense	-
<b>Total comprehensive income/(loss) for the year</b>	<b>-</b>
Group' share in profit/(loss)	-
	<b>31 December 2018</b>
<b>Group's share of net assets</b>	
Investments in joint venture	150
Impairment	-
Group's carrying amount of the interest, net	<b>150</b>

\* based on the latest available information from October 2018

At 17 March 2017, INA, d.d. acquired a share of 30.75% in the amount of HRK 8 million in Elektrometal d.d. based on the pre-bankruptcy settlement. At the same time, shares of Elektrometal were impaired in full amount.

	<b>Elektrometal d.d.</b>
<b>Place of business</b>	Bjelovar; Hrvatska
<b>Percentage of interests</b>	30.75%
	<b>18 September 2017*</b>
Current assets	28
Non-current assets	39
Current liabilities	147
Non-current liabilities	-
Operating income	87
Profit for the year	16
<b>Total comprehensive gain for the year</b>	<b>16</b>
Group' share of profit	-
	<b>31 December 2018</b>
<b>Group's share of net assets</b>	
Investments in associates	8
Impairment	(8)
Group's carrying amount of the interest, net	<b>-</b>

\* based on the latest available public information from September 2017

## 17. OTHER INVESTMENTS

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Financial assets at fair value through profit or loss	9	6	7	6
Deposits	7	7	7	7
Long-term loans given to subsidiaries	-	-	738	656
	<b>16</b>	<b>13</b>	<b>752</b>	<b>669</b>

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

## 18. LONG-TERM RECEIVABLES AND OTHER ASSETS

INA Group	31 December 2018	31 December 2017
Receivables from long-term contracts	436	-
Prepayments for property, plant and equipment	181	15
Receivables for apartments sold	49	60
Prepayments for intangible assets	25	21
Other long-term receivables	41	-
	<b>732</b>	<b>96</b>

INA, d.d.	31 December 2018	31 December 2017
Receivables from long-term contracts	436	-
Prepayments for property, plant and equipment	180	13
Receivables for apartments sold	49	60
Prepayments for intangible assets	25	21
Long-term receivables from related party	12	11
Other long-term receivables	41	-
	<b>743</b>	<b>105</b>

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. NON-CURRENT FINANCIAL ASSETS

Equity instruments available-for-sale

Name of the Company	% shareholding held by INA, d.d.	Activity	INA Group and INA, d.d.	
			31 December 2018	31 December 2017
Jadranski Naftovod d.d.	11.795%	Pipeline ownership and operations	321	321
OMV Slovenia d.o.o. Koper	7.75%	Oil trading	31	31
Plinara d.o.o. Pula	49.00%	Distribution and oil trading	17	17
BINA-FINCOM d.d. Zagreb	5.00%	Construction of highways and other roads, airfields airports	12	12
HOC Bjelolasica d.o.o. Ogulin	7.17%	Operations of sports facilities	5	5
Total cost			386	386
Fair value adjustment of Jadranski Naftovod d.d.			110	298
Fair value adjustment of Plinara d.o.o. Pula			-	(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 value adjustment			93	279
			<b>479</b>	<b>665</b>

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

The value of equity share in JANAF was reported by reference to the market value of a share as quoted on the Zagreb Stock Exchange as of 31 December 2018. The net book value of the equity investment in JANAF decreased by HRK 187.8 million compared to the balance as of 31 December 2017 due to decrease in the market value of the JANAF shares on Zagreb Stock Exchange. The market value of the shares (118,855 shares) as of 31 December 2018 amounted to HRK 3,620 per share (31 December 2017: HRK 5,200 per share).

## 20. INVENTORIES

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Refined products	907	693	860	646
Work in progress	558	549	556	548
Crude oil	516	580	516	579
Merchandise	246	117	173	66
Raw material	222	152	156	104
Spare parts, materials and supplies	196	173	90	78
	<b>2,645</b>	<b>2,264</b>	<b>2,351</b>	<b>2,021</b>

As of 31 December 2018 and 2017, inventories were measured at the lower of cost or net realizable value.

## 21. TRADE RECEIVABLES, NET

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Trade receivables	2,332	2,238	1,829	1,791
Impairment of trade receivables	(495)	(845)	(339)	(673)
	<b>1,837</b>	<b>1,393</b>	<b>1,490</b>	<b>1,118</b>

Receivables classified as performing are impaired by using the ECL rate. The effect of impairment losses using ECL for performing receivables of 0,11% is HRK 1 million in 2018 and effect on retain earning for 2017 amount of HRK 2 million (ECL: 0,31%).

The Company and the Group are continuing to assess the recoverability for receivables classified as non-performing according to the accounting policy. The effect of the transition is recognized in retained earnings in amount of HRK 58 million.

## 21. TRADE RECEIVABLES, NET (CONTINUED)

Impairment of trade receivables:

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Balance at beginning of the year	787	1,085	616	843
Impairment losses recognised on receivables	80	192	77	190
Amounts written off as uncollectible	(64)	(92)	(61)	(39)
Reversal of impairment on amounts recovered	(308)	(340)	(293)	(321)
<b>Balance at end of the year</b>	<b>495</b>	<b>845</b>	<b>339</b>	<b>673</b>

The ageing analysis of impaired trade receivables:

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
less than 180 days	1	60	1	58
181-365 days	63	105	62	105
366+ days	431	680	276	510
<b></b>	<b>495</b>	<b>845</b>	<b>339</b>	<b>673</b>

Trade receivables, net balance of INA Group above also includes related party receivables of HRK 193 million as of 31 December 2018 (2017: HRK 167 million) with related party entities out of INA Group (see note 36).

## 22. OTHER RECEIVABLES

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Foreign concessions receivables	52	60	52	60
Tax prepayments	25	115	1	63
Prepayment receivables	11	1	3	1
Employees receivables	5	3	1	2
Other receivables	28	31	16	18
<b></b>	<b>121</b>	<b>210</b>	<b>73</b>	<b>144</b>



### 23. OTHER CURRENT ASSET

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Positive fair value of derivatives	113	62	113	62
Prepayments for customs, duties and other charges	48	46	31	31
Short-term loans and deposits	5	6	3	3
Accrued income	1	5	1	5
Current portion of long terms loans	-	-	15	598
Loan impairment	-	-	-	(223)
Other	7	20	2	18
	<b>174</b>	<b>139</b>	<b>165</b>	<b>494</b>

### 24. CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits.

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

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Demand deposit	382	312	304	257
Deposits until three months	4	60	-	59
Cash on hand	36	56	31	48
Cash and cash equivalents in statement of financial position	<b>422</b>	<b>428</b>	<b>335</b>	<b>364</b>
<b>Cash and cash equivalents in statement of cash flows</b>	<b>422</b>	<b>428</b>	<b>335</b>	<b>364</b>

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

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bank loans	1,962	1,581	1,767	1,359
Current portion of long-term loans	125	122	125	122
	<b>2,087</b>	<b>1,703</b>	<b>1,892</b>	<b>1,481</b>

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

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Unsecured bank loans in EUR	1,119	923	1,079	882
Unsecured bank loans in USD	600	489	588	477
Unsecured bank loans in HRK	243	143	100	-
Unsecured bank loans in HUF	-	26	-	-
	<b>1,962</b>	<b>1,581</b>	<b>1,767</b>	<b>1,359</b>

The most significant short-term loans as at 31 December 2018 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 2018	31 December 2017	31 December 2018	31 December 2017
Trade payables	1,720	1,171	1,242	787
Production and sales and other taxes payable	556	573	485	499
Payroll payables	149	131	95	83
Accrued bonuses	120	114	73	70
Negative fair value of derivatives	92	65	92	65
Payroll taxes and contributions	56	53	29	28
Advance payments	55	66	38	62
Accrued unused holiday	47	44	23	24
Mining fee	35	43	35	43
Contract liabilities	28	26	-	-
Accrued expenses	5	3	-	-
Accrued interest for long-term loans	3	5	3	4
Other	56	43	36	23
	<b>2,922</b>	<b>2,337</b>	<b>2,151</b>	<b>1,688</b>

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

Trade payables, net balance also includes payables of HRK 164 million as of 31 December 2018 (2017: HRK 149 million) with related party entities out of INA Group (see note 36).

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

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

## 27. LONG-TERM LOANS

Long-term loans are denominated in 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:

<b>Purpose of the loan</b>	<b>Loan currency</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Project financing	USD, EUR	125	244
		<b>125</b>	<b>244</b>
Due within one year		(125)	(122)
<b>Total long-term loans INA, d.d.</b>		<b>-</b>	<b>122</b>
Obligation under finance lease		4	-
Other long-term loans INA Group	EUR, USD, HUF, HRK	-	-
		<b>4</b>	<b>-</b>
Due within one year		-	-
<b>Total long-term loans INA Group</b>		<b>4</b>	<b>122</b>

<b>INA Group</b>	Weighted	Weighted	<b>31 December 2018</b>	<b>31 December 2017</b>
	average interest rate	average interest rate		
	<b>31 December 2018</b>	<b>31 December 2017</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
	%	%		
Bank loans in USD	4.01	2.95	98	190
Bank loans in EUR	1.23	1.23	27	54
Obligation under finance lease			4	-
<b>Total</b>			<b>129</b>	<b>244</b>
Payable within one year			(125)	(122)
<b>Total long-term loans</b>			<b>4</b>	<b>122</b>



**27. LONG-TERM LOANS (CONTINUED)**

INA, d.d.	Weighted	Weighted	31 December 2018	31 December 2017
	average interest rate	average interest rate		
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	%	%		
Bank loans in USD	4.01	2.95	98	190
Bank loans in EUR	1.23	1.23	27	54
<b>Total</b>			<b>125</b>	<b>244</b>
Payable within one year			(125)	(122)
<b>Total long-term loans</b>			<b>-</b>	<b>122</b>

The maturity of the loans may be summarised as follows:

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Current portion of long-term debt	125	122	125	122
Payable within one to two years	4	122	-	122
<b>Total</b>	<b>129</b>	<b>244</b>	<b>125</b>	<b>244</b>

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

	INA Group	INA, d.d.
<b>Balance at 1 January 2017</b>	<b>406</b>	<b>406</b>
New borrowings	-	-
Amounts repaid	(129)	(129)
Foreign exchange losses	(33)	(33)
<b>Balance at 31 December 2017</b>	<b>244</b>	<b>244</b>
Payable within one year (included within bank loans – note 25)	122	122
Payable after more than one year	122	122
<b>Balance at 1 January 2018</b>	<b>244</b>	<b>244</b>
New borrowings	-	-
Finance lease	4	-
Amounts repaid	(122)	(122)
Foreign exchange losses	3	3
<b>Balance at 31 December 2018</b>	<b>129</b>	<b>125</b>
Payable within one year (included within bank loans – note 25)	125	125
Payable after more than one year	4	-

**27. LONG-TERM LOANS (CONTINUED)**

The principal long-term loans outstanding at 31 December 2018 and loans agreements in 2018 were as follows:

**EBRD**

In 2010, INA, d.d. signed a long-term loan agreement with EBRD in the amount of EUR 160 million with alternative withdrawal in USD. The purpose of the loan is finalization of the first phase of the modernization of Sisak and Rijeka Refineries. In 2014 an amendment agreement was signed by which terms for the remaining outstanding amount are more favourable and maturity was prolonged until 2019. In 2018 an amendment agreement was signed by which terms are more favourable for the remaining outstanding amount.

**ING BANK N.V., LONDON BRANCH**

In 2018 INA, d.d. signed a long-term multi-currency revolving credit facility agreement for general corporate purposes in the amount of USD 300 million. Lenders are banking groups represented by both international and domestic banks. The Agent is ING Bank N.V., London Branch. Maturity of the credit facility is 3 years with an option for 1+1 year extension.

**MOL Group**

In 2018 INA, d.d. signed an amendment to the intragroup long-term multi-currency revolving loan agreement for general corporate purposes provided from MOL Group in the amount of USD 100 million and with loan agreement maturity of 3 years.

*Reconciliation of liabilities arising from financing activities*

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

**INA Group**

	1 January 2018	Cash flow	Foreign exchange movement	Changes in fair values	Other	31 December 2018
Short-term loans	1,703	387	(3)	-	-	2,087
Long-term loans	122	(122)	-	-	4	4
Dividend payable	-	(812)	-	-	812	-
Derivatives	65	62	-	(36)	-	91
<b>Total liabilities</b>	<b>1,890</b>	<b>(485)</b>	<b>(3)</b>	<b>(36)</b>	<b>816</b>	<b>2,182</b>

**INA, d.d.**

	1 January 2018	Cash flow	Foreign exchange movement	Changes in fair values	Other	31 December 2018
Short-term loans	1,481	408	4	-	-	1,893
Loans from related parties	184	10	-	-	-	194
Long-term loans	122	(122)	-	-	-	-
Dividend payable	-	(812)	-	-	812	-
Derivatives	65	62	-	(36)	-	91
<b>Total liabilities</b>	<b>1,852</b>	<b>(454)</b>	<b>4</b>	<b>(36)</b>	<b>812</b>	<b>2,178</b>

**27. LONG-TERM LOANS (CONTINUED)****INA Group**

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

**INA, d.d.**

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

*Compliance with loan agreements*

During 2018 INA Group members and INA, d.d repaid all of their liabilities in respect of loans (principal, interest and fees) on a timely basis, and there were no instances of default or delinquency.

**28. OTHER NON-CURRENT LIABILITIES**

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Liabilities to Government for sold apartments	26	33	26	33
Deferred income for sold apartments	3	4	3	4
Other long-term liabilities	16	15	15	14
	<b>45</b>	<b>52</b>	<b>44</b>	<b>51</b>

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



INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

## 29. PROVISIONS

INA Group	Decommissioning charges	Environmental provision	Legal claims	Renewable energy provision	Redundancy costs	Provision for Angolan tax	Other	Total
<b>Balance at 1 January 2017</b>	<b>2,328</b>	<b>308</b>	<b>159</b>	<b>-</b>	<b>19</b>	<b>275</b>	<b>329</b>	<b>3,418</b>
Charge for the year	-	42	41	115	11	-	5	214
Effect of change in estimates	199	24	-	-	-	(26)	(33)	164
Interest	11	4	-	-	-	-	5	20
Provision utilised/reversed during the year	-	(43)	(63)	-	(13)	(249)	(17)	(385)
<b>Balance at 31 December 2017</b>	<b>2,538</b>	<b>335</b>	<b>137</b>	<b>115</b>	<b>17</b>	<b>-</b>	<b>289</b>	<b>3,431</b>
Increase related to acquisition of subsidiary	311	-	-	-	-	-	-	311
Charge for the year	-	151	42	32	11	-	18	254
Effect of change in estimates	(63)	4	-	-	-	-	-	(59)
Interest	53	8	-	-	-	-	-	61
Provision utilised/reversed during the year	-	(86)	(38)	(72)	(17)	-	(20)	(233)
<b>Balance at 31 December 2018</b>	<b>2,839</b>	<b>412</b>	<b>141</b>	<b>75</b>	<b>11</b>	<b>-</b>	<b>287</b>	<b>3,765</b>

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2018

(all amounts are presented in HRK millions)

## 29. PROVISIONS (CONTINUED)

INA, d.d.	Decommissioning charges	Environmental provision	Legal claims	Renewable energy provision	Redundancy costs	Provision for Angolan tax	Other	Total
<b>Balance at 1 January 2017</b>	<b>2,475</b>	<b>296</b>	<b>66</b>	<b>-</b>	<b>16</b>	<b>275</b>	<b>303</b>	<b>3,431</b>
Charge for the year	-	41	20	115	-	-	5	181
Effect of change in estimates	210	24	-	-	-	(26)	(33)	175
Interest	16	4	-	-	-	-	5	25
Provision utilised/reversed during the year	-	(42)	(49)	-	(10)	(249)	-	(350)
<b>Balance at 31 December 2017</b>	<b>2,701</b>	<b>323</b>	<b>37</b>	<b>115</b>	<b>6</b>	<b>-</b>	<b>280</b>	<b>3,462</b>
Increase related to acquisition of subsidiary	333	-	-	-	-	-	-	333
Charge for the year	-	151	18	32	-	-	11	212
Effect of change in estimates	(61)	8	-	-	-	-	-	(53)
Interest	56	8	-	-	-	-	5	69
Provision utilised/reversed during the year	-	(82)	(25)	(72)	(4)	-	(12)	(195)
<b>Balance at 31 December 2018</b>	<b>3,029</b>	<b>408</b>	<b>30</b>	<b>75</b>	<b>2</b>	<b>-</b>	<b>284</b>	<b>3,828</b>

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Analysed as:				
Current liabilities	303	312	229	221
Non-current liabilities	3,462	3,119	3,599	3,241
	<b>3,765</b>	<b>3,431</b>	<b>3,828</b>	<b>3,462</b>

## **29. PROVISIONS (CONTINUED)**

### ***Decommissioning charges***

The Company and the Group record provisions at present value of estimated future costs of abandoning oil and gas production facilities estimated at 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 2018, INA, d.d. recognised a decommissioning provision for 45 oil and gas production fields, 6 non-production fields, 10 positive non-production fields and 357 dry non-production wells. As of 31 December 2017, INA, d.d. recognised a decommissioning provision for 45 oil and gas production fields, 7 non-production fields, 10 positive non-production fields and 357 dry non-production wells.

### ***Environmental provision***

The environmental provision recorded by INA Group is HRK 412 million as of 31 December 2018 (31 December 2017: HRK 335 million). The environmental provision covers treatment of accumulated waste generated by former activity, soil excavation and replacement during the reconstruction of service stations and comprehensive investigation to determine the extent of the soil and groundwater contaminations.

### ***Emission allowances***

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

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

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

### ***Legal claims***

Provisions for legal claims are based on the legal counsel and management estimate, taking into consideration claim value and probability that outflow of resources will be required to settle the obligation

### ***Renewable energy provision***

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



## 29. PROVISIONS (CONTINUED)

### **Provision for Angolan tax**

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

### **Other provisions**

Other provisions of INA, d.d. in amount of HRK 283 million relate to provision for contractual liability for investments in Iran of HRK 247 million initially recognized in 2012. INA, d.d. is committed to spending certain resources by Production Agreement. Since Iran activities have been discontinued, the difference between contractual liability and actual funds spent was recognized as provisions. Moreover, remaining amount mainly relates to provision for sediment and non-pumpable inventories in the amount of HRK 33 million.

## 30. RETIREMENT AND OTHER EMPLOYEE BENEFITS

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

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

The net amounts specified above, in terms of tax regulations are non-taxable. Defined amounts of jubilee awards are effective for Collective Agreement signed in 2018.

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2018 and 2017 by independent actuarial expert. In 2018, the Company made a provision of HRK 14 million in respect of jubilee awards and HRK 22 million for regular retirement allowance, whereas in 2017 Company made provision in respect of jubilee awards in amount of HRK 15 million and for regular retirement HRK 20 million.

### 30. RETIREMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

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

Actuarial estimates were derived based on the following key assumptions:

	Valuation at	
	31 December 2018	31 December 2017
Discount rate	2.5%	2.6%
Average longevity at retirement age for current pensioners (years)		
males	14.9	14.1
females	18.3	18.3
Average longevity at retirement age for current employees (future pensioners) (years)		
males	14.9	14.1
females	18.3	18.3
Mortality	HR 2010-2012	Statistical Yearbook

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

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
<b>Service cost:</b>				
Cost of current period	5	6	1	2
Interest	2	2	1	1
Past service cost, including losses/(gains) on curtailments	(7)	(8)	-	-
<b>Components of defined benefit costs recognized in profit and loss:</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>3</b>
Remeasurement of the net defined benefit liability:				
Actuarial gains and losses arising from changes in demographic assumptions	1	(19)	-	(17)
Actuarial gains and losses arising from changes in financial assumptions	3	1	2	-
Actuarial gains and losses arising from experience adjustments	-	2	-	1
Components of defined benefit costs recognised in profit and loss account and other comprehensive income:	4	(16)	2	(16)
<b>Total</b>	<b>4</b>	<b>(16)</b>	<b>4</b>	<b>(13)</b>

### 30. RETIREMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

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

	INA Group		INA, d.d.	
	2018	2017	2018	2017
At 1 January	78	95	34	48
Acquisition of subsidiary	-	-	-	-
Cost of current period	5	6	2	2
Interest	2	2	1	1
<i>Actuarial (gains) or losses</i>				
Actuarial gains and losses arising from changes in demographic assumptions	1	(19)	-	(17)
Actuarial gains and losses arising from changes in financial assumptions	3	-	2	-
Actuarial gains and losses arising from experience adjustments	-	2	-	1
Past service cost, including losses/(gains) on curtailments	(7)	(8)	-	-
Benefit paid	-	-	(3)	(1)
<b>Closing defined benefit obligation</b>	<b>82</b>	<b>78</b>	<b>36</b>	<b>34</b>

### 31. SHARE CAPITAL

#### INA Group and INA, d.d.

	31 December 2018	31 December 2017
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 2018	31 December 2017
Balance at the beginning of the year	289	299
Decrease arising on revaluation of long-term financial asset (Janaf)	(188)	(11)
Deferred tax effect	34	1
<b>Balance at the end of the year</b>	<b>135</b>	<b>289</b>

In 2018 and 2017, decrease on fair value reserves was recorded due to decrease of JANAF shares, therefore a decrease on fair value reserves was recorded.



### 33. OTHER RESERVES

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

Movements on reserves during the year were as follows:

<b>INA Group</b>	<b>Combined reserves at 31 December 1993</b>	<b>Foreign currency translation reserves</b>	<b>Reserve of defined benefit obligation</b>	<b>Other reserves</b>	<b>Total</b>
<b>Balance at 1 January 2017</b>	<b>492</b>	<b>680</b>	<b>28</b>	<b>447</b>	<b>1,647</b>
Movements during 2017	-	(143)	12	-	(131)
<b>Balance at 31 December 2017</b>	<b>492</b>	<b>537</b>	<b>40</b>	<b>447</b>	<b>1,516</b>
Movements during 2018	-	29	(1)	-	28
<b>Balance at 31 December 2018</b>	<b>492</b>	<b>566</b>	<b>39</b>	<b>447</b>	<b>1,544</b>

<b>INA, d.d.</b>	<b>Combined reserves at 31 December 1993</b>	<b>Foreign currency translation reserves</b>	<b>Reserve of defined benefit obligation</b>	<b>Other reserves</b>	<b>Total</b>
<b>Balance at 1 January 2017</b>	<b>27</b>	<b>955</b>	<b>21</b>	<b>285</b>	<b>1,288</b>
Movements during 2017	-	(161)	11	-	(150)
<b>Balance at 31 December 2017</b>	<b>27</b>	<b>794</b>	<b>32</b>	<b>285</b>	<b>1,138</b>
Movements during 2018	-	47	(1)	-	46
<b>Balance at 31 December 2018</b>	<b>27</b>	<b>841</b>	<b>31</b>	<b>285</b>	<b>1,184</b>

### 34. RETAINED EARNINGS

	INA Group	INA, d.d.
	<u>Retained earnings</u>	<u>Retained earnings</u>
<b>Balance at 1 January 2017</b>	<b>(233)</b>	<b>160</b>
Transfer to legal reserves from retained earnings	(8)	(8)
Profit for the year	1,220	1,426
Dividend paid	(152)	(152)
<b>Balance at 31 December 2017</b>	<b>827</b>	<b>1,426</b>
Opening changes due to effect of IFRS standard changes	58	57
Transfer to legal reserves from retained earnings	(71)	(71)
Profit for the year	1,178	1,334
Acquiring of non-controlling interest	(144)	-
Dividend paid	(812)	(812)
<b>Balance at 31 December 2018</b>	<b>1,036</b>	<b>1,934</b>

On the regular general shareholders' meeting of INA, d.d. held on 27 June 2018 profit for the year 2017 in amount of HRK 1,426 million is distributed to legal reserves in the amount of HRK 71 million and dividend payment in the amount of HRK 812 million (i.e. HRK 81.20 per share).

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

### 35. NON-CONTROLLING INTEREST

	INA Group	
	31 December 2018	31 December 2017
Balance at the beginning of the year	(134)	(136)
Share of profit for the year	(1)	2
Acquisition of non-controlling interest	144	-
<b>Balance at the end of the year</b>	<b>9</b>	<b>(134)</b>

At 18 April 2018 Commercial Court in Sarajevo, registered the increase of share capital in Energopetrol d.d. in the amount of HRK 496.4 million by cash contribution. By this transaction, INA share in Energopetrol d.d. increased from 67.02% to 88.66%.

### 35. NON-CONTROLLING INTEREST (CONTINUED)

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

<b>Name</b>	<b>Country of incorporation and operation</b>	<b>2018</b>	<b>2017</b>
Government of the Federation of Bosnia and Herzegovina	Federation of Bosnia and Herzegovina	7.61%	22.12%
Small shareholders		3.73%	11.86%

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 intercompany eliminations.

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>Energopetrol d.d.</b>	<b>Energopetrol d.d.</b>
Current assets	47	41
Current liabilities	149	740
Non-current assets	226	237
Non-current liabilities	105	9
Operating income after the acquisition date	507	484
Loss for the period after the acquisition date	13	5
<b>Total comprehensive loss for the period after the acquisition date</b>	<b>13</b>	<b>5</b>

### 36. RELATED PARTY TRANSACTIONS

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

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



### 36. RELATED PARTY TRANSACTIONS (CONTINUED)

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

#### INA Group

	Sales of goods and services		Purchase of goods and services	
	2018	2017	2018	2017
<b>Share in company as non-current financial assets</b>				
JANAF d.d. Zagreb	5	3	54	52
<b>Governing company</b>				
MOL Nyrt.	304	217	662	701
<b>Companies controlled by governing company</b>				
Tifon d.o.o.	613	536	7	8
MOL Petrochemicals Co Ltd	111	65	5	4
MOL Slovenia d.o.o.	70	94	68	63
Slovnaft, a.s.	23	3	188	226
MOL Serbia d.o.o.	20	57	-	-
Geoinform Kft.	7	1	3	-
MOL-LUB Kft.	6	5	5	4
MOL Norge AS	-	2	-	-
MOL Commodity Trading Kft.	-	-	62	25
MOL Germany GMBH	-	-	6	-
IES Italiana Energia e Servizi S.p.A	-	-	5	3
FGSZ Zrt.	-	-	1	-
Petrolszolg Kft.	-	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 2018	31 December 2017	31 December 2018	31 December 2017
<b>Share in company as non-current financial assets</b>				
JANAF d.d. Zagreb	1	1	2	14
<b>Governing company</b>				
MOL Nyrt.	33	27	77	53
<b>Companies controlled by governing company</b>				
Tifon d.o.o.	70	70	1	1
MOL Commodity Trading Kft.	63	59	71	59
MOL Petrochemicals Co Ltd	10	-	-	-
Slovnaft, a.s.	7	-	7	11
MOL Slovenia d.o.o.	6	4	5	9
MOL Serbia d.o.o.	1	4	-	-
Geoinform Kft.	1	-	-	-
MOL-LUB Kft.	1	-	1	1
MOL Norge AS	-	2	-	-
IES Italiana Energia e Servizi S.p.A	-	-	-	1

### 36. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

#### INA, d.d.

	Sales of goods and services		Purchase of goods and services	
	2018	2017	2018	2017
<b>Related companies</b>				
Holdina d.o.o. Sarajevo	2,463	1,795	1	-
INA Crna Gora d.o.o. Podgorica	337	175	-	-
INA Slovenija d.o.o. Ljubljana	91	11	-	-
Energopetrol d.d.	31	36	-	-
STSI, Integrirani tehnički servisi d.o.o.	26	23	722	607
CROSCO, naftni servisi d.o.o.	14	11	341	359
Plavi tim d.o.o.	9	10	55	52
INA MAZIVA d.o.o.	7	9	57	53
INA Maloprodajni servisi d.o.o.	6	6	273	256
Top Računovodstvo Servisi d.o.o.	3	4	55	51
INA Jadran d.o.o.*	3	-	12	-
Hostin d.o.o.	1	455	30	1
INA Adria B.V.*	1	-	27	-
Adrigas S.r.l. Milano	-	-	-	-
INA d.o.o. Banja Luka	-	-	1	1
INA Kosovo d.o.o.	-	-	1	1
<b>Share in company as non-current financial assets</b>				
JANAF d.d. Zagreb	5	3	54	52
<b>Governing company</b>				
MOL Nyrt.	79	42	549	612
<b>Companies controlled by governing company</b>				
Tifon d.o.o.	611	535	7	8
MOL Petrochemicals Co Ltd	111	65	5	2
MOL Slovenia d.o.o.	67	91	-	-
Slovnaft a.s.	23	3	187	226
MOL Serbia d.o.o.	20	57	-	-
Geoinform Kft.	1	-	-	-
MOL Norge AS	-	2	-	-
MOL Commodity Trading Kft.	-	-	62	25
MOL Germany GmbH	-	-	6	-
IES Italiana Energia e Servizi S.p.A	-	-	5	3
FGSZ ZRT	-	-	1	-

\*Until 15 November 2018, transactions with INA Jadran d.o.o. and INA Adria B.V. were recorded as transactions with third parties. After the acquisition, the transactions between INA, d.d. and INA Adria B.V. / INA Jadran d.o.o. were recorded as transactions with related companies (from 15 November 2018 until the year end).

### 36. RELATED PARTY TRANSACTIONS (CONTINUED)

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

INA, d.d.	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
<b>Related companies</b>				
Holdina d.o.o. Sarajevo	192	171	1	-
INA Crna Gora d.o.o. Podgorica	33	27	-	-
CROSCO, naftni servisi d.o.o.	12	11	49	57
INA Slovenija d.o.o. Ljubljana	8	2	-	-
STSI, Integrirani tehnički servisi d.o.o.	7	6	232	201
INA MAZIVA d.o.o.	5	2	7	6
INA Jadran d.o.o.*	4	-	16	-
Plavi tim d.o.o.	3	3	12	12
INA Adria B.V.*	2	-	32	-
Top Računovodstvo Servisi d.o.o.	1	-	4	4
INA Maloprodajni servisi d.o.o.	-	-	35	30
<b>Share in company as non-current financial assets</b>				
JANAF d.d. Zagreb	1	1	2	14
<b>Governing company</b>				
MOL Nyrt.	1	2	68	45
<b>Companies controlled by governing company</b>				
Tifon d.o.o.	69	70	1	1
MOL Commodity Trading Kft.	63	59	71	59
MOL Petrochemicals Co Ltd	10	-	-	-
Slovnaft a.s.	7	-	7	11
MOL Slovenia d.o.o.	6	4	3	2
MOL Serbia d.o.o.	1	3	-	-
Geoinform Kft.	1	-	-	-
MOL Norge AS	-	2	-	-
IES Italiana Energia e Servizi S.p.A	-	-	-	1

\*Until 15 November 2018, transactions with INA Jadran d.o.o. and INA Adria B.V. were recorded as transactions with third parties. After the acquisition, the transactions between INA, d.d. and INA Adria B.V. / INA Jadran d.o.o. were recorded as transactions with related companies (from 15 November 2018 until the year end).

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

In 2018 INA, d.d. recognised impairment on receivables from related parties in the amount of HRK 0.4 million (2017: HRK 0.1 million).



### 36. RELATED PARTY TRANSACTIONS (CONTINUED)

Loan to and from related parties:

INA, d.d.	Amounts of loans owed by related parties		Amounts of loans owed to related parties	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
<b>Related companies</b>				
Hostin d.o.o.	439	453	9	3
CROSCO, naftni servisi d.o.o.	94	143	-	-
INA Crna Gora d.o.o. Podgorica	80	26	-	-
Energopetrol d.d.	79	598	-	-
Holdina d.o.o. Sarajevo	45	30	-	-
INA Slovenija d.o.o. Ljubljana	18	19	-	-
INA BH d.d., Sarajevo	2	2	-	-
INA Adria B.V.*	-	-	111	-
INA MAZIVA d.o.o.	-	-	30	49
INA Maloprodajni servisi d.o.o.	-	-	16	22
Adrigas S.r.l. Milano	-	-	12	12
Top Računovodstvo Servisi d.o.o.	-	-	7	11
STSI, Integrirani tehnički servisi d.o.o.	-	-	5	80
Croplin d.o.o.	-	-	4	4
Plavi tim d.o.o.	-	-	-	3

\*Until 15 November 2018, transactions with INA Jadran d.o.o. and INA Adria B.V. were recorded as transactions with third parties. After the acquisition, the transactions between INA, d.d. and INA Adria B.V. / INA Jadran d.o.o. were recorded as transactions with related companies (from 15 November 2018 until the year end).

Hedge transactions with related parties:

INA Group and INA, d.d.	Expense from hedge transactions -net effect	Expense from hedge transactions -net effect
	2018	2017
<b>Companies controlled by governing company</b>		
MOL Commodity Trading Kft.	92	12

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

For oil products sales to related parties, INA, d.d. does not require payment security instruments, except in case of sales on foreign markets, in order to be compliant with the Foreign Exchange Act.

### 36. RELATED PARTY TRANSACTIONS (CONTINUED)

#### *Compensation of key management personnel*

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

	INA, d.d.	
	31 December 2018	31 December 2017
Short-term employee benefits	39	36
Termination bonuses	5	4
<b>Total</b>	<b>44</b>	<b>40</b>

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

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

#### *Other related party transactions*

In 2018 INA, d.d. sold five service stations to the company Holdina Sarajevo. Net book value of service stations was HRK 4 million and they were sold under market price in the amount of HRK 13 million.

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

### 37. COMMITMENTS

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

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

### 37. COMMITMENTS (CONTINUED)

#### *Gas Transportation contracts*

At 31 December 2018 the future gas transportation contracted commitments with Mol Nyrt, Met Budapest Ltd., PPD Vukovar, FGSZ Mađarska, until 31 December 2019 amount to approximately HRK 55.28 million in total (2017: HRK 51.29 million).

#### *Gas purchase contract obligations (Take or pay)*

INA, d.d concluded a Gas Purchase Obligation (*Take or pay*). The obligation refers to one-year natural gas import contract signed for gas year. Through this contract INA, d.d. will procure the quantities of gas needed to cover the gap in the sales. At 31 December 2018, the future contractual obligations for natural gas concluded with Mol Nyrt., until 1 October 2019 amount to HRK 153.32 million (2017: HRK 442.85 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 outside INA Group are as follows:

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
within 1 year	49	56	43	47
between 2 - 5 years	58	63	45	47
beyond 5 years	17	17	17	17
	<b>124</b>	<b>136</b>	<b>105</b>	<b>111</b>

Out of the outstanding operating lease liabilities as of 31 December 2018 HRK 105 million were contracted by INA, d.d., HRK 14 million were contracted by Plavi tim d.o.o. and HRK 3 million were contracted by Crosco d.o.o., while for 31 December 2017 HRK 111 million were contracted by INA, d.d., HRK 11 million were contracted by Plavi tim d.o.o. and HRK 8 million were contracted by STSI d.o.o.



### **38. CONTINGENT LIABILITIES**

#### ***Environmental matters***

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

INA Group regularly publishes its sustainability reports on annual basis, in accordance with Guidelines of the Global Reporting initiative. The report covers a full range of economic, environmental and social impacts of INA Group companies on their stakeholders.

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

The Directive 2010/75/EU of the European Parliament and the Council on industrial emissions (IED) lays down rules on integrated prevention and control of pollution arising from industrial activities, rules designed to prevent or, where that is not practicable, to reduce emissions into air, water and land and to prevent the generation of waste, in order to achieve a high level of protection of the environment taken as a whole. The Directive regulates the question of environmental permits by which plant working conditions are determined and requires the application of best available techniques (BAT). During 2014 INA, d.d. obtained Decisions on integrated environmental protection requirements (environmental permits) for its four plants: Fractionation Facilities Ivanić Grad, Gas Processing Facilities Molve, Sisak Refinery and Rijeka Refinery.

On 9 October 2014, Commission Implementing Decision establishing best available techniques (BAT) for the refining of mineral oil and gas was published, in accordance with the Directive 2010/75/EU of the European Parliament and the Council on industrial emissions. Deadline for compliance with emission limit values was 9 October 2018 except in case of derogation acceptance in line with Article 15(4) of IED. In BAT Conclusions, "bubble concept" is recognized as one of the best available techniques for integrated emission management of SO<sub>x</sub> and/or NO<sub>x</sub>. 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. Due to lack of experience in application of the bubble concept in Croatia, Sustainable Development and Health, Safety and Environment organized meetings in Rijeka Refinery (RR) and Sisak Refinery (SR) during 2018 with representatives of the Ministry of Environmental Protection and Energy (Ministry) and authorized the Company for permit revision to inform them in more detail with the bubble concept and method of alignment with the upper limits of the emission range.

During 2016 INA, d.d. signed the contract for refineries environmental permit revision which is necessary because of new BAT Conclusions issuance, change of selected technology (FCC) for particulate matter reduction, expired deadlines for some projects and intention to use a bubble concept. In 2017, an application for an amendment to the RR and SR environmental permit was submitted to the Ministry of Environmental Protection and Energy.

### **38. CONTINGENT LIABILITIES (CONTINUED)**

#### ***Environmental matters (continued)***

In order to align the existing technology with the best available techniques, during 2018 all projects in Rijeka Refinery (RR) are ongoing and are in different stages of implementation. Planned completion of all measures prescribed in existing RR environmental permit is during turnaround, in Q1 2019.

For some of the improvement measures prescribed in existing SR environmental permit, which are on hold, a cost-benefit analysis (investments vs benefits for environment) has been made in accordance with Article 15 (4) of the IED.

It was suggested to the Ministry that the implementation of measures will depend on the results of the analysis, which will show the justification of the application of each individual measure.

Complete (8 phases) baseline reports for Rijeka and Sisak Refineries were also submitted to the authorities for approval, as a precondition for initiating environmental permit revision. Completion of baseline reports is not a precondition for issuing a new environmental permit. During 2018, the Ministry concluded that the baseline reports need to be updated in a way to be developed in phases, which was further contracted during 2018.

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

European Union Emissions Trading Scheme, EU ETS, is one of the fundamental mechanisms of the European Union in the fight against climate change with a view to meeting the commitments made under the Kyoto Protocol. Inside the Scheme, a part of the emission allowances (one allowance = 1 tonne of CO<sub>2</sub>) 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 2013 Rijeka Refinery, Sisak Refinery, Fractionation Facilities Ivanić Grad and Gas Processing Facilities Molve are a part of the ETS. All four INA's ETS installations have open Operator Holding Account in the Union Registry. Verified Annual Greenhouse Gas Report had been submitted to Croatian Environment and Nature Agency on time, until 1 March 2018. Verifier has confirmed the emissions entered into the Registry and emission allowances have been submitted in the amount equal to verified emissions until 30 April 2018. Due to increase in prices of emission allowances (increase more than 100% compared to 2017) significantly higher costs were realized in 2018. In order to reduce costs, dynamics of CO<sub>2</sub> trading has changed. Instead of the current trading (purchase of 10% of the total shortage each month after 20th in the month), an active trading option will be implemented (purchase of 20% of the total shortage through multiple transactions per month with the aim of achieving the best market price).

### **38. CONTINGENT LIABILITIES (CONTINUED)**

#### ***Environmental matters (continued)***

##### *Harmonization of INA's operations with the air protection legislation*

From 1 January 2016 existing plants have to comply with more stringent emission limit values (ELV), as stipulated by Industrial Emissions Directive (IED). The provisions of IED have been transposed into Croatian legislation through Regulation on limit values for pollutant emissions from stationary sources into the air (OG 87/17). To achieve the prescribed emission limit values, IED provides a possibility to use the exemption for existing plants and one of them is the inclusion in the Transitional National Plan (TNP), in addition to meeting certain conditions. Sisak and Rijeka Refineries have submitted an application for inclusion of its existing large combustion plants in the TNP, which was approved by the European Commission during 2014.

By inclusion in the TNP, refineries are given the possibility of gradual emission reduction of nitrogen oxides, sulphur dioxide and particulate matter through the period of 1 January 2016 to 30 June 2020 for the realization of investments and measures for emission reduction which ensure compliance with more stringent ELVs. Given that refineries intend to use the bubble concept in which existing large combustion plants should be included, these plants will be withdrawn from the Transitional National Plan during the environmental permit revision and incorporated into the bubble.

With the legal requirements for harmonization with the technical environmental standards for Volatile Organic Compound (VOC) emissions resulting from the storage and distribution of petrol, the entire INA's retail network tank truck loading station and rail tank car (RTC) loading station for white products in Sisak Refinery as well as tank truck loading station in RR have been harmonized. In 2018 INA, d.d. continued with modernization of the RTC loading and unloading station in RR, modernization of port Bakar and with improvement of storage tanks in both refineries, in order to achieve full compliance with the technical environmental standards for VOC's. Vapour Recovery Units (VRU) were installed on 7 loading stations.

##### *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. During 2018, 2 capital reconstruction, 4 tank replacement, 2 demolition and 14 preliminary site investigation related to soil and groundwater contamination were conducted at retail fuel stations. Also, landfill Šoići remediation within Rijeka Refinery area was completed.

At 31 December 2018, INA, d.d. made environmental provisions in the amount of HRK 408 million, whereas the provisions at the Group level amounted to HRK 412 million, while at 31 December 2017, INA, d.d. made environmental provisions in the amount of HRK 323 million, whereas the provisions at the Group level amounted to HRK 335 million. At 31 December 2018, contingencies at INA, d.d. was estimated at HRK 411 million and for INA Group level was estimated at HRK 620 million, while at 31 December 2017 contingencies at INA, d.d. was estimated at HRK 427 million and for INA Group level was estimated at HRK 636 million. The estimates were not recognised because the timing of the event is uncertain and there is no evidence of pollution.



### **38. CONTINGENT LIABILITIES (CONTINUED)**

#### ***Litigation***

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

#### ***GWDF***

In the dispute initiated by GWDF Partnership Gesellschaft Bürgerlicher Rechts and GWDF Limited, Cyprus against INA-Industrija nafte, d.d. and INA-Naftaplin International Exploration, Channel Islands, before the Commercial Court in Zagreb, the plaintiffs claim compensation for damage in the amount of app HRK 60 million incurred due to ungrounded termination of negotiations. On 10 March 2016 the judgment was rendered and the plaintiff's claim was dismissed in its entirety. On 18 March 2016 the plaintiff filed an appeal against the judgment of the court of first instance. In its judgment rendered on 7 November 2018, the High Commercial Court of the Republic of Croatia rejected the plaintiff's appeal and confirmed the judgement of the court of first instance. Therefore, the proceedings are concluded with a judgment that is final and binding. To this day, no revision against the judgment of the High Commercial Court of the Republic of Croatia has been received.

#### ***EKO MEDIA d.o.o.***

In September 2012 INA, d.d. entered into an agreement with company EKO MEDIA d.o.o. EKO MEDIA failed to regularly comply with its obligations. INA, d.d. terminated the agreement with EKO MEDIA d.o.o. at the beginning of 2014. On 19 December 2014 EKO MEDIA d.o.o. filed a lawsuit against INA, d.d. in which EKO MEDIA d.o.o. specified its claim in amount of HRK 106 million. INA, d.d. filed its official reply to such EKO MEDIA's lawsuit and filed a counterclaim for the return of unjust enrichment and asked for the issuance of interim measure for prohibition of use of advertising boards. The first instance procedure is in progress and the court expert for finances delivered his opinion in which he determined the amount of the claim towards EKO MEDIA in the moment of termination of the contract. Due to the departure of a retired judge, the case will be transferred to another judge, following why the next hearing has not been scheduled and no further dynamic of the proceedings is known.

#### ***ĐURO ĐAKOVIĆ***

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

### **38. CONTINGENT LIABILITIES (CONTINUED)**

#### ***Litigation (continued)***

##### ***ĐURO ĐAKOVIĆ (continued)***

The preparatory hearing was held on 26 February 2018. On this hearing the court concluded the preliminary part of the proceedings. The main hearing was held on 8 November 2018 and the plaintiff's first two witnesses have been heard. The next hearing should continue with the hearing of the witnesses proposed by the plaintiff, while the hearing date has not yet been set.

##### ***LJUBLJANSKA BANKA***

The claims of plaintiff Ljubljanska banka, Ljubljana, Slovenia against INA, d.d. in amount of HRK 60 million have arisen from two contracts of 1982 on the use of short-term foreign currency loan abroad which were concluded between INA, d.d. - Rafinerija nafte Rijeka and Ljubljanska banka - Osnovna banka Zagreb. The outcome of the procedure is still uncertain due to the complexity of the legal matter (claims for altered default interest). The Supreme Court has not decided on review to this date, so no legal actions were taken in 2018.

#### ***CONCESSIONS***

In the period from November 2014 - February 2015, 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".

INA, d.d. filed administrative lawsuits against all said Ministry's Decisions.

In the "Drava" case, during September 2017 the High Administrative Court of the Republic of Croatia rejected INA's appeal against the first-instance verdict in the "Drava" case. Thus, the Decision on seizure of hydrocarbon exploration approvals in the "Drava" research area, issued by the competent Ministry, became final. Against said judgment of the High Administrative Court of the Republic of Croatia, and Ministry Decision, INA, d.d. filed a Constitutional lawsuit. The Constitutional Court of the Republic of Croatia didn't bring any judgment, till now.

In the "Sava" case, during July 2018 the High Administrative Court of the Republic of Croatia accepted INA's appeal against earlier first-instance verdict in the "Sava" case and annulled the same verdict brought by the Administrative Court and also annulled Resolution of the Ministry by which the Ministry deprived INA's license for exploration hydrocarbons in exploration area "Sava". In September 2018 the Ministry of Environmental Protection and Energetics (as now competent) adopted new Decision by which INA, d.d. is again, for the third time, deprived from the license to explore hydrocarbons in exploration area "Sava". The administrative lawsuit against said Ministry Decision is underway.

In the "North-West Croatia" case, the Administrative Court rejected INA's administrative lawsuit, against which judgment INA, d.d. filled appeal. Until now, the High Administrative Court of the Republic of Croatia didn't bring any decision and judgment.

### **38. CONTINGENT LIABILITIES (CONTINUED)**

#### ***Litigation (continued)***

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

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

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

At the hearing held on 5 June 2018 Plaintiff submitted to the court file Expertise that were conducted in criminal cases which were conducted in front of County Attorney's Office and State Attorney's Office in Vukovar. On stated Expertise Defendant shall lodge to the competent court its observations/manifestations. During November 2018, hearings were held on which witnesses were examined.

##### ***BELVEDERE cases (CLEOSTONE claim included)***

In 2005 INA, d.d. and Belvedere d.d. concluded the Loan agreement on notarial insurance of the claim by establishing lien over the real estate of Belvedere d.d. for the purpose of ensuring loan repayment. Since the loan was not repaid, INA, d.d. initiated the procedure of real estate sale, and the real estate was sold to company Vila Larus d.o.o., whereby INA, d.d. collected HRK 24 million on behalf of principle amount and contractual interest rate.

Consequently, the plaintiff initiated the proceeding to proclaim the real estate sale and purchase agreement as null and void, as well as the proceeding to cancel the enforceability clause on the Fiduciary Agreement.

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

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

##### ***Belvedere – HRK 24 million, 018-11/17***

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



### **38. CONTINGENT LIABILITIES (CONTINUED)**

#### ***Litigation (continued)***

##### ***Belvedere – HRK 220 million, 018-14/17***

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

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

##### ***Labour procedure against Energopetrol d.d.***

At Municipal Court in Sarajevo the labour procedure against Energopetrol d.d. is conducted with 381 plaintiffs. The total amount of principal amounts to HRK 58 million. The lawsuit was filed on 11 May 2018 with a claim to compensation of salary difference for the period 11 May 2015 until 11 May 2018.

The Group expects the plaintiff's attorney to specify the claims in the course of the procedure, in accordance with the findings of the expert in the financial profession.

In the meantime, and since the plaintiffs' attorney did not regulate the claim referred to the lawsuit, at the court's request, the court issued the Decision on 4 December 2018, by which the one part of claim from the lawsuit is considered withdrawn.

The response to the complaint was given on 7 January 2019. The preparatory hearing is expected to be scheduled.

### 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### Gearing ratio

The primary objective of INA Group in managing its capital is to ensure good capital ratios in order to support all business activities and maximize the value to all shareholders through optimization of the ratio between the debt and equity.

The capital structure of INA Group consists of debt part which includes borrowings as detailed in notes 25 and 27 offset by cash and bank balances (so-called net debt) and shareholder equity comprising of issued capital, reserves, retained earnings and non-controlling interests as detailed in notes 34 and 35.

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

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

	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
<b>Debt:</b>	<b>2,091</b>	<b>1,825</b>	<b>1,892</b>	<b>1,603</b>
Long term loans	4	122	-	122
Short term loans	1,962	1,581	1,767	1,359
Current portion of long-term borrowings	125	122	125	122
Cash and cash equivalents	(422)	(428)	(335)	(364)
<b>Net debt</b>	<b>1,669</b>	<b>1,397</b>	<b>1,557</b>	<b>1,239</b>
Equity	11,823	11,526	12,352	11,881
Equity and net debt	13,492	12,923	13,909	13,120
<b>Gearing ratio</b>	<b>12%</b>	<b>11%</b>	<b>11%</b>	<b>9%</b>

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.

### 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Categories of financial instruments

	Carrying amount			
	INA Group		INA, d.d.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
<b>Financial assets</b>				
Cash and cash equivalents	422	428	335	364
Loans and receivables	2,846	1,613	5,459	3,664
Non-current financial assets	479	665	479	665
Positive fair value of derivatives	113	62	113	62
Financial assets designated as at fair value through profit and loss	9	6	7	6
<b>Financial liabilities</b>				
Loans and borrowings	2,091	1,825	2,086	1,787
Trade payables	1,720	1,171	1,826	1,098
Negative fair value of derivatives	92	65	92	65

#### Financial risk management objectives

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

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

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

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

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



### **39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

#### *Market risk*

##### *Commodity price risk management*

The volatility of crude oil and gas prices is the prevailing element in the business environment of INA Group. INA Group buys crude oil mostly through short-term arrangements in USD at the current spot market price. Necessary natural gas quantities in 2018 INA Group imported in EUR based on spot price.

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

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

At 31 December 2018 and 31 December 2017, there is no fair value based on hedged transaction related to the price of the goods.

##### *Foreign currency risk management*

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

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

INA, d.d. may use a cross-currency swap to adjust its currency mix in the debt portfolio. At 31 December 2018 and 31 December 2017 there were no outstanding cross-currency transactions.

### 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

#### INA Group

	Liabilities		Assets	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Currency EUR	1,630	1,185	375	208
Currency USD	1,044	867	786	931
	<b>2,674</b>	<b>2,052</b>	<b>1,161</b>	<b>1,139</b>

#### INA, d.d.

	Liabilities		Assets	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Currency EUR	1,410	1,078	728	938
Currency USD	994	832	739	1,011
	<b>2,404</b>	<b>1,910</b>	<b>1,467</b>	<b>1,949</b>

#### 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 2018 (in 2017: 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 2018	31 December 2017	31 December 2018	31 December 2017
Profit/(loss)	(26)	6	(126)	(98)
	(26)	6	(126)	(98)

#### INA, d.d.

	Currency USD Impact		Currency EUR Impact	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Profit/(loss)	(26)	18	(68)	(14)
	(26)	18	(68)	(14)

### 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Foreign currency sensitivity analysis (continued)

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

#### Interest rate risk management

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

INA Group does not speculate on fluctuations in interest rates, and therefore primarily chooses floating interest rates. However, in certain instruments and certain macro environment, there is a possibility of selecting the fixed interest rate for longer interest periods.

INA, d.d. in accordance with Financial risk management procedure at INA, d.d., can use interest rate swap transactions in order to manage the relative level of exposure to interest rate risk on cash flows related to borrowings with floating interest rates. As of 31 December 2018 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.	
	2018	2017	2018	2017
Short-term interest expense change	43	32	39	27
Long-term interest expense change	3	5	3	5
<b>Total change:</b>	<b>46</b>	<b>37</b>	<b>42</b>	<b>32</b>

If interest rates would be 200 basis points higher, INA Group's interest expenses in 2018 would be increased by HRK 46 million, while with a change of 50 basis points the increase would be HRK 11 million (2017: increase by HRK 37 million had the interest rate been 200 basis points higher, and by HRK 9 million had the interest rates been 50 basis points higher).

At the same time INA, d.d.'s interest expenses in 2018 would be increased by HRK 42 million if interest rates had been 200 basis points higher, while the increase would be HRK 10 million with a change of 50 basis points (2017: increase by HRK 32 million had the interest rates been 200 basis points higher, and by HRK 8 million had the interest rates been 50 basis points higher). Equivalent decrease of interest rates would result in decreased interest expenses by equal amounts.



### **39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

#### ***Other price risks***

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

#### *Equity price sensitivity analysis*

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

If equity prices had been 10% higher:

- net profit for the year ended at 31 December 2018 would have been unaffected as the equity investments are classified as non-current financial assets; and
- other equity reserves of INA, d.d. would increase by HRK 43 million as a result of the changes in fair value of non-current financial assets.

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 (see note 21).

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

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

### **39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

#### *Liquidity risk management*

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

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

As of 31 December 2018, INA Group had contracted and available short-term credit lines amounting to HRK 2,332 million (CNB middle rate), excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and contracted and available long-term credit lines amounting to HRK 2,713 million (CNB middle rate).

Based on business needs and industry 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 2018, INA Group had contracted and available short-term credit facilities for financing crude oil and oil products purchase amounting to USD 1,135 million.

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

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

### 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Liquidity risk management (continued)

#### Liquidity and interest risk tables

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

#### INA Group

	Less than 1 month	1 - 12 months	1 - 5 years	5+ years	Total
<b>31 December 2018</b>					
Non-interest bearing	1,718	598	36	3	2,355
Interest bearing	1,340	755	4	-	2,099
	<b>3,058</b>	<b>1,353</b>	<b>40</b>	<b>3</b>	<b>4,454</b>
<b>31 December 2017</b>					
Non-interest bearing	1,277	436	50	-	1,763
Interest bearing	1,133	578	125	-	1,836
	<b>2,410</b>	<b>1,014</b>	<b>175</b>	<b>-</b>	<b>3,599</b>

#### INA, d.d.

	Less than 1 month	1 - 12 months	1 - 5 years	5+ years	Total
<b>31 December 2018</b>					
Non-interest bearing	1,500	533	36	3	2,072
Interest bearing	1,339	753	-	-	2,092
	<b>2,839</b>	<b>1,286</b>	<b>36</b>	<b>3</b>	<b>4,164</b>
<b>31 December 2017</b>					
Non-interest bearing	1,052	426	44	-	1,522
Interest bearing	1,132	540	125	-	1,797
	<b>2,184</b>	<b>966</b>	<b>169</b>	<b>-</b>	<b>3,319</b>

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 1,242 million in 2018 (2017: HRK 787million).

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

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



### **39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

#### *Fair value of financial instruments*

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

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

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

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

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

### 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

*Fair value of financial instruments (continued)*

Fair value measurements recognized in the statement of financial position

**INA GROUP and INA, d.d.**

	31 December 2018			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Non-current financial assets*	430	-	-	430
Marketable securities	27	-	-	27
Positive fair value of derivatives	-	113	-	113
<b>Financial liabilities at fair value</b>				
Negative fair value of derivatives	-	92	-	92
<b>31 December 2017</b>				
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Non-current financial assets*	618	-	-	618
Positive fair value of derivatives	-	62	-	62
<b>Financial liabilities at fair value</b>				
Negative fair value of derivatives	-	65	-	65

\* only non-current financial assets at fair value are presented in tables above, the remaining equity instruments classified as non-current financial assets in total amount of HRK 49 million are measured at cost (2017: HRK 47 million) and therefore not included in tables above.

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

(a) Financial instruments in level 1

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

(b) Financial instruments in level 2 and level 3

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

Specific valuation techniques used to value financial instruments include:

- The fair value of hedge commodity transactions is calculated based on actual historic quotations from Platts and market forward quotations of the underlying commodities.
- The fair value of forward foreign exchange contracts has been determined based on 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 ENI CROATIA B.V.

<b>INA Adria B.V.</b>	<b>Headquarters</b>	<b>Principal activity</b>	<b>Date of acquisition</b>	<b>Proportion of shares acquired (%)</b>	<b>Consideration transferred</b>
	Amsterdam, Netherlands	Support activities for petroleum and natural gas extraction	15 November 2018	100.0%	-

On 15 November 2018, by executing the Share Transfer Deed, INA-Industrija nafte d.d. became the sole shareholder of ENI Croatia B.V. and subsequently the 100% owner of Croatia's offshore areas Northern Adriatic and Marica. As a result, the Group recognized gain on acquisition in amount of HRK 291 million as other operating income which mainly relates to decommissioning liability taken over in the acquisition and which will be mainly offset by the unwinding of discount impact of such liability through time.

The fair values of the identifiable assets and liabilities of ENI Croatia B.V. as the date of acquisition were as follows:

<b>Total identifiable net assets acquired</b>	<b>556</b>
Gain on acquisition	(291)
<b>Total consideration</b>	<b>265</b>



#### **41. SUBSEQUENT EVENTS**

##### *Organisation changes*


Following organizational changes, which are effective as of 1 February 2019 and 1 March 2019, with aim of efficiency and productivity increase, some work positions will be terminated and subsequently there will be decrease in number of operational employees, but also new positions will be formed. Mentioned changes will result in decrease in number of approximately 200 employees.


Currently INA, d.d. is in process of consultations with Works Council, after which final proposal on changes will be forwarded to Management Board for approval.

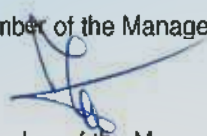
#### 42. APPROVAL OF THE FINANCIAL STATEMENTS


These financial statements were approved by the Management Board and authorised for issue on 13 March 2019.


Signed on behalf of the Company and the Group on 13 March 2019 by:

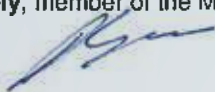
  
**Sándor Fasimon, President of the Management Board of INA, d.d.**

  
**Niko Dalčić, member of the Management Board**

  
**Ivan Krešić, member of the Management Board**

  
**Zsolt Pethő, member of the Management Board**

  
**Ákos Székely, member of the Management Board**

  
**Davor Mayer, member of the Management Board**



## To the Shareholders of INA-Industrija nafte, d.d.:

### I. Independent auditor's report on the audit of consolidated and separate financial statements

We have audited the separate financial statements of INA - Industrija nafte, d.d. ("the Company"), and consolidated financial statements of INA - Industrija nafte, d.d. and its subsidiaries (together "the Group") as at 31 December 2018 which have been issued on 13 March 2019. We issued the following audit report dated 13 March 2019 on the consolidated and separate financial statements (presented in the Annual report on pages 146 to 272):

#### Independent auditor's report

To the Shareholders of INA - Industrija nafte, d.d.

#### Report on the audit of the separate and consolidated financial statements

##### Opinion

We have audited the separate financial statements of INA - Industrija nafte, d.d. ("the Company"), and consolidated financial statements of INA - Industrija nafte, d.d. and its subsidiaries (together "the Group"), which comprise the separate and consolidated statement of financial position as at 31 December 2018, the separate and consolidated statement of profit or loss and the separate and consolidated statement of other comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Company and Group as at 31 December 2018 and of its separate and consolidated financial performance and its separate and consolidated 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 separate and consolidated financial statements* section of our report.

We are independent of the Company and Group 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 separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated 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 separate and consolidated 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 separate and consolidated 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 separate and consolidated financial statements.



Key Audit Matter	How we addressed Key Audit Matter
<p><b>Estimation of hydrocarbon reserves</b></p> <p>A description of the key judgements and estimates regarding estimation of hydrocarbon reserves are included in Note 3 Significant accounting judgements and estimates in the separate and consolidated financial statements.</p> <p>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 Company's and the Group's share of reportable volumes. Hydrocarbon reserves are also a fundamental indicator of the future potential of the Company's and the Group's performance and these estimates affect significant amounts in the separate and consolidated statement of financial position and the separate and consolidated statement of profit or loss. Therefore we believe that estimation of hydrocarbon reserves is a key audit matter.</p>	<p>Audit procedures included understanding of the process for determination of the hydrocarbon reserves and walkthrough of controls implemented in the process. We also assessed the competence and objectivity of technical experts to evaluate whether they are appropriately qualified to carry out the hydrocarbon reserve volumes estimation. We performed specific inquiry to the management of the Company and the Group in respect of consistency of the applied methodology for reserves estimate with previous year.</p> <p>We performed the test of details and for the significant changes in reserve volumes we tested whether the appropriate methodology was applied, the assumptions used are reasonable and adequately supported by underlying information provided by the management. We also performed analytical procedures on movements in hydrocarbon reserves during the year and reviewed that all significant changes were approved by the "Reserves and Resources Committee" and are in line with our expectations.</p> <p>We also assessed on the adequacy of the disclosures in the separate and consolidated financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>
<p><b>Impairments of the Company's and the Group's long lived assets</b></p> <p>Impairments of the Company's and the Group's long lived assets are disclosed in Note 6 Depreciation, amortization and impairment and in respective notes disclosing the underlying assets in the separate and consolidated financial statements; a description of the accounting policy and key judgements and estimates are included in Note 2 Accounting policies and Note 3 Significant accounting judgements and estimates respectively.</p> <p>Movements in oil and gas prices can have a significant effect on the carrying value of the Company's and the Group'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 Company's and the Group's operations and cash flows.</p>	<p>We performed understanding of the process and walked through the controls designed and operated by the Company and the Group 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 Company and the Group we assessed the management's competence in respect of impairment assessment by comparing the assumptions used in prior year to the achieved results in the current year.</p>

Key Audit Matter	How we addressed Key Audit Matter
<p><b>Impairments of the Company's and the Group's long lived assets (continued)</b></p> <p>Due to complexity and judgement used in the assessment of impairment indicators and impairment models, impairment of Company's and Group's long lived assets is a key audit matter.</p>	<p>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 the current year as well as current development in the industry and the Company's and the Group's expectations for the key inputs to the impairment models.</p> <p>In respect of performed impairment tests, we used external data in assessing and corroborating the assumptions used in the impairment analysis, the most significant being future market oil prices and discount rates. We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis, tested the appropriateness of discount rates used in the calculation with the assistance of the specialists and performed procedures to assess the completeness of the impairment charges.</p> <p>We also assessed on the adequacy of the disclosures in the separate and consolidated financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>
<p><b>Estimation of decommissioning provisions</b></p> <p>Provisions associated with decommissioning of the assets are disclosed in Note 29 Provisions to the separate and consolidated financial statements; a description of the accounting policy and key judgements and estimates are included in Note 2 Accounting policies and Note 3 Significant accounting judgements and estimates respectively.</p> <p>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.</p>	<p>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 the Group 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 and the Group's experts who produced the cost estimates.</p> <p>We also assessed on the adequacy of the disclosures in the separate and consolidated financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>



#### **Other information included in the Company's and the Group's Annual Report for year 2018**

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 separate and consolidated financial statements and our auditor's report thereon. The Company's and the Group's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the separate and consolidated 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 separate and consolidated 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 separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Management is responsible for the preparation and fair presentation of the separate and consolidated 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 the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and the Group'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 Company and the Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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 separate and consolidated 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 separate and consolidated 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 Company's and the Group'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 Company's and the Group'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 separate and consolidated 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 Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated 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 separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on Other Legal and Regulatory Requirements**

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

##### *Appointment of Auditor and Period of Engagement*

We were initially appointed as the auditors of the Company by the General Meeting of Shareholders on 24 June 2014 and our uninterrupted engagement has lasted for 5 years.

*Consistence with Additional Report to Audit Committee*

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 13 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

*Provision of Non-audit Services*

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

*Report on Regulatory requirements*

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

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Berislav Horvat, President of the Management Board and certified auditor

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

13 March 2019

**II. Other information included in the Company's and the Group's Annual Report for year 2018**

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 separate and consolidated financial statements and our auditor's report thereon. Our opinion on the separate and consolidated 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 separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated 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. 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 2018 financial year are consistent, in all material respects, with the enclosed separate and consolidated financial statements;
2. the enclosed Management report for 2018 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;
3. Corporate Governance Statement, included in the Company's and the Group'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 and the Group's annual report for the year 2018 are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed separate and consolidated financial statements; and
5. Report on payments to governments, included in the Company's and Group'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 Company and Group 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.



Berislav Horvat, President of the Management Board and certified auditor

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18 April 2019