

INA Group (ZB: INA-R-A; www.ina.hr) announced its Q4 2017 results today. This report contains unaudited consolidated financial statements for the period ending 31 December 2017 as prepared by the management in accordance with the International Financial Reporting Standards.

INA Group financial results (IFRS)

Q4 2016	Q4 2017	%	HRK mln	2016	2017	%
4,550	5,116	12	Net sales revenues	15,535	18,582	20
705	893	27	EBITDA ⁽¹⁾	2,112	3,215	52
740	907	23	EBITDA excl. special items ⁽²⁾	2,427	3,211	32
541	691	28	CCS EBITDA excl. special items	2,219	3,030	37
228	121	(47)	Profit/(loss) from operations	607	1,418	134
262	335	28	Operating profit excl. special items ⁽²⁾	842	1,379	64
58	119	107	CCS Operating profit excl. special items	625	1,198	92
(182)	(22)	(88)	Net financial result	(146)	146	n.a.
(223)	8	n.a.	Net profit/loss attributable to equity holder	101	1,220	1,108
(189)	222	n.a.	Net profit/loss for the period excl. special items ⁽²⁾	336	1,181	252
124	122	(1)	Simplified Free Cash Flow ⁽³⁾	834	1,637	96
1,078	390	(64)	Operating cash flow	2,213	2,484	12
Earnings per share						
(22.3)	0.8	n.a.	Basic and diluted/(loss) earnings per share (kunas per share)	10.1	122.0	1,108
2,501	1,397	(44)	Net debt	2,501	1,397	(44)
19.1	10.8		Net gearing (%)	19.1	10.8	
417	569	36	CAPEX total	1,385	1,393	1
342	479	40	Croatia	1,215	1,262	4
75	90	19	Other	170	131	(23)

Q4 2016	Q4 2017	%	USD mln ⁽⁴⁾	2016	2017	%
654	800	22	Net sales revenues	2,283	2,806	23
101	140	38	EBITDA ⁽¹⁾	310	485	56
106	142	33	EBITDA excl. special items ⁽²⁾	357	485	36
78	108	39	CCS EBITDA excl. special items	326	457	40
33	19	(42)	Profit/(loss) from operations	89	214	140
38	52	39	Operating profit excl. special items ⁽²⁾	124	208	68
8	19	125	CCS Operating profit excl. special items	92	181	97
(26)	(3)	(87)	Net financial result	(21)	22	n.a.
(32)	1	n.a.	Net profit/loss attributable to equity holder	15	184	1,141
(27)	35	n.a.	Net profit/loss for the period excl. special items ⁽²⁾	49	178	261
18	19	7	Simplified Free Cash Flow ⁽³⁾	123	247	102
155	61	(61)	Operating cash flow	325	375	15
Earnings per share						
(3.2)	0.1	n.a.	Basic and diluted/(loss) earnings per share (kunas per share)	1.5	18.4	1,141
349	223	(36)	Net debt	349	223	(36)
60	89	48	CAPEX total	204	210	3
49	75	53	Croatia	179	191	7
11	14	30	Other	25	20	(21)

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

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

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

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

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

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

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

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

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

In 2017 INA Group posted one of the strongest results in its recent history. We demonstrated our ability to capture the benefit of higher prices delivering strong EBITDA of over HRK 3.2 billion, a 52% increase compared to 2016.

We identified two main pillars of our operations: the first being focus on growth and the second including operational excellence and top efficiency performance. We delivered in both areas. INA's focus on strengthening sales activities led to an increase of top line revenues by 20% compared to 2016. Thanks to oil derivatives wholesale (12% increase), retail (4% increase), as well as natural gas trading (8% increase) we improved sales value and further positioned INA as a leading player on all our key markets. Continuous efficiency measures implemented in the last two years were the basis on which we were able to deliver new value even in a low price environment. CAPEX spending stayed robust at level of HRK 1.4 billion, in line with the previous year and with an increase on investments in Croatia.

We generated strong free cash flow on the back of our integrated business model, with significant contribution of our Upstream business, which benefited from the positive external environment together with a moderate increase in domestic crude oil production. Although we are faced with natural decline of our mature fields, we made significant efforts in increasing production on our mature domestic oil fields, exploiting the maximum potential by implementing the Full Field Optimization (FFO) concept and performing various well activities with success. This resulted with an increase of domestic crude oil production back to levels seen 10 years ago.

Downstream business generated strong EBITDA with positive cash flow, the strongest result in a decade, demonstrating not only our ability to capture positive environment of higher crack spreads, but also our efforts in number of other operating activities and efficiency measures. These activities resulted in an introduction of two new fuels, a strong position on the Croatian market, increased sales on all markets, record volumes in Rijeka logistics, with strong focus on safety and environment. One of the major challenges in front of us is pursuing options which will make our Refining and marketing business sustainable and profitable in the long run. With that in mind, we need to emphasise Sisak refinery results which continue to burden INA's R&M performance with a negative operating result of HRK (207) million loss in 2017 and HRK (264) million loss in the previous year.

We believe that having a quality refining portfolio together with high quality services within our retail network is the core to our vertically integrated business model, as it provides optimization opportunities in this highly competitive market. This is why we continually invest in introduction of new and additional services at our service stations, tailored to needs and requirements of our customers.

Although we significantly improved our financial position bringing net debt to a historical year low, it still requires a lot of effort to be continually prepared for quick adjustments and to be able to successfully manage all the businesses in the environment of uncertainty, complexity and volatility.

Management discussion

Exploration and Production*

Q4 2016	Q4 2017	%	Segment IFRS results (HRK mln)	2016	2017	%
1,051	1,249	19	Net sales revenues	3,889	4,448	14
550	577	5	EBITDA	2,141	2,474	16
554	591	7	EBITDA excl. special items **	2,166	2,470	14
271	300	11	Operating profit	1,172	1,666	42
272	300	10	Operating profit excl. special items **	1,185	1,413	19
366	384	5	Simplified Free Cash Flow***	1,452	1,852	28
189	207	10	CAPEX	715	618	(14)

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

** In 2017, EBITDA was positively impacted by HRK 4 mn related to reversal of provision in Angola, while EBIT was positively influenced by HRK 253 million special items related to the same cause; 2016 EBITDA was negatively influenced by HRK 25 million special items related to Severance payments

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

Q4 2016	Q4 2017	%	Hydrocarbon production	2016	2017	%
14,461	14,165	(2)	Crude oil production (boe/d)	15,044	14,515	(4)
11,663	12,087	4	Croatia	11,929	12,165	2
1,812	1,414	(22)	Egypt	2,057	1,536	(25)
986	664	(33)	Angola	1,057	815	(23)
23,263	20,430	(12)	Natural gas production (boe/d)	22,446	21,287	(5)
8,794	6,770	(23)	Croatia - offshore	9,324	7,723	(17)
14,469	13,660	(6)	Croatia - onshore	13,122	13,564	3
1,960	1,670	(15)	Condensate (boe/d)	1,887	1,786	(5)
39,684	36,266	(9)	Total hydrocarbon production (boe/d)	39,377	37,588	(5)
Q4 2016	Q4 2017	%	Average realised hydrocarbon price	2016	2017	%
37	46	23	Total hydrocarbon price (USD/boe)*	37	42	15
Q4 2016	Q4 2017	%	Natural gas trading - mln cm	2016	2017	%
290	335	15	Total natural gas sales - domestic market	1,115	1,201	8

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

2017 vs. 2016

KEY DRIVERS

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

CAPITAL EXPENDITURES

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

- Drava-02 exploration program - Drilling of Severovci-1 well started in December and is in progress
- 3D seismic on Bokšić-Klokočevci field and seismic on fields Letičani, Bilogora, Šandrovac finished
- EOR project - Injection of CO₂ into 5 wells at Ivanić field and 8 at Žutica North was carried out
- Additional development on Žutica field - 20 well workovers executed
- Development well Kozarice-42 - Drilling finished
- Well Stimulation Campaign Phase II - Stimulations performed on 17 wells which were brought into production as well
- Well General Workovers – performed 15 workovers

Refining and Marketing, including Retail*

Q4 2016	Q4 2017	%	Segment IFRS results (HRK mln)	2016	2017	%
3,958	4,471	13	Revenues	13,054	16,138	24
342	423	24	EBITDA	339	987	191
358	423	18	EBITDA excl. special items**	558	987	77
159	207	30	CCS-based DS EBITDA excl. special items**	350	806	130
187	79	(58)	Operating profit/(loss)	74	263	255
200	194	(3)	Operating profit/(loss) excl. special items**	94	378	300
(4)	(23)	423	CCS-based DS operating loss	(122)	196	n.a.
(27)	(119)	343	Simplified Free Cash Flow***	(258)	93	n.a.
186	326	75	CAPEX and investments (w/o acquisition)	608	713	17

* Refers to Refining & Marketing including Retail INA. d.d. and following subsidiaries: INA-Maziva, INA Slovenija, INA BH Sarajevo, HoldINA Sarajevo, INA Crna Gora, INA Beograd, INA Kosovo, Petrol Rijeka, Energopetrol

** In 2017, EBIT was negatively impacted by HRK 115 mn of Environment related provision, while 2016 EBITDA was negatively influenced by HRK 219 million special items related to Severance payments

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

Q4 2016	Q4 2017	%	Refinery processing (kt)	2016	2017	%
228	260	14	Domestic crude oil	599	587	(2)
828	776	(6)	Imported crude oil	2,530	2,803	11
26	25	(2)	Condensate	84	80	(5)
210	198	(6)	Other feedstock	643	622	(3)
1,291	1,259	(2)	Total refinery throughput	3,856	4,092	6
Q4 2016	Q4 2017	%	Refinery production (kt)	2016	2017	%
71	73	1	LPG	211	242	15
15	1	(91)	Naphtha	64	52	(20)
345	354	3	Gasoline	989	1,058	7
25	24	(1)	Kerosene	112	133	18
418	413	(1)	Diesel	1,288	1,355	5
57	50	(12)	Heating oil	144	143	(1)
182	149	(18)	Fuel oil	500	512	2
40	51	28	Other products*	119	141	18
1,154	1,116	(3)	Total	3,428	3,635	6
16	12	(29)	Refinery loss	47	43	(9)
121	132	9	Own consumption	381	415	9
1,291	1,259	(2)	Total refinery production	3,856	4,092	6
Q4 2016	Q4 2017	%	Refined product sales by country (kt)	2016	2017	%
478	432	(10)	Croatia	1,847	1,814	(2)
131	168	29	B&H	528	616	17
40	17	(58)	Slovenia	233	70	(70)
476	515	8	Other markets	1,246	1,727	39
1,125	1,132	1	Total	3,854	4,227	10
Q4 2016	Q4 2017	%	Refined product sales by product (kt)	2016	2017	%
78	84	8	LPG	265	291	10
16	4	(77)	Naphtha	67	50	(26)
285	309	9	Gasoline	925	1,044	13
21	28	30	Kerosene	137	175	28
402	424	5	Diesel	1,529	1,755	15
57	48	(16)	Heating oil	179	163	(9)
171	175	2	Fuel oil	460	536	17
12	18	43	Bitumen	41	51	23
82	43	(48)	Other products*	251	162	(35)
1,125	1,132	1	Total	3,854	4,227	10
247	246	(0)	o/w Retail segment sales	1,014	1,056	4
495	494	(0)	Total number of Retail sites	495	494	(0)

* 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.

2017 vs. 2016

KEY DRIVERS

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

CAPITAL EXPENDITURES

- Refining and Marketing capital expenditures amounted to HRK 550 mn
 - Residue upgrade project FEED (Front End Engineering Design) activities on-going with the preparation of the next phase
 - Propane-propylene splitter project FEED documentation and main design finalized
 - Continued investment activities in logistics and refinery development projects
- Retail capital expenditures in 2017 amounted to HRK 163 mn
 - Various investments projects including greenfield constructions, service station reconstructions, modernizations and other improvement projects (LPG installation, tank replacement etc.)
 - Multiple projects on expanding the non-fuel offer in line with the "Fresh corner" concept, incl. cafe bar, car wash or shop modernization

Main external parameters

Q4 2016	Q4 2017	%		2016	2017	%
49.3	61.3	24.2	Brent dtd (USD/bbl)	43.7	54.2	23.9
0.83	0.66	(20.7)	Brent-Ural spread	1.21	0.92	(24.3)
504.0	586.2	16.3	Premium unleaded gasoline 10 ppm (USD/t)*	462.4	548.3	18.6
450.4	548.8	21.9	Diesel – ULSD 10 ppm (USD/t)*	395.0	490.5	24.2
259.0	333.1	28.6	Fuel oil 3,5% (USD/t)*	205.6	298.3	45.1
450.1	583.3	29.6	LPG (USD/t)*	397.2	511.6	28.8
130.9	122.8	(6.2)	Crack spread – premium unleaded (USD/t)*	131.5	138.3	5.2
77.2	85.4	10.6	Crack spread – diesel (USD/t)*	64.2	80.5	25.5
(114.1)	(130.3)	14.1	Crack spread - fuel oil 3,5% (USD/t)*	(125.2)	(111.7)	(10.8)
76.9	119.9	55.9	Crack spread - LPG (USD/t)*	66.3	101.6	53.1
2.08	0.35	(83.1)	Indicative refining margins (USD/bbl)**	1.63	1.80	10.7
6.78	6.40	(5.6)	HRK/USD average	6.80	6.62	(2.7)
7.05	6.27	(11.0)	HRK/USD closing	7.17	6.27	(12.5)
7.53	7.53	(0.0)	HRK/EUR average	7.53	7.46	(0.9)
7.53	7.51	(0.2)	HRK/EUR closing	7.56	7.51	(0.6)
0.92	1.43	54.9	3m USD LIBOR (%)	0.74	1.26	69.6
(0.31)	(0.33)	5.3	3m EURIBOR (%)	(0.26)	(0.33)	24.3

* FOB Mediterranean

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

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

Q4 2016	Q4 2017	%		Note	2016	2017	%
4,550	5,116	12	Total sales revenue	1	15,535	18,582	20
88	96	9	Capitalised value of own performance		365	327	(10)
33	(30)	n.a.	Other operating income		186	126	(32)
4,671	5,182	11	Total operating income		16,086	19,035	18
121	30	(75)	Changes in inventories of finished products and work in progress		264	274	4
(2,535)	(2,601)	3	Cost of raw materials and consumables	2	(7,448)	(9,061)	22
(445)	(471)	6	Depreciation and amortization	4	(1,677)	(1,804)	8
(491)	(500)	2	Other material costs	4	(2,000)	(1,823)	(9)
(169)	(136)	(20)	Service costs	4	(623)	(466)	(25)
(546)	(571)	5	Staff costs	5	(2,083)	(1,803)	(13)
(346)	(512)	48	Cost of other goods sold	3	(2,084)	(2,942)	41
(69)	(135)	96	Impairment and charges (net)	4	(272)	(143)	(47)
37	(165)	n.a.	Provisions for charges and risks (net)	4	444	151	(66)
(4,443)	(5,061)	14	Operating expenses		(15,479)	(17,617)	14
228	121	(47)	Profit/(Loss) from operations		607	1,418	134
			Share in the profit of associated companies				
(95)	(7)	(93)	Finance income		106	452	326
(87)	(15)	(83)	Finance costs		(252)	(306)	21
(182)	(22)	(88)	Net result from financial activities	7	(146)	146	n.a.
46	99	115	Profit/(Loss) before tax		461	1,564	239
(273)	(101)	(63)	Income tax expense	6	(366)	(342)	(7)
(227)	(2)	(99)	Profit/(Loss) for the year		95	1,222	1,186
			Attributable to				
(223)	8	n.a.	Owners of the Company		101	1,220	1,108
(4)	(10)	144	Non-controlling interests		(6)	2	n.a.
(227)	(2)	(99)			95	1,222	1,186
			Earnings per share				
(22.3)	0.8	n.a.	Basic and diluted earnings per share (kunas per share)		10.1	122.0	1,108

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

	Note	31 December 2016	31 December 2017	%
Assets				
Non-current assets				
Intangible assets	9	536	570	6
Property, plant and equipment	10	12,573	12,016	(4)
Investments in associates and joint ventures		22	-	n.a.
Other investments		13	13	0
Long-term receivables		128	96	(25)
Deferred tax		1,769	1,451	(18)
Available for sale assets		676	665	(2)
Total non-current assets		15,717	14,811	(6)
Current assets				
Inventories	12	2,050	2,264	10
Trade receivables net	13	1,591	1,393	(12)
Other receivables		184	210	14
Corporative income tax receivables		11	10	(9)
Other current assets		120	139	16
Cash and cash equivalents		611	428	(30)
Current assets		4,567	4,444	(3)
Assets classified as held for sale		8	8	(4)
Total current assets		4,575	4,452	(3)
Total assets	8	20,292	19,263	(5)
Equity and liabilities				
Capital and reserves				
Share capital	11	9,000	9,000	0
Legal reserves		20	28	40
Revaluation reserve		299	289	(3)
Other reserves		1,647	1,516	(8)
Retained earnings / (Deficit)		(233)	827	n.a.
Equity attributable to equity holder of the parent		10,733	11,660	9
Non-controlling interests		(136)	(134)	(1)
Total equity		10,597	11,526	9
Non-current liabilities				
Long-term loans		271	122	(55)
Other non-current liabilities		60	52	(13)
Employee benefits obligation		85	73	(14)
Provisions		3,224	3,119	(3)
Deferred tax liability		13	14	8
Total non-current liabilities		3,653	3,380	(7)
Current liabilities				
Bank loans and overdrafts		2,706	1,581	(42)
Current portion of long-term debt		135	122	(10)
Trade payables	15	1,857	1,171	(37)
Taxes and contributions		637	626	(2)
Other current liabilities		503	540	7
Employee benefits obligation		10	5	(50)
Provisions		194	312	61
Total current liabilities		6,042	4,357	(28)
Total liabilities	14	9,695	7,737	(20)
Total equity and liabilities		20,292	19,263	(5)

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

Q4 2016	Q4 2017	%	Note	2016	2017	%
(227)	(2)	(99)	Profit for the year	95	1,222	1,186
			Adjustments for:			
445	471	6	Depreciation and amortisation	1,677	1,804	8
273	101	(63)	Tax expense recognised in income statement	366	342	(7)
69	135	96	Impairment charges (net)	272	143	(47)
(9)	2	n.a.	Gain on sale of property, plant and equipment	(17)	(16)	(6)
-	-	n.a.	Gain on sale investments and shares	2	-	n.a.
142	4	(97)	Foreign exchange loss/(gain)	49	(186)	n.a.
14	6	(57)	Interest expense (net)	38	48	26
15	8	(47)	Other finance expense/(income) recognised in profit	10	(29)	n.a.
(55)	162	n.a.	(Decrease)/increase in provisions	(469)	(155)	(67)
12	3	(75)	Decommissioning interests and other provision	50	21	(58)
19	67	253	Net (gain)/loss on derivative financial instruments and hedge transactions	44	48	9
2	4	100	Other non-cash items	5	11	120
700	961	37	Operating cash flow before working capital changes	16	2,122	53
			Movements in working capital	17		
28	209	646	Decrease/(increase) in inventories	(248)	(327)	32
123	(8)	n.a.	Decrease/(increase) in receivables and prepayments	49	(76)	n.a.
230	(759)	n.a.	(Decrease)/increase in trade and other payables	333	(333)	n.a.
1,081	403	(63)	Cash generated from operations	2,256	2,517	12
(3)	(13)	333	Taxes paid	(43)	(33)	(23)
1,078	390	(64)	Net cash inflow from operating activities	2,213	2,484	12
			Cash flows used in investing activities			
(252)	(531)	111	Capital expenditures, exploration and development costs	(1,337)	(1,299)	(3)
2	(45)	n.a.	Payment for intangible assets	(38)	(92)	142
18	1	(94)	Proceeds from sale of non-current assets	30	26	(13)
-	23	n.a.	Payments related to sale of subsidiary	1	23	2,200
1	-	n.a.	Dividends received from companies classified as available for sale and from other companies	18	20	11
-	2	n.a.	Interest received and other financial income	13	11	(15)
(29)	(6)	(79)	Investments and loans to third parties, net	(197)	(52)	(74)
(260)	(556)	114	Net cash used for investing activities	18	(1,363)	(10)
			Cash flows from financing activities			
-	-	n.a.	Additional long-term borrowings	1,192	-	n.a.
25	-	n.a.	Repayment of long-term borrowings	(1,316)	(129)	(90)
2,633	2,937	12	Additional short-term borrowings	10,416	10,103	(3)
(2,962)	(2,688)	(9)	Repayment of short term borrowings	(10,506)	(11,040)	5
-	-	n.a.	Dividends paid	-	(152)	n.a.
(3)	(2)	(33)	Interest paid on long-term loans	(12)	(8)	(33)
(46)	(26)	(43)	Interest paid on short-term loans and other interest charges	(124)	(78)	(37)
(353)	221	n.a.	Net cash used in financing activities	(350)	(1,304)	273
465	55	(88)	Net (decrease)/increase in cash and cash equivalents	353	(183)	n.a.
217	355	64	At 1 January	275	611	122
(71)	18	n.a.	Effect of foreign exchange rate changes	(17)	-	n.a.
611	428	(30)	At the end of period	611	428	(30)

INA Group Summary Segmental Results of Operations

Q4 2016	Q4 2017	%	(HRK mln)	2016	2017	%
Sales						
1,051	1,249	19	Exploration & Production	3,889	4,448	14
3,958	4,471	13	Refining & Marketing including Retail	13,054	16,138	24
417	444	6	Corporate and Other	1,610	1,451	(10)
(876)	(1,048)	20	Inter-segment revenue eliminations	(3,018)	(3,455)	14
4,550	5,116	12	Sales	15,535	18,582	20
EBITDA*						
550	577	5	Exploration & Production	2,141	2,474	16
342	423	24	Refining & Marketing including Retail	339	987	191
(94)	(84)	(10)	Corporate and Other	(232)	(167)	(28)
(93)	(23)	(75)	Inter-segment profit eliminations	(136)	(79)	(42)
705	893	27	Total	2,112	3,215	52
EBITDA Excluding Special Items						
554	591	7	Exploration & Production	2,166	2,470	14
358	423	18	Refining & Marketing including Retail	558	987	77
(80)	(84)	5	Corporate and Other	(161)	(167)	4
(93)	(23)	(75)	Inter-segment profit eliminations	(136)	(79)	(42)
740	907	23	Total	2,427	3,211	32
Operating Profit/Loss						
271	300	11	Exploration & Production	1,172	1,666	42
187	79	(58)	Refining & Marketing including Retail	74	263	255
(133)	(233)	75	Corporate and Other	(496)	(428)	(14)
(97)	(25)	(74)	Inter-segment profit eliminations	(143)	(83)	(42)
228	121	(47)	Total	607	1,418	134
Operating Profit/Loss Excluding Special Items						
272	300	10	Exploration & Production	1,185	1,413	19
200	194	(3)	Refining & Marketing including Retail	94	378	300
(113)	(133)	18	Corporate and Other	(295)	(328)	11
(97)	(25)	(74)	Inter-segment profit eliminations	(143)	(83)	(42)
262	335	28	Total	842	1,379	64
Property, plant and equipment						
5,787	5,329	(8)	Exploration & Production	5,787	5,329	(8)
5,472	5,582	2	Refining & Marketing including Retail	5,472	5,582	2
1,502	1,418	(6)	Corporate and Other	1,502	1,418	(6)
(188)	(313)	66	Inter-segment assets eliminations	(188)	(313)	66
12,573	12,016	(4)	Total	12,573	12,016	(4)

* EBITDA = EBIT + Depreciation + Impairment + Provisions

Intersegment profit eliminations

Intersegment transfer represents the effect of unrealized profit arising in respect of transfers of inventories from Exploration and Production to Refining and Marketing. Through intersegment transfer unrealized profit is eliminated (difference between transfer price and cost of domestic crude). For segmental reporting purposes the transferor segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place. Intersegment EBITDA effect on results in 2017 is HRK -79 million which is lower compared to HRK -136 million in 2016 due to different schedule of domestic crude processing.

Financial overview and notes

INCOME STATEMENT

Notes 2017 RESULTS

- 1 **Total sales revenues** in 2017 amounted to HRK 18,582 million and were 20% above 2016 level, triggered by both Exploration and production and Refining & marketing including Retail sales revenue increase as a result of the improved price environment together with higher processing level, retail market expansion and introduction of new fuels in 2017.
- 2 **Costs of raw materials and consumables** were 22% above 2016 level at HRK 9,061 million, resulting from higher crude prices and higher processing in both refineries.
- 3 **Costs of goods sold** in 2017 recorded an increase of 41% compared to 2016, and amounted to HRK 2,942 million resulting from different sales structure and higher prices.
- 4 Other **operating costs** realized in 2017 include:
- Other material costs were lower by 9% and amounted to HRK 1,823 million resulting from lower subcontractors costs related to STSI project in Belarus.
 - Service costs in the amount of HRK 466 million recorded a decrease of 25% mainly due to absence of additional profit oil tax in Angola paid in 2016 and lower VAT related expenses.
 - Depreciation in the amount of HRK 1,804 million was 8% higher compared to 2016.
 - Value adjustments and provisions had a positive effect in the amount of HRK 8 million as a result of positive impact of reversal of provisions related to Angola which were partly offset by Crosco assets impairment and Environment related provisions, and were HRK 164 million lower compared to 2016 when the result was impacted by HRK 172 million caused mainly by release of employee related provisions related to establishment of INA Maloprodajni servisi, released litigation provisions in Holdina and assets impairment in Crosco.
- 5 **Staff costs** in the amount HRK 1,803 million were 13% lower compared to 2016, mainly due to lower severance payments and efficiency improvements.
- 6 **Income tax expense** in 2017 amounted to HRK 342 million and was HRK 24 million lower than in 2016. Tax costs and deferred taxes during the interim period are calculated on the basis of actual results and the profit tax rate, 20% for the periods ended 30 September 2016 and the profit tax rate, 18% for the periods ended 31 December 2017.
- 7 **Net financial result** is positive in 2017 and significantly higher compared to 2016 mainly as a result of:
- Net foreign exchange profit reached HRK 223 million in 2017 while in 2016 Net foreign exchange loss reached HRK 44 million.
 - Interest payable amounted to HRK 57 million and interests received to HRK 4 million in 2017 while in 2016 interest payables amounted to HRK 79 million and interests received to HRK 15 million.
 - Other financial net expenses amounted to HRK 24 million and are lower compared to HRK 38 million in 2016.

BALANCE SHEET

Notes

- 8 As at 31 December 2017 INA Group **total assets** amounted to HRK 19,263 million and were 5% lower compared to 31 December 2016.
- 9 In the period ended 31 December 2017, INA Group invested HRK 90 million in **intangible assets**. The effect of depreciation equals HRK 46 million.
- 10 In the period ended 31 December 2017, INA Group invested HRK 1,303 million in **property, plant and equipment**. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 1,753 million.
- 11 **Issued capital** as at 31 December 2017 amounted to HRK 9,000 million. There was no movements in the issued capital of the Company in either the current or the prior financial reporting.
- 12 **Inventories** amounted to HRK 2,264 million, and have increased by 10% compared to 31 December 2016 as a result of different processing dynamics in both refineries together with higher average prices.
- 13 **Trade receivables** decreased to HRK 1,393 million and are 12% lower compared to the opening balance resulting mainly from higher receivables' collection and settlements.
- 14 As at 31 December 2017 **total liabilities** amounted to HRK 7,737 which is 20% or HRK 1,958 million lower compared to 31 December 2016. INA Group **net debt** decreased by 44% compared to 31 December 2016 and amounted to HRK 1,397 million. **Gearing ratio**¹ decreased from 19.1% as at 31 December 2016, to 10.8% as at 31 December 2017.
- 15 **Trade payables** decreased by 37% to HRK 1,171 million, as a result of lower liabilities for imported crude oil and raw materials.

CASH FLOW

Notes

- 16 The **operating cash-flow before changes in working capital** amounted to HRK 3,253 million in 2017 representing an increase of HRK 1,131 million compared to 2016, which is in line with change in EBITDA performance compared to the previous year.
- 17 **Changes in working capital** affected the operating cash flow negatively by HRK 736 million, due to:
- Increased value of inventories by HRK 327 million mainly related to different processing dynamics in both refineries together with higher average prices
 - Decrease in trade and other payables by HRK 333 million related to imported crude oil
 - Increase in receivables by HRK 76 million mainly as a result of higher sales revenues
- 18 **Net outflows in investing activities** amounted to HRK 1,363 million, in comparison with HRK 1,510 million outflows in 2016.

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

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

HRK mn	2016	2017
INA GROUP		
Total impact of special items on operating profit/(loss)	(235)	39
Total impact of special items on EBITDA	(315)	4
Exploration & Production		
Total impact of special items on operating profit/(loss)	(13)	253
Total impact of special items on EBITDA	(25)	4
Severance payment	(25)	-
Retranslation related to Angola		4
Net Provisions for incentives	(12)	-
Reversal of provisions for additional tax Angola including retranslation		249
Refining & Marketing including Retail		
Total impact of special items on operating profit/(loss)	(20)	(115)
Total impact of special items on EBITDA	(219)	-
Environment related provision	-	(115)
Severance payment	(219)	-
Net Provisions for incentives	(199)	-
Corporate functions		
Total impact of special items on operating profit/(loss)	(201)	(100)
Total impact of special items on EBITDA	(71)	-
Severance payment	(71)	-
Impairment of assets	(139)	(100)
Net Provisions for incentives	(9)	-

In addition to international accounting standards, international reporting standards and regulatory requests the company discloses special items to achieve a higher level of transparency and to provide better understanding of the usual business operations. Business events not occurring regularly and having significant effect on operations and results are considered as special items. INA has adopted the materiality level for the special items in the amount of USD 10 million or above. In 2017, the result was materially impacted by Agreement between Angola Ministry of Finance and INA regarding the settlement of the Additional tax and Profit Oil in Angolan Blocks for previous periods, as well as certain environment related provisions. If special items reaches materiality level on cumulative basis, previous quarters are restated.

Furthermore, in accordance with the adopted accounting policies and IFRS 36 – Impairment of Assets, INA performs impairment testing at the end of each reporting period if impairment indicators are assessed to be significant. This resulted in HRK 100 million CROSCO asset impairment.

Financial instruments and risk management

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

As of 31 December 2017 INA had:

- opened short-term forward commodity swap transactions to hedge its exposure to changes in pricing periods, inventory levels and refinery margins
- contracted and available short-term credit lines amounting to HRK 2.24 bn excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products and
- contracted and available long-term credit lines amounting to HRK 2.75 bn.

*Subsequent events***Organizational changes in Refining**

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

Energopetrol

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

Related party transactions

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

INA-Group	Sales of goods	Purchase of goods
HRK mln	31 December 2017	31 December 2017
Companies available for sale		
JANAF d.d. Zagreb	2	52
Strategic partner		
MOL Nyrt.	217	701
Companies controlled by strategic partner		
Tifon d.o.o.	536	8
MOL SLOVENIJA d.o.o.	91	63
MOL Petrochemical	65	4
MOL Serbia	57	-
MOL-LUB Kft.	5	4
Slovnaft, a.s.	3	226
MOL Norge AS	2	-
Petrolszolg Kft.	1	-
Geoinform Kft.	1	-
IES-Italiana Eenergia e Servizi s.p.a	-	3
<hr/>		
INA-Group	Amounts owed from related parties	Amounts owed to related parties
HRK mln	31 December 2017	31 December 2017
Companies available for sale		
JANAF d.d. Zagreb	1	14
Strategic partner		
MOL Nyrt.	27	53
Companies controlled by strategic partner		
Tifon d.o.o.	70	1
MOL SLOVENIJA d.o.o.	4	6
MOL Serbia	4	-
MOL Norge AS	2	-
Slovnaft, a.s.	-	11
MOL-LUB Kft.	-	1
IES S.p.A - Refinery	-	1
MOL Commodity Trading Kft.	59	57

Management representation

INA Group's consolidated financial statements for the period ended 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS), i.e. they present fairly, in all material aspects, the financial position of the company, results of its operations and cash flows.

Management Board:

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