

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

**and INA GROUP**

**Consolidated and unconsolidated**

**Financial Statements and Notes for the year ended**

**31 December 2009**

**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 published by the International Accounting Standards Board ("IASB").

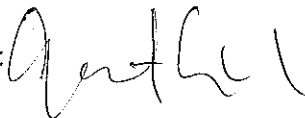
International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. The Board is also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- make an assessment of the Company's ability to continue as a going concern.

After making enquiries, the Board has formed a judgement, at the time of approving the financial statements, that there is 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 Board continues to adopt the going concern basis in preparing the financial statements.

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

Signed on behalf of the Group:



**László Geszti, the President of the Management Board of INA**

INA - Industrija Nafte d.d.  
Avenija Većeslava Holjevcica 10  
10000 Zagreb  
Republic of Croatia

9 March 2010

## Independent Auditors' Report

To the Shareholders of INA - Industrija Naft e d.d.

We have audited the accompanying consolidated and unconsolidated financial statements of INA - Industrija Naft e d.d. ("the Company") and its subsidiaries ("the Group"), set out on pages 4 to 143, which comprise the consolidated and unconsolidated balance sheets as at 31 December 2009, and the consolidated and unconsolidated income statements, consolidated and unconsolidated statement of comprehensive income, consolidated and unconsolidated statements of changes in equity and consolidated and unconsolidated cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's and the Group's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

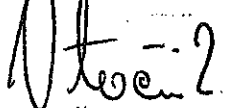
### *Opinion*

Društvo upisano u sudski registar Trgovačkog suda u Zagrebu: MBS 030022053; uplaćen temeljni kapital: 44.900,00 kuna; članovi uprave: Branislav Vrtačnik i Paul Trinder; poslovna banka: Zagrebačka banka d.d., Paromilinska 2, 10 000 Zagreb, ž. račun/bank account no. 2360000-1101896313; devizni račun: 2100312441 SWIFT Code: ZABHR2X IBAN: HR27 2360 0001 1018 9631 3; Privredna banka Zagreb d.d., Račkoga 6, 10 000 Zagreb, ž. račun/bank account no. 2340009-1110098294; devizni račun: 70010-519758 SWIFT Code: PBZGHR2X IBAN: HR38 2340 0091 1100 9829 4; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, ž. račun/bank account no. 2484008-1100240905; devizni račun: 2100002537 SWIFT Code: RZBHR2X IBAN: HR48 2484 0082 1000 0253 7

Deloitte se odnosi na tvrtku Deloitte Touche Tohmatsu, osnovanu u skladu sa švicarskim pravom (Swiss Verein) i mrežu njegovih tvrtki članica, od kojih je svaka pravno odvojena i samostalna osoba. Molimo posjetite [www.deloitte.com/hr/o-nama](http://www.deloitte.com/hr/o-nama) za detaljni opis pravne strukture Deloitte Touche Tohmatsu i njegovih tvrtki članica.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2009, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte d.o.o.

A handwritten signature in black ink, appearing to read 'B. Vrtačnik', written over a faint dotted line.

**Branislav Vrtačnik, Certified Auditor**

Zagreb, Republic of Croatia

9 March 2010

INA - INDUSTRIJA NAFTE d.d.  
INA Group Consolidated Income Statement  
For the year ended 31 December 2009  
(all amounts in HRK millions)

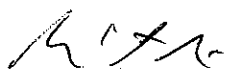
|                                                                  | Notes | Year ended<br>31 December<br>2009 | Year ended<br>31 December<br>2008 |
|------------------------------------------------------------------|-------|-----------------------------------|-----------------------------------|
| <b>Continuing operations</b>                                     |       |                                   |                                   |
| Sales revenue                                                    |       |                                   |                                   |
| a) domestic                                                      |       | 12,254                            | 16,965                            |
| b) exports                                                       |       | 8,119                             | 10,179                            |
| <b>Total sales revenue</b>                                       | 3     | <b>20,373</b>                     | <b>27,144</b>                     |
| Income from own consumption of products and services             |       | 189                               | 677                               |
| Other operating income                                           | 4     | 1,356                             | 638                               |
| <b>Total operating income</b>                                    |       | <b>21,918</b>                     | <b>28,459</b>                     |
| Changes in inventories of finished products and work in progress |       | (50)                              | (51)                              |
| Cost of raw materials and consumables                            |       | (10,461)                          | (13,765)                          |
| Depreciation and amortisation                                    | 5     | (1,507)                           | (1,371)                           |
| Other material costs                                             |       | (1,909)                           | (2,732)                           |
| Service costs                                                    |       | (1,169)                           | (1,515)                           |
| Staff costs                                                      | 6     | (2,802)                           | (2,922)                           |
| Cost of other goods sold                                         |       | (1,514)                           | (3,910)                           |
| Impairment and charges                                           |       | (1,210)                           | (829)                             |
| Provision for charges and risks (net)                            |       | (249)                             | (54)                              |
| <b>Operating expenses</b>                                        |       | <b>(20,871)</b>                   | <b>(27,149)</b>                   |
| <b>Profit from operations</b>                                    |       | <b>1,047</b>                      | <b>1,310</b>                      |
| Finance income                                                   | 7     | 399                               | 411                               |
| Finance costs                                                    | 8     | (794)                             | (1,191)                           |
| <b>Net loss from financial activities</b>                        |       | <b>(395)</b>                      | <b>(780)</b>                      |
| Profit before tax                                                |       | 652                               | 530                               |
| Income tax expense                                               | 9     | (35)                              | (178)                             |
| <b>Profit for the year from continuing operations</b>            |       | <b>617</b>                        | <b>352</b>                        |
| <b>Discontinued operations</b>                                   |       |                                   |                                   |
| Loss for the year from discontinued operations                   | 10    | (1,011)                           | (1,450)                           |
| <b>Loss for the year</b>                                         |       | <b>(394)</b>                      | <b>(1,098)</b>                    |

INA - INDUSTRIJA NAFTE d.d.  
 INA Group Consolidated Income Statement  
 For the year ended 31 December 2009  
 (all amounts in HRK millions)

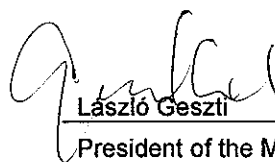
|                                                                                                   | <u>Notes</u> | <u>Year ended<br/>31 December<br/>2009</u> | <u>Year ended<br/>31 December<br/>2008</u> |
|---------------------------------------------------------------------------------------------------|--------------|--------------------------------------------|--------------------------------------------|
| <b>Attributable to:</b>                                                                           |              |                                            |                                            |
| Owners of the Company                                                                             |              | (392)                                      | (1,099)                                    |
| Non-controlling interests                                                                         |              | (2)                                        | 1                                          |
|                                                                                                   |              | <u>(394)</u>                               | <u>(1,098)</u>                             |
| <b>Earnings/(loss) per share</b>                                                                  |              |                                            |                                            |
| Basic and diluted loss per share (kunas per share)<br>from continuing and discontinued operations | 11           | (39.2)                                     | (109.9)                                    |
| Basic and diluted earnings per share (kunas per share)<br>from continuing operations              |              | 61.9                                       | 35.1                                       |

Signed on behalf of the Group on 9 March 2010 by:

András Huszár



Executive Director for Finance



László Geszti

President of the Management Board

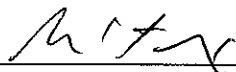
The accompanying accounting policies and notes form an integral part of this consolidated income statement.

INA - INDUSTRIJA NAFTE d.d.  
 INA Group Consolidated Statement of Comprehensive Income  
 For the year ended 31 December 2009  
 (all amounts in HRK millions)

| <u>Notes</u>                                         | <u>Year ended<br/>31 December<br/>2009</u> | <u>Year ended<br/>31 December<br/>2008</u> |
|------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| <b>Loss for the year</b>                             | <u>(394)</u>                               | <u>(1,098)</u>                             |
| Other comprehensive income:                          |                                            |                                            |
| Exchange differences arising from foreign operations | 4                                          | 6                                          |
| Gains/(loss) on available-for-sale investments, net  | <u>145</u>                                 | <u>(364)</u>                               |
| <b>Other comprehensive income/(loss), net</b>        | <u>149</u>                                 | <u>(358)</u>                               |
| <b>Total comprehensive loss for the year</b>         | <u>(245)</u>                               | <u>(1,456)</u>                             |
| <b>Attributable to:</b>                              |                                            |                                            |
| Owners of the Company                                | (243)                                      | (1,457)                                    |
| Non-controlling interests                            | (2)                                        | 1                                          |

Signed on behalf of the Group on 9 March 2010 by:

András Huszár



Executive Director for Finance



László Geszti

President of the Management Board

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



INA - INDUSTRIJA NAFTE d.d.  
 INA, d.d. Unconsolidated Income Statement  
 For the year ended 31 December 2009  
 (all amounts in HRK millions)

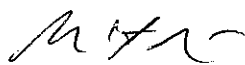
|                                                                  | Notes | Year ended<br>31 December<br>2009 | Year ended<br>31 December<br>2008 |
|------------------------------------------------------------------|-------|-----------------------------------|-----------------------------------|
| <b>Continuing operations</b>                                     |       |                                   |                                   |
| Sales revenue                                                    |       |                                   |                                   |
| a) domestic                                                      |       | 11,636                            | 16,114                            |
| b) exports                                                       |       | 5,832                             | 7,628                             |
| <b>Total sales revenue</b>                                       | 3     | <b>17,468</b>                     | <b>23,742</b>                     |
| Income from own consumption of products and services             |       | 15                                | 14                                |
| Other operating income                                           | 4     | 654                               | 983                               |
| <b>Total operating income</b>                                    |       | <b>18,137</b>                     | <b>24,739</b>                     |
| Changes in inventories of finished products and work in progress |       | (32)                              | (55)                              |
| Cost of raw materials and consumables                            |       | (9,996)                           | (13,332)                          |
| Depreciation and amortisation                                    | 5     | (1,221)                           | (1,100)                           |
| Other material costs                                             |       | (1,507)                           | (1,856)                           |
| Service costs                                                    |       | (877)                             | (1,158)                           |
| Staff costs                                                      | 6     | (1,694)                           | (1,752)                           |
| Cost of other goods sold                                         |       | (1,184)                           | (3,187)                           |
| Impairment and charges                                           |       | (1,115)                           | (794)                             |
| Provision for charges and risks (net)                            |       | (226)                             | (26)                              |
| <b>Operating expenses</b>                                        |       | <b>(17,852)</b>                   | <b>(23,260)</b>                   |
| <b>Profit from operations</b>                                    |       | <b>285</b>                        | <b>1,479</b>                      |
| Finance income                                                   | 7     | 348                               | 342                               |
| Finance costs                                                    | 8     | (752)                             | (1,051)                           |
| <b>Loss from financial activities</b>                            |       | <b>(404)</b>                      | <b>(709)</b>                      |
| <b>(Loss) / profit before tax</b>                                |       | <b>(119)</b>                      | <b>770</b>                        |
| Income tax expense / (benefit)                                   | 9     | 8                                 | (160)                             |
| <b>(Loss) / profit for the year from continuing operations</b>   |       | <b>(111)</b>                      | <b>610</b>                        |
| <b>Discontinued operations</b>                                   |       |                                   |                                   |
| Loss for the year from discontinued operations                   | 10    | (520)                             | (1,450)                           |
| <b>Loss for the year</b>                                         |       | <b>(631)</b>                      | <b>(840)</b>                      |

INA - INDUSTRIJA NAFTE d.d.  
 INA, d.d. Unconsolidated Income Statement  
 For the year ended 31 December 2009  
 (all amounts in HRK millions)

|                                                                                                | Notes | Year ended<br>31 December<br>2009 | Year ended<br>31 December<br>2008 |
|------------------------------------------------------------------------------------------------|-------|-----------------------------------|-----------------------------------|
| <b>Earnings/(loss) per share</b>                                                               |       |                                   |                                   |
|                                                                                                | 11    |                                   |                                   |
| Basic and diluted loss per share (kunas per share) from continuing and discontinued operations |       | (63.1)                            | (84.0)                            |
| Basic and diluted (loss) / earnings per share (kunas per share) from continuing operations     |       | (11.1)                            | 61.0                              |

Signed on behalf of the Company on 9 March 2010 by:

András Huszár



Executive Director for Finance



László Gészti

President of the Management Board

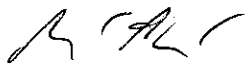
The accompanying accounting policies and notes form an integral part of this unconsolidated income statement.

INA - INDUSTRIJA NAFTE d.d.  
 INA, d.d. Unconsolidated Statement of Comprehensive Income  
 For the year ended 31 December 2009  
 (all amounts in HRK millions)

| Notes                                                 | Year ended<br>31 December<br>2009 | Year ended<br>31 December<br>2008 |
|-------------------------------------------------------|-----------------------------------|-----------------------------------|
| <b>Loss for the year</b>                              | <u>(631)</u>                      | <u>(840)</u>                      |
| Other comprehensive income:                           |                                   |                                   |
| Gains / (loss) on available-for-sale investments, net | <u>145</u>                        | <u>(364)</u>                      |
| <b>Other comprehensive income/(loss), net</b>         | <u>145</u>                        | <u>(364)</u>                      |
| <b>Total comprehensive loss for the year</b>          | <u>(486)</u>                      | <u>(1,204)</u>                    |

Signed on behalf of the Company on 9 March 2010 by:

András Huszár



Executive Director for Finance



László Geszti

President of the Management Board

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

INA - INDUSTRIJA NAFTE d.d.  
 INA Group Consolidated Balance Sheet  
 At 31 December 2009  
 (all amounts in HRK millions)

| ASSETS                                       | Notes | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
|----------------------------------------------|-------|---------------------|---------------------|-------------------|
| <b>Non-current assets</b>                    |       |                     |                     |                   |
| Intangible assets                            | 12    | 731                 | 664                 | 630               |
| Property, plant and equipment                | 13    | 20,353              | 17,149              | 14,441            |
| Goodwill                                     | 14    | 296                 | 197                 | 163               |
| Investments in associates and joint ventures | 16    | 68                  | 76                  | 124               |
| Other investments                            | 17    | 138                 | 83                  | 62                |
| Long-term receivables                        | 18    | 385                 | 552                 | 658               |
| Derivative financial instruments             | 42    | -                   | 78                  | 226               |
| Deferred tax                                 | 9     | 434                 | 341                 | 37                |
| Available-for-sale assets                    | 19    | 397                 | 201                 | 656               |
| <b>Total non – current assets</b>            |       | <b>22,802</b>       | <b>19,341</b>       | <b>16,997</b>     |
| <b>Current assets</b>                        |       |                     |                     |                   |
| Inventories                                  | 20    | 2,887               | 2,713               | 3,123             |
| Trade receivables, net                       | 21    | 2,925               | 2,914               | 3,072             |
| Other receivables                            | 22    | 805                 | 719                 | 674               |
| Derivative financial instruments             | 42    | 56                  | 106                 | 97                |
| Other current assets                         | 23    | 32                  | 38                  | 50                |
| Prepaid expenses and accrued income          | 24    | 72                  | 167                 | 183               |
| Cash and cash equivalents                    | 25    | 367                 | 579                 | 720               |
|                                              |       | <b>7,144</b>        | <b>7,236</b>        | <b>7,919</b>      |
| Assets classified as held for sale           | 26    | 121                 | 36                  | -                 |
| <b>Total current assets</b>                  |       | <b>7,265</b>        | <b>7,272</b>        | <b>7,919</b>      |
| <b>TOTAL ASSETS</b>                          |       | <b>30,067</b>       | <b>26,613</b>       | <b>24,916</b>     |

Signed on behalf of the Group on 9 March 2010 by:

András Huszár



Executive Director for Finance



László Geszti

President of the Management Board

The accompanying accounting policies and notes form an integral part of this consolidated balance sheet.

INA - INDUSTRIJA NAFTE d.d.  
 INA Group Consolidated Balance Sheet  
 At 31 December 2009  
 (all amounts in HRK millions)

| <b>EQUITY AND LIABILITIES</b>                                        | <b>Notes</b> | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> | <b>1 January<br/>2008</b> |
|----------------------------------------------------------------------|--------------|-----------------------------|-----------------------------|---------------------------|
| <b>Capital and reserves</b>                                          |              |                             |                             |                           |
| Share capital                                                        | 34           | 9,000                       | 9,000                       | 9,000                     |
| Revaluation reserve                                                  | 35           | 10                          | (135)                       | 229                       |
| Other reserves                                                       | 36           | 2,311                       | 2,307                       | 2,301                     |
| Retained earnings                                                    | 37           | 463                         | 855                         | 2,104                     |
| <b>Equity attributable to owners of the Company</b>                  |              | <b>11,784</b>               | <b>12,027</b>               | <b>13,634</b>             |
| Non-controlling interests                                            | 38           | 8                           | 10                          | 9                         |
| <b>TOTAL EQUITY</b>                                                  |              | <b>11,792</b>               | <b>12,037</b>               | <b>13,643</b>             |
| <b>Non – current liabilities</b>                                     |              |                             |                             |                           |
| Long-term loans                                                      | 30           | 5,764                       | 4,554                       | 3,130                     |
| Other non-current liabilities                                        | 31           | 139                         | 138                         | 144                       |
| Employee benefit obligation                                          | 33           | 126                         | 107                         | 91                        |
| Provisions                                                           | 32           | 2,573                       | 1,380                       | 1,406                     |
| <b>Total non-current liabilities</b>                                 |              | <b>8,602</b>                | <b>6,179</b>                | <b>4,771</b>              |
| <b>Current liabilities</b>                                           |              |                             |                             |                           |
| Bank loans and overdrafts                                            | 27           | 2,104                       | 2,492                       | 1,664                     |
| Current portion of long-term loans                                   | 27           | 655                         | 98                          | 129                       |
| Trade payables                                                       | 28           | 4,286                       | 3,815                       | 3,532                     |
| Taxes and contributions                                              | 28           | 1,781                       | 1,211                       | 648                       |
| Other current liabilities                                            | 28           | 415                         | 342                         | 269                       |
| Accruals and deferred income                                         | 29           | 157                         | 237                         | 198                       |
| Employee benefit obligation                                          | 33           | 17                          | 17                          | 15                        |
| Provisions                                                           | 32           | 229                         | 185                         | 47                        |
|                                                                      |              | 9,644                       | 8,397                       | 6,502                     |
| Liabilities directly associated with assets classified held for sale | 26           | 29                          | -                           | -                         |
| <b>Total current liabilities</b>                                     |              | <b>9,673</b>                | <b>8,397</b>                | <b>6,502</b>              |
| <b>TOTAL LIABILITIES</b>                                             |              | <b>18,275</b>               | <b>14,576</b>               | <b>11,273</b>             |
| <b>TOTAL EQUITY AND LIABILITIES</b>                                  |              | <b>30,067</b>               | <b>26,613</b>               | <b>24,916</b>             |

Signed on behalf of the Group on 9 March 2010 by:

András Huszár  
 Executive Director for Finance

László Geszti  
 President of the Management Board

The accompanying accounting policies and notes form an integral part of this consolidated balance sheet.

INA - INDUSTRIJA NAFTE d.d.  
 INA, d.d. Unconsolidated Balance Sheet  
 At 31 December 2009  
 (all amounts in HRK millions)

| <b>ASSETS</b>                                | <b>Notes</b> | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> | <b>1 January<br/>2008</b> |
|----------------------------------------------|--------------|-----------------------------|-----------------------------|---------------------------|
| <b>Non-current assets</b>                    |              |                             |                             |                           |
| Intangible assets                            | 12           | 716                         | 648                         | 625                       |
| Property, plant and equipment                | 13           | 18,120                      | 14,643                      | 12,269                    |
| Investment in subsidiaries                   | 15           | 1,257                       | 1,259                       | 1,286                     |
| Investments in associates and joint ventures | 16           | 189                         | 189                         | 189                       |
| Other investments                            | 17           | 403                         | 375                         | 426                       |
| Long-term receivables                        | 18           | 496                         | 662                         | 674                       |
| Derivative financial instruments             | 42           | -                           | 78                          | 226                       |
| Deferred tax                                 | 9            | 429                         | 327                         | 34                        |
| Available-for-sale assets                    | 19           | 397                         | 201                         | 656                       |
| <b>Total non-current assets</b>              |              | <b>22,007</b>               | <b>18,382</b>               | <b>16,385</b>             |
| <b>Current assets</b>                        |              |                             |                             |                           |
| Inventories                                  | 20           | 2,314                       | 2,129                       | 2,581                     |
| Intercompany receivables                     |              | 1,544                       | 584                         | 706                       |
| Trade receivables, net                       | 21           | 1,332                       | 1,799                       | 2,092                     |
| Other receivables                            | 22           | 577                         | 616                         | 583                       |
| Derivative financial instruments             | 42           | 27                          | 106                         | 97                        |
| Other current assets                         | 23           | 159                         | 144                         | 90                        |
| Prepaid expenses and accrued income          | 24           | 36                          | 115                         | 151                       |
| Cash and cash equivalents                    | 25           | 68                          | 318                         | 299                       |
|                                              |              | <b>6,057</b>                | <b>5,811</b>                | <b>6,599</b>              |
| Assets classified as held for sale           | 26           | -                           | 514                         | -                         |
| <b>Total current assets</b>                  |              | <b>6,057</b>                | <b>6,325</b>                | <b>6,599</b>              |
| <b>TOTAL ASSETS</b>                          |              | <b>28,064</b>               | <b>24,707</b>               | <b>22,984</b>             |

Signed on behalf of the Company on 9 March 2010 by:

András Huszár

Executive Director for Finance




László Geszti

President of the Management Board

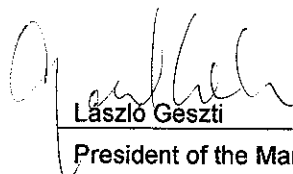
The accompanying accounting policies and notes form an integral part of this unconsolidated balance sheet.

INA - INDUSTRIJA NAFTE d.d.  
 INA, d.d. Unconsolidated Balance Sheet  
 At 31 December 2009  
 (all amounts in HRK millions)

| <b>EQUITY AND LIABILITIES</b>        | <b>Notes</b> | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> | <b>1 January<br/>2008</b> |
|--------------------------------------|--------------|-----------------------------|-----------------------------|---------------------------|
| <b>Capital and reserves</b>          |              |                             |                             |                           |
| Share capital                        | 34           | 9,000                       | 9,000                       | 9,000                     |
| Revaluation reserve                  | 35           | 10                          | (135)                       | 229                       |
| Other reserves                       | 36           | 1,952                       | 1,952                       | 1,952                     |
| Retained earnings                    | 37           | (211)                       | 420                         | 1,410                     |
| <b>TOTAL EQUITY</b>                  |              | <b>10,751</b>               | <b>11,237</b>               | <b>12,591</b>             |
| <b>Non-current liabilities</b>       |              |                             |                             |                           |
| Long term loans                      | 30           | 5,646                       | 4,331                       | 2,988                     |
| Other non-current liabilities        | 31           | 125                         | 134                         | 144                       |
| Employee benefit obligation          | 33           | 84                          | 76                          | 65                        |
| Provisions                           | 32           | 2,541                       | 1,313                       | 1,331                     |
| <b>Total non-current liabilities</b> |              | <b>8,396</b>                | <b>5,854</b>                | <b>4,528</b>              |
| <b>Current liabilities</b>           |              |                             |                             |                           |
| Bank loans and overdrafts            | 27           | 581                         | 249                         | 97                        |
| Current portion of long-term loans   | 27           | 575                         | 47                          | 45                        |
| Intercompany payables                |              | 2,878                       | 3,288                       | 3,096                     |
| Trade payables                       | 28           | 2,704                       | 2,574                       | 1,876                     |
| Taxes and contributions              | 28           | 1,585                       | 1,088                       | 535                       |
| Other current liabilities            | 28           | 338                         | 155                         | 86                        |
| Accruals and deferred income         | 29           | 54                          | 56                          | 97                        |
| Employee benefit obligation          | 33           | 12                          | 11                          | 8                         |
| Provisions                           | 32           | 190                         | 148                         | 25                        |
| <b>Total current liabilities</b>     |              | <b>8,917</b>                | <b>7,616</b>                | <b>5,865</b>              |
| <b>TOTAL LIABILITIES</b>             |              | <b>17,313</b>               | <b>13,470</b>               | <b>10,393</b>             |
| <b>TOTAL EQUITY AND LIABILITIES</b>  |              | <b>28,064</b>               | <b>24,707</b>               | <b>22,984</b>             |

Signed on behalf of the Company on 9 March 2010 by:

András Huszár  
 Executive Director for Finance

  
 László Geszti  
 President of the Management Board

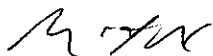
The accompanying accounting policies and notes form an integral part of this unconsolidated balance sheet.

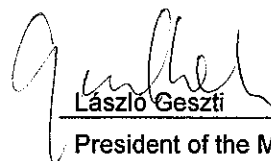
INA - INDUSTRIJA NAFTE d.d.  
 INA Group Consolidated Statement of Changes in Equity  
 For the year ended 31 December 2009  
 (all amounts in HRK millions)

|                                              | Share capital | Other reserves | Revaluation reserves | Retained earnings | Attributable to equity holders of the parent | Non controlling interest | Total          |
|----------------------------------------------|---------------|----------------|----------------------|-------------------|----------------------------------------------|--------------------------|----------------|
| <b>Balance at 1 January 2008</b>             | <b>9,000</b>  | <b>2,301</b>   | <b>229</b>           | <b>2,104</b>      | <b>13,634</b>                                | <b>9</b>                 | <b>13,643</b>  |
| Loss for the year                            | -             | -              | -                    | (1,099)           | (1,099)                                      | 1                        | (1,098)        |
| Other comprehensive loss, net                | -             | 6              | (364)                | -                 | (358)                                        | -                        | (358)          |
| <b>Total comprehensive loss for the year</b> | <b>-</b>      | <b>6</b>       | <b>(364)</b>         | <b>(1,099)</b>    | <b>(1,457)</b>                               | <b>1</b>                 | <b>(1,456)</b> |
| Dividend paid                                | -             | -              | -                    | (150)             | (150)                                        | -                        | (150)          |
| <b>Balance at 31 December 2008</b>           | <b>9,000</b>  | <b>2,307</b>   | <b>(135)</b>         | <b>855</b>        | <b>12,027</b>                                | <b>10</b>                | <b>12,037</b>  |
| <b>Balance at 1 January 2009</b>             | <b>9,000</b>  | <b>2,307</b>   | <b>(135)</b>         | <b>855</b>        | <b>12,027</b>                                | <b>10</b>                | <b>12,037</b>  |
| Loss for the year                            | -             | -              | -                    | (392)             | (392)                                        | (2)                      | (394)          |
| Other comprehensive income, net              | -             | 4              | 145                  | -                 | 149                                          | -                        | 149            |
| <b>Total comprehensive loss for the year</b> | <b>-</b>      | <b>4</b>       | <b>145</b>           | <b>(392)</b>      | <b>(243)</b>                                 | <b>(2)</b>               | <b>(245)</b>   |
| <b>Balance at 31 December 2009</b>           | <b>9,000</b>  | <b>2,311</b>   | <b>10</b>            | <b>463</b>        | <b>11,784</b>                                | <b>8</b>                 | <b>11,792</b>  |

Signed on behalf of the Group on 9 March 2010 by:

András Huszár  
 Executive Director for Finance



  
 László Geszti  
 President of the Management Board

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



INA - INDUSTRIJA NAFTE d.d.

INA, d.d. Unconsolidated Statement of Changes in Equity

For the year ended 31 December 2009

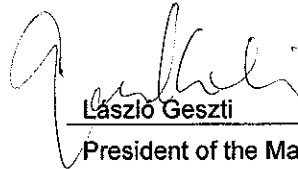
(all amounts in HRK millions)

|                                              | Share capital | Other reserves | Revaluation reserves | Retained earnings / (Accumulated deficit) | Total          |
|----------------------------------------------|---------------|----------------|----------------------|-------------------------------------------|----------------|
| <b>Balance at 1 January 2008</b>             | <b>9,000</b>  | <b>1,952</b>   | <b>229</b>           | <b>1,410</b>                              | <b>12,591</b>  |
| Loss for the year                            | -             | -              | -                    | (840)                                     | (840)          |
| Other comprehensive loss, net                | -             | -              | (364)                | -                                         | (364)          |
| <b>Total comprehensive loss for the year</b> | <b>-</b>      | <b>-</b>       | <b>(364)</b>         | <b>(840)</b>                              | <b>(1,204)</b> |
| Dividend paid                                | -             | -              | -                    | (150)                                     | (150)          |
| <b>Balance at 31 December 2008</b>           | <b>9,000</b>  | <b>1,952</b>   | <b>(135)</b>         | <b>420</b>                                | <b>11,237</b>  |
| <b>Balance at 1 January 2009</b>             | <b>9,000</b>  | <b>1,952</b>   | <b>(135)</b>         | <b>420</b>                                | <b>11,237</b>  |
| Loss for the year                            | -             | -              | -                    | (631)                                     | (631)          |
| Other comprehensive income, net              | -             | -              | 145                  | -                                         | 145            |
| <b>Total comprehensive loss for the year</b> | <b>-</b>      | <b>-</b>       | <b>145</b>           | <b>(631)</b>                              | <b>(486)</b>   |
| <b>Balance at 31 December 2009</b>           | <b>9,000</b>  | <b>1,952</b>   | <b>10</b>            | <b>(211)</b>                              | <b>10,751</b>  |

Signed on behalf of the Company on 9 March 2010 by:

András Huszár

Executive Director for Finance

  
László Geszti

President of the Management Board

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

INA - INDUSTRIJA NAFTE d.d.  
INA Group Consolidated Cash Flow Statement  
For the year ended 31 December 2009  
(all amounts in HRK millions)

|                                                                                             | Year ended<br>31 December<br>2009 | Year ended<br>31 December<br>2008 |
|---------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
| Notes                                                                                       |                                   |                                   |
| <b>Loss for the year</b>                                                                    | <b>(394)</b>                      | <b>(1,098)</b>                    |
| <b>Adjustments for:</b>                                                                     |                                   |                                   |
| Depreciation and amortisation                                                               | 1,507                             | 1,371                             |
| Income tax benefit recognized in loss                                                       | (95)                              | (184)                             |
| Impairment charges                                                                          | 1,256                             | 991                               |
| Reversal of impairment                                                                      | (128)                             | (60)                              |
| Gain on sale of property, plant and equipment                                               | (10)                              | (10)                              |
| Foreign exchange (gain)/loss                                                                | (79)                              | 409                               |
| Interest expense (net)                                                                      | 184                               | 90                                |
| Other finance expense recognised in profit                                                  | 149                               | 152                               |
| Increase in provisions                                                                      | 50                                | 181                               |
| Net book value of sold assets classified as held for sale                                   | 42                                | -                                 |
| Decommissioning interests                                                                   | 126                               | 120                               |
| Other non-cash items                                                                        | 4                                 | 9                                 |
|                                                                                             | <b>2,612</b>                      | <b>1,971</b>                      |
| <b>Movements in working capital</b>                                                         |                                   |                                   |
| Increase in inventories                                                                     | (269)                             | (186)                             |
| (Increase)/decrease in receivables and prepayments                                          | (170)                             | 269                               |
| Increase in trade and other payables                                                        | 812                               | 708                               |
| <b>Cash generated from operations</b>                                                       | <b>2,985</b>                      | <b>2,762</b>                      |
| Taxes paid                                                                                  | (25)                              | (133)                             |
| <b>Net cash inflow from operating activities</b>                                            | <b>2,960</b>                      | <b>2,629</b>                      |
| <b>Cash flows used in investing activities</b>                                              |                                   |                                   |
| Payments for property, plant and equipment                                                  | (4,183)                           | (4,079)                           |
| Payments for intangible assets                                                              | (163)                             | (292)                             |
| Proceeds from sale of non-current assets                                                    | 15                                | -                                 |
| Acquisition of Drill Trans Group                                                            | (103)                             | -                                 |
| Dividends received from companies classified as available for sale and from other companies | 3                                 | 2                                 |
| Investments and loans to third parties, net                                                 | (59)                              | 15                                |
| <b>Net cash used for investing activities</b>                                               | <b>(4,490)</b>                    | <b>(4,354)</b>                    |


INA - INDUSTRIJA NAFTE d.d.  
 INA Group Consolidated Cash Flow Statement  
 For the year ended 31 December 2009  
 (all amounts in HRK millions)

|                                                               | Year ended<br>31 December<br><u>Notes</u> <u>2009</u> | Year ended<br>31 December<br><u>2008</u> |
|---------------------------------------------------------------|-------------------------------------------------------|------------------------------------------|
| <b>Cash flows from financing activities</b>                   |                                                       |                                          |
| Additional long-term borrowings                               | 2,044                                                 | 1,331                                    |
| Repayment of long-term borrowings                             | (120)                                                 | (112)                                    |
| Additional short-term borrowings                              | 8,705                                                 | 15,853                                   |
| Repayment of short-term borrowings                            | (9,127)                                               | (15,046)                                 |
| Interest paid on long-term loans                              | (70)                                                  | (150)                                    |
| Other long-term liabilities, net                              | (8)                                                   | (6)                                      |
| Dividends paid                                                | -                                                     | (150)                                    |
| Interest paid on short-term loans and other financing charges | (103)                                                 | (135)                                    |
| <b>Net cash from financing activities</b>                     | <b><u>1,321</u></b>                                   | <b><u>1,585</u></b>                      |
| <b>Net decrease in cash and cash equivalents</b>              |                                                       |                                          |
| At 1 January                                                  | 579                                                   | 720                                      |
| Effect of foreign exchange rate changes                       | (3)                                                   | (1)                                      |
| <b>At 31 December</b>                                         | <b>25      <u>367</u></b>                             | <b><u>579</u></b>                        |

Signed on behalf of the Group on 9 March 2010 by:

András Huszár

Executive Director for Finance

  
 László Geszti

President of the Management Board

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

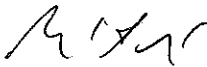
INA - INDUSTRIJA NAFTE d.d.  
 INA, d.d. Unconsolidated Cash Flow Statement  
 For the year ended 31 December 2009  
 (all amounts in HRK millions)

|                                                                                               | Year ended<br>31 December<br>2009 | Year ended<br>31 December<br>2008 |
|-----------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
|                                                                                               | <b>Notes</b>                      |                                   |
| <b>Loss for the year</b>                                                                      | <b>(631)</b>                      | <b>(840)</b>                      |
| <b>Adjustments for:</b>                                                                       |                                   |                                   |
| Depreciation and amortisation                                                                 | 1,221                             | 1,101                             |
| Income tax benefit recognized in loss                                                         | (138)                             | (202)                             |
| Impairment charges                                                                            | 1,115                             | 952                               |
| Reversal of impairment                                                                        | (261)                             | (141)                             |
| Gain on sale of property plant and equipment                                                  | (9)                               | (18)                              |
| Gain on sale of shares or stakes                                                              | -                                 | (8)                               |
| Foreign exchange (gain)/loss                                                                  | (91)                              | 398                               |
| Interest expense (net)                                                                        | 158                               | 49                                |
| Other finance expense recognised in loss                                                      | 151                               | 140                               |
| Increase in provisions                                                                        | 72                                | 274                               |
| Net book value of sold assets classified as held for sale                                     | -                                 | (496)                             |
| Decommissioning interests                                                                     | 126                               | 120                               |
|                                                                                               | <b>1,713</b>                      | <b>1,329</b>                      |
| <b>Movements in working capital</b>                                                           |                                   |                                   |
| Increase in inventories                                                                       | (126)                             | (155)                             |
| (Increase)/decrease in receivables and prepayments                                            | (166)                             | 446                               |
| Increase in trade and other payables                                                          | 333                               | 1,209                             |
| <b>Cash generated from operations</b>                                                         | <b>1,754</b>                      | <b>2,829</b>                      |
| Taxes paid                                                                                    | -                                 | (56)                              |
| <b>Net cash inflow from operating activities</b>                                              | <b>1,754</b>                      | <b>2,773</b>                      |
| <b>Cash flows used in investing activities</b>                                                |                                   |                                   |
| Payment for property, plant and equipment                                                     | (4,064)                           | (3,547)                           |
| Payment for intangible assets                                                                 | (158)                             | (282)                             |
| Proceeds from sale of non-current assets                                                      | 9                                 | 21                                |
| Proceeds from sale of investments                                                             | -                                 | 9                                 |
| Aquisition for investments in subsidiaries, associates and joint ventures and other companies | -                                 | (24)                              |
| Dividends received from companies classified as available for sale and from other companies   | 3                                 | 2                                 |
| Interest received                                                                             | 10                                | -                                 |
| Investments and loans, net                                                                    | (35)                              | 74                                |
| <b>Net cash used in investing activities</b>                                                  | <b>(4,235)</b>                    | <b>(3,747)</b>                    |

INA - INDUSTRIJA NAFTE d.d.  
 INA, d.d. Unconsolidated Cash Flow Statement  
 For the year ended 31 December 2009  
 (all amounts in HRK millions)

|                                                               | Year ended<br>31 December<br>2009 | Year ended<br>31 December<br>2008 |
|---------------------------------------------------------------|-----------------------------------|-----------------------------------|
|                                                               | <u>Notes</u>                      |                                   |
| <b>Cash flows from financing activities</b>                   |                                   |                                   |
| Additional long-term borrowings                               | 2,041                             | 1,200                             |
| Repayment of long-term borrowings                             | (45)                              | (43)                              |
| Additional short-term borrowings                              | 538                               | 571                               |
| Repayment of short-term borrowings                            | (202)                             | (419)                             |
| Interest paid on long-term loans                              | (66)                              | (138)                             |
| Other long-term liabilities, net                              | (9)                               | (10)                              |
| Interest paid on short term loans and other financing charges | (25)                              | (17)                              |
| Dividends paid                                                | -                                 | (150)                             |
|                                                               | <u>2,232</u>                      | <u>994</u>                        |
| <b>Net cash from financing activities</b>                     |                                   |                                   |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   | <b>(249)</b>                      | <b>20</b>                         |
| At 1 January                                                  | 318                               | 299                               |
| Effect of foreign exchange rate changes                       | (1)                               | (1)                               |
|                                                               | <u>(1)</u>                        | <u>(1)</u>                        |
| <b>At 31 December</b>                                         | <b>25</b>                         | <b>318</b>                        |

Signed on behalf of the Company on 9 March 2010 by:

András Huszár   
 Executive Director for Finance

  
 László Geszti  
 President of the Management Board

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

## 1. GENERAL

### *History and incorporation*

INA - Industrija nafte d.d. (INA), also known under the name INA, d.d., is a joint-stock company whose shareholders are MOL Hungarian Oil and Gas Public Limited Company, holding 47.16 percent of the INA shares, and the Republic of Croatia, with 44.84 percent of the INA shares. INA was founded on 1 January 1964 when the operations of Naftaplin (oil and gas exploration and production) were merged with those of the refineries of Rijeka and Sisak.

By the end of that decade INA had expanded to include the Zagreb refinery, Trgovina (a domestic trade organisation), the OKI and DINA organic petrochemical operations and the Kutina fertiliser plant. In 1974, INA was transformed into a "complex organisation of associated work" or "s.o.u.r.", a step which also involved the formation of a number of separate companies. The organisation continued in this form until 1990 when, under the terms of Law (Official Gazette 42/90 and the 61/91 supplement), INA became a state-owned enterprise.

In 1993 INA became a share based company (or "d.d.") pursuant to a Decree published in the Official Gazette No. 60/93.

Effective 31 December 1996, the Company signed a financial restructuring agreement with the Deposit Insurance and Bank Rehabilitation Agency of the Croatian Government, whereby INA divested the majority of its interests in petrochemicals, fertilisers, tourism and banking in consideration for the assumption by the Agency of certain long-term debt and interest liabilities.

Effective 11 March 2002, the Croatian Government acquired the Company's subsidiary, Plinacro d.o.o., together with a 21.37 % interest in JANAF d.d., the company which owns and operates the Adria pipeline system, in consideration for assuming USD 172 million (HRK 1,438 million) of the company's long-term debt with the London and Paris Clubs.

On 19 March 2002, the Croatian Parliament passed the Law on the Privatisation of INA (Official Gazette 32/02), governing INA's privatisation process by allocating INA's shares to several target groups. Under this legislation, up to 25% plus one share were to be sold to a strategic investor, 15% of shares were to be sold on the basis of public tender, Croatian war veterans and members of their families were to receive up to 7% without consideration, up to 7% were to be sold to present and former employees of INA Group companies and the remaining shares were to be sold or exchanged depending on the prevailing market conditions. The remaining shares were to be exempted to the extent necessary for the compensation to the original, former owners. The Republic of Croatia will maintain ownership of over 25% plus one share of INA, which will be privatised once Croatia becomes a member of the European Union.

The sequence and progress of individual privatisation stages were determined by decisions of the Croatian Government, agreed to by the Croatian Parliament (Official Gazette Nos. 47/02, 77/04, 66/05, 104/06, 113/06, 122/06, 129/06, 77/07, 94/07, 103/07 and 102/08).

During 2002, the Government solicited for, and received, bids from a number of parties interested in acquiring a strategic investment of 25 % plus one share of INA. On 10 November 2003, a transaction was completed whereby MOL Rt (MOL) acquired 25 % plus one share of INA.

**1. GENERAL (continued)**

***History and incorporation (continued)***

In 2005 7%, or 700,000 INA shares, were transferred to the Croatian Homeland Independence War Veterans and Their Family Members' Fund without any fee, in accordance with the decision of the Croatian Government of 12 October 2005, adopted by the Croatian Parliament (Official Gazette 122/2005).

In its session of 22 July 2005, the Croatian Government adopted a decision on forming a Commission to continue the privatisation process of INA - Industrija nafte d.d. (a new Commission member was appointed by a subsequent decision dated 26 August 2005 amending the initial decision).

In 2006 INA went into the next privatization stage. The Government of the Republic of Croatia made available-for-sale 1,700,000 ordinary shares, of INA - Industrija nafte d.d., in a public offering to (1) Croatian citizens with priority rights and on preferential terms and (2) to the extent any shares are not taken up in the Preferential Offering, natural persons, domestic legal persons and foreign investors in Croatia, without priority rights and preferential terms.

The shares became publicly traded on 1 December 2006.

In 2007, based on the Government Decision on the Manner of Sale, Price, Special Privileges, Timing and Terms of the Sale to the existing and former employees of INA – Industrija nafte d.d., dated 19 July 2007 (Official Gazette 77/07), pursuant to the Law on the Privatization of INA – Industrija nafte d.d. (Official Gazette No. 32/2002) and the Amendments to the Decision of 7 September 2007 (Official Gazette No. 94/07), the Croatian Government decided to sell up to 7 % of the shares of INA – Industrija nafte d.d. (700,000 shares).

Based on the Government Decisions, the existing and former employees have purchased 628,695 shares.

On 3 December 2007, 66,754 supplementary shares were transferred from the account of the Croatian Government to the account of the eligible investors under the Decision of the Croatian Government of 14 September 2006 and the Amendments to the Decision of 13 October 2006 and 10 November 2006.

On 14 July 2008, MOL Hungarian Oil and Gas Public Limited Company sent, together with the Republic of Croatia, a letter of intent to the Croatian Financial Services Supervision Agency, announcing a voluntary offer to take over all the shares not held by MOL or the Republic of Croatia.

On 8 September 2008, the Croatian Financial Services Supervision Agency published a decision in the Official Gazette 102/08, by which it approved the publication of the MOL's offer to take over the public joint stock company INA.

The offer placed by MOL was accepted by 26,835 shareholders. Following the takeover offer, the total number of ordinary bearer shares held by MOL is 4,715,538, accounting for 47.15538 percent of the total share capital, representing 47.15538 percent of the votes in the General Meeting of Shareholders.

**1. GENERAL (continued)**

***History and incorporation (continued)***

On 30 January 2009 MOL and the Republic of Croatia represented by the Government of Croatia signed the Amendment to the Shareholders Agreement. Under the Amendment MOL delegates five out of the nine members in the Supervisory Board and three out of six members of the Management Board including the President, resulting in MOL gaining operational control of INA. The Government has veto rights ensuring the national security of energy supply and some decisions with respect to strategic assets of INA, d.d.

The transaction was closed on 10 June 2009 with the election of the new supervisory board of INA following the conditional approval of the Croatian Competition Agency on the transaction.

On 9 June 2009, the Croatian Competition Agency passed a decision allowing a conditional take-over (please see note 26).

The ownership structure of the INA Group as of 31 December 2009:

|                                                                       | 31 December 2009  |                | 31 December 2008  |                |
|-----------------------------------------------------------------------|-------------------|----------------|-------------------|----------------|
|                                                                       | Number of shares  | Ownership in % | Number of shares  | Ownership in % |
| Zagrebačka banka d.d./Unicreditbank Hungary Zrt, for MOL Zrt, Hungary | 4,715,538         | 47.16          | 4,715,538         | 47.16          |
| Government of the Republic of Croatia                                 | 4,483,552         | 44.84          | 4,483,552         | 44.84          |
| Institutional and private investors                                   | 800,910           | 8.01           | 800,910           | 8.01           |
|                                                                       | <b>10,000,000</b> | <b>100</b>     | <b>10,000,000</b> | <b>100</b>     |

***Distribution of dividends and bonuses to the Supervisory Board and the Management Board in accordance with the decision made in the General Meeting of Shareholders***

In the General Meeting of the Shareholders of INA- Industrija nafte d.d., held on 10 June 2009, a decision was made that loss after taxation for 2008 in amount of HRK 839,917,166.93 is to be covered from retained profit in full amount, (2008: total distributable profit for 2007 amounted to HRK 150 million, or HRK 15 per share).

In 2009 and 2008, no decisions were made in the General Meeting of Shareholders regarding the payment of bonuses to the Supervisory Board and the Management Board members.

***Principal activities***

Principal activities of INA and its subsidiaries (Group) are:

- (i) exploration and production of oil and gas deposits, primarily onshore and offshore within Croatia; other licence interests are held in Angola, Egypt, Syria, Namibia and Iran;
- (ii) import of natural gas and sale of imported and domestically produced natural gas to industrial consumers and municipal gas distributors;



## 1. GENERAL (continued)

### *Principal activities (continued)*

- (iii) refining and production of oil products through refineries located at Rijeka (Urinj) and Sisak, and the Rijeka (Mlaka) and Zagreb lubricants plants;
- (iv) distribution of fuels and associated products through a chain of some 491 retail outlets in operation as of 31 December 2009 (of which 438 in Croatia and 53 outside Croatia);
- (v) trading in crude oil and petroleum products through a network of foreign subsidiaries and representative offices, principally in London, Ljubljana and Sarajevo;
- (vi) service activities incidental to on-shore and off-shore oil extraction through its drilling and oilfield services subsidiary Crosco d.o.o.

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

The headquarters of the Group are located in Zagreb, Avenija V. Holjevca 10, Croatia. As at 31 December 2009 there were 16,304 persons employed at the Group (16,632 at 31 December 2008). As at 31 December 2009 there were 9,931 persons employed at the INA, d.d. (10,108 at 31 December 2008).

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

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

#### *Supervisory Board from 1 February 2007*

|                |                 |
|----------------|-----------------|
| Ivan Šuker     | Chairman        |
| Zoltán Áldott  | Deputy Chairman |
| Damir Polančec |                 |
| Tomislav Ivić  |                 |
| Đuro Dečak     |                 |
| László Geszti  |                 |

On 29 October 2007, the mandate of Mr. Zoltán Áldott as Deputy Chairman was extended for the following four years.

On 2 April 2008, the mandate of Ivan Šuker, Damir Polančec, Tomislav Ivić and Đuro Dečak was extended for the following four years.

By decision of the Supervisory Board of 29 October 2008 Mr. Damir Polančec was elected for the chairman of the Supervisory Board instead Mr. Ivan Šuker.

**1. GENERAL (continued)**

***Directors, Management and Supervisory Board (continued)***

*Supervisory Board from 1 January until 10 July 2009*

|                |                 |
|----------------|-----------------|
| Damir Polančec | Chairman        |
| Zoltán Ádott   | Deputy Chairman |
| László Geszti  |                 |
| Tomislav Ivić  |                 |
| Ivan Šuker     |                 |
| Đuro Dečak     |                 |

*Supervisory Board from 10 July 2009 until 28 December 2009*

|                 |                 |
|-----------------|-----------------|
| Damir Polančec  | Chairman        |
| György Mosonyi  | Deputy chairman |
| Zoltán Ádott    |                 |
| József Simola   |                 |
| Ábel Galács     |                 |
| Oszkár Világi   |                 |
| Tomislav Ivić   |                 |
| Vesna Orlandini |                 |

*Supervisory Board since 29 December 2009*

|                   |                 |
|-------------------|-----------------|
| Ivan Šuker        | Chairman        |
| György Mosonyi    | Deputy chairman |
| Zoltán Ádott      |                 |
| Ábel Galács       |                 |
| Tomislav Ivić     |                 |
| József Simola     |                 |
| Božidar Pankrećić |                 |
| Oszkár Világi     |                 |

***Management Board***

*From 1 January 2007 until 17 June 2008*

|                            |                                                                                      |
|----------------------------|--------------------------------------------------------------------------------------|
| dr.sc. Tomislav Dragičević | President of the Board                                                               |
| Zalán Bács                 | Vice-president of the Board - Executive Director Finance Function                    |
| prof. dr.sc. Mirko Zelić   | Member of the Board - Executive Director Business Segment Exploration and Production |
| Josip Petrović             | Member of the Board - Executive Director Business Segment Refining and Wholesale     |
| Niko Paulinović            | Member of the Board - Executive Director Business Segment Retail Services            |
| Tomislav Thür              | Member of the Board – Director Corporate Processes Function                          |
| Sándor Lendvai             | Member of the Board – Director Corporate Services Function                           |

**1. GENERAL (continued)**

***Directors, Management and Supervisory Board (continued)***

*Management Board (continued)*

*Management Board from 18 June 2008 until 10 June 2009*

|                           |                                                                                      |
|---------------------------|--------------------------------------------------------------------------------------|
| dr.sc.Tomislav Dragičević | President of the Board                                                               |
| Zalán Bács                | Vice-president of the Board - Executive Director Finance Function                    |
| prof. dr.sc. Mirko Zelić  | Member of the Board - Executive Director Business Segment Exploration and Production |
| Josip Petrović            | Member of the Board - Executive Director Business Segment Refining and Wholesale     |
| Niko Paulinović           | Member of the Board - Executive Director Business Segment Retail Services            |
| Tomislav Thür             | Member of the Board – Director Corporate Processes Function                          |
| Darko Markotić            | Member of the Board – Director Corporate Services Function                           |

*Management Board since 10 June 2009*

|                           |                                   |
|---------------------------|-----------------------------------|
| László Geszti             | President of the Management Board |
| Alacs Lajos               | Member of the Management Board    |
| Holoda Attila Istvan      | Member of the Management Board    |
| Josip Petrović            | Member of the Management Board    |
| dr.sc.Tomislav Dragičević | Member of the Management Board    |
| Dubravko Tkalčić          | Member of the Management Board    |

*Executive Board appointed by the decision of the Management Board from 10 July 2009 until 28 December 2009*

|                 |                                                          |
|-----------------|----------------------------------------------------------|
| Bojan Milković  | CEO and Executive Director of Exploration and Production |
| Zalan Bacs      | Executive Director in charge of Refining and Marketing   |
| László Bartha   | Executive Director in charge of Retail                   |
| Peter Chmurčiak | Executive Director in charge of Finance                  |
| Darko Markotić  | Executive Director in charge of Corporate Services       |
| Tomislav Thür   | Executive Director in charge of Corporate Processes      |

*Executive Board appointed by the decision of the Management Board since 29 December 2009*

|                 |                                                          |
|-----------------|----------------------------------------------------------|
| Bojan Milković  | CEO and Executive Director of Exploration and Production |
| Peter Chmurčiak | Executive Director in charge of Refining and Marketing   |
| László Bartha   | Executive Director in charge of Retail                   |
| András Huszár   | Executive Director in charge of Finance                  |
| Darko Markotić  | Executive Director in charge of Corporate Services       |
| Tomislav Thür   | Executive Director in charge of Corporate Processes      |
| Berislav Gašo   | Executive Director in charge of Corporate Center         |

*Secretary during 2007 until 17 June 2008*

|                     |                       |
|---------------------|-----------------------|
| Darko Markotić, BLL | Secretary of INA d.d. |
|---------------------|-----------------------|

*Secretary since 18 June 2008*

|                  |                       |
|------------------|-----------------------|
| Nives Troha, BLL | Secretary of INA d.d. |
|------------------|-----------------------|

**1. GENERAL (continued)**

***Going concern***

Global economic crisis has decreased INA Group's profitability and cash flow generation capacity in a period when significant investment projects (refinery modernization and Upstream investments in Syria and North Adriatic) were in progress. Although management has immediately reviewed and rescheduled investments, respective cash outflows could be decreased only with delayed effect due to the commitments already taken in these projects. As a result of these commitments and the limitation of available credit lines INA Group could not meet the payment obligation of certain liabilities in due time, resulting overdue liabilities at 2009 year-end.

Management is highly committed and taking all necessary actions to the financial stabilization of the company and the full settlement of overdue liabilities in 2010. Approved business plan for financial year 2010 has limited investments on a revised and strictly reduced level that will keep investment cash outflows below cash flow from operations. Additionally, the repayment of overdue liabilities will be supported by the involvement of additional external financing ensuring the compliance with current loan agreements.

## 2. ACCOUNTING POLICIES

A summary of the Group's principal accounting policies which have been applied consistently in the current year and with the prior year, is set out below.

### ***Presentation of the financial statements***

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

### ***Basis of accounting***

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

The Company's and Group's financial statements are prepared under the historical cost convention, modified by the revaluation of certain assets and liabilities under conditions of hyperinflation in the period to 1993 and except for certain financial instruments, and in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board, and the Croatian law. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### ***Adoption of new and revised standards***

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

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

- IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRS 4 "Insurance contracts" and IFRS 7 "Financial Instruments: Disclosures" - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRS 1 "First-time Adoption of IFRS" and IAS 27 "Consolidated and Separate Financial Statements" – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009),
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 22 May 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2009),

## 2. ACCOUNTING POLICIES (continued)

### **Adoption of new and revised standards (continued)**

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

- Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009),
- IAS 1 (revised) "Presentation of Financial Statements" – A revised presentation (effective for annual periods beginning on or after 1 January 2009),
- IAS 23 (revised) "Borrowing Costs" (effective for annual periods beginning on or after 1 January 2009), adoption of IAS 23 resulted with amount of HRK 45 million of borrowing costs which are being capitalised.
- IFRS 3 (revised) "Business Combinations" has been adopted in the current year in advance of its effective date (business combinations for which the acquisition data is on or after the beginning of the first annual period beginning on or after 1 July 2009).
- Amendments to IAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IFRS 2 "Share-based Payment" – Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" - Embedded Derivatives (effective for annual periods ending on or after 30 June 2009),
- IFRIC 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008). The estimated financial effect of IFRIC 13 at 31 December 2009 is less than HRK 1.5 million. ,
- IFRIC 15 "Agreements for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2009),
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008),

The adoption of these Standards and Interpretations did not have significant effect on the financial statements of the Group, except for IFRS 3 "Business Combinations". Its adoption has affected the accounting for business combinations in the current year. On 1 September 2009, the subsidiary Crosco d.o.o. Zagreb, acquired the entire equity share in the company Drill Trans Kft, headquarter in Nagykanizsa, Hungary, for consideration of HRK 103 million (see note 43).

## 2. ACCOUNTING POLICIES (continued)

### ***Adoption of new and revised standards (continued)***

*Standards and Interpretations in issue not yet adopted*

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 1 (revised) "First-time Adoption of IFRS" (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- Amendments to IFRS 2 "Share-based Payment" - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010.)
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009.),
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010.),
- Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011.),

**2. ACCOUNTING POLICIES (continued)**

***Adoption of new and revised standards (continued)***

*Standards and Interpretations in issue not yet adopted (continued)*

- IFRIC 17 "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009.),
- IFRIC 18 "Transfers of Assets from Customers" (effective for transfer of assets from customers received on or after 1 July 2009.),
- IFRIC 19 "Extinguishing Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010.).

INA Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Management anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.



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

### ***Basis of Parent Company financial statement (INA, d.d.)***

The unconsolidated financial statements of the Company represent aggregate amounts of the Company's assets, liabilities, capital and of the results for the period then ended of the divisions which comprised the company. All inter-divisional transactions and balances are eliminated.

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

The consolidated financial statements incorporate the financial statements of INA d.d. (INA, d.d. or the Company) and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. 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 subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

## 2. ACCOUNTING POLICIES (continued)

### ***Business combination***

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

### ***Investments in associates***

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. 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.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

## 2. ACCOUNTING POLICIES (continued)

### *Interests in joint ventures*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Where a Group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using equity method.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary (see below).

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

The Company's and the Group's proportion of development expenditure incurred through exploration and production joint venture arrangements are included within property, plant and equipment - oil and gas properties.

### **Goodwill**

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more

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

### ***Goodwill – (continued)***

frequently when there is an 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 on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### ***Oil and gas properties***

#### *Exploration and appraisal costs*

Exploration and appraisal costs are accounted for on the successful efforts basis. 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 income statement 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 income statement in the period. If the prospects are deemed to be commercially viable, such costs are transferred to oil and gas properties. The status of such prospects is reviewed regularly by management.

#### *Fields under development*

Costs of exploring and oil and gas field development costs are capitalised as intangible or tangible oil and gas assets. Such costs also include, prospectively, applicable exploration costs and development drilling costs.

#### *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 net 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.

## 2. ACCOUNTING POLICIES (continued)

### *Reporting currency*

The Company's and the Group's financial statements are prepared in Croatian kuna (HRK). The effective exchange rate of the Croatian currency (Kuna) at 31 December 2009 was 7,31 kunas per 1 Euro and 5,09 kunas per 1 United States dollar (31 December 2008 - 7.32 kunas per 1 Euro and 5,16 kunas per 1 United States dollar). Average exchange rate in 2009 was 7,34 kunas per 1 EUR and 5,28 kunas per 1 USD (2008 7.22 kunas per 1 EUR and 4.93 kunas per 1 USD).

### *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. Property, plant and equipment in use (excluding oil and gas properties) are depreciated on a straight-line basis on the following basis:

|                        |                |
|------------------------|----------------|
| Buildings              | Up to 50 years |
| Plant and machinery    | 5-20 years     |
| Vehicles and transport | 4-20 years     |
| Office equipment       | 5-10 years     |

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

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 income statement 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 income statement.

### *Impairment of tangible and intangible assets*

Tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is charged to the income statement.

## 2. ACCOUNTING POLICIES (continued)

### *Property, plant and equipment (continued)*

At each balance sheet date, the Company and the Group review the carrying amounts of their 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.

Intangible assets with infinite useful lives and intangible assets not yet available for use are tested for impairment 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.

The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the cost of disposal, while value in use is the 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 of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the relevant cash-generating unit.

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 (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is land or a building other than an investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (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.

In the case of oil and gas properties, the relevant cash generating unit is the group of assets which relate to an individual field, and value in use is computed using prices, costs and exchange rates based on reasonable and supportable assumptions and projections. Exploration and appraisal costs carried under the successful efforts method of accounting as intangible assets are assessed for impairment as described above.

## 2. ACCOUNTING POLICIES (continued)

### *Finance and operating leases*

The determination whether an arrangement contains or is a lease depends on the substance of the arrangement at inception date. If fulfilment of the arrangement depends on the use of a specific asset or conveys the right to use the asset, it is deemed to contain a lease element and are recorded accordingly.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Initial direct costs incurred in negotiating a operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as the lease income.

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

### *Debtors and prepayments*

Debtors and prepayments are shown at amounts invoiced in accordance with the underlying agreement, order, delivery note and other documents serving as the billing basis, net of allowance for uncollectible amounts.

The allowance is recorded by the Company on the basis of decisions made by Chief Executive Directors, which are based on the assessments of responsible persons of each business segment regarding the recoverability of each of the segments' receivables for strategic buyers of INA, d.d. All other short-term receivables that are not covered by the decision of the responsible persons, is value adjusted in business books in the amount non paid receivables ethics exceeding 120 days from maturity date.

### *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.

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

### ***Inventories (continued)***

- Finished products are valued at the lower of cost or 97% of future average sales price, which approximates the net recoverable amount.
- Semi-finished products are measured using a calculation method, by which they are impaired to the extent that finished products on the basis of actual inventories at the period-end are impaired i.e. that 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, less any provision for slow-moving and obsolete items.

### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand 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.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred

### ***Foreign currencies***

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



## 2. ACCOUNTING POLICIES (continued)

### *Foreign currencies (continued)*

In preparing the financial statements of the individual Group entities, transactions in currencies other than the entity's functional currency (foreign currencies) are translated to the functional currency of entity at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated to the functional currency of the entity at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on 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 kunas using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising from year-end translation, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

### *Retirement Benefit and Jubilee Costs*

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur and charged to the profit and loss.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

## 2. ACCOUNTING POLICIES (continued)

### **Taxation**

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

#### *Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated (statement of comprehensive income / income statement) it excludes 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 balance sheet 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 is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets are recognised on the basis of taxable temporary differences on investments in subsidiaries and associates and joint ventures, unless the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

#### *Current and deferred tax for the period*

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination.

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

### ***Taxation (continued)***

In the case of a business combination, the tax effect is included in the accounting for the business combination.

### ***Financial assets***

All financial assets are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

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

### ***Effective interest method***

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

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

### ***AFS financial assets***

Listed shares held by the Company and Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in Note 42. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve directly interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

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

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

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

### ***Financial assets (continued)***

#### *Loans and receivables*

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

#### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

#### *Investments*

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

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

### ***Financial liabilities***

Financial liabilities are classified as other financial liabilities.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### ***Embedded derivatives***

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

In the ordinary course of business, the Company and Group has entered into certain long-term, foreign currency supply and sales contracts which, under IAS 39, include embedded derivatives. An embedded derivative is a component of a contract which has the effect that the cash flows arising under the contract vary, in part, in a similar way to a standalone derivative. IAS 39 requires that such embedded derivatives are separated from the host contracts and accounted for as derivatives carried at fair value, with changes in fair value being charged or credited to the income statement, as applicable.

The fair value of embedded forward foreign exchange contracts is determined by reference to spot market foreign currency rates at the balance sheet date, because there is no active forward market in the countries involved in contracts. The fair value of an embedded inflation index swap is determined by the reference to the cumulative inflation index differential between the contracted inflation escalator and inflation in the country where the contract is executed. The long-term effects of these embedded derivatives are discounted using a discount rate similar to the interest rate on government bonds.

## 2. ACCOUNTING POLICIES (continued)

### ***Segmental information***

The Group has adopted IFRS 8 *Operating Segments* with effect from 1 January 2009. IFRS 8 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. In contrast, the predecessor Standard (IAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. Following the adoption of IFRS 8, the identification of the Group's reportable segments has not been changed.

### ***Provisions for decommissioning and other obligations***

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where 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 estimated risk free interest rate as the discount rate. Where 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.

Where the provision relates to the decommissioning and removal of exploitation fields, exploitation and negatively appraised exploration wells (decommissioning of oil and gas properties, restoration of mining properties and similar), it is recognised initially as part of the cost of the related property, plant and equipment. Subsequent adjustments to the provision arising from changes in estimates are also treated as an adjustment to the cost of property, plant and equipment and thus dealt with prospectively in the income statement through future depreciation of the asset.

### ***Use of estimates in the preparation of financial statements***

The preparation of financial statements in conformity with International Reporting Financial Standards, as published by the International Accounting Standards Board requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to employee benefits, impairment of assets, determination of fair values of assets and liabilities and estimated decommissioning costs. 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.

## 2. ACCOUNTING POLICIES (continued)

### *Revenue recognition*

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

#### *Sale of goods*

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

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

Sales of goods that result in award credits for customers are accounted for as multiple element revenue transactions. The consideration allocated to the award credits is measured by reference to their fair value – the amount for which the award credits could be sold separately.

The Group has not included extensive disclosure regarding the loyalty programme as the amounts are not significant.

#### *Accounting for producer gas imbalances*

Regarding recording gas sales from joint operations in the case when INA takes less or more gas than is entitled to Production Sharing Agreement, it is applying Sales method.

Under sales method revenue is recorded only when gas is produced and sold on the owner's behalf. No receivables or payables are recorded in the case of overlifting or underlifting (more or less than is defined by contract) if remaining reserves is sufficient to settle an imbalance.

#### *Rendering of services*

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

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

#### *Dividend and interest revenue*

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

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

### ***Revenue recognition (continued)***

#### *Dividend and interest revenue (continued)*

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

### ***Significant accounting judgements and estimates***

#### *Critical judgements in applying accounting policies*

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

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

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

The management makes estimates of future expenditure in connection with environmental protection and decommissioning obligations using prices by reference to prior similar activities, as well as other assumptions. Furthermore, the time determined for the cash flows reflects the current estimates of priorities, technical equipment requirements and urgency of the obligations. The obligation with respect to the decommission provision for oil and gas properties amounted to HRK 2,330 million and HRK 1,009 million at 31 December 2009 and 31 December 2008 (see note 32) respectively. Consequently, the amounts reported are subject to a large number of variables that may affect the calculation.

#### *The level of provisioning for environmental protection and decommissioning of oil and gas properties*

The applicable regulations, specifically the environmental protection legislation, do not specify the exact scope of activities or technology to be applied. In determining the level of provisions for environmental protection and decommissioning of oil and gas properties, the management relies on prior experience and their own interpretation of the related legislation.

#### *Impairment of non-current assets, including goodwill*

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 discount rates, time values, the period of cash flow projections, as well as assumptions and judgements used in determining cash receipts and expenditure. The impairments reported in the consolidated income statement for 2009 amounted to HRK 965 million and HRK 236 million in 2008, respectively. The carrying amount of goodwill for the year 2009 amounted to HRK 296 million and HRK 197 million in 2008 (see note 14).



## 2. ACCOUNTING POLICIES (continued)

### *Significant accounting judgements and estimates (continued)*

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

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. In determining the amount of deferred taxes that can be recognised are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. The carrying amount of deferred tax assets amounts to HRK 429 million and HRK 327 million as of 31 December 2009 and 2008, respectively (see note 9).

#### *Actuarial estimates used in 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 amounted to HRK 143 million and HRK 124 million at 31 December 2009 and 31 December 2008, respectively (see note 32).

#### *Reclassification of prepayments*

In 2009 INA Group reclassified prepayments from Intangible assets and Property, plant and equipment to Long-term receivables. The effects of reclassification are as follows:

|                                  | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|----------------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|                                  | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| Prepayments in intangible assets | (25)                | (16)                | (31)              | (23)                | (15)                | (30)              |
| Prepayments in tangible assets   | (205)               | (370)               | (450)             | (204)               | (368)               | (354)             |
| Long term receivables            | 230                 | 386                 | 481               | 227                 | 383                 | 384               |
| <b>Total</b>                     | <b>-</b>            | <b>-</b>            | <b>-</b>          | <b>-</b>            | <b>-</b>            | <b>-</b>          |

Because of prepayments' reclassification, INA, d.d. and INA Group balance sheet present the beginning of the earliest comparative period i.e. 1 January 2008.

## 2. ACCOUNTING POLICIES (continued)

### *Changes of estimate of impairment of receivables*

The INA Group has changed its accounting estimate of collectability of receivables for goods sold or services rendered. Accordingly, bad and doubtful receivables from strategic customers are subject to an individual review, based on the collectability assessed by responsible persons of each Business Segment. All other short-term debtors not covered by a decision of responsible persons are provided for to the extent of the amount outstanding beyond 120 days from the due date.

The effects of the changes in accounting estimates are as follows:

|                     | INA Group  |            |             | INA, d.d.  |            |             |
|---------------------|------------|------------|-------------|------------|------------|-------------|
|                     | Over 120   | Impairment | Difference  | Over 120   | Impairment | Difference  |
| Strategic customers | 181        | 222        | (41)        | 119        | 153        | (34)        |
| <b>Total</b>        | <b>181</b> | <b>222</b> | <b>(41)</b> | <b>119</b> | <b>153</b> | <b>(34)</b> |

### *Consequences of certain legal actions*

INA Group members are involved in number of litigations arisen from the regular course of business. If there is a present obligation as a result of a past event (taking into account all available evidence, including the opinion of law experts) for which 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 32).

### *Crude oil and natural gas prices*

Crude oil, natural gas and refinery product demand and prices depend on a variety of various factors beyond the control of the INA Group, including:

- global and regional economic and political developments, particularly in the Middle East;
- the ability of international oil cartels and oil-producing nations to influence production levels and prices;
- actions taken by governments;
- the level of consumer demand;
- the price and availability of alternative products; and
- weather conditions.

Historically, international crude oil and natural gas prices have fluctuated to a significant extent. A significant change in the crude oil and natural gas prices may have a significant impact on the operating results of the INA Group. Lower crude oil and natural gas prices may reduce the quantities of oil and natural gas that the INA Group could produce in terms of economically justified production, that is, it can reduce economic justification of the projects that are planned or already under way.

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

### ***Significant accounting judgements and estimates (continued)***

#### *Exploration and development*

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

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

#### *Oil and natural gas reserves in Syria*

The INA Group has been actively present in Syria since the mid-1970s.

The strategy of INA's Exploration and Production in the area of natural gas and oil depends partly on the successful exploration and development of its wells in Syria.

However, any military or political disturbance in Syria may affect the operations of the INA Group in various ways, including a disruption in the production and transport of crude oil or natural gas, or loss of properties. Any discontinued ability of the INA Group to produce or deliver its products may result in reduced revenue or additional costs of replacement or repairs, or insurance of the INA Group properties.

The INA Group concluded the licences and agreements pertaining to its Syria operations with the Syrian Government, which exposes them to political influence and changes. Depending on the overall political situation in Syria, adverse effects are possible, such as on the net investment income of the INA Group in Syria, which could then have an adverse impact on the future operating results of the INA Group.

### 3. SEGMENT INFORMATION

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

Reporting segments have been defined along value chain standard for the oil companies:

- Exploration and Production – exploration, production and selling of crude oil and natural gas
- Refining and Marketing – crude oil processing, wholesale of refinery products, trading and logistics
- Retail – selling of fuels and commercial goods in retail stations
- Finance function - in addition to the three core business segments in above, the operations of the INA Group include the fourth business segment Finance function which provides services for core activities.

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

INA - INDUSTRIJA NAFTE d.d.  
Notes to the financial statements (continued)  
For the year ended 31 December 2009  
(all amounts in HRK millions)

**3. SEGMENT INFORMATION (continued)**

**BY BUSINESS**

**INA Group**

|                                                          | Continuing operations      |                        |                  |                             | Discontinued operations | Consolidated  |
|----------------------------------------------------------|----------------------------|------------------------|------------------|-----------------------------|-------------------------|---------------|
|                                                          | Exploration and production | Refining and marketing | Retail and other | Corporate Elimination Total |                         |               |
| <b>Year 2009</b>                                         |                            |                        |                  |                             |                         |               |
| Sales to external customers                              | 4,979                      | 9,230                  | 5,802            | 362                         | 1,958                   | 22,331        |
| Inter-segment sales                                      | 1,757                      | 4,224                  | 10               | 547                         | -                       | -             |
| <b>Total revenue</b>                                     | <b>6,736</b>               | <b>13,454</b>          | <b>5,812</b>     | <b>909</b>                  | <b>1,958</b>            | <b>22,331</b> |
| Operating expenses, net of other operating income        | (4,120)                    | (14,075)               | (5,938)          | (1,731)                     | (2,987)                 | (22,313)      |
| <b>Profit/(loss) from operations net of other income</b> | <b>2,616</b>               | <b>(621)</b>           | <b>(126)</b>     | <b>(822)</b>                | <b>(1,029)</b>          | <b>18</b>     |
| Net finance income                                       |                            |                        |                  |                             | (112)                   | (507)         |
| Profit/(loss) before tax                                 |                            |                        |                  |                             | (1,141)                 | (489)         |
| Income tax expense/(benefit)                             |                            |                        |                  |                             | 130                     | 95            |
| <b>Profit/(loss) for the year</b>                        |                            |                        |                  |                             | <b>(1,011)</b>          | <b>(394)</b>  |

INA - INDUSTRIJA NAFTE d.d.  
Notes to the financial statements (continued)  
For the year ended 31 December 2009  
(all amounts in HRK millions)

**3. SEGMENT INFORMATION (continued)**

| INA Group                                                | Continuing operations      |                        |              |                                       | Discontinued operations | Consolidated   |
|----------------------------------------------------------|----------------------------|------------------------|--------------|---------------------------------------|-------------------------|----------------|
|                                                          | Exploration and production | Refining and marketing | Retail       | Corporate and other Elimination Total |                         |                |
| <b>Year 2008</b>                                         |                            |                        |              |                                       |                         |                |
| Sales to external customers                              | 5,534                      | 13,252                 | 8,216        | 142                                   | 1,664                   | 28,808         |
| Inter-segment sales                                      | 2,739                      | 6,636                  | 5            | 1,011                                 | -                       | -              |
| <b>Total revenue</b>                                     | <b>8,273</b>               | <b>19,888</b>          | <b>8,221</b> | <b>1,153</b>                          | <b>1,664</b>            | <b>28,808</b>  |
| Operating expenses, net of other operating income        | (4,745)                    | (21,154)               | (8,319)      | (2,007)                               | (3,366)                 | (29,200)       |
| <b>Profit/(loss) from operations net of other income</b> | <b>3,528</b>               | <b>(1,266)</b>         | <b>(98)</b>  | <b>(854)</b>                          | <b>(1,702)</b>          | <b>(392)</b>   |
| Net finance income                                       |                            |                        |              |                                       | (110)                   | (890)          |
| Profit/(loss) before tax                                 |                            |                        |              |                                       | (1,812)                 | (1,282)        |
| Income tax expense/(benefit)                             |                            |                        |              |                                       | 362                     | 184            |
| <b>Profit/(loss) for the year</b>                        |                            |                        |              |                                       | <b>(1,450)</b>          | <b>(1,098)</b> |

3. SEGMENT INFORMATION (continued)

a) BY BUSINESS (continued)

INA Group

| 2009 Assets and liabilities                                | Exploration<br>and<br>production | Refining and<br>marketing | Retail     | Corporate<br>and other | Elimination | Total         |
|------------------------------------------------------------|----------------------------------|---------------------------|------------|------------------------|-------------|---------------|
| Property, plant and equipment                              | 12,863                           | 5,888                     | 920        | 682                    | -           | 20,353        |
| Intangible assets                                          | 552                              | 9                         | 10         | 160                    | -           | 731           |
| Investments in associates and joint ventures               | 57                               | 11                        | -          | -                      | -           | 68            |
| Inventories                                                | 803                              | 1,973                     | 63         | 48                     | -           | 2,887         |
| Trade receivables, net                                     | 1,279                            | 1,266                     | 296        | 470                    | (386)       | 2,925         |
| Not allocated assets                                       |                                  |                           |            |                        |             | 3,103         |
| <b>Total assets</b>                                        |                                  |                           |            |                        |             | <b>30,067</b> |
| Trade payables                                             | 1,277                            | 2,624                     | 286        | 485                    | (386)       | 4,286         |
| Not allocated liabilities                                  |                                  |                           |            |                        |             | 13,989        |
| <b>Total liabilities</b>                                   |                                  |                           |            |                        |             | <b>18,275</b> |
| <b>Other segment information</b>                           |                                  |                           |            |                        |             |               |
| <b>Capital expenditure:</b>                                | <b>3,039</b>                     | <b>1,367</b>              | <b>47</b>  | <b>51</b>              | -           | <b>4,504</b>  |
| Property, plant and equipment                              | 2,902                            | 1,365                     | 46         | 36                     | -           | 4,349         |
| Intangible assets                                          | 137                              | 2                         | 1          | 15                     | -           | 155           |
| <b>Depreciation and amortisation</b>                       | <b>1,506</b>                     | <b>412</b>                | <b>275</b> | <b>151</b>             | -           | <b>2,344</b>  |
| From this: Impairment losses recognized in profit and loss | 555                              | 113                       | 169        | -                      | -           | 837           |

**3. SEGMENT INFORMATION (continued)****a) BY BUSINESS (continued)****INA Group**

| <b>2008 Assets and liabilities</b>                         | <b>Exploration<br/>and<br/>production</b> | <b>Refining and<br/>marketing</b> | <b>Retail</b> | <b>Corporate<br/>and other</b> | <b>Elimination</b> | <b>Total</b>  |
|------------------------------------------------------------|-------------------------------------------|-----------------------------------|---------------|--------------------------------|--------------------|---------------|
| Property, plant and equipment                              | 10,222                                    | 4,936                             | 1,239         | 752                            | -                  | 17,149        |
| Intangible assets                                          | 420                                       | 12                                | 15            | 217                            | -                  | 664           |
| Investments in associates and joint ventures               | 57                                        | 19                                | -             | -                              | -                  | 76            |
| Inventories                                                | 703                                       | 1,849                             | 108           | 53                             | -                  | 2,713         |
| Trade receivables, net                                     | 1,351                                     | 1,250                             | 316           | 643                            | (646)              | 2,914         |
| Not allocated assets                                       |                                           |                                   |               |                                |                    | 3,097         |
| <b>Total assets</b>                                        |                                           |                                   |               |                                |                    | <b>26,613</b> |
| Trade payables                                             | 2,105                                     | 1,532                             | 236           | 594                            | (652)              | 3,815         |
| Not allocated liabilities                                  |                                           |                                   |               |                                |                    | 10,761        |
| <b>Total liabilities</b>                                   |                                           |                                   |               |                                |                    | <b>14,576</b> |
| <b>Other segment information</b>                           |                                           |                                   |               |                                |                    |               |
| <b>Capital expenditure:</b>                                | <b>2,732</b>                              | <b>1,493</b>                      | <b>143</b>    | <b>105</b>                     | <b>-</b>           | <b>4,473</b>  |
| Property, plant and equipment                              | 2,438                                     | 1,489                             | 142           | 97                             | -                  | 4,166         |
| Intangible assets                                          | 294                                       | 4                                 | 1             | 8                              | -                  | 307           |
| <i>Depreciation and amortisation</i>                       | 955                                       | 291                               | 131           | 167                            | -                  | 1,544         |
| From this: Impairment losses recognized in profit and loss | 123                                       | 25                                | 25            | -                              | -                  | 173           |



**3. SEGMENT INFORMATION (continued)**

**b) BY GEOGRAPHICAL**

**INA Group**

| <b>Year 2009</b>                             | <b>Republic<br/>of Croatia</b> | <b>Syria</b> | <b>Other<br/>countries</b> | <b>Total</b>  |
|----------------------------------------------|--------------------------------|--------------|----------------------------|---------------|
| Property, plant and equipment                | 14,747                         | 4,173        | 1,433                      | 20,353        |
| Intangible assets                            | 367                            | 130          | 234                        | 731           |
| Investments in associates and joint ventures | 57                             | -            | 11                         | 68            |
| Inventories                                  | 2,696                          | 59           | 132                        | 2,887         |
| Trade receivables, net                       | 1,856                          | 291          | 778                        | 2,925         |
| Not allocated assets                         |                                |              |                            | 3,103         |
| <b>Total assets</b>                          |                                |              |                            | <b>30,067</b> |
| <b>Other segment information</b>             |                                |              |                            |               |
| <b>Capital expenditure:</b>                  | <b>2,522</b>                   | <b>1,617</b> | <b>365</b>                 | <b>4,504</b>  |
| Property, plant and equipment                | 2,464                          | 1,599        | 286                        | 4,349         |
| Intangible assets                            | 58                             | 18           | 79                         | 155           |

**INA Group**

| <b>Year 2008</b>                             | <b>Republic<br/>of Croatia</b> | <b>Syria</b> | <b>Other<br/>countries</b> | <b>Total</b>  |
|----------------------------------------------|--------------------------------|--------------|----------------------------|---------------|
| Property, plant and equipment                | 13,148                         | 2,640        | 1,361                      | 17,149        |
| Intangible assets                            | 396                            | 112          | 156                        | 664           |
| Investments in associates and joint ventures | 57                             | -            | 19                         | 76            |
| Inventories                                  | 2,553                          | -            | 160                        | 2,713         |
| Trade receivables, net                       | 1,970                          | 132          | 812                        | 2,914         |
| Not allocated assets                         |                                |              |                            | 3,097         |
| <b>Total assets</b>                          |                                |              |                            | <b>26,613</b> |
| <b>Other segment information</b>             |                                |              |                            |               |
| <b>Capital expenditure:</b>                  | <b>3,016</b>                   | <b>977</b>   | <b>480</b>                 | <b>4,473</b>  |
| Property, plant and equipment                | 2,895                          | 867          | 404                        | 4,166         |
| Intangible assets                            | 121                            | 110          | 76                         | 307           |

**3. SEGMENT INFORMATION (continued)**

**BY BUSINESS (continued)**

INA, d.d.

| Year 2009                                                | Continuing operations      |                        |                                |                   | Discontinued operations | Consolidated  |
|----------------------------------------------------------|----------------------------|------------------------|--------------------------------|-------------------|-------------------------|---------------|
|                                                          | Exploration and production | Refining and marketing | Retail and Corporate and other | Elimination Total |                         |               |
| Sales to external customers                              | 3,532                      | 8,824                  | 5,098                          | 14                | -                       | 17,468        |
| Inter-segment sales                                      | 1,416                      | 3,598                  | 5                              | 1                 | (5,020)                 | -             |
| <b>Total revenue</b>                                     | <b>4,948</b>               | <b>12,422</b>          | <b>5,103</b>                   | <b>15</b>         | <b>(5,020)</b>          | <b>17,468</b> |
| Operating expenses, net of other operating income        | (2,938)                    | (13,176)               | (5,215)                        | (874)             | 5,020                   | (17,183)      |
| <b>Profit/(loss) from operations net of other income</b> | <b>2,010</b>               | <b>(754)</b>           | <b>(112)</b>                   | <b>(859)</b>      | <b>-</b>                | <b>285</b>    |
| Net finance income                                       |                            |                        |                                |                   |                         | (404)         |
| Profit/(loss) before tax                                 |                            |                        |                                |                   |                         | (119)         |
| Income tax expense /(benefit)                            |                            |                        |                                |                   |                         | 8             |
| <b>Profit/(loss) for the year</b>                        |                            |                        |                                |                   |                         | <b>(111)</b>  |
|                                                          |                            |                        |                                |                   |                         | 138           |
|                                                          |                            |                        |                                |                   |                         | <b>(631)</b>  |
|                                                          |                            |                        |                                |                   |                         | 18,654        |
|                                                          |                            |                        |                                |                   |                         | -             |
|                                                          |                            |                        |                                |                   |                         | <b>18,654</b> |
|                                                          |                            |                        |                                |                   |                         | (18,949)      |
|                                                          |                            |                        |                                |                   |                         | (580)         |
|                                                          |                            |                        |                                |                   |                         | (70)          |
|                                                          |                            |                        |                                |                   |                         | (650)         |
|                                                          |                            |                        |                                |                   |                         | (769)         |
|                                                          |                            |                        |                                |                   |                         | 130           |
|                                                          |                            |                        |                                |                   |                         | <b>(520)</b>  |
|                                                          |                            |                        |                                |                   |                         | <b>(631)</b>  |

INA - INDUSTRIJA NAFTE d.d.  
Notes to the financial statements (continued)  
For the year ended 31 December 2009  
(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

INA, d.d.

| Year 2008                                                | Continuing operations      |                        |                      |                       | Discontinued operations | Consolidated  |
|----------------------------------------------------------|----------------------------|------------------------|----------------------|-----------------------|-------------------------|---------------|
|                                                          | Exploration and production | Refining and marketing | Retail and Corporate | Elimination and other |                         |               |
| Sales to external customers                              | 3,790                      | 12,831                 | 7,111                | 10                    | 1,664                   | 25,406        |
| Inter-segment sales                                      | 2,475                      | 5,956                  | 15                   | 2                     | -                       | -             |
| <b>Total revenue</b>                                     | <b>6,265</b>               | <b>18,787</b>          | <b>7,126</b>         | <b>12</b>             | <b>1,664</b>            | <b>25,406</b> |
| Operating expenses, net of other operating income        | (2,424)                    | (20,158)               | (7,219)              | (910)                 | (3,366)                 | (25,629)      |
| <b>Profit/(loss) from operations net of other income</b> | <b>3,841</b>               | <b>(1,371)</b>         | <b>(93)</b>          | <b>(898)</b>          | <b>(1,702)</b>          | <b>(223)</b>  |
| Net finance income                                       |                            |                        |                      |                       | (110)                   | (819)         |
| Profit/(loss) before tax                                 |                            |                        |                      |                       | (1,812)                 | (1,042)       |
| Income tax expense /(benefit)                            |                            |                        |                      |                       | 362                     | 202           |
| <b>Profit/(loss) for the year</b>                        |                            |                        |                      |                       | <b>(1,450)</b>          | <b>(840)</b>  |

**3. SEGMENT INFORMATION (continued)**

**a) BY BUSINESS (continued)**

**INA, d.d.**

|                                                            | <b>Exploration<br/>and<br/>production</b> | <b>Refining and<br/>marketing</b> | <b>Retail</b> | <b>Corporate<br/>and other</b> | <b>Elimination</b> | <b>Total</b>  |
|------------------------------------------------------------|-------------------------------------------|-----------------------------------|---------------|--------------------------------|--------------------|---------------|
| <b>2009 Assets and liabilities</b>                         |                                           |                                   |               |                                |                    |               |
| Property, plant and equipment                              | 11,521                                    | 5,550                             | 780           | 269                            | -                  | 18,120        |
| Intangible assets                                          | 549                                       | 8                                 | 8             | 151                            | -                  | 716           |
| Investment in subsidiaries                                 | 647                                       | 327                               | -             | 283                            | -                  | 1,257         |
| Investments in associates and joint ventures               | 57                                        | 132                               | -             | -                              | -                  | 189           |
| Inventories                                                | 618                                       | 1,640                             | 56            | -                              | -                  | 2,314         |
| Trade receivables, net                                     | 1,380                                     | 1,193                             | 270           | 33                             | (1,544)            | 1,332         |
| Not allocated assets                                       |                                           |                                   |               |                                |                    | 4,136         |
| <b>Total assets</b>                                        |                                           |                                   |               |                                |                    | <b>28,064</b> |
| Trade payables                                             | 966                                       | 3,831                             | 241           | 544                            | (2,878)            | 2,704         |
| Not allocated liabilities                                  |                                           |                                   |               |                                |                    | 14,609        |
| <b>Total liabilities</b>                                   |                                           |                                   |               |                                |                    | <b>17,313</b> |
| <b>Other segment information</b>                           |                                           |                                   |               |                                |                    |               |
| <b>Capital expenditure:</b>                                | <b>2,980</b>                              | <b>1,345</b>                      | <b>33</b>     | <b>20</b>                      | <b>-</b>           | <b>4,378</b>  |
| Property, plant and equipment                              | 2,845                                     | 1,344                             | 33            | 6                              | -                  | 4,228         |
| Intangible assets                                          | 135                                       | 1                                 | -             | 14                             | -                  | 150           |
| <b>Depreciation and amortisation</b>                       | <b>1,294</b>                              | <b>391</b>                        | <b>237</b>    | <b>117</b>                     | <b>-</b>           | <b>2,039</b>  |
| From this: Impairment losses recognized in profit and loss | 556                                       | 113                               | 149           | -                              | -                  | 818           |

3. SEGMENT INFORMATION (continued)

a) BY BUSINESS (continued)  
INA, d.d.

| 2008 Assets and liabilities                                | Exploration<br>and<br>production | Refining and<br>marketing | Retail    | Corporate<br>and other | Elimination | Total         |
|------------------------------------------------------------|----------------------------------|---------------------------|-----------|------------------------|-------------|---------------|
| Property, plant and equipment                              | 8,743                            | 4,587                     | 978       | 335                    | -           | 14,643        |
| Intangible assets                                          | 419                              | 9                         | 13        | 207                    | -           | 648           |
| Investment in subsidiaries                                 | 647                              | 329                       | -         | 283                    | -           | 1,259         |
| Investments in associates and joint ventures               | 57                               | 132                       | -         | -                      | -           | 189           |
| Inventories                                                | 518                              | 1,512                     | 98        | 1                      | -           | 2,129         |
| Trade receivables, net                                     | 888                              | 1,185                     | 298       | 12                     | (584)       | 1,799         |
| Not allocated assets                                       |                                  |                           |           |                        |             | 4,040         |
| <b>Total assets</b>                                        |                                  |                           |           |                        |             | <b>24,707</b> |
| Trade payables                                             | 1,723                            | 3,643                     | 210       | 286                    | (3,288)     | 2,574         |
| Not allocated liabilities                                  |                                  |                           |           |                        |             | 10,896        |
| <b>Total liabilities</b>                                   |                                  |                           |           |                        |             | <b>13,470</b> |
| <b>Other segment information</b>                           |                                  |                           |           |                        |             |               |
| <b>Capital expenditure:</b>                                | <b>2,282</b>                     | <b>1,429</b>              | <b>90</b> | <b>30</b>              | <b>-</b>    | <b>3,831</b>  |
| Property, plant and equipment                              | 1,990                            | 1,426                     | 89        | 29                     | -           | 3,534         |
| Intangible assets                                          | 292                              | 3                         | 1         | 1                      | -           | 297           |
| Depreciation and amortisation                              | 763                              | 275                       | 113       | 122                    | -           | 1,273         |
| From this: Impairment losses recognized in profit and loss | 123                              | 25                        | 25        | -                      | -           | 173           |

3. SEGMENT INFORMATION (continued)

b) BY GEOGRAPHICAL (continued)

INA, d.d.

| Year 2009                                     | Republic<br>of Croatia | Syria        | Other<br>countries | Total         |
|-----------------------------------------------|------------------------|--------------|--------------------|---------------|
| Property, plant and equipment                 | 13,480                 | 4,536        | 104                | 18,120        |
| Intangible assets                             | 355                    | 340          | 21                 | 716           |
| Investment in subsidiaries                    | 1,174                  | -            | 83                 | 1,257         |
| Investments in associates and joined ventures | 57                     | -            | 132                | 189           |
| Inventories                                   | 2,314                  | -            | -                  | 2,314         |
| Trade receivables, net                        | 1,052                  | 78           | 202                | 1,332         |
| Not allocated assets                          |                        |              |                    | 4,136         |
| <b>Total assets</b>                           |                        |              |                    | <b>28,064</b> |
| <b>Other segment information</b>              |                        |              |                    |               |
| <b>Capital expenditure:</b>                   | <b>2,548</b>           | <b>1,616</b> | <b>214</b>         | <b>4,378</b>  |
| Property, plant and equipment                 | 2,493                  | 1,598        | 137                | 4,228         |
| Intangible assets                             | 55                     | 18           | 77                 | 150           |

INA, d.d.

| Year 2008                                     | Republic<br>of Croatia | Syria      | Other<br>countries | Total         |
|-----------------------------------------------|------------------------|------------|--------------------|---------------|
| Property, plant and equipment                 | 11,646                 | 2,884      | 113                | 14,643        |
| Intangible assets                             | 382                    | 245        | 21                 | 648           |
| Investment in subsidiaries                    | 1,174                  | -          | 85                 | 1,259         |
| Investments in associates and joined ventures | 57                     | -          | 132                | 189           |
| Inventories                                   | 2,129                  | -          | -                  | 2,129         |
| Trade receivables, net                        | 1,517                  | 17         | 265                | 1,799         |
| Not allocated assets                          |                        |            |                    | 4,040         |
| <b>Total assets</b>                           |                        |            |                    | <b>24,707</b> |
| <b>Other segment information</b>              |                        |            |                    |               |
| <b>Capital expenditure:</b>                   | <b>2,619</b>           | <b>956</b> | <b>256</b>         | <b>3,831</b>  |
| Property, plant and equipment                 | 2,506                  | 846        | 182                | 3,534         |
| Intangible assets                             | 113                    | 110        | 74                 | 297           |

**3. SEGMENT INFORMATION (continued)**

**INA Group  
Continuing operations**

|                        | <i>Revenues from external customers</i> |               |
|------------------------|-----------------------------------------|---------------|
|                        | <b>2009</b>                             | <b>2008</b>   |
| Republic of Croatia    | 12,254                                  | 16,965        |
| Bosnia and Hercegovina | 1,599                                   | 3,254         |
| Switzerland            | 1,905                                   | 904           |
| Other countries        | 4,615                                   | 6,021         |
|                        | <b>20,373</b>                           | <b>27,144</b> |

**Discontinued operations**

|                     | <i>Revenues from external customers</i> |              |
|---------------------|-----------------------------------------|--------------|
|                     | <b>2009</b>                             | <b>2008</b>  |
| Republic of Croatia | 1,958                                   | 1,619        |
| Other countries     | -                                       | 45           |
|                     | <b>1,958</b>                            | <b>1,664</b> |

**INA, d.d.  
Continuing operations**

|                        | <i>Revenues from external customers</i> |               |
|------------------------|-----------------------------------------|---------------|
|                        | <b>2009</b>                             | <b>2008</b>   |
| Republic of Croatia    | 11,636                                  | 16,114        |
| Bosnia and Hercegovina | 1,277                                   | 1,688         |
| United Kingdom         | 2,893                                   | 225           |
| Other countries        | 1,662                                   | 5,715         |
|                        | <b>17,468</b>                           | <b>23,742</b> |

**Discontinued operations**

|                     | <i>Revenues from external customers</i> |              |
|---------------------|-----------------------------------------|--------------|
|                     | <b>2009</b>                             | <b>2008</b>  |
| Republic of Croatia | 1,186                                   | 1,619        |
| Other countries     | -                                       | 45           |
|                     | <b>1,186</b>                            | <b>1,664</b> |

### 3. SEGMENT INFORMATION (continued)

#### Information about major customers

Revenues from one customer of Group represent in 2009 year approximately HRK 1,753 million, and in 2008 year HRK 2,391 million.

### 4. OTHER OPERATING INCOME

|                                        | INA Group           |                     | INA, d.d.           |                     |
|----------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                        | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| Sales of underground gas storage       | 472                 | -                   | 25                  | 495                 |
| Reversal of provisions                 | 180                 | 177                 | 127                 | 157                 |
| Reversal of assets impairment          | 128                 | 63                  | 128                 | 63                  |
| Imported gas impairment                | 78                  | -                   | 78                  | -                   |
| Other non-core services<br>sold        | 115                 | 170                 | 32                  | 46                  |
| Debit-notes and refundment             | 68                  | 2                   | 68                  | 86                  |
| Reversal of impairment                 | 51                  | 41                  | 12                  | 12                  |
| Surpluses                              | 57                  | 41                  | 32                  | 17                  |
| Rent revenue                           | 54                  | 48                  | 34                  | 39                  |
| Non-current and current assets<br>sold | 35                  | 32                  | 23                  | 24                  |
| Other                                  | 118                 | 64                  | 95                  | 44                  |
| <b>Total continued operations</b>      | <b>1,356</b>        | <b>638</b>          | <b>654</b>          | <b>983</b>          |
| Imported gas impairment                | 64                  | -                   | 64                  | -                   |
| Other                                  | 7                   | -                   | -                   | -                   |
| <b>Total discontinued operations</b>   | <b>71</b>           | <b>-</b>            | <b>64</b>           | <b>-</b>            |

### 5. DEPRECIATION AND AMORTISATION

|                                                              | INA Group           |                     | INA, d.d.           |                     |
|--------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                              | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| Amortisation of intangible assets (note<br>12)               | 84                  | 84                  | 81                  | 81                  |
| Depreciation of property, plant and<br>equipment (note 13 b) | 1,423               | 1,287               | 1,140               | 1,019               |
|                                                              | <b>1,507</b>        | <b>1,371</b>        | <b>1,221</b>        | <b>1,100</b>        |



**6. STAFF COSTS**

|                                                 | INA Group        |                  | INA, d.d.        |                  |
|-------------------------------------------------|------------------|------------------|------------------|------------------|
|                                                 | 31 December 2009 | 31 December 2008 | 31 December 2009 | 31 December 2008 |
| <b>Continuing operations</b>                    |                  |                  |                  |                  |
| Net payroll                                     | 1,461            | 1,516            | 879              | 905              |
| Contributions for pensions and health insurance | 1,054            | 1,078            | 677              | 683              |
| Other payroll related costs                     | 287              | 328              | 138              | 164              |
|                                                 | <b>2,802</b>     | <b>2,922</b>     | <b>1,694</b>     | <b>1,752</b>     |
| <b>Discontinued operations</b>                  |                  |                  |                  |                  |
| Net payroll                                     | 3                | 3                | 1                | 3                |
| Contributions for pensions and health insurance | 3                | 2                | 1                | 2                |
| Other payroll related costs                     | -                | -                | 1                | -                |
|                                                 | <b>6</b>         | <b>5</b>         | <b>3</b>         | <b>5</b>         |

**6. STAFF COSTS (continued)**

At the year-end, the Group employed the following personnel, the majority of whom work within the Republic of Croatia:

**Continuing operations**

|                            | INA Group           |                     | INA, d.d.           |                     |
|----------------------------|---------------------|---------------------|---------------------|---------------------|
|                            | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
|                            | Number              | Number              | Number              | Number              |
| Exploration and production | 4,995               | 5,103               | 2,040               | 2,053               |
| Refining and marketing     | 3,625               | 3,606               | 2,731               | 2,683               |
| Retail                     | 3,901               | 3,942               | 3,255               | 3,305               |
| Corporate function         | 3,753               | 3,953               | 1,875               | 2,039               |
|                            | <b>16,274</b>       | <b>16,604</b>       | <b>9,901</b>        | <b>10,080</b>       |

**Discontinued operations**

|                            | INA Group           |                     | INA, d.d.           |                     |
|----------------------------|---------------------|---------------------|---------------------|---------------------|
|                            | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
|                            | Number              | Number              | Number              | Number              |
| Exploration and production | 30                  | 28                  | 30                  | 28                  |
|                            | <b>30</b>           | <b>28</b>           | <b>30</b>           | <b>28</b>           |

**7. FINANCE INCOME**

|                                | INA Group           |                     | INA, d.d.           |                     |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| Foreign exchange gains         | 258                 | 326                 | 208                 | 247                 |
| Other interest income          | 135                 | 68                  | 128                 | 83                  |
| Dividends                      | 3                   | 2                   | 2                   | 2                   |
| Interest from financial assets | 3                   | 15                  | 10                  | 10                  |
|                                | <b>399</b>          | <b>411</b>          | <b>348</b>          | <b>342</b>          |

INA - INDUSTRIJA NAFTE d.d.  
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**8. FINANCE COSTS**

**Continuing operations**

|                                     | INA Group           |                     | INA, d.d.           |                     |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                     | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| Foreign exchange losses             | 179                 | 734                 | 121                 | 638                 |
| Interest payable on long-term loans | 80                  | 150                 | 66                  | 138                 |
| Other interest payable              | 492                 | 263                 | 471                 | 242                 |
| Loss on embedded derivatives        | 28                  | 29                  | 87                  | 29                  |
| Other financial expenses            | 15                  | 15                  | 7                   | 4                   |
|                                     | <b>794</b>          | <b>1,191</b>        | <b>752</b>          | <b>1,051</b>        |

**Discontinued operations**

|                              | INA Group           |                     | INA, d.d.           |                     |
|------------------------------|---------------------|---------------------|---------------------|---------------------|
|                              | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| Loss on embedded derivatives | 112                 | 110                 | 70                  | 110                 |
|                              | <b>112</b>          | <b>110</b>          | <b>70</b>           | <b>110</b>          |

**9. TAXATION**

**Continuing operations**

|                                                                                             | INA Group           |                     | INA, d.d.           |                     |
|---------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                                                             | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| Current tax expense                                                                         | 34                  | 29                  | -                   | -                   |
| Deferred tax charge/(benefit) relating to origination and reversal of temporary differences | 1                   | 149                 | (8)                 | 160                 |
| <b>Income tax expense/(benefit) for the year</b>                                            | <b>35</b>           | <b>178</b>          | <b>(8)</b>          | <b>160</b>          |

**Discontinued operations**

|                                                                                    | INA Group           |                     | INA, d.d.           |                     |
|------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                                                    | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| Deferred tax benefit relating to origination and reversal of temporary differences | (130)               | (362)               | (130)               | (362)               |
| <b>Income tax benefit for the year</b>                                             | <b>(130)</b>        | <b>(362)</b>        | <b>(130)</b>        | <b>(362)</b>        |

Domestic income tax rate is calculated at 20 per cent in 2009 (2008: 20 per cent) of the income before taxes 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. The Company is subject to corporate income tax on its taxable profits in Croatia.

The total charge for the year can be reconciled to the accounting profits as follow:

**9. TAXATION (continued)****Continuing operations**

|                                                | INA Group           |                     | INA, d.d.           |                     |
|------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| Profit/(loss) before tax                       | 645                 | 530                 | (119)               | 770                 |
| Income tax expense/(benefit) calculated at 20% | 129                 | 106                 | (24)                | 154                 |
| Tax effect of permanent differences            | (94)                | 72                  | 16                  | 6                   |
| Current and deferred tax expense / (benefit)   | <b>35</b>           | <b>178</b>          | <b>(8)</b>          | <b>160</b>          |

**Discontinued operations**

|                                      | INA Group           |                     | INA, d.d.           |                     |
|--------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                      | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| Loss before tax                      | (1,134)             | (1,812)             | (651)               | (1,812)             |
| Income tax benefit calculated at 20% | (227)               | (362)               | (130)               | (362)               |
| Unrecognised deferred tax assets     | 97                  | -                   | -                   | -                   |
| Current and deferred tax benefit     | <b>(130)</b>        | <b>(362)</b>        | <b>(130)</b>        | <b>(362)</b>        |

In addition to the deferred tax in 2009 deferred tax recognized in amount of 36 HRK million (in 2008 91 HRK million). The Group did not recognise HRK 97 million deferred tax assets arising from the carryforward of unused tax loss in Prirodni Plin d.o.o., because future taxable profit may not be available at the entity. The movements in deferred tax assets were as follows:

INA - INDUSTRIJA NAFTE d.d.  
Notes to the financial statements (continued)

For the year ended 31 December 2009

(all amounts in HRK millions)

9. TAXATION (continued)

| INA Group                            | Value adjustment of current assets | Value adjustment of tangible and intangible assets | Reversal of depreciation for impaired asset | Provision recorded for ENI tax case | Other provisions | Value adjustment of financial investments | Tax losses | Total      |
|--------------------------------------|------------------------------------|----------------------------------------------------|---------------------------------------------|-------------------------------------|------------------|-------------------------------------------|------------|------------|
| <b>Balance at 01 January 2008</b>    | 26                                 | 64                                                 | (16)                                        | 1                                   | -                | (38)                                      | -          | 37         |
| Credit to equity for the year        | -                                  | -                                                  | -                                           | -                                   | -                | 91                                        | -          | 91         |
| Reversal of temporary differences    | (8)                                | (13)                                               | (13)                                        | (1)                                 | -                | -                                         | -          | (35)       |
| Origination of temporary differences | 105                                | 51                                                 | -                                           | 28                                  | -                | 17                                        | 47         | 201        |
| <b>Balance at 31 December 2008</b>   | <b>123</b>                         | <b>102</b>                                         | <b>(29)</b>                                 | <b>28</b>                           | <b>-</b>         | <b>70</b>                                 | <b>47</b>  | <b>341</b> |
| Credit to equity for the year        | -                                  | -                                                  | -                                           | -                                   | -                | (36)                                      | -          | (36)       |
| Reversal of temporary differences    | (99)                               | (26)                                               | (12)                                        | (28)                                | -                | (13)                                      | -          | (178)      |
| Origination of temporary differences | 11                                 | 189                                                | -                                           | -                                   | 27               | -                                         | 80         | 307        |
| <b>Balance at 31 December 2009</b>   | <b>35</b>                          | <b>265</b>                                         | <b>(41)</b>                                 | <b>-</b>                            | <b>27</b>        | <b>21</b>                                 | <b>127</b> | <b>434</b> |

| INA, d.d.                            | Value adjustment of current assets | Value adjustment of tangible and intangible assets | Reversal of depreciation for impaired asset | Provision recorded for ENI tax case | Other provisions | Value adjustment of financial investments | Tax losses | Total      |
|--------------------------------------|------------------------------------|----------------------------------------------------|---------------------------------------------|-------------------------------------|------------------|-------------------------------------------|------------|------------|
| <b>Balance at 01 January 2008</b>    | 26                                 | 64                                                 | (16)                                        | 1                                   | -                | (41)                                      | -          | 34         |
| Credit to equity for the year        | -                                  | -                                                  | -                                           | -                                   | -                | 91                                        | -          | 91         |
| Reversal of temporary differences    | (8)                                | (13)                                               | (13)                                        | (1)                                 | -                | -                                         | -          | (35)       |
| Origination of temporary differences | 105                                | 47                                                 | -                                           | 28                                  | -                | 10                                        | 47         | 190        |
| <b>Balance at 31 December 2008</b>   | <b>123</b>                         | <b>98</b>                                          | <b>(29)</b>                                 | <b>28</b>                           | <b>-</b>         | <b>60</b>                                 | <b>47</b>  | <b>327</b> |
| Credit to equity for the year        | -                                  | -                                                  | -                                           | -                                   | -                | (36)                                      | -          | (36)       |
| Reversal of temporary differences    | (99)                               | (26)                                               | (12)                                        | (28)                                | -                | (4)                                       | -          | (169)      |
| Origination of temporary differences | 11                                 | 189                                                | -                                           | -                                   | 27               | -                                         | 80         | 307        |
| <b>Balance at 31 December 2009</b>   | <b>35</b>                          | <b>261</b>                                         | <b>(41)</b>                                 | <b>-</b>                            | <b>27</b>        | <b>20</b>                                 | <b>127</b> | <b>429</b> |

## 10. DISCONTINUED OPERATIONS

The Government of the Republic of Croatia and the Hungarian oil company MOL signed a Master Agreement on Natural Gas Business (a framework agreement regulating some basic issues regarding the future of the natural gas market and the supply of natural gas in Croatia) on 30 January 2009. Based on the contract the Government took over the gas storage of INA d.d. in May.

On 16 December 2009, the Croatian Government and MOL Plc. concluded the first Annex to the Gas Master Agreement, which specifies the terms and conditions, as well as the pricing of natural gas for tariff-based and eligible customers, the mining royalty, gas storage tariffs, as well as other terms and conditions applicable to the pricing of gas and acquisition of the entire (100 %) share in the company Prirodni plin d.o.o. a natural gas trading company established by INA.

According to the Annex, the aim of the parties to the Agreement is to sustain and strengthen the national security interest, by providing to tariff-based and eligible customers a safe and reliable supply of natural gas originating from domestic and other, foreign natural gas wells.

Pursuant to the Annex, both INA and Prirodni plin d.o.o. may increase gas prices for both tariff-based and eligible customers by 33 lipas (1/100th of HRK) per cubic metre and 30 lipas per cubic metre, respectively, with the effect from 1 January 2010.

The parties to the Agreement have agreed on the provisions pertaining to the payment of the mining royalty in the future. The Croatian Government warrants that, in the period from 2010 up to inclusive 2014, the current royalty payable by INA starting from 1 January 2010 will increase by 0.5 percentage points annually for all hydrocarbon exploitation fields.

The royalty rate payable by INA from 2015 up to inclusive 2025 has been set at 10 (ten) percent for all hydrocarbon fields exploited by INA.

According to the Annex, the acquisition of the entire (100% share) in Prirodni plin d.o.o. by the Government has been postponed until 1 December 2010.

Through the implementation of the Master Agreement on Natural Gas Business, gas business was separated from INA, d.d. and subsidiary Prirodni plin d.o.o. Zagreb was established at 1 July 2009. Pursuant to its business strategy, INA, d.d. maintained only onshore and offshore exploration and production activities in the Republic of Croatia.

Since the gas trading activity represents a major line of business, the Company presents related results and cash flows as profit and cash flows from discontinued operations. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period, as set out below.

These operations, which are expected to be sold within 12 months, have been presented separately in the segmental analysis in note 3.

**10. DISCONTINUED OPERATIONS (continued)**

|                                                       | <b>INA Group</b>            |                             | <b>INA, d.d.</b>            |                             |
|-------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                                       | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
| <b>Loss for the year from discontinued operations</b> |                             |                             |                             |                             |
| Sales revenue                                         |                             |                             |                             |                             |
| a) domestic                                           | 1,958                       | 1,619                       | 1,186                       | 1,619                       |
| b) exports                                            | -                           | 45                          | -                           | 45                          |
| <b>Total sales revenue</b>                            | <b>1,958</b>                | <b>1,664</b>                | <b>1,186</b>                | <b>1,664</b>                |
| Other operating income                                | 71                          | -                           | 64                          | -                           |
| <b>Total operating income</b>                         | <b>2,029</b>                | <b>1,664</b>                | <b>1,250</b>                | <b>1,664</b>                |
| Other material costs                                  | (362)                       | (343)                       | (282)                       | (343)                       |
| Service costs                                         | (3)                         | (3)                         | -                           | (3)                         |
| Staff costs                                           | (6)                         | (5)                         | (3)                         | (5)                         |
| Cost of other goods sold                              | (2,641)                     | (2,853)                     | (1,545)                     | (2,853)                     |
| Impairment and charges                                | (46)                        | (162)                       | -                           | (162)                       |
| <b>Operating expenses</b>                             | <b>(3,058)</b>              | <b>(3,366)</b>              | <b>(1,830)</b>              | <b>(3,366)</b>              |
| <b>Loss from operations</b>                           | <b>(1,029)</b>              | <b>(1,702)</b>              | <b>(580)</b>                | <b>(1,702)</b>              |
| Finance costs                                         | (112)                       | (110)                       | (70)                        | (110)                       |
| <b>Loss before tax</b>                                | <b>(1,141)</b>              | <b>(1,812)</b>              | <b>(650)</b>                | <b>(1,812)</b>              |
| Deferred tax                                          | 130                         | 362                         | 130                         | 362                         |
| <b>Loss for the year</b>                              | <b>(1,011)</b>              | <b>(1,450)</b>              | <b>(520)</b>                | <b>(1,450)</b>              |
| <b>Cash flow from discontinued operations</b>         |                             |                             |                             |                             |
| Net cash flow from operating activities               | (716)                       | (441)                       | (320)                       | (441)                       |
| <b>Net cash flows</b>                                 | <b>(716)</b>                | <b>(441)</b>                | <b>(320)</b>                | <b>(441)</b>                |



**11. EARNINGS PER SHARE**

**Continued and discontinued operations**

|                                                      | INA Group           |                     | INA, d.d.           |                     |
|------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                      | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| <b>Basic and diluted earnings per share (in HRK)</b> | <b>(39.2)</b>       | <b>(109.9)</b>      | <b>(63.1)</b>       | <b>(84.0)</b>       |

**Earnings**

|                                                                                                                                                                                          | INA Group           |                     | INA, d.d.           |                     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                                                                                                                                                          | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| Earnings used in the calculation of total basic earnings per share (loss/profit for the period attributable to equity holders of the parent ) from continued and discontinued operations | (392)               | (1,099)             | (631)               | (840)               |
|                                                                                                                                                                                          | <b>(392)</b>        | <b>(1,099)</b>      | <b>(631)</b>        | <b>(840)</b>        |

**Number of shares**

|                                                                                                       | INA Group           |                     | INA, d.d.           |                     |
|-------------------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                                                                       | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
|                                                                                                       | Number of shares    | Number of shares    | Number of shares    | Number of shares    |
| Weighted average number of ordinary shares for the purposes of basic earnings per share (in millions) | 10                  | 10                  | 10                  | 10                  |

**From continued operations**

|                                                      | INA Group           |                     | INA, d.d.           |                     |
|------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                      | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| <b>Basic and diluted earnings per share (in HRK)</b> | <b>61.9</b>         | <b>35.1</b>         | <b>(11.1)</b>       | <b>61</b>           |

**Earnings**

|                                                                                                      | INA Group           |                     | INA, d.d.           |                     |
|------------------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                                                                      | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| Loss for the period attributable to equity holders of the parent                                     | (392)               | (1,099)             | (631)               | (840)               |
| Less:                                                                                                |                     |                     |                     |                     |
| Loss for the year from discontinued operations                                                       | 1,011               | 1,450               | 520                 | 1,450               |
| <b>Earnings for calculation basic earnings per share (kuna per share) from continuing operations</b> | <b>619</b>          | <b>351</b>          | <b>(111)</b>        | <b>610</b>          |

**12. INTANGIBLE ASSETS**

|                                             | <u>INA Group</u>  | <u>INA, d.d.</u>  |
|---------------------------------------------|-------------------|-------------------|
| <b>Balance at 01 January 2008</b>           | <b>630</b>        | <b>625</b>        |
| Additions                                   | 307               | 297               |
| Amortisation                                | (84)              | (81)              |
| Reversal of impairment                      | 2                 | 2                 |
| Write off of exploration cost               | (69)              | (69)              |
| Transfer to property, plant and equipment   | <u>(122)</u>      | <u>(126)</u>      |
| <b>Balance at 31 December 2008</b>          | <b><u>664</u></b> | <b><u>648</u></b> |
| Additions                                   | 155               | 150               |
| Amortisation                                | (84)              | (81)              |
| Impairment                                  | (1)               | (1)               |
| Asset classified as held for sale - Crobenz | (2)               | -                 |
| Other movements                             | (1)               | -                 |
| <b>Balance at 31 December 2009</b>          | <b><u>731</u></b> | <b><u>716</u></b> |

INA - INDUSTRIJA NAFTE d.d.  
Notes to the financial statements (continued)  
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13. PROPERTY, PLANT AND EQUIPMENT

a) By business segment  
INA Group

|                            | Oil and gas<br>exploration and<br>production, gas | Refining and<br>marketing | Retail       | Other      | Total         |
|----------------------------|---------------------------------------------------|---------------------------|--------------|------------|---------------|
| <b>At 1 January 2008</b>   |                                                   |                           |              |            |               |
| Cost                       | 31,952                                            | 11,985                    | 2,498        | 2,064      | 48,499        |
| Accumulated depreciation   | 23,215                                            | 8,023                     | 1,500        | 1,320      | 34,058        |
| <b>Net book value</b>      | <b>8,737</b>                                      | <b>3,962</b>              | <b>998</b>   | <b>744</b> | <b>14,441</b> |
| <b>At 31 December 2008</b> |                                                   |                           |              |            |               |
| Cost                       | 33,217                                            | 12,951                    | 2,978        | 2,267      | 51,413        |
| Accumulated depreciation   | 22,995                                            | 8,015                     | 1,739        | 1,515      | 34,264        |
| <b>Net book value</b>      | <b>10,222</b>                                     | <b>4,936</b>              | <b>1,239</b> | <b>752</b> | <b>17,149</b> |
| <b>At 31 December 2009</b> |                                                   |                           |              |            |               |
| Cost                       | 37,354                                            | 14,251                    | 2,889        | 2,112      | 56,606        |
| Accumulated depreciation   | 24,491                                            | 8,363                     | 1,969        | 1,430      | 36,253        |
| <b>Net book value</b>      | <b>12,863</b>                                     | <b>5,888</b>              | <b>920</b>   | <b>682</b> | <b>20,353</b> |

INA, d.d.

|                            | Oil and gas<br>exploration and<br>production, gas | Refining and<br>marketing | Retail     | Other      | Total         |
|----------------------------|---------------------------------------------------|---------------------------|------------|------------|---------------|
| <b>1 January 2008</b>      |                                                   |                           |            |            |               |
| Cost                       | 28,356                                            | 10,811                    | 2,490      | 849        | 42,506        |
| Accumulated depreciation   | 20,883                                            | 7,359                     | 1,496      | 499        | 30,237        |
| <b>Net book value</b>      | <b>7,473</b>                                      | <b>3,452</b>              | <b>994</b> | <b>350</b> | <b>12,269</b> |
| <b>At 31 December 2008</b> |                                                   |                           |            |            |               |
| Cost                       | 29,341                                            | 12,067                    | 2,571      | 1,035      | 45,014        |
| Accumulated depreciation   | 20,598                                            | 7,480                     | 1,593      | 700        | 30,371        |
| <b>Net book value</b>      | <b>8,743</b>                                      | <b>4,587</b>              | <b>978</b> | <b>335</b> | <b>14,643</b> |
| <b>At 31 December 2009</b> |                                                   |                           |            |            |               |
| Cost                       | 33,403                                            | 13,362                    | 2,596      | 902        | 50,263        |
| Accumulated depreciation   | 21,882                                            | 7,812                     | 1,816      | 633        | 32,143        |
| <b>Net book value</b>      | <b>11,521</b>                                     | <b>5,550</b>              | <b>780</b> | <b>269</b> | <b>18,120</b> |

## Notes to the financial statements (continued)

For the year ended 31 December 2009

*(all amounts in HRK millions)***13. PROPERTY, PLANT AND EQUIPMENT (continued)****b) By asset type**

INA Group

| Cost                                        | Oil and gas properties | Land and buildings | Plant and machinery and assets under construction | Vehicles and office equipment | Collective Consumption assets | Total   |
|---------------------------------------------|------------------------|--------------------|---------------------------------------------------|-------------------------------|-------------------------------|---------|
| <b>Balance at 1 January 2008</b>            | 22,004                 | 10,320             | 14,617                                            | 1,513                         | 45                            | 48,499  |
| Additions                                   | -                      | -                  | 4,162                                             | 4                             | -                             | 4,166   |
| Change in capitalised decommissioning costs | (155)                  | -                  | -                                                 | -                             | -                             | (155)   |
| Transfer from intangible assets             | -                      | -                  | 122                                               | -                             | -                             | 122     |
| Transfers                                   | 856                    | 247                | (1,275)                                           | 165                           | 7                             | -       |
| Disposals                                   | (9)                    | (489)              | (604)                                             | (92)                          | (6)                           | (1,200) |
| Exchange differences                        | -                      | 1                  | (19)                                              | (1)                           | -                             | (19)    |
| <b>Balance at 31 December 2008</b>          | 22,696                 | 10,079             | 17,003                                            | 1,589                         | 46                            | 51,413  |
| Additions                                   | -                      | -                  | 4,349                                             | -                             | -                             | 4,349   |
| Change in capitalised decommissioning costs | 1,207                  | -                  | -                                                 | -                             | -                             | 1,207   |
| Addition - acquisition of Drill Trans Group | -                      | 6                  | 2                                                 | 52                            | -                             | 60      |
| Asset classified as held for sale - Crobenz | -                      | (119)              | (1)                                               | (23)                          | -                             | (143)   |
| Transfer to intangible assets               | -                      | -                  | (1)                                               | -                             | -                             | (1)     |
| Transfers                                   | 1,789                  | 414                | (2,301)                                           | 98                            | -                             | -       |
| Disposals                                   | (31)                   | (17)               | (134)                                             | (84)                          | (2)                           | (268)   |
| Exchange differences                        | -                      | (1)                | (10)                                              | -                             | -                             | (11)    |
| <b>Balance at 31 December 2009</b>          | 25,661                 | 10,362             | 18,907                                            | 1,632                         | 44                            | 56,606  |

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Notes to the financial statements (continued)  
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13. PROPERTY, PLANT AND EQUIPMENT (continued)

b) By asset type (continued)

INA Group

|                                               | Oil and gas properties | Land and buildings | Plant and machinery and assets under construction | Vehicles and office equipment | Collective Consumption assets | Total         |
|-----------------------------------------------|------------------------|--------------------|---------------------------------------------------|-------------------------------|-------------------------------|---------------|
| <b>Accumulated depreciation</b>               |                        |                    |                                                   |                               |                               |               |
| <b>Balance at 1 January 2008</b>              | 17,533                 | 7,004              | 8,266                                             | 1,219                         | 36                            | 34,058        |
| Charge for the year                           | 462                    | 315                | 366                                               | 141                           | 3                             | 1,287         |
| Charge for decommissioning for a prior year   | -                      | (104)              | -                                                 | -                             | -                             | (104)         |
| Reclassification of advances for fixed assets | -                      | -                  | 3                                                 | 4                             | -                             | 7             |
| Impairment                                    | 123                    | 28                 | 20                                                | 4                             | -                             | 175           |
| Transfers                                     | -                      | -                  | (5)                                               | 5                             | -                             | -             |
| Disposals                                     | (9)                    | (465)              | (580)                                             | (88)                          | (4)                           | (1,146)       |
| Exchange differences                          | 4                      | -                  | (14)                                              | (3)                           | -                             | (13)          |
| <b>Balance at 31 December 2008</b>            | <b>18,113</b>          | <b>6,778</b>       | <b>8,056</b>                                      | <b>1,282</b>                  | <b>35</b>                     | <b>34,264</b> |
| Charge for the year                           | 675                    | 216                | 393                                               | 138                           | 1                             | 1,423         |
| Reversal depreciation from previous year      | -                      | -                  | -                                                 | (1)                           | -                             | (1)           |
| Additional: acquisition of Drill Trans Group  | -                      | 1                  | 1                                                 | 24                            | -                             | 26            |
| Value adjustment of assets under construction | -                      | -                  | 4                                                 | -                             | -                             | 4             |
| Asset classified as held for sale - Crobenz   | -                      | (17)               | -                                                 | (19)                          | -                             | (36)          |
| Impairment                                    | 553                    | 155                | 105                                               | 23                            | -                             | 836           |
| Transfers                                     | -                      | 6                  | (3)                                               | (3)                           | -                             | -             |
| Disposals                                     | (31)                   | (17)               | (133)                                             | (77)                          | (2)                           | (260)         |
| Exchange differences                          | -                      | -                  | (3)                                               | -                             | -                             | (3)           |
| <b>Balance at 31 December 2009</b>            | <b>19,310</b>          | <b>7,122</b>       | <b>8,420</b>                                      | <b>1,367</b>                  | <b>34</b>                     | <b>36,253</b> |

INA - INDUSTRIJA NAFTE d.d.  
 Notes to the financial statements (continued)  
 For the year ended 31 December 2009  
 (all amounts in HRK millions)

**13. PROPERTY, PLANT AND EQUIPMENT (continued)**

*b) By asset type (continued)*

| INA Group                   | Oil and gas properties | Land and buildings | Plant and machinery and assets under construction | Vehicles and office equipment | Collective Consumption assets | Total  |
|-----------------------------|------------------------|--------------------|---------------------------------------------------|-------------------------------|-------------------------------|--------|
| Carrying amount             |                        |                    |                                                   |                               |                               |        |
| Balance at 31 December 2009 | 6,351                  | 3,240              | 10,487                                            | 265                           | 10                            | 20,353 |
| Balance at 31 December 2008 | 4,583                  | 3,301              | 8,947                                             | 307                           | 11                            | 17,149 |

The carrying amount of INA Group property, plant and equipment increased in 2009 for HRK 3,204 million. In the period ending 31 December 2009, the Group invested HRK 4,349 million in property, plant and equipment. Capitalized decommissioning costs amounted to HRK 1,207 million. Increasing by acquisition of other company is HRK 34 million. Impairments amounted to HRK 836 million and the effects of depreciation on reducing their book value amounted to HRK 1,423 million. Disposals of assets, mainly relating to vehicles and office equipment, reduced their book value by further 8 million. Reversal of depreciation increased the asset value for HRK 1 million. HRK 107 million was transferred from Property, plant and equipment to Assets classified as held for sale and is relating to Retail segment of subsidiary Crobenz. Value adjustment of assets under construction account is HRK 4 million. The reduction of book value was also a result of foreign exchange differences in the amount of HRK 8 million and a HRK one-million transfer to non-current intangible assets.

INA - INDUSTRIJA NAFTE d.d.  
Notes to the financial statements (continued)  
For the year ended 31 December 2009  
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13. PROPERTY, PLANT AND EQUIPMENT (continued)

b) By asset type (continued)

| INA, d.d.                                   | Oil and gas properties | Land and buildings | Plant and machinery and assets under construction | Vehicles and office equipment | Collective Consumption assets | Total         |
|---------------------------------------------|------------------------|--------------------|---------------------------------------------------|-------------------------------|-------------------------------|---------------|
| <b>Cost</b>                                 |                        |                    |                                                   |                               |                               |               |
| Balance at 1 January 2008                   | 22,003                 | 8,503              | 11,198                                            | 761                           | 41                            | 42,506        |
| Additions                                   | -                      | -                  | 3,534                                             | -                             | -                             | 3,534         |
| Change in capitalised decommissioning costs | (155)                  | -                  | -                                                 | -                             | -                             | (155)         |
| Transfer from intangible assets             | -                      | -                  | 126                                               | -                             | -                             | 126           |
| Transfers                                   | 856                    | 194                | (1,145)                                           | 95                            | -                             | -             |
| Disposals                                   | (9)                    | (488)              | (456)                                             | (38)                          | (6)                           | (997)         |
| <b>Balance at 31 December 2008</b>          | <b>22,695</b>          | <b>8,209</b>       | <b>13,257</b>                                     | <b>818</b>                    | <b>35</b>                     | <b>45,014</b> |
| Additions                                   | -                      | -                  | 4,228                                             | -                             | -                             | 4,228         |
| Change in capitalised decommissioning costs | 1,207                  | -                  | -                                                 | -                             | -                             | 1,207         |
| Transfers                                   | 1,789                  | 302                | (2,152)                                           | 61                            | -                             | -             |
| Disposals                                   | (31)                   | (10)               | (115)                                             | (28)                          | (2)                           | (186)         |
| <b>Balance at 31 December 2009</b>          | <b>25,660</b>          | <b>8,501</b>       | <b>15,218</b>                                     | <b>851</b>                    | <b>33</b>                     | <b>50,263</b> |

INA - INDUSTRIJA NAFTE d.d.  
Notes to the financial statements (continued)  
For the year ended 31 December 2009  
(all amounts in HRK millions)

13. PROPERTY, PLANT AND EQUIPMENT (continued)

b) By asset type (continued)

| INA, d.d.                                   | Oil and gas properties | Land and buildings | Plant and machinery and assets under construction | Vehicles and office equipment | Collective Consumption assets | Total         |
|---------------------------------------------|------------------------|--------------------|---------------------------------------------------|-------------------------------|-------------------------------|---------------|
| <b>Accumulated depreciation</b>             |                        |                    |                                                   |                               |                               |               |
| Balance at 1 January 2008                   | 17,537                 | 5,826              | 6,251                                             | 587                           | 36                            | 30,237        |
| Charge for the year                         | 462                    | 265                | 236                                               | 55                            | 1                             | 1,019         |
| Charge for decommissioning for a prior year | -                      | (103)              | -                                                 | -                             | -                             | (103)         |
| Impairment                                  | 123                    | 28                 | 20                                                | 4                             | -                             | 175           |
| Disposals                                   | (9)                    | (465)              | (442)                                             | (37)                          | (4)                           | (957)         |
| <b>Balance at 31 December 2008</b>          | <b>18,113</b>          | <b>5,551</b>       | <b>6,065</b>                                      | <b>609</b>                    | <b>33</b>                     | <b>30,371</b> |
| Charge for the year                         | 675                    | 159                | 246                                               | 60                            | -                             | 1,140         |
| Impairment                                  | 553                    | 138                | 104                                               | 22                            | -                             | 817           |
| Disposals                                   | (31)                   | (10)               | (115)                                             | (28)                          | (1)                           | (185)         |
| <b>Balance at 31 December 2009</b>          | <b>19,310</b>          | <b>5,838</b>       | <b>6,300</b>                                      | <b>663</b>                    | <b>32</b>                     | <b>32,143</b> |



INA - INDUSTRIJA NAFTE d.d.  
 Notes to the financial statements (continued)  
 For the year ended 31 December 2009  
 (all amounts in HRK millions)

**13. PROPERTY, PLANT AND EQUIPMENT (continued)**

**b) By asset type (continued)**

| INA, d.d.                   | Oil and gas properties | Land and buildings | Plant and machinery and assets under construction | Vehicles and office equipment | Collective Consumption assets | Total  |
|-----------------------------|------------------------|--------------------|---------------------------------------------------|-------------------------------|-------------------------------|--------|
| Carrying amount             |                        |                    |                                                   |                               |                               |        |
| Balance at 31 December 2009 | 6,350                  | 2,663              | 8,918                                             | 188                           | 1                             | 18,120 |
| Balance at 31 December 2008 | 4,582                  | 2,658              | 7,192                                             | 209                           | 2                             | 14,643 |
| Balance at 1 January 2008   | 4,466                  | 2,677              | 4,947                                             | 174                           | 5                             | 12,269 |

The carrying amount of INA, d.d. property, plant and equipment increased in 2009 for HRK 3,477 million as a result of the current year investments for the amount of HRK 4,228 million, capitalized decommissioning costs of HRK 1,207 million, disposal of HRK 1 million (refer to selling flats), depreciation charge of HRK 1,140 million and impairment of asset value of HRK 817 million.

Additions to oil and gas properties and assets under construction include own costs capitalised in 2009 of HRK 16 million (2008: HRK 14 million). Included above are assets under construction for 2009 HRK 4,228 million (2008: HRK 3,548 million) which are not yet subject to depreciation.

*1) Oil and gas reserves*

The ability of INA and Group to realise the net book value of oil and gas properties (see b) above) in the future is dependent upon the extent to which commercially recoverable oil and gas reserves are in place. During 2009 Exploration and Production segment performed assessment of the quantities of the Company's remaining proved developed oil and gas reserves which were commercially recoverable.

### 13. PROPERTY, PLANT AND EQUIPMENT (continued)

#### 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, through the local courts in Croatia. To date, no claims have been made against the Company concerning its title to these assets.

#### III) Collective consumption assets

Collective consumption assets principally comprise domestic residential and holiday accommodation for the workforce of the Company and certain of its subsidiaries.

#### IV) Carrying value of refining and retail property, plant and equipment

At 31 December 2009 the net book values of the Group's property, plant and equipment in BD Exploration and Production was HRK 12,863 million and for 31 December 2008 the amount was HRK 10,222 million. At 31 December 2009 the net book values of the Group's property, plant and equipment in BD Refining and Marketing was HRK 5,888 million and for 31 December 2008 the amount was HRK 4,936 million. At 31 December 2009 the net book values of the Group's property, plant and equipment in Retail was HRK 920 million and for 31 December 2008 the amount was HRK 1,239 million. At 31 December 2009 the net book values of the Group's property, plant and equipment in Function was HRK 682 million and for 31 December 2008 the amount was HRK 752 million.

The Management Board has assessed the carrying values of its Exploration and Production, Refining & Marketing and Retail assets with reference to the discounted estimated future net cash flows from the refining and wholesale business, in accordance with the requirements of IAS 36. The total impairment of assets in accordance with IAS 36 is HRK 837 million :

- The impairment of BD Exploration and Production is HRK 555 million in 2009 ( 2008: HRK 123 million)
- The impairment of BD Refining and Marketing is HRK 113 million in 2009 (2008: HRK 25 million)
- The impairment of BD Retail is HRK 149 million in 2009 for INA, d.d. and extra HRK 20 million on INA Group level, summarized HRK 169 million ( 2008: HRK 25 million for INA, d.d. and INA Group)

The recoverable amount of the cash-generating unit in INA, d.d.. is fair value less value in use.

Discount rates used in the current assessment in 2009 and for 2008 are:

| Part of INA, d.d.          | 2009    | 2008    |
|----------------------------|---------|---------|
| Exploration and Production | 13.329% | 10.000% |
| Refining and Marketing     | 12.574% | 12.000% |
| Retail                     | 10.800% | 8.720%  |

#### 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 the Standard, and no need for any adjustment to the residual values for either the current or prior periods has been established.

14. GOODWILL

|                                                                       | <u>INA Group</u> |
|-----------------------------------------------------------------------|------------------|
| Investment of Croscos, d.o.o. in Rotary Zrt. Hungary (100%)           | 191              |
| Investment of INA, d.d. in Energopetrol d.d. Sarajevo (INA i MOL 67%) | <u>132</u>       |
| <b>Total investments</b>                                              | <b>323</b>       |
| Net assets of Rotary Zrt.                                             | (93)             |
| Net assets of Energopetrol d.d. Sarajevo                              | <u>(67)</u>      |
| <b>Total net assets</b>                                               | <b>(160)</b>     |
| Goodwill Rotary Zrt.                                                  | 98               |
| Goodwill Energopetrol d.d. Sarajevo                                   | 65               |
|                                                                       | <u>163</u>       |
| <b>Total goodwill for 1 January 2008</b>                              | <b>163</b>       |
| Rotary Zrt - exchange differences adjustments                         | 6                |
| Energopetrol Plc Sarajevo -contractual commitments adjustments        | <u>28</u>        |
| <b>Total goodwill for 31 December 2008</b>                            | <b>197</b>       |
|                                                                       | <u>103</u>       |
| Investment of Croscos d.o.o. in Drill Trans Group                     | 103              |
| Net asset of Drill Trans Group                                        | <u>(4)</u>       |
| <b>Balance at 31 December 2009</b>                                    | <b>296</b>       |

On 28 March 2007, pursuant the agreement entered into by the Government of the Federation of Bosnia and Herzegovina and the INA-MOL Consortium, the INA Group invested HRK 132 million in the acquisition of Energopetrol d.d., Sarajevo and became, together with MOL, a major shareholder of the investee (INA d.d. and MOL Plc. hold an equity share of 33.5 % each).

The business combinations with the companies Energopetrol d.d., Sarajevo and Rotary Drilling Co.LTD were initially recorded in the period in which the combinations were concluded on a provisional basis because the fair values of identifiable assets, liabilities and contingent liabilities of the investees could have been determined only provisionally and, at the INA Group, they were accounted for by reference to the provisional values. During 2008, an adjustment to the provisional values as per the initial reconciliation with the audited 2007 financial statements of the company Energopetrol d.d. was recognised. The resulting fair value adjustment of the identifiable assets and liabilities resulted in an increase of goodwill in the amount of HRK 28 million.

Discount rate used for impairment test were 8.00% (EUR) and 13.66% (HUF) respectively in case of Energopetrol d.d. and Rotary Co.LTD.

On 1 September 2009, the subsidiary Croscos d.o.o. Zagreb, acquired the entire equity share in the company Drill Trans Kft., headquarter in Nagykanizsa, Hungary, for consideration of HRK 103 million (see note 43).

**15. INVESTMENTS IN SUBSIDIARIES**

|                                                    | INA, d.d.           |                     |                   |
|----------------------------------------------------|---------------------|---------------------|-------------------|
|                                                    | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| Equity investments in subsidiaries                 | 1,257               | 1,259               | 1,286             |
|                                                    |                     | INA, d.d.           |                   |
|                                                    |                     | 2009                | 2008              |
| Equity investments in subsidiaries at 1 January    |                     | 1,259               | 1,286             |
| Interina Holding Ltd. London - liquidation         |                     | -                   | (28)              |
| Interina d.o.o. Ljubljana - share capital increase |                     | -                   | 24                |
| Interina d.o.o. Ljubljana – impairment allowance   |                     | (1)                 | (21)              |
| INA Crna Gora d.o.o. Kotor –share capital increase |                     | -                   | 3                 |
| Hostin d.o.o Zagreb – impairment allowance         |                     | -                   | (1)               |
| INA Kosovo d.o.o. Priština – impairment            |                     | (1)                 | (4)               |
| <b>Total as of 31 December</b>                     |                     | <b>1,257</b>        | <b>1,259</b>      |

During 2008, the share capital of Interina d.o.o. Ljubljana and INA Crna Gora d.o.o. Kotor was increased by HRK 24 million and HRK 3 million, respectively. Impairment allowance was recorded in respect of Interina d.o.o. Ljubljana (HRK 21 million); Hostin d.o.o. Zagreb (HRK 1 million), as well as value adjustment in respect of the subsidiary INA-Kosovo d.o.o. Priština (HRK 4 million). The liquidation of Interina Holding was completed in December 2008 (investment worth HRK 28 million).

During 2009, impairment allowance was made for the investments in the subsidiaries Interina d.o.o. Ljubljana (HRK 1 million) and INA-Kosovo d.o.o. Priština (HRK 1 million) as a result of the decline in the value of the companies' net assets as of 31 December 2009.

**15. INVESTMENTS IN SUBSIDIARIES (continued)**

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

| Name of company                                                                | Activity                                    | Shareholding           |                        |
|--------------------------------------------------------------------------------|---------------------------------------------|------------------------|------------------------|
|                                                                                |                                             | 31<br>December<br>2009 | 31<br>December<br>2008 |
| <i>Oilfield services</i>                                                       |                                             |                        |                        |
| *Crosco Naftni Servisi d.o.o. Zagreb                                           | Oilfield services                           | 100%                   | 100%                   |
| Crosco International Limited, Guernsey                                         | Oilfield services                           | 100%                   | 100%                   |
| Geotehnika International LLC, Abu Dhabi, UAE                                   | Oilfield services                           | 49%                    | 49%                    |
| Crosco B.V. Amsterdam, Nizozemska (from January 2008)                          | Oilfield services                           | 100%                   | 100%                   |
| Nordic Shipping Ltd, Marshall Islands                                          | Platform ownership                          | 100%                   | 100%                   |
| Sea Horse Shipping Inc, Marshall Islands                                       | Platform ownership                          | 100%                   | 100%                   |
| Crosco International d.o.o. Slovenia                                           | Oilfield services                           | 100%                   | 100%                   |
| Rotary Zrt., Hungary                                                           | Oilfield services                           | 100%                   | 100%                   |
| Drill-Trans Zrt, Hungary (from September 2009)                                 | Road transport of<br>cargo                  | 100%                   | -                      |
| Crosco S.A. DE C.V. Monterrey, Mexico ( from January 2008)                     | Oilfield services                           | 100%                   | 100%                   |
| Crosco International d.o.o. Tuzla, BiH                                         | Oilfield services                           | 100%                   | 100%                   |
| Mideast Integrated Drilling & Well Services Company LLC, Oman                  | Oilfield services                           | 49%                    | 49%                    |
| <i>Oil exploration and production</i>                                          |                                             |                        |                        |
| *INA Naftaplín International Exploration and Production Ltd, Guernsey          | Oil exploration and<br>production           | 100%                   | 100%                   |
| CorteCros d.o.o., Zagreb                                                       | Distribution of anti-<br>corrosion products | 60%                    | 60%                    |
| <i>Tourism</i>                                                                 |                                             |                        |                        |
| *Hostin d.o.o. Zagreb                                                          | Tourism                                     | 100%                   | 100%                   |
| <i>Ancillary services</i>                                                      |                                             |                        |                        |
| *STSI integrirani tehnički servisi d.o.o. Zagreb                               | Technical services                          | 100%                   | 100%                   |
| *Sinaco d.o.o. Sisak                                                           | Security                                    | 100%                   | 100%                   |
| *ITR d.o.o., Zagreb                                                            | Car rental                                  | 100%                   | 100%                   |
| *Podzemno skladište plina d.o.o. Zagreb<br>(from December 2008 until May 2009) | Gas storage                                 | -                      | 100%                   |
| <i>Production and trading</i>                                                  |                                             |                        |                        |
| *Maziva Zagreb d.o.o. Zagreb                                                   | Production and<br>lubricants trading        | 100%                   | 100%                   |
| *Proplin d.o.o. Zagreb                                                         | Production and<br>LPG trading               | 100%                   | 100%                   |

**15. INVESTMENTS IN SUBSIDIARIES (continued)**

| Name of company                                                                                                           | Activity                      | Shareholding     |                  |
|---------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------|------------------|
|                                                                                                                           |                               | 31 December 2009 | 31 December 2008 |
| <i>Trading and finance</i>                                                                                                |                               |                  |                  |
| *Interina d.o.o. Ljubljana, Slovenia                                                                                      | Foreign trading               | 100%             | 100%             |
| *INA BH d.d. Sarajevo, Bosnia and Herzegovina                                                                             | Foreign trading               | 100%             | 100%             |
| *Interina d.o.o. Skopje, Macedonia (in bankruptcy)                                                                        | Foreign trading               | 100%             | 100%             |
| *Interina Holding Ltd, London, UK<br>(deletion from the court register in March 2009)                                     | Foreign trading               | -                | 100%             |
| *Inter Ina Ltd, London, UK                                                                                                | Foreign trading               | 100%             | 100%             |
| *INA Hungary Kft., Budapest, Hungary                                                                                      | Foreign trading               | 100%             | 100%             |
| *FPC Ltd, London, UK                                                                                                      | Foreign trading               | 100%             | 100%             |
| *Holdina (Guernsey) Ltd, Guernsey                                                                                         | Foreign trading               | 100%             | 100%             |
| Inter Ina (Guernsey) Ltd, Guernsey                                                                                        | Foreign trading               | 100%             | 100%             |
| Holdina (Cyprus) Ltd, Cyprus                                                                                              | Foreign trading               | 100%             | 100%             |
| Holdina (Ireland) Ltd, Ireland                                                                                            | Foreign trading               | 100%             | 100%             |
| *Holdina d.o.o. Sarajevo, Bosnia and Herzegovina<br>(from March 2008 Interina d.o.o. Sarajevo merged to Holdina Sarajevo) | Foreign trading               | 100%             | 100%             |
| *INA d.o.o. Beograd, Serbia                                                                                               | Foreign trading               | 100%             | 100%             |
| *INA Kosovo d.o.o. Priština                                                                                               | Foreign trading               | 100%             | 100%             |
| *Adriagas S.r.l. Milan, Italy                                                                                             | Pipeline project<br>company   | 100%             | 100%             |
| *INA Crna Gora d.o.o. Kotor                                                                                               | Foreign trading               | 100%             | 100%             |
| *INA Crobenz d.d. Zagreb                                                                                                  | Trading                       | 100%             | 100%             |
| *Prirodni plin d.o.o. Zagreb (from December 2008)                                                                         | Trading                       | 100%             | 100%             |
| *INA BL d.o.o. Banja Luka (from September 2008)                                                                           | Trading                       | 100%             | 100%             |
| *Petrol d.d. Jurdani                                                                                                      | Trading                       | 83%              | 83%              |
| *INA-Osijek – Petrol d.d.                                                                                                 | Trading                       | 76%              | 76%              |
| *Polybit d.o.o. Rijeka (jointly controlled entity)                                                                        | Oil production and<br>trading | 50%              | 50%              |

**16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**

|                                              | INA Group        |                  |                | INA, d.d.        |                  |                |
|----------------------------------------------|------------------|------------------|----------------|------------------|------------------|----------------|
|                                              | 31 December 2009 | 31 December 2008 | 1 January 2008 | 31 December 2009 | 31 December 2008 | 1 January 2008 |
| Investments in associates and joint ventures | 68               | 76               | 124            | 189              | 189              | 189            |
|                                              | <b>68</b>        | <b>76</b>        | <b>124</b>     | <b>189</b>       | <b>189</b>       | <b>189</b>     |

| Name of company                 | Activity                    | Proportion of ownership | INA Group        |                  |                | INA, d.d.        |                  |                |
|---------------------------------|-----------------------------|-------------------------|------------------|------------------|----------------|------------------|------------------|----------------|
|                                 |                             |                         | 31 December 2009 | 31 December 2008 | 1 January 2008 | 31 December 2009 | 31 December 2008 | 1 January 2008 |
| Croplin d.o.o. Zagreb           | Gas trading                 | 50%                     | 35               | 35               | 35             | 35               | 35               | 35             |
| SOL-INA d.o.o.                  | Industrial gas production   | 37.2%                   | 22               | 22               | 22             | 22               | 22               | 22             |
| ENERGOPETROL d.d., Sarajevo BiH | Retail (oil and lubricants) | 33.5%                   | 11               | 19               | 67             | 132              | 132              | 132            |
|                                 |                             |                         | <b>68</b>        | <b>76</b>        | <b>124</b>     | <b>189</b>       | <b>189</b>       | <b>189</b>     |

Other investments in associates and joint ventures are as follows:

| Name of company                                             | Activity                                                        | INA Group and INA, d.d. |                  |
|-------------------------------------------------------------|-----------------------------------------------------------------|-------------------------|------------------|
|                                                             |                                                                 | 31 December 2009        | 31 December 2008 |
| Hayan Petroleum Company, Damascus, Syria                    | Operating company (oil exploration, development and production) | 50%                     | 50%              |
| TERME Zagreb d.o.o., Zagreb (from September 2008)           | Recreation and medical tourism                                  | 50%                     | 50%              |
| INAgip d.o.o. Zagreb                                        | Exploration and production operator (joint venture)             | 50%                     | 50%              |
| ED INA d.o.o. Zagreb                                        | Research, development and hydrocarbon production                | 50%                     | 50%              |
| Genan Trading Services Co. WLL Doha, Qatar (in liquidation) | Maintenance and technical engineering services                  | 49%                     | 49%              |
| Belvedere d.d., Dubrovnik                                   | Hotel trade                                                     | 32%                     | 32%              |
| Marina Petroleum Company Egypt, Cairo                       | Exploration and production operator                             | 25%                     | 25%              |
| Adria LNG Study Company Ltd                                 | Oil exploration                                                 | 22.2%                   | 22.2%            |

**16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)**

*Investment in Energopetrol d.d.*

On 8 September 2006 INA, d.d., together with MOL under MOL/INA Consortium, concluded an Agreement on recapitalisation of Energopetrol d.d. with the Government of the Federation of Bosnia and Herzegovina to take over 67% share of Energopetrol d.d. shared equally by both parties (33.5% owned by each party). Based on the concluded Agreement on recapitalisation the Consortium should pay (INA and MOL, each 50% of the amount):

- a) KM 10.2 million for the Government of the Federation of Bosnia and Herzegovina with respect to recapitalisation rights; and
- b) KM 60.195 million to Energopetrol d.d. with respect to recapitalisation, which Energopetrol d.d. will use to settle its debt (tax liabilities, amounts due to banks and creditors, and other liabilities) as of 31 December 2004;

The amounts were paid in 2007.

**17. OTHER INVESTMENTS**

|                                                       | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|-------------------------------------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|                                                       | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| Financial assets at fair value through profit or loss | 6                   | 20                  | 20                | 6                   | 20                  | 20                |
| Long-term loans                                       | 109                 | 40                  | 18                | 374                 | 332                 | 384               |
| Deposits                                              | 23                  | 23                  | 24                | 23                  | 23                  | 22                |
| <b>Other investments</b>                              | <b>138</b>          | <b>83</b>           | <b>62</b>         | <b>403</b>          | <b>375</b>          | <b>426</b>        |



**18. LONG-TERM RECEIVABLES**

| INA Group                                     | 31 December<br>2009 | 31 December<br>2008 | 1 January 2008 |
|-----------------------------------------------|---------------------|---------------------|----------------|
| Receivables for apartments sold               | 148                 | 158                 | 169            |
| Prepayments for intangible assets             | 24                  | 16                  | 31             |
| Prepayments for property, plant and equipment | 210                 | 370                 | 450            |
| Other long-term receivables                   | 3                   | 8                   | 8              |
|                                               | <b>385</b>          | <b>552</b>          | <b>658</b>     |
| INA, d.d.                                     | 31 December<br>2009 | 31 December<br>2008 | 1 January 2008 |
| Receivables for apartments sold               | 146                 | 157                 | 168            |
| Long-term receivables from Proplin            | 68                  | 68                  | 68             |
| Long-term receivables from Croscos            | 32                  | 32                  | 32             |
| Long-term receivables from STSI               | 15                  | 15                  | 15             |
| Prepayments for intangible assets             | 23                  | 15                  | 30             |
| Prepayments for property, plant and equipment | 205                 | 368                 | 354            |
| Other long-term receivables                   | 7                   | 7                   | 7              |
|                                               | <b>496</b>          | <b>662</b>          | <b>674</b>     |

Prior to 1996, the Company had 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 a monthly basis 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 (Note 31). The receivables are secured by mortgages over the sold apartments. The principle is presented in the receivable amounts. The amounts do not include the interest portion.

**19. AVAILABLE-FOR-SALE ASSETS**

Company available for sale

INA Group and INA, d.d.

| Name of the Company                                            | % shareholding held by INA | Activity                                                     | INA Group and INA, d.d. |                  |                |
|----------------------------------------------------------------|----------------------------|--------------------------------------------------------------|-------------------------|------------------|----------------|
|                                                                |                            |                                                              | 31 December 2009        | 31 December 2008 | 1 January 2008 |
| Jadranski Naftovod d.d. (JANAF d.d. till 30 June 2009. 16.00%) | 11.795%                    | Pipeline ownership and operations                            | 336                     | 155              | 610            |
| OMV Slovenia d.o.o., Koper                                     | 7.75%                      | Oil trading                                                  | 31                      | 31               | 31             |
| Plinara d.o.o. Pula                                            | 49.00%                     | Distribution and oil trading                                 | 17                      | 17               | 17             |
| HOC Bjelolasica d.o.o. Ogulin                                  | 7.17%                      | Operations of sports facilities                              | 6                       | -                | -              |
| BINA-FINCOM d.d. Zagreb                                        | 5.00%                      | Construction of highways and other roads, airfields airports | 12                      | -                | -              |
| Impairment                                                     |                            |                                                              | (5)                     | (2)              | (2)            |
|                                                                |                            |                                                              | <b>397</b>              | <b>201</b>       | <b>656</b>     |

Pursuant to a Government decision of 8 March 2002, the company transferred to the Government 21.37% of the equity in JANAF d.d., reducing the company's investment to 16.00%.

In June 2009, the share capital of JANAF was increased and, pursuant to the Decision on the Changes in Share Capital, dated 19 June 2009, the ownership share in JANAF was reduced to 11.795 percent.

As explained in note 39, a substantial portion of the trading income of JANAF d.d. is derived from INA. The value of the equity share in JANAF was reported by reference to the market value of the shares as quoted on the Zagreb Stock Exchange as of 31 December 2009. The net book value of the equity investment in JANAF increased by HRK 181 million compared to the balance as of 31 December 2008 due to a increase in the market value of the JANAF shares on the Zagreb Stock Exchange. The market value of the shares (118 855 shares) as of 31 December 2009 amounted to HRK 2,826 per share (HRK 1,301 per share as of 31 December 2008).

By a decision dated 1 December 2009, the Management Board of INA d.d. provides its consent to initiate negotiations regarding the sale of non-controlling interests below 10 percent in the companies HOC Bjelolasica d.o.o. Ogulin (7.17%) and Bina-Fincom d.d. (5.00%). As a result, the companies have been reclassified in the portfolio of available-for-sale financial assets.

20. INVENTORIES

|                                        | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|----------------------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|                                        | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| Crude oil                              | 330                 | 214                 | 637               | 330                 | 214                 | 637               |
| Gas inventories                        | 419                 | 323                 | 109               | 419                 | 323                 | 99                |
| Merchandise                            | 135                 | 202                 | 236               | 69                  | 143                 | 189               |
| Raw material                           | 293                 | 230                 | 273               | 174                 | 106                 | 180               |
| Spare parts, materials<br>and supplies | 459                 | 444                 | 416               | 78                  | 75                  | 103               |
| Work in progress                       | 566                 | 649                 | 628               | 565                 | 647                 | 603               |
| Refined products                       | 685                 | 651                 | 824               | 679                 | 621                 | 770               |
|                                        | <b>2,887</b>        | <b>2,713</b>        | <b>3,123</b>      | <b>2,314</b>        | <b>2,129</b>        | <b>2,581</b>      |

The cost of inventories recognised as an expense during the period in respect of continuing operations was 13.1 billion HRK (16.6 billion HRK in 2008).

The cost of inventories recognised as an expense includes 757 million HRK of impairment in respect of the reversal of write-downs (in 2008 write-downs to net marketable value of HRK 747 million was included in cost of inventories according to IAS 2).

Reversal of write-downs refers on increasing of selling prices of oil derivatives calculated on crude oil price basis of Platts Mediterranean market. Crude oil price at 31 December 2008 was 44.80 \$/bbl and 76.00 \$/bbl at 31 December 2009, and inventories at 31 December 2008 were mostly evaluated through selling price less cost of commercialization as net marketable value, ie these prices were lower than calculated average cost prices, while at the end of 2009 inventories were mostly evaluated by cost prices.

Pursuant to the Act on Oil and Oil Product Market (Official Gazette No. 57/2006), which modified the basis for calculating the obligatory oil stocks, the Croatian Government issued a Decision on the Quantity and Structure of Obligatory Oil and Refinery Product Stocks for the Year 2009. According to the Decision, The Ministry of Economy, Labour and Entrepreneurship determined the share of INA d.d. in maintaining the obligatory stock for the year 2009 in quantitative (tons) and structural terms prescribed by the Act as follows: out of the total 55,570 tons of refinery products: 10,700 tons of petrol fuels; 1,500 tons jet fuel; 25,200 tons of diesel fuels; 5,620 tons of gas oils; and 12,550 tons of heating oils. According to the Act, a portion of the stock can be kept in the form of crude oil and semi-finished products up to the extent of 40 percent of petrol fuels and 40 percent of diesel fuels and fuel gas and up to 50 percent of heating oil. The conversion of the product quantities into REB oil is made on the basis of the production yield for the REB oil according to the adopted Current Business Plan (as per the applicable EU Directive).

Thus, the obligatory stock of INA as of 31 December 2009 consisted of 55,570 tons of refinery products, of which 42,145 tons out of 23,483 tons of REB oil were comprised of Refinery Product Groups I, II and III, and the remaining obligatory stock of 32,087 tons INA d.d. kept in the form of refinery products.

INA d.d. reports the stock quantities to the Croatian Agency for Obligatory Petroleum and Petroleum Product Stock on a weekly basis.

**21. TRADE RECEIVABLES, NET**

|                                       | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|---------------------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|                                       | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| Trade receivables                     | 3,327               | 3,187               | 3,367             | 1,542               | 1,957               | 2,287             |
| Allowance for doubtful<br>receivables | (402)               | (273)               | (295)             | (210)               | (158)               | (195)             |
|                                       | <b>2,925</b>        | <b>2,914</b>        | <b>3,072</b>      | <b>1,332</b>        | <b>1,799</b>        | <b>2,092</b>      |

Other income in 2009 includes an amount of 5 million (HRK 14 million in 2008) relating to collection of receivables previously provided for.

Provided below is an ageing analysis of trade receivables outstanding and not provided for:

|             | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|-------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|             | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| 60-90 days  | 110                 | 99                  | 69                | 51                  | 39                  | 42                |
| 90-120 days | 113                 | 85                  | 26                | 39                  | 52                  | 26                |
| 120+ days   | 214                 | 123                 | 85                | 43                  | 117                 | 54                |
|             | <b>437</b>          | <b>307</b>          | <b>180</b>        | <b>133</b>          | <b>208</b>          | <b>122</b>        |

Trade receivables are carried at fair value, under consideration of the provisioning policy. According to the above provisioning policy, all receivables from the strategic customers of INA d.d. are assessed on individual basis. All other outstanding receivables past due beyond 120 days are fully impaired.

Allowance for doubtful receivables:

|                                                | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|------------------------------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|                                                | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| Balance at beginning of<br>the year            | 273                 | 295                 | 365               | 157                 | 195                 | 196               |
| Impairment losses<br>recognised on receivables | 177                 | 43                  | 31                | 84                  | 7                   | 22                |
| Amounts written off as<br>uncollectible        | (29)                | (33)                | (46)              | (26)                | (30)                | (14)              |
| Amounts recovered<br>during the year           | (19)                | (32)                | (55)              | (5)                 | (14)                | (9)               |
| Balance of the end of the<br>year              | <b>402</b>          | <b>273</b>          | <b>295</b>        | <b>210</b>          | <b>158</b>          | <b>195</b>        |

**21. TRADE RECEIVABLES, NET (continued)**

The ageing analysis of trade receivables provided for:

|                    | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|--------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|                    | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| less than 120 days | 78                  | -                   | -                 | 39                  | -                   | -                 |
| 121-150 days       | 20                  | 4                   | 9                 | 7                   | 1                   | 6                 |
| 151-180 days       | 19                  | 4                   | 8                 | 14                  | 2                   | 4                 |
| 181-365 days       | 37                  | 15                  | 12                | 17                  | 4                   | 6                 |
| 366+ days          | 248                 | 250                 | 266               | 133                 | 151                 | 179               |
|                    | <b>402</b>          | <b>273</b>          | <b>295</b>        | <b>210</b>          | <b>158</b>          | <b>195</b>        |

**22. OTHER RECEIVABLES**

|                 | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|-----------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|                 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| Tax prepayments | 700                 | 653                 | 548               | 513                 | 569                 | 483               |
| Other           | 105                 | 66                  | 126               | 64                  | 47                  | 100               |
|                 | <b>805</b>          | <b>719</b>          | <b>674</b>        | <b>577</b>          | <b>616</b>          | <b>583</b>        |

**23. OTHER CURRENT ASSETS**

|                                     | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|-------------------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|                                     | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| Short-term loans and deposits       | 26                  | 21                  | 34                | 17                  | 18                  | 20                |
| Current portion of long terms loans | 3                   | 5                   | -                 | 137                 | 114                 | 58                |
| Other                               | 3                   | 12                  | 16                | 5                   | 12                  | 12                |
|                                     | <b>32</b>           | <b>38</b>           | <b>50</b>         | <b>159</b>          | <b>144</b>          | <b>90</b>         |

#### 24. PREPAID EXPENSES AND ACCRUED INCOME

|                                                         | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|---------------------------------------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|                                                         | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| Prepayments for<br>customs, duties and<br>other charges | 48                  | 65                  | 75                | 33                  | 55                  | 116               |
| Accrued<br>income                                       | 10                  | 56                  | -                 | 2                   | 36                  | 24                |
| Other                                                   | 14                  | 46                  | 108               | 1                   | 24                  | 11                |
|                                                         | <b>72</b>           | <b>167</b>          | <b>183</b>        | <b>36</b>           | <b>115</b>          | <b>151</b>        |

#### 25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of cash held by the Group and short-term bank deposits. The carrying amount of these assets approximates their fair value.

|                  | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|                  | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| Cash on hand     | 3                   | 3                   | 3                 | -                   | -                   | -                 |
| Cash in the bank | 333                 | 546                 | 638               | 42                  | 288                 | 262               |
| Other            | 31                  | 30                  | 79                | 26                  | 30                  | 37                |
|                  | <b>367</b>          | <b>579</b>          | <b>720</b>        | <b>68</b>           | <b>318</b>          | <b>299</b>        |

#### Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables, and investments.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

**26. ASSETS CLASSIFIED AS HELD FOR SALE**

|                                           | INA Group           |                     | INA, d.d.           |                     |
|-------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                           | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| Intangible assets                         | 2                   | -                   | -                   | -                   |
| Property, plant and equipment             | 107                 | 36                  | -                   | -                   |
| Investments                               | -                   | -                   | -                   | 514                 |
| Inventory                                 | 6                   | -                   | -                   | -                   |
| Trade receivables, net                    | 5                   | -                   | -                   | -                   |
| Other receivables                         | 1                   | -                   | -                   | -                   |
| <b>TOTAL ASSETS</b>                       | <b>121</b>          | <b>36</b>           | <b>-</b>            | <b>514</b>          |
| Long-term loans                           | 19                  | -                   | -                   | -                   |
| Provisions                                | 1                   | -                   | -                   | -                   |
| Current portion of long-term loans        | 4                   | -                   | -                   | -                   |
| Trade payables                            | 3                   | -                   | -                   | -                   |
| Taxes and contributions                   | 1                   | -                   | -                   | -                   |
| Other current liabilities                 | 1                   | -                   | -                   | -                   |
| <b>TOTAL LIABILITIES</b>                  | <b>29</b>           | <b>-</b>            | <b>-</b>            | <b>-</b>            |
| <b>ASSETS CLASSIFIED AS HELD FOR SALE</b> | <b>92</b>           | <b>36</b>           | <b>-</b>            | <b>514</b>          |

In December 2008, INA d.d. established the underground gas storage entity Podzemno skladište plina Okoli d.o.o.

On January 30, 2009, INA, d.d., as a sole shareholder, sold its equity share in Podzemno skladište Okoli d.o.o. to Plinacro d.o.o., a company fully owned by the Republic of Croatia. Thus, Plinacro d.o.o. has become the owner of PSP Okoli. The underlying agreement was worth HRK 514 million.

Prior to signing the agreement and while establishing Podzemno skladište plina d.o.o., INA d.d. had transferred to the company all the assets required for the natural gas storage operation, including the staff of INA d.d. engaged in those activities.

The Underground Gas Storage "Okoli" is the only of this kind in the Republic of Croatia. Its total capacity is 550 million m<sup>3</sup>, and its operation as part of the gas supply system of the Republic of Croatia ensures, among others, enables managing the stored gas quantities as strategic energy reserve.

The signed Agreement on the Sale of the Entire Share in the Company Podzemno skladište plina d.o.o. is a part of the Host Natural Gas Business Agreement (a framework agreement regulating certain key issues pertaining to the future of the natural gas market and supply in Croatia), which was entered into by and between the Government of the Republic of Croatia and the Hungarian oil company MOL. Upon the implementation of the provisions of the Host Natural Gas Business Agreement, the gas segment was unbundled from the scope of business of INA d.d. and INA d.d. will, in accordance with its business strategy, retain exclusively the exploration and production activities in the coastal and continental parts of the Republic of Croatia.

## 26. ASSETS CLASSIFIED AS HELD FOR SALE (continued)

On 9 June 2009, the Croatian Competition Agency issued its approval on the concentration of MOL and INA containing a condition to sell entrepreneur Crobenz limited company for oil distribution, having its registered office in Zagreb, Radnička cesta 228 (MB 080010052), together with its assets, rights and obligations, and including the takeover of employees, to the extent that guarantees the sustainable market operation to the respective entrepreneur as an independent economic entity. The Croatian Competition Agency emphasized in its Explanatory Letter dated 9 June 2009, that the sale obligation refers to the sale of the part of Crobenz's retail network consisting of fourteen (14) fuel stations and other resources that guarantee the sustainable market operation to the respective entrepreneur.

MOL and INA have 9 months for the compliance with the above decision and cannot repurchase the Company within the following 5 years.

In line with the above resolution – following necessary internal structuring and investigation – MOL and INA started to run the sale process via an open tender procedure at the beginning of November 2009. The tender has been announced for Crobenz's Retail business as a going concern operation.

The tender procedure is structured into 3 stages:

Stage 1- Qualification: requesting Letter of Intent with the aim of confirmation of interest and allow only the capable and serious candidates to make the due diligence of the company

Stage 2 – Due diligence and Bidding: including physical data room review and management meetings

Stage 3 – Contract negotiations: selection of the winning bidder will depend on the conditions of the binding bids

The sale process is continuously observed by trustees appointed by the Competition Agency with the aim to monitor the process.

Until the closing of the transaction the current business activity of the Company is maintained, no agreements have been transferred or terminated since 9 June 2009.



**27. BANK LOANS AND OVERDRAFTS AND CURRENT PORTION OF LONG-TERM LOANS**

|                                               | INA Group        |                    |                     | INA, d.d.        |                  |                |
|-----------------------------------------------|------------------|--------------------|---------------------|------------------|------------------|----------------|
|                                               | 31 December 2009 | 31 December 2008   | 1 January 2008      | 31 December 2009 | 31 December 2008 | 1 January 2008 |
| Overdrafts and short-term loans               | 2,104            | 2,492              | 1,664               | 581              | 249              | 97             |
| Current portion of long-term loans (note 29)  | 655              | 98                 | 129                 | 575              | 47               | 45             |
|                                               | <b>2,759</b>     | <b>2,590</b>       | <b>1,793</b>        | <b>1,156</b>     | <b>296</b>       | <b>142</b>     |
|                                               |                  | Repayment deadline | Security/ Guarantee | 31 December 2009 | 31 December 2008 | 1 January 2008 |
| BNP Paribas (USD)                             |                  | by 31.12.2010.     | INA d.d. guarantee  | 494              | 720              | 455            |
| BNP Paribas (USD)                             |                  |                    | -                   | -                | 265              | 6              |
| City bank (USD)                               |                  | untill cancel      | INA d.d. guarantee  | 56               | -                | -              |
| Hypo bank (BAM)                               |                  | overdraft          | -                   | -                | 4                | -              |
| Raiffeisenbank Sarajevo (BAM)                 |                  | overdraft          | -                   | -                | 4                | -              |
| Bank Tokyo Mitsubishi (USD)                   |                  | by 30.04.2010.     | INA d.d. guarantee  | 207              | 411              | 175            |
| CKB (EUR)                                     |                  | by 18.03.2009.     | -                   | 1                | 2                | -              |
| Raiffeisenbank Zagreb (EUR, USD)              |                  | by 30.09.2010.     | Bill of exchange    | 35               | 37               | 29             |
| Bank Austria Creditanstalt (USD)              |                  | by 31.08.2010.     | INA d.d. guarantee  | 183              | 80               | -              |
| Zagrebačka banka, Zagreb (USD,HRK)            |                  | by 30.06.2010.     | Bill of exchange    | 49               | 41               | 22             |
| Privredna banka Zagreb, Zagreb (HRK)          |                  | by 30.06.2010.     | Bill of exchange    | 95               | 8                | 57             |
| Societe Generale-Split. banka (USD, HRK)      |                  | by 31.08.2010.     | Bill of exchange    | 66               | 61               | 35             |
| Slavonska banka Osijek                        |                  | by 10.03.2010.     | Bill of exchange    | 10               | 17               | 18             |
| Fortis (USD)                                  |                  | by 18.03.2010.     | INA d.d. guarantee  | 224              | 513              | 476            |
| Hrv poštanska banka (HRK)                     |                  | by 31.07.2010.     | Bill of exchange    | 22               | 22               | 259            |
| OTP bank (HUF, EUR, HRK)                      |                  | by 02.07.2010.     | Bill of exchange    | 81               | 58               | 35             |
| Current portion of long-term loans (note 27)  |                  |                    |                     | 80               | 51               | 84             |
| <b>Total regarding to subsidiaries</b>        |                  |                    |                     | <b>1,603</b>     | <b>2,294</b>     | <b>1,651</b>   |
| <b>INA, d.d.</b>                              |                  |                    |                     |                  |                  |                |
| Overdrafts and short term loans               |                  |                    |                     | 581              | 249              | 97             |
| Current portion of long-terms loans (note 27) |                  |                    |                     | 575              | 47               | 45             |
| <b>Total INA, d.d.</b>                        |                  |                    |                     | <b>1,156</b>     | <b>296</b>       | <b>142</b>     |
| <b>Total INA Group</b>                        |                  |                    |                     | <b>2,759</b>     | <b>2,590</b>     | <b>1,793</b>   |

**27. BANK LOANS AND OVERDRAFTS AND CURRENT PORTION OF LONG-TERM LOANS (continued)**

Interest on the above-mentioned loans approved in US dollars (USD), euro (EUR) and Hungarian forint (HUF) is payable at LIBOR, EURIBOR and BUBOR rates, plus a margin from 1.25% to 7.95%, and for the loans denominated in Croatian kuna at the interest rates applicable to Treasury Bills of the Ministry of Finance with maturities of 91 or 128 days, plus a margin from 3.25% to 3.50%.

**28. TRADE PAYABLES, TAXES AND CONTRIBUTIONS AND OTHER CURRENT LIABILITIES**

|                                                    | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|----------------------------------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|                                                    | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| Trade payables                                     | 4,286               | 3,815               | 3,532             | 2,704               | 2,574               | 1,876             |
| Production and sales taxes payable and other taxes | 1,670               | 1,080               | 569               | 1,515               | 1,007               | 486               |
| Payroll taxes and contributions                    | 111                 | 131                 | 79                | 70                  | 81                  | 49                |
| Payroll and other                                  | 415                 | 342                 | 269               | 338                 | 155                 | 86                |
|                                                    | <b>6,482</b>        | <b>5,368</b>        | <b>4,449</b>      | <b>4,627</b>        | <b>3,817</b>        | <b>2,497</b>      |

The directors consider that the carrying amount of trade payables approximates their fair values.

**29. ACCRUALS AND DEFERRED INCOME**

|                                    | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|------------------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|                                    | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| Accrued interest – long-term loans | 21                  | 41                  | 38                | 20                  | 39                  | 33                |
| Accrued expenses                   | 136                 | 147                 | 160               | 33                  | 2                   | 45                |
| Other                              | -                   | 49                  | -                 | 1                   | 15                  | 19                |
|                                    | <b>157</b>          | <b>237</b>          | <b>198</b>        | <b>54</b>           | <b>56</b>           | <b>97</b>         |

**30. LONG-TERM LOANS**

Long-term loans are denominated in a variety of foreign currencies and are subject to a range of interest rates. The majority of these loans are secured by bills of exchange, debentures and financial contractual clauses. The loans of the Group outstanding at 31 December 2009 and 2008 are analysed as follows:

|                                              | Type of loan         | Loan<br>currency | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
|----------------------------------------------|----------------------|------------------|---------------------|---------------------|-------------------|
| PBZ-API 80003                                | Loan                 | USD              | 2                   | 2                   | 2                 |
| Erste & Steiermarkische bank                 | Loan<br>(equipment)  | USD, EUR         | -                   | 10                  | 19                |
| EBRD                                         | Environmental        | EUR              | 52                  | 87                  | 121               |
| MOL Plc                                      | Fin tax liabilities  | USD, EUR         | 1,078               | -                   | -                 |
| Bayerische Landesbank                        | Syndicates/Revolving | USD              | 5,089               | 4,279               | 2,891             |
|                                              |                      |                  | <b>6,221</b>        | <b>4,378</b>        | <b>3,033</b>      |
| Due within 1 year                            |                      |                  | (575)               | (47)                | (45)              |
| <b>Total long-term loans – INA,<br/>d.d.</b> |                      |                  | <b>5,646</b>        | <b>4,331</b>        | <b>2,988</b>      |
| OTP                                          | Loan (equipment)     | EUR, HUF         | 173                 | 210                 | 173               |
| Other long term Group loans                  |                      |                  | 25                  | 64                  | 53                |
|                                              |                      |                  | <b>198</b>          | <b>274</b>          | <b>226</b>        |
| Due within 1 year                            |                      |                  | (80)                | (51)                | (84)              |
| <b>Total long-term loans – INA<br/>Group</b> |                      |                  | <b>5,764</b>        | <b>4,554</b>        | <b>3,130</b>      |

**INA Group**

|                                              | Weighted<br>average<br>interest rate | Weighted<br>average<br>interest rate | Weighted<br>average<br>interest<br>rate | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
|----------------------------------------------|--------------------------------------|--------------------------------------|-----------------------------------------|---------------------|---------------------|-------------------|
|                                              | 31 December<br>2009                  | 31 December<br>2008                  | 1 January<br>2008                       | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
|                                              | %                                    | %                                    | %                                       |                     |                     |                   |
| Bank loans in USD                            | 1.45                                 | 3.25                                 | 5.26                                    | 5,636               | 4,298               | 3,097             |
| Bank loans in EUR                            | 4.97                                 | 6.11                                 | 5.31                                    | 761                 | 315                 | 162               |
| Bank loans in HUF                            | 6.25                                 | -                                    | -                                       | 12                  | -                   | -                 |
| Bank loans in HRK                            | 7.53                                 | 9.04                                 | -                                       | 10                  | 39                  | -                 |
| Total                                        |                                      |                                      |                                         | <b>6,419</b>        | <b>4,652</b>        | <b>3,259</b>      |
| Payable within 1 year                        |                                      |                                      |                                         | (655)               | (98)                | (129)             |
| <b>Total long-term loans -<br/>INA Group</b> |                                      |                                      |                                         | <b>5,764</b>        | <b>4,554</b>        | <b>3,130</b>      |

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**30. LONG-TERM LOANS (continued)**

| INA, d.d.                                    | Weighted<br>average<br>interest rate | Weighted<br>average<br>interest rate | Weighted<br>average<br>interest<br>rate | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
|----------------------------------------------|--------------------------------------|--------------------------------------|-----------------------------------------|---------------------|---------------------|-------------------|
|                                              | %                                    | %                                    | %                                       | 2009                | 2008                | 2008              |
| Bank loans in USD                            | 1.48                                 | 3.24                                 | 3.24                                    | 5,636               | 4,285               | 2,897             |
| Bank loans in EUR                            | 5.39                                 | 5.63                                 | 5.63                                    | 585                 | 93                  | 136               |
| <b>Total</b>                                 |                                      |                                      |                                         | <b>6,221</b>        | <b>4,378</b>        | <b>3,033</b>      |
| Payable within 1 year                        |                                      |                                      |                                         | (575)               | (47)                | (45)              |
| <b>Total long-term loans -<br/>INA, d.d.</b> |                                      |                                      |                                         | <b>5,646</b>        | <b>4,331</b>        | <b>2,988</b>      |

The maturity of loans may be summarised as follows:

|                                    | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|------------------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|                                    | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| Current portion of long-term debt  | 655                 | 98                  | 129               | 575                 | 47                  | 45                |
| Payable within one to two years    | 562                 | 119                 | 51                | 557                 | 35                  | 44                |
| Payable within two to three years  | 1,323               | 58                  | 157               | 1,285               | 17                  | 35                |
| Payable within three to four years | 3,842               | 1,121               | 20                | 3,804               | 1,080               | 17                |
| Payable within four to five years  | 24                  | 3,227               | 2,895             | -                   | 3,199               | 2,892             |
| Payable within over five years     | 13                  | 29                  | 7                 | -                   | -                   | -                 |
| <b>Total</b>                       | <b>6,419</b>        | <b>4,652</b>        | <b>3,259</b>      | <b>6,221</b>        | <b>4,378</b>        | <b>3,033</b>      |

### 30. LONG-TERM LOANS (continued)

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

|                                                                             | <u>INA Group</u> | <u>INA, d.d.</u> |
|-----------------------------------------------------------------------------|------------------|------------------|
| <b>1 January 2008</b>                                                       | <b>3,259</b>     | <b>3,033</b>     |
| New borrowings raised                                                       | 1,331            | 1,200            |
| Amounts repaid                                                              | (112)            | (42)             |
| Foreign exchange losses                                                     | 174              | 187              |
|                                                                             | <hr/>            | <hr/>            |
| <b>At 31 December 2008</b>                                                  | <b>4,652</b>     | <b>4,378</b>     |
| Payable within 1 year (included within bank loans and overdrafts – note 27) | (98)             | (47)             |
| Payable after more than 1 year                                              | 4,554            | 4,331            |
|                                                                             | <hr/>            | <hr/>            |
| <b>At 31 December 2008</b>                                                  | <b>4,652</b>     | <b>4,378</b>     |
| Correction of Crobenz                                                       | (41)             | -                |
| New borrowings raised                                                       | 2,058            | 2,041            |
| Amounts repaid                                                              | (100)            | (45)             |
| Foreign exchange losses                                                     | (150)            | (153)            |
|                                                                             | <hr/>            | <hr/>            |
| <b>At 31 December 2009</b>                                                  | <b>6,419</b>     | <b>6,221</b>     |
|                                                                             | <hr/>            | <hr/>            |
| Payable within 1 year (included within bank loans and overdrafts – note 27) | 655              | 575              |
| Payable after more than 1 year                                              | 5,764            | 5,646            |

The principal long-term loans outstanding at 31 December 2009 and the principal new loans drawn down and repaid during 2009 were as follows:

#### ***Privredna banka Zagreb***

The remaining long-term debt of the Company towards Privredna banka Zagreb amounts to HRK 2 million and represents a debt under the Refinanced Bonds Agreement for the issue of API bonds. The debt is dormant and will be refinanced.

#### ***Erste & Steiermaerkische Bank and Viktor Lenac***

Erste & Steiermaerkische Bank extended loans for the financing of imported equipment necessary for the construction and delivery of the "Labin" platform. At 31 July 2009 loans are fully repaid.

#### ***EBRD***

In 2001 the Company concluded a long-term agreement with EBRD for a loan in the amount of EUR 36 million to finance environmental projects at INA. The loan utilisation period expired on 31 December 2005, with EUR 31.7 million drawn down until that date. A decision was made not to extend the utilisation period. The loan is repayable in 12 semi-annual instalments, with the last instalment due on 30 March 2011. The interest rate on this loan facility is 6-month EURIBOR + 1 percentage point. The balance outstanding at 31 December 2009 amounts to EUR 7.1 million, or HRK 51.9 million, and at 31 December 2008 it amounted to EUR 11.8 million, or HRK 86.8 million.

**30. LONG-TERM LOANS (continued)*****Bayerische Landesbank***

In 2007, the Company entered into a new loan agreement with consortium for a loan facility in the amount of USD 1 billion. The loan funds are intended to finance the regular business of INA d.d., mainly to repay the syndicated loan of USD 400 million agreed earlier and to modernise the refineries. The loan period is five years and the agreed interest rate is USLIBOR plus a margin of 0.25-0.40% annually. During 2009, USD 170 million were drawn under this facility. The outstanding loan balance as of 31 December 2009 and 31 December 2008 amounted to USD 1 billion, or HRK 5.09 billion, and USD 830 million, or HRK 4.3 billion, respectively.

**MOL, Plc**

In 2009, the Company concluded with MOL two loan agreements, one for an EUR-loan and a USD-loan loan each. The loans are intended for the financing of outstanding taxes payable to the state (VAT, excise duties, fees payable to Hrvatske autoceste - HAC and Hrvatske ceste - HC). The loans are repayable in monthly instalments, with the first instalment due in July 2010 and the last one in June 2011. The agreed interest rate for the euro-loan is EURIBOR, plus 5.30 % annually, and for the USD-loan it is USDLIBOR, plus 5.30 % annually. The balance of the loans as of 31 December 2009 was EUR 73 million (equivalent to HRK 533.3 million) and USD 107 million (equivalent to HRK 544.5 million).

***Compliance with loan agreements***

During 2009 INA d.d. and INA Group 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 in this respect.

**31. OTHER NON-CURRENT LIABILITIES**

|                                                   | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|---------------------------------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|                                                   | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| Liabilities to Government for sold apartments     | 81                  | 90                  | 93                | 81                  | 86                  | 93                |
| Deferred income for sold apartments               | 48                  | 48                  | 51                | 44                  | 48                  | 51                |
| Liabilities for derivatives financial instruments | 10                  | -                   | -                 | -                   | -                   | -                 |
|                                                   | <b>139</b>          | <b>138</b>          | <b>144</b>        | <b>125</b>          | <b>134</b>          | <b>144</b>        |

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

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32. PROVISIONS

| INA Group                                  | Environmental provision | Decommissioning Charges | Legal claims | ENI project claims | Redundancy costs | Cost of unutilised holiday | Tax obligation claims of |         |       | Total |
|--------------------------------------------|-------------------------|-------------------------|--------------|--------------------|------------------|----------------------------|--------------------------|---------|-------|-------|
|                                            |                         |                         |              |                    |                  |                            | Sarajevo                 | Holdina | Other |       |
| At 1 January 2008                          | -                       | 1,069                   | 277          | 7                  | 17               | -                          | 55                       | 28      | 1,453 |       |
| Charge for the year                        | 35                      | -                       | 4            | 154                | 1                | -                          | -                        | 8       | 202   |       |
| Effect of change in estimates, capitalised | -                       | (35)                    | -            | -                  | -                | -                          | -                        | -       | (35)  |       |
| Provision utilised during the year         | -                       | (25)                    | (7)          | (7)                | (12)             | -                          | -                        | (4)     | (55)  |       |
| At 31 December 2008                        | 35                      | 1,009                   | 274          | 154                | 6                | -                          | 55                       | 32      | 1,565 |       |
| Charge for the year                        | -                       | 1,207                   | 128          | -                  | -                | 60                         | -                        | 49      | 1,444 |       |
| Effect of change in estimates, capitalised | -                       | 125                     | -            | -                  | -                | -                          | -                        | -       | 125   |       |
| Provision utilised during the year         | -                       | (11)                    | (127)        | (154)              | (6)              | -                          | (34)                     | -       | (332) |       |
| At 31 December 2009                        | 35                      | 2,330                   | 275          | -                  | -                | 60                         | 21                       | 81      | 2,802 |       |

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Notes to the financial statements (continued)  
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32. PROVISIONS (continued)

| INA, d.d.                                  | Environmental provision | Decommissioning Charges | Legal claims | ENI project claims | Redundancy costs | Cost of unutilised holiday | Other | Total |
|--------------------------------------------|-------------------------|-------------------------|--------------|--------------------|------------------|----------------------------|-------|-------|
| <b>At 1 January 2008</b>                   | -                       | 1,069                   | 243          | 7                  | 12               | -                          | 25    | 1,356 |
| Charge for the year                        | 35                      | -                       | 4            | 154                | -                | -                          | 10    | 203   |
| Effect of change in estimates, capitalised | -                       | (35)                    | -            | -                  | -                | -                          | -     | (35)  |
| Provision utilised during the year         | -                       | (25)                    | (7)          | (7)                | (12)             | -                          | (12)  | (63)  |
| <b>At 31 December 2008</b>                 | 35                      | 1,009                   | 240          | 154                | -                | -                          | 23    | 1,461 |
| Charge for the year                        | -                       | 1,207                   | 126          | -                  | -                | 52                         | 54    | 1,439 |
| Effect of change in estimates, capitalised | -                       | 125                     | -            | -                  | -                | -                          | -     | 125   |
| Provision utilised during the year         | -                       | (11)                    | (127)        | (154)              | -                | -                          | (2)   | (294) |
| <b>At 31 December 2009</b>                 | 35                      | 2,330                   | 239          | -                  | -                | 52                         | 75    | 2,731 |



**32. PROVISIONS (continued)**

|                         | INA Group           |                     | INA, d.d.           |                     |
|-------------------------|---------------------|---------------------|---------------------|---------------------|
|                         | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| Analysed as:            |                     |                     |                     |                     |
| Current liabilities     | 229                 | 185                 | 190                 | 148                 |
| Non-current liabilities | 2,573               | 1,380               | 2,541               | 1,313               |
|                         | <b>2,802</b>        | <b>1,565</b>        | <b>2,731</b>        | <b>1,461</b>        |

*Decommissioning charges*

Provision relates to the decommissioning and removal of assets, such as an oil and gas production facility. The initial recognition of the decommissioning provision is treated as part of the cost of the related property, plant and equipment. Subsequent adjustments to the provision arising from changes in estimates are also treated as an adjustment to the cost of the property, plant and equipment and thus dealt with prospectively in the income statement through future depreciation of the asset. As of 31 December 2009, the Company recognised a decommissioning provision for 55 production oil and gas fields (2008 52 fields), 4 non-production fields, 8 positive non-production wells and 181 negative non-production wells.

*Legal claims*

The Company has provided for legal contingencies and the most significant provisions for legal claims are as follow:

*Municipality of Velika Ludina*

In 2004, the Municipality of Velika Ludina filed a legal action claiming the mineral resource exploitation fee in the amount of HRK 53 million i.e. the fee for the gas stored in the UGS Okoli (mining royalty) for the period 15 April 2001 up to 31 December 2008. INA d.d. disputes the payment of the royalty, claiming that its only obligation arises on the extraction of gas from the original field because the gas stored in the UGS Okoli is a finished product owned by INA d.d. and not by the Republic of Croatia. The plaintiff presented the interpretation of the Mining Act under which the royalty would be paid multiple times: for exploitation, enrichment, storage and transport. During the evidentiary hearing, a geological expert witness was called in regarding the area and volume of the storage, and the quantity of gas stored in the disputed period, as well as an accounting expert in respect of determining the amount of the royalty.

In 2009, the Municipal Court in Ivanić Grad passed a judgement ordering payment in the amount of HRK 53 million, excluding penalty interest. The penalty interest on individual amounts amounted to HRK 34 million as of 31 December 2009. INA d.d. lodged an appeal, and the decision of the County Court in Velika Gorica is still pending.

The successful outcome of the legal action is uncertain because of the legal issue of whether a fee (royalty) is payable for the storage of natural gas. According to the legal opinion of the Ministry of Economy, exploitation or production includes underground storage, which, in terms of production technology, differs very little from natural gas exploitation facilities.

### 32. PROVISIONS (continued)

#### *Legal claims (continued)*

#### *GWDF Partnership München i GWDF Limited Cipar*

GWDF Partnership, Gesellschaft Bürgerlichen Rechts, and GWDF Limited Cyprus filed a claim against INA d.d. Zagreb and INA-Naftaplin International Exploration, Channel Islands, for HRK 58 million on the grounds of the damage incurred to the claimants for unfounded termination of negotiations. This resulted in refrain from signing the contract on the transfer of shares between GWD Ltd Cyprus and INA -Naftaplin International Exploration. INA d.d. filed its statement of defence in September 2007, disputing both the grounds and the amount of the claim, maintaining that the claimants abandoned the negotiations because of a business decision and they were the ones negotiating in conflict with the principles of conscientiousness and fairness.

Furthermore, INA d.d. filed an objection challenging the capacity to sue and be sued of GWDF Partnership, Gessellschaft Bürgerlichen Rechts, and for the failed passive legitimation in relation to INA d.d., as well as an objection challenging the competence of a Croatian Court in international disputes in relation to GWDF LIMITED CYPRUS. The competent court should first decide on the law applicable to this dispute and whether the court indeed has the jurisdiction. The first instance proceedings are under way. Several hearings were held in 2008, 2009 and 2010, in which process matters (the capacity of the parties to sue and be sued, the competency of the court and the applicable law). The position of INA and the expected timing until the resolution of the dispute cannot currently be determined.

#### *Uljanik Pula*

HRK 23 million have been included in the books of INA d.d. in respect of legal actions between Uljanik Pula and three plaintiffs:

- Uljanik Brodogradilište, d.d.
- Uljanik Strojogradnja, d.d. , and
- Uljanik Tesu, d.d.

The plaintiffs filed legal actions claiming damages for the loss incurred as a result of unjustified interruption in the gas supply in the period 18 December 1996 - 21 February 1997 by INA, resulting in a loss to the plaintiff's production process. Uljanik Brodogradilište, d.d. claims indemnification for penalty interest resulting from delayed delivery of ships, loss of advances received from customer, unrealised production, payments made to employees during the waiting period. Uljanik Strojogradnja, d.d. seeks reimbursement of damage due to a higher level of scrap and payments made to employees during the waiting period; and Uljanik Tesu d.d. claims indemnification for payments made to the workers for the waiting period.

The final outcome of the litigation cannot be estimated at present, as the first-instance process is still pending, which includes the presentation of evidence to corroborate the grounds for the claim; the evidence as to the amount of the damage incurred, although proposed by plaintiffs, has still not be presented. The first-instance decision has still not been promulgated. However, either party is very likely to lodge an appeal at the High Commercial Court against the first-instance decision.

INA d.d., as defendant, filed several complaints, first through its legal department and subsequently through its attorney. Presentation of evidence to corroborate the claim is in progress. However, the plaintiffs have still not managed to prove that INA was their business partner in the delivery of gas, nor has a complaint been lodged in this respect.

### 32. PROVISIONS (continued)

#### *Legal claims (continued)*

##### *City of Sisak*

The City of Sisak has filed a legal action claiming HRK 11 million in respect of indemnity for hazardous emissions from the Sisak Refinery. The plaintiff claims that hazardous emissions impair the market value of properties in the Sisak area owned by the City of Sisak. INA d.d. maintains in its statement of defence that the plaintiff has produced no evidence of the market value being impaired as a result of hazardous emissions from the Sisak Refinery. The City of Sisak, as plaintiff, has proposed a motion to perform an expert valuation of the impact of the Sisak Refinery on the pollution of the air and with it the market value of properties, which the court acknowledged and ordered the expertise. The findings and opinion of the expert witness are pending, after which the main hearing will be convoked.

##### *ENI project claims*

On 27 February 1996 INA signed the Production Sharing Agreement (PSA) with Agip Croatia B.V. (now called ENI Croatia B.V.). Pursuant to the Article 15.2 of this Agreement, INA shall assume, discharge and pay, on behalf of AGIP any and all Croatian taxes imposed on income or profits derived by AGIP from Petroleum Operations under this PSA. The provision amounts relate to the tax obligation to settle all tax liabilities of AGIP under any current or future laws of the Republic of Croatia, including the personal income tax for the staff (article 15.5).

In 2005 the tax obligation regarding 2003 and 2004 was settled following the resolution reached in 2005 of the total obligation in respect of taxes of HRK 111 million.

On 8 November 2005 parties signed Amendment N. 5 to the „Ivana Gas Field“ PSA and Amendment N. 5 to the "Aiza Laura Contract Area" PSA.

Amendments N.5 include the "Procedure for the Calculation of the Tax on Profit" in order to provide operating method related to:

- The calculation and payment of the Croatian taxes on corporate income or profits derived by ENI from petroleum operations under PSAs to be assumed, discharged and paid by INA to ENI; and
- The calculation and payment of the Gross-up.

In 2006 the tax obligation regarding 2005 in the amount of HRK 93 million was settled, whereas the tax liability in respect of 2006 has been accrued at HRK 189 million. Out of the accrued tax liability, HRK 75 million was paid during 2006. The outstanding portion in respect of the 2006 taxes payable was paid on the final calculation in 2007.

ENI calculated a tax obligation for 2007 in the amount of HRK 81 million. During 2007, HRK 138 million were paid through tax prepayments. The excess of HRK 57 million will be used as tax prepayment in 2008.

**32. PROVISIONS (continued)**

*ENI project claims (continued)*

The tax obligation as assessed by ENI in respect of 2008 amounts to HRK 219 million. During 2008, HRK 82 million were paid as tax prepayments, of which HRK 57 represent the tax credit brought forward in respect of overpaid taxes for the year 2007. The outstanding portion of the tax liability for the year 2008 amounts to HRK 141 million.

In 2009 the remaining tax obligation in respect of 2008 of HRK 141 million was paid.

For 2009 ENI calculated a tax obligation in the amount of HRK 75 million, which was paid.

*Tax obligation claims of INA d.d. subsidiaries in Bosnia and Herzegovina*

Subsidiary INA BH Sarajevo d.o.o., by the final decision of the Tax Administration of the Cantonal Office Sarajevo was released from tax obligation previously set by the temporary decision of Tax Administration.

### 33. RETIREMENT AND OTHER EMPLOYEE BENEFIT SCHEMES

#### Defined Benefit Schemes

According to the Collective Agreement the Group has 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 8,000. For regular retirement (no early retirement bonus), employees receive HRK 16,000 net, of which HRK 8,000 are taxable. No other post-retirement benefits are provided. Jubilee awards are paid out according to the following fixed amounts and anniversary dates:

- HRK 2,000 for 10 years of continuous service
- HRK 2,500 for 15 years of continuous service
- HRK 3,000 for 20 years of continuous service
- HRK 3,500 for 25 years of continuous service
- HRK 4,000 for 30 years of continuous service
- HRK 4,500 for 35 years of continuous service
- HRK 5,500 for 40/45 years of continuous service.

The net amounts specified above include the taxable portion, i.e. the portion subject to all applicable taxes and contributions.

In respect of the Group's personnel who are employed in Croatia, such social payments as are required by the authorities are paid by the respective Group companies. These contributions form the basis of social benefits payable out of the Croatian national pension fund to Croatian employees upon their retirement.

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2009 by I.A.C.T.A. Actuarial Consulting Ltd . In 2009, the Company made a provision of HRK 53 million and HRK 43 million in respect of jubilee awards and regular retirement allowance, respectively.

The present value 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.

|                                                     | Valuation at            |        |                         |        |
|-----------------------------------------------------|-------------------------|--------|-------------------------|--------|
| Key assumptions used:                               | <u>31 December 2009</u> |        | <u>31 December 2008</u> |        |
| Discount rate                                       | 5.00%                   |        | 5.00%                   |        |
| Turnover rate                                       | 0-3%                    |        | 0-3%                    |        |
| Mortality table                                     | HR2004                  | 70,00% | HR2004                  | 70,00% |
| Average expected remaining working lives (in years) | 13.7                    |        | 15                      |        |

**33. RETIREMENT AND OTHER EMPLOYEE BENEFIT SCHEMES (continued)**

The amounts recognised in profit from retirement and other employee benefits are as follows:

|                           | INA Group        |                  | INA, d.d.        |                  |
|---------------------------|------------------|------------------|------------------|------------------|
|                           | 31 December 2009 | 31 December 2008 | 31 December 2009 | 31 December 2008 |
| Cost of current period    | 8                | 7                | 6                | 6                |
| Interest                  | 7                | 7                | 6                | 5                |
| Actuarial gains or losses | 4                | 4                | (3)              | 3                |
|                           | <b>19</b>        | <b>18</b>        | <b>9</b>         | <b>14</b>        |

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

|                                              | INA Group        |                  | INA, d.d.        |                  |
|----------------------------------------------|------------------|------------------|------------------|------------------|
|                                              | 31 December 2009 | 31 December 2008 | 31 December 2009 | 31 December 2008 |
| Present value of defined benefit obligations | 143              | 124              | 96               | 87               |
| Liability recognised in the balance sheet    | <b>143</b>       | <b>124</b>       | <b>96</b>        | <b>87</b>        |

|                                                           | INA Group        |                  | INA, d.d.        |                  |
|-----------------------------------------------------------|------------------|------------------|------------------|------------------|
|                                                           | 31 December 2009 | 31 December 2008 | 31 December 2009 | 31 December 2008 |
| This amount is presented in the balance sheet as follows: |                  |                  |                  |                  |
| Current liabilities                                       | 17               | 17               | 12               | 11               |
| Non-current liabilities                                   | 126              | 107              | 84               | 76               |
|                                                           | <b>143</b>       | <b>124</b>       | <b>96</b>        | <b>87</b>        |

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

|                                       | INA Group        |                  | INA, d.d.        |                  |
|---------------------------------------|------------------|------------------|------------------|------------------|
|                                       | 31 December 2009 | 31 December 2008 | 31 December 2009 | 31 December 2008 |
| At 1 January                          | 124              | 106              | 87               | 73               |
| Recognised cost in the current period | 8                | 7                | 6                | 6                |
| Interest                              | 7                | 7                | 6                | 5                |
| Actuarial gains or losses             | 10               | 15               | 5                | 12               |
| Payments                              | (6)              | (11)             | (8)              | (9)              |
| At 31 December                        | <b>143</b>       | <b>124</b>       | <b>96</b>        | <b>87</b>        |

**34. SHARE CAPITAL**

|                                  | INA Group and INA, d.d. |                     |                |
|----------------------------------|-------------------------|---------------------|----------------|
|                                  | 31 December<br>2009     | 31 December<br>2008 | 1 January 2008 |
| Issued and fully paid:           |                         |                     |                |
| 10 million shares (HRK 900 each) | 9,000                   | 9,000               | 9,000          |

The share capital of the Company was redenominated from DEM into HRK as part of the Company's formal registration with the Croatian courts in April 1995.

Pursuant to a resolution of the Commercial Court in October 2001, the share capital of the Company was adjusted to HRK 9,000 million. The adjustment was effected through a transfer from other reserves.

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 entitles to dividends.

**35. REVALUATION RESERVES**

|                                                                                   | INA Group and INA, d.d. |       |
|-----------------------------------------------------------------------------------|-------------------------|-------|
|                                                                                   | 2009                    | 2008  |
| Balance at beginning of year                                                      | (135)                   | 229   |
| Increase/ (decrease) arising on revaluation available for sale securities (Janaf) | 181                     | (455) |
| Deferred tax                                                                      | (36)                    | 91    |
| Balance at the end of year                                                        | 10                      | (135) |

### 36. OTHER RESERVES

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

For subsequent periods, the results of the transactions of the Group, to the extent that they affect reserves, are accounted for within appropriate reserve accounts. The reserves of the Group as at 31 December 1993 were combined at that date, and are separately stated below.

Movements on reserves during the year were as follows:

#### INA Group

|                       | Combined<br>reserves at 31<br>December<br>1993 | Foreign<br>currency<br>translation<br>reserves | Other<br>reserves | Total |
|-----------------------|------------------------------------------------|------------------------------------------------|-------------------|-------|
| At 1 January 2008     | 2,132                                          | (278)                                          | 447               | 2,301 |
| Movements during 2008 | -                                              | 6                                              | -                 | 6     |
| At 31 December 2008   | 2,132                                          | (272)                                          | 447               | 2,307 |
| Movements during 2009 | -                                              | 4                                              | -                 | 4     |
| At 31 December 2009   | 2,132                                          | (268)                                          | 447               | 2,311 |

#### INA, d.d.

|                     | Combined<br>reserves at 31<br>December<br>1993 | Other<br>reserves | Total |
|---------------------|------------------------------------------------|-------------------|-------|
| At 1 January 2008   | 1,667                                          | 285               | 1,952 |
| At 31 December 2008 | 1,667                                          | 285               | 1,952 |
| At 31 December 2009 | 1,667                                          | 285               | 1,952 |



**37. RETAINED EARNINGS**

|                            | <b>INA Group<br/>Retained<br/>earnings/<br/>(Accumulated<br/>deficit)</b> | <b>INA, d.d.<br/>Retained<br/>earnings/<br/>(Accumulated<br/>deficit)</b> |
|----------------------------|---------------------------------------------------------------------------|---------------------------------------------------------------------------|
| <b>At 1 January 2008</b>   | <b>2,104</b>                                                              | <b>1,410</b>                                                              |
| Dividends paid             | (150)                                                                     | (150)                                                                     |
| Loss for the year          | (1,099)                                                                   | (840)                                                                     |
| <b>At 31 December 2008</b> | <b>855</b>                                                                | <b>420</b>                                                                |
| Dividends paid             | -                                                                         | -                                                                         |
| Loss for the year          | (392)                                                                     | (631)                                                                     |
| <b>At 31 December 2009</b> | <b>463</b>                                                                | <b>(211)</b>                                                              |

**38. NON CONTROLLING INTEREST**

|                               | <b>INA Group</b> |             |
|-------------------------------|------------------|-------------|
|                               | <b>2009</b>      | <b>2008</b> |
| Balance at beginning of year  | 10               | 9           |
| Share of profit for the year  | (2)              | 1           |
| <b>Balance at end of year</b> | <b>8</b>         | <b>10</b>   |

### **39. 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 transacted with the Croatian Government, its departments and agencies, and the companies with the Republic of Croatia being their majority shareholder.

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

**39. RELATED PARTY TRANSACTIONS (continued)**

During the year, INA, d.d. entered into the following trading transactions with the following related parties:

**INA, d.d.**

|                                          | Sales of goods |       | Purchase of goods |        |
|------------------------------------------|----------------|-------|-------------------|--------|
|                                          | 2009           | 2008  | 2009              | 2008   |
| <b>Foreign related companies</b>         |                |       |                   |        |
| Interina Ltd Guernsey                    | 2,567          | 1,845 | 238               | 2,263  |
| Holdina Sarajevo                         | 539            | 968   | -                 | 21     |
| Interina d.o.o. Ljubljana                | 16             | 16    | 1                 | 1      |
| Interina Ltd London                      | 206            | 104   | 8,073             | 11,341 |
| Adriagas Milano                          | -              | -     | 4                 | -      |
| INA Crna Gora d.o.o Podgorica            | 37             | -     | -                 | -      |
| INA Beograd d.o.o Beograd                | 47             | -     | -                 | -      |
| <b>Domestic related companies</b>        |                |       |                   |        |
| Crosco Grupa                             | 5              | 7     | 130               | 311    |
| Osijek Petrol d.d.                       | 491            | 861   | -                 | 22     |
| Crobenz d.d. Zagreb                      | 487            | 783   | 5                 | 14     |
| Proplin d.o.o. Zagreb                    | 460            | 367   | 85                | 145    |
| STSI d.o.o. Zagreb                       | 7              | 13    | 304               | 942    |
| Maziva Zagreb d.o.o. Zagreb              | 59             | 107   | 9                 | 82     |
| ITR d.o.o. Zagreb                        | 2              | -     | 30                | -      |
| Sinaco d.o.o. Zagreb                     | 2              | -     | 134               | -      |
| Hostin d.o.o. Zagreb                     | -              | -     | 1                 | -      |
| Prirodni plin d.o.o. Zagreb              | 1,210          | -     | 41                | -      |
| Polybit d.o.o. Rijeka                    | 1              | -     | -                 | -      |
| <b>Companies available for sale</b>      |                |       |                   |        |
| JANAF d.d. Zagreb                        | -              | 1     | 40                | 37     |
| <b>Strategic partner</b>                 |                |       |                   |        |
| MOL Plc                                  | 170            | 239   | 1,238             | 1,287  |
| <b>Companies controlled by the State</b> |                |       |                   |        |
| Hrvatske željeznice                      | 104            | 176   | 42                | 34     |
| Hrvatska elektroprivreda                 | 1,753          | 2,391 | 56                | 122    |
| Croatia osiguranje                       | 5              | 6     | 1                 | 46     |
| Hrvatske vode                            | -              | -     | 19                | 27     |
| Hrvatska pošta                           | 1              | -     | 3                 | 3      |
| MORH                                     | 45             | 76    | -                 | -      |
| Hrvatske šume                            | -              | 3     | -                 | -      |
| Jadrolinija                              | 94             | 161   | 5                 | 5      |
| Narodne novine                           | -              | -     | 3                 | 3      |
| Croatia Airlines                         | 132            | 245   | -                 | -      |
| Petrokemija Kutina                       | 834            | 918   | -                 | -      |
| Plinacro                                 | 4              | 5     | 242               | 524    |
| Hrvatske ceste                           | 1              | -     | 17                | -      |
| Podzemno skladište plina Okoli           | 11             | -     | -                 | -      |

**39. RELATED PARTY TRANSACTIONS (continued)**

As of balance sheet date, INA, d.d. had the following outstanding balances to and from the following related parties:

| INA, d.d.                                | Amounts owed from related parties |                     |                   | Amounts owed to related parties |                     |                   |
|------------------------------------------|-----------------------------------|---------------------|-------------------|---------------------------------|---------------------|-------------------|
|                                          | 31 December<br>2009               | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009             | 31 December<br>2008 | 1 January<br>2008 |
| <b>Foreign related companies</b>         |                                   |                     |                   |                                 |                     |                   |
| Interina Ltd Guernsey                    | 239                               | 75                  | 159               | 57                              | 851                 | 9                 |
| Holdina Sarajevo                         | 104                               | 130                 | 86                | 3                               | 4                   | 3                 |
| Interina d.o.o. Ljubljana                | 2                                 | 1                   | 5                 | -                               | -                   | -                 |
| Interina Ltd London                      | 6                                 | -                   | -                 | 2,153                           | 1,751               | 2,564             |
| INA Crna Gora d.o.o. Podgorica           | 8                                 | -                   | -                 | -                               | -                   | -                 |
| INA Beograd d.o.o. Beograd               | 5                                 | -                   | -                 | -                               | -                   | -                 |
| <b>Domestic related companies</b>        |                                   |                     |                   |                                 |                     |                   |
| Croscos Grupa                            | 1                                 | 2                   | 4                 | 42                              | 54                  | 103               |
| Osijek Petrol d.d.                       | 96                                | 120                 | 134               | 1                               | 1                   | 1                 |
| Crobenz d.d. Zagreb                      | 143                               | 158                 | 162               | 1                               | 1                   | 2                 |
| Proplin d.o.o. Zagreb                    | 90                                | 80                  | 75                | 29                              | 9                   | 8                 |
| STSI d.o.o. Zagreb                       | 3                                 | 7                   | 11                | 212                             | 512                 | 383               |
| Maziva Zagreb d.o.o. Zagreb              | 20                                | 25                  | 18                | 43                              | 20                  | 26                |
| ITR d.o.o. Zagreb                        | -                                 | -                   | -                 | 41                              | -                   | -                 |
| Sinaco d.o.o. Zagreb                     | -                                 | -                   | -                 | 63                              | -                   | -                 |
| Hostin d.o.o. Zagreb                     | -                                 | -                   | -                 | 1                               | -                   | -                 |
| Prirodni plin d.o.o. Zagreb              | 849                               | -                   | -                 | 196                             | -                   | -                 |
| Polybit d.o.o. Rijeka                    | -                                 | -                   | -                 | -                               | -                   | -                 |
| <b>Companies available for sale</b>      |                                   |                     |                   |                                 |                     |                   |
| JANAF d.d. Zagreb                        | -                                 | -                   | -                 | 20                              | 7                   | 5                 |
| <b>Strategic partner</b>                 |                                   |                     |                   |                                 |                     |                   |
| MOL Plc                                  | 26                                | 12                  | 15                | 653                             | 2                   | 3                 |
| <b>Companies controlled by the State</b> |                                   |                     |                   |                                 |                     |                   |
| Hrvatske željeznice                      | 108                               | 62                  | 56                | 10                              | 4                   | 2                 |
| Hrvatska elektroprivreda                 | 217                               | 452                 | 479               | 16                              | 6                   | 4                 |
| Croatia osiguranje                       | -                                 | -                   | -                 | 33                              | 12                  | 2                 |
| Hrvatske vode                            | -                                 | -                   | -                 | 6                               | 2                   | 1                 |
| Hrvatska pošta                           | 2                                 | 2                   | 2                 | -                               | -                   | -                 |
| MORH                                     | 14                                | 13                  | 17                | -                               | -                   | -                 |
| Hrvatske šume                            | 4                                 | 4                   | 5                 | -                               | -                   | -                 |
| Jadrolinija                              | 25                                | 35                  | 39                | 1                               | 1                   | -                 |
| Narodne novine                           | -                                 | -                   | -                 | -                               | -                   | 1                 |
| Croatia Airlines                         | 30                                | 41                  | 31                | -                               | -                   | -                 |
| Petrokemija Kutina                       | 199                               | 192                 | 93                | -                               | -                   | -                 |
| Plinacro                                 | -                                 | 1                   | 1                 | 38                              | 100                 | 38                |
| Hrvatske ceste                           | -                                 | -                   | -                 | 8                               | -                   | -                 |
| Podzemno skladište plina                 | 1                                 | -                   | -                 | 61                              | -                   | -                 |

**39. RELATED PARTY TRANSACTIONS (continued)**

During the year, INA Group entered into the following trading transactions with the following related parties:

**INA Group**

|                                          | <u>Sales of goods</u> |             | <u>Purchase of goods</u> |             |
|------------------------------------------|-----------------------|-------------|--------------------------|-------------|
|                                          | <u>2009</u>           | <u>2008</u> | <u>2009</u>              | <u>2008</u> |
| <b>Companies available for sale</b>      |                       |             |                          |             |
| JANAF d.d. Zagreb                        | 3                     | 4           | 40                       | 37          |
| <b>Strategic partner</b>                 |                       |             |                          |             |
| MOL Plc                                  | 589                   | 272         | 1,245                    | 1,287       |
| <b>Companies controlled by the State</b> |                       |             |                          |             |
| Hrvatske željeznice                      | 106                   | 176         | 42                       | 34          |
| Hrvatska elektroprivreda                 | 1,754                 | 2,391       | 62                       | 128         |
| Croatia osiguranje                       | 13                    | 15          | 26                       | 69          |
| Hrvatske vode                            | 2                     | 2           | 20                       | 28          |
| Hrvatska pošta                           | 1                     | -           | 6                        | 4           |
| MORH                                     | 46                    | 77          | -                        | -           |
| Hrvatske šume                            | 6                     | 5           | 1                        | 1           |
| Jadrolinija                              | 94                    | 161         | 6                        | 6           |
| Narodne novine                           | -                     | -           | 3                        | 3           |
| Croatia Airlines                         | 132                   | 246         | 5                        | 7           |
| Petrokemija Kutina                       | 835                   | 920         | 1                        | 1           |
| Plinacro                                 | 5                     | 5           | 242                      | 524         |
| Hrvatske ceste                           | 21                    | -           | 17                       | -           |
| Podzemno skladište plina Okoli           | 28                    | -           | -                        | -           |

**39. RELATED PARTY TRANSACTIONS (continued)**

As of balance sheet date, INA Group had the following outstanding balances to and from the following related parties:

| INA Group                                | Amounts owed from related parties |                     |                   | Amounts owed to related parties |                     |                   |
|------------------------------------------|-----------------------------------|---------------------|-------------------|---------------------------------|---------------------|-------------------|
|                                          | 31 December<br>2009               | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009             | 31 December<br>2008 | 1 January<br>2008 |
| <b>Companies available for sale</b>      |                                   |                     |                   |                                 |                     |                   |
| JANAF d.d. Zagreb                        | 1                                 | 1                   | 2                 | 20                              | 7                   | 5                 |
| <b>Strategic partner</b>                 |                                   |                     |                   |                                 |                     |                   |
| MOL Plc                                  | 110                               | 15                  | 18                | 662                             | 2                   | 3                 |
| <b>Companies controlled by the State</b> |                                   |                     |                   |                                 |                     |                   |
| Hrvatske željeznice                      | 109                               | 62                  | 56                | 10                              | 4                   | 2                 |
| Hrvatska elektroprivreda                 | 217                               | 452                 | 479               | 18                              | 7                   | 5                 |
| Croatia osiguranje                       | -                                 | -                   | -                 | 37                              | 18                  | 2                 |
| Hrvatske vode                            | -                                 | -                   | -                 | 6                               | 2                   | 1                 |
| Hrvatska pošta                           | 2                                 | 2                   | 2                 | -                               | -                   | -                 |
| MORH                                     | 14                                | 14                  | 18                | -                               | -                   | -                 |
| Hrvatske šume                            | 5                                 | 5                   | 5                 | -                               | -                   | 1                 |
| Jadrolinija                              | 25                                | 35                  | 39                | 1                               | 1                   | -                 |
| Narodne novine                           | -                                 | -                   | -                 | -                               | -                   | 1                 |
| Croatia Airlines                         | 30                                | 41                  | 31                | 1                               | 1                   | -                 |
| Petrokemija Kutina                       | 199                               | 192                 | 93                | -                               | 1                   | -                 |
| Plinacro                                 | -                                 | 1                   | 2                 | 38                              | 100                 | 38                |
| Hrvatske ceste                           | 1                                 | 1                   | 2                 | 8                               | -                   | -                 |
| Podzemno skladište plina Okoli           | 12                                | -                   | -                 | 61                              | -                   | -                 |

### 39. RELATED PARTY TRANSACTIONS (continued)

Sales of goods to related parties were made at the Group's usual list prices, less various discounts dependent upon the relationships between the parties. Purchases were made at market price discounted to reflect the relationships between the parties.

For sale of oil products to the related parties, INA d.d. usually requires collaterals, depending on the risk of marketing the products, except from the customers that are budget beneficiaries or those fully owned by the state.

The liabilities of the related parties to INA, d.d. are presented net of allowance for bad and doubtful receivables.

#### *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<br>2009 | 31 December<br>2008 |
| Short-term employee benefits | 37.6                | 43                  |
| Termination bonuses          | 19.6                | 2                   |
| <b>Total</b>                 | <b>57.2</b>         | <b>45</b>           |

Included above is the remuneration to the President of the Management Board, Management Board Members and executive directors of the business segments and functions, the division executives, advisor to the President of the Management Board, assistant directors and secretary of INA, d.d.

Based on the analysis of the submitted and Independence Statements with respect to related parties, the employees of INA d.d. (48 employees), of which 5 provided by the President and Members of the Management Board, 2 by the Assistants to Executive Directors, 5 by Executive Directors and 33 by Sector Directors, neither the employees nor close family members of the key management members of INA d.d. have any ownership interest in INA d.d. or the INA Group that would provide them a significant influence or control over the entity in 2009 and had no such interest in 2008.

One member of Management Board of INA d.d. has reported the existence of related parties in 2008/2009 as follows:

During 2008 and 2009, a daughter of Mr. Josip Petrović, member of the INA Management Board, Ms. Ana Petrović was a member of the Supervisory Board of entity KONZUM which retail chain realized a business relationship with INA, d.d. and INA Group.

### 39. RELATED PARTY TRANSACTIONS (continued)

#### *Compensation of key management personnel (continued)*

Two Executive Directors of INA d.d. have reported the existence of related parties in 2008/2009 as follows:

1. The Executive Director for Corporate Centre - Mr. Berislav Gašo, declared that he was a member of the key management in the role of Associate Principal in a company that had a business relationship with INA d.d. i.e. the INA Group. This is the firm McKinsey, with the registered seat in Zagreb, Republic of Croatia. In the period under review, Mr. Gašo worked at McKinsey and entered employment with INA d.d. on 1 January 2010 as the Executive Director for Corporate Centre.

2. The spouse of Mr. Bojan Milković - Chief Executive Officer and Executive Director for BS Naftaplin, Mrs. Ljilja Matas Milković, was during 2008/2009 an executive director in a firm that had a business relationship with INA d.d. or the INA Group. The name of the firm is Generalturist, a tourist trade company, headquartered in Zagreb.

In 2008/2009, the firm in which Mrs. Ljilja Matas Milković is employed had a business transaction with INA d.d. or the INA Group in the amount of HRK 5.8 million in connection with travel arrangement services.

#### *Other related party transactions*

The Company is the principal customer of Crosco Naftni Servisi d.o.o. and its subsidiaries. The Crosco Group, with the Company as its sole owner (Note 15), presented consolidated 2009 revenue in the amount of HRK 2,001 million (2008: HRK 2,283 million), of which HRK 185 million (2008: HRK 299 million) were generated mainly from sale of technological services to INA, d.d.

The Company is also the major customer of STSI d.o.o. and its subsidiaries, with the Company as its sole owner (Note 15), presented consolidated 2009 revenue in the amount of HRK 806 million (2008: HRK 1,001 million), of which HRK 423 million (2008: HRK 863 million) were generated mainly from sale to INA, d.d.

The Company is also the major customer of Maziva Zagreb d.o.o. and its subsidiaries, with the Company as its sole owner (Note 15), presented consolidated 2009 revenue in the amount of HRK 216 million (2008: HRK 226 million), of which HRK 76 million (2008: HRK 79 million) were generated mainly from sale to INA, d.d.

The Company is also the major customer of Sinaco d.o.o. and its subsidiaries, with the Company as its sole owner (Note 15), presented consolidated 2009 revenue in the amount of HRK 147 million (2008: HRK 163 million), of which HRK 140 million (2008: HRK 156 million) were generated mainly from sale to INA, d.d.

The Company remains the customer of its associated company JANAF d.d., in which it has a holding of 11,795% (Note 19). In 2009, approximately HRK 40 million of the associated company's total revenue in the amount of HRK 465 million account for sales revenue in respect of INA, d.d. as user of the pipeline system of JANAF d.d. (2008: HRK 37 million out of HRK 375 million total revenue).



#### 40. COMMITMENTS

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

- investment in refining assets to comply with new standards for fuels
- exploratory drilling and well commitments abroad,
- exploration and development commitments arising under production sharing agreements,
- commitments to procure imported gas from Russia to supplement local gas production to meet the demand for gas in Croatia,
- guarantees, performance bonds and letters of credit with Croatian and foreign banks,
- completion of the construction of certain assets.

Details of guarantees relating to short term bank loans and overdrafts are provided in note 27.

##### *Investment in refining assets*

In 2005, a temporary investment unit for the modernisation of refinery operations was established based upon a Company management decision. The Company is committed to a programme of capital investment in its refineries in order to enable them to continue to produce fuels which comply with increasingly stringent environmental standards (in terms of the refinery product quality) on the European market. The modernisation of refineries should include the increasingly stricter environmental protection requirements applicable to the fuel production process.

The tasks of the investment unit and its teams include managing modernisation projects at the Sisak and Rijeka Refineries. The ultimate objective of the programme is to meet the European quality standards applicable to refinery products until specified effective dates. The construction of new plants and the modernisation of the existing ones will significantly expand the quantitative capacities of the refineries, as well as improve the product quality and significantly reduce the level of environmental pollution.

For the purposes of the implementation of the refinery modernisation project, 141 contracts were concluded with vendors as at 31 December 2009, in amount of HRK 3.41 billion, and 739 million HRK is outstanding at 31 December 2009.

##### *Purchase of Energopetrol*

Based on purchasing of Energopetrol The Consortium INA and MOL according mentioned Agreement (note 16), shall invest KM 150 million in the following three-year period, from the day of transaction execution:

- 1st investment year – the amount of KM 20 mil (approx. EUR 10 million)
- 2nd investment year – the amount of KM 35 mil (approx. EUR 17.5 million)
- 3rd investment year – the amount of KM 95 mil (approx. EUR 47.5 million)

#### 40. COMMITMENTS (continued)

##### *Investment in contract areas of North Adriatic*

Activity of bringing the production of natural gas reserves in the geographic area of North Adriatic, mostly within the epicontinental shelf of Republic of Croatia, is taking place through Production Sharing Agreements ( PSA ) which INA has signed with foreign companies in the so - called contract areas:

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

Partnership with the EDISON takes place through the operating company EDINA with interests: Edison 70% and INA 30%.

When Izabela gas field will be also in production, in the North Adriatic Area a total of 19 production platforms with a total of 46 production wells will be installed.

Until now, in the contract areas North Adriatic and Aiza-Laura, INA, d.d. and ENI Croatia B.V. have invested in capital construction of mining facilities and plants over USD 1,3 billion, while of the total gained reserves INA's share will range about 70% of the produced gas, which is further placed on the Croatian gas market.

On Izabela gas field (partnership with Edison) two platforms are installed (Izabela-South and Izabela – North ), from which is in progress drilling and equipping of production wells, and the beginning of gas production is scheduled in the middle of 2010. Produced gas from Izabela gas field will be uploaded through Ivana A / K platforms, which are connected with the sealine with Terminal Pula and further to Croatian gas system.

On 31 December 2009 INAgip had in both contract areas 240 active contracts amounting in total to 1.1 billion HRK, and the remaining commitments under these contracts on the same date amounted to 112 million HRK.

Edina has, for the need of the development of the Izabela gas field from 1 January 2008 until 31 December 2009, concluded 53 (of which are still active 46) contracts amounting in total to EUR 136.4 million from which EUR 98.5 million was carried out on 31 December 2009.

#### 40. COMMITMENTS (continued)

##### *Investments in Syria*

INA Group has been active in Syria since 1998, and is currently independently exploring and developing two blocks. INA has two Production Sharing Agreements (PSA) for the EXPLORATION, DEVELOPMENT and PRODUCTION of PETROLEUM in Syria, both signed with the Government of the Syrian Arab Republic and the GPC which allow partners exploration, development and production of hydrocarbons in Syria.

The first PSA between The Government of the S.A.R. and GPC and INA d.d. – Naftaplin was assembled 13th August 1998 for Hayan Block.

The second PSA covers the Aphamia Concession and became effective on 26th June 2004.

Up to present day INA has six (6) commercial discoveries on Hayan Block ( Jihar, Al Mahr, Jazal, Palmyra, Mustadyra and Mazrur) with significant oil, gas and condensate reserves.

The average current daily production of the gas is around 3523 boe/day and 5660 bbl/day of the oil that is very close to the nominal production capacities of the OGS Hayan. The total production on Hayan Block amounted to cca 3 MMboe in 2009 of which 1.4 MMboe goes to GPC.

##### *Current situation*

Gas Treatment Plant Jihar with belonging oil, gas & condensate wells and transportation system is under construction, expecting facility commissioning start up in September 2010. Gas Treatment Plant GTP – Jihar, 3,9 million m<sup>3</sup>/day inlet gas, 140-200 m<sup>3</sup>/day LPG

After final completion of Stage 3 Project (scheduled for March 2011), when the new Gas Treatment Plant (GTP) Jihar with belonging oil & gas / condensate gathering and transportation systems will be installed, oil production will increase and also enable gas production from gas deposits discovered on the Jihar, and Al Mahr fields. With this, production capacity would increase to 1,600-2,500 m<sup>3</sup>/day of oil and condensate, 4 MMm<sup>3</sup>/day of gas and 180 t/day of LPG.

On Aphamia Exploration Block where INA is Operator (100%), the Second exploration phase (First Extension of Initial Exploration phase) commenced in August 2008. During that phase INA was obliged to acquire 300 km 2D seismic or equivalent of 3D and drill 2 exploration wells (USD 6,000,000 minimum financial obligation). Completion date of that phase is August, 2010.

In Syria until 31 December 2009, INA concluded 26 contracts. The total amounts of these contracts were HRK 2.7 billion. At 31 December 2009 remaining obligations due to these contracts were HRK 776.7 million.

#### 40. COMMITMENTS (continued)

##### *Participation and Joint Operating Agreements*

##### *Participation and Joint Operating Agreement in the Contract Area Podravska Slatina – Zalata*

On 14 September 2006 INA, d.d. and MOL concluded a Participation and Joint Operating Agreement in the Contract Area Podravska Slatina – Zalata. The parties will share equally 50 % participating interest in the Agreement.

According to the Agreement the exploration period shall last two years from the date of the execution of the Agreement. In the case when no commercial discovery is made during the exploration period the contract would be terminated.

As the Agreement allows the extension of the exploration period in order to complete any work in progress, on 12 September 2008 the parties signed an understanding of the prolongation of the exploration until the completion of the drilling, appraisal and interpretation of the appraisal for the Well Dravica-1, the spudding of which in the territory of the Republic of Croatia commenced on 11 September 2008.

The Well Dravica-1 has been identified on the basis of a positive appraisal and discovery of a gas condensate field as part of the operation of the 1st exploration well Zalata-1 during 2007 in a part of the contract area in the territory of the Republic of Hungary. In late 2008, a final drilling depth of 3 500 m was reached on the Well Dravica-1 in the total amount of EUR 6.3 million. The right indicated gas-condensate saturation that should be examined by carrying out an overhaul.

On 31 August 2009, INA and MOL signed the 1st Amendment to the Participation and Joint Operating Agreement for the contract area, which sets out the following:

- Extension of the exploration period to five years from the date of signing the Agreement;
- Expansion of the contract area to a total area of 411 sq. km. as opposed to the original 52.5 sq. km.;
- The 2009 Exploration Program, which includes 3D seismic screening of an area of 353 sq. m. as well as the processing and appraisal of the Well Dravica-1;
- The financing of the Exploration Program, in which MOL will cover the entire INA's participation of 50 % in the Program during 2009 as follows: 50% of the planned 3D seismic screening costs in the total amount of EUR 6.1 million (of which EUR 3.05 million represent INA's share) and the planned exploration of the Well Dravica-1 in the total amount of EUR 3.2 million (of which EUR 1.6 million in respect of INA).
- MOL is to achieve a return of 110% on INA's participation in the investment during 2009 out of 85% of revenue generated from the sale of hydrocarbons produced in the contracted area Podravska Slatina – Zalata or the INA-MOL contracted area Novi Gradac – Potony following the payment of royalties. The remaining 15% of the revenue will be split according to the basic participating interest specified in the Agreement (50:50%).

In the last quarter of 2009, INA and MOL started the activities aimed at the implementation of the agreed Exploration Program (3D seismic screening and exploration of the Well Dravica-1), which should be finalized in the first half of 2010.

#### 40. COMMITMENTS (continued)

##### *Participation and Joint Operating Agreements (continued)*

##### *Participation and Joint Operating Agreement in the Contract Area Podravska Slatina – Zalata (continued)*

Based on the stage of completion of the 3D seismic screening as of 31 December 2009, the actual realization on the Croatian side of the contracted area amounts to EUR 582 thousand (of which INA's liability amounts to EUR 291 thousand) and the realization on the Hungarian side of the contracted area amounts to EUR 1.45 million (of which EUR 727 thousand represent the obligation of INA), amounting in total to EUR 2.04 million in respect of the 3D seismic screening activities (of which EUR 1.02 million represent the obligation of INA) out of the budgeted EUR 6.1 million as per the Amendment (EUR 3.05 million to be participated in by INA). The remaining EUR 4.06 million (EUR 2.03 million in respect of INA) will be realized in 2010.

As regards the exploration of the Well Dravica-1, the stage of completion as of 31 December 2009 is as follows: EUR 708 thousand (EUR 354 thousand in respect of INA) out of the budgeted EUR 3.2 million (of which EUR 1.6 million in respect of INA). The remaining EUR 2.49 million (EUR 1.25 million in respect of INA) will be realized in 2010. According to the 1st Amendment, the total cost of the works performed in 2009 were borne by MOL, whereby INA will settle its participation in the 2009 obligations towards MOL by adding 10% of the financing costs after the revenue from the hydrocarbon production is earned as described above.

No further obligations have been agreed for the period beyond 2010 in respect of the Agreement.

##### *Participation and Joint Operating Agreement in the Contract Area Novi Gradac-Potony*

On 1 September 2007 INA and MOL concluded Participation and Joint Operating Agreement in the Contract Area Novi Gradac-Potony. The parties will share equally 50 % participating interest in the Agreement.

According to the Agreement the exploration period shall last three years from the date of the execution of the Agreement. The agreed obligations include seismic mapping of an area of 189 sq. km. and the construction of the exploration wells.

The 3D seismic mapping, which commenced in late 2007, was completed in early 2008. During 2008, the seismic data processing and analysis was completed, and the costs amounted to EUR 130 thousand. Since the seismic mapping took place in the territories of both the Republic of Croatia and the Republic of Hungary, which implied double operation of the parties, in 2008, INA settled its obligations towards MOL, GES and the so-called Third Party (indemnities to legal and natural persons for field damage) with respect to the seismic mapping works as follows:

- Potony: INA settled 50 percent in the amount of EUR 478 thousand;
- Novi Gradac: of the total EUR 2.2 million, EUR 1.3 million were settled by INA and EUR 855 thousand by MOL.

On 31 August 2009, INA and MOL signed the 1st Amendment to the Participation and Joint Operating Agreement for the contract area, which sets out the following:

- The 2009 Exploration Program, which includes the drilling of the exploration well Potony-1 in the I maximum total amount of EUR 7.7 million; and

#### 40. COMMITMENTS (continued)

##### *Participation and Joint Operating Agreements (continued)*

##### *Participation and Joint Operating Agreement in the Contract Area Novi Gradac-Potony*

- The financing of the Exploration Program, with MOL to finance the entire INA's participation of 50% in the Exploration Program during 2009 as follows: 50% of the costs of the Well Potony-1 or maximum EUR 3.85 million.
- MOL is to achieve a return of 110% on INA's participation in the investment during 2009 out of 85% of revenue generated from the sale of hydrocarbons produced in the contracted area Novi Gradac – Potony or Podravska Slatina - Zalata following the payment of royalties. The remaining 15% of the revenue will be split according to the basic participating interest specified in the Agreement (50:50%).

According to the 1st Amendment, the first exploration well Potony-1 was constructed in the territory of the Republic of Hungary in 2009, and provided an indication of hydrocarbon saturation to be explored as part of the overhaul in the first half of 2010.

Pursuant to the 1st Amendment, MOL financed the entire drilling of the Well Potony-1 in the amount of EUR 7.27 million out of the total budgeted amount of EUR 7.7 million. INA will settle its participation in the 2009 obligations towards MOL in respect of the Well Potony-1 (EUR 3.64 million) by adding 10% of the financing costs after the revenue from the hydrocarbon production is earned as described above.

The Potony-1 exploration activities agreed between INA and MOL for the year 2010 amount to a total of EUR 1.63 million (EUR 815 thousand in respect of INA).

No further obligations have been agreed for the period beyond 2010 in respect of the Agreement.

##### *"Take or pay" contract*

On 1 June 2005 Ina Industrija Nafte d.d. concluded the contract with GAZEXPORT Ltd., Moscow for the supply of 1.2 bcm per year of natural gas under take or pay commitment until 2010. As of 31 December 2009 the Company's respective obligation is HRK 1.8 billion until the expiry of the contract (until 31 December 2010).

##### *Gas Transportation Contract*

Additionally, the Company concluded transportation agreements to ensure deliveries of the gas to the destination point (FCA Croatian border). Validities of transportation contracts are until 2010 for Slovakia, 2015 for Slovenia and 2017 for Austria. The future commitments contracted approximate to HRK 1.64 billion until 2017.

##### *Gas sales Contracts*

Group had following long term natural gas sale contracts from 31 December 2009 to the expiry of the underlying contract:

1. Long-term contract between Prirodni plin d.o.o. and HEP d.d. Zagreb
  - a) Contracted supply quantity: 507,000,000 m<sup>3</sup>/year (from 1 January 2010 till 30 September 2010)
  - b) Annual sales: 819 million HRK
  - c) Contract period: from 1 January 2010 till 30 September 2010
  - d) Estimated revenue for the remaining period : 909 million HRK

#### 40. COMMITMENTS (continued)

##### *Gas sales Contracts (continued)*

2. Long-term contract between Prirodni plin d.o.o. and PETROKEMIJA d.d. Kutina
  - a) Contracted supply quantity: 436,608,000 m<sup>3</sup>/year from 1 January 2010 till 30 September 2010
  - b) Annual sales: 729 million HRK
  - c) Contract period: from 1 January 2010 till 30 September 2010
  - d) Estimated revenue for the remaining period: 795 million HRK
  
3. Contracts between Prirodni plin d.o.o. and Tariff-based customers (distribution - transport)
  - a) Contracted supply quantity: 508,474832m<sup>3</sup> from 1 January 2010 till 30 September 2010
  - b) Annual sales:
  - c) Contract period: from 1 January 2010 till 30 September 2010
  - d) Estimated revenue for the remaining period: 864,4 million HRK
  
4. Contracts Prirodni plin d.o.o. –Tariff-based customers –(distributors – sales)
  - a) Contracted supply quantity: 365,226,159 m<sup>3</sup> from 1 January 2010 till 30 September 2010
  - b) Annual sales: 1.7 billion HRK
  - c) Contract period: from 1 January 2010 till 30 September 2010
  - d) Estimated revenue for the remaining period. 657.3 million HRK
  
5. Contracts Prirodni plin d.o.o. – Other tariff-based customers
  - a) Contracted supply quantity: 219,422,335 m<sup>3</sup> from 1 January 2010 till 30 September 2010
  - b) Annual sales: 364million HRK
  - c) Contract period: from 1 January 2010 till 30 September 2010
  - d) Estimated revenue for the remaining period. 413 million HRK
  
6. Contracts INA, d.d. – DIOKI (ethane)
  - a) Contracted supply quantity: 55,000 tons in 2010
  - b) Annual sales in 2009: 45.6 million HRK
  - c) Contract period: 2012
  - d) Estimated revenue for the remaining period (2010-2012): 194.81 million HRK

##### *Water sales contracts*

1. High quality process water
  - a) Contracted supply quantity: 2,868,750 m<sup>3</sup> in 2010
  - b) Annual sales: 4.4 million HRK
  - c) Contract period: 2010
  - d) Estimated revenue for 2010: 6,0 million HRK

**40. COMMITMENTS (continued)**

*Water sales contracts (continued)*

2. Geothermal water

- a) Contracted supply quantity: 410,000 m<sup>3</sup> in 2009
- b) Annual sales: 1.5 million HRK
- c) Contract period: 2010
- d) Estimated revenue for 2010: 2.15 million HRK

*N-pentane sales contracts*

1. N-pentane

- a) Contracted supply quantity: 880 m<sup>3</sup> in 2010
- b) Annual sales: 1.5 million HRK
- c) Contract period: 2010
- d) Estimated revenue for 2010: 3.5 million HRK



#### 41. CONTINGENT LIABILITIES

##### *Sustainable development, health and safety, and environmental protection*

In 2009, the Sector of Health, Safety and Environment (The HSE Sector) at INA was restructured to enable it to launch an organisation-wide matrix-based health, safety and environment management, with the scope of its responsibilities being expanded to include sustainable development.

The Sector of Sustainable Development, Health, Safety and Environment has been set up so as to include the Sustainable Development and Occupational Health and Safety Development Department and the Sustainable Development and Occupational Health and Safety Development Assurance Department, both of which functionally report to the Sector's Sustainable Development and Health, Safety and Environment Offices that are organisationally included within the Business Segments. The tasks of the Sector is to ensure, together with the Offices, firm-wide compliance with health, safety, and environmental requirements as well as those of sustainable development, and to provide support services to the Business Segments, risk management, lobbying in the related industries, developing functional strategies, developing processes and internal rules, as well as to support the development of corporate plans in terms of meeting the sustainable development, health, safety and environmental requirements. Its task is also to monitor overall health, safety and environmental costs through development and improvement of professional guidelines on budgeting and project controls. An objective of the Sector for the year 2010 is to expand the coordination and supervision of the sustainable development, health, safety and environmental issues to include the entire INA Group.

##### *The HSE Sector Operating Expenses (OPEX) at INA d.d. in 2009*

During 2009, the HSE Sector finalised a comprehensive identification and analysis of the monitored HSE operating expenses at the level of INA d.d. The identified expenses were divided into Occupational Health and Safety Expenses, Fire Protection, and Environmental Safety and Protection expenses, which, in total, amount to approximately HRK 250 million on an annual level. The 2009 analysis still contains the costs of personal and property security protection of approximately HRK 60 million per annum that, following the reorganisation i.e. the formation of the Corporate Security Management Sector, will be chargeable to that Sector. In 2009, the fire protection costs at the level of INA d.d. amounted to around HRK 20.5 million, the costs of water, soil and air protection, and of waste management amounted to around HRK 24 million, whereas the emission fees amounted to approximately HRK 47 million.

##### *Investments in the HSE during 2009 (CAPEX)*

Being an environmentally aware corporation, INA d.d. gives priority to investing in the modernisation and reconstruction of its plants towards full compliance with health and safety, and environmental protection requirements. In this respect, the 2009 investments in the HSE projects amounted to around HRK 45 million, of which HRK 17 million was in the Refinery and Marketing Business Segment, around HRK 15 million in the Retail Business Segment, and slightly over HRK 13 million in the Oil and Gas Exploration and Production business. These investments do not include the investments in the refinery modernisation, the top priority of which is to improve the product quality, but which also possess a significant ecological dimension.

#### 41. CONTINGENT LIABILITIES (continued)

##### *Environmental matters – legal background and compliance*

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. The environmental effects of the activities are monitored by local management and environmental authorities.

In 2006, as part of the second privatization stage, Golder Associates performed an independent appraisal in respect of environmental protection at INA's organisational units and provided an evaluation of future investments INA would have to incur to follow EU environmental regulation and removal of previous pollution. Thus, the costs of compliance with the EU environmental regulation have been estimated at around HRK 300 million, and those regarding the restoration of soil and water, as well as those pertaining to earlier pollution at around HRK 200 million. Based on the report, INA d.d. made a provision in its accounts in the amount of HRK 35 million, which was charged to operating expenses, to cover any potential costs that may arise in connection with the removal of potential consequences of soil and underground water.

For the purpose of a more efficient environmental protection, Croatia has passed an Environmental Protection Act (Official Gazette No. 110/07) as the principal regulation providing a general environmental protection framework, and a large body of the related regulations. The regulations passed to date have had no significant direct financial impact on the operations of INA. However, due to the harmonisation period provided for their first adoption, significant costs related to those regulatory requirements can be expected in the next several years.

According to the current regulations governing air pollution prevention, specifically the Decree on Greenhouse Gas Emission Quota and Trading in Emission Units (Official Gazette No. 142/08), the Rijeka and Sisak Refineries, and the plants Etan and Molve will be included in the European emission trading system following the accession of the Republic of Croatia to the European Union. During 2009, emission units were allocated to those plants based on calculations. In 2009, Greenhouse Gas Emission Monitoring Plans were developed for those plants to serve as the basis for monitoring gas emissions during 2010, whereas verified reports of all the reporting entities will serve as a basis for developing a Plan for the Allocation of Greenhouse Gas Emission Quotas for the Republic of Croatia. Subsequent to the allocation of the emission units to the plants and their inclusion in the European Union Emissions Trading System (EU ETS), those plants with actual emissions below the allocated units will be able to sell the surplus emission units to the plants whose emissions are in excess of the permitted quotas, or reallocate them within the same legal entity (potentially INA d.d.), while the plants that do not manage to keep emissions below the defined quotas will purchase emission quotas at market prices, or pay high penalties of EUR 100 per ton of exceeded emission. Should a plant's emissions exceed the emission units allocated to the plant, emission reduction could be ensured using the Joint Implementation or Clean Development mechanisms, in addition to direct purchase of emission units or payment of penalties.

#### 41. CONTINGENT LIABILITIES (continued)

##### *Environmental matters – legal background and compliance (continued)*

In April 2009, the Environmental Provisions Project at the INA Group level commenced based on the International Accounting Standard IAS 37. For the purpose of the project, the obligations include identified or proven, and contingent liabilities. The project has been developed in cooperation with the MOL Group and split into the following three stages: information collection and review; information and liability assessment; and quantification of environmental obligations. The project is still ongoing at 31 December 2009. Once quantified, the obligations will serve as a basis for business planning in case that a legal obligation to establish environmental provisions or any such decision adopted by the management becomes effective. Until then, the Company will continue to maintain an environmental insurance policy required by the Environmental Protection Act.

According to the legal requirements, INA d.d. has funds allocated for the purpose of becoming compliant with the Croatian air protection regulations within the next few years. This primarily includes the reconciliation of emission of air pollutants from stationary sources and compliance with the technical environmental standards for evaporable organic compounds produced during storage and distribution of petrol. The Plan for the Compliance with the Technical Environmental Standards for Evaporable Organic Compounds relates to the technical environmental standards that have to be achieved by the end of 2012. The reconciliation of emissions from large combustion plants, which is a requirement imposed by the Decree on the Values of Emission of Air Pollutants from Stationary Sources, will be achieved following the implementation of the refinery modernization plans.

##### *Disposal of Siberian Energy Investments Limited and "White Nights"*

The Group sold SEIL (and with it White Nights) in July 2002 to Personal and Business Solutions. As at the 2004 year-end, approximately USD 20 million was due from the sale to Holdina Guernsey Limited (Holdina), a subsidiary of the Company, but was subject to dispute with Personal Business Solutions (for a contract concerning the potential obligation in respect of the lease of property used in White Night's operations).

The USD 20 million had been held in escrow pending resolution of the dispute. During 2005 it was agreed by both parties to the dispute that USD 10 million of the amount in escrow would be released and paid to Holdina. This amount plus accrued interest of USD 20 thousand was received on 8 August 2005.

The Group continued the proceedings to recover the remaining USD 10 million. The arbitration proceedings were finalised on 24 September 2009, by Holdina (Guernsey) Limited having recovered USD 4,661,798.33 of the remaining balance of USD 10 million.

**42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT***Gearing ratio*

The Treasury of INA, d.d. and the INA Group reviews the capital structure on a semi-annual basis.

As part of this review, the Treasury considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the balance sheet date was as follows:

|                                         | INA Group           |                     | INA, d.d.           |                     |
|-----------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                         | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| <b>Debt:</b>                            | <b>8,523</b>        | <b>7,144</b>        | <b>6,802</b>        | <b>4,627</b>        |
| Long term loans                         | 5,764               | 4,554               | 5,646               | 4,331               |
| Short term loans                        | 2,104               | 2,492               | 581                 | 249                 |
| Current portion of long-term borrowings | 655                 | 98                  | 575                 | 47                  |
| Cash and cash equivalents               | (367)               | (579)               | (68)                | (318)               |
| <b>Net debt</b>                         | <b>8,156</b>        | <b>6,565</b>        | <b>6,734</b>        | <b>4,309</b>        |
| <br>                                    |                     |                     |                     |                     |
| Equity                                  | 11,792              | 12,037              | 10,751              | 11,237              |
| <br>                                    |                     |                     |                     |                     |
| <b>Net debt to equity ratio</b>         | <b>69%</b>          | <b>55%</b>          | <b>63%</b>          | <b>38%</b>          |

*Significant accounting policies*

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

**42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)***Categories of financial instruments*

|                                                                      | INA Group           |                     |                   | INA, d.d.           |                     |                   |
|----------------------------------------------------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
|                                                                      | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2009 | 31 December<br>2008 | 1 January<br>2008 |
| <b>Financial assets</b>                                              |                     |                     |                   |                     |                     |                   |
| Cash and cash equivalents                                            | 367                 | 579                 | 720               | 68                  | 318                 | 299               |
| Financial assets designated as at fair value through profit and loss | 6                   | 20                  | 20                | 6                   | 20                  | 20                |
| Derivative financial instruments                                     | 56                  | 184                 | 323               | 27                  | 184                 | 323               |
| Loans and receivables                                                | 4,279               | 4,286               | 4,496             | 4,505               | 4,160               | 4,551             |
| Available-for-sale financial assets                                  | 397                 | 201                 | 656               | 397                 | 201                 | 656               |
| <b>Financial liabilities</b>                                         |                     |                     |                   |                     |                     |                   |
| Derivative financial instruments                                     | 10                  | -                   | -                 | -                   | -                   | -                 |
| Amortised cost                                                       | 12,832              | 10,959              | 8,455             | 13,384              | 10,489              | 8,102             |
| Financial guarantee contracts                                        | 563                 | 1,157               | 596               | 563                 | 1,157               | 596               |

*Financial risk management objectives*

The Group is exposed to international markets and takes on significant borrowings denominated in foreign currencies. As a result, the Group is exposed to fluctuations market prices of crude oil market, natural gas and refinery products, as well as to the effects of fluctuation in exchange and interest rates. Because of credit sale of goods, the Group is also exposed to credit risk.

The Treasury function at INA, d.d. provides financial services for the company and coordinates access of the Group to domestic and international markets, monitors and manages the financial risks relating to the operations of INA, d.d.. The most significant risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk.

The major risk exposures, together with the techniques used to manage those risks, are set out below. The Group used derivative instruments for managing those risks to a very limited extent. The Group does not use derivative financial instruments for speculative purposes.

**42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

*Market risk*

*Commodity price risk management (price risk)*

The volatility of crude oil and gas prices is the prevailing element in the business environment of the Group. The Group buys oil at prices mostly through short-term arrangements in US dollars at the spot market price. The Group also imports a significant portion of gas to cover its requirements at the cost price denominated in US dollars, which reprices on a quarterly basis, in accordance with the underlying long-term gas purchase agreements.

INA, d.d. generates most of its sales from refinery products and wholesale of gas. The formula for determining the refinery product prices, specified by the Oil Refinery Product Price Regulation effective since 2001, hedges the Group from the changes in the oil and refinery prices, and foreign exchange risk to a large extent, as it enables the refinery products to be repriced every week, depending on the market (Platts) prices and the fluctuations in the exchange rate of Croatian kuna to US dollars. During 2008, the pricing formula could not have been applied to the full extent because of the activities of the competent bodies. The Group does not use any forward agreements to manage its oil and gas price risk.

*Foreign currency risk management*

As the INA Group operates both in Croatia and abroad, many of its transactions are denominated and executed in foreign currencies. Thus, the exposure to fluctuations in foreign exchange rates arises. The Company applies natural hedge to manage its exposure to the currency risk, based on the principle that the currency structure of the debt portfolio should reflect the currency position of the Group's free cash flows. In addition, the Oil Refinery Product Price Regulation allows passing a part of unfavourable fluctuations in foreign exchange rates onto the domestic market.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

**INA Group**

|              | <b>Liabilities</b>          |                             | <b>Assets</b>               |                             |
|--------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|              | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
| Currency USD | 8,672                       | 7,228                       | 697                         | 923                         |
| Currency EUR | 913                         | 615                         | 409                         | 491                         |
|              | <b>9,585</b>                | <b>7,843</b>                | <b>1,106</b>                | <b>1,414</b>                |

**INA, d.d.**

|              | <b>Liabilities</b>          |                             | <b>Assets</b>               |                             |
|--------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|              | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
| Currency USD | 8,922                       | 7,326                       | 733                         | 1,052                       |
| Currency EUR | 782                         | 264                         | 453                         | 417                         |
|              | <b>9,704</b>                | <b>7,590</b>                | <b>1,186</b>                | <b>1,469</b>                |

**42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)***Foreign currency sensitivity analysis*

The Company is mainly exposed to the currencies of the countries whose currency is US dollar, which is the currency in which oil and gas purchases on the international market are denominated in general.

The following table details the Company's sensitivity to a 10% increase in Croatian kuna in 2009 (in 2008: 10 %). against the relevant foreign currencies The sensitivity rates used represent management's assessment of the reasonably possible change in foreign exchange rates. 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. The sensitivity analysis includes monetary assets and liabilities in foreign currencies. A negative number below indicates a decrease in profit where Croatian kuna changes against the relevant currency by the percentage specified above. For the same change of Croatian kuna versus the relevant currency in the opposite direction, there would be an equal and opposite impact on the profit.

**INA Group**

|      | <b>Currency USD Impact</b>  |                             | <b>Currency EUR Impact</b>  |                             |
|------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|      | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
| Loss | (805)                       | (639)                       | (57)                        | (19)                        |
|      | (805)                       | (639)                       | (57)                        | (19)                        |

**INA, d.d.**

|               | <b>Currency USD Impact</b>  |                             | <b>Currency EUR Impact</b>  |                             |
|---------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|               | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
| Profit/(loss) | (827)                       | (635)                       | (40)                        | 8                           |
|               | (827)                       | (635)                       | (40)                        | 8                           |

The exposure of the 10% fluctuation in the exchange rates for the currencies presented above is mostly attributable to the condition of the suppliers and borrowings denominated in US dollars (USD).

*Interest rate risk management*

The INA Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates, with most of the Group's borrowings bearing interest at variable rates.

**42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)***Interest rate risk analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet 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 till 200 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 200 basis points higher/lower and all other variables were held constant, the changes in interest expense of INA, d.d. would be as presented below. Because of the increase in the long-term debt at variable rates, the exposure to a potential change in the interest rates on profits has also increased.

|                                    | INA Grupa              |                        | INA, d.d.              |                        |
|------------------------------------|------------------------|------------------------|------------------------|------------------------|
|                                    | 31<br>December<br>2009 | 31<br>December<br>2008 | 31<br>December<br>2009 | 31<br>December<br>2008 |
| Short-term interest expense change | 41                     | 48                     | 12                     | 5                      |
| Long-term interest expense change  | 128                    | 93                     | 124                    | 87                     |
| <b>Total change:</b>               | <b>169</b>             | <b>141</b>             | <b>136</b>             | <b>92</b>              |

If interest rates had been 200 basis points higher/lower, the profit of the INA Group in 2009 would be decreased/increased by HRK 169 million, while the decrease/increase amounted to HRK 42 million in change of 50 basis points, (2008: decrease/increase by HRK 141 million had the interest rates been 200 basis points higher/lower, and by HRK 35 had the interest rates been 50 basis points higher/lower), and the profit of the INA, d.d. in 2009 would be decreased/increased by HRK 136 million, while the decrease/increase amounted to HRK 34 million in a change of 50 basis points (2008: decrease/increase by HRK 92 million had the interest rates been 200 basis points higher/lower, and by HRK 23 million had the interest rates been 50 basis points higher/lower).

*Other price risks*

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes.



## 42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### *Equity price sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 10% higher:

- net profit for the year ended 31 December 2009 would have been unaffected as the equity investments are classified as available-for-sale; and
- other equity reserves of INA, d.d. would increase by HRK 34 million (2008: increase by HRK 10 million) as a result of the changes in fair value of available-for-sale shares.

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

The Group's sensitivity to equity prices has not changed significantly from the prior year.

### *Credit risk management*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. INA, d.d. has adopted a Credit Risk Management Procedure, which it applies in dealing with its customers, and obtains collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults, like all subsidiaries in Group. Debentures, being the prevailing payment security instrument on the Croatian market, are mainly taken as collateral.

Counterparties are classified into risk groupings by reference to their financial indicators and the trading records with INA, d.d., and appropriate measures to provide protection against credit risk are taken for each of the groups.

The information used to classify the counterparties into the risk groupings is derived from the official financial statements and reports of the customers, obtained from independent rating agencies and the own trading records of INA, d.d..

The exposure of INA, d.d. and the credit ratings of its counterparties are continuously monitored and credit exposure is controlled by counterparty limits that are reviewed at least on an annual basis.

INA Group transacts with a large number of counterparties from various industries and of various size. The highest concentrations of credit risk are towards state institutions and state-owned counterparties. Given that the Republic of Croatia is a major shareholder of the Group itself, credit risks depends to a significant extent on the policy of the Croatian Government.

There is no significant credit risk exposure of INA Group that would not be covered with collateral, other than those to the above mentioned institutions and entities controlled by the state, so a realistic credit risk as of 31 December 2009 is 14.8% of the total receivables (2008: slightly below 6.2%).

**42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)***Credit risk management (continued)*

Potential risks also present a quality of the instruments collected as insurance of payments. Due to weak financial position, the majority of customers are not able to obtain a bank guarantee, as the most secure instrument of insurance of payments. So the credit exposure of INA, d.d. is covered over 90% with debentures which does not have impact on the credit risk exposure.

*Liquidity risk management*

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of receivables and payables.

*Liquidity and interest risk tables*

The following tables detail the remaining contractual maturity for financial liabilities of INA, d.d. and of the Group at the period end. Analyses have been drawn up based on the undiscounted cash flows based on the earliest date on which the payment can be required. The tables include both interest and principal cash flows.

**INA Group**

|                         | Less than<br>1 month | 1 - 3<br>months | 3 - 4<br>months | 4 month<br>to 1 year | 1 - 5 years  | 5+ years     | Total         |
|-------------------------|----------------------|-----------------|-----------------|----------------------|--------------|--------------|---------------|
| <b>31 December 2009</b> |                      |                 |                 |                      |              |              |               |
| Non-interest bearing    | 4,349                | 1,874           | 281             | 386                  | 484          | 2,355        | 9,729         |
| Interest bearing        | 1,378                | 204             | 46              | 1,135                | 5,779        | 4            | 8,546         |
|                         | <b>5,727</b>         | <b>2,078</b>    | <b>327</b>      | <b>1,521</b>         | <b>6,263</b> | <b>2,359</b> | <b>18,275</b> |
| <b>31 December 2008</b> |                      |                 |                 |                      |              |              |               |
| Non-interest bearing    | 4,590                | 965             | 1               | 248                  | 4            | 1,624        | 7,432         |
| Interest bearing        | 2,130                | -               | 165             | 267                  | 4,582        | -            | 7,144         |
|                         | <b>6,720</b>         | <b>965</b>      | <b>166</b>      | <b>515</b>           | <b>4,582</b> | <b>1,624</b> | <b>14,576</b> |

**INA, d.d.**

|                         | Less than<br>1 month | 1 - 3<br>months | 3 - 4<br>months | 4 month<br>to 1 year | 1 - 5 years  | 5+ years     | Total         |
|-------------------------|----------------------|-----------------|-----------------|----------------------|--------------|--------------|---------------|
| <b>31 December 2009</b> |                      |                 |                 |                      |              |              |               |
| Non-interest bearing    | 4,323                | 1,089           | -               | 212                  | 295          | 2,455        | 8,374         |
| Interest bearing        | 709                  | 1,512           | 286             | 787                  | 5,645        | -            | 8,939         |
|                         | <b>5,032</b>         | <b>2,601</b>    | <b>286</b>      | <b>999</b>           | <b>5,940</b> | <b>2,455</b> | <b>17,313</b> |
| <b>31 December 2008</b> |                      |                 |                 |                      |              |              |               |
| Non-interest bearing    | 3,823                | 700             | 1               | 85                   | 4            | 1,523        | 6,136         |
| Interest bearing        | 1,164                | 1,533           | 132             | 174                  | 4,331        | -            | 7,334         |
|                         | <b>4,987</b>         | <b>2,233</b>    | <b>133</b>      | <b>259</b>           | <b>4,335</b> | <b>1,523</b> | <b>13,470</b> |

## 42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### *Liquidity risk management (continued)*

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 2,351 million in 2009 (2008: HRK 2,586 million) and taxes and contributions payable in the amount of HRK 1,585 million (2008: HRK 1,087 million).

Included in non-interest bearing liabilities of INA, d.d. due in a period of over five years are, among others, long-term decommissioning provisions for oil and gas properties in the amount of HRK 2,330 million in 2009 (2008: HRK 1,009 million).

Interest bearing liabilities include short-term and long-term borrowings and amounts due to oil suppliers, both for the INA Group and INA, d.d.. The same has been applied for the Group.

As a rule, INA, d.d. imports crude oil and refinery products through its foreign operations Interina London and Interina Guernsey. In accordance with common international practice, oil purchases are effected by opening documentary letters of credit in favour of the supplier at first-class commercial banks and using trade financing.

### *Fair value of financial instruments*

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

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

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

**42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

*Fair value of financial instruments (continued)*

*Fair value measurements recognised in the balance sheet*

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

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

**INA GROUP**

|                                            | <b>31 December 2009</b> |                |                |              |
|--------------------------------------------|-------------------------|----------------|----------------|--------------|
|                                            | <b>Level 1</b>          | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <i>Financial assets at fair value</i>      | -                       | -              | -              | -            |
| Financial assets available-for-sale        | 336                     | -              | 61             | 397          |
| Derivative financial assets                | -                       | 56             | -              | 56           |
| Financial assets held for trading          | -                       | -              | -              | -            |
| <i>Financial liabilities at fair value</i> |                         |                |                |              |
| Derivative financial liabilities           | -                       | 10             | -              | 10           |

**42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

*Fair value of financial instruments (continued)*

*Fair value measurements recognised in the balance sheet (continued)*

**INA, d.d.**

|                                                   | <b>31 December 2009</b> |                |                |              |
|---------------------------------------------------|-------------------------|----------------|----------------|--------------|
|                                                   | <b>Level 1</b>          | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <b><i>Financial assets at fair value</i></b>      |                         |                |                |              |
| Financial assets available-for-sale               | 336                     | -              | 61             | 397          |
| Derivative financial assets                       | -                       | 27             | -              | 27           |
| Financial assets held for trading                 | -                       | -              | -              | -            |
| <b><i>Financial liabilities at fair value</i></b> |                         |                |                |              |
| Derivative financial liabilities                  | -                       | -              | -              | -            |

*Derivative financial instruments*

Under IAS 39 'Financial Instruments: Recognition and Measurement' derivative financial instruments are carried in the balance sheet at fair value, with the fair value changes being reported through profit or loss.

The Group has concluded certain long-term contracts that contain embedded derivatives as defined by IAS 39. An embedded derivative is a component of a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. As required by IAS 39, such embedded derivative instruments should be separated from the host contract and accounted for as a derivative carried at fair value, with changes in fair value recognised in profit or loss. The fair value of foreign-exchange forward contracts has been determined on the basis of exchange rates effective at the balance sheet date. The value of the embedded instrument to replace the inflation index 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. Any long-term effect of the embedded derivatives has been discounted at a discount rate similar to the interest rate on Government bonds.

**42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

*Fair values of financial instruments (continued)*

*Derivative financial instruments (continued)*

The fair values of embedded derivatives included in the balance sheet and the net movement in the year, are as follows:

|                                                                                           | INA Group           |                     | INA, d.d.           |                     |
|-------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                                                           | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
| Fair value at 1 January                                                                   | 184                 | 323                 | 184                 | 323                 |
| Financial income/loss relating to the net change in fair value in the year (Note 7 and 8) | (128)               | (139)               | (157)               | (139)               |
| Fair value at 31 December                                                                 | <b>56</b>           | <b>184</b>          | <b>27</b>           | <b>184</b>          |

|                     | INA Group              |                        |                   | INA, d.d.              |                        |                   |
|---------------------|------------------------|------------------------|-------------------|------------------------|------------------------|-------------------|
|                     | 31<br>December<br>2009 | 31<br>December<br>2008 | 1 January<br>2008 | 31<br>December<br>2009 | 31<br>December<br>2008 | 1 January<br>2008 |
| Analysed as:        |                        |                        |                   |                        |                        |                   |
| Current portion     | 56                     | 106                    | 97                | 27                     | 106                    | 97                |
| Non-current portion | -                      | 78                     | 226               | -                      | 78                     | 226               |
|                     | <b>56</b>              | <b>184</b>             | <b>323</b>        | <b>27</b>              | <b>184</b>             | <b>323</b>        |

**43. BUSINESS COMBINATIONS**

The subsidiary Croscos d.o.o. Zagreb acquired the Drill Trans Kft during 2009:

| 2009              | <u>Headquarters</u>    | <u>Principal activity</u> | <u>Date of acquisition</u> | <u>Proportion of shares acquired</u><br>(%) | <u>Consideration transferred</u> |
|-------------------|------------------------|---------------------------|----------------------------|---------------------------------------------|----------------------------------|
| Drill Trans Group | Nagykanizsa<br>Hungary |                           | 1 September 2009           | 100%                                        | 103                              |

Analysis of assets and liabilities assumed on acquisition:

**Drill Trans Group**

|                                | <u>Carrying amount</u> | <u>Fair value adjustment</u> | <u>Fair value on acquisition</u> |
|--------------------------------|------------------------|------------------------------|----------------------------------|
| <b>Current assets</b>          |                        |                              |                                  |
| Cash and cash equivalents      | 4                      | -                            | 4                                |
| Trade and other receivables    | 55                     | -                            | 55                               |
| Inventories                    | 3                      | -                            | 3                                |
| Other current assets           | 14                     | -                            | 14                               |
| <b>Non-current assets</b>      |                        |                              |                                  |
| Intangible assets              | 5                      | -                            | 5                                |
| Property, plant and equipment  | 29                     | 1                            | 30                               |
| Deferred tax assets            |                        |                              |                                  |
| <b>Current liabilities</b>     |                        |                              |                                  |
| Trade payables                 | (31)                   | -                            | (31)                             |
| Borrowings                     | (31)                   | -                            | (31)                             |
| Other payables                 | (35)                   | -                            | (35)                             |
| <b>Non-current liabilities</b> |                        |                              |                                  |
| Borrowings                     | (10)                   | -                            | (10)                             |
| Other liabilities              |                        |                              |                                  |
|                                | <u>3</u>               | <u>1</u>                     | <u>4</u>                         |
| Goodwill arisen on acquisition |                        |                              | 99                               |
| Acquisition cost               |                        |                              | <u>103</u>                       |

#### 44. SUBSEQUENT EVENTS

##### *Changes in legislation*

The Excise Tax Act was published in the Official Gazette No. 83/09, whereas the Regulation on the Application the Excise Tax Act pertaining to gas oil with blue dye for agriculture, fishing and aquaculture.

The Act and the Regulation establish a new system of excise duties for spirits and alcoholic beverages, tobacco products, energy generating products (including natural gas, coal and coke) and electricity produced or imported and released for consumption in the territory of the Republic of Croatia.

The Excise Tax Act defines a new institute of excise law that operates within a system of deferred tax payment.

The deferred tax payment system relates to the receipt, production, warehousing, and other activities involving excise goods and their dispatch where the payment of the excise duty is deferred.

Excise goods within the deferred excise tax system are produced, processes and stored only in excise warehouses. A warehouse has to obtain the approval from the competent customs office and make a guarantee deposit for a potential customs debt not later than by 31 March 2010.

INA d.d. is subject to the excise system in respect of the energy-generating products.

As regards energy-generating products and electricity, the excise tax is imposed on energy-generating products used for engines or heating. The excise tax on natural gas, electricity, coke and coal will be implemented with the day of the accession to the European Union. The amounts of the excise tax for leaded petrol, unleaded petrol and gas oil not used for engines include the amount of fee intended to finance the construction and maintenance of public roads. A relief has been implemented for those energy-generating products such as engine fuels in air traffic and shipping in international traffic, unless used for private purposes.

##### *Announcement of the resignation of INA Management Board*

László Geszti, President of INA Management Board, announced to resign from his position.

Mr. Zoltán Áldott, Executive Vice President of Exploration and Production Division of MOL Group is nominated as his successor, while retaining his position in MOL Plc. Mr. László Geszti will continue to serve MOL Group as senior advisor to Mr. Zsolt Hernádi, Chairman and CEO of MOL Plc.

Personal changes will be effective as of the extraordinary general meeting to be convened without delay.



INA - INDUSTRIJA NAFTE d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2009

*(all amounts in HRK millions)*

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**45. APPROVAL OF THE FINANCIAL STATEMENTS**


These financial statements were approved by the Management Board and authorised for issue on 9 March 2010.

Signed on behalf of the Company on 9 March 2010 by:

András Huszár



Executive Director for Finance

  
László Geszti

President of the Management Board