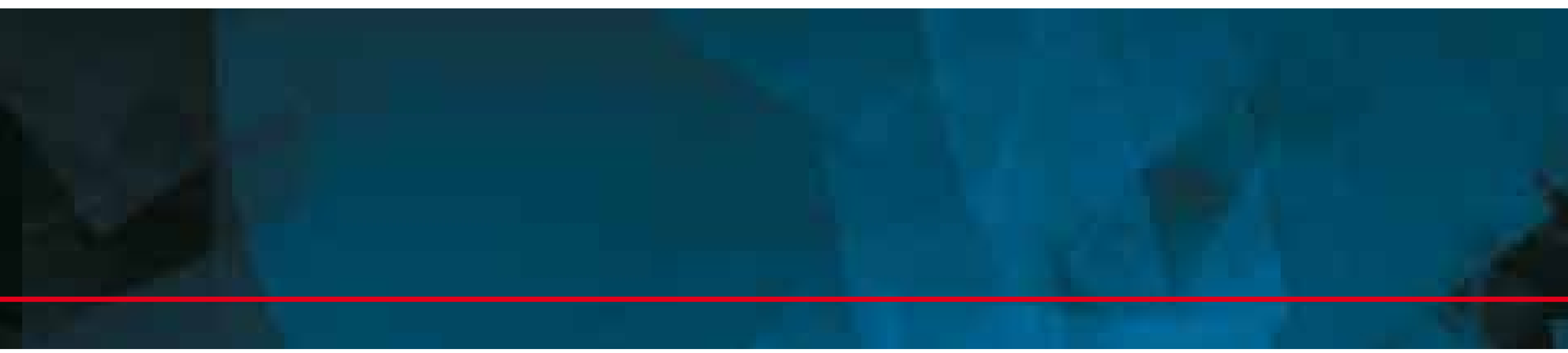


INA Annual Report 2012

CONTENT

INA GROUP AT A GLANCE

INA is a European oil and gas company with the Group EBITDA of USD 782 million in 2012. INA has a crucial role in Croatian oil business and a strong position in the region in the oil and gas exploration and production, oil processing, and oil products distribution activities.

At the end of 2012, INA had 267 million boe proven and probable hydrocarbon reserves and hydrocarbon production of 48.6Mboe/day. Its refineries in Rijeka and Sisak have a total throughput capacity of 135.000 bbl/day (6.7 Mt/Y) and have produced a total of 81.000 bbl/day (4.1Mt) of refined products in 2012. A s of December 31st 2012, Retail Services operated 448 petrol stations, mostly in Croatia and Bosnia.

OUR CORE ACTIVITIES IN A SNAPSHOT

Exploration and Production Business Segment is engaged in exploration, development and production of oil and natural gas in Croatia and abroad. Since its establishment, INA and certain companies within INA Group (CROSCO) have been involved in oilfield operations in 20 foreign countries.

The Refining and Marketing Business Segment's key competencies are processing of crude oil as well as production, distribution and sales of crude oil products on the domestic and international markets. INA operates the country's two refineries located in Rijeka and Sisak. Rijeka Refinery is medium sized and located on the Adriatic coast, with access to the port for deep-drawing ships and the pipeline system, while the Sisak Refinery is located near the country's capital, the area with the highest consumption of oil products in the country. The Company has continuously developed its refining system over previous years completing, among other, several key projects like hydrocraking complex in Rijeka and the isomerisation unit in Sisak Refinery.

Retail Business Segment operates a regional network of 448 petrol stations, of which 396 stations in Croatia with additional 52 petrol stations in the neighbouring countries: Bosnia and Herzegovina, Slovenia and Montenegro. The extensive retail network development and modernization project "Blue Concept" intensively continued in 2012 throughout Croatia on numerous locations. "Blue Concept" project was, among other things, initiated to offer top quality products to our customers, as well as higher level of services on our stations, with significant improvement of site appearance and technical conditions including new Retail Visual Identity. The main goal of this extensive program is to create a top-level petrol station network service quality leader in Croatia, with improved efficiency on top of it.

2012 AWARDS

MARCH: Award for dedication to quality services
INA has received an award for dedication to quality services for year 2011. Company was awarded during Mystery shopping day called "Feedback management - Managing your feedback about the buying experience."
The award was presented by market research agency Heraklea.

APRIL: INA selected as Trusted Brand in the Petrol Station category for the 6th consecutive year
For the 6th consecutive year INA was selected as Trusted Brand in Petrol Station Category according to the research conducted by the Reader's Digest among its readers in order to discover which brands are trusted the most by Croatian consumers.

APRIL: Golden Index
INA received Golden Index award in six categories: scholarships, participation in student projects, organizing projects with the student's participation, practice, the best employer image according to students and the Grand Prix. The award, which was founded by the eStudent student association, was given for the second time this year and with the goal of awarding and promoting those companies and institutions that support student community.

MAY: Employer Partner Certificate
INA has successfully completed the recertification process and was presented with the Employer Partner Certificate, which is awarded for excellence in human resources management. INA once again proved its application of highest standards in enhancing the business performance and work quality.

SEPTEMBER: Croatian Chamber of Economy Sisak award to Sisak Refinery
Croatian Chamber of Economy Sisak awarded Sisak Refinery for 85 years of business.

DECEMBER: The Volunteer Award for 2012 in the category of contribution of business sector's to the development of volunteering in Slavonija and Baranja

INA Volunteer Club won the Volunteer Award for 2012 in the category of contribution of business sector's to the development of volunteering in Slavonija and Baranja, awarded by the Volunteer Center Osijek with the support of the Council for the Volunteering Development. With this award, Volunteer Center Osijek wishes to contribute to the promotion of volunteering as a desirable social value through the evaluation of the individual and organizational contribution to the common good.

KEY FINANCIAL AND OPERATING DATA

	2010	2011	2012	12/11
HRK mln	HRK mln	HRK mln	HRK mln	%
Net sales revenues	25,866	30,028	29,895	(0)
EBITDA	4,080	6,522	4,578	(30)
EBITDA excl. special items	4,583	6,776	4,963	(27)
o/w Exploration and Production	*5,514*	*8,122*	*5,571*	*(31)*
o/w Refining and Marketing	*(329)*	*(1,020)*	*(366)*	*(64)*
o/w Retail	*35*	*140*	*148*	*6*
Operating profit	2,158	3,039	1,356	(55)
Operating profit excl. special items	2,955	4,078	2,863	(30)
Net financial expenses	(840)	(663)	(289)	(56)
Net profit/loss for the period	961	1,815	681	(62)
Net profit for the period excl. special items	1,593	2,634	1,893	(28)
Operating cash flow	1,563	3,282	3,742	14
Capital expenditures with one-off	2,891	1,545	1,286	(17)
o/w Exploration and Production	*1,473*	*814*	*746*	*(8)*
o/w Refining and Marketing	*1,328*	*575*	*228*	*(60)*
o/w Retail	*52*	*106*	*229*	*116*
Earnings per share				
Basic and diluted earnings per share (kunas per share)	96.1	181.5	68.1	(62.5)
Net gearing %	43.72	38.82	30.83	(20.59)

KEY EXPLORATION AND PRODUCTION DATA	2010	2011	2012	12/11 %
Gross crude oil reserves (MM bbl) 2P	90	90	97	8
Gross natural gas reserves (MM boe) 2P	188	165	154	(7)
Total gross hydrocarbon reserves (MM boe) 2P	305	278	267	(4)
Average crude oil production (Mbbl /day)	16.3	15.3	12.3	(20)
Average condensate production (M boe /day)	7.2	9.9	3.2	(68)
Average natural gas production (M boe /day)	42.0	49.2	33.0	(33)
Total hydrocarbon production (M boe /day)	65.5	74.4	48.6	(35)

KEY REFINING AND MARKETING DATA	2010	2011	2012	12/11 %
Total refinery throughput (kt)	4,450	4,051	4,065	0
Total crude oil product sales (kt)	4,012	3,561	3,424	(4)

KEY RETAIL SERVICES DATA	2010	2011	2012	12/11 %
Total number of petrol stations	476	456	448	(2)
Total sales (000 t)	1,180	1,131	1,042	(8)

Net sales ravenues (HRK mln)

Operating result (HRK mln)

EBITDA (HRK mln)

Net profit/(loss) (HRK mln)

Number of employees

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

During the past nearly 50 years in business, INA has positioned itself as one of the key enterprises in the region. Throughout the years, some of which were quite challenging, we have learned valuable lessons from doing successful business in times of numerous limitations.

Our business results for 2012 also confirm this experience. Despite considerable challenges, as a result of the lack of Syrian production and declines in gasoline and diesel demand continuing for the fourth consecutive year, INA managed to significantly increase the share of investments in Croatia in 2012, from 72% in 2011 to 94% in 2012 (HRK 1.166 billion). We tripled capital expenditures in domestic exploration and production and more than doubled investments in retail activities compared to 2011.

Having in mind all the above mentioned limitations, we are proud to see the Company's positive business results in 2012. There is a continuation of the positive trend initiated in previous years. EBITDA (excluding special items) of almost HRK 5 billion is first of all a result of our strong focus on operational efficiency improvement of INA Group. Diligent work and joint efforts of the management and employees in optimizing efficiency and procurement procedure resulted in savings of approximately HRK 2.2 billion from year 2010 until now. We are particularly pleased with the improvement in the financial position as reflected in the reduction of INA's net indebtedness by 27% compared to 2011.

Exploration and Production segment has marked a significant jubilee in year 2012 – its 60 years anniversary. Six decades of systematic and professional exploration and production of oil and gas in Croatia. That fact is of great significance, not only for the INA employees who are directly involved in this activity and to INA as a company, but also for the Croatian economy as a whole.

It is symbolic that just in the year of its big jubilee, INA returned successfully to the place where it all began once – the Pannonian Basin. Intensification of exploration activities, which we launched a few years ago, as well as increase in investment (from HRK 187 million in 2011 to HRK 558 million in 2012), led to the two oil discoveries: with Hrastilnica-3 well near Ivanic-Grad and Djeletovci-1 West well, at oil field Privlaka near Vinkovci. These accomplishments are important, not only for INA as a company, but also for the Croatian energy independence, security of market supply and the budgets of local communities. In addition, we launched construction works in EOR projects in the fields Zutica and Ivanic. That is the first example of the tertiary enhanced oil recovery method application in Croatia and would enable the extension of production on two old oil fields for about 25 years. I honestly believe that our Exploration and Production segment, especially thanks to the new exploration and production projects, is going to maintain its position as the leading gear of the company's financial stability.

Our Refining and Marketing BD achieved significant improvement in efficiency in 2012. Utilization of the new plants, together with better feedstock selection led to a greater share of marketable motor fuels which has helped us to adjust the structure of our production to market demand. Additionally, in line with preparations for the upcoming major development programs, during 2012 numerous programs have been initiated, aimed at growth, HSE and sustainable development.

When it comes to our Retail BD, we are proud to say that compared to 2011 we more than doubled our investments in this segment, i.e. increased from HRK 106 million to HRK 229 million. As of the beginning of this year we own the largest modern petrol station network in the country. As a part of an extensive retail network modernization project launched in late 2010, in total we have reconstructed and renovated over 130 petrol stations and built and put into operation two new ones (Galizana – West and Zupa). Given the size and distribution of our retail network, the modernization of our petrol stations is considered to be a long-term project. In order to strengthen our market position and increase the level of service to our customers this project would be continued in the years ahead. Considering the challenging market environment we believe that this way we will gain decisive advantage over our competitors and therefore we will be able to maintain a leading market position in this segment.

A crucial role in the realization of all our past and future business projects belongs to our employees. Their expertise, experience and hard work are the firmest guarantee of our future success. Being aware of that we remain strongly focused on creating the best possible environment for each employee, as well as to create the most adequate conditions for the improvement of their skills and career development. We are as well focused on attracting the best human capital. Our Growww trainees' employment program proved that our approach to the human resources management is well based and showed us that we are on the best way to achieve our long-term goal to be the employer of first choice in the region. In 2012 nearly 4000 young, highly educated and motivated young people have applied for a job at INA as they see INA as a company that will provide them the best working environment for the beginning of their professional career, giving them opportunities for learning and development through work in international business environment.

Being continuously committed to CSR, in the previous year we tried to systematically identify the specific needs of the community in which we operate and to support numerous humanitarian, cultural, educational, environmental, health, and science projects. One thing in this segment we are extremely proud of is the fact that a positive contribution was not only made by the company as a whole, but also by our employees and their direct action on behalf of the community. In fact, thanks to our Corporate volunteering project launched in September 2010 INA now has Volunteers' Club with nearly 200 members who are willing to put their free time, effort and skills to the service of the general welfare. We are delighted that the community has recognized these efforts. INA Volunteers' Club has won the Volunteer Award for 2012 in the category of business sector contribution to development of volunteer in Slavonia and Baranja. To be precise, INA was awarded by the Volunteer Center Osijek with the support of the Council for the Development of Volunteering.

In 2013 we continue with dedicated work on further growth of the company. Even though quality requirements are increasing and competition is getting stronger on the market we are not discouraged. In fact, it is an additional motivation to be even better and faster. We will continue to strive to improve our efficiency, as well as keep investing to create value for our shareholders. Our commitment to a high level of investment activity in Croatia is quite a firm guarantee that we will keep our traditional role as one of the largest investors in the country, as well as the motor of the overall Croatian economy. Moreover, we will not forget the communities in which we operate, and we will continue to make every effort to be recognized as a reliable partner.

Our employees, their professionalism, exceptional expertise, enthusiasm and ambition to work together in order to achieve even more are essential for the company. Despite the truly challenging times we plan our future development and investments to strengthen our market position and to attract new young talents while keeping those who are already in the company.

Having this human capital, enriched with clear vision of our future growth and quality investment projects which represent solid basis to confirm our position, I honestly believe that there is no fear that INA will continue to be a reliable guarantor of security of energy supply for the Croatian market, a firm link of the Croatian economy and one of the leading companies in the region.

Zoltán Áldott,
President of the Management Board

OVERVIEW OF THE ENVIRONMEN

GLOBAL UPSTREAM & DOWNSTREAM: HIGH OIL PRICES, TEMPORARY IMPROVEMENT IN DOWNSTREAM

During 2012 crude oil prices on average were near 2011 levels, yet this minimal movement in average prices masks large differences within the year. As the global economic outlook soured in the first half of 2012 crude oil prices fell from early-2012 levels of USD 120/barrel towards USD 90/barrel in June. With the onset of the EU's imposing of the latest sanctions on Iran in July 2012 the price of crude oil rose, reflecting supply concerns. At the end of 2012 a barrel of Brent Crude stood at USD 110. Thus the price of crude oil remained high in 2012, despite weak economic growth in developed countries. In all, oil demand rose only 0.8% in 2012.

The downstream/refining segment of the oil business enjoyed a better year in 2012, especially in the second half of the year when crack spreads for both gasoline and diesel recovered. This recovery in crack spreads is a temporary phenomenon, rather than foreshadowing of a sustained return to better times for the refiners. Unplanned North American refineries' outages due to adverse weather conditions and accidents, combined with a heavy maintenance schedule, contributed to higher crack spreads. Refinery closures on the US Atlantic Coast during 2012 also supported crack spreads. In addition, during 2012 Q3, refined product stocks were relatively low, which also influenced margins. Nonetheless, the refining industry is still characterised by global excess capacity and with new plants coming on line (mainly in Asia and Russia) in 2013-2015. That excess capacity would remain pronounced, despite expected increases in demand,which implies continued stress for the European refining sector. In the Mediterranean market, a combination of sanctions on Iran and Russian focus on increasing diesel exports to Europe, are generating additional challenges. Namely, with Iranian crude oil (which is an important feedstock for many Mediterranean refiners) exports' subject to EU sanctions since July 2012, Russian Urals crude has risen in price as it is one of the closest substitutes. Both factors are contributing to a higher feedstock prices for many Mediterranean refineries.

THE GLOBAL ECONOMY – IMPROVING SENTIMENT TOWARDS THE END OF THE YEAR, BUT STILL WEAK

The global economy in the first half of 2012 was characterised by increasing concern over the fate of the Eurozone. It was not until late July, when the Governor of the European Central Bank stated he would do "whatever it takes" to resolve the crisis that market sentiment began to turn. Thereafter in September, the ECB announced a programme called

Outright Market Transactions. In return for a member state agreeing a formal programme of fiscal consolidation and structural reform, the ECB would commit to buying unlimited amounts of that country's sovereign bonds of up to 3 years outstanding maturity. Although not a single country has applied for this programme since its inception, financial markets were convinced of the ECB's credibility and peripheral countries' bond spreads began to fall. Sentiment was further buoyed when Greece finally came to an agreement at the end of November with its creditors to receive the next EUR33bn instalment in its rescue package. Heading into 2013 financial market sentiment is far better than at any stage in the previous two years, buoyed by improving forward looking survey data.

The EU economy however remains very weak, having contracted 0.4% in 2012. Unemployment has risen to record levels (11.7% in the Eurozone at the end of 2012) and in some member states such as Spain and Greece the overall unemployment rate is well over 20% with youth unemployment at over 50%. Although improved market sentiment towards the end of 2012 is a welcome positive heading into 2013, fiscal austerity will continue to limit growth potential in the short term, especially in countries such as France, which has embarked on lowering its budget deficit later than its Mediterranean neighbours.

The US economy grew by 2.2% in 2012, although in the final quarter of 2012 the economy was flat, impacted by uncertainty over the resolution of the fiscal cliff negotiations. Nonetheless, the US is on a path of mild economic growth. Unemployment, however, remains high, near 8%, while monetary policy is set to remain accommodative for the next couple of years according to the Federal Reserve guidance. Although US economic growth is clearly stronger than in Europe, the pace of growth remains fairly muted and as such does not suggest a meaningful fall in unemployment in the near term.

China's economic growth slowed to 7.8% in 2012, the slowest pace of growth in over a decade. During Q2 and Q3 in particular there were concerns that the slowdown would be more pronounced than feared, however an infrastructure project-based stimulus package supported relatively strong growth in the final quarter and is set to support growth in the first half of 2013. Given China's (and India's) importance to the global energy demand, how China would manage a rebalancing of its economy from investment and export-led growth to a model based on a greater contribution from private consumption is an important issue, same as the fall in the working age population expected to commence in the next few years. While this is a multi-year issue, the bottom line is that a return to double digit economic growth looks like being in the past.

THE CROATIAN ECONOMY IN 2012: ANOTHER TOUGH YEAR AS ADJUSTMENT CONTINUES

The Croatian economy contracted by 2% in real terms in 2012. Domestic demand was again the main brake on the growth with investment activity contracting by over 4% according to our estimates, while the slump in household consumption accelerated as 2012 progressed – we expected household consumption contraction up to 3% in 2012 as unemployment rose, real wages fell and banking lending contracted.

As in much of the European Union, fiscal austerity was one of the factorsbehind the recession in 2012. The new Government embarked upon lowering the budget deficit in 2012 by focusing on improving revenue collection and increasing taxes. Valued added tax was increased from 23% to 25% on 1 March; income tax changes, while slightly revenue negative in total saw higher earners' overall tax burden increase slightly. The Government also lowered social contributions for health by 2% points to 13% from May helping lower the cost of labour.

Unemployment rose during 2012, following the usual seasonal pattern (up in the first and fourth quarter and down as the agricultural and tourism seasons' peak activity approached in the spring and summer). We estimated that International Labour Organisation (ILO) comparable average unemployment rate in Croatia in 2012 rose to 15% compared to 13.4% in 2011. Real wages in 2012 fell for the fourth year in a row, by over 2% yoy according to our estimates.

Domestic bank lending to companies fell 13% in 2012. Part of this decline involved the transfer of state-owned shipyard obligations to public debt, but a large part of the decline in lending to companies was also driven by banks actively seeking to reduce exposure. Loans to households fell on aggregate by 1.6% in 2012 with even mortgage lending contracting. Car loans, meanwhile, fell close to 30% yoy in 2012.

Merchandise imports fell 0.7% in 2012 while merchandise exports fell by 0.2% yoy, reflecting both a weak domestic demand and an unsupportive external environment. Merchandise imports, excluding oil, slowed throughout the 2012 and in the end rising by only 0.5% yoy, while merchandise exports, excluding oil (refined oil product exports rose 10.1% yoy in Euro terms) and ships, rose almost 4% during 2012 with a number of industrial sectors such as industrial machinery, telecommunications equipment and pharmaceutical products revealing double digit export growth. Ahead of the EU accession this is an encouraging data since it suggests that higher value added exports would fare well as a part of the EU common market.

Consumer prices rose by 3.4% in 2012 as the Government increased numerous administered prices (electricity, gas, and heating oil) in order to meet obligations associated with EU accession on 1 July 2013. In the short-term, these price increases would adversely impact disposable income, but in the medium to longer term, clearer price signals will buttress investment in the energy sector, improve the security of supply and motivate more efficient energy use patterns.

The EUR/HRK remained stable throughout 2012 and monetary policy settings were largely unchanged in 2012. During the course of 2012 the central bank intervened five times, four times to limit depreciation pressures and once in September to limit appreciation pressures. This resulted in ample money market liquidity and falling yields on short-term government debt as the year progressed. In mid-December S&P downgraded

Croatia's long-term sovereign credit rating from BBB- to BB+, moving it from investment grade to speculative grade. Given poor growth figures in 2012, little scope for immediate improvement, EU accession notwithstanding and a planned increase in the budget deficit in 2013 compared to 2012 this was not too surprising. Still long-term bond yields which had been on a downward trajectory since summer ended the year roughly 50 basis points higher than the day prior to the downgrade.

In 2013 we continue to expect a challenging domestic and regional economic environment. Domestic demand would remain weak and consumption of refined products is likely to remain subdued. Croatia's main trading partners, Italy and Slovenia, would remain in recession, while any growth in South East European markets is likely to be driven by net exports rather than domestic demand. EU accession, schedueled for 1 July 2013,would be positive for Croatia, not only because of the prospect of greater access to structural funds, but also because of greater policy credibility. Still, many economy sectors, especially in the goods market, would be exposed to greater competition which in the short-term may dampen growth prospects. However, that same competition will provide consumers with greater choice and exert downward pressure on prices, supporting disposable incomes and thus economic growth over the medium term.

CROATIA'S OIL AND GAS INDUSTRY: OIL INDUSTRY MIRRORS GLOBAL TRENDS; LIBERALISATION CHARACTERISES THE GAS MARKET

With regards to Croatia, the second half of 2012 saw an increase in export activity and Croatia's refined product exports also reflected the trend of higher crack spreads. While in the first half of 2012 exports of refined products fell by over 25% yoy in volume terms, in the second half of 2012 exports rose by 42% yoy to 866,000 tonnes. Given the strong price signals present in Q3 2012 and to a lesser extent in Q4 2012, the production of refined oil products and coke rose by 6.3% during 2012 – at the same time the overall index contracted 5.5% in 2012. Indeed, in the second half of 2012 production of refined oil products rose by 26.7% yoy.

The domestic gas market in 2012 went through a number of important changes resulting in the functional liberalisation of the market, which was one of the key requirements for EU accession. At the beginning of 2012 all customers (including households) were free to choose their own supplier of gas. However, households, although free to choose their supplier, also had (have) recourse to gas under public service obligation conditions which are regulated.

At the beginning of 2012 wholesale household gas prices were capped at 1.7 HRK/cm, while industrial users of less than 0.1 bcm per annum were also subject to a price cap of 2.13 HRK/cm. In May the price cap for households was increased to 2.2 HRK/cm where it remained for the rest of 2012 and today, which is still below market prices. For industrial users of less than 0.1 bcm of gas per annum, prices in July rose from 2.13 HRK/cm to 2.75 HRK/cm and as of October the price cap was abolished altogether. The liberalisation of the gas market also saw a certain number of suppliers and end users, either import natural gas or buy quantities from different suppliers. The combination of market liberalisation and reduced consumption of natural gas due to weak economic conditions saw prices begin to trend downwards in the second half of 2012.

OUR BUSINESSES


IVANA-K
IVANA-K

EXPLORATION AND PRODUCTION

HIGHLIGHTS

> Two new discoveries; exploration drilling and testing of oil wells Hrastilnica – 3 and Đeletovci-1z

> In Egypt, production start-up of Rizk field on East Yidma Concession in May 2012; 50% share increase in East Yidma; in November 2012 Farm-In Agreement for future development lease in Disouq Concesson has been signed with RWE Dea

> In February 2012 INA announced “force majeure” and temporarily suspended all business activities in Syria following international regulation

> SPE 2P reserves of 267 MMboe as of end 2012

> Daily production of 48.6 mboe achieved in 2012

Exploration and Production Business Segment is engaged in exploration, development and production of oil and natural gas in Croatia and abroad. Since it was founded it has been involved in oilfield operations in 20 foreign countries, currently in Angola and Egypt. At the end of 2012, INA had 267 million boe proven and probable hydrocarbon reserves with hydrocarbon production of 48,6 mboe per day.

On 23 February 2012 Croatian government has passed the Decision on the implementation of international restrictive measures established by the decision of the Council of the European Union 2011/782/ZVSP in relation to the Syrian Arab Republic. The Decision prohibits purchase, import and transport of oil and other petroleum products from Syria, sell and transfer of oil and gas technology as well as providing financial or insurance services for such transactions. Fully adhering to the aforementioned Decision INA took all steps necessary to align its business activities in Syria with the restrctive mesures. Therefore, on 26 February 2012 INA announced „force majeure“ and temporarily suspended all it's business activities in Syria until the „force majeure“ circumstances cease to exist.

In onshore Croatia, INA is continuing with successful exploration activities, two new discoveries nearby existing oil fields were made in the second half of the year. Near oil field Žutica, Hrastilnica-3, obtained maximum ever tested oil flow rate in Croatia, approximatly 2400 bbls/day and Đeletovci-1z tested approximatly 600 bbls/day of oil. New oil discoveries are going to be further developed and connected to INA's infrastructure.

KEY ACHIEVEMENTS IN 2012

CROATIA ONSHORE

- **Reserves (SPE 2P, 2012 Y/E):**184MMboe
- **Production (2012):** 26.2 mboepd

Regarding Croatian exploration activities, drilling of three onshore wells was successfully performed, two of them were tested with significant oil flow obtained and one was dry.

In order to achieve planned recovery efficiency, maintain production and prolong economic life of mature fields, development activities included drilling one re-entry well with no cost-effective hydrocarbon flow and numbers of successful workovers that resulted in lower production natural decline on mature fields. Most EOR project activities planned for onsite work on compressor stations and CO2 pipelines on oil fields as well as pilot re-lining on one well were finished according to schedule. Preparation of necessary documentation and settling of property legal relations to obtain necessary licences were in focus of Međimurje and Selec projects in order to achieve new gas and oil production in the coming years.

In the field of unconventional exploration, INA started preparations for the pilot unconventional operations in the NW Croatia Međimurje area within Zebanec Mining Plot. Preparatory activities included re-opening and testing of Zebanec-3 well, which flowed gas and condensate from Miocene tight sandstone reservoir.

As of the 2012 year-end, INA is operating only 2 onshore exploration Licenses located in North Croatia (East Slavonia License Area is 5500 sq km and SW Sava 4870 sq km).

CROATIA OFFSHORE

- **Reserves (SPE 2P, 2012 Y/E):** 38MMboe
- **Production (2012):** 15.8 mboepd

Regarding Croatian exploration, the North Adriatic offshore activities, drilling of two wells targeting thin gas layers was postponed to 2013 due to non-availability of offshore drilling rigs. 2D/3D seismic which was acquired early in 2012 in the area of Central and South Adriatic was partially processed and interpreted by the year 2012 end.
Through a joint operating company INAgip, INA and Eni have started with the preparations for the drilling and development campaign of gas field Ika JZ. Exploitation of natural gas reservoirs on the IKA JZ field would cushion decline of gas production and bring additional gas from the Adriatic offshore. Mentioned activities include contracting the jack-up drilling rig, drilling & equipping 5 double completed wells, EPC for platform, platforms and sea line installation.
Development program activities related to Ivana A/K optimization that is directly connected to the production on the Isabela field and development of Ilena&Ika JZ were postponed to 2013 due to delayed start-up of field production as well as postponed drilling campaign. Ivana K overhaul project was developed as planned.
INAgip signed a contract for the construction of offshore gas platforms with the Italian company Rosetti Marino, with significant part of the construction works to be performed by the Croatian subcontractor, Viktor Lenac. The contract is covering the construction of one platform in the next 20 months that will be installed in the existing gas field IKA SW (southwest) while construction of a second platform is optional and dependant on the results of further exploration.

INTERNATIONAL CONCESSIONS

a) ANGOLA

- **Reserves (SPE 2P, 2012 Y/E):** 5.59MMboe
- **Production (2012):** 1.49 mboepd

INA has been involved in E&P activities in Angola since 1980, participating in development and production activities on three concessions, all located on offshore Block 3. INA is a non-operating partner with various percentages of participating interest and production sharing.

BLOCK 3/05

Block's Operator is Sonangol P&P with 25% participating interest. Other partners are: China Sonangol (25%), AJOCO (20%), ENI (12%), Somoil (10%) and NIS (4%). INA's participating interest is 4% and production sharing ranges between 0.89 – 3.50%, averaging 2.60% in 2012. This is the former Block 3/80 with production licenses extended in 2005. There are seven production oil fields on the block: Palanca, Pacassa, Bufalo, Impala SE, Impala, Cobo and Pambi. Operations were focused on well interventions to improve performance. The Block's license will expire in 2025.

Drilling of one infill well on Impala field and drilling of another infill well and workovers on Bufalo field are planned. Activities on major development projects started in the previous period are to be continued: TFU Project: i.e. GLCC/LLPS/LLCC/IWS Package and Water Treatment Facilities upgrade (to be completed in 2015) and SOOC Project and SOOC Hook-up Project (to be completed in 2016).

BLOCK 3/91

The Block is operated by Sonangol P&P with 6.25% of participating interest. Other partners are: TOTAL (50%), ENI (15%), AJEX (12.5%), Svenska (6.25%), and NIS (5%). INA's participating interest is 5% and production sharing ranges between 2.54 – 3.75%, averaging 2.87% in 2012. Operations were focused on well interventions to improve performance. Oombo field, the only producing field in the block, has been transferred to Block 3/05 on January 1st, 2013, in effect terminating Block 3/91.

BLOCK 3/05A

The Block's Operator is Sonangol P&P with 25% of participating interest. Other partners are: China Sonangol (25%), AJOCO (20%), ENI (12%), Somoil (10%), and NIS (4%). INA's participating interest is 4%. Field Development Plans for Caco-Gazela and Punja oil fields were approved by the Minister of Petroleum on April 26th, 2012. Front End Engineering & Design (FEED) activities were ongoing on both fields. The Block's license will expire in 2030.

On Block 3/05A Punja Development Area: Engineering Procurement Construction and Installation (EPCI) contract for two wellhead platforms is to be completed, four development wells are to be drilled, and two of them to be completed. On Block 3/05A Caco-Gazela Development Area: Complete EPCI contract for the tripod platform and drill and complete Gazela-1, Gazela-2 and Caco-1 development wells.

b) EGYPT

- **Reserves (SPE 2P, 2012 Y/E):** 3.19MMboe
- **Production (2012):** 1.91 mboepd

INA has been involved in E&P activities in Egypt since 1989. INA holds interests in four development concessions in the Western Desert and one exploration concession in Nile Delta of Egypt. INA is the operator of the SidiRahman and Rizk Development Leases of the East Yidma Concession, while it has non-operator status in four other concessions (Ras Qattara, West Abu Gharadig, North Bahariya and Disouq). Investments in 2012 were focused primarily on drilling and workover activities.

Disouq Concession

INA signed a Farm-In Agreement with RWE Dea to participate as a 50% partner in the last exploration campaign and in any future development lease in Disouq Concession on November 11th, 2012. Estimated entitlement recoverable resources are 7.0 MMboe. Further development is pending on results of exploration well Helal-1 currently being drilled.

East Yidma Concession – Sidi Rahman&Rizk Development Leases

INA is the operator while RWE - DEA used to be the partner with both partners having 50 % working interest and 29 % interest in production.

INA exercised its pre-emption right to acquire 50% stake at East Yidma concession. By this INA has acquired additional 50 % stake from German company RWE Dea AG and became a 100% operator at this concession. Sales and Purchase Agreement (SPA) was signed on November 29th, 2012. The production and financial figures regarding INA's share for 2013 will be adjusted from July 1st, 2013, upon the approval of Deed of Assignment. Sidi Rahman oil field is in production from 2007 and operated by joint venture company Marina Petroleum Company (MPC). Production start-up of Rizk field was in May 2012. There were no drilling activities in 2012. Main activity in 2013 should be drilling of one development well on Sidi Rahman field.

Ras Qattara Concession

The Concession consists of two oil fields: Zarif and El Faras. Oil production started in 1994. The operator is IEOC (Eni's Egyptian branch). INA has 25% working interest and 10.825% share in production.

There were no drilling activities in 2012. Workover operations were performed on both fields in order to optimize production. Faras Gas Power Generation activities started in 2012 and expect to be completed in 2013. Further drilling and workover operations are planned on both Zarif and Faras fields in order to optimize production rate of these old fields.

West Abu Gharadig Concession

The Concession consists of two oil fields: Raml and Raml SW. Oil production started in 1996. The operator is IEOC. INA has 25% working interest and 14.5% share in production.

Two oil production wells were drilled in Q4 2012. Workover operations were performed in order to decrease natural production decline of the old fields. Waste Water Treatment Plant is completed. Geological model update for Raml Reservoir Study is completed while dynamic update is ongoing. Workover operations and new wells are included in Work Program in order to decrease natural production decline of the old fields.

North Bahariya Concession

The Concession consists of five oil fields (Ferdaus, Gana, Rawda, Ryan, and Abrar). The project started in 2004. The operator is Sahara North Baharyia; the partners are INA and IPR. INA holds 20% working interest and 9.015% interest in production.

Eight wells were drilled in 2012. Drilling campaign resulted in seven successful wells while one exploration well was dry. New producing intervals were opened and put in production comingled with already producing intervals in three existing wells. The average daily production rate increased for 1,900 boed in 2012. Drilling campaign is planned to be continued in 2013 with new development wells.

c) SYRIA

INA has been involved in E&P activities in Syria since 1998.

- **Reserves (SPE 2P, 2012 Y/E):** 35.8MMboe
- **Production (2012):** 3.1 mboepd

On 26 February 2012 INA announced „force majeure" and temporarily suspended all it's business activities in Syria until the „force majeure" circumstances cease to exist.

INA Group has been active in Syrian Arab Republic since 1998 based on signed Production Sharing Agreements (PSA). First PSA has been signed for Hayan block Concession in 1998 and following the successful exploration and appraisal INA has announced six commercial discoveries on Hayan block with significant oil, condensate and gas reserves. Joint Venture Company HPC (Hayan Petroleum Company) was established between INA (Contractor) and General Petroleum Company, GPC (Company) in order to carry out petroleum operations on Hayan block.

The second PSA covers Aphamia block Concession and became effective in June 2004.

APHAMIA BLOCK

The Aphamia block is situated in Hama district, to the north-west of the Hayan block. The Aphamia PSA allows for an initial exploration period of four years and two further extensions to the initial exploration period of two years each. INA fulfilled contractual obligations of the initial exploration period and the first extension of initial exploration period. INA has acquired 270 km2 3D seismic data and drilled four exploration wells (Jaddua-1 dry well, Mudawara-2, Mudawara-3 and Beer As Sib-1 oil and gas suspended wells). Oil and gas saturated layers at Mudawara and Beer As Sib structures have been determined. The second and last extension of the exploration phase operations were interrupted by declaring Force Majeure of 26 February 2012, due to EU/UN sanctions towards Syria. By declaring Force Majeure, INA suspended all its petroleum activities in Aphamia block as per PSA and recalled all its local and expatriate employees. The second extension ended on 11 November 2012 with non-fulfilled commitment to drill one exploratory well in order to confirm the commerciality of oil saturated layers. Despite the fact that PSA has expired, INA has not received any comment from GPC or Ministry side yet. INA is withholding its right to continue operations upon lifting Force Majeure.

HAYAN

INA made six (6) commercial discoveries (Jihar, Al Mahr, Jazal, Palmyra, Mustadyra, and Mazrur) on Hayan block Hayan Block development phase started with the first commercial discovery – Jihar, in 2004. INA's first oil production in Syria started on 25 August 2005 with Jihar 2 well as part of an early production phase. INA's first gas production started in Syria on Palmyra field on 13 December 2006. In 2008 the construction of the oil-and-gas gathering station started, which was completed in 2009, and in the beginning of 2011 gas treatment plant started. According to the Gas Sales Agreement between SPC, INA and the Syrian Gas Company, INA is obliged to sell its share of the gas and condensate to the Syrian Gas Company.

On 23 February 2012 Croatia adopted EU sanctions towards Syrian Arab Republic, hence INA declared Force Majeure for Hayan and Aphamia licences on 26 February 2012. By declaring Force Majeure, INA suspended all its petroleum activities in Hayan and Aphamia block and recalled all its local and expatriate employees. Pursuant to Decision of Croatian Government on the implementation of international restrictive measures defined by EU Council Decision 2011/782/ZVSP related to Syrian Arab Republic (Official Gazette No. 22/12), company General Petroleum Corporation, on which all the rights and obligations from the SPC have been transferred on 14 February 2009 in relation to block Hayan and Aphamia, is defined as designated entity and INA didn't have other possibility but to announce force majeure and suspend all of its activities under the PSA. General Petroleum Corporation is being listed as a "designated entity" as per restrictive measures leaving INA without other possibility but to suspend performance under the PSA. Current developments being outside the company's control and with INA staff being repatriated, the company is not able to assess the quality of current operations and level of potential risk relating to external developments. Daily production in Syria amounted to 13. 7 Mboe/d until "Force majeure" announcement and suspension of INA's activities.

PRODUCTION

In 2012, total Croatian onshore production amounted to 8.8 mboepd of crude oil, 2.5 mboepd of condensate and 15 mboepd of gas. As a result of field production depletion, this corresponds to decreases of 3% in crude oil, of 11% in onshore natural gas, as well as of 14% in condensate production compared to 2011.

In 2012, total Croatian offshore production amounted to 15.8 mboepd natural gas. As a result of field decline, this corresponds to decreases of 28% compared to 2011 caused by maintenance works in the Aiza Laura Contract Area and higher water cuts and natural decline in the North Adriatic Contract Area.

In 2012 INA's share of production in Angola amounted to 543 Mbbl (6% lower than production in 2011) i.e. 1.5 Mboepd, from three non-operated concessions. To improve performance, operations were focused on well interventions.

Egyptian production contributed to Group results with a production of 1.9 Mboepd from three non-operated and one operated Concession. Investments in 2012 were focused primarily on drilling and workover activities in order to increase production performance of oil fields.

INA's share of production in Egypt in 2012 was 698 Mbbl, which is 8% higher than production in 2011.

OUTLOOK

In the upcoming three years, our plan is to continue with drilling exploration and development wells, 3D seismic acquisition and geological studies, as well as with activities on projects EOR and Međimurje. Other onshore activities are related to process plant optimization and well general workovers in order to maintain production level.

Despite the revocation of licences for exploration in the continental part of Croatia, INA remains dedicated to its Croatian exploration. It is currently the only entity with the necessary equipment, experience, knowledge and projects to accelerate exploration activities in continental Croatia, pending the decision of the new Government regarding licensing.

In the near future, main offshore activities are related to exploration and development drilling, geological studies, construction of export sealines to connect Ika SW platform with the existing Ika A platform and to continue with the second phase of the booster unit compressor installation on Ivana field.

PRIRODNI PLIN

Gas trading activities are organised through INA's subsidiary Prirodni plin which is registered for energy trading, supply of natural gas and agency services.

Total domestic needs for natural gas in 2012 were supplied from domestic sources (1,660 bcm) and imports (1.129 mcm). Gas sales and purchase agreement with Eni has been concluded for the period from 1 January 2011 until 31 December 2013. During 2012, additional quantities of gas were imported, based on short-term contracts signed with other foreign traders.

In 2012 (from 1 October 2012) the Government's resolution on highest gas price for eligible customers who perform production activity with annual consumption less than 100 million cm, which was imposed starting from 1 September 2011, was abolished. Regulated gas price for the period 1 September to 30 June 2012 was 2.13kn/cm and for period 1 July 2012 to 20 September 2012 was 2.75 kn/cm. Regulated gas price for households is 2.20 kn/cm from 1 May 2012.

Natural gas is sold to the end customers and suppliers on distribution system based on long term and one year contracts. In 2012 2,652 bcm of natural gas was delivered to the customers.

RESERVES BREAKDOWN

MMBOE		1P			2P	
	2010	2011	2012	2010	2011	2012
By country						
Croatia onshore	161	160	153	194	190	184
Croatia offshore	47	35	21	57	44	38
Syria	33	24	22	46	37	36
Egypt	3	3	2	4	4	3
Angola	3	2	2	4	4	6
Total	246	224	201	305	278	267
By product						
Oil	75	76	74	90	90	97
Gas	151	130	115	188	165	154
Condensate + LPG	21	18	13	26	23	16
Total	246	224	201	305	278	267

Hydrocarbon production by region

Hydrocarbon production (Mboe/day)				
	2010	2011	2012	%
Croatia	54.1	50.8	42.1	-17%
Angola	1.6	1.6	1.5	-6%
Egypt	1.9	1.8	1.9	8%
Syria	7.9	20.3	3.1	-85%
Total	65.5	74.4	48.6	-35%

Hydrocarbon production by products

Hydrocarbon production (Mboe/day)				
	2010	2011	2012	%
Crude oil	16.3	15.3	12.3	-20%
Natural gas	42.0	49.2	33.0	-33%
Condensate	7.2	9.9	3.2	-67%
Total	65.5	74.4	48.6	-35%

REFINING AND MARKETING

HIGHLIGHTS

> The main focus in 2012 was to maintain safe and secure operations, efficiency improvement (incl. energy efficiency, strengthening synergies between the refineries and logistic bottleneck removal) and strengthening market presence.

> Refineries used the expanded crude basket options, processing several additional crude oil types beside Ural grade, introducing Forcados (Nigeria) and increasing Siberian light (Russia) and Azeri light (Azerbaijan) processing.

> Processing alternative feedstock to optimize key processing units and increasing motor fuels yield ratio.

> External environment opportunities, especially in motor fuels product quotations, were seized with increased production and export sales, finally resulting with positive effects on the Business Segment EBIT.

> Inventory management optimization project was initiated, including continuous crude evaluation and hedging options, decreasing working capital costs and crude/product price volatility risk.

REFINING AND MARKETING - INTRODUCTION

INA Refining & Marketing Business Segment ("INA R&M") manages two crude oil refineries, lubricants production, wholesale commercial network and logistics network required for crude oil products distribution. Main refinery products include EURO V quality gasoline and diesel, JET fuel, virgin naphtha, benzene concentrate, heating oils, several grades of fuel oils, sulphur, bitumen and calcined and green (regular) petroleum coke. Key markets include Croatia, Bosnia and Herzegovina, Slovenia, Serbia, Albania, Hungary, Italy and the Mediterranean.

RIJEKA REFINERY

The Refinery is located on the Adriatic Sea with connection to Jadranski naftovod ("JANAF", crude oil pipeline system). This location enables Rijeka Refinery to purchase crude oil and raw material cargoes from the world market and to export refined products to sea markets. The Refinery is also connected to Adriatic depots via rented vessels and is connected to the inland depots with extensive rail network.

During the refinery system development program, with significant projects completed in 2011, three facilities were completed within the Hydrocracking complex - Mild hydrocracking, Hydrogen unit and Desulphurization plant (Claus), as well as numerous supporting facilities and installations. The hydrocracking complex significantly increased conversion and the refinery complexity (9.1 Nelson Complexity Index, "NCI"). After the modernization program, Rijeka Refinery is producing only EURO V quality gasoline and diesel fuels, being compliant to high European environmental standards. Besides gasoline and diesel fuels, Rijeka Refinery is producing JET fuel, virgin naphtha for petrochemical industry, benzene concentrate, heating oils and several grades of fuel oils.

SISAK REFINERY

Sisak Refinery is located in central Croatia near the Zagreb market, placing it in the main centre of Croatian motor fuel consumption. The Refinery has well established rail and depot connections to supply other local markets in Croatia, as well as those in north-western Bosnia and Herzegovina, north-eastern Slovenia and western and northern Serbia. Connection to JANAF crude oil pipeline system enables the transport of continental and sea purchased crude. The local oil pipeline is used to transport oil and condensate from domestic oil fields in Moslavina, and the Sava River is used to transport crude oil from Slavonia fields.

Latest infrastructural improvement included the isomerization unit, finalized in 2011 as a part of Refinery modernization program increasing the Refinery complexity index to 6.1 NCI.

The Refinery is able to produce EURO V diesel and motor gasoline, high sulphur gas oils, JET fuel, virgin naphtha, benzene concentrate, heating oils, several grades of fuel oils, bitumen and calcined and regular petroleum coke.

COMPETITIVE ADVANTAGE

INA Downstream operates within geographical locations of two refineries, having crude slate optimization possible on the world crude market and Janaf pipeline system enabling the transport of continental and imported crude oil to the continental refinery, decreasing the input supply cost. Mediterranean market access increases the sales potential and semi-finished products purchasing flexibility.

Key competitive advantages include:

- Rijeka Refinery's Mediterranean access and Sisak Refinery's centralized location – enabling high level market coverage and maximizing crude selection and optimization possibilities.
- Access to domestic crude oil and natural gas sources.
- Strong logistic connections between the refineries and depots, including the possibility to transport products by road, rail, sea, river and pipeline ensured flexible, safe and efficient market supply.
- Group level synergies and joint optimization of several production sites, continuously improving refining yields by key higher conversion unit utilizations and fuel components usage optimization.

KEY ACHIEVEMENTS IN 2012

Market demand decline trend in Croatia from 2008 onward continued in 2012, presenting an additional challenge for INA R&M operations. While average dated Brent price in 2012 remained at the 2011 level, average product prices increased creating a positive external environment for operations. Even with the decreased market demand, INA R&M managed to keep its market share, optimized its refining and logistics operations improving the business result compared to 2011, but still having negative final result.

Key achievements include:

Efficiency management:

- Several efficiency improvements have been initiated and implemented. The energy efficiency project was continued from the previous period and is planned to continue in 2013 also.
- Existing refinery asset utilization to optimize white product slate production, introducing the on-demand refinery operations mode, focusing on key conversion unit utilization.
- Optional alternative feedstock processing (directly feeding the specific units, other than the crude processing unit), optimizing the key processing unit performance and increasing motor fuels yield ratio.

Logistic and distribution operations

- Logistic constraints, especially related to rail manipulation, were improved (manipulation increased, the contract in Hrvatske željeznice extended to be more dependent on realization). Besides rail manipulation, all internal and external disturbances were optimizing other existing capacity limitations including road and internal warehouse capacity management.
- Inventory management optimization resulting with improved storage capacity utilization in refineries and depots, decreasing the overall working capital cost.

Market presence and commercial operations

- Diesel with bio component was introduced resulting with further product differentiation and introducing INA to the sustainable development market.

- Bunker fuel market was utilized in higher amount compared to the previous period.
- Several market opportunities were captured by leveraging favourable peaks of external environment (crude/product quotations).
- Utilized price environment peaks by increasing sea sales.

To keep the pace with the European downstream competition, business processes in INA R&M were focused to operations optimization through the entire value chain. The main operational goal was to increase profitability and reduce risk through improved cost efficiency, flexible operations and focus on global optimums.

OUTLOOK

INA is focused on further strengthening its market presence by constant development of high quality fuels and services with the maximum efficiency and cost reduction. We will continue to focus on safe and reliable operations, improving the overall performance and cost efficiency. Furthermore, we believe that investments in increasing the refining unit conversion level and biofuels segment are the key for the future sustainable development and success. Higher Group level synergies utilization and company integration will result in increased optimization possibilities and extra value creation in the current market environment.

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

Efficiency and production management:
Production and sales flexibility is needed in case of favorable spreads on certain products. Quick decision making on this point between diesels versus gasoline (based on external environment projections) can produce extra value in a very short time.
Increasing white product ratio can be achieved through on–demand refinery operation mode and increased utilization of the main conversion units. Extra value can be achieved by processing a higher volume of semi-finished products and lowering own consumption.
Initiatives that focus on energy cost, together with fuel losses minimization through measurement equipment improvement, are to be implemented with the final goal being to simultaneously ensure compliance with the environmental legislation and to minimize operational costs.

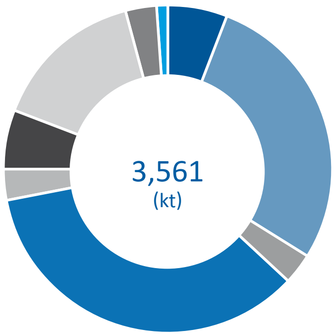
Market presence and commercial operations:
Further increase of market share in the region can be achieved by using the market leader position advantages: two refinery operations, warehouse coverage, modernized retail stations and high quality fuels.

In the long term, we are planning to further increase logistic connections between the two refineries with the aim of further facilitation of INA R&M synergic operations and flexibility. Besides the existing asset structure, a residue upgrade project is planned in Rijeka Refinery, projected to increase conversion to lighter and more valuable products, improving the overall INA R&M competitiveness on the market.

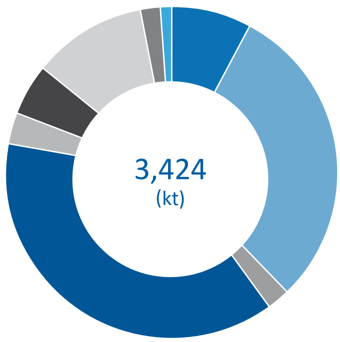
Refinery processing (kt)	2011	2012
Domestic crude mix	551	627
REB	2,246	1,760
Azeri light	424	509
Forcados		104
Siberian light	75	75
Vacuum gasoil	151	387
Natural gas (feedstock)	52	66
Demi water	87	99
Alkylate, MTBE, Isopentane, FAME	98	118
Other feedstocks	367	320
TOTAL	4,051	4,065

REFINED PRODUCT SALES BY PRODUCT

2011	
LPG	6%
Gasoline	28%
Virgin Naphta	3%
Dizel	35%
Jet	3%
Heating oil	6%
Fuel oil	15%
Bitumen	3%
Other	1%

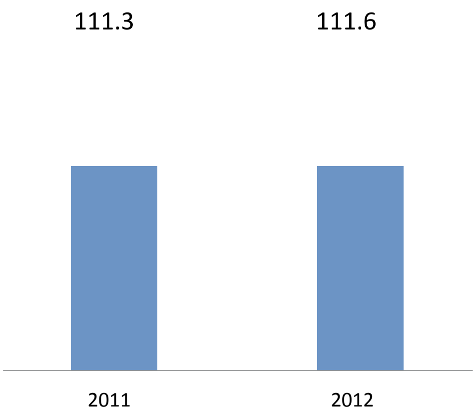


2012	
LPG	8%
Gasoline	30%
Virgin naphta	2%
Diesel	38%
Jet	3%
Heating oil	5%
Fuel oil	11%
Bitumen	2%
Other	1%

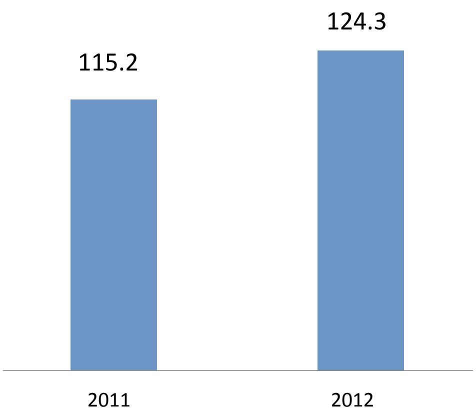


ENVIRONMENT

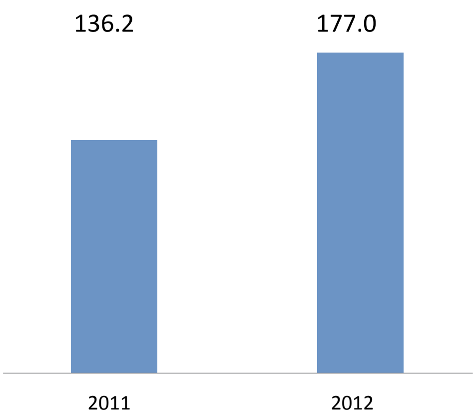
Crude oil prices average USD/bbl



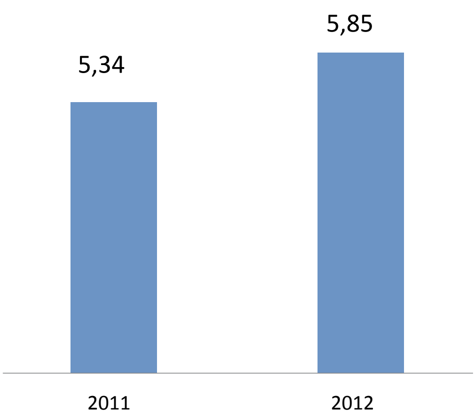
Euro diesel prices average USD/t



Gasoline crack-spread average USD/t



USD/HRK exchange rate average



RETAIL

HIGHLIGHTS

- New Visual Identity “Blue Concept” - continuation of retail network restructuring and modernization program
- Strong focus on the quality and consistency in fuel and service / staff improvement through continuous educations and trainings

INA Group Retail Services operates a regional network of 448 petrol stations in Croatia, Bosnia and Herzegovina, Slovenia and Montenegro, of which 396 petrol stations in Croatia, 45 in Bosnia and Herzegovina, 6 in Slovenia and 1 in Montenegro.

Continued adverse economic trends, negative movements in the labour market, higher prices and a decline in real income, resulted in the weakening of domestic demand, which reflected negatively on the fuel sales in 2012. Compared to the previous year, INA Group’s Retail services recorded a 8% drop in sales volumes, which mainly consists of gas oil and motor gasoline. In relation to the plan, which foresees a more optimistic scenario, the gas oil sales were 6% lower, motor gasoline sales decreased by 10%, and sales of liquefied petroleum gas dropped by 15%.

The extensive retail network development and modernization project “Blue Concept” which INA started in 2010, intensively continued through 2012 throughout Croatia on numerous locations.

Within the past years, competition in retail sector has significantly grown, together with customers’ expectations. For that reason Blue Concept project was, among other things, initiated to offer top quality fuel and lubricants to our customers, as well as a higher level of services at our stations. A new visual identity and improved technical equipment will make our petrol stations the first choice of our customers.

The petrol stations were designed according to the newest business standards, including the highly strict standards on protection of environment and human health, all with the purpose of fulfilling the highest expectations of consumers. Since INA has a goal to be permanently viewed as a strong regional player, efforts to win the trust of customers abroad with quality products and investments into the network will also continue in the future.

To the constant and quick changes in our business surroundings, more and more aggressive and tough competition and increasing expectations from our customers, we have responded with a new approach to the customer, but also with a more professional approach to business processes in general.

For that reason, the project named “My satisfied customer” was launched in 2011. Based on good results of the educational program for the sales personnel, as well as a significant improvement in the quality of service and sales of consumer goods, a decision was brought on establishing a permanent training retail team, which we now call Retail Academy. Retail Academy was established in May and started working in June 2012. After the summer program, the trainers' team participated in a professional program for trainers' training, for the purpose of improving the results of the trainings. In the final quarter of 2012, a training program for 2013 was launched and it will include each and every petrol station employee in the following year.

Implementation of top quality CLASS fuel with additives has brought positive changes in the fuel portfolio, providing for a strong growth of qualitative perception of INA. The offer on our petrol stations at the end of March 2012 was enriched with another top quality fuel, Eurosuper BS 98+Class. In addition to Euro V and Class fuel, the start of 2012 was also marked with introduction of new Eurodiesel BS fuel with a bio component, which brought us even closer to the customers, offering the top quality Euro V fuel.

The wireless internet was implemented on a hundred of INA's petrol stations, implementation of INA radio commenced on INA's 110 selected modernized petrol stations, a project designed for improving the marketing communication with our customers.

Taking into consideration positive effects from the previous years, INA had several successful loyalty programs in 2012, with the goal of rewarding regular customers on our petrol stations.

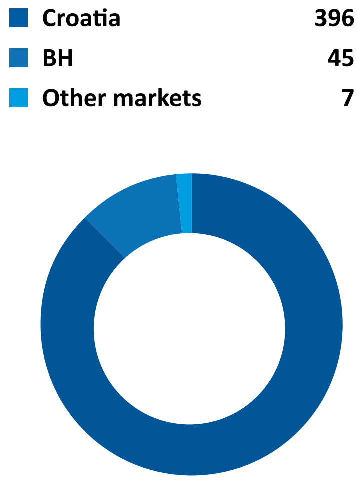
During the implementation of the petrol stations modernization program, special care was taken in ensuring safe and healthy working conditions, care for the environment and achieving sustainable development principles. Further HSE activities such as soil analyses during preliminary assessment and soil excavation, soil and water remediation, water pumping and purification, waste management, ecological supervision and implementation of approved recovery plan continue on the planned petrol stations.

RETAIL SALES BY PRODUCT			
In kt	2010	2011	2012
Motor gasoline	418	386	349
Gas and heating oils	715	707	662
LPG	44	34	29
Other products	3	3	3
Total	1,180	1,131	1,042

RETAIL SALES BY COUNTRY			
In kt	2010	2011	2012
Croatia	1,124	1,079	994
BH	40	39	36
Other markets	16	14	13
Total	1,180	1,131	1,042

NUMBER OF PETROL STATIONS			
	2010	2011	2012
Croatia	424	404	396
B&H	45	45	45
Other markets	7	7	7
Total	476	456	448

Number of petrol stations



CORPORATE AND OTHER

HIGHLIGHTS

In the course of 2012 numerous sector level initiatives were conducted. The aforementioned initiative's main goal was to improve business operations through:

> OptINA2
> Procurement Spending Optimization (PSO)
> Career management
> Project management and Permitting process improvement
> Warehouse and inventory management strategy development
> Contractor safety implementation
> Culture change project and others

KEY ACHIEVEMENTS – 2012

OptINA2

As a part of the continuing efforts for efficiency improvements the performance improvement project – OptINA 2 was launched in June 2009. The objectives were to create transparent baseline of INA's financial and operational performance, to validate and identify short and long-term improvement opportunities and to translate the identified improvement potential into targets to secure EBIT improvement in the next three years. The total improvement target amounts to HRK 2,031 bln compared to 2008 baseline. As of December 2012, the OptINA 2 project delivered: HRK 2,234 bln EBIT improvements (110% of YTD target). Key OptINA 2 cost saving initiatives over-delivered primarily due to Procurement Spend Optimization (PSO) project performance, maintenance, insurance cost optimization, and other cost initiatives on INA Group level.

PSO

The Procurement Spending Optimization (PSO) project that was launched in 2010 was continued also in 2012 on INA Group level. The project was initiated in order to enhance transparency and optimize the processes in INA Procurement with the goal to improve overall efficiency and market competitiveness of the company. Throughout the 3 phases of the project more then HRK 290 mil savings was achieved on a cost baseline of more than HRK 3 bn. Benefits were not only achieved through savings, but also process improvement actions, continuous market research in order to increase involvement of new vendors, and cutting-edge approaches in procurement like e-procurement with the aim to further improve transparency and efficiency

CAREER MANAGEMENT

In 2012, INA conducted over 3.000 selection procedures the result of which was employment of over 120 graduates through the Growww 2012 program. INA HR continues to improve and raise the quality of HR service and visibility towards internal and external clients. Due to its strong presence in the community within the framework of the Employer Branding platform, INA has received a large number of rewards in the past years. In 2012, INA was successfully recertified for the Employer Partner Certificate and received the 'Best HR Practice' recognition for HR excellence and the Growww program.

PROJECT MANAGEMENT AND PERMITTING PROCESS IMPROVEMENT

In order the increase overall CAPEX utilization key internal improvement areas were aimed at increase in performance of project management through business process review and team capability strengthening/recruitment. Focus of team capability strengthening was to build internal capabilities in respect of resource management, setting clear measurable milestones and goals, time management as well as internal and external communication. Additionally, special attention was given to the improvement of the proactive permitting management, as well as conclusion of frame contracts for engineering, geodetic and supervision services, identified as crucial in the project implementation process which lead to significant time efficiency improvement of the projects.

WAREHOUSE AND INVENTORY MANAGEMENT STRATEGY

As a planning improvement measure, to install integrated professional monitoring and control, cost rationalization and enhance business management of this segment on INA Group level warehouse and inventory management strategy was set.

CONTRACTOR SAFETY

In 2012, INA's contractor safety implementation activities key objective was the achievement of world-class safety performance and through a new approach to managing employee health, environmental impact, safety, and reliability. The purpose of this process is to establish clear accountabilities, ensure active engagement of contractors, and provide a consistent program to eliminate health, safety and environment and incidents and injuries among contractors.

CULTURE CHANGE

Main goal of the Culture change project was to build and strengthen INA's corporate culture and more actively engage all INA employees on a corporate culture journey. For this purpose the following activities were conducted: Best INA-tiative 2012 competition, Intensive internal communication campaign, Culture journey guide, Engagement workshop, and Employees engagement survey. All activities were aimed to continuously encourage culture of innovation inside our company, as well as to use all available communication channels to introduce, promote and explain to our employee's seven key corporate values.

OUTLOOK

INA will continue to further improve efficiency, transparency, optimize business processes and develop internal capabilities through the implementation of modern tools such as the Performance and Career Management System, HAY method and application of HR metrics, Project Tracking System, and others while simultaneously focusing on attraction of talents, retention, motivation and engagement of employees, striving to support and motivate all employees on their professional journeys

FINANCIAL AND OPERATING PERFO

ORMANCE

MANAGEMENT DISCUSSION AND

SUMMARY OF 2012 RESULTS

In 2012, INA Group operated in a mixed external environment. For the 4th consecutive year Company had to operate in line with depressed market demand for key oil derivatives and natural gas resulting from the prolonged economic slowdown in the Company's core markets, and prolonged sanctions and uncertainty in Syria, one of the core upstream markets for the Group. On the other hand, improvement in the crack spread environment with relatively stable crude prices compared to 2011 positively affected INA's results.

INA Group was able to maintain stable revenues of around HRK 30 billion as a result of improved realized hydrocarbon price. At close to HRK 5 billion, EBITDA excluding special items declined by 27% year-on-year mainly due to a lack of upstream revenues from our Syrian operations.

Despite this, the Company was able to achieve positive results in both operating profit and net profit excluding special items which stood at HRK 2.9 billion and HRK 1.9 billion, respectively. A major contribution to this solid performance was our continued success in increasing operational efficiency, resulting in cost savings of over HRK 2.2 billion compared to the 2010 base line. INA's operating cash flow for 2012 increased by 14% to HRK 3.7 billion compared to 2011, strengthening the Company's financial position and building a solid base for future investment plans and debt repayment. Improved gearing levels, which declined from 39% to 31% year-on-year, are the result of management's continuous efforts to maintain the Group's solid financial position.

The Group (if we adjust for the activity in Syria) maintained the level of its investment activity despite the continued economic crisis experienced in its core regional markets, spending HRK 1.29 bn in 2012, 5% more than in 2011 (adjusted for Syria), increasing CAPEX spending portion in Croatia from 72% in 2011 to 94% in 2012. After commissioning the new hydrocracking unit in Rijeka refinery in 2011, the focus of Croatian investments shifted to upstream and retail in 2012, with investments in domestic upstream jumping from HRK 187 million to HRK 558 million and in retail more than doubling from HRK 106 million to HRK 229 million due to the large-scale modernization of INA's retail network.

Net profit excluding special items for 2012 reached HRK 1.9 billion, a 28% decline year-on-year due to a weak first half of 2012 driven by stronger negative capped natural gas prices impact (increased household's price from to 1.70 to 2.20 HRK per cm and liberalized small and industrial consumer prices) and less favourable external environment. However, the Company's performance in the second half of 2012 showed a significant improvement over the same period of 2011, with net profit excluding special items more than doubling at HRK 1.2 billion against HRK 0.5 billion in second half of 2011.

The Exploration and Production Segment continued to be the leading contributor to Group level results. At the same time, despite the negative contribution from the Refining and Marketing Segment caused by declining demand partly offset by further improvement in operating efficiency, the performance of this business improved during the year mainly reflecting a healthier environment characterized by improved crack spreads.

Exploration and Production: In 2012, EBITDA excl. special items was HRK 5.6 billion (USD 952 million), 31% down due to a lack of Syrian production volumes and revenues, lower offshore volumes, and a 35% lower total production compared to 2011. Results were additionally burdened with the gas price cap applied to small business customers and regulated prices for supplying tariff household customers, despite an increase during the reporting period. These negative drivers were slightly moderated by improved average realized hydrocarbon prices.

Refining and Marketing: In 2012, the segment reported a HRK 654 million improvement in EBITDA excluding special items compared to 2011 at HRK (366) million via capturing improved crack spread environment with higher motor fuel sales and improved yield structure of the refineries, as well as through initiatives introduced to improve overall efficiency levels. While optimized feedstock selection and plant utilization contributed to shifting to valuable motor fuels and reducing heavy fuel oil sales, inventory management and optimization of refineries' operations aimed at lower own consumption and loss further supported the performance of this segment. However, higher energy costs and continually declining demand in the region negatively affected results. The segment improved its operating result excluding special items reducing its loss by 31% to HRK 1.1 billion.

Retail: Despite adverse market conditions during 2012, the segment reported a 6% higher EBITDA (excluding special items) year-on-year at HRK 148 million (USD 25 million). A decline in the operating profit excluding special items to HRK 19 million was mainly a result of 8% lower sales volumes reflecting reduced economic activity, higher prices and depressed customer purchasing power. These negative trends were partially offset by lower operating costs, the introduction of diesel fuel with bio component and further network optimization. Within the network modernization program, aimed at strengthening brand identity and customer satisfaction levels, modernization of 92 filling stations was completed by the end of 2012, with a further 23 stations currently in construction and tendering phases.

Corporate and Other: The 5% lower operating loss of the segment (HRK 499 million, excluding special items or USD 85 million) in 2012 compared to the same period last year demonstrates the success of our initiatives in the areas of process optimization and cost control.

CAPEX spending in 2012 reached HRK 1.3 billion, resulting in significant increase in share of domestic investments up to 94 per cent, comparing to 72 per cent in 2011, reaching HRK 1.2 billion. The majority of capital expenditure was spent on a number of Croatian projects including intensified onshore exploration, a retail modernization program and downstream HSE and efficiency improvement. The Exploration and Production segment's CAPEX reached HRK 746 million (including one-off OPEX related to seismic acquisitions), covering, among other things: a 2D/3D seismic acquisition in the South Adriatic Sea, the acceleration of our EOR project and an intensified onshore drilling campaign. The temporary suspension of all Syrian exploration activities decreased international spending and placed stronger emphasis on domestic exploration. The completion of significant refinery development programs during 2011 led to a lower CAPEX in 2012. However, new initiatives planned for 2013 include HSE and energy efficiency projects aimed at improving internal operational efficiency and preparations for a deep conversion project at the Rijeka refinery. However, major refinery projects are subject to approvals, which in some cases, have been subject to delays. The modernization program of INA's retail network, the so called "Blue Concept", continues with increased intensity in 2013.

	2010		2011		2012		12/11%	
	HRK mln.	HRK mln	USD mln	HRK mln	USD mln	HRK mln	USD	HRK
Net sales revenues	25,866	4,703	30,028	5,620	29,895	5,109	(0)	(9)
EBITDA (1)	4,080	742	6,522	1,221	4,578	782	(30)	(36)
EBITDA excl. special items (2)	4,583	833	6,776	1,268	4,963	848	(27)	(33)
Operating profit	2,158	392	3,039	569	1,356	232	(55)	(59)
Operating profit excl. special items (2)	2,955	537	4,078	763	2,863	489	(30)	(36)
Net financial expenses	(840)	(153)	(663)	(124)	(289)	(49)	(56)	(60)
Net profit/loss for the period (3)	961	175	1,815	340	681	116	(62)	(66)
Net profit for the period excl. special items (2)	1,593	290	2,634	493	1,893	323	(28)	(34)
Operating cash flow	1,563	284	3,282	614	3,742	640	14	4
Earnings per share								
Basic and diluted earnings per share (kunas per share)	96.1	17.5	181.5	34.0	68.1	11.6	(62)	(66)
Net gearing %	43.72		38.82		30.83		(21)	

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

(2) Excludes special items related to asset impairment, provision, severance payments and special items income. The 2012 EBIT was negatively influenced by HRK 1,507 million special items

(3) INA Group net profit attributable to equity holder

EXPLORATION AND PRODUCTION OVERVIEW

Upstream operating profit in 2012 excluding special items decreased to HRK 4.5 billion, driven by (1) a 35% decrease in hydrocarbon production, mainly due to the lack of Syrian production volumes and lower offshore volumes, (2) a 29% increased natural gas imports combined with (3) a 5% increased negative natural gas price differential (Prirodni plin delivered an EBIT loss of HRK 993 million in 2012). Full year results reflect the Force Majeure event in Syria announced on 26 February, putting a temporary suspension to Syrian activities. During 2011, the Company recorded almost HRK 2.3 billion revenues from Syria based on an average daily hydrocarbon production level of 20 Mboe/d; which have been absent during this year.
Negative effects of decreased production have been in part mitigated by internal efficiency improvement efforts incorporating staff and process optimizations activities and by Crosco Group's improved contribution driven by on-going recovery in Libyan activities.

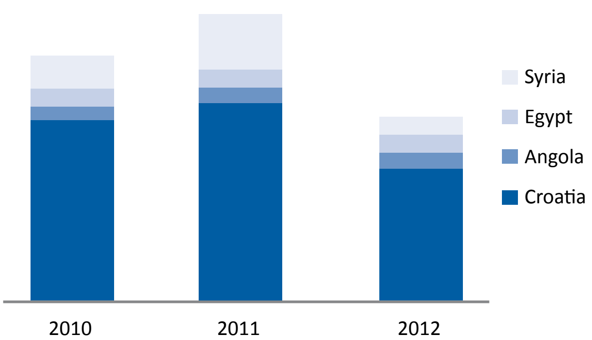
Reported operating profit for 2012 amounted to HRK 3.787 million and was negatively affected by HRK 688 million of special items, main being Angolan provisions and tax, service contract in Iran estimated costs and asset impairment.

Total natural gas production was 33% lower reflecting (1) a lack of Syrian production in majority of the period due to the announcement of Force Majeure, (2) a natural decline and water cuts on both onshore and offshore fields in Croatia, (3) a decrease in offshore production due to severe weather conditions in the first quarter, maintenance work on the Barbara T platform in the North Adriatic and a lower INA share due to decommissioning.
Croatian crude production declined in 2012 due to natural depletion of the fields. International crude production was 8% higher in Egypt due to the positive effects of drilling and workover activities on North Bahariya and drilling activities on West Abu Gharadig; the beneficial effect of this was diminished, however, by 6% lower crude production in Angola. Syrian crude volumes were significantly lower (with no production recorded in Q2, Q3 and Q4) compared to the same period of last year as the Company temporarily suspended activities in line with international and domestic regulation and local Syrian developments. Production volumes in Syria were accounted for only up to the Force Majeure announcement, with no revenues recorded since October 2011.

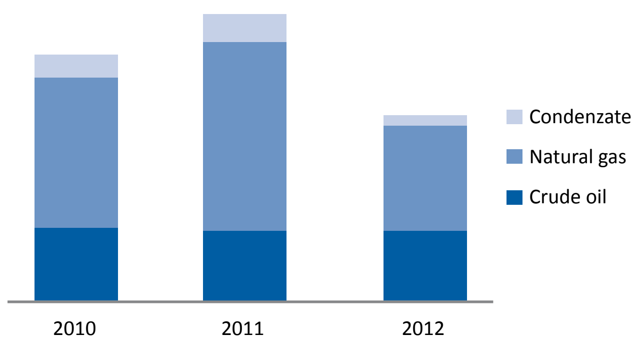
As a result of the above mentioned trends, Upstream sales revenues were lower than last year's underlining (1) a decrease in production and lower natural gas sales volumes, (2) an increase in the average realized hydrocarbon price and (3) positive exchange rate movements due to the deterioration of the HRK against the USD.
2012 Upstream expenditures increased by 18% to HRK 8.5 billion, underlining increasing fixed costs of natural gas imports, aforementioned special items and increased royalty payments. Significantly increased imported natural gas volumes and an increased import price due to international market movements, were the main drivers of the increase in these costs. Higher imported natural gas volumes of 1,129 mcm (+29% year-on-year) were necessary to maintain continuity of supply and stability of the domestic energy system following a technical disruption of deliveries caused by severe weather conditions, a decrease in domestic production and additional imports required to cover peak consumption during periods of exceptionally low temperatures.

Exploration and Production	2010		2011		2012		12/11 %	
Segment IFRS results	HRK mln	USD mln	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Net sales revenues	10,882	1,979	13,329	2,494	12,264	2,096	(8.0)	(16.0)
EBITDA	5,413	984	8,053	1,507	5,361	916	(33.4)	(39.2)
EBITDA excl. special items	5,514	1,003	8,122	1,520	5,571	952	(31.4)	(37.4)
Operating profit	4,572	831	6,141	1,149	3,787	647	(38.3)	(43.7)
Operating profit excl. special items	4,577	832	6,129	1,147	4,475	765	(27.0)	(33.3)
CAPEX with one-off	1,473	268	814	152	746	128	(8.4)	(16.3)

Production by region (Mboe/day)



Production by products (Mboe/day)



REFINING AND MARKETING OVERVIEW

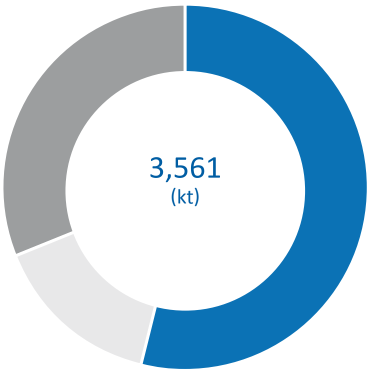
The Segment improved its EBITDA (excluding special items) in 2012, reaching a value of HRK (366) million; an improvement of HRK 654 million compared to last year. This improvement reflects: (1) a significantly higher average crack spread, and (2) increased share of motor fuels share in sales (66.8% in 2012 vs. 60.4% in 2011), (3) diversified feedstock selection and lower own consumption and loss (13.1% in 2012 vs. 14.9% in 2011), (4) on-demand operation mode of refineries resulting (5) in high white product yields in both refineries with the average 74.3% in 2012 vs. 67.9% in 2011, (6) inventory management materialized in low volume levels at the end of the year. Positive trends were offset by (1) increased processed crude oil price (2) a decrease in the Brent-Ural spread (1.1 USD/bbl in 2012 vs. 2.2 USD/bbl in 2011), (3) a decline in motor fuel consumption in core markets and (4) higher energy costs, mainly due to a combined effect of increased natural gas consumption and higher prices.
The improved operating result in the R&M Segment (excluding special items) underlines positive external environment, especially in terms of the high gasoline crack spread, and matched production yield with market demand, (i.e. the share of marketable fuel products was kept high while the share of non-profitable black products was kept low). Increased depreciation related to putting new assets on stream and the price cap in the domestic market on both motor fuels and LPG limited positive effects.

Reported operating loss for 2012 amounted to HRK 1,833 million and was negatively affected by HRK 701 million of special items, including impairment of assets (IAS 36) in the amount of HRK 663 mln. These asset based impacts combined with the unfavorable external environment result in negative EBITDA outlook.
Although both the gasoline and diesel demand on the domestic market have been in a continuous decline for the fourth consecutive year, the R&M segment managed to achieve higher motor fuel sales in the period which resulted in higher market share due to the continuous efforts of the Company. Negative GDP movements and reduced spending are apparent across all sectors, mostly in construction and transport which had limited the performance of the Company.
In order to increase efficiency and to mitigate the negative trend in the Croatian region, since November 2012, the production process of lubricants is organized at one location in Zagreb.

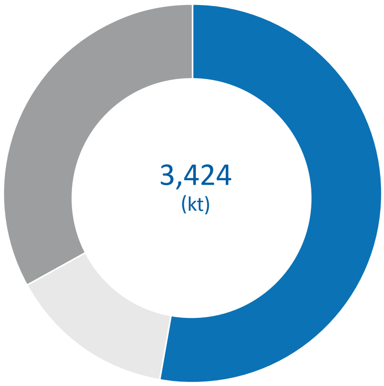
Refining and Marketing	2010		2011		2012		%	
Segment IFRS results	HRK mln	USD mln	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Revenues	15,777	2,869	17,926	3,355	19,704	3,368	9.9	0.4
EBITDA	(537)	(98)	(1,078)	(202)	(417)	(71)	(61.3)	(64.7)
EBITDA excl. special items	(329)	(60)	(1,020)	(191)	(366)	(63)	(64.1)	(67.2)
Operating loss reported	(1,237)	(225)	(2,528)	(473)	(1,833)	(313)	(27.5)	(33.8)
Operating loss excl. special items	(823)	(150)	(1,637)	(306)	(1,132)	(193)	(30.8)	(36.8)
Replacement modification	480	87	266	50	99	17	(62.7)	(65.9)
Impairment on inventories	(28)	(5)	(15)	(3)	13	2	n.a.	n.a.
Foreign exchange rate differences	(260)	(47)	69	13	(7)	(1)	n.a.	n.a.
CCS-based R&M operating loss	(1,012)	(184)	(1,956)	(366)	(1,237)	(211)	(36.7)	(42.2)
CAPEX and investments (w/o acquisition)	1,328	241	575	108	228	39	(60.3)	(63.8)

REFINED PRODUCT SALES BY COUNTRY

2011
CRO 54%
B&H 15%
Other 31%

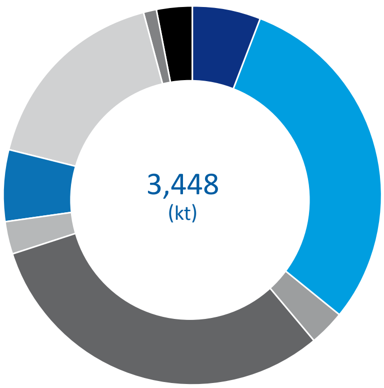


2012
CRO 53%
B&H 14%
Other33%

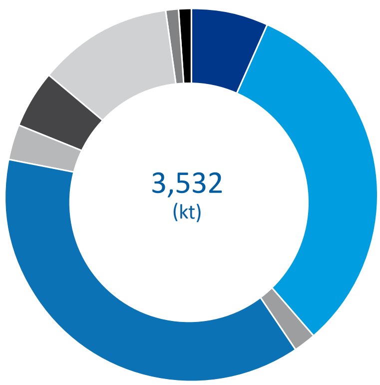


REFINERY PRODUCTION

2011	
LPG	6%
Gasoline	30%
Virgin naphtha	3%
Diesel	31%
Jet	3%
Heating oil	6%
Fuel oil	17%
Bitumen	1%
Other	3%



2012	
LPG	7%
Gasoline	32%
Virgin naphtha	2%
Diesel	38%
Jet	3%
Heating oil	5%
Fuel oil	12%
Bitumen	1%
Other	1%



RETAIL SEGMENT OVERVIEW

In 2012, the Retail segment recorded an improvement in EBITDA excluding special items generating HRK 148 million underlining improved profitability in spite of decreased sales volumes. A drop in demand and the tightening of the Croatian market, which decreased sales volumes and margins, was offset by management efforts to lower operating costs.

Reported operating loss in 2012 amounted to HRK 3 million, including the negative impact of HRK 22 million special items.

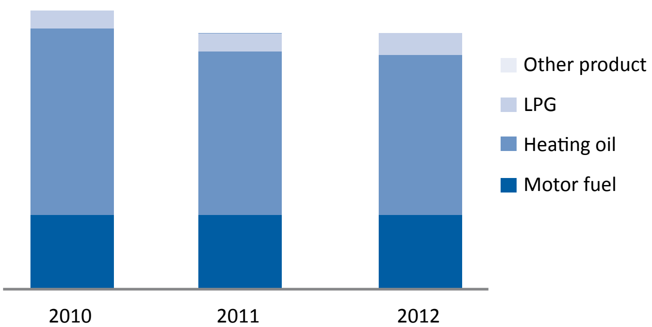
In 2012 total retail sales volumes decreased by 8% compared to 2011. In relation to the previous year, motor gasoline sales recorded a drop of 10%, while gas oil sales decreased by 6%. A noticeable sales slump resulted from the weaker consumer demand, caused by the slowdown in economic activity, higher retail prices, increased unemployment rate, as well as the negative influence of the strong winter and a lower number of operating filling stations resulting from intensified network modernization program in 2012.

In order to increase the quality of service, new type of fuel oil 0.1%S was introduced in December 2012 replacing 0.5%S fuel oil. Throughput per site in 2012 was 4% lower compared to the previous year, indicating both contracting market and intensified network modernization program having certain number of petrol stations temporarily closed.

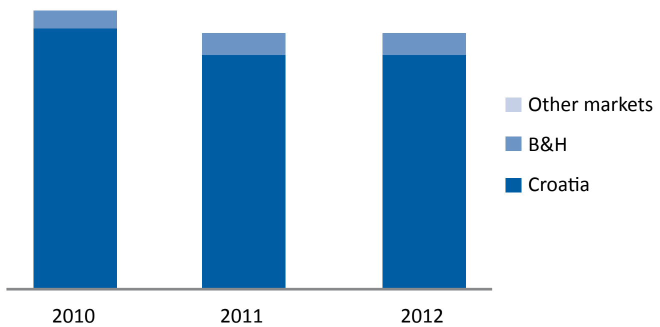
On 31 December 2012, INA Group operated a network of 448 filling stations (396 in Croatia and 52 abroad, of which 45 in Bosnia and Herzegovina, 6 in Slovenia and 1 in Montenegro).

Retail	2010		2011		2012		Change %	
Segment IFRS results	HRK mln	USD mln	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Revenues	6,453	1,173	7,676	1,437	7,788	1,331	1.5	(7.3)
EBITDA	(9)	(2)	95	18	122	21	28.4	17.3
EBITDA excl. special items	35	6	140	26	148	25	5.7	(3.5)
Operating profit/(loss)	(186)	(34)	47	9	(3)	(1)	n.a.	n.a.
Operating profit/(loss) excl. special items	38	7	109	20	19	3	(82.6)	(84.1)
CAPEX and investments (w/o acquisition)	52	9	106	20	229	39	116.0	97.3

Retail sales by products (kt)



Retail sales by country (kt)



CAPITAL EXPENDITURES

EXPLORATION AND PRODUCTION CAPITAL EXPENDITURES

Exploration and Production segment's CAPEX spending in 2012 amounted to HRK 746 million (including HRK 56 million exploration related one-off opex). Capital investments in Croatia reached HRK 558 million, while foreign investments were around HRK 86 million and CROSCO's investments amounted to HRK 102 million. Compared to the previous year,CAPEX spending declined for 8%, which reflects the difficult international operating environment especially in the MENA region. Decreased investment levels were mainly a result of temporarily suspended exploration, development and production activities in Syria combined availability constraints of certain equipment and contractors.

2012 CAPEX (HRK million)	Croatia	Syria	Egypt	Angola
Exploration	149.6	3.4	1.5	0
o/wexpl. one off opex	56.3			
Development	298.3	6.2	52.1	19.2
Exploration (including Iran): 158.1 (21.2%) **Development: 375.8 (50.4%)** **Other: 212.2 (28.4%)**	**Exploration:** On Central and South Adriatic 2D/3D seismic acquisition was finished in March 2012 and it was acquired 1215 km2 of 3D area and 843 km of 2D line was acquired. On onshore INA finished drilling of exploration wells Hrastilnica-3 (in March) and Đeletovci-1Z (in April). Both wells were tested and they are successful. Exploration wells Zalata-1 East (INA 50%) and Antunovac-1 were drilled and are unsuccessful. **Development:** On the Adriatic investments were related to IVANA K platform overhaul. On onshore in the scope of the EOR project INA finished re-lining on Žu-111, on-site work for the CS CO2 Molve and membrane separator units is ongoing. On-site work for CS CO2 Ethane and CO2 pipeline is ahead of the plan due to acceleration of activities. Drilling of development well Kalinovac-4 R started in May and finished in September. The main of the rest development activities were related to well general workovers.	All planned activities were cancelled due to the political situation. Investments represent allocated G&A costs and construction activities for the period Jan-Feb 26th before Force Majeure announcement and difference posted in December 2012 based on received final billing statement for 4Q2011.	**North Bahariya:** Six development wells were drilled and put into production (Abrar 4,5,7,11,13 and Ganna-3). In December the drilling of Abrar-9 well started and it is expected to finish in February 2013. Two exploration wells were drilled Rawda-SE1 (founded dry) and Sidra-2-put into production). **Ras Qattara:** Workover operations were performed in order to optimize production level. **West Abu El Gharadig:** Drilling of production well Raml-27 finished in October and production well Raml-28 (converted form water injector to oil producer) was drilled and completed in November and put into production, also workover operations were performed.	Investments on block 3/05a were related to FEED (front engineering and design) activities on Punja and CacoGazela Fields. On block 3/05 investments were related to FSO Palanca dry dock maintenance and GLCC-LLCC separator construction activities. On both blocks planned activities were in delay due to late National Concessionaire's approval.

REFINING AND MARKETING CAPITAL EXPENDITURES

A large scale refinery development program was completed in 2011. As a result of this, in 2012 CAPEX spending was lower compared to the previous year (HRK 228 million vs. HRK 575 million). The successful start-up and putting on-stream of the Isomerization unit at the Sisak Refinery has significantly improved the octane pool in gasoline blending and was the most important project completed in 2012. Numerous growth and HSE/sustainable projects have been launched in 2012, in line with preparation for upcoming significant development programs.

RETAIL CAPITAL EXPENDITURES

Capital expenditures in the amount of HRK 229 millionin 2012 were 116% higher than in 2011, when they amounted to HRK 106 million. The main reason for such high realization in 2012, compared to the previous year, was the intensive modernization program.

As part of the intensive INA Retail network modernization program, which aims to increase the brand identity and functionality of filling stations and to achieve a high level of customer service and consumer satisfaction, 92 filling stations were modernized in 2012.

BALANCE SHEET – INA GROUP

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION – INA-GROUP AT 31 DECEMBER 2011 AND 2012 (IN HRK MILLIONS)

	31 Dec 2011	31 Dec 2012	%
Assets			
Non-current assets	22,900	20,887	(9)
Current assets			
Inventories	3,693	3,352	(9)
Trade receivables net	3,282	2,770	(16)
Other receivables	456	516	13
Derivative financial instruments	2	2	0
Other current assets	76	30	(61)
Prepaid expenses and accrued income	79	142	80
Cash and cash equivalents	337	488	45
Current assets	7,925	7,300	(8)
Total current assets	7,925	7,300	(8)
Total assets	30,825	28,187	(9)
Equity and liabilities			
Capital and reserves			
Share capital	9,000	9,000	0
Revaluation reserve	-	13	n.a.
Other reserves	2,616	2,505	(4)
Retained earnings / (Deficit)	2,759	3,437	25
Equity attributable to equity holder of the parent	14,375	14,955	4
Non-controlling interests	(10)	(1)	(90)
Total equity	14,365	14,954	4
Non-current liabilities	8,575	4,075	(52)
Current liabilities		n.a.	
Bank loans and overdrafts	1,918	1,266	(34)
Current portion of long-term debt	1,904	4,725	148
Other current liabilities	4,063	3,167	(22)
Current liabilities	7,885	9,158	16
Liabilities directly associated with assets classified held for sale	-	-	n.a.
Total current liabilities	7,885	9,158	16
Total liabilities	16,460	13,233	(20)
Total equity and liabilities	30,825	28,187	(9)

As at 31 December 2012, INA Group total assets amounted to HRK 28,187 million and were 9% lower compared to 31 December 2011.

In the period ending with 31 December 2012, the Group invested HRK 99 million in intangible assets. The effect of depreciation equals to HRK 48 million. Foreign exchange revaluation of oil and gas fields decreased the net book value in amount of HRK 13 million. Impaired investments amounted to HRK 127 million and transfer from exploration to development decreased net book value of intangible assets in amount of HRK 117 million. Transfer from tangible assets increased net book value in amount of HRK 2 million

In the period ending with 31 December 2012, INA Group invested HRK 1,131 million in property, plant and equipment. Reversal of capitalized decommissioning costs decreased the value of assets by HRK 117 million. Foreign exchange revaluation decreased the net book value in amount of HRK 90 million. Impairment of assets equals HRK 623 million and impairment of investment equals to HRK 32 million. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 1,968 million. Transfer from intangible assets increased the value of property, plant and equipment in amount of HRK 115 million. Disposal of assets amounted to HRK 7 million. Increase of INA Group net book value is also result of foreign exchange differences in the amount of HRK 12 million. Correction of prior year depreciation increased net book value of property, plant and equipment in amount of HRK 1 million.

Issued capital at 31 December 2012 amounted to HRK 9,000 million. There were no movements in the issued capital of the Company in either the current or the prior financial reporting.

Inventories amounted to HRK 3,352 million, which is a decrease of 9% compared to 31 December 2011, as a result of lower volumes of crude oil inventories.Trade receivables decreased by 16% to the amount of HRK 2,770 million as a result of management efforts to collect overdue receivables and decreased sales volumes.

On 31 December 2012, total liabilities decreased by 20% to the amount of HRK 13,233 million mostly as an effect of lower indebtedness compared to the 31 December 2011 level.

INA Group net indebtedness decreased by 27% and amounted to HRK 6,664 million, as INA primarily managed to reduce its long-term debt as a result of higher own cash generating capabilities. Gearing ratio decreased from 38.8% as at 31 December 2011, to 30.8% as at 31 December 2012.

Trade payables decreased by 17% to HRK 1,684 million, as a result of lower amount of purchased crude oil.

INCOME STATEMENT – INA GROUP

CONDENSED CONSOLIDATED INCOME STATEMENT – INA-GROUP
FOR THE PERIOD ENDED 31 DECEMBER 2011 AND 2012 (IN HRK MILLIONS)

	2011	2012	%
Total sales revenue	30,028	29,895	(0)
Income from own consumption of products and services	309	269	(13)
Other operating income	485	353	(27)
Total operating income	30,822	30,517	(1)
Operating expenses	(27,783)	(29,161)	5
Profit from operations	3,039	1,356	(55)
Net loss from financial activities	(663)	(289)	(56)
Profit before tax	2,376	1,067	(55)
Income tax expense	(573)	(380)	(34)
Profit for the year	1,803	687	(62)
Earnings per share			
Basic and diluted earnings per share (kunas per share)	181.5	68.1	(62)

Total sales revenues in 2012 amounted to HRK 29,895 million and were slightly below 2011 level, as lower crude oil and natural gas sales volumes were offset by higher realized oil derivatives and natural gas prices compared to the last year.

Costs of raw materials and consumables were 11% higher compared to 2011 and amounted to HRK 15,151 million, resulting from increased VGO processing as well as 12% higher average import price of crude, while volumes of imported crude were 11% lower. Costs of goods sold recorded a small increase by 2% to the amount of HRK 5,377 million triggered by a combined effect of higher sold volumes of imported natural gas and higher prices compared to 2011.

Within the other operating costs realized in 2012:

- Other material costs were lower by 6% and amounted to HRK 1,696 million.
- Service costs in the amount of HRK 1,360 million recorded an increase of 12% mainly due to higher royalty costs compared to 2011 as well as costs related to exiting service contract in Iran.
- Depreciation was 24% lower and amounted to HRK 2,016 million mainly due to “force majeure” announced in February 2012 that reduced Exploration and Production depreciation
- Adjustments and provisions of HRK 1,206 million were by 43% higher and related to international operations as well as Refining and Marketing assets impairment as the segment planned performance is strongly impacted by low conversion of refinery assets and high distribution network costs.

Staff costs in the amount HRK 2,636 million were 4% lower compared to 2011 as a result of workforce optimization. Staff costs represent cost of net salaries in the amount of HRK 1,309 million, cost of employee income tax in the amount of HRK 569 million, tax on payroll in the amount of HRK 332 million and other payroll related costs in the amount of HRK 428 million for the twelve month period ended 31 December 2012. For the twelve month period ended 31 December 2011 staff cost includes cost of net salaries in the amount of HRK 1,367 million, cost of employee income tax in the amount HRK 565 million, tax on payroll in the amount HRK 399 million, and other payroll related costs in the amount HRK 421 million. INA terminated the contracts of 594 employees and severance payments in the total amount of HRK 179 million were made (the number of workers includes 127 employees who were gone on 31 December 2011 and 117 employees who were gone on 31 December 2012, because the costs of their severance payments were included in 2012 costs).

Income tax expenses decreased for 34% to the amount of HRK 380 million.

Tax costs and deferred taxes during the interim period are calculated on the basis of actual results and the profit tax rate, 20% for both 2012 and 2011.

Net financial expenses in the amount of HRK 289 million were recorded in 2012, compared to the net financial expenses of HRK 663 million in 2011.

• Net foreign exchange gains were HRK 37 million in 2012 mainly related to the appreciation of HRK against USD, compared to HRK 278 million net foreign exchange losses recorded in 2011

• Interest payable amounted to HRK 174 million and interest received HRK 23 million in 2012, compared to interest payable of HRK 191 million and interest received HRK 26 million in 2011.

The Company has recognized revenues in the income statement from hydrocarbon sales in Syria which had been realized, in line with international accounting standards, meaning that the cash principle has been applied since the beginning of 2011. INA until now did not receive the outstanding revenues for its share of hydrocarbon production in Syria neither it expects to realize its production share from its Syrian project for the foreseeable future ,i.e. at least until the "force majeure" conditions cease to exist. Following the changes of the parameters for the functional depreciation (INA's production share during the "force majeure") on the major part of the Syrian assets and in line with the IFRS, depreciation would not be booked for the cash generating assets from February 2012 until force majeure conditions will cease to exist.

Under current practice and in line with the international accounting standards the Company adjusts its receivables that are 180 days or older. Accordingly the Company has adjusted a significant amount of its receivables in Egypt that meet these criteria. Restatement of the previous periods understands the reclassification relating to financial statements presentations (in line with IAS 1) in respect of netting the revenues and expenses and technical corrections relating to recording of the asset impairment made at 2011 year end to the appropriate corresponding interim period of that year.

Until the end of 2012, HRK 1,619 million recurring cost savings (1,287 excluding inter-segmental) and HRK 615 million revenue improvements have been achieved when compared to the 2008 baseline at INA Group level. Altogether, HRK 2,234 million of recurring EBIT improvement (1,902 excluding inter-segmental) has been delivered since the program's inception in 2010.

CASH FLOW – INA GROUP

CONDENSED CONSOLIDATED CASH FLOW STATEMENT - INA GROUP
FOR THE PERIOD ENDED 31 DECEMBER 2011 AND 2012 (IN HRK MILLIONS)

HRK mln	2011	2012	%
Net cash inflow from operating activities	3,282	3,742	14
Net cash used for investing activities	(1,339)	(1,118)	(17)
Net cash from financing activities	(1,852)	(2,461)	33
Net (decrease)/increase in cash and cash equivalents	91	163	79

The operating cash-flow before changes in working capital amounted to HRK 4,541 million in 2012, representing a decrease of HRK 1,915 million, or 30%, compared to 2011, mainly as a result of lower EBITDA.
Changes in working capital affected the operating cash flow positively by HRK 449 million, primarily due to:

- Decrease in receivables by HRK 379 million
- Decreased value of inventories by HRK 190 million

Net outflows in investing activities amounted to HRK 1,118 million, in comparison with HRK 1,339 million of outflows in 2011. Positive inflow in the amount of HRK 142 million was recorded resulting from repaid loans by subsidiaries of joint ventures. The lower level of cash inflow was a consequence of the nature of key projects, some of which were completed, and from current less favorable operating market environment.

BALANCE SHEET – INA,D.D.

INA, D.D. UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2011 AND 2012 (IN HRK MILLIONS)

	2011	2012	%
Assets			
Non-current assets	22,421	20,771	(7)
Current assets			
Inventories	3,030	2,485	(18)
Trade receivables net	1,781	1,103	(38)
Intercompany receivables	1,588	2,226	40
Other receivables	379	428	13
Derivative financial instruments	-	-	n.a.
Other current assets	313	83	(73)
Prepaid expenses and accrued income	54	79	46
Cash and cash equivalents	229	270	18
Current assets	7,374	6,674	(9)
Total current assets	7,374	6,674	(9)
Total assets	29,795	27,445	(8)
Equity and liabilities			
Capital and reserves			
Share capital	9,000	9,000	0
Revaluation reserve	-	13	n.a.
Other reserves	2,239	2,123	(5)
Retained earnings / (Deficit)	3,043	4,366	43
Total equity	14,282	15,502	9
Non-controlling interests	-	-	n.a.
Total equity	14,282	15,502	9
Non-current liabilities	8,388	3,854	(54)
Current liabilities			
Bank loans and overdrafts	1,784	1,057	(41)
Current portion of long-term loans	1,817	4,648	156
Other current liabilities	3,524	2,384	(32)
Current liabilities	7,125	8,089	14
Total current liabilities	7,125	8,089	14
Total liabilities	15,513	11,943	(23)
Total equity and liabilities	29,795	27,445	(8)

INA,d.d. total assets amounted to HRK 27,445 million as at 31 December 2012 and were 8% lower compared to 31 December 2011. Property, plant and equipment decreased by 8% and amounted to HRK 17,063 million.
Trade receivables amounted to HRK 1,103 million and were 38% lower compared to 31 December 2011 as a result of management efforts to collect overdue receivables and decreased sales volumes.
Total liabilities amounted to HRK 11,943 million (23% lower than on 31 December 2011), mainly as an effect of lower indebtedness compared to 31 December 2011 level.
INA,d.d. net indebtedness was HRK 6,488 million as at 31 December 2012, which is a decrease of 27% compared to the end of 2011 primarily because INA managed to reduce its long-term debt as a result of higher own cash generating capabilities. Gearing ratio was 29.5% as at 31 December 2012, decreasing from 38.5% as at 31 December 2011.
Trade payables amounted to HRK 964 million and were 13% lower compared to the end of 2011 as a result of lower amount of purchased crude oil products.

INCOME STATEMENT – INA,D.D.

INA, D.D. UNCONSOLIDATED INCOME STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2011 AND 2012 (IN HRK MILLIONS)

	2011	2012	%
Sales revenue			
a) domestic	15,820	17,188	9
b) exports	10,471	9,216	(12)
Total sales revenue	26,291	26,404	0
Income from own consumption of products and services	5	2	(60)
Other operating income	560	419	(25)
Total operating income	26,856	26,825	(0)
Changes in inventories of finished products and work in progress	349	181	(48)
Cost of raw materials and consumables	(13,814)	(15,628)	13
Depreciation and amortization	(2,397)	(1,835)	(23)
Other material costs	(1,514)	(1,536)	1
Service costs	(965)	(1,204)	25
Staff costs	(1,666)	(1,617)	(3)
Cost of other goods sold	(2,644)	(1,324)	(50)
Impairment and charges (net)	(1,306)	(1,967)	51
Provisions for charges and risks (net)	244	(132)	n.a.
Operating expenses	(23,713)	(25,062)	6
Profit from operations	3,143	1,763	(44)
Share in the profit of associated companies			
Finance income	355	393	11
Finance costs	(933)	(487)	(48)
Net loss from financial activities	(578)	(94)	(84)
Profit before tax	2,565	1,669	(35)
Income tax expense	(598)	(346)	(42)
Profit for the year	1,967	1,323	(33)
Attributable to			
Owners of the Company	1,967	1,323	(33)
Non-controlling interests	-	-	n.a.
	1,967	1,323	(33)
Earnings per share			
Basic and diluted earnings/(loss) per share (kunas per share)	196.7	132.3	(33)

Total sales revenues in 2012 amounted to HRK 26,404 million which is almost the same level as in the last year. Lower crude oil and natural gas sales volumes were offset by higher realized oil derivatives and natural gas prices compared to the last year.

Costs of raw materials and consumables increased by 13% to the amount of HRK 15,628 million, resulting from increased VGO processing as well as 12% higher average import price of crude, while volumes of imported crude were 11% lower.

Costs of goods sold decreased by 50% to the amount of HRK 1,324 million compared to the same period last year.
Within the other operating costs realised 2012:

- Other material costs slightly increased by 1% to the amount of HRK 1,536 million.
- Service costs in the amount of HRK 1,204 million recorded an increase of 25% mainly due to higher royalty costs compared to 2011 as well as costs related to exiting service contract in Iran.

- Depreciation was lower by 23% and amounted to HRK 1,835 million mainly due to “force majeure” announced in February 2012 that reduced Exploration and Production depreciation
- Adjustments and provisions amounted to HRK 2,099 million and were related to international operations as well as Refining and Marketing assets impairment as the segment planned performance is strongly impacted by low conversion of refinery assets and high distribution network costs.

Staff costs amounted to HRK 1,617 million, which is a decrease of 3% resulting from workforce optimization. INA terminated the contracts of 594 employees and severance payments in the total amount of HRK 179 million were made (the number of workers includes 127 employees who were gone on 31 December 2011 and 117 employees who were gone on 31 December 2012, because the costs of their severance payments were included in 2012 costs).

Net financial expenses in the amount of HRK 94 million were recorded in 2012, compared to the net financial expenses of HRK 578 million in the same period 2011.

In 2012 income tax expense decreased by HRK 252 million to the amount of HRK 346 million.

CASH FLOW – INA,D.D.

INA, D.D. UNCONSOLIDATED STATEMENT OF CASH FLOW
FOR THE PERIOD ENDED 31 DECEMBER 2011 AND 2012 (IN HRK MILLIONS)

HRK mln	2011	2012	%
Net cash inflow from operating activities	2,285	3,702	62
Net cash used for investing activities	(1,375)	(1,214)	(12)
Net cash from financing activities	(952)	(2,432)	155
Net (decrease)/increase in cash and cash equivalents	(42)	56	n.a.

The operating cash-flow before changes in working capital amounted to HRK 5,653 million in 2012, representing a decrease of 15% compared to 2011, mainly as a result of lower EBITDA.
Changes in working capital affected the operating cash flow negatively by HRK 707 million, due to:

- Decreased value of inventories by HRK 413 million
- Lower liabilities by HRK 247 million
- Higher receivables by HRK 873 million

Tax payment affected operating cash flow by HRK 1,244 million. Mentioned factors resulted in HRK 3,702 million net cash inflow from operating activities that INA,d.d. generated in 2012.

INTEGRATED RISK MANAGEMENT

Risk Management and Hedging Policy for INA Group is providing the framework under which INA and its consolidated subsidiaries manage and maintain commodity, foreign exchange and interest rate risk at an acceptable level. Beside financial (market) risks, the most important risks include the credit risk and the liquidity risk.

A) MARKET RISK

Commodity price risk management

INA purchases crude oil on a spot market price, mostly through short-term credit facility arrangements in US dollars. The required quantities of gas are purchased at a price denominated in US dollars in accordance to 3-year supply contract with Italian ENI. Domestic prices of refined products are determined under the pricing formula set out in the Highest Retail Refined Product Pricing Regulation which, to a limited extent, is protecting the Group from the changes in crude and oil product prices and the foreign currency risk, enabling refinery products to be reprised bi-weekly. INA may also use derivative instruments in managing its commodity exposure.

Foreign currency risk management

Many Group transactions are priced and denominated in foreign currency and thus the Group is exposed to currency risk. The Group has net long USD and EUR, and net short HRK operative cash flow position. The Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of December 31, 2012, there were no open cross currency transactions.

Interest rate risk management

INA Group companies use borrowed funds at both fixed and floating interest rates (mostly floating) and the Group is consequently exposed to the interest rate risk. The Group does not speculate on interest rate developments and primarily chooses floating rates. As of December 31, 2012, there were no open interest rate swap transactions.

Other price risk

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

B) CREDIT RISK

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Group. According to existing Credit Risk Management Procedure Group estimates creditworthiness and risk in dealing with customers based on internal model of evaluation as well as using the services of creditworthiness agencies. There is no significant credit risk exposure of INA Group that is not covered with collateral, other than those to the institutions and entities controlled by the state and the local government, and exposure toward customers under certain concession agreements abroad. In order to extend the available measures for collection of receivables, INA is also using services of agencies for “out of court” collection of receivables.

C) LIQUIDITY RISK

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

As of December 31, 2012, the Group had contracted short-term bank credit lines amounting to HRK 1.99 bn (CNB middle rate), excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and contracted long-term credit lines amounting to HRK 7.42 bn (CNB middle rate).

D) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group has concluded some long-term sale or purchase contracts that contain embedded derivatives as defined by IAS 39.

APPENDIX

IMPACT OF SPECIAL ITEMS ON OPERATING PROFIT AND EBITDA OF INA GROUP (IN HRK MILLION))

	2011	2012
INA GROUP		
Total impact of special items on operating profit	(1,039)	(1,507)
Total impact of special items on EBITDA	(254)	(385)
Exploration & Production	12	(688)
Incentive measures	(69)	(82)
Impairment of assets	-	(161)
Angola	-	(273)
Egypt - extra cost of production	-	(11)
Provisions (ENI, litigations, incentives)	(31)	(43)
Reversal - IAS 36	-	77
Iran Moghan-2 Block - service contract exit accrual	-	(196)
Impairment of assets in Libya (Crosco)	-	-
Provisions (Prirodniplin tax case)	112	-
Refining & Marketing	(891)	(701)
Impairment of assets - Refinery	(655)	(665)
Incentive measures	(58)	(66)
Provisions (litigations, incentives)	(13)	(6)
Reversal of provisions (litigations, incentives)	-	21
Revenues from insurance	-	15
Impairment of gas bottles - Proplin	(165)	-
Retail	(62)	(22)
Incentive measures	(45)	(26)
Impairment of assets	-	(31)
Reversal of provisions (litigations, incentives)	-	39
Provisions (litigations, incentives)	(17)	(4)
Corporate functions	(98)	(96)
Incentive measures	(82)	(99)
Impairment of assets	-	(1)
Reversal of provisions (litigations, incentives)	-	21
Provisions for incentives	(16)	(18)
Revenues from insurance	-	1

KEY GROUP OPERATING DATA

EXPLORATION AND PRODUCTION

	2010	2011	2012	12/11%
Hydrocarbon production				
Crude oil production (boe/d)	16,336	15,284	12,295	(19.6)
Croatia	9,672	9,106	8,792	(3.4)
Syria	3,144	2,837	109	(96.1)
Egypt	1,942	1,762	1,908	8.3
Angola	1,577	1,579	1,486	(5.9)
Natural gas production (boe/d)	41,973	49,169	33,024	(32.8)
Croatia - offshore	22,699	21,783	15,768	(27.6)
Croatia - onshore	14,892	13,923	14,978	7.6
Syria	4,381	13,462	2,278	(83.1)
Condensate (boe/d)	7,170	9,911	3,234	(67.4)
Croatia	6,814	5,957	2,537	(57.4)
Syria	355	3,954	697	(82.4)
Total hydrocarbon production (boe/d)	65,479	74,366	48,554	(34.7)
Average realised hydrocarbon price				
Crude oil and condensate price (USD/bbl)	69.7	98.7	96.1	(2.6)
Average realised gas price (USD/boe)	55.4	70.5	78.3	11.0
Total hydrocarbon price (USD/boe)	59.2	77.6	83.1	7.1
Natural gas trading - mln cm				
Natural gas imports	1,214.3	876.1	1,128.8	28.8
Total natural gas sales - domestic market	3,026.2	3,033.2	2,630.9	(13.3)
Natural gas price differential to import prices (HRK/000 cm)				
Eligible customers' price	(355.9)	(379.9)	(285.0)	(25.0)
Tariff customers' price	(396.7)	(921.3)	(1,248.2)	35.5
Total price	(369.7)	(509.9)	(535.7)	5.1

RESERVES BREAKDOWN

MMBOE	1P			2P		
	2010	2011	2012	2010	2011	2012
By country						
Croatia onshore	161	160	153	194	190	184
Croatia offshore	47	35	21	57	44	38
Syria	33	24	22	46	37	36
Egypt	3	3	2	4	4	3
Angola	3	2	2	4	4	6
Total	246	224	201	305	278	267
By product						
Oil	75	76	74	90	90	97
Gas	151	130	115	188	165	154
Condensate + LPG	21	18	13	26	23	16
Total	246	224	201	305	278	267

EXPLORATION AND DEVELOPMENT PROGRESS

Country	Block	Well	Progress	Comment
Croatia	Sava	Hrastilnica-3	drilled and tested	Test results Qo=cca 400m3/day
	East Slavonija	Đeletovci-1 Z	drilled and tested	Test results - Totally obtained: Qo= 391,7 m3;
				Qw= 3.74 m3 in 108,5 hours of testing
	Sava	Žutica-186 R	suspended, not tested	Project suspended due to technical risk evaulate
	East Slavonija	Antunovac-1	drilled, not tested	No hydrocarbon shows while drilling
	Panon	Kal-4R	drilled and tested	expected hydrocarbon flow has not been obtained
Egypt	North Bahariya	Abrar-4	completed as oil producer	drilled in Q1
		Abrar-5	completed as oil producer	drilled in Q1
		Abrar-7	completed as oil producer	drilled in Q2
		Rawda SE-1	dry well	exploratory well, drilled in Q2
		Ganna-3	completed as oil producer	drilled in Q2
		Sidra-2	completed as oil producer	exploratory well, drilled in Q3
		Abrar-11	completed as oil producer	drilled in Q3
		Abrar-13	completed as oil producer	drilled in Q4
		Abrar-9	drilling is in progress	spud in Q4 2012, expected to be completed
				in Q1 2013
Egypt	West Abu Gharadig	Raml-28	completed as oil producer	drilled in Q4
		Raml-27	drilled in Q4 2012	oil producer - completion is expected in Q1 2013

REFINING AND MARKETING

	2010	2011	2012	12/11%
Refinery processing (kt)				
Domestic crude oil	459	399	496	24.2
Imported crude oil	3,562	2,745	2,448	(10.8)
Condensate	138	129	113	(12.6)
Other feedstock	291	777	1,009	29.7
Total refinery throughput	4,450	4,051	4,065	0.4
Refinery production (kt)				
LPG	249	214	236	10.1
Motor gasoline	958	877	1,164	32.7
Diesel	1,084	982	1,334	35.8
Heating oil	222	199	181	(9.1)
Kerosene	95	118	97	(17.6)
Naphtha	73	95	61	(35.8)
Fuel oil	628	545	440	(19.3)
Bitumen	66	49	26	(48.2)
Other products	564	369	(6)	n.a.
Total	3,939	3,448	3,532	2.4
Refinery loss	35	29	26	(11.6)
Own consumption	475	573	507	(11.5)
Total refinery production	4,450	4,051	4,065	0.4
Refined product sales by country (kt)				
Croatia	2,049	1,923	1,814	(5.7)
B&H	443	539	485	(10.0)
Other markets	1,520	1,100	1,125	2.3
Total	4,012	3,561	3,424	(3.9)
Refined product sales by product (kt)				
LPG	284	246	258	5.0
Motor gasoline	1,011	902	975	8.0
Diesel	1,266	1,247	1,312	5.3
Heating oil	232	201	154	(23.6)
Kerosene	109	116	117	1.3
Naphtha	74	95	60	(37.0)
Fuel oil	615	537	402	(25.2)
Bitumen	68	91	57	(37.4)
Other products	355	127	89	(29.7)
Total	4,012	3,561	3,424	(3.9)
o/w Retail segment sales	1,125	1,023	1,026	0.2

RETAIL

	2010	2011	2012	12/11%
Refined product retail sales (kt)				
Motor gasoline	411	386	349	(9.7)
Gas and heating oils	701	707	662	(6.4)
LPG	43	34	29	(15.1)
Other products	3	3	3	(13.3)
Total	1,159	1,131	1,042	(7.8)

Refined product retail sales (kt)				
Croatia	1,103	1,079	994	(7.9)
B&H	40	39	36	(6.9)
Other markets	16	14	13	(6.5)
Total	1,159	1,131	1,042	(7.8)

Number of petrol stations	2010	2011	2012	12/11%
Croatia	424	404	396	(2)
B&H	45	45	45	0
Other markets	7	7	7	0
Total	476	456	448	(2)

SUSTAINABLE DEVELOPMENT, HEALTH, SAFETY AND ENVIRONMENT (SD&HSE)

SUSTAINABLE DEVELOPMENT (SD)

As a company with significant impact to the society and environment INA is committed to perform business in accordance with sustainable development principles, tending to a balanced integration of long-term economic, environmental and social factors into its daily business.
Accordingly, new INA Group HSE policy emphasizes sustainable development elements, including reducing environmental footprint and maximising positive effect on society in general.

For the second consecutive year, in 2012 INA published sustainability report on INA Group level, and the sixteenth consecutive non-financial report.
Within the HSE part we have focused our actions on HSE Management system development and finished the revision of INA Group HSE Policy. The cooperation and communication within INA Group as well as with all the other stakeholders, from state institutions to customers and local communities was strengthened. Special attention was paid to ensuring safe and healthy working conditions and care for the environment by applying the principles of prevention and rational management, thus creating the foundation for the achievements in sustainable development.

SUSTAINABLE DEVELOPMENT (SD)

As the leading energy company and one of the largest in Croatia, INA is committed to sustainable development. For INA sustainable development means the corporate commitment to the balanced integration of long-term economic, environmental and social factors into everyday business operations, in order to maximise long-term stakeholder value.
INA is signatory of the UN Global Compact and is thus committed to promote and support the Global Compact 10 principles in the area of human rights, labour rights, environment and corruption combating.
SD activities in INA Group are coordinated by central SD&HSE Sector. SD is incorporated in HSE activities and responsibilities

(Description of Task and Responsibilities) and SD&HSE organization. INA Group SD working group continued its work, aiming to ensure involvement of all the relevant organizational units in sustainable development.

Additionally, in 2012 Corporate Social Responsibility (CSR) Council was established, in order to communicate internally and externally on SD related issues, analyse sustainability related data and information of external evaluations, as well as support, check and control sustainability reporting on INA Group level.

In order to implement sustainable development principles into the key processes of INA, d. d. and the other INA Group companies, in 2012 Sustainable Development Guideline was issued, a document providing an overview of the governance structure and management of SD related issues.

INA Group Sustainability Report for 2011 was published as the 16thannual non-financial report, covering a full range of economic, environmental and social impacts of INA. and its subsidiaries on stakeholders.

In 2012 new INA Group Code of Ethics was adopted, aiming to provide internal and external stakeholders with an overview of the ethical norms which INA, d. d. and all INA Group companies consider to be essential to their successful operations. The Code is based on respect for fundamental human rights and the ethical principles of integrity, honesty, trust, respect, humanity, tolerance and responsibility. Ethics Committee, chaired by an external independent expert, has been active since 2010.

ENVIRONMENTAL PERFORMANCE – INDICATORS

WATER MANAGEMENT						
INA, d.d.	2007	2008	2009	2010	2011	2012
Water withdrawal (m3)	57,121,364	55,211,935	52,733,518	37,487,634	37,310,332	38,593,890
INA, d.d.	2007	2008	2009	2010	2011	2012
COD (t)	818.96	663.01	402.05	611.74	413.25	192.05
BOD5 (t)	180.09	176.90	115.40	152.45	129.52	69.30
Total suspended solids (t)	135.69	126.19	93.74	105.26	96.38	75.71
Mineral Oils (t)	28.45	23.88	22.8	24.94	8.09	5.59
Total Oils and Greases (t)	30.25	22.28	9.08	10.41	16.41	4.65

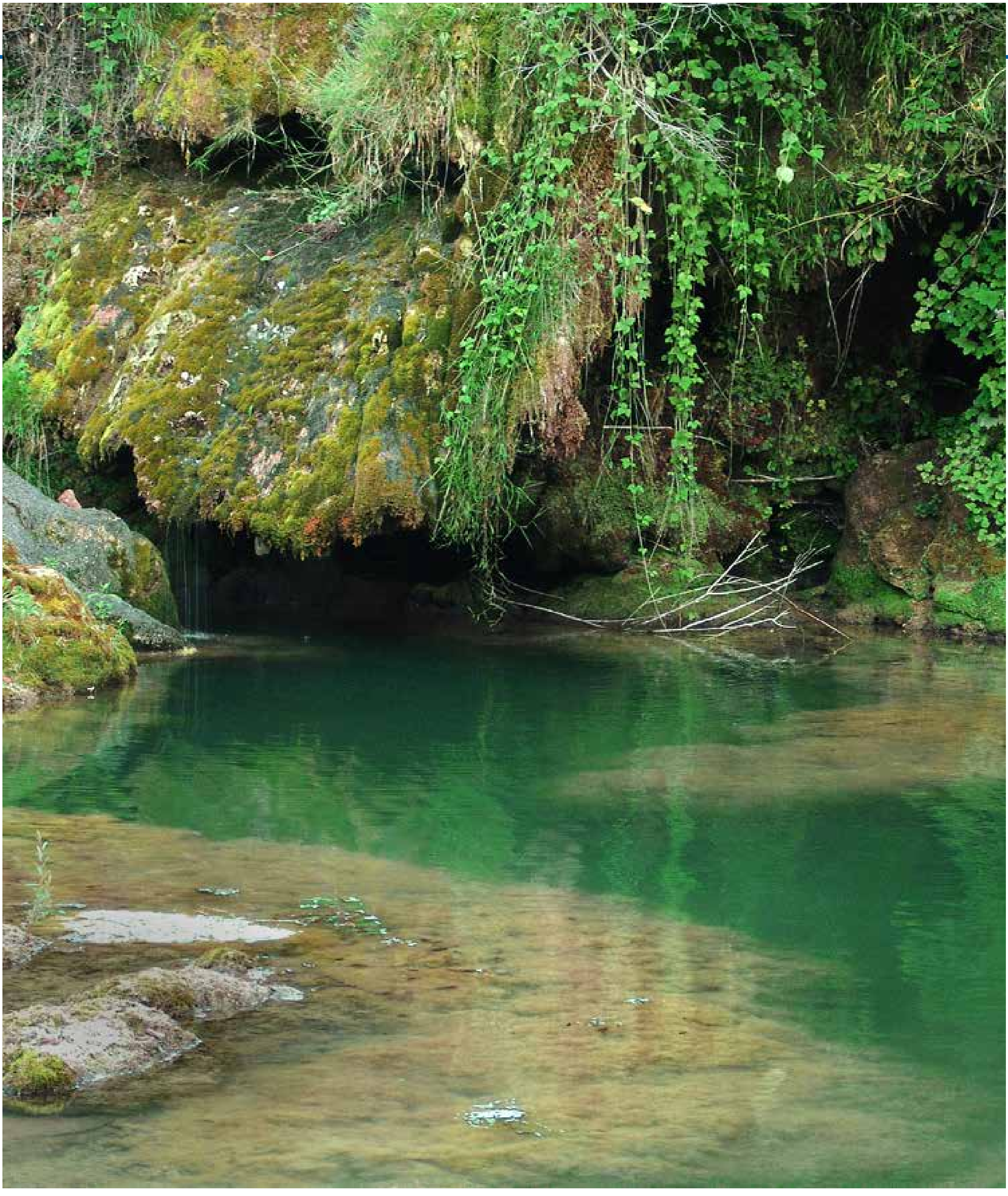
AIR EMISSIONS						
CO2						
CO2 t/year	2007	2008	2009	2010	2011	2012
Refinery Rijeka Sector - Urinj&Mlaka	953,065.60	907,814.60	1,031,072.90	797,798.51	858,141.46	854,448.31
Refinery Sisak Sector	701,335.90	576,771.90	633,427.90	585,772.84	449,351.96	445,019.77
Logistics Sector	-	-	-	301.00	411.43	1,292.78
Exploration & Production BD	818,438.67	769,848.45	662,347.07	663,303.53	673,088.09	571.946.26
Retail SM Sector	52.00	28.21	111.58	144.06	87.69	75.92
Total CO2 t/year	2,472,892.17	2,254,463.16	2,326,959.45	2,047,319.94	1,981,080.63	1,872,783.08

SO2, NO2, CO, PARTICULATE MATTER						
INA, d.d.	2007	2008	2009	2010	2011	2012
SO2 (t)	16,493.11	9,346.30	12,392.37	10,203.24	7,841.89	5,509.44
NO2 (t)	4,864.54	6,377.09	3,863.90	4,432.19	4,331.26	3,902.06
CO (t)	963.18	821.35	768.56	736.32	880.85	454,18
Particulate matter (t)	174.24	156.32	178.48	176.85	132.80	132,72

WASTE MANAGEMENT						
INA, d.d.	2007	2008	2009	2010	2011	2012
Hazardous waste (t)	6,099.90	8,298.60	4,062.70	4,545.06	4,417.38	6,450.81
Non-hazardous waste (t)	7,534.90	7,282.30	8,359.00	8,021.57	6,070.89	11,735.37
Total INA, d.d.	13,634.80	15,580.90	12,421.70	12,566.60	10,488.20	18.186,18

HYDROCARBON SPILLS OVER 1m3							
Total number of unforeseen events/accidents at INA,d.d. from year the 2006 to 2012							
	2006	2007	2008	2009	2010	2011	2012
Exploration & Production BD	9	3	5	4	6	3	7
Rijeka Refinery Sector - Urinj and Mlaka	0	3	1	4	3	0	3
Sisak Refinery Sector	0	0	0	0	0	0	1
Retail Sales Management sector	1	0	1	0	0	0	0
Logistics Sector	0	1	1	0	1	2	1
Total INA,d.d.	10	7	8	8	10	5	12
(Hydrocarbon spills over 1m3)							

In 2012, INA recorded 12 unforeseen events/accidents with environmental impact (volume of spills equal or greater than 1m3), what is much higher result in respect to 2011. Our response in emergencies is prompt and professional, and in 2012, all environmental damages were remedied successfully. Most of the accidents were registered in our E&P Division (7). Spills that occur in our E&P Division are usually caused by the length and condition of pipelines, which is the reason for significant financial investments made into their re¬vitalization or replacement. Logistics sector totally registered 1 spill above 1m3.



ENVIRONMENTAL PERFORMANCE – COMP

Minimizing INA's impact to the environment has been continuos. INA commitment of minimizing its impact to the environment is continuous. Combining the knowledge of our experts and best practices of the industry, following the strict regulatory environment, in combination with the introduction of new technologies INA controls its environmental footprint.

a) HARMONIZATION OF INA BUSINESS WITH ORDERS OF IPPC DIRECTIVE

The transposition of the IPPC Directive in Croatia has been accomplished by the Decree on Determining Integrated Environmental Protection Conditions (Official Gazette No. 114/08). The goal of the Directive is to establish comprehensive mechanisms for prevention and control of environmental pollution which could arise as a result of industry activities.

To align its operations with the Decree requirements, INA has prepared detailed status analyses and surveys on harmonisation for the sites Ethane, Central Gas Station Molve and the Sisak and Rijeka Refineries. In order to verify prepared reports, in 2012, the contract was made with an authorized company ECOINA. During 2012 request to obtain integrated environmental protection requirements are committed to Ministry of Environment and Nature for all of these locations. A series of projects at various implementation stages are under way to meet the requirements, ensuring alignment of the existing technology with the Best Available Techniques (BAT). In simple words, the IPPC Directive requires meeting the regulatory requirements applicable to soil, water, noise, waste management and increasing energy efficiency. Besides the big investments an important element is also dynamics of projects, so INA asked and got transitional periods for harmonization of Sisak and Rijeka refineries until end of 2017.

b) HARMONIZATION OF INA BUSINESS WITH LEGISLATION IN THE DOMAIN OF GREENHOUSE GAS EMISSIONS MANAGEMENT

In the year 2012, much new legislation in the domain of air protection has been issued, but Air Protection Act (OG 130/11) still remains the main document. After 1 January 2013, Rijeka Refinery, Sisak Refinery, Etan Plant and Central Gas Station Molve will be included in the European Emission Trading System (EU ETS), and auctioning will begin with Croatia's accession to the European Union. In May 2012 Methodology Report, Baseline Data Report, Verification Report and Request for free allocation of emission allowances have been submitted to the Ministry of Environmental and Nature Protection for all four Ina's installations.

All these reports were also delivered to the European Commission by the Ministry and are being reviewed. Updated Rijeka and Sisak Refinery Greenhouse gas monitoring plans were submitted to the Ministry in July due to new process units which were constructed, to ensure modern standards for crude oil processing and production of motor fuels in accordance with the requirements of Croatian and European standards (Euro V). In Rijeka Refinery integrated Hydrocracking complex was constructed (includes Hydrocracking process unit, Hydrodesulphurisation, Hydrogen Production Unit and Sulphur Removal Unit), while in Sisak Refinery, Isomerisation Unit was constructed. Greenhouse Gas Monitoring Plans for Etan Plant and CGS Molve have been updated as well, in accordance with the recommendations/instructions of the verifier, and were submitted to the Ministry in November 2012. Annual CO2 emissions report for all four Ina's installations are prepared and will be verified and submitted to the Croatian Environment Agency upon the receipt of the updated greenhouse gases permit.

c) HARMONISATION OF INA'S OPERATIONS WITH THE PROVISIONS OF REACH LEGISLATION

To comply with Croatian regulation Low of implementation on EC/1907/2006 and amendments EC/1995/45 (Official Gazette No. 53/08) INA had reiterated 14 substances and 4 intermediates to be able to export products to EU market. Because Croatia is not yet in EU the registration was done through MOL Group as Only Representative. INA will register all of remaining products and intermediate when Croatia enters EU. Since the date of entering to EU is already defined the deadlines for preregistration and registration are also set. Preregistration period is from July 1st 2013 until December 31st 2013. Deadline for substances that are produced in quantities higher than 100 t/y and which have CMR characteristic or are toxic for aquatic organisms is June 30th 2014. Deadline for registration of all substances produced in smaller quantities (1 – 100 t/y) is May 31st 2018.

d) HARMONIZATION OF INA BUSINESS WITH PROVISIONS OF LEGISLATION IN THE AIR PROTECTION DOMAIN

INAhas budgeted funds for the purpose of compliance with the Croatian air protection regulations over the next several years. These include primarily measures to bring emissions of air pollutants from stationary sources and technical environmental protection standards applicable to emissions of volatile organic compounds (VOC) during petrol storage and distribution in line with the requirements. As of the end of 2012, 380 petrol stations were reconciled with the requirements of the Decree on Environmental Protection Standards in the Area of Volatile Organic Compounds from Petrol Storage and Distribution (Official Gazette No. 135/06), which is almost the entire retail network of INA petrol stations. INA has substantially met the requirements to align its emissions from large combustion plants, a requirement set out in the Decree on Pollutant Emissions from Stationary Sources, by bringing natural gas as an energy source to the combustion plants.

e) ENVIRONMENTAL LIABILITIES ACCORDING TO IAS 37I

Environmental provisions

Environmental liabilities are obligations of the company for the remediation of pollution caused by its activities. They can be divided into two categories, the provision and the contingent liabilities. INA Group estimated its contingent liabilities in amount of HRK 660 million, and INAin amount of HRK 630 million. These amounts for contingent liabilities are not booked because the time of its occurrence is uncertain and pollution is not proven as fact. Part of contingent liabilities can come in the group of provision by shifting of time frame or decision to abandon the sites where INA is operating today or abandon the activity on specific location. For example if INA abandons some site which is contaminated, soil and groundwater remediation has to be performed if pollution is proven. For 2011, INA booked a provision on that basis in amount of HRK 312 million while INA Group in amount of HRK 327 million.

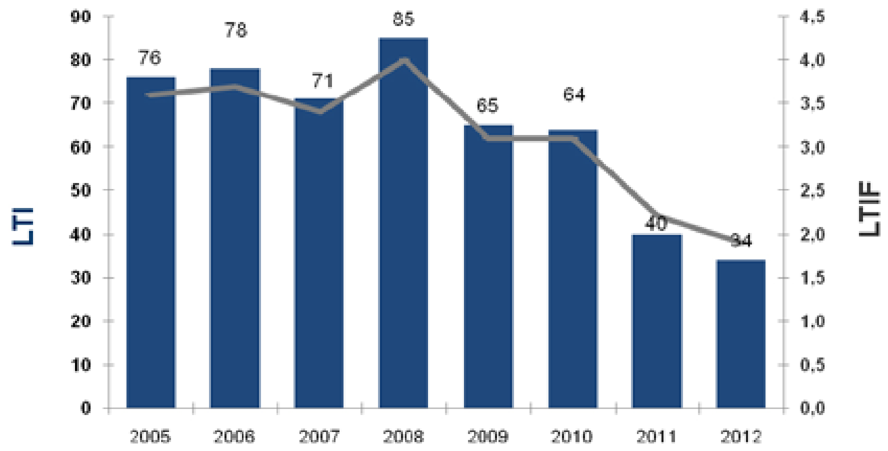
On 31 December 2012, INA Group recognized environmental provision in amount HRK 327 million which covers treatment of accumulated waste generated by former activity, soil excavation and replacement during the reconstruction of filling stations and investigation to determine the extent of the contaminations. It does not cover the cost of remediation in lack of detailed national regulations.

OCCUPATIONAL HEALTH AND SAFETY

The oil industry requires a high degree of health protection and safety at work, so these are among the top priorities and basic prerequisites for the successful operation of any oil company. INA has therefore set up an all-encompassing system of managing occupational health and safety at work, with the aim to continuously improve the level of safety and regularly monitor the status of employee health. Special attention is given to adequate employee training, to promote and ensure work in a safe manner and to minimize the risks related to their daily work activities.

In 2012 there was no fatalities of own staff in INA operations. Lost time injury frequency (LTIF) in 2012 on INAlevel was 1.9 and there were 34 lost time injury (LTI) cases; which presents improvement, of 15% in respect to 2011. INA E&P with the LTIF of 0.9 had better result than in 2011. In 2012 INA R&M showed significant improvement with LTIF of 2.4 presenting the 45% better result in comparison to 2011,but is still above European average as presented by CONCAWE. Retail had LTIF of 1.9 which is slightly higher than 1.6 in 2011. Functional units recorded LTIF of 1.9 which is much higher than LTIF result in 2011. INA performance from 2005 to2012 is shown in the chart below:

Out of 34 injuries 42 % of them were caused by “slip and trip” and 40% were caused by lack of attention of INA employees. Accord-



ing to Croatian regulation there were 101 injuries in 2012, 40% of them were result of robberies on INA filling stations (PTSD) and 85% of total injuries were treated as light injuries. Looking at statistics, seasonal distribution of injuries is visible.

IRIS

To mitigate work related injuries in 2011 Incident Reporting and Investigation system (IRIS) was established. Additionally, in 2012, INA implemented HSE Info application to improve reporting, investigation and monitoring of all incidents. In total 220 incidents were reported, 78 of them had consequences to people, 60 to property, 40 to environment, 1 to company reputation and 41 incidents were classified as near misses. 180 incidents were investigated according to IRIS Regulation.

CONTRACTOR SAFETY

In 2012 INA launched Contractor Safety project with focus on 8 critical contractors' activities. Project leader and Business Division teams were nominated and related Regulation was approved by INA Executive Board.

PROCESS SAFETY MANAGEMENT (PSM)

In 2012, INA executed first phase of Project Safety Management Project. Three units were selected for pilot self assessment: FCC units in Rijeka and Sisak refineries and NGL section on GTP Molve. For each unit five representatives were selected and trained to be able to "self asses" their units according to PSM criteria using specially prepared questionnaires. Based upon the results derived from the self assessment and gap analyses ROADMAP for PSM implementation in INA was developed. Also INA PSM relevant locations started with renewal of P&ID and PHA.

ROAD SAFETY

In comparison to 2011 INA RAR improved for 10%, from 4.3 in 2011 to 3.9 in 2012.

In 2012, Safe Driving Standard has been issued, that prescribes procedures and rules connected with safe driving. In the document it is prescribed that the employer is responsible for ensuring that drivers are competent and qualified, and that the employer is to organize regular additional training for specific target groups.

In order to take the safe driving to the higher level and to be compliant with the Safe Driving Standard INA started second phase of Safe driving Project including theoretical and practical trainings on safe driving polygon in Zagreb, organized for 750 employees based on defined target groups. First groups were trained in December 2012.

To additionally improve safe driving culture in all INA car fleet vehicles GPS devices were installed to monitor various parameters.

FIRE PROTECTION

Fire fighting drills and professional training drills, both announced and unannounced were organized all through the month of May (which is in Croatia a Fire protection month), and the current situation was analyzed in order to define priorities that will make it possible to upgrade the system of protection against fire and technology-caused explosions. The final fire protection drill was organized by the Exploration and Production BD on drilling well MOL – 20 R with involvement of Sinaco fire fighting professional brigade, municipal fire brigades and Crosco intervention team.

During 2011, 9 fires were reiterated in INA Although several of them were with not relevant environment and low financial impact as well, two of them have to be mentioned separately.

QUALITY MANAGEMENT

AWARDS

• On the International Invention Show INOVA 2012 held in Šibenik participated innovator DubravkoČop with his innovation „Networking transportation“and has won the bronze medal.

INAis committed to act in accordance with international quality management standards since the time they were first introduced. Following the global trends, from quality control and quality assurance to quality management, ISO 9001 certificates were awarded to INA in the mid-nineties for excellence in business processes in production, as well as for meeting the customers' demands. In early 2000, the Company's Management Board decided to opt for new management philosophy. A business management system was developed based on Company's internal regulations, the legal framework, industry standards, the requirements of ISO 9001, ISO 14001 and OHSAS 18001 standards and other standards in line with management decisions.

INA has a total of 9 certificates (ISO 9001, ISO 14001, OHSAS 18001 and ISCC) and 5 accreditations (ISO / IEC 17025:2000). Since 2005, a quality management system is verified by certification on INA Plc. level. The ISO 9001 standard is applied through a single system on core processes, as well as on supportive processes. Parts of INA that have the potential or actual impact on the environment have certified and maintained environmental management systems in accordance with ISO 14001. Health and safety at work is implemented in accordance with the standard

OHSAS 18001 in order to prevent injury, occupational diseases, diseases related to work, and to protect working and living environment, as well as material goods. Biofuel sustainability is certified in accordance with the ISCC (International Sustainability and Carbon Certification) standard, while INA laboratories are accredited according to ISO / IEC 17025, which requires competency testing, measurement and sampling.

INA's commitment to continuous improvement of its business processes and business quality was confirmed by the introduction of SAP system in 2006 and during 2007INA'sbusiness policy was to develop an obligatory information security management system. In 2008 the HACCP (Hazard Analysis and Critical Control Points) system was introduced at Company's catering facilities, as statutorily required.

We actively participate in development of these systems and their full integration into the existing business management system.
In 2011 we harmonized the certification cycle on INA Group level for the following standards:
• Quality Management System according to standard ISO 9001:2008
• Environmental Management System according to standard ISO 14001:2004
• Health and Safety Management System according to OHSAS 18001:2007.

Through the integration of business management system we achieved greater transparency of business processes, improved measuring and presentation of business results and a higher level of customer and employee satisfaction.
Supervision of the whole system is conducted by external surveillance audit and process of internal audits in accordance with annual planning through specially developed IT support, analysing of collected data and by reporting to the Management Board on management system.
This year's external surveillance audit confirmed INA's compliance with corporate rules and standards requirements as prerequisite for possession of certificates.

Responding to the need for further development of our Company and other companies in INA Group, a new, unique document management system has been successfully introduced at INA and companies in INA Group. On INA Group level, plan is to issue 144 regulations (guidelines and GOR regulations for INA Group) by the end of 2014. Until now, 47 regulations were issued, which is in line with planned deadlines. A high level of customer satisfaction and loyalty confirms the quality management system as adequate and efficient in reaching the targets aimed for.

STANDARDISATION

INA has been developing and improving a corporate standardisation system for a number of years in order to define unique corporate standards. INA Standards define quality specifications of INA's products and raw materials, the elements of company's visual identity, and business communication rules and standards.

During 2012 following INA Standards have been harmonised:
• "Aviation Turbine Fuel", revised according to new edition of AFQRJOS „Check list"
• "Fuel Oils Extra Light", new fuel quality introduced according to standards in surrounding countries
• "Paving bitumen", penetration index introduced according to HRN EN 1426, HRN EN 1427 and HRN EN 12591 standard
• „Diesel fuels", limit value for electrical conductivity according to request from BS R&M (non-standard requirement).

Company standardisation policy defines the framework and guidelines for setting out company standards pursuant to quality requirements of international and European standards. INA is also working closely together with governmental bodies and Croatian Standards Institute in defining and adopting the regulations and standards in the area of INA's interests. We suggest provision to be harmonized with current EU regulations, thus protecting and promoting the oil and gas industry interests on the domestic and the foreign market where the Company operates, but at the same time respecting the interests of all other stakeholders.
INA experts actively participate in more than 36 technical committees/subcommittees/working groups at Croatian Standards Institute. Work of technical committees our colleagues also improve sustainable development process of our company by keeping excellent relations to stakeholders, which promotes our interests in society in transparent manner that is acceptable for all parties.

REACH

We can emphasize excellent cooperation with Croatian Chamber of Economy, i.e. REACH working group. During 2012 a number of meetings related to preparation of Croatia to fulfill REACH Regulation provisions after Croatia's accession to the EU have been held. Simultaneously, INA REACH team has started with creation of list of substances INA should register after Croatia's accession to the EU. Currently, list comprises approximately 20 substances that INA intends to register until beginning of August 2013 at the latest.

INTELLECTUAL PROPERTY

INA has created and developed full process for an intellectual property management system with clearly defined powers and responsibilities and all the activities, from the generation of ideas to realisation of products, including their marketing and sales, and protection of the resulting intellectual property.
Protection of intellectual property is managed on INA Group level since 2008. By centralising the protection of intellectual property at the INA Group level, the protected intellectual property of INA Group (Crosco, Proplin, MazivaZabreb, Sinaco and STSI) become part of INA brand and constitutive part of intellectual property of INA, d.d. Such approach provides consistent and efficient protection of intellectual property rights on the Group level as well as for taking adequate measures in case of their infringement, as required in modern business environment.
The protection of intellectual property includes the protection of inventions (by patents), trademarks and service marks, visual identity and industrial designs. It is implemented in accordance with the Company's Intellectual Property Management Strategy both in Croatia and abroad, on the markets where INA and other companies of INA Group are already present or intends to be present.
Great attention is given to brand protection (the names of companies of INA Group), and protection of the lubricant product range, visual identity of INA's petrol stations and all market recognisable marks in order to have the legal basis for taking measures against their infringement and abuse. International registration of INA name was also accomplished, which ensures protection of mentioned name in 26 countries. INA Group holds protection rights on 65 trademarks and 25 industrial designs. Abroad, INA holds protection rights on 19 trademarks in Slovenia, 17 trademarks in Macedonia, 17 trademarks in Bosnia and Herzegovina, 21 trademark in Serbia, 11 trademarks in Albania, 22 trademarks in Kosovo, 22 trademarks in Montenegro, 9 trademarks in Hungary and, 5 industrial designs are protected abroad, i.e. in Bosnia and Herzegovina, Slovenia, Serbia, Kosovo and Montenegro.

Numerous awards at innovation exhibitions in the country and abroad, and regulated intellectual property as well as the innovative work,confirm a long-standing company tradition of encouraging employee inventiveness and creativity ultimately resulting in company innovativeness and intellectual property that can be protected.
Our aim is to promote the importance of company- and personal-know-how through intellectual property management processes. So we constantly strive to make a better use of our operational resources, information and employee knowledge, and as efficiently as possible manage the intangible company assets as they are vital factors of our competitiveness. The guidelines for managing corporate knowledge are open and communicative corporate culture, focus on core activities, encouragement of creativity and transforming employee knowledge into a form of corporate property that can be used and shared within the company.
That was the goal behind setting up and continuously maintaining the Company Knowledge Base, where it is possible to find all related to creative work of INA employees. Company Knowledge Base is available to INA- Intranet users.

CORPORATE GOVERNANCE

ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES

INA's management structure is based on a two-tier board system, comprising a Supervisory Board and a Management Board. With the General Assembly, these constitute the three mandatory internal bodies of INA in accordance with INA's Articles of Association and the Companies Act.
At a meeting held on 10 June 2009, INA Management Board apointed Executive Directors, authorized to operate, manage and supervise the respective business divisions/functions of the Company, while each Executive Director is responsible for the general operation of the assigned segment towards the Management Board.

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

MANAGEMENT BOARD

The list below contains the names of current members of the Management Board and their respective positions on 31 December 2012. The business address for all members of the Management Board is Avenija V. Holjevca 10, 10002 Zagreb, Croatia.

Zoltán Sándor Áldott, President of the Management Board
Niko Dalić, Member of the Management Board
Pál Zoltán Kara, Member of the Management Board
Ivan Krešić, Member of the Management Board

Davor Mayer, Member of the Management Board
Péter Ratatics, Member of the Management Board

EXECUTIVE DIRECTORS

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

List of Executive Directors as of 31 December 2012:
András Huszár, Executive Director in charge of Finance
Darko Markotić, Executive Director in charge of Retail
Tvrtko Perković, Executive Director in charge of Corporate Center
Želimir Šikonja, Executive Director in charge of Exploration and Production
Artur Thernesz, Executive Director in charge of Refining and Marketing
Tomislav Thür, Executive Director in charge of Corporate Affairs

SUPERVISORY BOARD

The list below contains the names of current members of the Supervisory Board and their respective positions (on 31 December 2012). The business address for all members of the Supervisory Board is Avenija V. Holjevca 10, 10002 Zagreb, Croatia.

Siniša Petrović, President of Supervisory Board
Szabolcs I. Ferencz, Member of Supervisory Board
Ferenc Horváth, Member of Supervisory Board
Božo Mikuš, Member of Supervisory Board
József Molnár, Member of Supervisory Board
György Mosonyi, Vice President of Supervisory Board
Željko Perić, Member of Supervisory Board
Mladen Proštenik, Member of Supervisory Board
Oszkár Világi, Member of Supervisory Board

ISSUER'S AUDIT COMMITTEE

Audit Committee is a body appointed by the Supervisory Board, with the purpose to assist the Supervisory and Management Board in execution of their corporate management tasks, financial reporting and control of company operations. However, the Audit Committee is an auxiliary body only, and cannot relinquish the Supervisory Board and the Management Board of their responsibilities. Supervisory Board shall discuss the Report on Audit Committee's activities once a year.

Audit Committee's responsibilities are connected to:

1. Accounting segment;
2. External auditor segment;
3. Financial segment;
4. Risk-management segment

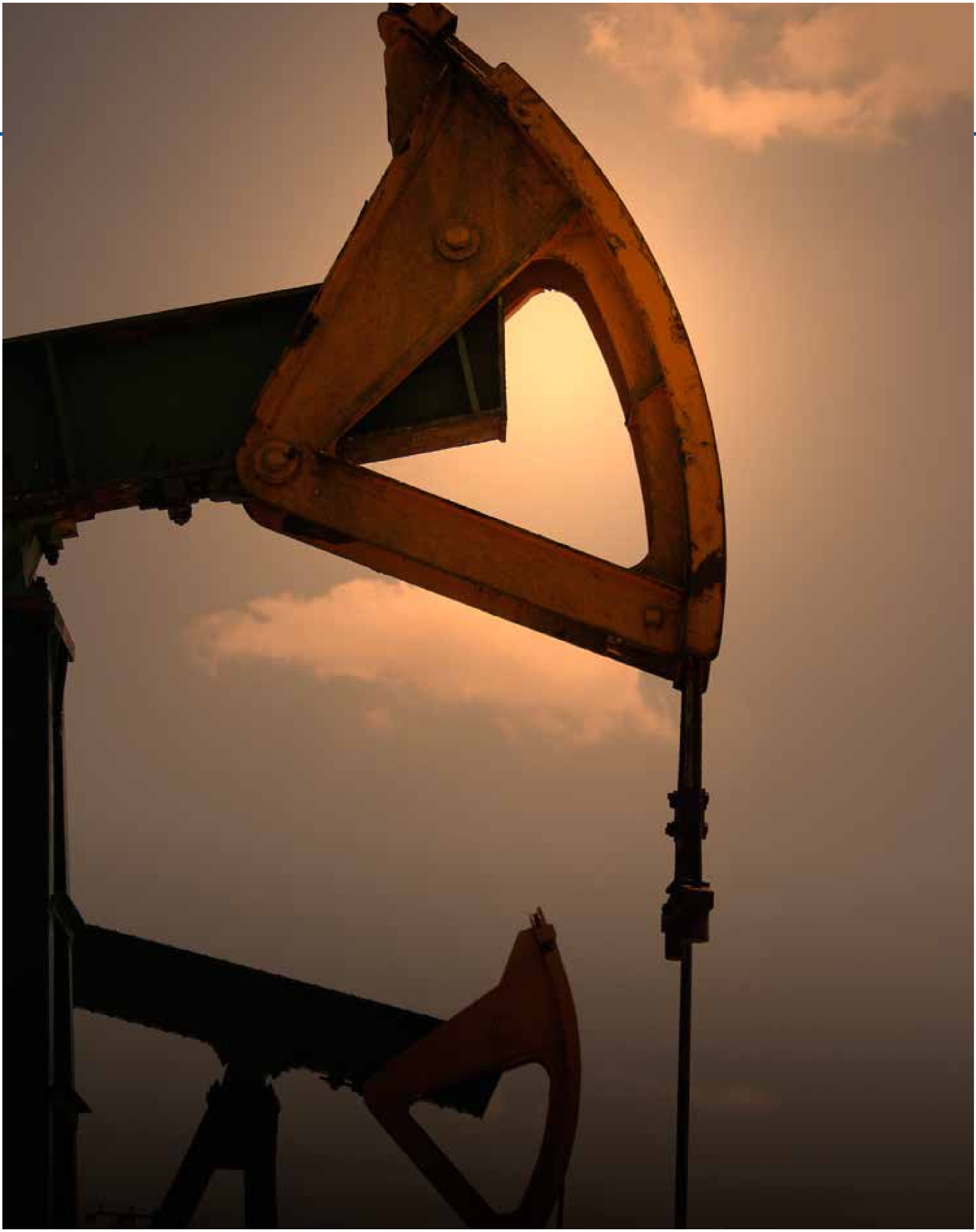
In performing its tasks, the Audit Committee is authorised to oversee the internal processes in INA, request additional information from the Company or its auditors, and to conduct interviews with employees. Further, the Committee is authorised to engage independent consultants at the expense of the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

Members of INA Audit Committee on December 31, 2012 are:
Željko Perić, Chairman
József Molnár, Member
József Simola, Member
Damir Vanđelić, Member

Given the fact that the INA's shares are listed on a regulated market,INA – Industrijanafte, d.d. applies the Corporate Governance Code, which has been jointly prepared by the Croatian Financial Services Supervisory Agency (hereinafter: the Agency) andthe Zagreb Stock Exchange (Zagrebačkaburzad.d. Zagreb), in effect as of 1 January 2011 and published on the Internet page ofthe Zagreb Stock Exchange (http://www.zse.hr). In addition to the Corporate Governance Code, INA Group alsoapplies its own Code of Ethics, which defines the basic values andprinciples of the conduct of the management and the employeesof INA Group regarding their attitude towards work, associates,business partners and the public. The Code also sets forth theobligations of INA Group of securing appropriate work conditionsand professional development to employees as well as theavoidance of unacceptable forms of behaviour. The Code coversa broad area of business relationships and processes and has tobe observed by all persons acting in the name and on the behalf of INA Group, including natural persons or legal entities who are in a contractual relationship with INA Group (business partners, consultants, suppliers, sellers etc.). These persons or entities can access the Code on the Internet page of INA,d.d. (http://www.ina.hr). INA,d.d. in general abides to the provisions of the Corporate Governance Code, with exceptions stated in the Annual Corporate governance Questionnaire published on

INA's web site. Some of the exceptions are as follows:
• INA, d.d. does not publish nor update the list of shareholders. The ownership structure is available on the Company's Internet page, while a detailed list of shareholders is kept by the Central Depository & Clearing Company Inc. which, in accordance with law, publishes a list of the ten largest shareholders on its Internet page.

• INA,d.d. does not publish data on the Company's shares held by the Management or Supervisory Board members on its Internet page. Instead all announcements in reference to the securities held by Management or Supervisory Board members can be found on the Company's Internet page.
• INA,d.d. does not provide proxies to the Company's shareholders who, for any reason, would not be able to this themselves, without any additional costs for these shareholders who are obliged to vote at the General Assembly in accordance with the instructions of the shareholders. The shareholders who are not able to vote themselves should, at their own discretion, appoint appropriate proxies who are obliged to vote in accordance with their instructions. The Company did not receive any request of any shareholder in this respect.
• The Company sets the terms and formal conditions to the shareholders for their participation in the General Assembly in accordance with the Companies Act and the Company's Articles of Association, in order to protect the shareholders' rights in conditions of a large number of shareholders.
• The Supervisory Board is not composed of a majority of independent members. It is composed of major shareholders representatives and a workers representative in accordance with Company Act.
• The long-term succession plan has not been published; however, the existing systems of electing members to the Supervisory Board, Management Board and upper management take account of the continuity in performing supervisory, management and administrative functions.
• The Supervisory Board has not organized a remuneration and bonus committee. As part of the best practice harmonization process, in addition to the audit committee, INA,d.d. also plans to establish the remaining proposed committees.
• The Company's bonus policy is part of the internal rules which are published on the Company's Internet page. Data on remunerations to the Management and Supervisory Board members are published in the annual report in their full amount. The current internal regulations do not envisage the possibility of public announcement of these data.
• The amounts of remunerations paid to independent auditors for rendered services have not been published and constitute business secret.



MANAGEMENT BOARD

ZOLTÁN SÁNDOR ÁLDOTT, PRESIDENT OF THE MANAGEMENT BOARD

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

NIKO DALIĆ, MEMBER OF THE MANAGEMENT BOARD

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

PÁL ZOLTÁN KARA, MEMBER OF THE MANAGEMENT BOARD

Pál Zoltán Kara is the Vice President for Legal and General Counsel (Chief Legal Counsel) of MOL Group. He studied legal sciences at ELTE (Budapest) and obtained his diploma with „summa cum laude". Afterwards he became company secretary of and provided legal support for procurement and marketing in GE Lighting Tungsram Co. until May 1997. Between 1997 and 2001, he was Head of HR and Legal in METRO Holding Hungary Trade Ltd. He joined MOL Group in 2001, when he started working as counsel of MOL Plc. until June 2006, when he was appointed as MOL Group General Counsel. He is a member of the Presidium of the National (Hungarian) Trade Association (OKSZ), MOL Ethics Council and since September 2006, chairman of the Supervisory Board of the New Europe Foundation. He was appointed as a member of the Management Board of INA in June 2011.



IVAN KREŠIĆ, MEMBER OF THE MANAGEMENT BOARD

Ivan Krešić has been appointed member of Ina Management Board in February 2011, after serving as the Director of the Rijeka Refinery since 2006. He started his career in INA, in Rijeka based Lubricant refinery, as a process engineer. He was the head of production from 2000 to 2004, when he was appointed Director of INA Lubricants Rijeka. In August 2006, he was appointed Director of Rijeka Refinery. Mr.Krešić graduated from the Faculty of Chemical Engineering and Technology, Zagreb, where he won the Rector´s Award for best student paper. He acquired his Master´s degree at the Rochester Institute of Technology, USA, 2001. He holds MBA certificate, 2003 year, from Bled School of Management. Additionaly, he attended education programs in fields of finance,change management, mergers and acquisitions at London Business School. Mr.Krešić has been a member of the Supervisory Board of Lubricants Zagreb, a member of INA Group, from 2009 until 2011, while he served as a member of the Supervisory Board at STSI, also a member of INA Group, from 2009 until 2010.

DAVOR MAYER, MEMBER OF THE MANAGEMENT BOARD

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

PÉTER RATATICS, MEMBER OF THE MANAGEMENT BOARD

Péter Ratatics is currently the Vice President for Corporate Centre of MOL Group and has been a member of the Management Board of INA since June 2011. He graduated at Corvinus University of Budapest, Faculty of Finance specialization in capital markets. Péter Ratatics started his career as Gas Trading and Business Development expert in MOL Plc., and then he was appointed Head of Executive Board Advisory team in 2009. Between 2009 and 2010 he also acted as Head of Organizational Development and Process Management and in 2010-2011 as Head of Management Services.
From May 2011 he has been working as Director and since October 2012 as Vice President of Corporate Centre of MOL Group. Alongside he is also Vice-Chairman of the Supervisory Board of FGSZ (Natural Gas Transmission).

EXECUTIVE DIRECTORS

ANDRÁS HUSZÁR, Executive Director of Finance

Andras Huszár graduated from the University of Economic Sciences, Faculty of economic planning, Budapest, in 1988. He is a Doctor of Economic Science since 1993. From 1988 until 1990 he worked for IT Company Számalk. From 1991 to 1994 he worked at the Budapest Stock Exchange. Later he joined Investel Plc. on the position of manager of capital markets. Since 1999 until 2001 he worked at the same position at Matav Company, where he later became the treasurer. In 2001 he became the Head of MOL Group Treasury. In 2003 he became a member of the Supervisory Board in the companies TVK and Slovnaft, both members of MOL Group. In January 2010 he was appointed Executive Director for Finance in INA.

ŽELIMIR ŠIKONJA, Executive Director of Exploration and Production

Mr. Želimir Šikonja graduated from the Faculty of Mining, Geology and Petroleum Engineering (MGP), University of Zagreb, Croatia in 1983. He completed number of courses and attended additional education through Project Management, Business Leadership and Mini MBA programs. He was appointed Director of the Southeast Europe Exploration & Production Sector in June 2009. Before that, from 2007 he was Assistant Director of INCT for Rijeka Refinery Modernisation Projects. His extensive years of professional experience were gained in various positions mainly within INA's Business Segment Exploration and Production of oil and gas. From 2005 to 2007 he was Inagip General Manager, while from 2000 he was head of Production Coordination Department. Before that, from 1997 to 2000 he was Field Development Sector Director. He started his career as Production Engineer on Stružec Facility and afterwards was chief technologist on Molve Facility.

DARKO MARKOTIĆ, Executive Director of Retail

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

ARTUR THERNESZ, Executive Director of Refining and Marketing

Artur Thernesz is an internationally acknowledged chemical engineer and manager. He has been working in the downstream of the oil industry for more than 20 years. Artur Thernesz has gained experience in the American company Exxon. He worked in Hamburg, Germany where he was in charge of Retail planning for ESSO Central Europe cluster covering Germany, Switzerland, Austria and other East-European countries. He actively contributed to the merger of local EXXON and Mobil. After joining the growing MOL organization upon invitation in 2005, Mr. Thernesz established and has been leading the co-located Asset, Product, and Renewables Development activities in the Downstream Division. Mr. Thernesz has been main contributor to identifying and pursuing major investment programs in MOL Group. Maintaining world-class capital discipline, he completed the EU-5 fuels program in Hungary, initiated the timely introduction of renewable fuels portfolio in all MOL markets, led the Modernization Program of IES refinery in Italy and contributed to forming the Power Generation segment in MOL. Throughout his managerial career in MOL, he pro-actively promoted young talents development. While taking a key role in MOL's "Growww" and "Fresssh" programs, he established MOL's MSc Course in Hydrocarbon Industries with his colleagues, providing business-oriented young engineering graduates for the international MOL Group. Mr Artur Thernesz speaks 4 languages. In January 2012 he was appointed Executive Director for Refining and Marketing in INA.

TVRTKO PERKOVIĆ, Executive Director of Corporate Center

TvrtkoPerković was appointed Executive Director for Corporate Centre BF in September 2012, after serving as Acting Director of the Human Resources Sector from July 2012. He began his career as an intern at INAin 1986 in the Exploration & Production BD, Workover and Well services Facility, after which he worked as a operating engineer to become the head of the Special Services Sector in 1990. From 1995 until 1997, he was the Assistant Director of the Technical Services Sector, when he transferred to CROSCO, d.o.o. to the position of Director of the Strategy and Development Sector. In 1999 and 2000 he managed a project for the implementation of the SAP system in INAafter which he was appointed to the position of Director of the Strategy, Human Resources and IT Sector at CROSCO, d.o.o. In July 2009, he returned to INAto perform the tasks of Director of the Upstream Support Sector and was appointed to the position of president of the Management Board of STSI, ltd. in 2010, a position he held until July 2012.

TOMISLAV THÜR, Executive Director of Corporate Affairs

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

CORPORATE AND SHAREHOLDERS INFORMATION

INA was founded on 1 January 1964 when the operations of Naftaplin (oil and gas exploration and production) were merged with those of the refineries of Rijeka and Sisak. In 1990 INA became a stateowned enterprise.

In 1993, INA became a joint stock company ("d.d."), its share capital divided into 10,000,000 ordinary shares. The nominal value of one share was HRK 900.00. Each INA ordinary share carries one vote and a share in the dividend.

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

Two years later, in 2005, 7% of INA shares were transferred to the Croatian Homeland Independence War Veterans and Their Family Members' Fund.

INA- Industrija nafte,d.d. was officially listed at the Zagreb Stock Exchange on 30 November 2006. The trading in INA's shares officially started at 11:15 on 1 December 2006. The ticker for INA shares is INA-R-A. INA shares are also traded on the London Stock Exchange, where the ticker for INA shares is HINA.

In 2007, Croatian Government decided to sell 7 % of INA shares. (700,000 shares) to the current and former INA employees .

On 14 July 2008, MOL Hungarian Oil and Gas Public Limited Company sent 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.

In September 2008, the Croatian Financial Services Supervision Agency published a decision in the Official Gazette 102/08 approving the publication of the MOL's offer to take over the public joint stock company INA. Following the takeover offer, the total number of ordinary bearer shares held by MOL is 4,715,538, accounting for 47.15538 % of the total share capital, Croatian Government held 4,483,552 shares, while private and institutional investors held 800.910 shares.

On 2 December 2010 MOL Plc. offered to INA's private and institutional shareholders to purchase the total of un-encumbered and fully paid off INA ordinary shares, bearing the symbol INA-R-A, each in nominal value of HRK 900 for the price of HRK 2,800 per share. Validity period of this offer is from 15 December 2010 to 14 January 2011. Following the takeover offer, MOL's stake was 4,725,620, or 47.26% of share capital of the Company.

As of 31 December 2012 INA's shareholders' structure is as follows:

- MOL 4,908,207 shares – 49.08%
- Republic of Croatia 4,483,552 shares – 44.84%
- Institutional and private investors – 608,241 shares – 6.08%.

EXPECTED DEVELOPMENT AND RESEARCH

Despite operating in extremley challenging environment, depressed market demand and lack of Syrian production, INA managed to maintain stable revenues and strong EBITDA result in 2012. Such a solid performance, although burdened with strong negative impact of further economic slowdown and political situation in Syria, was influenced by continuing efficiency improvements and strong cost control together with improved crack spread environment with relatively stable crude prices compared to 2011.

Boosting operating cash flow to the level ofHRK 3.7 billion in 2012, shows 14% raise over 2011 figure, while strengthening the Company's financial position and building a solid base for future investment plans and debt repayment. Such a strong financial position enabled significant improvements of Company's financial leverage and net indebtedness.

In 2012INA managed to significantly increase share of domestic capital investments that shows that 94% of total capital investments refer to Croatia, which positions INA as the largest investor in the country.

There are no signs to indicate that uncertainty will stop to overcast the markets in the foreseeable future. Therefore, the financial security remains INA's overriding priority in the future. In2013 INA continues to expect operating in challenging environment, both domestic and regional. Domestic demand is expected to remain weak, which is why the consumption of refined products is likely to remain subdued. Despite challenging environment, INA stays committed to further improve operational efficiency, cost controlland procurement processes, with an aim of reaching additional savings.

The process of building the Company's value would advance through further development of exploration and production activities as the backbone of INA's performance, maximising efficiency of the refining segment, improving quality of retail service and products and through operational improvement and cost control in other corporate segments.

Being the backbone of the Company's growth and performance in the past, Exploration and Production Business Segment will continue to pursue an exploration-led strategy by developing existing projects and through potential inorganic steps. In the forthcoming period, INA plans to continue with drilling exploration and development wells, 3D seizmic acquisition and geological studies.The Company is targeting a sustainable reserve replacement and compensating natural production decline from legacy assets with development of existing assets in the strategic period. Given that the current production has not been met with the optimal reserve replacement, INA is activly searching for a projects characterized by a steady and long-lasting production horizon.

Major investments in refining sector have been finished in 2011, but Company remains committed to further development of this segment with a number of projects oriented on HSE and efficiency improvement. The management of INA is committed to satisfying fuel demand and attaining the highest possible market share both on domestic and export markets in a profitable way, while related to market approach further improvements in commercial sector shall be taken with a continuing effort to ensure a strong leadership position on the Croatian and Bosnian markets even in challenging market conditions.

SHAREHOLDERS INFORMATION

CORPORATE ADDRESS

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CENTRAL DEPOSITORY AND CLEARING COMPANY INC.

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ZAGREB STOCK EXCHANGE

Ivana Lučića 2a
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Phone: +385 1 4686 800
Web: www.zse.hr

LONDON STOCK EXCHANGE PLC.

10 Paternoster Square
London
EC4M 7LS
Phone: +44 (0) 20 7797 1000
Web: www.londonstockexchange.com

ANNOUNCEMENTS

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

INVESTOR RELATIONS

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ADDRESS BOOK

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INA'S SUBSIDIARIES IN CROATIA

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10 000 Zagreb, Croatia
Telephone: +385 1 3652 333, Fax:
+385 1 3652 448
E-mail: info@crosco.com
Web: www.crosco.com

STSI - Integrated Technical Services Ltd. Zagreb
Lovinčićeva bb, 10 000 Zagreb, Croatia
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Fax: +385 1 2450 103
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Web: www.stsi.hr

INA Maziva Zagreb
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ITR d.o.o. Zagreb
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TOP RAČUNOVODSTVO SERVISI d.o.o.
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E-mail: info-trs@ina.hr

INA'S SUBSIDIARIES ABROAD COMPANIES ABROAD IN INA'S OWNERSHIP OR IN WHICH INA HAS EQUITY

INTER INA d.o.o. LJUBLJANA
Kotnikova 5,
1000 Ljubljana, Slovenia
Phone: +386 (1) 30 09 240,
Fax: +386 (1) 43 20 069
E-mail: interina@interina.si
Web: www.interina.si

INA BH d.d. Sarajevo
Azize Šaćirbegović br. 4b,
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INA d.o.o. BEOGRAD
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INA CRNA GORA d.o.o. PODGORICA
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FINANCIAL STATEMENTS

CONTENT

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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 "Presentation of Financial Statements" 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 under stand 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:
Zoltán Sándor Áldott, President of the Management Board of INA
INA - Industrija Nafte d.d.
Avenija Većeslava Holjevca 10
10000 Zagreb
Republic of Croatia
12 March 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of INA - Industrija nafte d.d.

We have audited the accompanying consolidated and unconsolidated financial statements of INA - Industrija nafte d.d. ("the Company") and its subsidiaries ("the Group"), set out on pages 4 to 122, which comprise the consolidated and unconsolidated statements of financial position as of 31 December 2012, the consolidated and unconsolidated income statements, consolidated and unconsolidated statements of comprehensive income, consolidated and unconsolidated statements of cash flow and consolidated and unconsolidated statements of changes in equity 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 and for such internal control as management determines is necessary to enable the preparation of consolidated and unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Company and the Group as of 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Political situation in Syria

We draw attention to Note 3 to the financial statements which describes the uncertainty related to the current political situation in Syria, where the INA Group has assets of HRK 4,562 million and liabilities of HRK 5 million in the statement of financial position at 31 December 2012. Our opinion is not qualified in respect of this matter (see note 3).

Deloitte d.o.o.

Branislav Vrtačnik, Certified Auditor

Zagreb, Republic of Croatia
12 March 2013

INA - INDUSTRIJA NAFTE D.D.
INA GROUP CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012 (ALL AMOUNTS IN HRK MILLIONS)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Sales revenue			
a) domestic		19,090	18,115
b) exports		10,805	11,913
Total sales revenue	4	29,895	30,028
Income from own consumption of products and services		269	309
Other operating income	5	353	485
Total operating income		30,517	30,822
Changes in inventories of finished products and work in progress		281	394
Cost of raw materials and consumables		(15,151)	(13,657)
Depreciation and amortisation	6	(2,016)	(2,640)
Other material costs		(1,696)	(1,801)
Service costs		(1,360)	(1,217)
Staff costs	7	(2,636)	(2,752)
Cost of other goods sold		(5,377)	(5,267)
Impairment charges (net)	8	(1,063)	(1,256)
Provision for charges and risks (net)	9	(143)	413
Operating expenses		(29,161)	(27,783)
Profit from operations		1,356	3,039
Finance income	10	137	145
Finance costs	11	(426)	(808)
Net loss from financial activities		(289)	(663)
Profit before tax		1,067	2,376
Income tax expense	12	(380)	(573)
Profit for the year		687	1,803
Attributable to:			
Owners of the Company		681	1,815
Non-controlling interests		6	(12)
		687	1,803
Earnings per share			
Basic and diluted earnings per share (kunas per share)	13	68.1	181.5

Signed on behalf of the Group on 12 March 2013 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012 (ALL AMOUNTS IN HRK MILLIONS)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Profit for the year		687	1,803
Other comprehensive income:			
Exchange differences arising from foreign operations		(111)	276
Gain/(loss) on available-for-sale investments,net		13	(27)
Other comprehensive (loss)/income, net		(98)	249
Total comprehensive income for the year		589	2,052
Attributable to:			
Owners of the Company		583	2,064
Non-controlling interests		6	(12)

Signed on behalf of the Group on 12 March 2013 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA - INDUSTRIJA NAFTE D.D.

INA, D.D. UNCONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012 (ALL AMOUNTS IN HRK MILLIONS)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Sales revenue			
a) domestic		17,188	15,820
b) exports		9,216	10,471
Total sales revenue	4	26,404	26,291
Income from own consumption of products and services		2	5
Other operating income	5	419	560
Total operating income		26,825	26,856
Changes in inventories of finished products and work in progress		181	349
Cost of raw materials and consumables		(15,628)	(13,814)
Depreciation and amortisation	6	(1,835)	(2,397)
Other material costs		(1,536)	(1,514)
Service costs		(1,204)	(965)
Staff costs	7	(1,617)	(1,666)
Cost of other goods sold		(1,324)	(2,644)
Impairment and charges (net)	8	(1,967)	(1,306)
Provision for charges and risks (net)	9	(132)	244
Operating expenses		(25,062)	(23,713)
Profit from operations		1,763	3,143
Finance income	10	393	355
Finance costs	11	(487)	(933)
Net loss from financial activities		(94)	(578)
Profit before tax		1,669	2,565
Income tax expense	12	(346)	(598)
Profit for the year		1,323	1,967
Earnings per share			
Basic and diluted earnings per share (kunas per share)	13	132.3	196.7
Profit for the year		1,323	1,967
Other comprehensive income:			
Exchange differences arising from foreign operations		(116)	287
Gain/(loss) on available-for-sale investments, net		13	(27)
Other comprehensive (loss)/income, net		(103)	260
Total comprehensive income for the year		1,220	2,227

Signed on behalf of the Group on 12 March 2013 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA - INDUSTRIJA NAFTE D.D.

INA GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012 (ALL AMOUNTS IN HRK MILLIONS)

ASSETS	Notes	31 December 2012	31 December 2011
Non-current assets			
Intangible assets	14	676	880
Property, plant and equipment	15	18,716	20,294
Goodwill	16	183	183
Investments in associates and joint ventures	18	34	34
Other investments	19	187	355
Long-term receivables and other assets	20	207	167
Deferred tax	12	544	662
Available-for-sale assets	21	340	325
Total non – current assets		20,887	22,900
Current assets			
Inventories	22	3,352	3,693
Trade receivables, net	23	2,770	3,282
Other receivables	24	516	456
Other current assets		32	78
Prepaid expenses and accrued income		142	79
Cash and cash equivalents	25	488	337
Total current assets		7,300	7,925
TOTAL ASSETS		28,187	30,825

Signed on behalf of the Group on 12 March 2013 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA - INDUSTRIJA NAFTE D.D.

INA GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED) AT 31 DECEMBER 2012 (ALL AMOUNTS IN HRK MILLIONS)

EQUITY AND LIABILITIES	Notes	31 December 2012	31 December 2011
Capital and reserves			
Share capital	33	9,000	9,000
Revaluation reserve	34	13	-
Other reserves	35	2,505	2,616
Retained earnings	36	3,437	2,759
Equity attributable to owners of the Company		14,955	14,375
Non-controlling interests	37	(1)	(10)
TOTAL EQUITY		14,954	14,365
Non – current liabilities			
Long-term loans	29	1,161	5,630
Other non-current liabilities	30	101	126
Employee benefit obligation	32	100	104
Provisions	31	2,713	2,715
Total non–current liabilities		4,075	8,575
Current liabilities			
“Bank loans and overdrafts”	26	1,266	1,918
Current portion of long-term loans	26	4,725	1,904
Trade payables	27	1,684	2,032
Taxes and contributions	27	497	1,524
Other current liabilities	27	596	246
Accruals and deferred income	28	36	48
Employee benefit obligation	32	10	13
Provisions	31	344	200
Total current liabilities		9,158	7,885
Total liabilities		13,233	16,460
TOTAL EQUITY AND LIABILITIES		28,187	30,825

Signed on behalf of the Group on 12 March 2013 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA - INDUSTRIJA NAFTE D.D.

INA, D.D. UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012 (ALL AMOUNTS IN HRK MILLIONS)

ASSETS	Notes	31 December 2012	31 December 2011
Non-current assets			
Intangible assets	14	671	876
Property, plant and equipment	15	17,063	18,555
Investment in subsidiaries	17	1,161	1,033
Investments in associates and joint ventures	18	34	34
Other investments	19	798	799
Long-term receivables	20	210	207
Deferred tax	12	494	592
Available-for-sale assets	21	340	325
Total non–current assets		20,771	22,421
Current assets			
Inventories	22	2,485	3,030
Intercompany receivables		2,226	1,588
Trade receivables, net	23	1,103	1,781
Other receivables	24	428	379
Other current assets		83	313
Prepaid expenses and accrued income		79	54
Cash and cash equivalents	25	270	229
Total current assets		6,674	7,374
TOTAL ASSETS		27,445	29,795

Signed on behalf of the Group on 12 March 2013 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA - INDUSTRIJA NAFTE D.D.

INA, D.D. UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED) AT 31 DECEMBER 2012 (ALL AMOUNTS IN HRK MILLIONS)

EQUITY AND LIABILITIES	Notes	31 December 2012	31 December 2011
Capital and reserves			
Share capital	33	9,000	9,000
Revaluation reserve	34	13	-
Other reserves	35	2,123	2,239
Retained earnings	36	4,366	3,043
TOTAL EQUITY		15,502	14,282
Non–current liabilities			
Long term loans	29	1,053	5,556
Other non-current liabilities	30	71	106
Employee benefit obligation	32	67	61
Provisions	31	2,663	2,665
Total non–current liabilities		3,854	8,388
Current liabilities			
Bank loans and overdrafts	26	1,057	1,784
Current portion of long-term loans	26	4,648	1,817
Intercompany payables		383	646
Trade payables	27	964	1,111
Taxes and contributions	27	385	1,349
Other current liabilities	27	328	197
Accruals and deferred income	28	34	48
Employee benefit obligation	32	6	5
Provisions	31	284	168
Total current liabilities		8,089	7,125
Total liabilities		11,943	15,513
TOTAL EQUITY AND LIABILITIES		27,445	29,795

Signed on behalf of the Group on 12 March 2013 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA - INDUSTRIJA NAFTE D.D.

INA GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012 (ALL AMOUNTS IN HRK MILLIONS)

	Share capital	Other reserves	Revaluation reserves	Retained earnings	Attributable to equity holders of the parent	Non controlling interest	Total
Balance at 1 January 2011	9,000	2,340	27	1,424	12,791	2	12,793
Profit for the year	-	-	-	1,815	1,815	(12)	1,803
Other comprehensive income, net	-	276	(27)	-	249	-	249
Total comprehensive income for the year	-	276	(27)	1,815	2,064	(12)	2,052
Dividend paid	-	-	-	(480)	(480)	-	(480)
Balance at 31 December 2011	9,000	2,616	-	2,759	14,375	(10)	14,365
Profit for the year	-	-	-	681	681	6	687
Purchase of non-controlling interest	-	-	-	(3)	(3)	3	-
Other comprehensive income, net	-	(111)	13	-	(98)	-	(98)
Total comprehensive income for the year	-	(111)	13	678	580	9	589
Balance at 31 December 2012	9,000	2,505	13	3,437	14,955	(1)	14,954

Signed on behalf of the Group on 12 March 2013 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA, D.D. UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012 (ALL AMOUNTS IN HRK MILLIONS)

	Share capital	Other reserves	Revaluation reserves	Retained earnings	Total
Balance at 1 January 2011	9,000	1,952	27	1,556	12,535
Profit for the year	-	-	-	1,967	1,967
Other comprehensive gain, net	-	287	(27)	-	260
Total comprehensive income for the year	-	287	(27)	1,967	2,227
Dividend paid	-	-	-	(480)	(480)
Balance at 31 December 2011	9,000	2,239	-	3,043	14,282
Profit for the year	-	-	-	1,323	1,323
Other comprehensive income, net	-	(116)	13	-	(103)
Total comprehensive income for the year	-	(116)	13	1,323	1,220
Balance at 31 December 2012	9,000	2,123	13	4,366	15,502

Signed on behalf of the Group on 12 March 2013 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA - INDUSTRIJA NAFTE D.D.

INA GROUP CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012 (ALL AMOUNTS IN HRK MILLIONS)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Profit for the year		687	1,803
Adjustments for:			
Depreciation and amortisation		2,016	2,640
Income tax expense recognized in income statement		380	573
Impairment charges		1,281	1,489
Reversal of impairment		(218)	(233)
Gain on sale of property, plant and equipment		(36)	(14)
Foreign exchange loss		44	201
Interest expense (net)		123	140
Other finance expense recognised in income statement		98	166
Increase/(decrease) in provisions		136	(389)
Decommisioning interests and other provision		115	118
Other non-cash items		(85)	(38)
		4,541	6,456
Movements in working capital			
Decrease/(increase) in inventories		190	(893)
Decrease/(increase) in receivables and prepayments		379	(113)
Decrease in trade and other payables		(120)	(1,706)
Cash generated from operations		4,990	3,744
Taxes paid		(1,248)	(462)
Net cash inflow from operating activities		3,742	3,282
Cash flows used in investing activities			
Payments for property, plant and equipment		(1,190)	(1,281)
Payments for intangible assets		(99)	(121)
Proceeds from sale of non-current assets		9	14
Payment related to sale of subsidiaries		-	22
Dividends received from companies classified as available-for-sale and from other companies		1	8
Interest received and other financial income		19	28
Investments and loans to third parties, net		142	(9)
Net cash used for investing activities		(1,118)	(1,339)
Cash flows from financing activities			
Additional long-term borrowings		318	80
Repayment of long-term borrowings		(1,934)	(1,313)
Additional short-term borrowings		15,280	19,267
Repayment of short-term borrowings		(15,936)	(19,081)
Dividends paid		-	(480)
Interest paid on long-term loans		(93)	(66)
Other long-term liabilities, net		-	(8)
"Interest paid on short-term loans and other financing charges"		(96)	(251)
Net cash used in financing activities		(2,461)	(1,852)
Net increase in cash and cash equivalents		163	91
At 1 January		337	317
Effect of foreign exchange rate changes		(12)	(71)
At 31 December	25	488	337

Signed on behalf of the Group on 12 March 2013 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA - INDUSTRIJA NAFTE D.D.

INA, D.D. UNCONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012 (ALL AMOUNTS IN HRK MILLIONS)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Profit for the year		1,323	1,967
Adjustments for:			
Depreciation and amortisation		1,835	2,397
Income tax expense recognized in income statement		346	598
Impairment charges		2,156	1,838
Reversal of impairment		(189)	(532)
Gain on sale of property plant and equipment		(6)	(3)
Foreign exchange (gain)/loss		(29)	50
Interest (income)/expense (net)		(16)	231
Other finance (income)/expense recognised in income statement		(4)	195
Increase/(decrease) in provisions		121	(161)
Merger of Proplin		-	(34)
Decommisioning interests		113	118
Other non-cash items		3	18
		5,653	6,682
Movements in working capital			
Decrease/(increase) in inventories		413	(934)
Increase in receivables and prepayments		(873)	(863)
Decrease in trade and other payables		(247)	(2,125)
Cash generated from operations		4,946	2,760
Taxes paid		(1,244)	(475)
Net cash inflow from operating activities		3,702	2,285
Cash flows used in investing activities			
Payment for property, plant and equipment		(1,048)	(1,267)
Payment for intangible assets		(147)	(121)
Proceeds from sale of non-current assets		6	-
Aquisition for investments in subsidiaries, associates and joint ventures and other companies		(16)	-
Dividends received from companies classified as available- for-sale and from other companies		1	8
Payments received from subsidiaries		33	164
Investments and loans, net		(43)	(159)
Net cash used in investing activities		(1,214)	(1,375)
Cash flows from financing activities			
Additional long-term borrowings		168	80
Repayment of long-term borrowings		(1,808)	(1,261)
Additional short-term borrowings		14,894	17,727
Repayment of short-term borrowings		(15,612)	(16,818)
Dividends paid		-	(480)
Interest paid on long-term loans		(82)	(56)
Other long-term liabilities, net		(36)	(9)
"Interest paid on short term loans and other financing charges"		44	(135)
Net cash used in financing activities		(2,432)	(952)
"Net increase/(decrease) in cash and cash equivalents"		56	(42)
At 1 January		229	260
Effect of foreign exchange rate changes		(15)	11
At 31 December	25	270	229

Signed on behalf of the Group on 12 March 2013 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

History and incorporation

INA - Industrija nafte d.d. (INA or INA, d.d.) 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 and became a share based company in 1993 (or "d.d."). Apart from Croatia, INA, d.d. today has business operations in Angola, Egypt and Syria in the oil and gas exploration and production segment, INA, d.d. operates two refineries in Rijeka and Sisak and a regional petrol stations network. Additionally, INA, d.d. sells products on European market and non-European market, in particular in Bosnia and Herzegovina.
In 2002, the Croatian Parliament passed the Law on the Privatisation of INA, d.d. and during the same year 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 Nyrt. (MOL) acquired 25 % plus one share of INA. In 2005 7% of INA shares, were transferred to the Croatian Homeland Independence War Veterans and Their Family Members' Fund without any fee. In 2006 INA, d.d. 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 Croatian citizens with priority rights and to domestic and foreign, natural and legal persons without priority rights and preferential terms. The shares became publicly traded on 1 December 2006.
In 2007, based on the Government Decision the existing and former employees of INA, d.d. has purchased 628,695 shares (6.28 % share capital).
In 2008, MOL announced, together with the Republic of Croatia, a voluntary offer to take over all the shares not held by MOL or the Republic of Croatia which was accepted by 26,835 shareholders.
On 30 January 2009 MOL and 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, d.d. 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 ownership structure* of the INA Group as of 31 December 2012 and 2011:

	31 December 2012		31 December 2011	
	Number of shares	Ownership in %	Number of shares	Ownership in %
Zagrebačka banka d.d./Unicreditbank Hungary Zrt, for MOL Nyrt, Hungary	4,908,207	49.08	4,725,620	47.26
Government of the Republic of Croatia	4,483,552	44.84	4,483,552	44.84
Institutional and private investors	608,241	6.08	790,828	7.90
	10,000,000	100	10,000,000	100

*Source: Central Clearing Depository Company registrar

Principal activities

Principal activities of INA, d.d. and its subsidiaries (Group) are:
(i) exploration and production of oil and gas deposits, primarily onshore and offshore within Croatia; other licence interests are held in abroad;
(ii) import of natural gas and sale of imported and domestically produced natural gas to industrial consumers and municipal gas distributors;
(iii) refining and production of oil products through refineries located at Rijeka (Urinj) and Sisak, and Zagreb lubricants plants;
(iv) distribution of fuels and associated products through a chain of 448 retail outlets in operation as of 31 December 2012 (of which

396 in Croatia and 52 outside Croatia);
(v) trading in petroleum products through a network of foreign subsidiaries and representative offices, principally in 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, d.d. also holds an 11.795 % interest in JANAF d.d., the company that owns and operates the Adria pipeline system.
The headquarters of the Group are located in Zagreb, Avenija V. Holjevca 10, Croatia. As at 31 December 2012 there were 13,854 persons employed at the Group (14,217 as at 31 December 2011). As at 31 December 2012 there were 8,712 persons employed at INA, d.d. (8,876 as at 31 December 2011).
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 19 April 2010 until 16 January 2011

Ivan Šuker	Chairman
György Mosonyi	Deputy chairman
József Molnár	
Ábel Galácz	
Tomislav Ivić	
József Simola	
Božidar Pankretić	
Oszkár Világi	

Supervisory Board from 17 January 2011 until 23 May 2011

Davor Štern	Chairman
György Mosonyi	Deputy chairman
József Molnár	
Ábel Galácz	
Damir Vanđelić	
Gordana Sekulić	
József Simola	
Oszkár Világi	

Supervisory Board from 24 May 2011 until 10 April 2012

Davor Štern	Chairman
György Mosonyi	Deputy chairman
József Molnár	
Ábel Galácz	
Damir Vanđelić	
Gordana Sekulić	
Oszkár Világi	
József Simola	
Maja Rilović	Representative of employees

Supervisory Board from 11 April 2012 until 17 December 2012

Davor Štern	Chairman
György Mosonyi	Deputy chairman
József Molnár	
Ábel Galácz	
Damir Vanđelić	
Gordana Sekulić	
Oszkár Világi	
József Simola	
Maja Rilović	Representative of employees

Supervisory Board since 18 December 2012

Siniša Petrović	Chairman
György Mosonyi	Deputy chairman
József Molnár	
Szabolcs I. Ferencz	
Željko Perić	
Mladen Proštenik	
Oszkár Világi	
Ferenc Horváth	
Božo Mikuš*	Representative of employees*

*Božo Mikuš participates in the Supervisory Board from 18 December 2012 pursuant to the Workers Council Decision on 21 September 2011

Management Board from 1 April 2010 until 10 February 2011

Zoltán Sándor Áldott	President of the Management Board
Alács Lajos	Member of the Management Board
Holoda Attila István	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

Management Board from 11 February 2011 until 8 June 2011

Zoltán Sándor Áldott	President of the Management Board
Alács Lajos	Member of the Management Board
Holoda Attila István	Member of the Management Board
Niko Dalić	Member of the Management Board
Davor Mayer	Member of the Management Board
Ivan Krešić	Member of the Management Board

Management Board since 9 June 2011

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

Executive Board appointed by the decision of the Management Board from 1 November 2010 until 13 June 2011

Bojan Milković - CEO and Executive Director of Exploration and Production

Peter Chmurčiak - Executive Director in charge of Refining and Marketing

Darko Markotić - Executive Director in charge of Retail

András Huszár - Executive Director in charge of Finance

Berislav Gašo - 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 from 14 June 2011 until 7 November 2011

Želimir Šikonja - Executive Director of Exploration and Production

Peter Chmurčiak - Executive Director in charge of Refining and Marketing

Darko Markotić - Executive Director in charge of Retail

András Huszár - Executive Director in charge of Finance

Berislav Gašo - 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 from 8 November 2011 until 31 August 2012

Želimir Šikonja - Executive Director of Exploration and Production

Artur Thernesz - Executive Director in charge of Refining and Marketing

Darko Markotić - Executive Director in charge of Retail

András Huszár - Executive Director in charge of Finance

Berislav Gašo - 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 1 September 2012

Želimir Šikonja - Executive Director of Exploration and Production

Artur Thernesz - Executive Director in charge of Refining and Marketing

Darko Markotić - Executive Director in charge of Retail

András Huszár - Executive Director in charge of Finance

Tvrtko Perković - Executive Director in charge of Corporate Centre

Tomislav Thür - Executive Director in charge of Corporate Affairs

Secretary since 18 June 2008

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

2. ACCOUNTING POLICIES

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

Presentation of the financial statements

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

Basis of accounting

The Company maintains its accounting records in Croatian language, in Croatian kuna and in accordance with Croatian law and the accounting principles and practices observed by enterprises in Croatia. The accounting records of the Company's subsidiaries in Croatia and abroad are maintained in accordance with the requirements of the respective local jurisdictions.
The Company's and Group's financial statements are prepared under the historical cost convention, modified by the revaluation of certain assets and liabilities under conditions of hyperinflation in the period to 1993 and except for certain financial instruments that are measured at fair values, 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 International Financial Reporting Standards

Standards and Interpretations effective in the current period
The following new and 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:

- Amendments to IFRS 1 First –time Adoption of IFRS – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),

- Amendments to IFRS 7 Financial Instruments - Disclosures – Transfer of Financial Assets (effective for annual periods beginning on or after 1 July 2011),

- Amendments to IAS 12 Income tax - Deferred tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the INA Group accounting policies and it is not expected that these have a material impact on the group.

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, as amended in 2010, (effective for annual periods beginning on or after 1 January 2015),

- IFRS 10 Consolidated Financial Statements, published in May 2011, supersedes the previous version of IAS 27 (2008) Consolidated and Separate Financial Statements, (effective for annual periods beginning on or after 1 January 2013),

- IFRS 11 Joint Arrangements, published in May 2011, supersedes IAS 31 Interests in Joint Ventures (effective for annual periods beginning on or after 1 January 2013),

- IFRS 12 Disclosure of Interests in Other Entities, published in May 2011 (effective for annual periods beginning on or after 1 January 2013),

- IFRS 13 Fair Value Measurement, published in May 2011 (effective for annual periods beginning on or after 1 January 2013),

- IAS 27 Separate Financial Statements (as amended in 2011), consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10 Consolidated Financial Statements, (effective date of IAS 27 (as amended in 2011) for annual periods beginning on or after 1 January 2013),

- IAS 28 Investments in Associates and Joint Ventures (as amended in 2011). This version supersedes IAS 28 (2003) Investments in Associates (effective date of IAS 28 (as amended in 2011) for annual periods beginning on or after 1 January 2013).

• Amendments to IFRS 1 First –time Adoption of IFRS, published in March 2012, amendments for government loan with a below market rate of interest when transitioning to IFRS, (effective for annual periods beginning on or after 1 January 2013),

• IFRS 7 Financial Instruments: Disclosures, published in December 2011, amendments enhancing disclosures about offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013) and amendments requiring disclosures about the initial application of IFRS 9 (effective for annual periods beginning on or after 1 January 2015),

• Amendments to IAS 1 Presentation of Financial Statements - Revising the way of presenting the other comprehensive income (effective for annual periods beginning on or after 1 July 2012).

• Amendments to IAS 19 Employee Benefits - Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after 1 January 2013),

• Amendments to IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosures, published in December 2011, amendments to application guidance on the offsetting of financial assets and financial instruments (effective for annual periods beginning on or after 1 January 2014),

• IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, (effective for annual periods beginning on or after 1 January 2013).

• Annual improvements 2009 – 2011 Cycle, published in May 2012, a collection of amendments to IFRSs, in response to issues addressed during the 2009–2011 cycle. Five standards (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) are primarily affected by the amendments, with consequential amendments to numerous others (effective for annual periods beginning on or after 1 January 2013).

• Transition guidance, published in June 2012, amendment to IFRS 10, IFRS 11 and IFRS 12., (effective for annual periods beginning on or after 1 January 2013)

• Amendments to investment entities for IFRS 10, IFRS 12, IAS 27 published in October 2012 (effective for annual periods beginning on or after 1 January 2014)

INA Group and INA, d.d. have elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

Key requirements of IFRS 9 are described as follows:

• Requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value.

• The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these Standards are described below:
IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under IFRS 10, there is only one basis for consolidation that is control. New definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

IFRS 13 Fair Value Measurement establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances.

Amendments to IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosure
The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IAS 19 Employee Benefits change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets.

The Annual Improvements to IFRSs 2009 – 2011 Cycle issued in May 2012 include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

- The amendments to IAS 16 Property, Plant and Equipment clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.
- The amendments to IAS 32 Financial Instruments: Presentation clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs). Under the Interpretation, the costs from this waste removal activity (stripping) which provide improved access to ore is recognised as a non-current asset (stripping activity asset) when certain criteria are met.
The management anticipates that the adoption of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, will have no material impact on the financial statements of Group in the period of initial application.
INA Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The management anticipates that the adoption of IFRS 9 Financial instruments will have a significant impact on measurement and disclosure of financial instruments and application of IFRS 13 Fair Value Measurement will result in more extensive disclosures in the financial statements.
The management anticipate that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future, also the management anticipate that IFRIC 20 will have no effect to the Group's financial statements as the Group does not engage in such activities.

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, provisions 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. (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.
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.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries 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 subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

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.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 Financial instruments: Recognition and Measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree

prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.
If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising from an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses.
For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

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 except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, investments in associates are carried in the consolidated statement of financial position 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.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.
Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39.

The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to prof-

it or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.
When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

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.
When 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 in a business combination.

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

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.

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.

Italian
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. Upstream performed reserves determination in accordance with SPE PRMS (Society of Petroleum Engineers Petroleum Resources Management System) guidelines.

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:

Software	5 years
Buildings	5 - 50 years
Refineries and chemicals manufacturing plants	3 - 15 years
Petrol service stations	5 - 25 years
Telecommunication and office equipment	2 - 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 other than goodwill

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.
Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as expenditure, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.
When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Finance and operating leases

The determination whether an arrangement contains or is a lease depends on the substance of the arrangement at inception date. If fulfilment of the arrangement depends on the use of a specific asset or conveys the right to use the asset, it is deemed to contain a lease element and are recorded accordingly.
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charges and reduction of the 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.

Receivables from customers

Receivables from customers are shown in amounts identified in the invoices issued to the customers in accordance with the agreement, order, delivery note and other documents which serves as basis for invoicing, decreased with impairment of receivables.

The accounting policies adopted by the Company, defining and recording impairment of short-term receivables for which there is uncertainty that receivables will be charged in accordance with the original contractual terms, is based on the following procedures:

- estimate of recoverability of accounts receivable with individual approach to the Company's strategic customers;
- impairment of other short-term receivables that exceed 120 days from the maturity date.

Company records impairment on doubtful debt based on the estimate of recoverability of receivable with individual approach to the Company's strategic customers and impairment of all short-term receivables which are not included in the individual estimate, regardless of their financial amount but in amount of due doubtful debt that exceeds 120 days from the maturity date.

Adequate impairment for estimated non-refundable amount is recognized in profit or loss when there is objective evidence that the assets should be reduced.

Inventories

Inventories of crude oil, finished and semi-finished products and natural gas are valued as follows:

- Crude oil is carried at the weighted average cost or the production cost. If finished i.e. refined products are impaired, a calculation is used to reduce the crude oil reserve by an aliquot share to its net recoverable amount.
- Finished products are valued at the lower of cost or 96.5% of future average sales price, which approximates the net recoverable amount.
- Semi-finished products are measured using a calculation method, by which they are impaired to the extent that finished products on the basis of actual inventories at the period-end are impaired i.e. 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.

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 statement of financial position date, monetary items denominated in foreign currencies are retranslated to the functional currency of the entity at the rates prevailing on the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Croatian kuna using exchange rates prevailing on the statement of financial position date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising from year-end translation, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of. The foreign concessions of INA, d.d. meets the definition of foreign operation and are treated as such.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

Retirement Benefit and Jubilee Costs

For defined benefit plans for retirement and jubilee awards, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position 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 statement of financial position 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.

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 income statement because of items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's and the Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and are accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such 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 liabilities are recognised on the basis of taxable temporary differences on investments in subsidiaries and associates and joint ventures.

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

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

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

Current and deferred tax for the period

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax and deferred tax arises from the accounting for a business acquiaition, the tax effect is included in the calculation of a for the business acquisition.

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. The contract 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 41. 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 statement of financial position date. The foreign exchange gains and losses that are recognized in profit and loss are determined based on the amortized cost of the monetary assets. Other foreign exchange gains and losses are recognized in other comprehensive income.

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

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

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 and accumulated under the heading of investments revaluation reserve.

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

Financial liabilities and equity instruments

Classification as debt or equity
Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.
Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities
Financial liabilities are classified as either financial liabilities 'at FVTPL' (Fair value through profit and loss) or 'other financial liabilities'.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.
A financial liability is classified as held for trading if:
- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy,

and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid and dividends on the financial liability and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

Other financial liabilities

Other financial liabilities (including borrowings and trade payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments in order to manage with exposure change in changing of commodity prices.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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.

The fair value of embedded forward foreign exchange contracts is determined by reference to spot market foreign currency rates at the statement of financial position date, because there is no active forward market in the countries involved in contracts. The fair value of an embedded inflation index swap is determined by the reference to the cumulative inflation index differential between the contracted inflation escalator and inflation in the country where the contract is executed. The long-term effects of these embedded derivatives are discounted with risk free rate.

Segmental information

IFRS 8 Operating segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Provisions for decommissioning and other obligations

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. When discounting is used, the reversal of such discounting in each year is recognised as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

Provision relating to the decommissioning and removal of assets, such as an oil and gas production facility is initially treated as part of the cost of the related property, plant and equipment. Subsequent adjustments to the provision arising from changes in estimates as decommissioning costs, reserves and production of oil and gas, risk free interest such as discount rate and inflation rare 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.

Revenue recognition

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

Sale of goods

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

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

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

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

Rendering of services

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

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the statement of financial position date;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, 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.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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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.

Critical judgements in applying accounting policies

In the application of the accounting policies, which are described in note 2, 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

Management makes estimates of future expenditure in connection with environmental 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 2,345 million as at 31 December 2012 (31 December 2011 HRK 2,373 million) (see note 31). Consequently, the amounts reported are subject to a large number of variables that may affect the calculation.

The level of provisioning for environmental obligations

The applicable regulations, specifically the environmental protection legislation, do not specify the exact scope of activities or technology to be applied. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. In determining the level of provisions for environmental obligations and decommissioning of oil and gas properties, the management relies on prior experience and their own interpretation of the related legislation. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure. At 31 December 2012 INA Group recognized environmental provision in amount HRK 309 million (2011: HRK 292 million) (see note 31), which covers treatment of accumulated waste generated by former activity, soil excavation and replacement during the reconstruction of filling stations and investigation to determine the extent of the contaminations. It does not cover the cost of remediation in lack of detailed National regulations.

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 judgments used in determining cash receipts and expenditure. The impairment reported in the consolidated income statement amounted to HRK 624 million in 2012 (2011: HRK 609 million). There was no impairment of goodwill in 2012 while impairment of goodwill has been reported in amount of HRK 49 million in 2011 (see note 8). The carrying amount of goodwill amounted to HRK 183 million as of 31 December 2012 and 2011 respectively (see note 16).

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

A deferred tax asset is recognized for unused tax losses only to the extent that it is probable that the related tax benefit will be realise against future taxable profits. Determining the amount of deferred taxes that can be recognised requires a significant level of judgement, which is based on the probable quantification of the time and level of future taxable profits, together with the future tax planning strategy. At 31 December 2012 the carrying amount of deferred tax assets of the INA Group and INA, d.d. amounted to HRK 544 million and HRK 494 million, (31 December 2011: HRK 662 million and HRK 592 million respectively) (see note 12).

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 for INA Group amounted to HRK 110 million as at 31 December 2012 (31 December 2011: HRK 117 million), and INA, d.d. amounted to HRK 73 million as at 31 December 2012 (31 December 2011 HRK 66 million) (see note 32).

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 31).

Useful life of the assets

The INA Group and INA, d.d. review the estimated useful lives of property, plant and equipment at the end of each reporting period. Estimation of useful life is considered to be a significant accounting estimation that effects on the change in depreciation rates. The new estimation of asset useful life at the end of 2012 had no significant changes compared to the previous estimate.

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.

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.

INA Group oil and natural gas exploration and development expenditure are accounted for using the successful efforts method. In accordance with that method the 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.

Impairment of non-current assets based on the treatment of revenues from oil and gas activities in Syria

The unrest in Syria that started in 2011, transformed into a civil war during 2012. Up to now the rebels have not been able to secure an enclave in the country, which could be a base for widening their operations. The size and strength of the rebel force are still inferior to those of the governmental forces, but they are improving their organization, logistics and weaponry. The government has lost its full control over the country and the silent majority is slowly departing from their side. The continued violence has increased international pressure on the regime. The government is nearly fully isolated from the outside world, but UN Security Council decisions are vetoed by Russia and China, thus foreign intervention is currently closed out. Instability associated with the civil war and massive economic sanctions restricting trade have reversed previous growth in the Syrian economy to a state of decline for the years 2011 and 2012. Industrial production and oil production are crippled and there is a sharp depreciation in the Syrian currency.

Up until now, the Hayan block area has been relatively secure with no fighting reported in the close vicinity and only a couple of minor incidents occurring. Nevertheless, our plant and its surrounding are for now relatively safe. Strategically the area is very vital for the government (nearby air and rocket base) and gas, LPG and crude production is very important for Syria as well.

On 22 February 2012 Croatia adopted EU/UN sanctions towards Syrian Arab Republic, hence INA, d.d. declared Force Majeure as from 26 February 2012. By declaring Force Majeure, INA, d.d. suspended all its petroleum activities in Hayan and Aphamia blocks as per Production Sharing Agreement (Hayan/Aphamia) and recalled all its local and expatriate employees from Hayan Petroleum Company (hereinafter: HPC). HPC refused the announcement (claiming non-applicability of Croatian Government decisions outside the Republic of Croatia having INA Branch office subject to Syrian law, and rejecting the existence of any obstacle to contract performance) and requested INA, d.d. to resume its petroleum activities. INA, d.d. provided a response to HPC and to the Syrian Ministry of Petroleum and Mineral Resources explaining the necessity of such action due to an applicable Croatian Government Decision (adopting the European Union Council Decision), which INA, d.d. is directly bound to adhere to and required to comply with.

HPC initiated a court case against INA requesting that it delegate to the Chairman of HPC the powers necessary to manage the operating company and transfer the bank accounts (as of the date of the Force Majeure announcement until INA, d.d. resumes its operations). Currently, INA, d.d. is represented by a local attorney at law, and the court case is pending. Since INA, d.d. is not the only international company operating in Syria, similar court cases have been initiated against other companies like Shell, Total, Suncor and Gulfsands, whereby the court has awarded interim management of the operating company and thereby mandated interim booking of the contractor's share/revenue. As per available information, Hayan Petroleum Company has not received an official written judgment from the court, which would award interim management of the operating company. INA, d.d. expects a similar outcome of its court case as in other cases.

Until 26 February 2012 INA, d.d. regularly issued invoices to HPC but recorded revenues on a cash basis only. The last invoice was issued for February 2012. After the announcement of Force Majeure no invoices have been issued to HPC due to the suspension of petroleum activities. August 2011 was the last month for which INA invoices were regularly paid by HPC in full. Therefore, INA's unrecorded revenues until February 2012 amount to USD 372.5 million.

Changes in revenue recognition in Syria (beginning from early 2011, revenue is recognized only once cash is received from HPC, the Syrian National Oil Company) are considered as an impairment indicator; therefore INA performed an impairment test on its Syrian non-current assets, qualifying as a cash generating unit. Such impairment calculation requires an estimate of the recoverable amount of the Syrian cash generating unit, that is, the higher of fair value less costs to sell and value in use. Value in use has been determined on the basis of discounted estimated future net cash flows. The most significant variables in determining cash flows are discount rates, the period for which cash flow projections are made, as well as the assumptions and estimates used to determine the amount and timing of cash inflows and outflows, including crude oil and natural gas prices (considering the price formulae set out in the respective Production Sharing Agreement), operating expenses and future annual production volumes.

While such cash flows reflect the management's best estimate for the future, these estimates are exposed to an increased uncertainty as a result of the political, security and economic conditions in Syria. Asset-specific discount rates were derived from the USD-based weighted average cost of capital for INA and are adjusted for project-specific risks, as applicable. The discount rate applied was 17.5% (see note 15).

Based on these calculations the management has not recorded any impairment since it is considered that the carrying amount of non-current assets in Syria is recoverable based on the net present value of discounted future cash flows, and the management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of these assets to materially exceed its recoverable amount and management believes that future benefits will flow from Syrian operations. The book value of total Group assets in Syria as at 31 December 2012 was amounted of HRK 4,562 million (31 December 2011: HRK 4,918 million) and liabilities of HRK 5 million in statement of financial position at 31 December 2012 (31 December 2011: HRK 10 million), (see note 4).

As per current assumptions, no impairment is expected even if force majeure (with no payment) continues in 2013 and 2014. NPV is expected to decrease below book value if force majeure lasts further than second quarter of 2015.

These assumptions presume that gas productions from the Syrian block (continues at the level similar to that prevailing prior to the declaration of force majeure).

The management regularly monitors and, if needed, re-assesses impairment calculations based on latest developments in the country.

Oil, condensate, gas and LPG production in Syria is still ongoing. Expatriates (INA) working in Hayan Petroleum Company (HPC) on HPC Hayan and Hayan fields and in HPC Damascus headquarters have not been working in Syria since 25 January 2012, and the main production activities have been taken over by HPC's local workforce, which INA, d.d. considers illegal.

Political developments in Egypt
INA started with exploration activities in Egypt in 1989, as a partner, and in 1997 as an operator, when Branch office was established in Cairo. Oil production, as result of exploration activities, started in 1994.
INA Group has a share of production on Ras Qattara and West Abu Gharadig Concessions operated by IEOC, on North Bahariya Concession operated by Sahara Oil and Gas, and on East Yidma Concession operated by INA. Concession Agreements about petroleum exploration and exploitation rights were contracted between The Arab Republic of Egypt, national petroleum company EGPC and partners. Produced oil is sold to EGPC as per contract.
At the moment political uncertainty remains high as the president, Mohammed Morsi, and the Muslim Brotherhood clash with non-Islamists over the direction of policy. A parliamentary election will be held in early 2013, following the approval of a new constitution in a referendum. A move in late November 2012 by Mr Morsi to extend his already substantial powers has deepened the differences between Islamists on the one hand and liberals and leftists on the other, sparking large protests by the president's opponents but also his supporters.

Depending on the overall political situation in Egypt, adverse effects are possible, such as on the net investment income of the INA Group in Egypt, which could then have an adverse impact on the future operating results of the INA Group. Currently the company records 100% impairment on the receivables from EGPC overdue by more than 120 days.

Liquidity assessment
As of 31 December 2012, the Group's current liabilities exceeded its current assets by HRK 1,857 million, mainly coming from the current portion of the long term debt, for the repayment of which company management already started preparatory activities and plans to obtain additional external financing.
As of 31 December 2012, Group has contracted undrawn short-term bank credit lines amounting to USD 175 million, excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and has contracted undrawn long-term revolving credit lines amounting to USD 390.6 million.

4. 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 of Oil and Gas – 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
- Business function - in addition to the three core business segments in above, the operations of the INA Group include the fourth business segment Business function which provides services for core activities.

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

BY BUSINESS						
INA Group						
2012	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination	Total
Sales to external customers	8,886	13,203	7,757	49	-	29,895
Inter-segment sales	3,378	6,501	31	549	(10,459)	-
Total revenue	12,264	19,704	7,788	598	(10,459)	29,895
Operating expenses, net of other operating income	(8,477)	(21,537)	(7,791)	(1,193)	10,459	(28,539)
Profit from operations	3,787	(1,833)	(3)	(595)	-	1,356
Net finance loss						(289)
Profit before tax						1,067
Income tax expense						(380)
Profit for the year						687
2011						
Sales to external customers	10,684	11,609	7,649	86	-	30,028
Inter-segment sales	2,645	6,317	27	588	(9,577)	-
Total revenue	13,329	17,926	7,676	674	(9,577)	30,028
Operating expenses, net of other operating income	(7,188)	(20,454)	(7,629)	(1,295)	9,577	(26,989)
Profit from operations	6,141	(2,528)	47	(621)	-	3,039
Net finance loss						(663)
Profit before tax						2,376
Income tax expense						(573)
Profit for the year						1,803

BY BUSINESS						
INA Group						
	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination	Total
31 December 2012						
Assets and liabilities						
Property, plant and equipment	11,571	5,359	1,116	695	(25)	18,716
Intangible assets	566	12	2	96	-	676
Investments in associates and joint ventures	34	-	-	-	-	34
Inventories	1,610	2,219	60	139	(676)	3,352
Trade receivables, net	1,748	780	330	217	(305)	2,770
Not allocated assets						2,639
Total assets						28,187
Trade payables	832	644	265	248	(305)	1,684
Not allocated liabilities						11,549
Total liabilities						13,233
Other segment information						
Capital expenditure:	690	228	229	83	-	1,230
Property, plant and equipment	648	220	229	34	-	1,131
Intangible assets	42	8	-	49	-	99
Depreciation and amortisation	1,193	623	96	104	-	2,016
Impairment losses/(income) PP&E,net recognized in profit and loss	(38)	663	(1)	-	-	624
Other impairment losses,net recognized in profit and loss	243	150	43	3	-	439
Total impairment charges, net *	205	813	42	3	-	1,063
31 December 2011						
Assets and liabilities						
Property, plant and equipment	12,375	6,417	990	524	(12)	20,294
Intangible assets	782	13	4	81	-	880
Investments in associates and joint ventures	34	-	-	-	-	34
Inventories	1,270	2,598	61	150	(386)	3,693
Trade receivables, net	1,977	985	388	318	(386)	3,282
Not allocated assets						2,642
Total assets						30,825
Trade payables	2,504	909	176	386	(1,943)	2,032
Not allocated liabilities						14,428
Total liabilities						16,460
Other segment information						
Capital expenditure:	799	575	106	50	-	1,530
Property, plant and equipment	726	567	105	11	-	1,409
Intangible assets	73	8	1	39	-	121
Depreciation and amortisation	1,894	502	92	152	-	2,640
Impairment losses/(income) PP&E,net recognized in profit and loss	(33)	655	(62)	-	-	560
Other impairment losses,net recognized in profit and loss	325	351	9	11	-	696
Total impairment charges/(income), net *	292	1,006	(53)	11	-	1,256

* see note 8

BY GEOGRAPHICAL				
INA Group				
31 December 2012	Republic of Croatia	Syria	Other countries	Total
Property, plant and equipment	13,269	4,200	1,247	18,716
Intangible assets	315	337	24	676
Investments in associates and joint ventures	34	-	-	34
Inventories	3,206	21	125	3,352
Trade receivables, net	1,958	4	808	2,770
Not allocated assets				2,639
Total assets				28,187
Other segment information				
Capital expenditure:	998	56	176	1,230
Property, plant and equipment	935	50	146	1,131
Intangible assets	63	6	30	99
INA Group				
31 December 2011				
Property, plant and equipment	14,815	4,539	940	20,294
Intangible assets	300	336	244	880
Investments in associates and joint ventures	34	-	-	34
Inventories	3,505	41	147	3,693
Trade receivables, net	2,779	2	501	3,282
Not allocated assets				2,642
Total assets				30,825
Other segment information				
Capital expenditure:	1,017	356	157	1,530
Property, plant and equipment	960	313	136	1,409
Intangible assets	57	43	21	121

INA Group		
	Revenues from external customers	
	2012	2011
Republic of Croatia	19,090	18,115
Switzerland	2,796	2,826
Bosnia and Hercegovina	2,650	2,128
United Kingdom	293	658
Syria	30	2,448
Other countries	5,036	3,853
	29,895	30,028

INA, d.d.		
	Revenues from external customers	
	2012	2011
Republic of Croatia	17,188	15,820
Switzerland	2,796	2,826
Bosnia and Hercegovina	2,504	1,141
United Kingdom	293	668
Syria	-	2,254
Other countries	3,623	3,582
	26,404	26,291

Information about major customers

No single customer contributed 10% or more to the Group's revenue in either 2012 or 2011.

5. OTHER OPERATING INCOME

	INA Group		INA, d.d.	
	2012	2011	2012	2011
Surpluses	107	119	66	96
Income from rental activities	45	29	38	27
Income from sale of assets	43	19	36	10
Penantly interest from customers	36	38	19	16
Foreign exchange gains from trade receivables and payables	35	128	48	245
Income from collected damage claims	17	59	16	53
Other	70	93	196	113
Total	353	485	419	560

6. DEPRECIATION AND AMORTISATION

	INA Group		INA, d.d.	
	2012	2011	2012	2011
Depreciation of property, plant and equipment (note 15 b)	1,968	2,563	1,789	2,324
Amortisation of intangible assets (note 14)	48	77	46	73
	2,016	2,640	1,835	2,397

7. STAFF COSTS

	INA Grupa		INA, d.d.	
	2012	2011	2012	2011
Net payroll	1,309	1,367	807	839
Tax and contributions for pensions and health insurance	899	964	584	613
Other payroll related costs	428	421	226	214
	2,636	2,752	1,617	1,666

INA Group and INA, d.d. employed the following number of employees, the majority of whom work within the Republic of Croatia:

	INA Grupa		INA, d.d.	
	2012	2011	2012	2011
		Number of employees		
Exploration and production	4,302	4,202	1,492	1,529
Retail	3,547	3,609	3,085	3,118
Refining and marketing	3,139	3,295	2,705	2,853
Corporate function	2,866	3,111	1,430	1,376
	13,854	14,217	8,712	8,876

8. IMPAIRMENT CHARGES (NET)

	INA Grupa		INA, d.d.	
	2012	2011	2012	2011
Impairment of PP&E and intangible assets, net	624	560	624	544
Writte-off PP&E and intangibles, net	166	225	160	43
Impairment of inventory, net	150	124	109	119
Impairment of trade receivables, net	110	273	1,063	189
Impairment of loans given, net	2	12	2	646
Impairment of goodwill and investments, net	-	49	-	-
Other impairment, net	10	13	10	(235)
	1,063	1,256	1,967	1,306

9. PROVISIONS FOR CHARGES AND RISKS (NET)

	INA Grupa		INA, d.d.	
	2012	2011	2012	2011
Provision for contractual liabilities for tax on oil profit	155	-	155	-
Provision for contractual liabilities for taxation	35	-	35	-
Provision for unused holidays	6	(5)	4	(5)
Provision for enviromental liabilities	5	(47)	4	(46)
Revenue from released provision for litigation	(30)	(172)	(32)	(146)
Revenue from released provision for incentives	(22)	(19)	(37)	37
Revenue from released provision for retirement and jubilee benefits	(14)	(36)	4	(34)
Revenue from released provision for taxation	-	(112)	-	-
Provision for field abandonment	-	(7)	-	(7)
Other	8	(15)	(1)	(43)
	143	(413)	132	(244)

10. FINANCE INCOME

	INA Grupa		INA, d.d.	
	2012	2011	2012	2011
Foreign exchange gains	75	87	60	75
Positive fair value of derivatives	35	22	35	22
Interest received and other financial income	26	28	264	86
Income from dividends	1	8	1	8
Dividend received from subsidiaries	-	-	33	164
	137	145	393	355

11. FINANCE COSTS

	INA Grupa		INA, d.d.	
	2012	2011	2012	2011
Other interest expense	164	124	144	90
Interest for long-term loans	104	162	92	152
Negative fair value of derivatives	74	117	56	104
Foreign exchange losses	32	362	22	329
Other financial costs	62	194	183	409
Capitalized borrowing costs	(10)	(151)	(10)	(151)
	426	808	487	933

12. TAXATION

	INA Grupa		INA, d.d.	
	2012	2011	2012	2011
Current tax expense	263	948	252	947
Deferred tax charge/(income) related to origination and				
reversal of temporary differences	117	(375)	94	(349)
Income tax expense for the year	380	573	346	598

Tax on profit generated in Croatia is determined by applying the rate of 20 percent, both in 2012 and 2011, on pre-tax profit for the year.

Income taxes are recorded on the basis of estimated taxable income in accordance with the fiscal laws prevailing in the country in which they originate. INA, d.d. is subject to corporate income tax on its taxable profits in Croatia.

The income tax, determined on the basis of the accounting profit, is assessed as follows:

	INA Grupa		INA, d.d.	
	2012	2011	2012	2011
Profit before tax	1,067	2,376	1,669	2,565
Income tax expense calculated at 20%	213	475	334	513
Effect of unused tax losses not recognized as deferred tax assets	224	8	-	-
Effect of different tax rates of entities operating in other jurisdictions	(12)	4	(12)	-
Tax effect of permanent differences	(45)	86	24	85
Current and deferred tax expense	380	573	346	598

In 2012, the Group did not recognise deferred tax assets in the amount of HRK 224 million. Of this amount, HRK 199 million is related to unused tax losses of Prirodni plin d.o.o. (2011: HRK 112 million) because, based on the assessment, no taxable profits of the company will be available in the future to allow utilization of deferred tax asset resulting from unused tax losses.

Before submitting tax return for 2011 INA, d.d. corrected tax return in relation to previously tax recognized receivables, which were paid up to 15 days before filing the tax return for 2011 (it resulted in the increase of tax liability for HRK 8 million).

In December 2012, INA, d.d. submitted an amended tax return for 2011 that resulted in reducing the tax liability for 2011 for HRK 76 million based on calculating the tax paid in Angola and tax recognition for the part of outstanding receivables from Syria.

Movements in deferred tax assets are set out below:

	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Tax losses	Total
INA Group							
Balance at 1 January 2011	42	176	(81)	75	38	30	280
Debit to equity for the year	-	-	-	-	6	-	6
Reversal of temporary differences	(8)	(50)	(18)	(25)	-	(24)	(125)
Origination of temporary differences	246	142	-	26	47	40	501
Balance at 31 December 2011	280	268	(99)	76	91	46	662
Debit to equity for the year	-	-	-	-	(1)	-	(1)
Reversal of temporary differences	(244)	(29)	(28)	(8)	(8)	(32)	(349)
Origination of temporary differences	4	151	-	53	16	8	232
Balance at 31 December 2012	40	390	(127)	121	98	22	544

	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Total
INA, d.d.						
Balance at 1 January 2011	34	160	(81)	79	31	223
Debit to equity for the year	-	-	-	-	6	6
Reversal of temporary differences	(3)	(25)	(18)	(25)	-	(71)
Origination of temporary differences	239	142	-	12	41	434
Balance at 31 December 2011	270	277	(99)	66	78	592
Debit to equity for the year -	-	-	-	(3)	(3)	
Reversal of temporary differences	(243)	(26)	(28)	(2)	(6)	(305)
Origination of temporary differences	2	144	-	49	15	210
Balance at 31 December 2012	29	395	(127)	113	84	494

13. EARNINGS PER SHARE

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
“Basic and diluted earnings per share (in HRK)”	68.1	181.5	132.3	196.7
Earnings				
Earnings used in the calculation of total basic earnings per share	681	1,815	1,323	1,967
	681	1,815	1,323	1,967
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

14. INTANGIBLE ASSETS

	INA Group	INA, d.d.
Balance at 1 January 2011	840	827
Additions	121	121
Amortisation	(77)	(73)
Disposals	(3)	-
Impairment	(34)	(34)
Foreing exchange translation of foreign operations	33	33
Other movements	-	2
Balance at 31 December 2011	880	876
Additions	99	97
Amortisation	(48)	(46)
Impairment	(127)	(127)
Foreing exchange translation of foreign operations	(13)	(13)
Transfer to PP&E	(115)	(115)
Other movements	-	(1)
Balance at 31 December 2012	676	671

At 31 December 2012 INA Group impairment of intangible assets equals HRK 127 million. It consists of impairment of wells in amount of HRK 126 million: Egypt - East Yidma HRK 77 million (dry well costs), Iran - Moghan 2 HRK 26 million (contract expired) and Hungary - Zalata HRK 23 million. Additionally, there is HRK 1 million impairment due to IAS 36 in Refinery and Marketing business segment.
At 31 December 2011 INA Group impairment of intangible assets equals HRK 34 million. It consist of impairment of wells in amount of HRK 35 million in Egypt – East Kalabsha i Ras El Ush and also of reversal of impairment due to IAS 36 in amount of HRK 1 million in Retail segment. Additionally, INA Group subsidiaries reported disposals in amount of HRK 3 million.

15. PROPERTY, PLANT AND EQUIPMENT

a) By business segment

	Oil and gas exploration and production	Refining and marketing	Retail	Other	Total
INA Group					
Balance at 1 January 2011					
Cost	38,227	15,984	2,931	2,115	59,257
Accumulated depreciation	25,108	8,848	1,981	1,513	37,450
Net book value	13,119	7,136	950	602	21,807
Balance at 31 December 2011					
Cost	39,214	16,224	2,897	2,091	60,426
Accumulated depreciation	26,840	9,816	1,908	1,568	40,132
Net book value	12,374	6,408	989	523	20,294
Balance at 31 December 2012					
Cost	38,895	16,413	3,103	2,928	61,339
Accumulated depreciation	27,328	11,071	1,988	2,236	42,623
Net book value	11,567	5,342	1,115	692	18,716
INA, d.d.					
Balance at 1 January 2011					
Cost	34,236	14,680	2,634	906	52,456
Accumulated depreciation	22,368	8,090	1,814	662	32,934
Net book value	11,868	6,590	820	244	19,522
Balance at 31 December 2011					
Cost	35,176	15,781	2,693	923	54,573
Accumulated depreciation	24,052	9,484	1,777	705	36,018
Net book value	11,124	6,297	916	218	18,555
Balance at 31 December 2012					
Cost	34,797	15,974	2,899	1,762	55,432
Accumulated depreciation	24,440	10,730	1,852	1,347	38,369
Net book value	10,357	5,244	1,047	415	17,063

b) By asset type

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
INA Group							
Cost							
Balance at 1 January 2011	26,498	10,440	11,380	2,069	42	8,828	59,257
Additions	-	-	-	-	-	1,409	1,409
Change in capitalised decommissioning costs	141	-	-	-	-	-	141
Foreign exchange translation of foreign operations	258	-	-	-	-	-	258
Assets put in use	3,992	428	2,615	177	-	(7,212)	-
Disposals	(1)	(30)	(98)	(105)	(1)	(1)	(236)
Write-off	-	-	-	(361)	-	-	(361)
Other movements	(1)	1	(35)	(7)	-	-	(42)
Balance at 31 December 2011	30,887	10,839	13,862	1,773	41	3,024	60,426
Additions	-	-	-	-	-	1,131	1,131
Change in capitalised decommissioning costs	(117)	-	-	-	-	-	(117)
Foreign exchange translation of foreign operations	(90)	-	-	-	-	-	(90)
Assets put in use	226	252	1,095	73	-	(1,646)	-
Disposals	(1)	(12)	(49)	(25)	-	(41)	(128)
Transfer from intangible assets	-	-	3	-	-	112	115
Transfer	-	-	-	-	-	(33)	(33)
Other movements	-	2	85	(54)	-	2	35
Balance at 31 December 2012	30,905	11,081	14,996	1,767	41	2,549	61,339
Accumulated depreciation							
Balance at 1 January 2011	20,170	6,844	8,686	1,639	32	79	37,450
Charge for the year	1,712	205	510	136	-	-	2,563
Reversal of decommissioning depreciation for a prior year	-	(7)	-	-	-	-	(7)
Impairment (net)	(15)	48	500	28	-	5	566
Transfers	-	(51)	1	50	-	-	-
Disposals	(1)	(28)	(92)	(99)	(1)	-	(221)
Write-off	-	-	-	(194)	-	-	(194)
Other movements	(2)	(1)	(20)	(2)	1	(1)	(25)
Balance at 31 December 2011	21,864	7,010	9,585	1,558	32	83	40,132
Charge for the year	982	280	612	93	1	-	1,968
Reversal of decommissioning depreciation for a prior year	(1)	-	-	-	-	-	(1)
Impairment (net)	(38)	131	495	35	-	32	655
Transfers	-	3	(34)	(2)	-		(33)
Disposals	(1)	(8)	(47)	(24)	-	(41)	(121)
Other movements	-	17	45	(40)	-	1	23
Balance at 31 December 2012	22,806	7,433	10,656	1,620	33	75	42,623
Carrying amount							
Balance at 31 December 2012	8,099	3,648	4,340	147	8	2,474	18,716
Balance at 31 December 2011	9,023	3,829	4,277	215	9	2,941	20,294

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
INA, d.d.							
Cost							
Balance at 1 January 2011	26,497	8,568	7,743	871	31	8,746	52,456
Additions	-	-	-	-	-	1,268	1,268
Change in capitalised decommissioning costs	141	-	-	-	-	-	141
Foreign exchange translation of foreign operations	258	-	-	-	-	-	258
Transfer to intangible assets	-	-	(1)	-	-	-	(1)
Addition by merger of Proplin	-	253	127	195	-	-	575
Transfer from inventories	-	-	-	1	-	-	1
Assets put in use	3,992	425	2,639	102	-	(7,158)	-
Disposals	(1)	(24)	(45)	(53)	(1)	(1)	(125)
Balance at 31 December 2011	30,887	9,222	10,463	1,116	30	2,855	54,573
Additions	-	-	-	-	-	1,046	1,046
Change in capitalised decommissioning costs	(117)	-	-	-	-	-	(117)
Foreign exchange translation of foreign operations	(90)	-	-	-	-	-	(90)
Transfer from intangible assets	-	-	3	-	-	112	115
Capital increase of Crosco d.o.o., STSI d.o.o.	-	(13)	-	-	-	-	(13)
Assets put in use	226	236	906	63	-	(1,431)	-
Disposals	(1)	(3)	(30)	(7)	-	(41)	(82)
Balance at 31 December 2012	30,905	9,442	11,342	1,172	30	2,541	55,432
Accumulated depreciation							
Balance at 1 January 2011	20,168	5,505	6,453	700	29	79	32,934
Charge for the year	1,712	162	391	59	-	-	2,324
Reversal of depreciation of decommissioning from a prior year	-	(7)	-	-	-	-	(7)
Addition by merger of Proplin	-	163	65	109	-	-	337
Transfer from inventories	-	-	-	2	-	-	2
Impairment (net)	(15)	32	500	28	-	5	550
Transfer	-	(51)	51	-	-	-	-
Disposals	(1)	(23)	(43)	(54)	-	(1)	(122)
Balance at 31 December 2011	21,864	5,781	7,417	844	29	83	36,018
Charge for the year	982	211	531	65	-	-	1,789
Reversal of depreciation of decommissioning from a prior year	(1)	-	-	-	-	-	(1)
Capital increase of Crosco d.o.o., STSI d.o.o.	-	(10)	-	-	-	-	(10)
Impairment (net)	(38)	132	494	35	-	32	655
Other movements	-	15	(18)	2	-	-	(1)
Disposals	(1)	(3)	(31)	(5)	-	(41)	(81)
Balance at 31 December 2012	22,806	6,126	8,393	941	29	74	38,369
Carrying amount							
Balance at 31 December 2012	8,099	3,316	2,949	231	1	2,467	17,063
Balance at 31 December 2011	9,023	3,441	3,046	272	1	2,772	18,555

I) Oil and gas reserves

The ability of INA Group and INA, d.d. to realise the net book value of oil and gas properties (see b) above) in the future is dependent upon the extent to which commercially recoverable oil and gas reserves are available. During 2012 Exploration and Production segment performed assessment of the quantities of the Company's remaining proved developed oil and gas reserves which were commercially recoverable.

II) Ownership of land and buildings

Due to political developments in Croatia since 1990, certain local municipal land registers have not been fully established. The Company is in the process of registering of ownership, through the local courts in Croatia. Until the date of issuing of these financial statements, no claims have been made against the Company concerning its title to these assets.

III) Collective consumption assets

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

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

At 31 December 2012 the net book values of the Group's property, plant and equipment in Exploration and Production segment was HRK 11,571 million (31 December 2011: HRK 12,375 million). At 31 December 2012 the net book values of the Group's property, plant and equipment in Refining and Marketing segment was HRK 5,359 million (31 December 2011: HRK 6,417 million). At 31 December 2012 the net book values of the Group's property, plant and equipment in Retail segment was HRK 1,116 million (31 December 2011: HRK 990 million). At 31 December 2012 the net book values of the Group's property, plant and equipment in Corporate and other segment was HRK 695 million (31 December 2011: HRK 524 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 net impairment charge of INA Group is HRK 655 million in 2012 (2011: HRK 566 million).

- The reversal of impairment increased Exploration and Production segment assets by HRK 38 million in 2012 and by HRK 33 million in 2011.
- Refinery and Marketing segment recorded an impairment of property, plant and equipment in amount of HRK 663 million in 2012, compared to impairment in amount of HRK 654 million in 2011.
- The reversal of impairment increased Retail segment assets by HRK 2 million in 2012, compared to increase in amount of HRK 60 million in 2011.
- Impairment charges to investments was recorded in amount of HRK 32 million in 2012, compared to impairment charges to investments in amount of HRK 5 million in 2011.

At 31 December 2012 impairment charges to investments in amount of HRK 32 million refers to impairment of domestic wells in amount of HRK 24 million in Exploration & Production segment (Patkovec 1 HRK 13 million and Bokšić - Klokočevac HRK 4 million are most significant amounts) and impairment in amount of HRK 8 million in Retail segment (closing of gas stations and expiration of concession at Vrbosko location).

At 31 December 2011 INA Group Impairment of investments in amount of HRK 5 million refers to impairment of domestic wells in Exploration & Production segment (Ferdinandovac HRK 4 million and Bruvno HRK 1 million). Gas cylinders in Proplin subsidiary were written off in amount of HRK 167 million.

Discount rates used in the current assessment in 2012 and for 2011 are:

Exploration and Production	2012	2011
Croatia	10.54%	9.82%
Syria	17.50%	14.96%
Egypt, Angola	14.50%	12.96%
Refining and Marketing		
	11.70%	10.91%
Retail		
Croatia	10.44%	10.17%
Bosnia and Herzegovina	13.62%	14.31%

A risk factor is included the discount rates considering the risk of each country (see note 3).

V) Review of the residual value

The Group has reviewed the residual value for depreciation purposes to reflect the changes in the definition of the residual value provided in the Standard, and no need for any adjustment to the residual values related to the current or prior periods has been established.

16. GOODWILL

	INA Group	
	2012	2011
Cost	296	296
Accumulated impairment losses	(113)	(113)
	183	183

	2012	2011
Cost		
Balance at the beginning of year	296	296
Balance at the end of year	296	296
Accumulated impairment losses		
Balance at the beginning of year	(113)	(64)
Impairment losses recognised in the year	-	(49)
Balance at the end of year	(113)	(113)

2012	1 January 2012	31 December 2012
Investment of Crosco, d.o.o. in Rotary Zrt. Hungary	183	183
Total	183	183

2011	1 January 2011	Impairment	31 December 2012
Investment of Crosco, d.o.o. in Rotary Zrt. Hungary	202	(19)	183
Investment of INA, d.d. in Energopetrol d.d. Sarajevo	30	(30)	-
Total	232	(49)	183

On 28 March 2007, pursuant the agreement entered into by the Government of the Federation of Bosnia and Herzegovina and the INA-MOL Consortium, 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 Nyrt. hold an equity share of 33.5 % each). During 2010 and 2011, based on the calculation of the net present value of Energopetrol, a negative net present value was determined. As a result, the goodwill of Energopetrol was fully impaired as at 31 December 2011, and charged to the operating result.

During 2012 goodwill relating to the company Rotary Zrt. was tested for impairment and test showed that the impairment is not required. The discount rate of 10.39 percent was used when the impairment test for Rotary Zrt. has been calculated.

17. INVESTMENTS IN SUBSIDIARIES

	INA, d.d.	
	31 December 2012	31 December 2011
Equity investments in subsidiaries	1,161	1,033

	2012	2011
Equity investments in subsidiaries at 1 January	1,033	1,224
STSI d.o.o Zagreb - additional capitalization by transfering PP&E	89	-
CROSCO d.o.o. - additional capitalization by transfering PP&E	58	-
Proplin d.o.o. Zagreb- merger into INA, d.d.	-	(88)
INA-Osijek Petrol d.d. Osijek purchase share by agreement	-	-
Other subsidiaries - impairment	(19)	(103)
Total as of 31 December	1,161	1,033

Liquidation proceedings for Interina Ltd., London and FPC Ltd. were completed in 2012. Based on the documentation received regarding the deletion of the companies from the court register, the companies were derecognised from the books of INA, d.d.
According to the Share Purchase and Transfer Agreement between INA, d.d. and Osimpex d.d., Osijek of 6 March 2012, INA, d.d. acquired the shares of INA-Osijek Petrol d.d., which represent 20.87 percent of the company's share capital, with a total amount of consideration zero, as for exchange receivables, were given in amount of HRK 18 million, which were already fully impaired.
As a result of the share purchase, the total ownership interest of INA, d.d. in INA-Osijek Petrol d.d. increased to 97.34 percent.
On 21 December 2011 INA, d.d. Management Board adopted a decision to initiate the process of increasing the share capital of the companies STSI d.o.o. Zagreb and Crosco d.o.o. Zagreb. Based on the decision, valuations of the assets of those companies to be contributed to their respective share capital were performed.

On 19 and 20 December 2012 the Commercial Court in Zagreb registered the share capital increase of STSI d.o.o. through a contribution of properties in the amount of HRK 89 million, and of Crosco d.o.o. Zagreb in the amount of HRK 58 million.
The value of the investments was adjusted during 2012 by comparing the net shares recognised at INA, d.d. and the net assets of the companies, resulting in the following adjustments; Sinaco d.o.o. of HRK 6 million; ITR d.o.o. of HRK 6.6 million; Interina d.o.o. Ljubljana of HRK 4,4 million; INA Kosovo of HRK 800 thousand, INA Beograd d.o.o. of HRK 700 thousand; and Adriagas S.r.L Milan of HRK 500 thousand.

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

Name of company	Activity	Shareholding 2012	2011
Oilfield services			
*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 (until May 2012)	Oilfield services	-	49%
Crosco B.V. Amsterdam, Netherland	Oilfield services	100%	100%
Nordic Shipping Ltd, Marshall Islands	Lease of drilling platforms	100%	100%
Sea Horse Shipping Inc, Marshall Islands	Lease of drilling platforms	100%	100%
Crosco International d.o.o. Slovenia	Oilfield services	100%	100%
Rotary Zrt., Hungary	Oilfield services	100%	100%
Crosco S.A. DE C.V. Monterrey, Mexico	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%
CorteCros d.o.o., Zagreb	Distribution of anti-corrosion products	60%	60%
Oil exploration and production			
*INA Naftaplin International Exploration and Production Ltd, Guernsey	Oil exploration and production	100%	100%
Tourism			
*Hostin d.o.o. Zagreb	Tourism	100%	100%
Ancillary services			
*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%
*Top računovodstvo servisi d.o.o., Zagreb	Accounting services	100%	100%
Production and trading			
*Maziva Zagreb d.o.o. Zagreb	Production and lubricants trading	100%	100%
Trading and finance			
*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	Foreign trading	100%	100%
*Inte INA Ltd, London, UK (until April 2012)	Foreign trading	-	100%
*INA Hungary Kft., Budapest, Hungary (in liquidation)	Foreign trading	100%	100%
*FPC Ltd, London, UK (until February 2012)	Foreign trading	-	100%
*Holdina (Guernsey) Ltd, Guernsey (in liquidation)	Foreign trading	100%	100%
Inter Ina (Guernsey) Ltd, Guernsey (in liquidation)	Foreign trading	100%	100%
Holdina (Cyprus) Ltd, Cyprus (in liquidation)	Foreign trading	100%	100%

*Holdina d.o.o. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%	100%
*INA d.o.o. Beograd, Serbia	Foreign trading	100%	100%
*INA Kosovo d.o.o. Prishtina, Kosovo	Foreign trading	100%	100%
*Adriagas S.r.l. Milan, Italy	Pipeline project company	100%	100%
*INA Crna Gora d.o.o., Podgorica, Montenegro	Foreign trading	100%	100%
*Prirodni plin d.o.o. Zagreb	Trading	100%	100%
*INA BL d.o.o. Banja Luka, Bosnia and Herzegovina	Trading	100%	100%
*Petrol d.d.	Trading	83%	83%
*INA-Osijek Petrol d.d.	Trading	97%	76%
*Polybit d.o.o. Rijeka (in liquidation)	Oil production and trading	100%	100%

18. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	INA Group		INA, d.d.	
	31 December 2012	31 December 201131	December 2012	31 December 2011
Investments in associates and joint ventures	34	34	34	34
	34	34	34	34

			INA Group		INA, d.d.	
Name of company	Activity	Proportion of ownership	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Croplin d.o.o Zagreb	Gas trading	50%	12	12	12	12
SOL-INA d.o.o.	Industrial gas production	37.2%	22	22	22	22
ENERGOPETROL d.d., Sarajevo BiH	Retail (oil and lubricants)	33.5%	0	0	0	0
			34	34	34	34

Other investments in associates and joint ventures are as follows:

INA Group and INA, d.d.				
Name of company	Activity	Place of incorporation and operation	31 December 2012	31 December 2011
Hayan Petroleum Company	Operating company (oil exploration, development and production)	"Damascus, Syria"	50%	50%
"TERME Zagreb d.o.o.,"	Recreation and medical tourism	Zagreb, Croatia	50%	50%
INAgip d.o.o. Zagreb	Exploration and production operator (joint venture)	Zagreb, Croatia	50%	50%
ED INA d.o.o. Zagreb	Research, development and hydrocarbon production	Zagreb, Croatia	50%	50%
Belvedere d.d.	Hotel trade	Dubrovnik, Croatia	32%	32%
Marina Petroleum Company	Exploration and production operator	Cairo, Egypt	25%	25%
Adria LNG Study Company Ltd	Oil exploration	Malta	-	22.2%

During 2012 the liquidation of Adria LNG Study, Malta, was completed. Based on the documentation received regarding the liquidation of the company and deletion from the court register, the company was derecognised from the books of INA, d.d.

19. OTHER INVESTMENTS

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Long-term loans to Energopertol	155	326	155	326
Other long-term loans	-	-	612	445
Deposits	25	23	25	23
"Financial assets at fair value through profit or loss"	7	6	6	5
	187	355	798	799

Long term loans to investment financing have been granted to Energopetrol. Loan is revolving type with variable interest margin in addition to 3 M EURIBOR and maturity on 1 April 2015.

Based on the Bankruptcy Plan for Pevec d.o.o., in bankruptcy, all the receivables of INA, d.d. from the company (HRK 8 million) have been converted into an equity share. Following a decrease of the company's share capital (the part pertaining to INA, d.d. of HRK 7 million) to cover the losses, the business stake was reduced to 15 percent of the total claim. After the transformation of Pevec d.o.o. into a public limited company, the initial stake was replaced with shares. As of 21 August 2012 INA, d.d. became the owner of 11 974 shares (0.97%), with a total nominal value of HRK 1 million.

20. LONG-TERM RECEIVABLES

INA Group	31 December 2012	31 December 2011
Receivables for apartments sold	115	126
Prepayments for intangible assets	62	12
Prepayments for property, plant and equipment	25	22
Derivative financial instruments	5	5
Other long-term receivables	-	2
	207	167

INA, d.d.	31 December 2012	31 December 2011
Receivables for apartments sold	114	125
Prepayments for intangible assets	62	12
Prepayments for property, plant and equipment	22	21
Long-term receivables from Crosco	11	48
Other long-term receivables	1	1
	210	207

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 monthly instalments over periods of 20-35 years. The amounts payable to Croatian state, accounting for 65% of the value of sold apartments are included in other non-current liabilities (see note 30). The receivables are secured with mortgage over the sold apartments. The principle is presented in the receivable amounts. The amounts do not include the interest portion.

21. AVAILABLE-FOR-SALE ASSETS

Equity instruments available-for-sale				
			INA Group and INA, d.d.	
Name of the Company	% shareholding held by INA, d.d.	Activity	31 December 2012	31 December 2011
Jadranski Naftovod d.d.	11.795%	Pipeline ownership and operations	321	321
OMV Slovenia d.o.o., Koper	7.75%	Oil trading	31	31
Plinara d.o.o. Pula	49.00%	Distribution and oil trading	17	17
HOC Bjelolasica d.o.o. Ogulin	7.17%	Operations of sports facilities	5	6
BINA-FINCOM d.d. Zagreb	5.00%	Construction of highways and other roads,		
		airfields airports	12	12
Total cost			386	387
Fair value adjustment			(46)	(62)
			340	325

As discussed in note 38, a substantial portion of the trading income of JANAF d.d. is derived from INA, d.d. 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 2012. The net book value of the equity investment in JANAF increased by HRK 16.6 million compared to the balance as of 31 December 2011 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 2012 amounted to HRK 2,370 per share (31 December 2011: HRK 2,230 per share as of).

By Decision of the Assembly of HOC Bjelolasica d.o.o. Ogulin, the share capital of that company was reduced on 13 June 2012 to cover the company's losses. Based on the share capital decrease, the business stake of INA, d.d. in HOC Bjelolasica was reduced by HRK 1 million but continues to represent 7.17% of the investee's share capital.

22. INVENTORIES

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	1,031	911	1,030	910
Refined products	889	763	815	695
Gas inventories	571	354	-	1
Crude oil	320	973	320	972
Raw material	241	287	159	192
Spare parts, materials and supplies	226	233	92	101
Merchandise	74	172	69	159
	3,352	3,693	2,485	3,030

As of 31 December 2012, inventories were measured at cost or determined net realizable value.

23. TRADE RECEIVABLES, NET

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Trade receivables	3,539	3,957	1,568	2,184
Impairment of trade receivables	(769)	(675)	(465)	(403)
	2,770	3,282	1,103	1,781

Below is an ageing analysis of trade receivables overdue and not considered as impaired for:

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
60 - 90 days	43	47	36	41
91 - 120 days	33	55	26	39
121+ days	33	240	-	63
	109	342	62	143

Trade receivables are carried at amortised cost less impairment. According to the impairment policy, all receivables from the strategic customers of INA,d.d. are assessed on individual basis. All other outstanding receivables due beyond 120 days are impaired.

Impairment of trade receivables:

	INA Gr0up		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
less than 120 days	14	40	1	16
121-150 days	38	28	23	9
151-180 days	20	25	17	11
181-365 days	156	179	136	148
366+ days	541	403	288	219
	769	675	465	403

The ageing analysis of impaired trade receivables:

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Balance at beginning of the year	675	418	403	226
Impairment losses recognised on receivables	252	336	191	207
Amounts written off as uncollectible	(16)	(16)	-	(12)
Reversal of impairment on amounts recovered	(142)	(63)	(129)	(18)
Balance at end of the year	769	675	465	403

24. OTHER RECEIVABLES

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Tax prepayments	347	278	309	232
Other	169	178	119	147
	516	456	428	379

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of cash held by the Group and short-term bank deposits up to 3 months maturity. The carrying amount of these assets approximates their fair value.

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Cash in the bank	316	296	125	195
Deposits until three months	110	31	86	20
Cash on hand	3	3	-	-
Other	59	7	59	14
	488	337	270	229

26. BANK LOANS AND OVERDRAFTS AND CURRENT PORTION OF LONG-TERM LOANS

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
"Current portion of long-term loans (note 29)"	4,725	1,904	4,648	1,817
Overdrafts and short-term loans	1,266	1,918	1,057	1,784
	5,991	3,822	5,705	3,601

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Unsecured bank loans in USD	730	847	700	805
Unsecured bank loans in EUR	392	1,009	357	979
Unsecured bank loans in HRK	144	62	-	-
	1,266	1,918	1,057	1,784

The most significant short-term loans as at 31 December 2012 are credit facilities with the first class banks with the purpose of financing purchases of crude oil and petroleum products (''trade financing'') and framework agreements concluded with domestic banks for granting loans, issuing bank guaranties and opening letter of credits.

INA, d.d. short–term credit facilities with UniCredit and Splitska banka contain financial covenants clause and to secure INA Group subsidiaries short–term credit facilities INA, d.d. issued corporate guarantees.

27. TRADE PAYABLES, TAXES AND CONTRIBUTIONS AND OTHER CURRENT LIABILITIES

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Trade payables	1,684	2,032	964	1,111
Payroll and other	583	212	325	162
Production and sales and other taxes payable	411	1,437	334	1,303
Payroll taxes and contributions	86	87	51	46
Embedded derivative financial liabilities	10	2	-	3
Negative fair value of derivatives	3	32	3	32
	2,777	3,802	1,677	2,657

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

28. ACCRUALS AND DEFERRED INCOME

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Accrued interest – long-term loans	25	38	24	38
Accrued expenses	-	1	-	1
Other	11	9	10	9
	36	48	34	48

29. LONG-TERM LOANS

Long-term loans are denominated in a variety of foreign currencies and are subject to a range of interest rates. Long-term loans of INA, d.d. are unsecured and the majority of these loans contain financial covenants. INA Group subsidiaries long-term loans are in some cases secured by bills of exchange, debentures or through corporate guarantees.

The outstanding loans of the Group are analysed as follows:

Objective of the loan	Loan currency	31 December 2012	31 December 2011
General corporate purpose	USD, EUR	4,385	5,650
Project financing	USD, EUR	1,316	1,723
		5,701	7,373
Due within one year		(4,648)	(1,817)
Total long-term loans INA, d.d.		1,053	5,556
Loan (equipment)	EUR, HUF	-	72
Other long term loans		185	89
		185	161
Due within one year		(77)	(87)
Total long-term loans INA Group		1,161	5,630

INA Group				
	Weighted average interest rate			
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	%	%		
Bank loans in EUR	1.05	2.21	3,519	4,296
Bank loans in USD	1.84	1.65	2,258	3,154
Bank loans in HUF	9.78	8.88	69	3
Bank loans in HRK	5.02	5.20	40	81
Total			5,886	7,534
Payable within one year			(4,725)	(1,904)
Total long-term loans			1,161	5,630

INA, d.d.				
	Weighted average interest rate			
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	%	%		
Bank loans in EUR	1.05	2.16	3,515	4,219
Bank loans in USD	1.75	1.65	2,186	3,154
Total			5,701	7,373
Payable within one year			(4,648)	(1,817)
Total long-term loans			1,053	5,556

The maturity of the loans may be summarised as follows:

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Current portion of long-term debt	4,725	1,904	4,648	1,817
Payable within one to two years	364	4,547	261	4,490
Payable within two to three years	264	278	263	266
Payable within three to four years	265	267	264	266
Payable within four to five years	268	268	265	267
Payable over five years	-	270	-	267
Total	5,886	7,534	5,701	7,373

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

	INA Group	INA, d.d.
Balance at 31 December 2011	7,534	7,373
Payable within one year (included within bank loans and overdrafts – note 26)	1,904	1,817
Payable after more than one year	5,630	5,556
Balance at 1 January 2012	7,534	7,373
New borrowings raised	318	168
Amounts repaid	(1,934)	(1,808)
Foreign exchange gains	(32)	(32)
Balance at 31 December 2012	5,886	5,701
Payable within one year (included within bank loans and overdrafts – note 26)	4,725	4,648
Payable after more than one year	1,161	1,053

The principal long-term loans outstanding at 31 December 2012 and loans signed during 2012 were as follows:

Privredna banka Zagreb

The remaining long-term debt of INA, d.d. towards Privredna banka Zagreb amounts to HRK 2 million and represents a debt under the Refinanced Bonds Agreement for the issue of API bonds and it is dormant.

Bayerische Landesbank

In 2007, INA, d.d. entered into syndicated revolving credit facility agreement with consortium of the banks in the amount of USD 1 billion. The loan funds are intended to be used for general corporate purposes (including repayment of the previously concluded syndicated loan and refinery modernization project). The maturity of the loan is five years with an option of extension for additional 2 years (1+1).

EBRD

In 2010, INA, d.d. signed long-term loan agreement with EBRD in the amount of EUR 160 million with alternative withdrawal in USD. The purpose of the loan is finalization of the first phase of the modernization of Sisak and Rijeka refineries.

ICF DEBT POOL LLP

In 2010, INA, d.d. signed long-term loan agreement with ICF DEBT POOL LLP in the amount of EUR 50 million. The purpose of the loan is to finance the completion of the first phase of the modernisation of Sisak and Rijeka refineries.

Mol Hungarian Oil and Gas Public Limited Company (MOL)

In 2012, INA, d.d. signed multicurrency revolving credit facility agreement with MOL in the amount USD 200 million. The loan funds are intended to be used for general corporate purposes with maturity in 2016.

CLUB DEAL, revolving credit facility

In 2012, the Company signed Club deal revolving credit facility with consortium led by Privredna banka Zagreb in the amount of EUR 119 million. Credit facility has been increased for additional EUR 20 million in the same year. The loan funds are intended to be used for general corporate purposes with maturity 3 years and with the extension option for additional 2 years (1+1).

Compliance with loan agreements

During 2012 INA Group and INA, d.d repaid all of their liabilities in respect of loans (principal, interest and fees) on a timely basis, and there were no instances of default or delinquency.

30. OTHER NON-CURRENT LIABILITIES

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Liabilities to Government for sold apartments	63	69	63	69
Liabilities for derivatives financial instruments	30	18	-	-
Deferred income for sold apartments	8	39	8	37
	101	126	71	106

The long-term payable to the government relates to obligation arising on the sale of housing units to employees under the government program (note 20). According to the law regulating housing sales, 65% of the proceeds from the sale of apartments to employees were payable to the state at such time as the proceeds were collected by the Company. According to the law, INA, d.d. has no liability to remit the funds unless and until they are collected from the employee.

31. PROVISIONS

	Environmental provision	Decommission-ing Charges	Legal claims	Potential tax obligation	Redundancy costs	Cost of unused holiday	Tax obligation claims of Holdina Sarajevo	Other	Total
INA Group				Other	Total				
Balance at 1 January 2011	322	2,117	263	112	17	67	21	95	3,014
Charge for the year	-	-	33	-	44	63	-	3	143
Effect of change in estimates	(39)	141	-	-	-	-	-	-	102
Interest	16	118	-	-	-	-	-	-	134
Provision utilised during the year	(7)	(3)	(205)	(112)	(17)	(68)	-	(66)	(478)
Balance at 31 December 2011	292	2,373	91	-	44	62	21	32	2,915
Charge for the year	-	-	13	-	22	67	-	202	304
Effect of change in estimates	11	(117)	2	-	-	-	-	2	(102)
Interest	12	97	-	-	-	-	-	-	109
Provision utilised during the year	(6)	(8)	(44)	-	(44)	(62)	-	(5)	(169)
Balance at 31 December 2012	309	2,345	62	-	22	67	21	231	3,057

The environmental provision recorded by INA Group is HRK 309 million on 31 December 2012 (31 December 2011: HRK 292 million). The environmental provision covers treatment of accumulated waste generated by former activity, soil excavation and replacement during the reconstruction of filling stations and investigation to determine the extent of the contaminations. It does not cover the cost of remediation in lack of detailed National regulations.

	Environmental provision	Decommission-ing Charges	Legal claims	Redundancy costs	Cost of unused holiday	Other	Total
INA, d.d.							
Balance at 1 January 2011	310	2,117	220	-	48	69	2,764
Charge for the year	-	-	32	37	43	2	114
Effect of change in estimates	(39)	141	-	-	-	-	102
Interest	15	118	-	-	-	-	133
Provision utilised during the year	(7)	(3)	(178)	-	(48)	(44)	(280)
Balance at 31 December 2011	279	2,373	74	37	43	27	2,833
Charge for the year	-	-	10	-	47	193	250
Effect of change in estimates	11	(117)	-	-	-	-	(106)
Interest	11	96	-	-	-	-	107
Provision utilised during the year	(6)	(7)	(42)	(37)	(43)	(2)	(137)
Balance at 31 December 2012	295	2,345	42	-	47	218	2,947

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Analysed as:				
Current liabilities	344	200	284	168
Non-current liabilities	2,713	2,715	2,663	2,665
	3,057	2,915	2,947	2,833

Decommissioning charges
As of 31 December 2012, the Company recognised a decommissioning provision for 56 oil and gas production fields, 4 non-production fields, 8 positive non-production wells and 145 negative non-production wells. As of 31 December 2011, the Company recognised a decommissioning provision for 56 oil and gas production fields, 4 non-production fields, 9 positive non-production wells and 146 negative non-production wells.

32. RETIREMENT AND OTHER EMPLOYEE BENEFITS

According to the Collective Agreement the Group bear the obligation to pay jubilee awards, retirement and other benefits to employees. The Group operates defined benefit schemes for qualifying employees. Under the schemes, the employees are entitled to an early retirement benefit in the net amount of HRK 8,000. For regular retirement (no early retirement bonus), employees receive HRK 16,000 net, of which HRK 8,000 represent taxable portion. 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 2012 by independent actuarial expert. In 2012, the Company made a provision of HRK 46 million in respect of jubilee awards and HRK 27 million for regular retirement allowance.
The present values of the defined benefit obligation, the related current service cost and past service cost were determined using the projection method based on the total number of employees.

	Valuation at	
Key assumptions used:	31 December 2012	31 December 2011
Discount rate	4.61%	5.50%
Turnover rate	3-4%	3-4%
Mortality table	HR2004 70,00%	HR2004 70,00%
Average expected remaining working lives (in years)	16.18	16.06

The amounts recognised in profit and loss related to retirement and other employee benefits are as follows:

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Cost of current period	5	8	4	6
Interest	6	8	4	6
Actuarial (gains) or losses	(18)	(44)	(1)	(41)
	(7)	(28)	7	(29)

The amount included in the statement of financial position arising from the Group's obligations in respect of its retirement benefit schemes is as follows:

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Present value of defined benefit obligations	110	117	73	66
Liability recognised in the balance sheet	110	117	73	66
This amount is presented in the balance sheet as follows:				
Current liabilities	10	13	6	5
Non-current liabilities	100	104	67	61
	110	117	73	66

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

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
At 1 January	117	145	66	96
Recognized cost in the current period	5	8	4	6
Interest	6	8	4	6
Acturial (gains) or losses	(4)	(35)	3	(35)
Payments	(14)	(9)	(4)	(7)
At 31 December	110	117	73	66

33. SHARE CAPITAL

	INA Group i INA, d.d.	
	31 December 2012	31 December 2011
Issued and fully paid:		
10 million shares (HRK 900 each)	9,000	9,000

The Company's share capital consists of 10 million authorised and issued shares of par value HRK 900 each. Each share carries one vote and is entitled to dividends.

34. REVALUATION RESERVES

	INA Group i INA, d.d.	
	31 December 2012	31 December 2011
Balance at beginning of year	-	27
Increase/(decrease) arising on revaluation of available-for-sale securities (Janaf)	16	(34)
Deferred tax effect	(3)	7
Balance at the end of year	13	-

During 2012 revaluation reserve on financial assets available-for-share (Janaf) was decreased to zero with reference to the market value of the shares quoted on the stock exchange on 31 December 2012.

35. 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 reserves at 31	Foreign currency		
	December 1993 translation reserves	Other reserves	Total	
Balance at 1 January 2011	2,132	(239)	447	2,340
Movements during 31 December 2011	-	276	-	276
Balance at 31 December 2011	2,132	37	447	2,616
Movements during 31 December 2012	-	(111)	-	(111)
Balance at 31 December 2012	2,132	(74)	447	2,505

INA, d.d.			
	Combined reserves at 31		
	December 1993	Other reserves	Total
Balance at 31 December 2012	1,667	456	2,123
Balance at 31 December 2011	1,667	572	2,239

36. RETAINED EARNINGS

	INA Group	INA, d.d.
	Retained earnings	Retained earnings
Balance at 1 January 2011	1,424	1,556
Profit for the year	1,815	1,967
Dividends paid	(480)	(480)
Balance at 31 December 2011	2,759	3,043
Profit for the year	681	1,323
Effect of purchase of non - controlling interest	(3)	-
Balance at 31 December 2012	3,437	4,366

37. NON CONTROLLING INTEREST

	INA Group	
	31 December 2012	31 December 2011
Balance at beginnig of year	(10)	2
Share of profit/(loss) for the year	6	(12)
Purchase of non-controlling interest	3	-
Balance at end of year	(1)	(10)

38. RELATED PARTY TRANSACTIONS

The company has dominant positions in Croatia in oil and gas exploration and production, oil refining and the sale of gas and petroleum products. As a result of the Company's strategic position within the Croatian economy, a substantial portion of its business and the business of its subsidiaries is performed with the Croatian Government, its departments and agencies, and the companies with the Republic of Croatia being their majority shareholder.

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

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

INA Group	Sales of goods		Purchase of goods	
	2012	2011	2012	2011
Companies available-for-sale				
JANAF d.d. Zagreb	3	4	75	72
Strategic partner				
MOL Nyrt.	689	773	734	891
Companies controlled by strategic partner				
Tifon d.o.o.	866	768	6	6
Energopetrol d.d.	340	486	1	1
Kalegran Ltd.	128	58	1	-
Intermol d.o.o.	61	10	-	1
MOL SLOVENIJA d.o.o.	33	18	92	87
IES-Italiana Energia e Servizi s.p.a.	15	13	9	6
Moltrade Mineralimpex Zrt.	-	1	102	1.141
Slovnaft, a.s.	-	-	84	48
Companies controlled by the State				
Hrvatska elektroprivreda	2.617	2.303	161	131
Petrokemija Kutina	1.679	1.498	1	-
Croatia Airlines	257	234	-	-
Jadrolinija	165	147	6	5
Hrvatske željeznice	149	11	67	51
Podzemno skladište plina Okoli	29	26	151	149
Plinacro	11	21	280	228

As of statement of financial position date, INA Group had the following outstanding balances with related parties:

INA Group	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Companies available-for-sale				
JANAF d.d. Zagreb	1	1	22	25
Strategic partner				
MOL Nyrt.	79	111	95	67
Companies controlled by strategic partner				
Energopetrol d.d.	70	24	-	-
Tifon d.o.o.	32	42	1	1
Kalegran Ltd.	28	9	-	-
MOL SLOVENIJA d.o.o.	2	10	9	9
Companies controlled by the State				
Hrvatska elektroprivreda	346	549	8	14
Petrokemija Kutina	259	190	1	-
Hrvatske željeznice	78	7	8	5
Jadrolinija	31	31	1	1
Croatia Airlines	30	32	-	1
Podzemno skladište plina Okoli	5	2	-	8
Plinacro	1	1	32	19

Loan to and from related parties:

INA Group	Amounts of loans owed by related parties		Amountsof loans owed to related parties	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Strategic partner				
MOL Nyrt.	-	-	-	979
Companies controlled by strategic partner				
Energopetrol d.d.	201	326	-	-

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

INA, d.d.	Sales of goods		Purchase of goods	
	2012	2011	2012	2011
Foreign related companies				
Holdina Sarajevo	1,552	850	-	2
INA Crna Gora d.o.o Podgorica	139	91	-	-
Interina d.o.o. Ljubljana	23	21	-	-
INA Beograd d.o.o Beograd	-	59	-	-
Adriagas Milano	-	2	-	1
Domestic related companies				
Prirodni plin d.o.o. Zagreb	4,872	4,487	741	446
Osijek Petrol d.d.	122	135	-	-
Maziva Zagreb d.o.o. Zagreb	101	119	62	58
STSI d.o.o. Zagreb	24	15	430	457
Crosco d.o.o.	11	12	239	168
TOP Računovodstvo Servisi d.o.o.	8	3	54	21
Sinaco d.o.o. Zagreb	3	4	66	122
ITR d.o.o. Zagreb	1	2	23	24
Companies available-for-sale				
JANAF d.d. Zagreb	-	1	75	72
Strategic partner				
MOL Nyrt.	371	458	644	823
Companies controlled by strategic partner				
Tifon d.o.o.	866	768	6	6
Energopetrol d.d.	282	468	1	1
Intermol d.o.o.	61	10	-	1
MOL SLOVENIJA d.o.o.	31	16	-	-
IES-Italiana Energia e Servizi s.p.a.	15	13	9	6
Moltrade Mineralimpex Zrt.	-	-	102	1,141
Slovnaft, a.s.	-	-	84	48
Companies controlled by the State				
Croatia Airlines	257	234	-	-
Jadrolinija	159	143	6	5
Hrvatske željeznice	138	2	67	51
Hrvatska elektroprivreda	96	298	158	129
Petrokemija Kutina	9	-	-	-

As of statement of financial position date, INA, d.d. had the following outstanding balances with related parties:

INA, d.d.	Amounts owed by related parties			
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Foreign related companies				
Holdina Sarajevo	180	117	12	7
INA Crna Gora d.o.o Podgorica	22	14	1	-
INA Beograd d.o.o Beograd	7	10	-	-
Interina d.o.o. Ljubljana	5	1	-	-
Interina Ltd Guernsey	-	-	-	138
Interina Ltd London	-	-	-	20
Adrigas Milano	-	-	-	1
Domestic related companies				
Prirodni plin d.o.o. Zagreb	3,132	1,551	35	20
Osijek Petrol d.d.	32	53	1	1
Maziva Zagreb d.o.o. Zagreb	9	19	10	24
STSI d.o.o. Zagreb	8	2	179	257
Crosco d.o.o.	1	1	68	57
TOP Računovodstvo Servisi d.o.o.	1	1	4	3
ITR d.o.o. Zagreb	-	-	7	10
Sinaco d.o.o. Zagreb	-	-	2	35
Companies available-for-sale				
JANAF d.d. Zagreb	-	-	22	25
Strategic partner				
MOL Nyrt.	28	34	90	62
Companies controlled by strategic partner				
Tifon d.o.o.	32	42	1	1
Energopetrol d.d.	4	24	-	-
MOL SLOVENIJA d.o.o.	2	2	-	-
Companies controlled by the State				
Hrvatske željeznice	69	4	8	5
Croatia Airlines	30	32	-	-
Jadrolinija	30	31	1	1
Hrvatska elektroprivreda	7	186	8	14

Loan to and from related parties:

INA, d.d.			Amounts loans owed by related parties	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Foreign related companies				
INA BH d.d. Sarajevo	30	30	-	-
INA Crna Gora d.o.o Podgorica	15	15	-	-
Interina d.o.o. Ljubljana	15	15	-	-
Rotary	-	83	-	-
Holdina Sarajevo	-	4	-	-
Adrigas Milano	-	-	8	8
INA Hungary	-	1	-	-
Domestic related companies				
Prirodni plin d.o.o.	700	635	-	-
Crosco d.o.o.	582	496	-	-
Osijek Petrol d.d	50	50	-	-
Hostin d.o.o.	4	-	4	5
STSI d.o.o. Zagreb	-	20	-	-
Maziva Zagreb d.o.o. Zagreb	-	-	50	58
Polybit	-	-	2	2
Strategic partner				
MOL Nyrt.	-	-	-	979
Companies controlled by strategic partner				
Energopetrol d.d.	201	336	-	-

Product sales between related parties were made at the usual prices of the Group, reduced by discounts and rebates depending on each particular relationship. Purchases of products between related parties were made at market prices, including appropriate discounts depending on each particular relationship.

INA, d.d. generally seeks collateral for oil product sold to its related parties, depending on risk exposure, except from customers who are state budget beneficiaries or fully owned by the state.

The liabilities of the related parties to INA, d.d. are presented net of impairment of 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 2012	31 December 2011
Short-term employee benefits	43.6	44.6
Termination bonuses	0.6	-
Total	44.2	44.6

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

Independence Statements with respect of related parties were provided by the following key employees of the Company:
- Supervisory Board Members (8),
- President of the Management Board (1),
- Management Board Members (5),
- Executive Directors (6),
- Sector Directors (30).

The analysis of the returned signed Statements has concluded that, except in the below individually listed employees, neither the employees nor the close family members of the management of INA, d.d.:
- held an interest in INA, d.d. or the INA Group, or any other business entity operating with INA, d.d. or the INA Group during 2012 in excess of 5 percent which would enable them to exercise significant influence or control over the entity during 2012;
- were involved in any related-party transactions during 2012.

The following members of key management at INA, d.d. reported the existence of related parties within the INA Group during 2012:
- President of the Supervisory Board Mr. Siniša Petrović, was during 2012 president of the Supervisory Board of Croatia Airlines which during 2012 realized certain transactions with INA, d.d. and a member of the Supervisory Board of Atlantic Group which realized during 2012 certain transactions with INA, d.d.
- Member of the Supervisory Board, Mr. Ferenc Horváth, in 2012 was a member of the Board of Directors of Slovnaft, a.s., Vice president of Directors of TVK Plc. and president of the Board of Directors IES-Italiana Energia e Servici S.p.A.
- Member of the Supervisory Board, Mr. György Mosonyi, in 2012 was a president of the Board of Directors of MOL Plc., a president of the Board of Directors of TVK Plc. and president of the Supervisory Board of Slovnaft, a.s.
- Member of the Supervisory Board, Mr. József Molnár, was during 2012 a member of the Board of Directors of MOL Plc.
- Member of the Supervisory Board, Mr. Szabolcs I. Ferenc, was during 2012 a member of the Supervisory Bord of Slovnaft,a.s
- Member of the Supervisory Board, Mr. Oszkár Világi, was during 2012 the president of the Board of Directors of Slovnaft, a.s. and a member of the Board of Directors of MOL Plc.
- Member of the Management Board, Mr. Niko Dalić, was during 2012 a representative of INA, d.d. in the ED INA and INAgip General Assembly
- The Executive Director for Finance, Mr. András Huszár, was during 2012 the president of the Supervisory Board of subsidiary TRS d.o.o., a member of the Supervisory Board of subsidiary STSI d.o.o. and a member of the Supervisory Board of subsidiary CROSCO d.o.o.
- Executive Director for Retail, Mr. Darko Markotić, was during 2012 the president of the Management Board of TIFON d.o.o. until 1 February and a member of the Supervisory Board of TIFON d.o.o. after 1 February 2012
- Executive Director for Corporate Centre, Mr. Tvrtko Perković, in 2012 was president of the Management Board of subsidiary STSI d.o.o. and president of the Supervisory Board of subsidiary STSI d.o.o.
- Executive Director for Exploration and Production, Mr. Želimir Šikonja, in 2012 was president of the Supervisory Board of Crosco d.o.o., president of the Supervisory Board of Prirodni plin d.o.o., president of the Management Board of INAGIP, president of the Management Board of ED-INA, a member of the Management Board of INA-NAFTAPLIN IE&P Ltd, Guernsey and the INA major representative shareholder at Hayan Petroleum Company, Damascus, Syria
- Executive Director for Refining and Marketing, Mr. Artur Thernesz, was during 2012 a member of Supervisory Board of STSI d.o.o.
- Executive Director for Corporate Processes, Mr. Tomislav Thür, was during 2012 a member of the Supervisory Board of subsidiary Prirodni plin d.o.o. and a member of the Management Board of ED-INA d.o.o.
- Director of Treasury Sector, Mrs. Višnja Bijelić, was during 2012 the president of the Management Board of subsidiary Maziva Zagreb, a member of the Supervisory Board of subsidiary SINACO d.o.o. and a member of the Supervisory Board of Plinara Pula
- Director of Rafinery Sisak, Mr. Damir Butković, was during 2012 a member of the Supervisory Board in KISIKANA d.o.o.,Sisak
- Director of Geology and Reservoir Management Sector, Mr. Miro Đureković was during 2012 a member of the Management Board of subsidiary Adriagas S.r.l., Milan
- Director of South-East Europe E&P Sector, Mr. Laslo Farkaš Višontai was during 2012 a member of the Supervisory Board of CROP-

LIN d.o.o., a member of the Supervisory Board of Plinara Pula d.o.o., a member of the Supervisory Board of Geopodravina d.o.o. and a member of the Supervisory Board of STSI d.o.o.

- Director of International Exploration and Production Sector, Mr. János Lásló Fehér , during 2012 was a member of the Management Board of INAgip, d.o.o., a member of the Management Board of subsidiary Adriagas S.r.l. Milan and representative shareholder at Hayan Petroleum Company, Damascus, Syria
- Director of Network Development and Asset Management Sector, Mr. Davor Knez, was during 2012 the president of the Supervisory Board of subsidiary Petrol Jurdani d.d.
- Director of Accounting and Tax Sector, Mr. Ratko Marković, during 2012 was a director of subsidiary TOP RAČUNOVODSTVO SERVISI d.o.o.
- Director of the Asset and Service Management Division, Mr. Ivan Novaković, during 2012 was the director of subsidiary ITR d.o.o. and a member of the Supervisory Board of subsidiary HOSTIN d.o.o.
- Director of Legal Affairs Sectors, Mrs. Martina Perić Blaić, during 2012 was a member of the Supervisory Board of Energopetrol d.d., Sarajevo
- Director for Sustainable Development, OHS and Environmental Protection Sector, Mrs. Adrijana Petrović, during 2012 was a member of the Supervisory Board of subsidiary SINACO d.o.o.
- Director of Investment and Maintenance Management Sector, Mr. Josef Stoppacher, during 2012 was a member of the Supervisory Board of CROSCO-naftni servisi d.o.o.
- Director of Procurement Sector, Mr. György Szűcs, during 2012 was the president of the Supervisory Board of INA-SOL.
- Director of Lubricants Sector, Mr. Andrej Šolaja, during 2012 was a director of subsidiary Maziva d.o.o.

Other related party transactions

The Company is the major customer of Prirodni Plin d.o.o., with the Company as its sole owner (note 17), presented consolidated 2012 revenue in the amount of HRK 7,487 million (2011: HRK 6,889 million), of which HRK 741 million (2011: HRK 446 million) were generated from sale to INA, d.d.

The Company is the major customer of Crosco Naftni Servisi d.o.o. and its subsidiaries. The Crosco d.o.o., with the Company as its sole owner (note 17), presented consolidated for 2012 revenue in the amount of HRK 1,513 million (2011: HRK 1,253 million), of which HRK 239 million (2010: HRK 168 million) were generated from sale of technological services to INA, d.d.

The Company is also the major customer of STSI d.o.o., which is wholly owned subsidiary, (note 17), presented consolidated revenue in the amount of HRK 482 million for 2012 (2011: HRK 520 million), of which HRK 430 million (2011: HRK 457 million) were generated from sale to INA, d.d.

The Company is also the major customer of Maziva Zagreb d.o.o., which is wholly owned subsidiary, (note 17), presented consolidated 2012 revenue in the amount of HRK 213 million (2011: HRK 214 million), of which HRK 62 million (2011: HRK 58 million) were generated from sale to INA, d.d.

The Company remains the customer of company JANAF d.d., in which it has a holding of 11,795% (Note 21). During 2012, approximately HRK 60 million of JANAF's total revenue in the amount of HRK 456 million account for sales revenue in respect of INA, d.d. as user of the pipeline system of JANAF d.d. (2011: HRK 67 million out of HRK 440 million total revenue).

39. 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,
- guarantees, performance bonds and letters of credit with Croatian and foreign banks,
- completion of the construction of certain assets.

Investment in refining assets

During 2005, a temporary investment unit for the modernisation of refinery operations was established based upon a Company's 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 improve the product quality.

For the purposes of the implementation of the refinery modernisation project, 225 contracts were concluded with vendors and realised HRK 3.78 billion as at 31 December 2012.

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 50% and INA 50%.

When Izabela gas field will also be in production, in the North Adriatic Area a total of 18 production platforms and 1 compressor 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. has invested in capital construction of mining facilities and plants HRK 4.3 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 the Izabela gas field all development activities are completed during 2010 and Izabela South platform is ready for production start since 23 May 2010, while Izabela North platform since 13 July 2010. Final Technical Committee Inspection has been performed by Croatian Ministry of Economy in December 2011 and Operating license is issued in May 2012. During September 2012 Ex-Agency and Croatian Register of Shipping performed regular annual surveys of platforms and extended all Safety Certificates. Although technically ready, in this moment platforms still are not in the production, due to still ongoing negotiations between INA, d.d. and Edison. Once production starts, INA's share of production from the Izabela gas field will be approximately 45%.

On 31 December 2012 INAgip had in both contract areas 175 active contracts amounting in total to HRK 691.7 million. The remaining commitments under these contracts at 31 December 2012 amounted to HRK 442.3 million.

For the need of the development of the Izabela gas field from 1 January 2008 until 31 December 2012, Edina has concluded 80 (27 are still active) contracts amounting in total to EUR 140.3 million from which EUR 138.5 million has been carried out on 31 December 2012.

Investments in Syria

Since 1998 INA, d.d. has had six (6) commercial discoveries on the Hayan Block (Jihar, Al Mahr, Jazal, Palmyra, Mustadira and Mazrur) with significant oil, gas and condensate reserves.

Current situation

Oil, condensate, gas and LPG production in Syria is still ongoing. Expatriates (INA) working in Hayan Petroleum Company (HPC) on HPC Hayan and Hayan fields and in HPC Damascus headquarters have not been working in Syria since 25 January 2012, and the main production activities have been taken over by HPC's local workforce, which INA, d.d. considers illegal (see note 3).

INA, d.d. is the operator at the Aphamia exploratory block. INA, d.d. has acquired 270 km2 3D seismic and drilled two exploration wells. Oil saturated layers at Mudawara and Beer As Sib structures have been determined. Total capital expenditures amount to approximately to USD 65 million. The second and last extension of the exploration phase ended on 11 November 2012, with a non-fulfilled commitment to drill one exploratory well in order to confirm the commerciality of oil saturated layers, if the Force Majeure was not declared. In regards to this matter, INA, d.d. has not received any comment from GPC or Ministry side yet.

"Take or pay" contract

Starting from 1 January 2011 Prirodni plin d.o.o. concluded a new import Contract with ENI Gas&Power for procurement of app 2.25 bcm of natural gas until 31 December 2013. As of 1 January 2013 future obligations amount to approximately HRK 1.8 billion until the contract expiry (31 December 2013).
Along with long term contract with ENI Gas & Power, another contract was signed with MET and GEOPLIN regarding natural gas import until 1 October 2013. As of 1 January 2013 future obligations amount to approximately HRK 625.29 million until the contract expiry.

Gas Transportation Contract

The Company concluded transportation agreements to ensure deliveries of the gas to the destination point (FCA Croatian border). Validities of transportation contracts are, until 2015 for Slovenia and until 2017 for Austria. These contracts are also transferred onto ENI Gas&Power and Gas Connect Austria but the transportation cost is reimbursed by Prirodni plin. Additionally, within existing contract for procurement of natural gas from ENI Gas&Power, there is an obligation of payment for transport for supply route through Hungary in period for 2,5 years (entry at Croatian border at Donji Miholjac from 1 July 2011 until 31 December 2013), which is monthly amounts to approximately HRK 10.4 million.
The future transportation contracted commitments approximate in amount to HRK 970 million until 2017.

Gas sales Contracts

Group had following natural gas sale contracts from 1 October 2012 i.e. from 1 January 2012 to the expiry of the underlying contract:

1. Long-term contract between Prirodni plin d.o.o. and HEP d.d. Zagreb (long-term contract is transferred to Prirodni plin d.o.o.)
a) Contract period: from 1 January 1996 until 1 January 2016
b) Sales revenue from 1 January until 31 December 2012: HRK 2.1 billion
c) Contracted supply quantity: 1.919.268.000 m3 from 1 January 2013 until 1 January 2016
d) Estimated revenue for the remaining period: HRK 5.5 billion

2. Contract between Prirodni plin d.o.o. and Petrokemija d.d. Kutina
a) Contract period: from 1 January 2012 until 31 December 2013
b) Sales revenue from 1 January until 31 December 2012: HRK 1.6 billion
c) Contracted supply quantity: 523.200.000 m3 from 1 January 2013 until 31 December 2013
d) Estimated revenue for the remaining period: HRK 1.4 billion

3. Contracts between Prirodni plin d.o.o. and tariff-based customers (distributors - procurement)
a) Contract period: from 1 October 2012 until 30 September 2013
b) Sales revenue 1 January until 31 December 2012: HRK 1.4 billion:
c) Contracted supply quantity: 466.653.913 m3 from 1 January 2013 until 30 September 2013
d) Estimated revenue for the remaining period: HRK 1.03 billion

4. Contracts Prirodni plin d.o.o. – other tariff-based customers – distributors - sales
a) Contract period: from 1 October 2012 until 30 September 2013
b) Sales revenue from 1 January 2012 until 31 December 2012: HRK 1.01 billion
c) Contracted supply quantity: 142.184.183 m3 from 1 January 2013 until 30 September 2013
d) Estimated revenue for the remaining period: HRK 427 million

5. Contracts Prirodni plin d.o.o. – other tariff-based customers
a) Contract period: from 1 October 2012 until 30 September 2013 (Rafineries, Viro and Sladorana until 30 September 2014)
b) Sales revenue from 1 January until 31 December 2012: HRK 1.01 billion
c) Contracted supply quantity: 601.891.833 m3 from 1 December 2013 until 30 September 2014
d) Estimated revenue for the remaining period: HRK 1.5 billion

Water selling contracts

1. High quality process water
a) Contracted supply quantity: 2,209,000 m³ in 2012.
b) Sales revenue from 1 January until 31 December 2012: 4.5 million HRK
c) Contract period: 2012
d) Estimated revenue for 2013: 4.4 million HRK
2. Geothermal water
a) Contracted supply quantity: 422,000 m³ in 2012.
b) Sales revenue from 1 January until 31 December 2012: 2.5 million HRK
c) Contract period: 2012
d) Estimated revenue for 2013 the period: 2.2 million HRK

40. CONTINGENT LIABILITIES

Environmental matters

The principal activities of the Company and the Group, comprising oil and gas exploration, production, transportation, refining and distribution, can have inherent effects on the environment in terms of emissions into soil, water and air. Both, the Company and the Group regularly record, monitor and report on environmental emissions in accordance with their obligations specified in applicable laws and pay emission fees to the Environmental Protection and Energy Efficiency Fund specified by law. The environmental effects are monitored by local and national governmental environmental authorities.

Harmonisation of INA's operations with the IPPC Directive

The transposition of the IPPC Directive in Croatia has been accomplished by the Decree on Determining Integrated Environmental Protection Conditions (Official Gazette No. 114/08). To align its operations with the Decree requirements INA, d.d. has prepared detailed status analyses and surveys on harmonisation for the sites Ethane, Central Gas Station Molve and the Sisak and Rijeka Refineries. In order to verify prepared reports, during 2012 the contract was made with an authorized company ECOINA. Additionally, in 2012 request to obtaining integrated environmental protection requirements are committed to Ministry of Environment and Nature for all of these locations. A series of projects at various implementation stages are under way to meet the requirements ensuring alignment of the existing technology with the Best Available Techniques (BAT). In simple words, the IPPC Directive requires meeting the regulatory requirements applicable to soil, water, noise, waste management and increasing energy efficiency. Apart from large investments, the time and the pace of progress required to achieve compliance with the IPPC Directive are also key elements, which is why INA, d.d. requested a transition period until full compliance until 2017, which has been approved.

Alignment of INA's operations with the greenhouse gas emission (GHG) legislation

In the year 2012, several new legislations in the domain of air protection has been issued, but Air Protection Act (OG 130/11) still remains the main document. After 1 January 2013, Rijeka Refinery, Sisak Refinery, Etan Plant and Central Gas Station Molve will be included in the European Emission Trading System (EU ETS), and auctioning will begin with Croatia's accession to the European Union. In May 2012 Methodology Report, Baseline Data Report, Verification Report and Request for free allocation of emission allowances have been submitted to the Ministry of Environmental and Nature Protection for all four Ina's installations. All these reports were also delivered to the European Commission by the Ministry and are being reviewed.

Updated Rijeka and Sisak Refinery Greenhouse gas monitoring plans were submitted to the Ministry in July due to new process units which were constructed, to ensure modern standards for crude oil processing and production of motor fuels in accordance with the requirements of Croatian and European standards (Euro V). In Rijeka Refinery integrated Hydrocracking complex was constructed (includes Hydrocracking process unit, Hydrodesulfurization, Hydrogen Production Unit and Sulphur Removal Unit), while in Sisak Refinery, Isomerisation Unit was constructed. Greenhouse Gas Monitoring Plans for Etan Plant and CGS Molve have been updated as well, in accordance with the recommendations/instructions of the verifier, and were submitted to the Ministry in November 2012. Annual CO_2 emissions report for all four Ina's installations are prepared and will be verified and submitted to the Croatian Environment Agency upon the receipt of the updated greenhouse gases permit.

Alignment of INA's operations with the air protection legislation

INA, d.d. has budgeted funds for the purpose of compliance with the Croatian air protection regulations over the next several years. These include primarily measures to bring emissions of air pollutants from stationary sources and technical environmental protection standards applicable to emissions of volatile organic compounds (VOC) during petrol storage and distribution in line with the requirements. As of the end of 2012, 380 petrol stations were reconciled with the requirements of the Decree on Environmental Protection Standards in the Area of Volatile Organic Compounds from Petrol Storage and Distribution (Official Gazette No. 135/06), which is almost the entire retail network of INA, d.d. petrol stations. INA, d.d. has substantially met the requirements to align its emissions from large combustion plants, a requirement set out in the Decree on Pollutant Emissions from Stationary Sources, by bringing natural gas as an energy source to the combustion plants.

Harmonisation of INA's operations with the REACH

Pursuant to the Croatian Law on the Implementation of the Regulation No. 1907/2006 (EC) of the European Parliament and Council on the Registration, Evaluation, Authorisation and Restriction of Chemicals, INA, d.d. has registered 14 substances and 4 semi-finished products to be able to export the products to EU markets. Since Croatia is still not an EU member, the registration has been effected through MOL as the Only Representative. INA, d.d. will register all the remaining products and semi-finished products once Croatia becomes an EU member. As the date of joining the EU has already been determined, so have also the pre-registration and registration deadlines in Croatia. The period for notification according to the CLP Regulation is from 1 July to 1 August 2013. The pre-registration period runs from 1 July 2013 until 31 December 2013. The registration deadline for CMR or highly toxic substances for fresh or marine organisms produced in quantities (R 50/53) of over 100 tonnes a year is 30 June 2014. The registration deadline for all substances produced in smaller quantities (1-100 t/year) is 31 May 2018. During 2013, INA, d.d. will notified, pre-register and register 6 substances, 14 intermediates and 3 substances that are both material and intermediate.

Environmental provisions

Environmental obligations are the obligations of a company to recover pollutions caused by the company's operations. They can be divided into two categories: environmental provisions and contingencies. At 31 December 2012, INA, d.d. made environmental provisions in the amount of HRK 295 million, whereas the provisions at the Group level amounted to HRK 309 million. Contingencies at the INA Group and INA, d.d. levels were estimated at HRK 661 million and HRK 631 million, respectively. The estimates were not recognised because the timing of the event is uncertain and there is no evidence of pollution. A portion of the contingencies may be recognised as provisions by moving the time window or deciding to abandon the present business location of INA, d.d., or discontinuing further activities at a particular site.

Litigations

EDISON INTERNATIONAL S.p.a arbitration procedure

In 2002, EDISON INTERNATIONAL S.p.a. and INA, d.d. concluded the Production Sharing Agreement for the Contract area of the Republic of Croatia Offshore Adriatic Sea, Izabela and Iris/Iva blocks (Agreement).

EDISON INTERNATIONAL S.p.a. initiated the arbitration procedure on 29 June 2011 by delivering the Notice of Arbitration. In its claim EDISON INTERNATIONAL S.p.a. states that INA. d.d. essentially did not adhere to the Agreement, i.e. that it breached the obligations arising from the Agreement, and Edison is consequently seeking the amount of EUR 110.5 million.

On 19 July 2011 INA, d.d. provided its response to the Notice of Arbitration and also set out its Counterclaim. The seat of arbitration is Vienna, Republic of Austria and the arbitration procedure is being conducted in line with the UNCITRAL Arbitration Rules 2010.

Following the constitution of an arbitral tribunal to hear the claim, EDISON filed its Statement of Claim on 20 February 2012. On 25 May 2012, INA, d.d. submitted its Statement of Defence and Counterclaim. Further, written submissions were being exchanged and verbal hearing was held in December 2012 in Vienna. The hearing was followed by another round of written submissions and the judgment of the Arbitral Tribunal is pending.

EDISON seeks, inter alia, damages in the amount of EUR 108 million together with variable rate Croatian legal default interest as from 20 February 2012 until full payment is made.

Management believes, based on legal advice, that no losses will be incurred, so no provision has been recognized as of 31 December 2012.

Ministry of Finance Tax Inspection

On 20 February 2012 INA, d.d. received from the Financial Police at the Ministry of Finance a Report on the findings in connection with the supervision of legality, correctness and timeliness of the calculation, declaration and payment of budgetary revenue for the period 1 January 2008 until 31 December 2009.

The inspection covered value-added tax and corporate income tax for the period 1 January 2008 - 31 December 2009. According to the Findings Report, the Company has been imposed additional tax liabilities as well as late-payment interest for the period from 2008 to 2009. The total additional liability amounted to approximately HRK 131 million.

INA, d.d. has filed a complaint against the Report within the legally prescribed deadline and has challenged all the findings identified in the Report prepared by the Financial Police of the Ministry of Finance as well as all the additionally imposed liabilities. On 28 June 2012 INA, d.d. received the tax resolution from the Ministry of Finance, Tax Authority who took over the case from the Finance police. The potential tax liability and late penalty interest determined by the tax resolution was decreased compared to the initial liabilities

determined in the Report and amounts to approximately HRK 124 million.
27 July 2012 within the prescribed deadline INA, d.d. has filed the appeal against the tax resolution but until now did not receive tax resolution from second instance. First instance of tax authority has not forwarded an appeal to second instance; however it will carry out additional tax inspection activities.
Management believes, based on legal advice, that no losses will be incurred, so no provision has been recognized as of 31 December 2012.

GWDF Partnership München and GWDF Limited Cyprus
The plaintiff GWDF Partnership, Gesellschaft Bürgerlichen Rechts, and GWDF Limited Cyprus claims compensation against INA, d.d. Zagreb and INA-Naftaplin in amount of HRK 59 million for damage incurred owing to the loss of rights resulting from the Joint Venture Agreement made with the company Saknavtobi, and which allegedly occurred by virtue of the defendant's behaviour, i.e due to its withdrawal from negotiations by which it should have become a party of the joint business venture. INA, d.d. filed in September 2007 the answer to the claim, in which both, the foundation and the amount of the claim statement are being contested in their entirety, stating amongst the other that the defendants abandoned the negotiations because of a business decision, and that exactly the plaintiffs were those who had been negotiating contrary to the principle of consciousness and fairness. Furthermore, INA, d.d. filed the objection to the lack of litigation capacity as regards GWDF Partnership, the objection to the misdirected passive personality in relation to INA, d.d., stating also that the court is not competent as regards GWDF Limited Cyprus.
The court of first instance must first of all decide on the law applicable to this legal dispute as well as whether it is competent or not in this case. Up to now several hearings were held during the years 2008, 2009 and in 2010, and it was discussed upon the procedural issues (capacity of parties, jurisdiction and competent law).
The last hearing held on 8 February 2011, after the parties repeated their standpoints, the court decided to request from the German Republic and the Republic of Cyprus by diplomatic ways the text of the law relevant for making decisions in this case.
Management believes, based on legal advice, that no losses will be incurred, so no provision has been recognized as of 31 December 2012.

Ljubljanska banka
The claims from plaintiff LJUBLJANSKA BANKA, Ljubljana, Slovenia against INA, d.d. in amount of HRK 61 million have arisen from two contracts of 1982 on the use of short-term foreign currency loan abroad which were concluded between INA- Rafinerija nafte Rijeka and Ljubljanska banka - Osnovna banka Zagreb.
The claims of Ljubljanska banka in the concerned dispute refer to default interest debt arising from the legally binding decision of the District Economic Court (the predecessor of Commercial Court) in Zagreb which was rendered in the earlier court procedure conducted on the same, above-stated, legal grounds.
The procedure was initiated by motion for execution which was filed by Ljubljanska banka on 13 September 1995. The Commercial Court in Zagreb rendered the Decision on execution, however INA, d.d. filed an objection against the decision regarding the statute of limitations, the merits and the amount of the claims, so the procedure was continued as a civil procedure initiated by a lawsuit.
INA objected regarding the prematurity of lawsuit, since a procedure is already being conducted on the same legal grounds for the unlawfulness of execution which has in the meantime been ended by a legally effective decision, with the plaintiff requesting for a retrial. INA is also objecting in relation to the plaintiff's capacity to sue.
The Commercial Court rendered the Decision of 24 November 2008 whereby it dismissed the lawsuit. The plaintiff lodged an appeal against the afore-stated decision, which was adopted by the High Commercial Court and returned to the court of first instance for a retrial. During the retrial, the plaintiff by its application of 3 May 2010, along with the above-stated objections, also filed a claim preclusion (res iudicata) objection with reference to the above-stated procedure finalized by a legally effective decision.
The court of first instance found that the claim preclusion is applicable and, by its Decision of 29 September 2010, again dismissed the plaintiff's lawsuit. Pursuant to the plaintiff's appeal, the High Commercial Court in Zagreb rendered Decision whereby the above-stated Decision of the Commercial Court in Zagreb of 29 September 2010 was asserted. The plaintiff has applied for a review.
The outcome of the procedure is still uncertain due to the complexity of the legal matter (claims for altered default interest), however it is now more probable that the Supreme Court will take the same standpoint as the High Commercial Court.
Management believes, based on legal advice, that no losses will be incurred, so no provision has been recognized as of 31 December 2012.


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41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Gearing ratio

The primary objective of the Group in managing its capital to ensure good capital ratios in order to support all business activities and maximize the value to all shareholders through optimization of the ratio between the debt and equity.

The capital structure of the Group consists of debt part which includes borrowings as detailed in notes 26 and 29 offset by cash and bank balances (so called net debt) and shareholder equity comprising of issued capital, reserves, retained earnings and non-controlling interests as detailed in notes 33 to 36.

Capital structure of the Group is reviewed quarterly. As a part of the review, the cost of capital is considered and risks associated with each class of capital. Internally, maximum gearing ratio of the Group is determined.

The gearing ratio at the end of the reporting period was as follows.

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Debt:	7,152	9,452	6,758	9,157
Long term loans	1,161	5,630	1,053	5,556
Short term loans	1,266	1,918	1,057	1,784
Current portion of long-term borrowings	4,725	1,904	4,648	1,817
Cash and cash equivalents	(488)	(337)	(270)	(229)
Net debt	6,664	9,115	6,488	8,928
Equity	14,954	14,365	15,502	14,282
Equity and net debt	21,618	23,480	21,990	23,210
Gearing ratio	31%	39%	30%	38%

Debt is defined as long–term and short-term borrowings and credit lines (excluding derivatives and financial guarantee contracts), as described in notes 26 and 29.

Total equity includes capital, reserves of the Group that are managed as capital, and non-controlling interests.

Categories of financial instruments

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Financial assets				Cash and cash
equivalents	488	337	270	229
Financial assets designated as at fair value through profit and loss	7	-	6	5
Embedded derivative financial instruments	7	7	-	-
Loans and receivables	3,727	4,364	4,896	4,979
Available-for-sale financial assets	340	325	340	325
Positive fair value of derivatives	6	48	6	48
Financial liabilities				
Amortised cost	8,836	11,484	8,105	10,932
Embedded derivative financial instruments	40	22	-	3
Negative fair value of derivatives	3	32	3	32

Financial risk management objectives
INA Group in course of business continuously determines and monitors financial risks. The Risk Management and Hedging Policy for INA Group provides the framework under which INA, d.d. and its consolidated subsidiaries manage and maintain commodity, foreign exchange and interest rate risk at an acceptable level, allowing INA, d.d. to achieve its strategic objectives while protecting the future financial stability and flexibility of INA Group. INA, d.d. integrates and measures all financial risks on INA Group level in the financial risk model using Monte Carlo simulation, while senior management reviews regularly the financial risk reports.
By taking this general approach, INA, d.d. assumes the business activities as a well-balanced integrated portfolio and does not hedge individual elements of its exposure to financial risks in a normal course of business. Therefore, INA, d.d. actively manages its financial risk exposure for the following purposes:

• corporate level – maintaining financial ratios, covering exposure to significant monetary transactions, etc;
• business segment level – decreasing the exposure to market prices fluctuation in case of deviations from the normal course of business (e.g. planned regular shutdown of refinery units for the purpose of overhaul)

INA, d.d. Treasury Sector carries out finance activities of INA, d.d. and co-ordinates finance operations of INA Group on domestic and international financial markets, monitors and manages the financial risks related to the operations of INA Group. The most significant risks, together with methods used for management of these risks are described below.

INA Group used derivative financial instruments to a very limited extent in order to manage the financial risks. Derivative financial instruments used by INA, d.d. for the purpose of hedging of financial risks are regulated by signing an ISDA (International Swaps and Derivatives Association) Agreement with counterparties. INA Group does not use derivative financial instruments for speculative purposes.

Market risk
Commodity price risk management (price risk)
The volatility of crude oil and gas prices is the prevailing element in the business environment of INA Group. INA Group buys crude oil mostly through short-term arrangements in US dollars at the spot market price. INA Group also imports a significant portion of natural gas to cover its requirements at the price denominated in US dollars, which is revises on a quarterly basis, in accordance with formula in three-year contract for supply signed with the Italian company ENI.
In addition to exploration and production, and refinery operations, one of the main core activities of INA, d.d. are marketing and sale of refinery products and natural gas. The formula for determining the crude products prices, specified by the Highest Retail Refined Product Pricing Regulation, to a limited extent is protecting the Group from the changes in the crude oil and crude products prices, and foreign exchange risk, enabling the refinery products to be repriced every two weeks, with certain limitations, depending on the market prices and fluctuations in the exchange rate of the Croatian kuna against the US dollars.

INA, d.d. may use commodity hedging transactions only for the purpose of achieving the above-mentioned objectives on corporate and business segments level. INA, d.d. can use swap and option instruments. In 2012 INA, d.d. entered into short-term commodity swap transactions to hedge its exposure on changes in inventory levels, changes in pricing periods and fixed price contracts. The transactions were initiated to reduce exposures to potential fluctuations in prices over the period of decreasing inventories at the refineries, as well as to match the pricing period of purchased crude oil and crude products with the crude oil processing and refinery product retail pricing periods. These transactions were hedging transactions and do not qualify for hedge accounting treatment under IFRS.
At 31 December 2012 positive fair value of commodity derivatives amounted to HRK 6 million, while negative fair value from such transactions amounted to HRK 3 million (see Note 27).

Foreign currency risk management
As INA Group operates both in Croatia and abroad, many of its transactions are denominated and executed in foreign currencies, hence INA, d.d. is exposed to exchange rate risks.
The INA Group has a net long USD and EUR, and a net short HRK operating cash flow position. Generally, the Group manages its cur-

rency risk using natural hedging, which is based on the principle that the combination of currencies in the debt portfolio should reflect the currency position of the Group's free cash flow. Furthermore, in order to avoid excessive exposures to fluctuations in the foreign exchange rate with respect to a single currency (i.e. USD), INA, d.d. applies a portfolio-based approach while selecting the currency mix for its debt portfolio. In addition, the applicable Highest Retail Refined Product Pricing Regulation allows passing a part of the effects arising from unfavorable fluctuations in foreign exchange rates onto the domestic market.
INA, d.d. may use a cross-currency swap to adjust its currency mix in the debt portfolio. At 31 December 2012 there were no outstanding cross-currency transactions.

INA Group	Liabilities		Assets	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Currency USD	3,574	4,359	1,609	582
Currency EUR	4,263	5,384	633	444
	7,837	9,743	2,242	1,026

INA, d.d.	Liabilities		Assets	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Currency USD	3,167	4,452	1,437	530
Currency EUR	4,044	5,286	491	934
	7,211	9,738	1,928	1,464

Foreign currency sensitivity analysis
INA Group is mainly exposed to the currency risk related to change of Croatian kuna exchange rate against US dollar, due to the fact that crude oil and natural gas trading on the international market is mostly performed based on USD. In addition, the Group is exposed to fluctuations of the exchange rate of Croatian kuna against EUR, as a part of its debt portfolio is denominated in EUR.
The following table details the Company's sensitivity to a 10% strengthening in Croatian kuna in 2012 (in 2011: 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	Currency USD Impact		Currency EUR Impact	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Loss	(196)	(378)	(363)	(494)
	(196)	(378)	(363)	(494)

INA, d.d.		Currency USD Impact		Currency EUR Impact
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Loss	(173)	(392)	(355)	(435)
	(173)	(392)	(355)	(435)

The exposure on the 10% fluctuation in the exchange rates for the currencies presented above is mostly attributable to the outstanding liabilities towards suppliers and borrowings denominated in US dollars (USD) and euros (EUR).

Interest rate risk management

As an energy company, the Group does not speculate on fluctuations in interest rates, and therefore primarily chooses floating interest rates. However, in certain instruments and certain macro environment, the selection of fixed interest rate can be more favorable.
INA, d.d. in accordance with the Risk Management and Hedging Policy for INA Group, can use interest rate swap transactions in order to manage the relative level of exposure to interest rate risk on cash flows related to borrowings with floating interest rates. As of 31 December 2012 there were no outstanding interest rate swap transactions.

Interest rate risk analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the statement of financial position date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 or 200 basis point increase or decrease is used when reporting interest rate risk internally, and represents management's assessment of the reasonably possible change in interest rates.
If the interest rates would be 200 basis points higher/lower and all other variables were held constant, the changes in interest expense of INA Group and INA, d.d. would be as presented below. Because of the decrease in total debt, the exposure to a potential change in the interest rates on profits has also decreased.

	INA Group		INA, d.d.	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Short-term interest expense change	25.3	38	21.1	36
Long-term interest expense change	111.4	143	107.7	140
Total change:	136.7	181	128.8	176

If interest rates would be 200 basis points higher/lower, the profit of the INA Group as of 31 December 2012 would be decreased / increased by HRK 136.7 million, while the decrease/increase would amount to HRK 34 million with a change of 50 basis points, (2011: decrease / increase by HRK 181 million had the interest rates been 200 basis points higher/lower, and by HRK 45 million had the interest rates been 50 basis points higher / lower), and in 2012 the profit of the INA, d.d. would decrease/increase by HRK 128.8 million if interest rates had been 200 basis points higher/lower, while the decrease/increase would amount to HRK 32 million with a change of 50 basis points (2011: decrease / increase by HRK 176 million had the interest rates been 200 basis points higher/lower, and by HRK 44 million had the interest rates been 50 basis points higher/lower).

Other price risks

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

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.
If equity prices had been 10% higher:

- net profit for the year ended 31 December 2012 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 28 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.
Impairment of financial assets available-for-sale is recorded at the revaluation reserve.
INA, d.d. holds 118,855 shares (listed on stock exchange) in Janaf, which is representing 11.795% the share equity of the company.

Additional, the impairment of net assets of the company Plinara d.o.o., Pula is also recorded on the revaluation reserve.
According to IAS 39, the decreasing in the fair value of financial assets available-for-sale are recognized directly in equity and if there is objective evidence of impairment of assets, the cumulative loss that is recognized directly in equity will remove from equity to income statement.
Due to a significant decrease of Janaf in the stock exchange, in amount of HRK 55 million and impairment of Plinara d.o.o. Pula in amount of HRK 2 million, the cumulative losses loss recognised directly in equity was transferred from to profit or loss at 31 December 2011.
The Group's sensitivity to equity prices has not changed significantly from the prior year.

Credit risk management
Sales of products and services with deferred payment gives rise to credit risk, risk of default or non-performance of contractual obligations by the Group customers. Overdue receivables have an adverse effect on the liquidity of the Group, whereas impaired overdue receivables have a negative impact on the financial results of the Group as well. Under the currently valid "Credit Risk Management Procedure ", the measures are taken as a precaution against the risk of default. Counterparties (customers) are classified into risk groups by reference to their financial indicators and the trading records with INA Group, and appropriate measures to provide protection against credit risk are taken for each group. The information used to classify the counterparties (customers) into the risk groups is derived from the official financial statements obtained from independent rating agencies. The exposure and the credit ratings of counterparties (customers) are continuously monitored and credit exposure is controlled by credit limits that are reviewed at least on an annual basis. Whenever possible, Group collects collaterals (payment security instruments) from customers in order to minimize risk of collection of payments arising from contractual liabilities of customers.
The exposure of the Group and the credit ratings of its counterparties are continuously monitored to mitigate the risk of default.

The INA Group transacts with a large number of counterparties from various industries and of various size. A portion of goods sold with deferred payment includes government institutions and customers owned by the state and local self-governments that do not provide any payment security instruments. As regards other customers, the collaterals they provide are mainly debentures, being the most frequently used payment security instrument on the Croatian market, and bank guarantees and mortgages, whereas from foreign customers are mostly obtained letters of credit, and to a lesser extent corporate guarantees and exceptionally bills of exchange.
There is no significant credit risk exposure of the Group that is not covered with collateral, other than those to the above-mentioned institutions and entities controlled by the state, local self-government, and those arising from certain foreign concession agreements.

Liquidity risk management
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 and credit facilities, by continuously monitoring of forecasted and actual cash flows and due dates of account receivables and payables.
The policy of INA Group is to ensure sufficient external funding sources in order to achieve the sufficient level of available frame credit lines ensuring the liquidity of INA Group as well as investment needs.
As of 31 December 2012 INA Group had contracted short term bank credit lines amounting to HRK 1.99 billion (CNB middle rate),excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and contracted long term credit lines amounting to HRK 7.42 billion (CNB middle rate).
The main external sources of funding for INA Group are:
- Syndicated multi-currency revolving loan, Agent BLB, in the amount of USD 747.51 million
- Contracts on loan for financing of projects in the amount of EUR 210 million - with EBRD (EUR 160 million) and ICF Debt Pool (EUR 50 million)
- Multi-currency revolving credit facility in the amount of USD 200 million with MOL Plc.
- Club deal revolving loan, Agent PBZ, in the amount of EUR 139 million
- Framework revolving credit lines at the Group level and trade finance credit lines established with the purpose to finance the purchase of crude oil and oil product for INA, d.d.

In 2007 INA, d.d. signed its most significant credit facility in the amount of USD 1 billion, originally with maturity of 5 years with possibility for prolongation up to maximum 2 years, with the prior approval of the lenders. During 2012 INA, d.d. has repaid the first tranche of a syndicated loan in the amount of USD 252.5 million.
In September 2010, INA, d.d. signed a long term loan contract with EBRD, in the amount of EUR 160 million and with ICF Debt Pool in the amount of EUR 50 million for the finance of refinery modernization programme.
During 2012 multi-currency revolving credit facility in the amount of USD 200 million for general corporate purposes signed with MOL Plc.

In 2012 INA, d.d. signed club deal revolving credit facility in the amount of EUR 139 million, with maturity of 3 years with possibility for prolongation up to 2 years, with the prior approval of the lenders.
In accordance with the standard international practices for crude oil and oil products purchases INA, d.d. has contracted short-term credit facilities ("trade financing") with first class commercial bank groups. As of 31 December 2012 the available credit lines for purchase of crude oil and derivatives were USD 980 million.
To diversify the sources of financing and to ensure sufficient liquidity level as well as financial stability of the company, INA, d.d. in involved in negotiations with other potential creditors on a constant basis.
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 1month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2012					
Non-interest bearing	1,114	1,202	63	38	2,417
Interest bearing	1,088	4,977	1,267	-	7,332
	2,202	6,179	1,330	38	9,749
31 December 2011					
Non-interest bearing	53	2,273	68	58	2,452
Interest bearing	644	3,329	5,571	281	9,825
	697	5,602	5,639	339	12,277
INA, d.d.					
	Less than 1month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2012					
Non-interest bearing	946	699	33	38	1,716
Interest bearing	1,076	4,755	1,158	-	6,989
	2,022	5,454	1,191	38	8,705
31 December 2011					
Non-interest bearing	707	1,216	48	58	2,029
Interest bearing	643	3,181	5,496	278	9,598
	1,350	4,397	5,544	336	11,627

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 621 million in 2012 (2011: HRK 615 million).
Included in non-interest bearing liabilities of INA, d.d. due in a period of over five years are, liabilities to Government for sold flats and deferred income for sold flats.
Interest bearing liabilities include short-term and long-term borrowings.

Fair value of financial instruments

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

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

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

Fair value measurements recognised in the statement of financial position

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

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

INA GROUP			31 December 2012	
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets available-for-sale	282	-	58	340
Embedded derivative financial assets	-	7	-	7
Positive fair value of derivatives	-	6	-	6
Financial liabilities at fair value				
Derivative financial liabilities	-	40	-	40
Negative fair value of derivatives	-	3	-	3

			31 December 2011	
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets available-for-sale	265	-	60	325
Embedded derivative financial assets	-	7	-	7
Positive fair value of derivatives	-	48	-	48
Financial liabilities at fair value				
Negative fair value derivative	-	22	-	22
Negative fair value of derivatives	-	32	-	32

INA, d.d.				
				31 December 2012
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets available-for-sale	282	-	58	340
Positive fair value of derivatives	-	6	-	6
Financial liabilities at fair value				
Negative fair value of derivatives	-	3	-	3

				31 December 2011
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets available-for-sale	265	-	60	325
Positive fair value of derivatives	-	48	-	48
Financial liabilities at fair value				
Embedded derivative financial liabilities	-	3	-	3
Negative fair value of derivatives	-	32	-	32

Reconciliation of Level 3 fair value measurements of financial assets:

INA Group and INA, d.d.		
	31 December 2012	
	Financial assets available-for-sale	Total
Opening balance	60	60
Impairment	(2)	(2)
Closing balance	58	58

Derivative financial instruments

Under IAS 39 Financial Instruments: Recognition and Measurement derivative financial instruments are carried in the statement of financial position 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 statement of financial position 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.

Managements consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements are approximate their fair values.

The fair values of embedded derivatives included in the statement of financial position and the net movement in the year, are as follows:

INA Group	31 December 2012	31 December 2011
Fair value at 1 January	(15)	(2)
Financial loss relating to the net change in fair value in the year	(18)	(13)
Fair value at 31 December	(33)	(15)
Analysed as:		
Current portion	(33)	(15)
Non-current portion	-	-
	(33)	(15)

42. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 12 March 2013.
Signed on behalf of the Company on 12 March 2013 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board