INA - INDUSTRIJA NAFTE, d.d.

and INA GROUP

Consolidated and unconsolidated

Financial Statements for the year ended

31 December 2013

Together with Independent Auditors' Report

Content

	Page
Responsibility for the Financial Statements	1
Independent Auditors' Report	2
INA Group Consolidated Income Statement	4
INA Group Consolidated Statement of Comprehensive Income	5
INA, d.d. Unconsolidated Income Statement	6
INA, d.d. Unconsolidated Statement of Comprehensive Income	7
INA Group Consolidated Statement of Financial Position	8
INA, d.d. Unconsolidated Statement of Financial Position	10
INA Group Consolidated Statement of Changes in Equity	12
INA, d.d. Unconsolidated Statement of Changes in Equity	13
INA Group Consolidated Statement of Cash Flow	14
INA, d.d. Unconsolidated Statement of Cash Flow	16
Notes to Financial Statements	18

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 adopted by the European Union, which give a true and fair view of the state of affairs and results of INA - Industrija Nafte, d.d. (˝the Company˝) and its subsidiaries (˝the Group˝) for that period.

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

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

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

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

Signed on behalf of the Group:

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

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

19 March 2014

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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 137, which comprise the consolidated and unconsolidated statements of financial position as of 31 December 2013, 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, as adopted by the European Union, 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 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter

Political situation in Syria

We draw attention to Note 3 to the financial statements which describe the uncertainty related to the current political situation in Syria, where the INA Group has assets of HRK 2,335 million and liabilities of HRK 1 million in the statement of financial position at 31 December 2013. Our opinion is not qualified in respect of this matter.

Deloitte d.o.o.

Branislav Vrtačnik, President of the Board and Certified Auditor

Zagreb, Republic of Croatia

19 March 2014

INA Group Consolidated Income Statement

For the year ended 31 December 2013

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Sales revenue			
a) domestic		17,531	19,090
b) exports		9,913	10,805
Total sales revenue	4	**27,444**	**29,895**
Income from own consumption of products and services		361	269
Other operating income	5	507	313
Total operating income		**28,312**	**30,477**
Changes in inventories of finished products and work in progress		(91)	281
Cost of raw materials and consumables		(13,727)	(15,151)
Depreciation and amortisation	6	(2,261)	(2,016)
Other material costs		(1,622)	(1,696)
Service costs		(1,249)	(1,317)
Staff costs	7	(2,415)	(2,636)
Cost of other goods sold		(5,536)	(5,377)
Impairment charges (net)	8	(2,780)	(1,063)
Provision for charges and risks (net)	9	(201)	(143)
Operating expenses		**(29,882)**	**(29,118)**
(Loss)/profit from operations		**(1,570)**	**1,359**
Finance income	10	213	177
Finance costs	11	(459)	(469)
Net loss from financial activities		(246)	(292)
(Loss)/profit before tax		**(1,816)**	**1,067**
Income tax benefit/(expense)	12	308	(380)
(Loss)/profit for the year		**(1,508)**	**687**
Attributable to:			
Owners of the Company		**(1,508)**	**681**
Non-controlling interests		-	6
		(1,508)	**687**
Earnings per share			
Basic and diluted (loss)/earnings per share (kunas per share)	13	(150.8)	68.1

Signed on behalf of the Group on 19 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 2013

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2013	Year ended 31 December 2012
(Loss)/profit for the year		**(1,508)**	**687**
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	32	(11)	-
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(210)	(111)
(Loss)/gain on available-for-sale financial assets	34	(7)	13
Other comprehensive loss, net of income tax		**(228)**	**(98)**
Total comprehensive (loss)/ income for the year		**(1,736)**	**589**
Attributable to:			
Owners of the Company		(1,736)	583
Non-controlling interests		-	6

Signed on behalf of the Group on 19 March 2014 by:

András Huszár	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

INA, d.d. Unconsolidated Income Statement

For the year ended 31 December 2013

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Sales revenue			
a) domestic		15,558	17,188
b) exports		8,324	9,216
Total sales revenue	4	**23,882**	**26,404**
Income from own consumption of products and services		-	2
Other operating income	5	496	410
Total operating income		**24,378**	**26,816**
Changes in inventories of finished products and work in progress		(71)	181
Cost of raw materials and consumables		(14,105)	(15,628)
Depreciation and amortisation	6	(2,101)	(1,835)
Other material costs		(1,394)	(1,536)
Service costs		(1,074)	(1,186)
Staff costs	7	(1,472)	(1,617)
Cost of other goods sold		(2,210)	(1,324)
Impairment and charges (net)	8	(3,637)	(1,967)
Provision for charges and risks (net)	9	(146)	(132)
Operating expenses		**(26,210)**	**(25,044)**
(Loss)/profit from operations		**(1,832)**	**1,772**
Finance income	10	412	402
Finance costs	11	(547)	(505)
Net loss from financial activities		**(135)**	**(103)**
(Loss)/profit before tax		**(1,967)**	**1,669**
Income tax benefit/(expense)	12	334	(346)
(Loss)/profit for the year		**(1,633)**	**1,323**
Earnings per share			
Basic and diluted (loss)/earnings per share (kunas per share)	13	(163.3)	132.3

Signed on behalf of the Company on 19 March 2014 by:

András Huszár	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

INA, d.d. Unconsolidated Statement of Comprehensive Income

For the year ended 31 December 2013

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2013	Year ended 31 December 2012
(Loss)/profit for the year		**(1,633)**	**1,323**
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	32	(9)	-
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(181)	(116)
(Loss)/gain on available-for-sale financial assets	34	(7)	13
Other comprehensive loss, net of income tax		**(197)**	**(103)**
Total comprehensive (loss)/income for the year		**(1,830)**	**1,220**

Signed on behalf of the Company on 19 March 2013 by:

András Huszár	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

INA Group Consolidated Statement of Financial Position

At 31 December 2013

(all amounts are presented in HRK millions)

ASSETS	**Note**	**31 December 2013**	**31 December 2012**
Non-current assets			
Intangible assets	14	524	676
Property, plant and equipment	15	15,979	18,716
Goodwill	16	183	183
Investments in associates and joint operations	18	22	34
Other investments	19	169	187
Long-term receivables and other assets	20	230	202
Derivative financial instruments	41	3	5
Deferred tax	12	1,127	557
Available-for-sale assets	21	330	340
Total non – current assets		**18,567**	**20,900**
Current assets			
Inventories	22	3,219	3,352
Trade receivables, net	23	2,564	2,770
Other receivables	24	847	516
Derivative financial instruments	41	2	2
Other current assets		142	30
Prepaid expenses and accrued income		166	142
Cash and cash equivalents	25	402	488
Total current assets		**7,342**	**7,300**
TOTAL ASSETS		**25,909**	**28,200**

Signed on behalf of the Group on 19 March 2014 by:

András Huszár	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

(all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	Note	31 December 2013	31 December 2012
Capital and reserves			
Share capital	33	9,000	9,000
Revaluation reserve	34	6	13
Other reserves	35	2,284	2,505
Retained earnings	36	1,586	3,437
Equity attributable to owners of the Company		**12,876**	**14,955**
Non-controlling interests	37	(1)	(1)
TOTAL EQUITY		**12,875**	**14,954**
Non – current liabilities			
Long-term loans	29	1,889	1,161
Other non-current liabilities	30	76	101
Employee benefit obligation	32	135	100
Provisions	31	2,754	2,713
Deferred tax liabilities		7	13
Total non–current liabilities		**4,861**	**4,088**
Current liabilities			
Bank loans and overdrafts	26	2,975	1,266
Current portion of long-term loans	26	299	4,725
Trade payables	27	2,841	1,684
Taxes and contributions	27	749	497
Other current liabilities	27	661	596
Accruals and deferred income	28	126	36
Employee benefit obligation	32	11	10
Provisions	31	511	344
Total current liabilities		**8,173**	**9,158**
Total liabilities		**13,034**	**13,246**
TOTAL EQUITY AND LIABILITIES		**25,909**	**28,200**

Signed on behalf of the Group on 19 March 2014 by:

András Huszár	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

INA, d.d. Unconsolidated Statement of Financial Position

At 31 December 2013

(all amounts are presented in HRK millions)

ASSETS	**Note**	**31 December 2013**	**31 December 2012**
Non-current assets			
Intangible assets	14	522	671
Property, plant and equipment	15	14,340	17,063
Investment in subsidiaries	17	1,127	1,161
Investments in associates and joint operations	18	22	34
Other investments	19	795	798
Long-term receivables	20	239	210
Deferred tax	12	1,076	494
Available-for-sale assets	21	330	340
Total non–current assets		**18,451**	**20,771**
Current assets			
Inventories	22	2,526	2,485
Intercompany receivables		1,677	2,226
Trade receivables, net	23	1,291	1,103
Other receivables	24	727	428
Other current assets		150	83
Prepaid expenses and accrued income		98	79
Cash and cash equivalents	25	252	270
Total current assets		**6,721**	**6,674**
TOTAL ASSETS		**25,172**	**27,445**

Signed on behalf of the Company on 19 March 2014 by:

András Huszár	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

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

At 31 December 2013

(all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	**Note**	**31 December 2013**	**31 December 2012**
Capital and reserves			
Share capital	33	9,000	9,000
Revaluation reserve	34	6	13
Other reserves	35	1,933	2,123
Retained earnings	36	2,390	4,366
TOTAL EQUITY		**13,329**	**15,502**
Non–current liabilities			
Long term loans	29	1,826	1,053
Other non-current liabilities	30	65	71
Employee benefit obligation	32	98	67
Provisions	31	2,707	2,663
Total non–current liabilities		**4,696**	**3,854**
Current liabilities			
Bank loans and overdrafts	26	2,764	1,057
Current portion of long-term loans	26	255	4,648
Intercompany payables		569	383
Trade payables	27	2,144	964
Taxes and contributions	27	590	385
Other current liabilities	27	388	328
Accruals and deferred income	28	40	34
Employee benefit obligation	32	7	6
Provisions	31	390	284
Total current liabilities		**7,147**	**8,089**
Total liabilities		**11,843**	**11,943**
TOTAL EQUITY AND LIABILITIES		**25,172**	**27,445**

Signed on behalf of the Company on 19 March 2014 by:

András Huszár	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

INA Group Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

(all amounts are presented 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 2012	**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 loss, 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**
Loss for the year	-	-	-	(1,508)	(1,508)	-	(1,508)
Other comprehensive loss, net	-	(221)	(7)	-	(228)	-	(228)
Total comprehensive loss for the year	**-**	**(221)**	**(7)**	**(1,508)**	**(1,736)**	**-**	**(1,736)**
Dividend paid	-	-	-	(343)	(343)	-	(343)
Balance at 31 December 2013	**9,000**	**2,284**	**6**	**1,586**	**12,876**	**(1)**	**12,875**

Signed on behalf of the Group on 19 March 2014 by:

András Huszár	Zoltán Sándor Áldott
Executive Director for Finance	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 2013

(all amounts are presented in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained earnings	Total
Balance at 1 January 2012	**9,000**	**2,239**	**-**	**3,043**	**14,282**
Profit for the year	-	-	-	1,323	1,323
Other comprehensive loss, 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**
Loss for the year	-	-	-	(1,633)	(1,633)
Other comprehensive loss, net	-	(190)	(7)	-	(197)
Total comprehensive loss for the year	**-**	**(190)**	**(7)**	**(1,633)**	**(1,830)**
Dividend paid	-	-	-	(343)	(343)
Balance at 31 December 2013	**9,000**	**1,933**	**6**	**2,390**	**13,329**

Signed on behalf of the Company on 19 March 2014 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.

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2013	Year ended 31 December 2012
(Loss)/profit for the year		**(1,508)**	**687**
Adjustments for:			
Depreciation and amortisation		2,261	2,016
Income tax (benefit)/expense recognised in income statement		(308)	380
Impairment charges		3,046	1,281
Reversal of impairment		(266)	(218)
Gain on sale of property, plant and equipment		(4)	(36)
Foreign exchange (gain)/loss		(35)	44
Interest expense (net)		128	123
Other finance expense recognised in income statement		88	98
Increase in provisions		199	136
Decommisioning interests and other provision		82	115
Other non-cash items		(38)	(85)
		3,645	**4,541**
Movements in working capital			
Decrease in inventories		88	190
(Increase)/decrease in receivables and prepayments		(303)	379
Increase/(decrease) in trade and other payables		1,599	(120)
Cash generated from operations		**5,029**	**4,990**
Taxes paid		(490)	(1,248)
Net cash inflow from operating activities		**4,539**	**3,742**
Cash flows used in investing activities			
Payments for property, plant and equipment		(1,854)	(1,190)
Payments for intangible assets		(248)	(99)
Proceeds from sale of non-current assets		14	9
Payments from acquisition of subsidiaries		(7)	-
Dividends received from companies classified as available-for-sale and from other companies		3	1
Interest received and other financial income		25	19
Investments and loans to third parties, net		(80)	142
Net cash used for investing activities		**(2,147)**	**(1,118)**

INA Group Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2013

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Cash flows from financing activities			
Additional long-term borrowings		6,160	318
Repayment of long-term borrowings		(9,878)	(1,934)
Additional short-term borrowings		15,086	15,280
Repayment of short-term borrowings		(13,386)	(15,936)
Dividends paid		(343)	-
Interest paid on long-term loans		(88)	(93)
Interest paid on short-term loans and other financing charges		(24)	(96)
Net cash used in financing activities		**(2,473)**	**(2,461)**
Net (decrease)/increase in cash and cash equivalents		**(81)**	**163**
At 1 January		488	337
Effect of foreign exchange rate changes		(5)	(12)
At 31 December	25	**402**	**488**

Signed on behalf of the Group on 19 March 2014 by:

András Huszár	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

INA, d.d. Unconsolidated Statement of Cash Flows

For the year ended 31 December 2013

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2013	Year ended 31 December 2012
(Loss)/profit for the year		**(1,633)**	**1,323**
Adjustments for:			
Depreciation and amortisation		2,101	1,835
Income tax (benefit)/expense recognised in income statement		(334)	346
Impairment charges		4,732	2,156
Reversal of impairment		(1,095)	(189)
Gain on sale of property plant and equipment		(5)	(6)
Foreign exchange loss/(gain)		12	(29)
Interest income, net		(110)	(16)
Other finance expense/(income) recognised in income statement		7	(4)
Increase in provisions		172	121
Decommisioning interests		80	113
Other non-cash items		2	3
		3,929	**5,653**
Movements in working capital			
(Increase)/decrease in inventories		(122)	413
Increase in receivables and prepayments		(787)	(873)
Increase/(decrease) in trade and other payables		1,395	(247)
Cash generated from operations		**4,415**	**4,946**
Taxes paid		(357)	(1,244)
Net cash inflow from operating activities		**4,058**	**3,702**
Cash flows used in investing activities			
Payment for property, plant and equipment		(1,689)	(1,048)
Payment for intangible assets		(245)	(147)
Proceeds from sale of non-current assets		5	6
Aquisition for investments in subsidiaries, associates and joint ventures and other companies		(10)	(16)
Dividends received from companies classified as available- for-sale and from other companies		3	1
Payments received from subsidiaries		39	33
Interest received and other financial income		97	96
Investments and loans, net		14	(43)
Net cash used in investing activities		**(1,786)**	**(1,118)**

INA, d.d. Unconsolidated Statement of Cash Flows (continued)

For the year ended 31 December 2013

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Cash flows from financing activities			
Additional long-term borrowings		6,160	168
Repayment of long-term borrowings		(9,798)	(1,808)
Additional short-term borrowings		15,060	14,894
Repayment of short-term borrowings		(13,240)	(15,612)
Dividends paid		(343)	-
Interest paid on long-term loans		(79)	(82)
Other long-term liabilities, net		(7)	(36)
Interest paid on short term loans and other financing charges		(40)	(52)
Net cash used in financing activities		**(2,287)**	**(2,528)**
Net increase/(decrease) in cash and cash equivalents		**(15)**	**56**
At 1 January		270	229
Effect of foreign exchange rate changes		(3)	(15)
At 31 December	25	**252**	**270**

Signed on behalf of the Company on 19 March 2014 by:

András Huszár	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

(all amounts are presented in HRK millions)

1. GENERAL

History and incorporation

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

INA-Industrija nafte, d.d. Zagreb is a joint stock company owned by the Hungarian oil company MOL (49.08 %), the Republic of Croatia (44.84 %) and institutional and private investors (6.08 %). 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.

In 1993 INA, d.d. became a joint stock company and in 2003 25% +1 share was sold to MOL Nyrt. Two years later, in 2005 7% of INA, d.d. shares (700,000) were transferred to the Croatian Homeland Independence War Veterans and Their Family Member´s.

The initial public offering of 17% of INA, d.d. shares was successfully launched in November 2006. From 1 December 2006 the shares were listed on the Zagreb Stock Exchange and the London Stock Exchange where the trading in global depositary receipts (GDRs) started. The initial offer of INA's shares had caused great interest of private and institutional investors in Croatia, and the demand was oversubscribed. In 2007 an additional 7% of shares were sold to employees and former employees.

The ownership structure* of the INA Group as of 31 December 2013 and 2012:

	31 December 2013		31 December 2012	
	Number of shares	**Ownership in %**	**Number of shares**	**Ownership in %**
Zagrebačka banka d.d./Unicreditbank Hungary Zrt, for MOL Nyrt, Hungary	4,908,207	49.08	4,908,207	49.08
Government of the Republic of Croatia	4,483,552	44.84	4,483,552	44.84
Institutional and private investors	608,241	6.08	608,241	6.08
	10,000,000	**100**	**10,000,000**	**100**

*Source: Central Depository & Clearing Company Inc.

(all amounts are presented in HRK millions)

1. GENERAL (CONTINUED)

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

(ii) in abroad; Angola and Egypt;

(iii) import of natural gas and sale of imported and domestically produced natural gas to industrial consumers and municipal gas distributors;

(iv) refining and production of oil products through refineries located at Rijeka (Urinj) and Sisak, and Zagreb lubricants plants;

(v) distribution of fuels and associated products through a chain of 444 retail outlets in operation as of 31 December 2013 (of which 392 in Croatia and 52 outside Croatia). Intensive modernization and revitalization of retail network has started in 2010;

(vi) trading in petroleum products through a network of foreign subsidiaries and representative offices, principally in Ljubljana and Sarajevo; and

(vii) 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 2013 there were 13,460 persons employed at the Group (13,854 as at 31 December 2012). As at 31 December 2013 there were 8,517 persons employed at INA, d.d. (8,712 as at 31 December 2012).

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 24 May 2011 until 10 April 2012

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

(all amounts are presented in HRK millions)

1. GENERAL (CONTINUED)

Directors, Management and Supervisory Board (continued)

Supervisory Board from 11 April 2012 until 17 December 2012

Davor Štern	Chairman
György Mosonyi	Deputy chairman
József Molnár	Member of the Supervisory Board
Szabolcs I. Ferencz	Member of the Supervisory Board
Damir Vanđelić	Member of the Supervisory Board
Gordana Sekulić	Member of the Supervisory Board
Oszkár Világi	Member of the Supervisory Board
Ferenc Horváth	Member of the Supervisory Board
Maja Rilović	Representative of employees in the Supervisory Board

Supervisory Board since 18 December 2012

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

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

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

1. GENERAL (CONTINUED)

Directors, Management and Supervisory Board (continued)

Executive Board

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 at the end of each reporting period, 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 goods and services.

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2. ACCOUNTING POLICIES (CONTINUED)

Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

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

- **IFRS 13 *Fair Value Measurement***, adopted by the EU on 11 December 2012, (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IFRS 1 *First-time Adoption of IFRS*** – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IFRS 1 *First-time Adoption of IFRS*** – Government Loans, adopted by the EU on 4 March 2013, 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).

- **Amendments to IFRS 7 *Financial Instruments: Disclosures*** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IAS 1 *Presentation of financial statements*** – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012).

- **Amendments to IAS 12 *Income Taxes*** – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to IAS 19 *Employee Benefits*** – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013).

- **Amendments to various standards *Improvements to IFRSs (2012)*** resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013).

- **IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine***, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards and interpretations has not led to any significant changes in the INA Group accounting policies. The description of the significant changes of standards is set below.

2. ACCOUNTING POLICIES (CONTINUED)

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

Standards and Interpretations effective in the current period (continued)

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply 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.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by IFRS 13. The application of IFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the ‘statement of comprehensive income’ is renamed as the ‘statement of profit or loss and other comprehensive income’ and the ‘income statement’ is renamed as the ‘statement of profit or loss’. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

IAS 19 Employee Benefits (as revised in 2011)

In the current year, the Group has applied IAS 19 *Employee Benefits* (as revised in 2011) and the related consequential amendments for the first time.

2. ACCOUNTING POLICIES (CONTINUED)

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

Standards and Interpretations effective in the current period (continued)

IAS 19 Employee Benefits (as revised in 2011) (continued)

IAS 19 (as revised in 2011) changes 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 amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognized immediately through other comprehensive income. In addition, IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

Specific transitional provisions are applicable to first-time application of IAS 19 (as revised in 2011). The effect was not significant so the INA Group did not restate previous period (see note 32).

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

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

- **IFRS 10 *Consolidated Financial Statements***, adopted by the EU on 11 December 2012, supersedes the previous version of IAS 27 (2008) *Consolidated and Separate Financial Statements*, (effective for annual periods beginning on or after 1 January 2014).

- **IFRS 11 *Joint Arrangements***, adopted by the EU on 11 December 2012, superseded IAS 31 *Interests in Joint Ventures* (effective for annual periods beginning on or after 1 January 2014).

- **IFRS 12 *Disclosure of Interests in Other Entities***, adopted by the EU on 11 December 2012, (effective for annual periods beginning on or after 1 January 2014).

- **IAS 27 *Separate Financial Statements* (revised in 2011)**, adopted by the EU on 11 December 2012, 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 2014).

- **IAS 28 (revised in 2011) *Investments in Associates and Joint Ventures*** adopted by the EU on 11 December 2012. 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 2014).

- **Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosures of Interests in Other Entities*** – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014).

2. ACCOUNTING POLICIES (CONTINUED)

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

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

- **Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosures of Interests in Other Entities* and IAS 27 (revised in 2011) *Separate Financial Statements*** – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014).

- **Amendments to IAS 32 *Financial instruments: presentation*** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014).

- **Amendments to IAS 36 *Impairment of assets*** - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

- **Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*** – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

In the current year, the Group has applied a number of new and revised IFRS on consolidation, joint arrangements, associates and disclosures IFRSs issued by the International Accounting Standards Board and adopted by EU, but not yet effective.
In the current year, the Group has applied for the first time IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance that is not yet effective in EU.
The directors 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.
The impact of the application of these standards that INA Group applied earlier is set out below:

Impact of the application of IFRS 10

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements*. IFRS 10 changes the definition of control such that an investor has control over an investee when:
a) it has power over the investee,
b) it is exposed, or has rights, to variable returns from its involvement with the investee and
c) has the ability to use its power to affect its returns.

All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
IFRS 10 contains additional guidance that clarifies when an investor has a control over the entity. Since INA Group in its portfolio does not hold a subsidiary with ownership interest less than 50% in which possess control, the application of IFRS 10 has had no impact on the disclosures or on the amounts recognised in the consolidated financial statements.

2. ACCOUNTING POLICIES (CONTINUED)

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

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

Impact of the application of IFRS 11

IFRS 11 replaces IAS *31 Interests in Joint Ventures*, and the guidance contained in a related interpretation, SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers, has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, IAS 31 contemplated three types of joint arrangements: jointly controlled entities, jointly controlled operations and jointly controlled assets.

The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognizes its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards. The application of IFRS 11 had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

Impact of the application of IFRS 12

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see note 18 and 19).

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

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

- **IFRS 9 *Financial Instruments,*** as amended in 2010, (effective date was not yet determined).

2. ACCOUNTING POLICIES (CONTINUED)

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

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

- **Amendments to IAS 19 *Employee Benefits*** - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014).

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

- **Amendments to various standards *Improvements to IFRSs (cycle 2011-2013)*** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).

- **IFRIC 21 *Levies,*** issued in May 2013, provides guidance on when to recognize a liability for a levy imposed by a government, (effective date for annual periods beginning on or after 1 January 2014).

Management anticipates that the adoption of IFRS 9 *Financial instruments* will have a significant impact on measurement and disclosure of financial instruments.

Also the directors anticipate that IFRIC 21 will have no material effect to the Group’s financial statements.

2. ACCOUNTING POLICIES (CONTINUED)

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

The unconsolidated financial statements of the Company represent aggregate amounts of the Company's assets, liabilities, capital and 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.

Basis of consolidated financial statements (INA Group)

The consolidated financial statements incorporate the financial statements of INA, d.d. (the Company) and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

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

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

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

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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

2. ACCOUNTING POLICIES (CONTINUED)

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

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.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate 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.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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 are recognised immediately in profit or loss as a bargain purchase gain.

2. ACCOUNTING POLICIES (CONTINUED)

Business combination (continued)

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 its acquisition-date fair value 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.

2. ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attribute amount of goodwill is included in the determination of the profit or loss on disposal.

Investments in associates and joint ventures

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

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

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

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

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

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.

Interests in joint operations

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

When a Group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

2. ACCOUNTING POLICIES (CONTINUED)

Interests in joint operations (continued)

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

When a Group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a Group entity transacts with a joint operation in which a Group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

Oil and gas properties

Exploration and appraisal costs

Exploration and appraisal costs are accounted for on the successful efforts 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

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

Depreciation

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

Commercial reserves

Commercial reserves are 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.

2. ACCOUNTING POLICIES (CONTINUED)

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	30	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.

2. ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets other than goodwill (continued)

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 60 days from the maturity date.

2. ACCOUNTING POLICIES (CONTINUED)

Receivables from customers (continued)

Company records impairment on doubtful debt based on the estimate of recoverability of receivable with individual approach to the Company's strategic customers and impairment of all short-term receivables which are not included in the individual estimate, regardless of their financial amount but in amount of due doubtful debt that exceeds 60 days from the maturity date.

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

Inventories

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

- Crude oil is carried at the weighted average cost or the production cost. If finished i.e. refined products are impaired, a calculation is used to reduce the crude oil reserve by an aliquot share to its net recoverable amount.
- Finished products are valued at the lower of cost or 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 bank, and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2. ACCOUNTING POLICIES (CONTINUED)

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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 annual reporting period.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line item. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group’s defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

2. ACCOUNTING POLICIES (CONTINUED)

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated 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 deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill. Deferred tax liabilities are recognised on the basis of taxable temporary differences on investments in subsidiaries and associates and joint ventures.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

Current and deferred tax for the period

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

2. ACCOUNTING POLICIES (CONTINUED)

Financial assets

All financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract. The contract terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, 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.

2. ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

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.

2. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (continued)

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.

2. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (continued)

Derecognition of financial liabilities

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

Derivative financial instruments

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

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

Hedging

The Group designates certain hedging instruments as fair value hedges.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk that could affect the income statement.

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to the income statement. For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the income statement. The changes in the fair value of the hedging instrument are also recognized in the income statement.

2. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (continued)

Hedging (continued)

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Embedded derivatives

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

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

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

Segmental information

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

2. ACCOUNTING POLICIES (CONTINUED)

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

2. ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Rendering of services (continued)

- 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.

(all amounts are presented in HRK millions)

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:

Reclassification of part of other operating income and service costs

In 2013 INA Group reclassified income and expense of foreign exchange differences relating to customers and suppliers from operating activities to financing activities. The effect of such reclassification is as follows:

	INA Group		INA, d.d.	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Reclassification of other operating income	(24)	(40)	(6)	(9)
Reclassification on finance income	24	40	6	9
Reclassification of service costs	59	43	31	18
Reclassification of finance costs	(59)	(43)	(31)	(18)
Total	**-**	**-**	**-**	**-**

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

Decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to legal and regulatory requirements, new technologies becoming available and experience of decommissioning other assets. The expected timing, scope, expenditure and risk profile may also change. Therefore significant estimates and assumptions are made in determining decommissioning provisions.

Management makes estimates of future expenditure in connection with 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 2,360 million as at 31 December 2013 (31 December 2012 HRK 2,345 million) (see note 31).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

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 2013 INA Group recognized environmental provision in amount HRK 301 million (2012: HRK 309 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.

Carrying value 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 2,038 million in 2013 (2012: HRK 624 million).

Carrying value of goodwill

There was no impairment of goodwill in 2013 and 2012 (see note 16). The carrying amount of goodwill amounted to HRK 183 million as of 31 December 2013 and 2012 respectively (see note 16).

Carrying value of intangible exploration and appraisal assets

The carrying amount of intangible exploration and appraisal assets amounted to HRK 378 million as of 31 December 2013 and HRK 558 million 2012 (see note 14). In INA Group the impairment reported in amount of HRK 343 million in 2013 (2012: HRK 126 million) (see note 14).

Carrying value of production oil and gas assets

The carrying amount of production oil and gas assets amounted to HRK 5,414 million as of 31 December 2013 and HRK 8,075 million 2012 (see note 15). In INA Group the impairment reported in amount of HRK 1,340 million in 2013 while in 2012 the reversal of impairment was reported in amounted to HRK 14 million. (see note 15).

Carrying value of property, plant and equipment in refineries

The carrying amount of property, plant and equipment in refineries amounted to HRK 4,365 million as of 31 December 2013 and HRK 5,133 million in 2012. As a consequence of the unfavourable economic environment, the impairment of refineries reported in amount of HRK 679 million in 2013 and HRK 663 million in 2012.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

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

A deferred tax asset is recognized for unused tax losses 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 2013 the carrying amount of deferred tax assets of the INA Group amounted to HRK 1,127 million (2012: HRK 557 million) and deferred tax liabilities amounted HRK 7 million (2012: HRK 13 million), while the carrying amount of deferred tax assets of INA, d.d. amounted to HRK 1,076 million, (31 December 2012: HRK 494 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 146 million as at 31 December 2013 (31 December 2012: HRK 110 million), and INA, d.d. amounted to HRK 105 million as at 31 December 2013 (31 December 2012 HRK 73 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 2013 had no significant changes compared to the previous estimate.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

Exploration and development

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

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

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 and current assets in Syria

Consequent to the political turmoil started in 2011 and the sanctions posed by US and EU on Syria, treatment of revenues from operations therein requires judgement. Having assessed the probability of receiving economic benefits from sales activities in Group's Syrian operations, including counterparty risk associated with GPC, the Syrian National Oil Company, the management decided that criteria set out in IAS 18 – Revenue Recognition were not met from early 2011. Therefore, beginning from this date, revenue was recognized only if cash has been received from GPC though until 26 February 2012 INA regularly issued invoices, the last invoice being issued for February 2012. August 2011 was the last month for which INA invoices were paid in full. INA's unrecorded revenues until February 2012 accumulate to approximately USD 372.5 million.

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. Hence the production in Hayan Block is still ongoing, the Group has not recognised production volumes since the announcement of Force Majeure. Due to inadequate operating condition and lack of regular maintenance the physical deterioration of surface facilities is reflected in depreciation charge calculated based on an average residual useful life of 3.5 years. Depreciation charge for 2013 was recognised in amount of HRK 547 million.

Since the announcement of Force Majeure no revenue has been accounted for. These circumstances also gave rise to an impairment indicator with respect to the Group's Syrian assets. The Group performed an impairment test on its Syrian non-current assets of Hayan Block, being a separate cash generating unit (see Note 15). Such impairment calculation requires an estimate of the recoverable amount of the 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 and of multiple scenarios with respect to return to normal production.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

Impairment of non-current and current assets in Syria (continued)

The most significant variables in determining cash flows are discount rates, the period for which cash flow projections are made, probabilities relating to different scenarios 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), the incremental rebuilding costs, 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. The possible impacts of multiple probability weighted settlement scenarios on Group's operation in Syria representing:

a) Havaria: the properties are subject to physical damage as a result of targeted or accidental attacks.

b) Return to operation: after crisis settlements and full or partial removals of sanctions the Group expects to return to operations within 3 to 10 year.

c) No return: the Group is disabled returning at all and the assets are lost.

For estimation of future production volumes the proved developed reserves derived from business plans prior to Force Majeure were used. Asset-specific discount rates were derived from the USD-based weighted average cost of capital and are adjusted for project-specific risks, as applicable. The discount rate applied was 17.5% (see note 15). Based on multiple-scenario DCF calculations the Group has recorded impairment in amount of HRK 1,239 million on assets in Hayan Block and HRK 50 million of impairment of other current assets.

On the basis of technical information available prior to Force Majeure and of uncertainties over the possible date of return to operation the Group also recorded impairment on the Syrian Aphamia Block related to the prior years' drillings in amount of HRK 215 million.

Political developments in Egypt

INA started with exploration activities in Egypt in 1989, as a partner, and in 1997 as an operator, when a 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 the North Bahariya Concession operated by Sahara Oil and Gas, and on East Yidma Concession operated by INA. Concession Agreements for petroleum exploration and exploitation rights were contracted between The Arab Republic of Egypt, the Egyptian national petroleum company EGPC and partners. Produced oil is sold to EGPC as per the contract.

At the moment political uncertainty remains high and Egypt's outlook remains bleak.

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 60 days.

4. SEGMENT INFORMATION

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

Reporting segments, which is in INA Group represent business division (BD), have been defined along value chain standard for the oil companies:

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

Starting from 1 January 2013, BD Retail, which includes selling of fuels and commercial goods in retail stations and logistics, was for segment reporting purposes merged to BD Refining and Marketing. Comparative data was restated to be comparable with current year and to reflect change.

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

Intersegment transfer represents the effect of unrealized profit arising in respect of transfers of inventories from BD Exploration and Production of Oil and Gas to BD Refining and Marketing. Evaluation of inventories of domestic crude, finished and semi-finished products in BD Refining and Marketing is based on the transfer price from BD Exploration and Production to BD Refining and Marketing. Through intersegment transfer is performed elimination of unrealized profit (difference between transfer price and cost of domestic crude).

For segmental reporting purposes the transferor segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place.

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

BY BUSINESS

INA Group

2013	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Sales to external customers	7,293	20,084	67	-	27,444
Inter-segment sales	3,233	53	604	(3,890)	-
Total revenue	**10,526**	**20,137**	**671**	**(3,890)**	**27,444**
Operating expenses, net of other operating income	(9,005)	(22,251)	(1,281)	3,523	(29,014)
Loss from operations	**1,521**	**(2,114)**	**(610)**	**(367)**	**(1,570)**
Net finance loss					(246)
Loss before tax					(1,816)
Income tax benefit					308
Loss for the year					**(1,508)**

2012	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Sales to external customers	8,886	20,960	49	-	29,895
Inter-segment sales	3,378	34	549	(3,961)	-
Total revenue	**12,264**	**20,994**	**598**	**(3,961)**	**29,895**
Operating expenses, net of other operating income	(8,481)	(22,823)	(1,193)	3,961	(28,536)
Profit from operations	**3,783**	**(1,829)**	**(595)**	**-**	**1,359**
Net finance loss					(292)
Profit before tax					1,067
Income tax expense					(380)
Profit for the year					**687**

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

BY BUSINESS (continued)

INA Group

31 December 2013 **Assets and liabilities**	**Exploration and production**	**Refining and marketing**	**Corporate and other**	**Intersegment transfers and consolidation adjustments**	**Total**
Property, plant and equipment	9,733	5,589	674	(17)	15,979
Intangible assets	390	16	118	-	524
Investments in associates and joint ventures	22	-	-	-	22
Inventories	698	2,779	109	(367)	3,219
Trade receivables, net	1,213	1,432	223	(304)	2,564
Not allocated assets					3,601
Total assets					**25,909**
Trade payables	945	1,949	251	(304)	2,841
Not allocated liabilities					10,193
Total liabilities					**13,034**
Other segment information					
Capital expenditure:	**1,394**	**545**	**72**	**-**	**2,011**
Property, plant and equipment	1,197	540	27	-	1,764
Intangible assets	197	5	45	-	247
Depreciation and amortisation	**1,521**	**645**	**95**	**-**	**2,261**
Impairment losses PP&E,net recognized in profit and loss	1,300	738	-	-	2,038
Other impairment losses,net recognized in profit and loss	600	167	8	(33)	742
Total impairment charges, net *	**1,900**	**905**	**8**	**(33)**	**2,780**

* See note 8.

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

BY BUSINESS (continued)

INA Group

31 December 2012 **Assets and liabilities**	**Exploration and production**	**Refining and marketing**	**Corporate and other**	**Intersegment transfers and consolidation adjustments**	**Total**
Property, plant and equipment	11,571	6,475	695	(25)	18,716
Intangible assets	565	15	96	-	676
Investments in associates and joint ventures	34	-	-	-	34
Inventories	1,610	2,278	139	(675)	3,352
Trade receivables, net	1,748	1,039	217	(234)	2,770
Not allocated assets					2,652
Total assets					**28,200**
Trade payables	832	909	248	(305)	1,684
Not allocated liabilities					11,562
Total liabilities					**13,246**
Other segment information					
Capital expenditure:	**690**	**457**	**83**	**-**	**1,230**
Property, plant and equipment	648	449	34	-	1,131
Intangible assets	42	8	49	-	99
Depreciation and amortisation	**1,192**	**720**	**104**	**-**	**2,016**
Impairment losses/(income) PP&E,net recognized in profit and loss	(38)	662	-	-	624
Other impairment losses,net recognized in profit and loss	243	193	3	-	439
Total impairment charges/(income), net *	**205**	**855**	**3**	**-**	**1,063**

* See note 8.

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

BY GEOGRAPHICAL

INA Group

31 December 2013	**Republic of Croatia**	**Syria**	**Other countries**	**Total**
Property, plant and equipment	12,321	2,213	1,445	15,979
Intangible assets	385	105	34	524
Investments in associates and joint ventures	22	-	-	22
Inventories	3,010	17	192	3,219
Trade receivables, net	1,604	-	960	2,564
Not allocated assets				3,601
Total assets				**25,909**
Other segment information				
Capital expenditure:	**1,659**	**-**	**352**	**2,011**
Property, plant and equipment	1,522	-	242	1,764
Intangible assets	137	-	110	247

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				2,652
Total assets				**28,200**
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

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

INA Group

	Revenues from external customers	
	2013	**2012**
Republic of Croatia	17,531	19,090
Switzerland	2,180	2,796
Bosnia and Hercegovina	2,936	2,650
United Kingdom	414	293
Syria	-	30
Other countries	4,383	5,036
	27,444	**29,895**

INA, d.d.

	Revenues from external customers	
	2013	**2012**
Republic of Croatia	15,558	17,188
Switzerland	2,180	2,796
Bosnia and Hercegovina	47	2,504
United Kingdom	414	293
Syria	-	-
Other countries	5,683	3,623
	23,882	**26,404**

Information about major customers

No single customer contributed 10% or more to the Group's revenue in either 2013 or 2012.

(all amounts are presented in HRK millions)

5. OTHER OPERATING INCOME

	INA Group		INA, d.d.	
	2013	**2012**	**2013**	**2012**
Income from contractual penalties	180	-	35	-
Surpluses	92	107	76	66
Income from collected damage claims	52	17	52	16
Income from rental activities	44	45	37	38
Income from sale of assets	23	43	19	36
Penalty interest from customers	22	36	196	60
Other	94	65	81	194
Total	**507**	**313**	**496**	**410**

6. DEPRECIATION AND AMORTISATION

	INA Group		INA, d.d.	
	2013	**2012**	**2013**	**2012**
Depreciation of property, plant and equipment (note 15 b)	2,231	1,968	2,074	1,789
Amortisation of intangible assets (note 14)	30	48	27	46
	2,261	**2,016**	**2,101**	**1,835**

(all amounts are presented in HRK millions)

7. STAFF COSTS

	INA Group		INA, d.d.	
	2013	**2012**	**2013**	**2012**
Net payroll	1,272	1,309	786	807
Tax and contributions for pensions and health insurance	846	899	553	584
Other payroll related costs	297	428	133	226
	2,415	**2,636**	**1,472**	**1,617**

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

	INA Group		INA, d.d.	
	2013 Number of employees	**2012** Number of employees	**2013** Number of employees	**2012** Number of employees
Exploration and production	4,219	4,302	1,469	1,492
Retail	3,541	3,547	3,085	3,085
Refining and marketing	3,038	3,139	2,636	2,705
Corporate function	2,662	2,866	1,327	1,430
	13,460	**13,854**	**8,517**	**8,712**

8. IMPAIRMENT CHARGES (NET)

	INA Group		INA, d.d.	
	2013	**2012**	**2013**	**2012**
Impairment of PP&E and intangible assets, net*	2,038	624	2,032	624
Writte-off PP&E and intangibles, net	427	166	413	160
Impairment of trade receivables, net	208	110	1,064	1,063
Impairment of inventory, net	39	150	67	109
Impairment of loans given, net	-	2	-	2
Other impairment, net	68	11	61	9
	2,780	**1,063**	**3,637**	**1,967**

* See note 15.

(all amounts are presented in HRK millions)

9. PROVISIONS FOR CHARGES AND RISKS (NET)

	INA Grupa		INA, d.d.	
	2013	2012	2013	2012
Provision for contractual liabilities for tax on oil profit	9	155	9	155
Provision for contractual liabilities for taxation	44	35	44	35
(Income from released provision)/provision for unused holidays	(6)	6	(3)	4
(Income from released provision)/provision for enviromental liabilities	(26)	5	(25)	4
Provision/(income from released provision) for legal claims	34	(30)	39	(32)
Provision/(income from released provision) for incentives	20	(22)	30	(37)
Provision for employees benefits	52	-	28	-
Provision/(income from released provision) for retirement and jubilee benefits	17	(14)	18	4
Provision for expected liabilities	49	8	-	(1)
Provision for emmision rights	10	-	10	-
Income from released provision for inventories	(2)	-	(4)	-
	201	**143**	**146**	**132**

10. FINANCE INCOME

	INA Group		INA, d.d.	
	2013	2012	2013	2012
Foreign exchange gains from loans and cash	102	75	74	60
Positive fair value of embedded derivatives	63	35	44	35
Foreign exchange gains from trade receivables and payables	24	40	6	9
Interest received and other financial income	21	26	246	264
Income from dividends	3	1	3	1
Dividend received from subsidiaries	-	-	39	33
	213	**177**	**412**	**402**

(all amounts are presented in HRK millions)

11. FINANCE COSTS

	INA Group		INA, d.d.	
	2013	**2012**	**2013**	**2012**
Other interest expense	137	164	203	144
Interest for long-term loans	102	104	94	92
Other financial costs	97	62	161	183
Foreign exchange losses from loans and cash	67	32	62	22
Foreign exchange losses from trade receivables and payables	59	43	31	18
Negative fair value of embedded derivatives	11	74	11	56
Capitalized borrowing costs	(14)	(10)	(15)	(10)
	459	**469**	**547**	**505**

12. TAXATION

	INA Group		INA, d.d.	
	2013	**2012**	**2013**	**2012**
Current tax expense	263	263	243	252
Deferred tax (income)/charge related to origination and reversal of temporary differences	(571)	117	(577)	94
Income tax (benefit)/expense	**(308)**	**380**	**(334)**	**346**

Tax on profit generated in Croatia is determined by applying the rate of 20 percent, both in 2013 and 2012, 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.

(all amounts are presented in HRK millions)

12. TAXATION (CONTINUED)

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

	INA Group		INA, d.d.	
	2013	**2012**	**2013**	**2012**
(Loss)/profit before tax	(1,816)	1,067	(1,967)	1,669
(Benefit)/expense tax calculated at 20%	(363)	213	(393)	334
Effect of unused tax losses not recognized as deffered tax assets and recognition of deffered tax assets previously not recognised	(52)	257	(5)	47
Effect of different tax rates of entities operating in other jurisdictions	2	22	3	22
Tax effect of permanent differences and effect on unrecognised deferred tax assets	(135)	(45)	(179)	10
Tax effect of previous years	240	(67)	240	(67)
Income tax (benefit)/expense	**(308)**	**380**	**(334)**	**346**

In 2013, INA, d.d. recognised HRK 240 million tax effects of prior year. Of this amount HRK 147 million was recognised on the basis of final Income tax form and HRK 93 million is related to Tax finding of Ministry of finance after tax supervision for 2008 and 2009.

Movements in deferred tax assets are set out in the following table:

(all amounts are presented in HRK millions)

12. TAXATION (CONTINUED)

INA Group	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Tax losses	Total
Balance at 1 January 2012	**280**	**268**	**(99)**	**76**	**91**	**46**	**662**
Charge directly to equity	-	-	-	-	(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**
Charge directly to equity	-	-	-	3	2	-	5
Reversal of temporary differences	(5)	(11)	(26)	(18)	(4)	(10)	(74)
Origination of temporary differences	1	435	-	45	35	129	645
Balance at 31 December 2013	**36**	**814**	**(153)**	**151**	**131**	**141**	**1,120**

INA, d.d.	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Tax losses	Total
Balance at 1 January 2012	**270**	**277**	**(99)**	**66**	**78**	**-**	**592**
Charge directly to equity	-	-	-	-	(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**
Charge directly to equity	-	-	-	2	2	-	4
Reversal of temporary differences	(4)	(10)	(26)	(13)	(4)	-	(57)
Origination of temporary differences	1	435	-	34	36	129	635
Balance at 31 December 2013	**26**	**820**	**(153)**	**136**	**118**	**129**	**1,076**

13. EARNINGS PER SHARE

	INA Group		INA, d.d.	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Basic and diluted (loss)/earnings per share (in HRK)	**(150.8)**	**68.1**	**(163.3)**	**132.3**

Earnings	INA Group		INA, d.d.	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
(Loss)/earnings used in the calculation of total basic earnings per share	(1,508)	681	(1,633)	1,323
	(1,508)	**681**	**(1,633)**	**1,323**

Number of shares	INA Group		INA, d.d.	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
	Number of shares	Number of shares	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share (in millions)	10	10	10	10

On 17 July 2013, approved dividend amounted to 34.36 kunas per share (total dividend HRK 343 million). In 2012, there was no dividend approved.

(all amounts are presented in HRK millions)

14. INTANGIBLE ASSETS

INA Group	Oil and gas properties	Capitalised formation expenses	Software	Patents, Liciences and other rights	Intengible assets under construction	Total
Balance at 1 January 2012	**774**	**1**	**62**	**17**	**26**	**880**
Additions	40	-	-	-	59	99
Amortisation	-	(1)	(39)	(8)	-	(48)
Foreing exchange translation of foreign operations	(13)	-	-	-	-	(13)
Impairment	(126)	-	-	(1)	-	(127)
Other	-	-	42	5	(47)	-
Transfer to property, plant and equipment	(117)	-	4	2	(4)	(115)
Balance at 31 December 2012	**558**	**-**	**69**	**15**	**34**	**676**
Additions	186	-	-	-	61	247
Amortisation	-	-	(25)	(5)	-	(30)
Foreing exchange translation of foreign operations	(23)	-	-	-	-	(23)
Impairment	(343)	-	(1)	-	-	(344)
Disposals	-	-	-	(4)	-	(4)
Transfer	-	-	51	3	(54)	-
Transfer to property, plant and equipment	-	-	5	-	(3)	2
Balance at 31 December 2013	**378**	**-**	**99**	**9**	**38**	**524**

(all amounts are presented in HRK millions)

14. INTANGIBLE ASSETS (CONTINUED)

INA, d.d.	Oil and gas properties	Capitalised formation expenses	Software	Patents, Liciences and other rights	Intengible assets under construction	Total
Balance at 1 January 2012	**774**	**1**	**61**	**14**	**26**	**876**
Additions	40	-	-	-	57	97
Amortisation	-	(1)	(39)	(6)	-	(46)
Foreing exchange translation of foreign operations	(13)	-	-	-	-	(13)
Impairment	(126)	-	-	(1)	-	(127)
Other	-	-	-	(1)	-	(1)
Transfer to property, plant and equipment	(117)	-	4	2	(4)	(115)
Balance at 31 December 2012	**558**	-	**26**	**8**	**79**	**671**
Additions	186	-	-	-	57	243
Amortisation	-	-	(24)	(3)	-	(27)
Foreing exchange translation of foreign operations	(23)	-	-	-	-	(23)
Impairment	(343)	-	(1)	-	-	(344)
Transfer	-	-	50	-	(50)	-
Transfer to property, plant and equipment	-	-	5	-	(3)	2
Balance at 31 December 2013	**378**	**-**	**56**	**5**	**83**	**522**

At 31 December 2013 INA Group impairment of intangible assets amounts to HRK 344 million, consisting of impairment of dry well costs in amount of HRK 343 million and impairment in segment Refining and marketing in amount of HRK 1 million. Impairment of dry well costs consists of: Syria (Aphamia HRK 215 million), Egypt (Disouq HRK 100 million), Northern Adriatic (Ivana HRK 27 million), Hungary (Zalata) and Iran (Moghan 2) in total amount of HRK 1 million.

At 31 December 2012 INA Group impairment of intangible assets amounts to 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, it is HRK 1 million impairment in the BD Refinery and Marketing

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(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT

a) By business segment

INA Group	**Oil and gas exploration and production**	**Refining and marketing**	**Other**	**Total**
Balance at 1 January 2012				
Cost	39,214	19,121	2,091	**60,426**
Accumulated depreciation	26,840	11,724	1,568	**40,132**
Net book value	**12,374**	**7,397**	**523**	**20,294**
Balance at 31 December 2012				
Cost	38,895	19,516	2,928	**61,339**
Accumulated depreciation	27,328	13,059	2,236	**42,623**
Net book value	**11,567**	**6,457**	**692**	**18,716**
Balance at 31 December 2013				
Cost	39,793	19,940	3,001	**62,734**
Accumulated depreciation	30,064	14,362	2,329	**46,755**
Net book value	**9,729**	**5,578**	**672**	**15,979**

INA, d.d.	**Oil and gas exploration and production**	**Refining and marketing**	**Other**	**Total**
Balance at 1 January 2012				
Cost	35,176	18,474	923	**54,573**
Accumulated depreciation	24,052	11,261	705	**36,018**
Net book value	**11,124**	**7,213**	**218**	**18,555**
Balance at 31 December 2012				
Cost	34,797	18,873	1,762	**55,432**
Accumulated depreciation	24,440	12,582	1,347	**38,369**
Net book value	**10,357**	**6,291**	**415**	**17,063**
Balance at 31 December 2013				
Cost	35,640	19,320	1,867	**56,827**
Accumulated depreciation	27,144	13,896	1,447	**42,487**
Net book value	**8,496**	**5,424**	**420**	**14,340**

(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type

INA Group

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Cost							
Balance at 1 January 2012	**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**
Additions	-	-	-	-	-	1,764	1,764
Change in capitalised decommissioning costs	(52)	-	-	-	-	-	(52)
Foreign exchange translation of foreign operations	(164)	-	-	-	-	-	(164)
Acquisiton of subsidiary Croplin	-	49	-	-	-	-	49
Assets put in use	262	583	(108)	164	-	(901)	-
Disposals	(1)	(19)	(121)	(23)	(2)	(40)	(206)
Transfer from intangible assets	-	-	3	-	-	(5)	(2)
Transfer	-	(10)	96	(86)	-	-	-
Other movements	-	13	(90)	51	-	32	6
Balance at 31 December 2013	**30,950**	**11,697**	**14,776**	**1,873**	**39**	**3,399**	**62,734**

(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA Group

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Accumulated depreciation							
Balance at 1 January 2012	**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)	(14)	131	495	35	-	8	655
Transfers	-	3	(34)	(2)	-	-	(33)
Disposals	(1)	(8)	(47)	(24)	-	(41)	(121)
Write-off	-	-	-	-	-	-	-
Other movements	-	17	45	(40)	-	1	23
Balance at 31 December 2012	**22,830**	**7,433**	**10,656**	**1,620**	**33**	**51**	**42,623**
Charge for the year	1,375	225	536	95	-	-	2,231
Reversal of decommissioning depreciation for a prior year	(8)	(11)	-	(5)	-	-	(24)
Acquisiton of subsidiary Croplin	-	24	-	-	-	-	24
Impairment (net)	1,340	220	469	48	-	25	2,102
Transfers	-	113	(59)	(54)	-		-
Disposals	(1)	(9)	(119)	(22)	(1)	(40)	(192)
Other movements	-	(28)	(32)	52	(1)	-	(9)
Balance at 31 December 2013	**25,536**	**7,967**	**11,451**	**1,734**	**31**	**36**	**46,755**

(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA Group	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Carrying amount							
Balance at 31 December 2013	**5,414**	**3,730**	**3,325**	**139**	**8**	**3,363**	**15,979**
Balance at 31 December 2012	**8,075**	**3,648**	**4,340**	**147**	**8**	**2,498**	**18,716**

(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	**Oil and gas properties**	**Land and buildings**	**Plant and machinery**	**Vehicles and office equipment**	**Collective Consumption assets**	**Assets under construction**	**Total**
Cost							
Balance at 1 January 2012	**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 to intangible assets	-	-	3	-	-	112	115
Transfer from inventories	-	(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**
Additions	-	-	-	-	-	1,651	1,651
Change in capitalised decommissioning costs	(52)	-	-	-	-	-	(52)
Foreign exchange translation of foreign operations	(164)	-	-	-	-	-	(164)
Merger of Sinaco d.o.o.	-	37	97	9	-	-	143
Transfer from intangible assets	-	-	3	-	-	(5)	(2)
Assets put in use	261	237	219	84	-	(801)	-
Transfers	-	335	(410)	75	-	-	-
Disposals	-	(18)	(111)	(10)	(2)	(40)	(181)
Balance at 31 December 2013	**30,950**	**10,033**	**11,140**	**1,330**	**28**	**3,346**	**56,827**

(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Accumulated depreciation							
Balance at 1 January 2012	**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)
Transfer from inventories	-	(10)	-	-	-	-	(10)
Impairment (net)	(14)	132	494	35	-	8	655
Transfer	-	15	(18)	2	-	-	(1)
Disposals	(1)	(3)	(31)	(5)	-	(41)	(81)
Balance at 31 December 2012	**22,830**	**6,126**	**8,393**	**941**	**29**	**50**	**38,369**
Charge for the year	1,375	187	436	76	-	-	2,074
Reversal of depreciation of decommissioning from a prior year	(8)	-	-	-	-	-	(8)
Impairment (net)	1,340	214	468	48	-	25	2,095
Transfers	-	112	(143)	31	-	-	-
Merger of Sinaco d.o.o.	-	24	95	8	-	-	127
Disposals	(1)	(8)	(111)	(9)	(1)	(40)	(170)
Balance at 31 December 2013	**25,536**	**6,655**	**9,138**	**1,095**	**28**	**35**	**42,487**

(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Carrying amount							
Balance at 31 December 2013	**5,414**	**3,378**	**2,002**	**235**	**-**	**3,311**	**14,340**
Balance at 31 December 2012	**8,075**	**3,316**	**2,949**	**231**	**1**	**2,491**	**17,063**

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 2013 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.

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

At 31 December 2013 the net book values of the Group's property, plant and equipment in Exploration and Production BD was HRK 9,729 million (31 December 2012: HRK 11,567 million). At 31 December 2013 the net book values of the Group's property, plant and equipment in Refining and Marketing BD was HRK 5,578 million (31 December 2012: HRK 6,457 million). At 31 December 2013 the net book values of the Group's property, plant and equipment in Corporate and other segment was HRK 672 million (31 December 2012: HRK 692 million).

The Management Board has assessed the carrying values of its Exploration and Production BD and Refining & Marketing BD 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 2,102 million in 2013 (2012: HRK 655 million).

- Exploration and Production BD recorded an impairment of property, plant and equipment in amount of HRK 1,300 million in 2013, compared to reversal of impairment in amount of HRK 38 million in 2012.
- Refinery and Marketing BD recorded an impairment of property, plant and equipment in amount of HRK 738 million in 2013, compared to impairment in amount of HRK 661 million in 2012.
- Impairment charges to investments was recorded in amount of HRK 65 million in 2013, compared to HRK 32 million in 2012.

At 31 December 2013 impairment charges to investments in amount of HRK 65 million refers to impairment of domestic wells in amount of HRK 39 million in Exploration & Production BD (Antunovac 1 HRK 18 million and Krunoslavlje HRK 21 million), equipment in amount of HRK 26 million in Refinery & Marketing BD.

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 BD (Patkovec 1 HRK 13 million and Bokšić - Klokočevac HRK 4 million are the most significant amounts) and impairment in amount of HRK 8 million in Refinery and Marketing BD (closing of gas stations and expiration of concession at Vrbosko location).

(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Discount rates used in the current assessment in 2013 and for 2012 are assets specific and are as follows:

Exploration and Production	**2013**	**2012**
Croatia	10.65%	10.54%
Syria	17.50%	17.50%
Egypt, Angola	14.50%	14.50%
Refining and Marketing		
Croatia	10.55%	10.44%
Bosnia and Herzegovina	12.84%	13.62%

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

V) *Review of the residual value*

The Group has reviewed the residual value for depreciation purposes to reflect the changes in the definition of the residual value provided in IAS 36, and no need for any adjustment to the residual values related to the current or prior periods has been established.

(all amounts are presented in HRK millions)

16. GOODWILL

	INA Group	
	2013	**2012**
Cost	296	296
Accumulated impairment losses	(113)	(113)
	183	**183**

	2013	2012
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)	(113)
Impairment losses recognised in the year	-	-
Balance at the end of year	**(113)**	**(113)**

2013	**1 January 2012**	**31 December 2013**
Investment of Crosco, d.o.o. in Rotary Zrt. Hungary	183	183
Total	**183**	**183**

2012	**1 January 2012**	**31 December 2012**
Investment of Crosco, d.o.o. in Rotary Zrt. Hungary	183	183
Total	**183**	**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 2013 and 2012 goodwill relating to the company Rotary Zrt. was tested for impairment and test showed that the impairment is not required.

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and a discount rate of 9.97% per annum (2012: 10.39% per annum).

(all amounts are presented in HRK millions)

17. INVESTMENTS IN SUBSIDIARIES

	INA, d.d.	
	31 December 2013	**31 December 2012**
Investments in subsidiaries	1,127	1,161

	INA, d.d.	
	2013	**2012**
Investments in subsidiaries at 1 January	1,161	1,033
STSI d.o.o Zagreb - additional capitalization by transfering PP&E	-	89
CROSCO d.o.o. - additional capitalization by transfering PP&E	-	58
SINACO d.o.o. - merger into INA, d.d.	(28)	-
CROPLIN d.o.o. - purchase of the 50% business interest	9	-
CROPLIN d.o.o. - transfer from associates to subsidiaries	37	-
INA HUNGARY - liquidation, removal from business books	(5)	-
INA MALOPRODAJNI SERVISI d.o.o. - share capital	1	-
Other subsidiaries - impairment	(48)	(19)
Total as of 31 December	**1,127**	**1,161**

Pursuant to the Sales Contract, INA, d.d. purchased from E.ON Hungaria Zrt. a 50 percent equity share in Croplin d.o.o. for HRK 9 million. The change of the company's ownership was registered at the Commercial Court in Zagreb on 3 September 2013, when INA, d.d. effectively became the sole owner of Croplin d.o.o. (see note 42). The INA Group consolidates Croplin d.o.o. from that date.

On 2 January 2013 the Commercial Court in Zagreb entered the merger of SINACO d.o.o., a security company from Sisak, into INA - Industrija nafte, d.d. into the court register. The investment in SINACO d.o.o. in the amount of HRK 28 million and the related impairment in the amount of HRK 19 million were closed against the equity components and the actual loss transferred to the accounts of INA, d.d.

Pursuant to the agreement on the considerations payable to the small shareholders of INA Osijek Petrol d.d. Osijek in the amount of HRK 331 thousand, the shares of the small shareholders, representing 2.67 percent of the equity share, were transferred to INA, d.d. Based on the decision of the Commercial Court in Osijek of 28 March 2013, INA, d.d. became the only registered shareholder of INA Osijek Petrol.

17. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The liquidation of INA HUNGARY was finalised, and the cessation of the company was entered in the Court Register in Budapest on 27 May 2013. Upon the notification of the event, the company was derecognised from the accounts of INA, d.d. The entire investment in that company, which amounted to HRK 5 million, was written off. The funds remitted to INA, d.d. as part of the liquidation, which amounted to HRK 4 million, were recognised as financial income.

Under the Memorandum of Association of 10 April 2013, INA, d.d. established INA MALOPRODAJNI SERVISI d.o.o., a retail service company, with the initial share capital of HRK 1 million contributed in cash and INA, d.d. as the sole founder. INA Maloprodajni servisi d.o.o. was registered at the Commercial Court in Zagreb on 24 April 2013.

The following impairments were recorded in 2013: INA-Osijek Petrol d.d. - HRK 331 thousand; ITR d.o.o., Zagreb - HRK 24 million; Interina Ljubljana d.o.o. - HRK 5 million; INA Kosovo d.o.o., Priština - HRK 1 million; and INA Crna Gora d.o.o. - HRK 17 million).

(all amounts are presented in HRK millions)

17. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

Composition of the Group

The name of subsidiaries	Principal activity	Place of incorporation and operation	**Proportion of ownership interest and voting power held by the Group**	
			31 December 2013	31 December 2012
Oilfield services				
*Crosco Naftni Servisi d.o.o.	Oilfield services	Croatia	100%	100%
Crosco International Limited	Oilfield services	Guernsey	100%	100%
Crosco B.V.	Oilfield services	Netherland	100%	100%
Nordic Shipping Ltd	Lease of drilling platforms	Marshall Islands	100%	100%
Sea Horse Shipping Inc	Lease of drilling platforms	Marshall Islands	100%	100%
Crosco International d.o.o.	Oilfield services	Slovenia	100%	100%
Rotary Zrt.	Oilfield services	Hungary	100%	100%
Crosco S.A. DE C.V.	Oilfield services	Mexico	100%	100%
Crosco International d.o.o.	Oilfield services	Bosnia and Herzegovina	100%	100%
Mideast Integrated Drilling & Well Services Company LLC	Oilfield services	Oman	49%	49%
CorteCros d.o.o.	Distribution of anti-corrosion products	Croatia	60%	60%
Oil exploration and production				
*INA Naftaplin International Exploration and Production Ltd	Oil exploration and production	Guernsey	100%	100%
Tourism				
*Hostin d.o.o. Zagreb	Tourism	Croatia	100%	100%
Ancillary services				
*STSI integrirani tehnički servisi d.o.o.	Technical services	Croatia	100%	100%
*Sinaco d.o.o.	Security	Croatia	-	100%
*ITR d.o.o.,	Car rental	Croatia	100%	100%
*Top računovodstvo servisi d.o.o.	Accounting services	Croatia	100%	100%
Production and trading				
*INA Maziva d.o.o.	Production and lubricants trading	Croatia	100%	100%

(all amounts are presented in HRK millions)

17. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Composition of the Group (continued)

The name of subsidiaries	Principal activity	Place of incorporation and operation	**Proportion of ownership interest and voting power held by the Group** 31 December 2013	31 December 2012
Trading and finance				
*Interina d.o.o.	Foreign trading	Slovenia	100%	100%
*INA BH d.d.	Foreign trading	Bosnia and Herzegovina	100%	100%
*Interina d.o.o.	Foreign trading	Macedonia	100%	100%
*INA Hungary Kft.	Foreign trading	Hungary	-	100%
*Holdina (Guernsey) Ltd, (in liquidation)	Foreign trading	Guernsey	100%	100%
Inter Ina (Guernsey) Ltd	Foreign trading	Guernsey	-	100%
Holdina (Cyprus) Ltd	Foreign trading	Cyprus	-	100%
*Holdina d.o.o.	Foreign trading	Bosnia and Herzegovina	100%	100%
*INA d.o.o.	Foreign trading	Serbia	100%	100%
*INA Kosovo d.o.o.	Foreign trading	Kosovo	100%	100%
*Adriagas S.r.l.	Pipeline project company	Italy	100%	100%
*INA Crna Gora d.o.o.	Foreign trading	Montenegro	100%	100%
*Prirodni plin d.o.o.	Trading	Croatia	100%	100%
*INA BL d.o.o.	Trading	Bosnia and Herzegovina	100%	100%
*Petrol d.d.	Trading	Croatia	83%	83%
*INA-Osijek Petrol d.d.	Trading	Croatia	100%	97%
*Polybit d.o.o. Rijeka (in liquidation)	Oil production and trading	Croatia	100%	100%
*Croplin d.o.o. (from September 2013)	Production of gas, distribution network of gas fuels		100%	50%
*INA Maloprodajni servisi d.o.o. (from April 2013)	Trade agency in the domestic and foreign market		100%	-

Croplin d.o.o. has ownership interest as of 9.1% in Energo d.o.o. Rijeka and as of 40% in Plinara Istočne Slavonije d.o.o. Vinkovci.

(all amounts are presented in HRK millions)

18. INVESTMENTS IN ASSOCIATES AND JOINT OPERATIONS

	INA Group		INA, d.d.	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Investments in associates and joint operations	22	34	22	34
	22	**34**	**22**	**34**

Name of company	Activity	Proportion of ownership	INA Group 31 December 2013	INA Group 31 December 2012	INA, d.d. 31 December 2013	INA, d.d. 31 December 2012
Croplin d.o.o Zagreb	Gas trading	50%	-	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
			22	**34**	**22**	**34**

INA, d.d. acquired 50% of equity in the entity Croplin d.o.o. from E.ON Hungaria Zrt. for HRK 9 million.

Following the acquisition of 100% ownership, a total investment amounting to HRK 46 million and impairment of investments in the amount of HRK 25 million was transferred from investments in associates to investments and joint operations in subsidiaries.

Other investments in associates and joint operations are as follows:

Name of company	Activity	Place of incorporation and operation	INA Group and INA, d.d. 31 December 2013	INA Group and INA, d.d. 31 December 2012
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%

(all amounts are presented in HRK millions)

18. INVESTMENTS IN ASSOCIATES AND JOINT OPERATIONS (CONTINUED)

Summarised financial information in respect of each of the Group's material associates and joint operations is set out below. The summarised financial information below represents amounts shown in the associate's and joint operations financial statements prepared in accordance with IFRS.

				31 December 2013
	Energopetrol	**ED-INA**	**INAgip**	**Total**
Place of business	Bosnia and Herzegovina	Croatia	Croatia	
Percentage of interests	33.33%	50.00%	50.00%	
Current assets	55	17	265	337
Non-current assets	265	-	-	265
Current liabilities	74	5	195	274
Non-current liabilities	478	-	-	478
Revenue	661	38	971	1,670
Loss for the year	(45)	-	-	(45)
Total comprehensive loss for the year	**(45)**	**-**	**-**	**(45)**
Group' share of loss	(15)	-	-	(15)
Net (liabilities)/assets of associates	**(232)**	**12**	**70**	**(150)**
Group´s share of net assets	-	-	-	-
Investments in associates	132	-	-	132
Impairment	(132)	-	-	(132)
Carrying amount of the interest	-	-	-	-

(all amounts are presented in HRK millions)

18. INVESTMENTS IN ASSOCIATES AND JOINT OPERATIONS (CONTINUED)

				31 December 2012
	Energopetrol	**ED-INA**	**INAgip**	**Total**
Place of business	Bosnia and Herzegovina	Croatia	Croatia	
Percentage of interests	33.33%	50.00%	50.00%	
Current assets	56	10	69	135
Non-current assets	248	-	-	248
Current liabilities	62	5	95	162
Non-current liabilities	406	-	1	407
Revenue	761	36	220	1,017
Loss for the year	(108)	-	-	(108)
Total comprehensive loss for the year	**(108)**	**-**	**-**	**(108)**
Group' share of loss	(36)	-	-	(36)
Net assets/(liabilities) of associates	**(164)**	**5**	**(27)**	**(186)**
Group´s share of net assets	-	-	-	-
Investments in associates	132	-	-	132
Impairment	(132)	-	-	(132)
Carrying amount of the interest, net	-	-	-	-

(all amounts are presented in HRK millions)

18. INVESTMENTS IN ASSOCIATES AND JOINT OPERATIONS (CONTINUED)

The following table summarises, in aggregate, the financial information of all not individually material associates and join operations in which Group has interests:

	INA Group and INA, d.d.	
	31 December 2013	31 December 2012
Aggregate carrying amount of the interests in these associates	22	34
The Group's share of profit from interest in not individually material associates	2	1

19. OTHER INVESTMENTS

	INA Group		INA, d.d.	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Long-term loans to Energopertol	138	155	138	155
Other long-term loans	-	-	626	612
Deposits	25	25	25	25
Financial assets at fair value through profit or loss	6	7	6	6
	169	**187**	**795**	**798**

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.

(all amounts are presented in HRK millions)

20. LONG-TERM RECEIVABLES

INA Group	31 December 2013	31 December 2012
Receivables for apartments sold	105	115
Prepayments for intangible assets	64	62
Prepayments for property, plant and equipment	61	25
	230	**202**

INA, d.d.	31 December 2013	31 December 2012
Receivables for apartments sold	104	114
Prepayments for intangible assets	64	62
Prepayments for property, plant and equipment	60	22
Long-term receivables from related party	11	11
Other long-term receivables	-	1
	239	**210**

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.

(all amounts are presented in HRK millions)

21. AVAILABLE-FOR-SALE ASSETS

Equity instruments available-for-sale

Name of the Company	% shareholding held by INA, d.d.	Activity	INA Group and INA, d.d. 31 December 2013	INA Group and INA, d.d. 31 December 2012
Jadranski Naftovod d.d.	11.795%	Pipeline ownership and operations	321	321
OMV Slovenia d.o.o., Koper	7.75%	Oil trading	31	31
Plinara d.o.o. Pula	49.00%	Distribution and oil trading	17	17
HOC Bjelolasica d.o.o. Ogulin	7.17%	Operations of sports facilities	5	5
BINA-FINCOM d.d. Zagreb	5.00%	Construction of highways and other roads, airfields airports	12	12
Total cost			386	386
Fair value adjustment			(56)	(46)
			330	**340**

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 2013. The net book value of the equity investment in JANAF decreased by HRK 9 million compared to the balance as of 31 December 2012 due to decrease 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 2013 amounted to HRK 2,290.00 per share (31 December 2012: HRK 2,370 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.

In 2013 the impairment on investment for entity Bjelolasica d.o.o. Ogulin was recorded in amount of HRK 1 million.

(all amounts are presented in HRK millions)

22. INVENTORIES

	INA Group		INA, d.d.	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Refined products	956	889	881	815
Work in progress	875	1,031	872	1,030
Crude oil	436	320	436	320
Gas inventories	387	571	-	-
Raw material	267	241	188	159
Spare parts, materials and supplies	237	226	94	92
Merchandise	61	74	55	69
	3,219	**3,352**	**2,526**	**2,485**

As of 31 December 2013, inventories were measured at the lower of cost or net realizable value.

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.

(all amounts are presented in HRK millions)

23. TRADE RECEIVABLES, NET

	INA Group		INA, d.d.	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Trade receivables	3,488	3,539	1,820	1,568
Impairment of trade receivables	(924)	(769)	(529)	(465)
	2,564	**2,770**	**1,291**	**1,103**

Below is an ageing analysis of trade receivables that are past due but not impaired:

	INA Group		INA, d.d.	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
less 30 days	81	210	14	72
31 - 60 days	23	81	15	45
61+ days	122	164	-	61
	226	**455**	**29**	**178**

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 60 days are impaired.

Impairment of trade receivables:

	INA Group		INA, d.d.	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Balance at beginning of the year	769	675	465	403
Impairment losses recognised on receivables	381	252	254	191
Amounts written off as uncollectible	(53)	(16)	(36)	-
Reversal of impairment on amounts recovered	(173)	(142)	(154)	(129)
Balance at end of the year	**924**	**769**	**529**	**465**

(all amounts are presented in HRK millions)

23. TRADE RECEIVABLES, NET (CONTINUED)

The ageing analysis of impaired trade receivables:

	INA Group		INA, d.d.	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
less than 60 days	24	2	-	-
61-120 days	58	2	54	-
121-180 days	58	58	39	40
181-365 days	205	156	139	137
366+ days	579	551	297	288
	924	**769**	**529**	**465**

24. OTHER RECEIVABLES

	INA Group		INA, d.d.	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Tax prepayments	681	347	625	309
Prepayment receivables	69	58	21	22
Interest receivables	18	18	18	18
Other	79	93	63	79
	847	**516**	**727**	**428**

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 2013	31 December 2012	31 December 2013	31 December 2012
Cash in the bank	304	316	184	125
Deposits until three months	64	110	37	86
Cash on hand	4	3	-	-
Other	30	59	31	59
	402	**488**	**252**	**270**

(all amounts are presented in HRK millions)

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

	INA Group		INA, d.d.	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Current portion of long-term loans (note 29)	299	4,725	255	4,648
Overdrafts and short-term loans	2,975	1,266	2,764	1,057
	3,274	**5,991**	**3,019**	**5,705**

	INA Group		INA, d.d.	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Unsecured bank loans in USD	1,684	730	1,651	700
Unsecured bank loans in EUR	1,132	392	1,097	357
Unsecured bank loans in HRK	159	144	16	-
	2,975	**1,266**	**2,764**	**1,057**

The most significant short-term loans as at 31 December 2013 are credit facilities with the first class banks with the purpose of financing purchases of crude oil and petroleum products (''trade finance'') and framework agreements concluded with domestic banks for granting loans, issuing bank guaranties and opening letter of credits.

Short-term loans are contracted as multicurrency lines with variable interest rates. INA, d.d. loans are unsecured and majority of them does not contain financial covenants.

In order 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 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Trade payables	2,841	1,684	2,144	964
Payroll and other	600	583	334	325
Production and sales and other taxes payable	672	411	542	334
Payroll taxes and contributions	77	86	48	51
Negative fair value of hedge commodity transactions	54	-	54	-
Embedded derivative financial liabilities	7	10	-	-
Negative fair value of derivatives	-	3	-	3
	4,251	**2,777**	**3,122**	**1,677**

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

(all amounts are presented in HRK millions)

28. ACCRUALS AND DEFERRED INCOME

	INA Group		INA, d.d.	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Accrued expenses	72	-	4	-
Accrued interest – long-term loans	29	25	29	24
Other	25	11	7	10
	126	**36**	**40**	**34**

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 2013**	**31 December 2012**
General corporate purpose	USD, EUR	1,035	4,385
Project financing	USD, EUR	1,046	1,316
		2,081	**5,701**
Due within one year		(255)	(4,648)
Total long-term loans INA, d.d.		**1,826**	**1,053**
Loan (equipment)		-	-
Other long term loans	EUR,USD,HUF,HRK	107	185
		107	**185**
Due within one year		(44)	(77)
Total long-term loans INA Group		**1,889**	**1,161**

(all amounts are presented in HRK millions)

29. LONG-TERM LOANS (CONTINUED)

INA Group	Weighted average interest rate	Weighted average interest rate		
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
	%	%		
Bank loans in EUR	4.18	1.05	1,484	3,519
Bank loans in USD	3.75	1.84	649	2,258
Bank loans in HUF	6.98	9.78	49	69
Bank loans in HRK	5.10	5.02	6	40
Total			**2,188**	**5,886**
Payable within one year			(299)	(4,725)
Total long-term loans			**1,889**	**1,161**

INA, d.d.	Weighted average interest rate	Weighted average interest rate		
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
	%	%		
Bank loans in EUR	3.80	1.05	1,481	3,515
Bank loans in USD	4.18	1.75	600	2,186
Total			**2,081**	**5,701**
Payable within one year			(255)	(4,648)
Total long-term loans			**1,826**	**1,053**

The maturity of the loans may be summarised as follows:

	INA Group		**INA, d.d.**	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Current portion of long-term debt	299	4,725	255	4,648
Payable within one to two years	294	364	252	261
Payable within two to three years	1,331	264	1,312	263
Payable within three to four years	263	265	262	264
Payable within four to five years	1	268	-	265
Total	**2,188**	**5,886**	**2,081**	**5,701**

(all amounts are presented in HRK millions)

29. LONG-TERM LOANS (CONTINUED)

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

	INA Group	INA, d.d.
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
Balance at 1 January 2013	**5,886**	**5,701**
New borrowings raised	6,160	6,160
Amounts repaid	(9,877)	(9,798)
Foreign exchange losses	19	18
Balance at 31 December 2013	**2,188**	**2,081**
Payable within one year (included within bank loans and overdrafts – note 26)	299	255
Payable after more than one year	1,889	1,826

The principal long-term loans outstanding at 31 December 2013 and loans signed during 2013 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.

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.

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.

In 2013 INA, d.d. signed long-term multi-currency revolving credit facility agreement for general corporate purposes with a consortium of banks in the amount of USD 400 million. The Agent is BTMU. Maturity of the credit facility is 3 years with an option for 1+1 year extension.

MOL Group

In 2013 INA, d.d. signed an intragroup long-term multi-currency revolving loan agreement for general corporate purposes provided from MOL Group by which intragroup financing has been increased from USD 200 million to USD 300 million.

(all amounts are presented in HRK millions)

29. LONG-TERM LOANS (CONTINUED)

Compliance with loan agreements

During 2013 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 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Liabilities to Government for sold apartments	57	63	57	63
Liabilities for derivatives financial instruments	11	30	-	-
Deferred income for sold apartments	8	8	8	8
	76	**101**	**65**	**71**

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.

(all amounts are presented in HRK millions)

31. PROVISIONS

INA Group	Environmental provision	Decommissioning Charges	Legal claims	Redundancy costs	Cost of unused holiday	Tax obligation claims of Holdina Sarajevo	Provission for employee benefits	Other	Total
Balance at 1 January 2012	**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**	**23**	**-**	**229**	**3,057**
Charge for the year	10	-	54	42	60	-	66	93	**325**
Effect of change in estimates	(17)	(52)	-	-	-	59	(7)	-	**(17)**
Interest	8	68	-	-	-	-	-	-	**76**
Provision utilised during the year	(9)	(1)	(20)	(22)	(66)	(2)	(14)	(42)	**(176)**
Balance at 31 December 2013	**301**	**2,360**	**96**	**42**	**61**	**80**	**45**	**280**	**3,265**

The environmental provision recorded by INA Group is HRK 301 million on 31 December 2013 (31 December 2012: HRK 309 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.

(all amounts are presented in HRK millions)

31. PROVISIONS (CONTINUED)

INA, d.d.	**Environmental provision**	**Decommissioning Charges**	**Legal claims**	**Redundancy costs**	**Cost of unused holiday**	**Provission for employee benefits**	**Other**	**Total**
Balance at 1 January 2012	**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**
Charge for the year	10	-	54	31	44	27	88	**254**
Effect of change in estimates	(17)	(52)	-	-	-	-	-	**(69)**
Interest	8	68	-	-	-	-	-	**76**
Provision utilised during the year	(8)	(1)	(15)	-	(47)	-	(40)	**(111)**
Balance at 31 December 2013	**288**	**2,360**	**81**	**31**	**44**	**27**	**266**	**3,097**

(all amounts are presented in HRK millions)

31. PROVISIONS (CONTINUED)

	INA Group		INA, d.d.	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Analysed as:				
Current liabilities	511	344	390	284
Non-current liabilities	2,754	2,713	2,707	2,663
	3,265	**3,057**	**3,097**	**2,947**

Decommissioning charges

As of 31 December 2013, the Company recognised a decommissioning provision for 56 oil and gas production fields, 3 non-production fields, 8 positive non-production wells and 144 negative non-production wells. 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.

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 2,500 for 10 years of continuous service
- HRK 3,000 for 15 years of continuous service
- HRK 3,500 for 20 years of continuous service
- HRK 4,000 for 25 years of continuous service
- HRK 4,500 for 30 years of continuous service
- HRK 5,000 for 35 years of continuous service
- HRK 6,000 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 2013 by independent actuarial expert. In 2013, the Company made a provision of HRK 59 million in respect of jubilee awards and HRK 47 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.

(all amounts are presented in HRK millions)

32. RETIREMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

Actuarial estimates were derived based on the following key assumptions:

	Valuation at	
	31 December 2013	**31 December 2012**
Discount rate	5.4%	4.6%
Turnover rate	1.65%	3-4%
Average longevity at retirement age for current pensioners (years)*		
males	13.5	13.5
females	16.9	16.9
Average longevity at retirement age for current employees (future pensioners) (years)*		
males	13.5	13.5
females	16.9	16.9
Mortality table	HR 2004 70,00%	HR 2004 70,00%

The amounts recognised in comprehensive income related to retirement and other employee benefits are as follows:

	INA Group		**INA, d.d.**	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Service cost:				
Cost of current period	7	5	4	4
Interest	5	6	4	4
Components of defined benefit costs recognized in profit and loss:	**12**	**11**	**8**	**8**
Remeasurement of the net defined benefit liability:				
Actuarial gains and losses arising from changes in demographic assumptions	20	(8)	20	-
Actuarial gains and losses arising from changes in financial assumptions	(8)	15	(7)	7
Actuarial gains and losses arising from experience adjustments	12	(11)	10	(7)
Past service cost, including losses/(gains) on curtailments	(4)	(14)	(4)	-
Components of defined benefit costs recognised in profit and loss account and other comprehensive income:	20	(18)	19	-
Total	**32**	**(7)**	**27**	**8**

(all amounts are presented in HRK millions)

32. RETIREMENT AND OTHER EMPLOYEE BENEFIT (CONTINUED)

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 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Present value of defined benefit obligations	146	110	105	73
Liability recognised in the balance sheet	**146**	**110**	**105**	**73**

	INA Group		INA, d.d.	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
This amount is presented in the balance sheet as follows:				
Current liabilities	11	10	7	6
Non-current liabilities	135	100	98	67
	146	**110**	**105**	**73**

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

	INA Group		INA, d.d.	
	2013	**2012**	**2013**	**2012**
At 1 January	110	117	73	66
Past service cost recognised in other comprehensive income	13	-	11	-
Cost of current period	7	5	4	4
Interest	5	6	4	4
Actuarial (gains) or losses				
Actuarial gains and losses arising from changes in demographic assumptions	20	(8)	20	-
Actuarial gains and losses arising from changes in financial assumptions	(8)	15	(7)	7
Actuarial gains and losses arising from experience adjustments	12	(11)	10	(7)
Past service cost, including losses/(gains) on curtailments	(4)	-	(4)	-
Benefit paid	(9)	(14)	(6)	(1)
Closing defined benefit obligation	**146**	**110**	**105**	**73**

(all amounts are presented in HRK millions)

32. RETIREMENT AND OTHER EMPLOYEE BENEFIT (CONTINUED)

Based on Revised IAS 19, unrecognized past service cost in amount of HRK 13 million in INA Group and in amount of HRK 11 million in INA, d.d. was recognised as liability and the same amount decreased for HRK 2 million of deferred tax assets was recognized through other comprehensive income.

33. SHARE CAPITAL

	INA Group and INA, d.d.	
	31 December 2013	**31 December 2012**
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 and INA, d.d.	
	31 December 2013	**31 December 2012**
Balance at beginning of year	13	-
(Decrease)/increase arising on revaluation of available-for-sale securities (Janaf)	(9)	16
Deferred tax effect	2	(3)
Balance at the end of year	**6**	**13**

At 31 December 2011, because of the significant and permanent impairment of the value of JANAF shares, the cumulative loss recognised within the revaluation reserve was transferred to expenses and included in the income statement.

In 2012, the revaluation reserve was increased because the market value i.e. the price quoted for those shares on the stock exchange at 31 December 2012 increased.

In 2013 the price of the JANAF shares on the stock exchange fell, and the surplus previously credited to the revaluation reserves was reduced.

(all amounts are presented in HRK millions)

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 December 1993	Foreign currency translation	Other reserves	Total
Balance at 1 January 2012	**2,132**	**37**	**447**	**2,616**
Movements during 31 December 2012	-	(111)	-	(111)
Balance at 31 December 2012	**2,132**	**(74)**	**447**	**2,505**
Movements during 31 December 2013	-	(221)	-	(221)
Balance at 31 December 2013	**2,132**	**(295)**	**447**	**2,284**

INA, d.d.

	Combined reserves at 31 December 1993	Other reserves	Total
Balance at 31 December 2013	1,667	266	**1,933**
Balance at 31 December 2012	1,667	456	**2,123**

(all amounts are presented in HRK millions)

36. RETAINED EARNINGS

	INA Group	INA, d.d.
	Retained earnings	**Retained earnings**
Balance at 1 January 2012	**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**
Loss for the year	(1,508)	(1,633)
Dividends paid	(343)	(343)
Balance at 31 December 2013	**1,586**	**2,390**

37. NON-CONTROLLING INTEREST

	INA Group	
	31 December 2013	**31 December 2012**
Balance at beginnig of year	(1)	(10)
Share of profit for the year	-	6
Purchase of non-controlling interest	-	3
Balance at end of year	**(1)**	**(1)**

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.

(all amounts are presented in HRK millions)

38. RELATED PARTY TRANSACTIONS (CONTINUED)

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

INA Group

	Sales of goods		Purchase of goods	
	2013	**2012**	**2013**	**2012**
Companies available-for-sale				
JANAF d.d. Zagreb	3	3	86	75
Strategic partner				
MOL Nyrt.	427	689	709	734
Companies controlled by strategic partner				
Tifon d.o.o.	835	866	65	6
Energopetrol d.d.	535	340	1	1
Kalegran Ltd.	129	128	3	1
MOL Commodity Trading Kft.	115	-	-	-
Slovnaft, a.s.	101	-	82	84
MOL SLOVENIJA d.o.o.	41	33	85	92
MOL Srbia d.o.o.	5	61	-	-
IES-Italiana Energia e Servizi s.p.a.	2	15	5	9
Companies controlled by the State				
Hrvatska elektroprivreda	2,024	2,617	181	161
Petrokemija Kutina	1,253	1,679	1	1
Croatia Airlines	226	257	-	-
Jadrolinija	183	165	7	6
Hrvatske željeznice	138	149	69	67
HANDA	112	105	189	-
Podzemno skladište plina Okoli	65	29	151	151
Plinacro	9	11	215	280

(all amounts are presented in HRK millions)

38. RELATED PARTY TRANSACTIONS (CONTINUED)

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 2013	31 December 2012	31 December 2013	31 December 2012
Companies available-for-sale				
JANAF d.d. Zagreb	-	1	46	22
Strategic partner				
MOL Nyrt.	83	79	43	95
Companies controlled by strategic partner				
Energopetrol d.d.	50	70	-	-
Slovnaft, a.s.	44	-	8	3
Tifon d.o.o.	36	36	2	1
Kalegran Ltd.	31	28	-	-
MOL SLOVENIJA d.o.o.	4	2	9	9
IES-Italiana Energia e Servizi s.p.a.	-	-	2	1
Companies controlled by the State				
Petrokemija Kutina	167	259	-	1
Hrvatska elektroprivreda	159	346	16	8
Hrvatske željeznice	40	78	14	8
Jadrolinija	26	31	2	1
Croatia Airlines	20	30	-	-
HANDA	15	3	121	14
Podzemno skladište plina Okoli	14	5	15	8
Plinacro	-	1	20	32

Loan to and from related parties:

INA Group	Amounts of loans owed by related parties		Amountsof loans owed to related parties	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Strategic partner				
MOL Group Finance SA	-	-	611	-
Companies controlled by strategic partner				
Energopetrol d.d.	237	201	-	-

INA, d.d. has been provided loans at rates comparable to those that prevail in arm's length transactions. The loans from the ultimate controlling party are unsecured.

(all amounts are presented in HRK millions)

38. RELATED PARTY TRANSACTIONS (CONTINUED)

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

INA, d.d.

	Sales of goods		Purchase of goods	
	2013	**2012**	**2013**	**2012**
Related companies				
Prirodni plin d.o.o. Zagreb	4,541	4,872	722	741
Holdina Sarajevo	2,521	1,552	-	-
Osijek Petrol d.d.	102	122	-	-
INA Crna Gora d.o.o Podgorica	80	139	-	-
STSI d.o.o. Zagreb	28	24	533	430
INA Maziva d.o.o.	20	101	65	62
Interina d.o.o. Ljubljana	16	23	-	-
Crosco d.o.o.	12	11	284	239
INA Beograd d.o.o Beograd	1	-	-	-
TOP Računovodstvo Servisi d.o.o.	8	8	50	54
ITR d.o.o. Zagreb	1	1	21	23
Companies available-for-sale				
JANAF d.d. Zagreb	3	-	86	75
Strategic partner				
MOL Nyrt.	159	371	598	644
Companies controlled by strategic partner				
Tifon d.o.o.	833	866	65	6
MOL Commodity Trading KFt	115	-	-	-
Slovnaft, a.s.	101	-	82	84
MOL SLOVENIJA d.o.o.	39	31	-	-
Energopetrol d.d.	20	282	1	1
MOL Srbia d.o.o.	5	61	-	-
IES-Italiana Energia e Servizi s.p.a.	2	15	5	9
Companies controlled by the State				
Croatia Airlines	226	257	-	-
Jadrolinija	177	159	7	6
Hrvatske željeznice	133	138	69	67
HANDA	112	105	189	-
Hrvatska elektroprivreda	18	96	177	158
Petrokemija Kutina	1	9	-	-
Podzemno skladište plina Okoli	1	2	-	-

(all amounts are presented in HRK millions)

38. RELATED PARTY TRANSACTIONS (CONTINUED)

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

INA, d.d.	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Foreign related				
Prirodni plin d.o.o. Zagreb	3,531	3,132	105	35
Holdina Sarajevo	227	180	21	12
Osijek Petrol d.d.	15	32	1	1
INA Beograd d.o.o Beograd	7	7	-	-
STSI d.o.o. Zagreb	6	8	196	179
INA Crna Gora d.o.o Podgorica	6	22	1	1
Interina d.o.o. Ljubljana	2	5	-	-
Crosco d.o.o.	2	1	101	68
TOP Računovodstvo Servisi d.o.o.	2	1	-	4
Maziva Zagreb d.o.o. Zagreb	1	9	7	10
ITR d.o.o. Zagreb	-	-	4	7
Companies available-for-sale				
JANAF d.d. Zagreb	-	-	46	22
Strategic partner				
MOL Nyrt.	38	28	34	90
Companies controlled by strategic partner				
Tifon d.o.o.	36	32	2	1
MOL SLOVENIJA d.o.o.	4	2	-	-
Energopetrol d.d.	1	4	-	-
Companies controlled by the State				
Hrvatske željeznice	39	69	14	8
Jadrolinija	25	30	2	1
Croatia Airlines	20	30	-	-
HANDA	15	3	121	14
Hrvatska elektroprivreda	6	7	16	8

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

In 2013 INA, d.d. recognised impairment on receivables from related parties in the amount of HRK 1,872 million, while income from collection of impaired receivables from related parties amounted to HRK 922 million.

(all amounts are presented in HRK millions)

38. RELATED PARTY TRANSACTIONS (CONTINUED)

Loan to and from related parties:

INA, d.d.	Amounts of loans owed by related parties		Amountsof loans owed to related parties	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Related companies				
Crosco d.o.o.	626	582	-	-
Prirodni plin d.o.o.	555	700	-	-
Osijek Petrol d.d.	81	50	-	-
INA BH d.d. Sarajevo	29	30	-	-
INA Crna Gora d.o.o Podgorica	23	15	-	-
Interina d.o.o. Ljubljana	21	15	-	-
ITR	12	-	-	-
Adrigas Milano	-	-	8	8
Hostin d.o.o.	-	4	5	4
STSI d.o.o. Zagreb	-	-	73	-
Maziva Zagreb d.o.o. Zagreb	-	-	45	50
Polybit	-	-	2	2
Strategic partner				
MOL Group Finance SA	-	-	611	-
Companies controlled by strategic partner				
Energopetrol d.d.	237	201	-	-

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.

(all amounts are presented in HRK millions)

38. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	INA, d.d.	
	31 December 2013	**31 December 2012**
Short-term employee benefits	44.7	43.6
Termination bonuses	2.6	0.6
Total	**47.3**	**44.2**

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 INA, d.d.:

- Supervisory Board Members (9),
- President of the Management Board (1),
- Management Board Members (5),
- Executive Directors (6),
- Sector Directors (31).

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 2013 in excess of 5 percent which would enable them to exercise significant influence or control over the entity during 2013;
- were involved in any related-party transactions during 2013.

38. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel (continued)

The following members of key management at INA, d.d. reported the existence of related parties within the INA Group during 2013:

- Member of the Supervisory Board, Mr. Ferenc Horváth, in 2013 was a Vice President of Refining and Marketing in MOL Plc., a member of the Board of Directors of Slovnaft, a.s., a member of the Board 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 2013 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 2013 Group Chief Executive Officer of MOL Plc.
- Member of the Supervisory Board, Mr. Szabolcs I. Ferenc, was during 2013 a member of the Supervisory Bord of Slovnaft,a.s.,
- Member of the Supervisory Board, Mr. Oszkár Világi, was during 2013 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 2013 a representative of INA, d.d. in the ED-INA and INAgip General Assembly
- The Executive Director for Finance, Mr. András Huszár, was during 2013 the president of the Supervisory Board of subsidiary TRS d.o.o., a member of the Supervisory Board of subsidiary STSI d.o.o., a member of the Supervisory Board of subsidiary CROSCO d.o.o. and a member of the Supervisory Board of subsidiary Prirodni plin d.o.o.
- Executive Director for Retail, Mr. Darko Markotić, was during 2013 the president of the Supervisory Board of subsidiary INA BH, d.d.
- Executive Director for Corporate Centre, Mr. Tvrtko Perković, in 2013 was president of the Supervisory Board of subsidiary STSI d.o.o.
- Executive Director for Exploration and Production, Mr. Želimir Šikonja, in 2013 was president of the Supervisory Board of subsidiary Crosco d.o.o., president of the Supervisory Board of subsidiary Prirodni plin d.o.o., president of the Management Board of INAgip, d.o.o., 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 Corporate Processes, Mr. Tomislav Thür, was during 2013 a member of the Supervisory Board of subsidiary Prirodni plin d.o.o.

38. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel (continued)

- Director of Geology and Engineering Sector, Mr. Jerko Jelić-Balta, was during 2013 the president of Management Board of subsidiary Adriagas S.r.l., Milan
- Director of Treasury Sector, Mrs. Višnja Bijelić, was during 2013 the president of the Management Board of subsidiary INA Maziva d.o.o. and a member of the Supervisory Board of Plinara Pula
- Director of South-East Europe E&P Sector, Mr. Laslo Farkaš Višontai was during 2013 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 subsidiary STSI d.o.o. and a member of the Supervisory Board of PIS, d.o.o.
- Director of Network Development and Asset Management Sector, Mr. Davor Knez, was during 2013 the president of the Supervisory Board of subsidiary Petrol Jurdani d.d. and a member of the Supervisory Board of Krajina Petrol, a.d.
- Director of Accounting and Tax Sector, Mrs. Nives Kompare, during 2013 was a member of the Supervisory Board of subsidiary TOP RAČUNOVODSTVO SERVISI d.o.o.
- Director of Retail Sales and Marketing Sector, Mr. Davor Peruško, during 2013 was the president of Management Board of subsidiary INA maloprodajni servisi, d.o.o.
- Director of E&D Business Support Sector, Mrs. Diana Prpić was a member of the Management Board of subsidiary Adriagas S.r.l. Milan
- Director of Human Reouurces Sector, Mrs. Vladimira Senčar Perkov, during 2013 was a member of Supervisory Board of subsidiary INA maloprodajni servisi, d.o.o.
- Director of Investment and Maintenance Management Sector, Mr. Josef Stoppacher, during 2013 was a member of the Supervisory Board of subsidiary CROSCO d.o.o.
- Director of Procurement Sector, Mr. György Szűcs, during 2013 was a member of the Supervisory Board of INA-SOL.
- Director of Lubricants Sector, Mr. Andrej Šolaja, during 2013 was the president of Management Board of subsidiary Maziva d.o.o.
- Director of International Exploration and Production Sector, Mrs. Davorka Tancer, during 2013 was a director of subsidiary Prirodni plin d.o.o. Moreover, the husband of Ms. Tancer, Mr. Adonis Tancer, during the 2013, was the owner / director of an entity IMI Instromont inženjering, d.o.o., which has made a business relationship with INA Group subsidiary STSI, d.o.o.

38. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel (continued)

The following members of key management reported the existence of related parties within the INA Group during 2013:

- President of the Supervisory Board at INA Maziva, d.o.o., Mr. Tomislav Crnković, in 2013 was a president of the Supervisory Board INA-Osijek Petrol
- Director of subsidiary ITR, Mr. Ivan Novaković, during 2013 was the president of Management Board of subsidiary STSI, d.o.o.
- Director of subsidiary Crosco, d.o.o., Mr. Dragutin Domitrović, during 2013 was the president of Supervisory Board of subsidiary Rotary Zrt.
- Member of Management Board of subsidiary Crosco, d.o.o., Mr. Tibor Gozdan (until 31 December 2013), during 2013 was a meaner of Management Board of subsidiary Rotary Zrt.
- Director of subsidiary INTERINA, d.o.o. Ljubljana, Mr. Mladen Ivković, during 2013 was a member of Supervisory Board of subsidiary INA-Osijek petrol, d.d. and director of subsidiary Petrol, d.d.
- Director of subsidiary INA BH, d.d., Mr. Zoran Dautović, during 2013 was a member of Supervisory Board of subsidiary INA MALOPRODAJNI SERVISI, d.d.
- A member of Supervisory Board of INA BH, d.d. Sarajevo, Mr. László Bartha, during 2013 was the president of Management Board of subsidiary HOLDINA, d.o.o., Sarajevo and executive director for retail of associate ENERGOPETROL, d.d., Sarajevo
- A member of Supervisory Board of INA BH, d.d. Sarajevo, Mr. Miroslav Polak, during 2013 was the director of associate ENERGOPETROL, d.d., Sarajevo
- A member of Management Board of HOLDINA, d.o.o.. Sarajevo, Mr. Damir Sokolović, during 2013 was the executive director for finance of associate ENERGOPETROL, d.d., Sarajevo
- Director of subsidiary CROSCO INTERNATIONAL, d.o.o., Mr. Mato Šimović, during 2013 was a director of subsidiary CROSCO International, d.o.o. Tuzla.
- A member of Management Board of subsidiray SEA HORSE SHIPPING INC., Mrs. Beata Cziganyne Bauer was a member of Supervisory Board of subsidiary NORDIC SHIPPING LIMITED.
- President of the Supervisory Board of CROSCO INTERNATIONAL LIMITED, Guernsey, Mr. Bojan Prokopec was during 2013 a member of the Management Board of INA MALOPRODAJNI SERVISI, d.d., president of the Supervisory Board of subsidiary INA–Osijek Petrol, d.d., President of the Supervisory Board of subsidiary Petrol, d.d. and a member of the Supervisory Board of associate ENERGOPETROL, d.d., Sarajevo.

38. RELATED PARTY TRANSACTIONS (CONTINUED)

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 2013 revenue in the amount of HRK 6,053 million (2012: HRK 7,487 million), of which HRK 722 million (2012: HRK 741 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 2013 revenue in the amount of HRK 923 million (2012: HRK 872 million), of which HRK 284 million (2012: HRK 244 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 589 million for 2013 (2012: HRK 482 million), of which HRK 552 million (2012: HRK 445 million) were generated from sale to INA, d.d.

The Company is also the major customer of INA Maziva d.o.o., which is wholly owned subsidiary, (note 17), presented consolidated 2013 revenue in the amount of HRK 218 million (2012: HRK 213 million), of which HRK 61 million (2012: HRK 54 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 2013, approximately HRK 86 million of JANAF's total revenue in the amount of HRK 452 million account for sales revenue in respect of INA, d.d. as user of the pipeline system of JANAF d.d. (2012: HRK 75 million out of HRK 456 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:

- exploration and development commitments arising under production sharing agreements,
- exploratory drilling and well commitments abroad,
- gas transportation contract and gas selling contract
- guarantees, performance bonds and letters of credit with Croatian and foreign banks,
- completion of the construction of certain assets.

39. COMMITMENTS (CONTINUED)

Investment in contract areas of North Adriatic

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

- INA, d.d. and ENI Croatia B.V. have closed down in 1996 and 1997 Production Sharing Agreements in contract areas Aiza - Laura and Ivana, and realization of the partnership takes place through a joint operating company INAgip with interests 50 : 50,
- INA, d.d. and EDISON INTERNATIONAL S.p.A. have closed down in the 2002 Production Sharing Agreement in the contract area Izabela & Iris / Iva. Partnership with EDISON takes place through the operating company ED-INA with shareholding: 50% : 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 4.8 billion, while of the total gained reserves INA´s share will range about 63% of the produced gas, which is further placed on the Croatian gas market.

On the Izabela gas field all development activities are completed during 2010 and Izabela South platform is ready for production start since May 2010, while Izabela North platform since July 2010. 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 2013 INAgip had in both contract areas 237 active contracts amounting in total to HRK 1,417 million. The remaining commitments under these contracts on 31 December 2013 amounted to HRK 735 million.

For the need of the development of the Izabela gas field from 1 January 2008 until 31 December 2013, ED-INA has concluded 83 (28 are still active) contracts amounting in total to EUR 141 million from which EUR 139 million has been carried out on 31 December 2013.

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 2013, and the main production activities have been taken over by HPC’s local workforce, which INA, d.d. considers illegal (see note 3).

39. COMMITMENTS (CONTINUED)

Investments in Syria (continued)

INA, d.d. is the operator at the Aphamia exploratory block. INA, d.d. has acquired 270 km^2 3D seismic on the basis of which two exploration wells were drilled. 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 2013, 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

On 20 December 2013 Prirodni plin d.o.o. signed an additional contract with MET International AG regarding natural gas import until 1 May 2014. As of 31 December 2013 future obligations amount to approximately HRK 150 million until the contract expiry.

Gas Transportation Contract

The future gas transportation contracted commitments with GEOPLIN d.o.o. until 2016, whereas with Gas Connect Austria and ENI SpA. until 2018 in amount of approximately HRK 484.83 million.

Gas sales Contracts

Group had following natural gas sale contracts from 1 October 2013, 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 30 September 2014
   b) Sales revenue from 1 January until 31 December 2013: HRK 1.6 billion
   c) Contracted supply quantity: 146,500,000 m^3 from 1 January 2014 until 30 September 2014
   d) Estimated revenue for the remaining period: HRK 365 million
2. Contract between Prirodni plin d.o.o. and Petrokemija d.d. Kutina
   a) Contract period: from 1 January 2012 until 30 September 2015
   b) Sales revenue from 1 January until 31 December 2013: HRK 1.2 billion
   c) Contracted supply quantity: 458,100,000 m^3 from 1 January 2014 until 30 September 2015
   d) Estimated revenue for the remaining period: HRK 1.1 billion

39. COMMITMENTS (CONTINUED)

Gas sales Contracts (continued)

3. Contracts between Prirodni plin d.o.o. and tariff-based customers (distributors - procurement)
   a) Contract period: from 1 October 2013 until 31 March 2014
   b) Sales revenue 1 January until 31 December 2013: HRK 1.6 billion
   c) Contracted supply quantity: 357,477,468 m^3 from 1 January 2014 until 31 March 2014
   d) Estimated revenue for the remaining period: HRK 786 million
4. Contracts Prirodni plin d.o.o. – other tariff-based customers – distributors - sales
   a) Contract period: from 1 October 2013 until 30 September 2014; one customer until 30 September 2015
   b) Sales revenue from 1 January 2013 until 31 December 2013: HRK 544 million
   c) Contracted supply quantity: 92,797,843 m^3 from 1 January 2014 until 30 September 2015
   d) Estimated revenue for the remaining period: HRK 240 million
5. Contracts Prirodni plin d.o.o. – other tariff-based customers
   a) Contract period: from 1 October 2013 until 30 September 2014 (one customer until 31 until 31 December 2014)
   b) Sales revenue from 1 January 2013 until 31 December 2013: HRK 881 million
   c) Contracted supply quantity: 280,207,159 m^3 from 1 January 2014 until 31 December 2014
   d) Estimated revenue for the remaining period: HRK 677 million

Water selling contracts

1. High quality process water
   a) Contracted supply quantity: 2,263,000 m^3 in 2013.
   b) Sales revenue in 2013: 3.6 HRK
   c) Contract period: 2014
   d) Estimated revenue for 2014: 4.4 million HRK
2. Geothermal water
   a) Contracted supply quantity: 410,000 m^3 in 2013
   b) Sales revenue from in 2013: 2.6 million HRK
   c) Contract period: 2014
   d) Estimated revenue for 2013 the period: 2.1 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 and water protection fee to the Authority of Croatian Water, specified by law. The environmental effects are monitored by local and national governmental environmental authorities.

Harmonisation of INA's operations with the IPPC Directive

Integrated Pollution Prevention and Control Directive (IPPC) regulates the issue of "environmental permit" and requires the use of best available techniques (BAT), by which a high level of environmental protection as a whole is achieved (air protection, water, soil, noise protection, waste management, energy efficiency). Environmental permit regulates the facility operation. Alignment with BAT requires time and considerable financial investment so INA in Croatia pre-accession negotiations with the EU gained for its refineries in Sisak and Rijeka a transition period to achieve full compliance by 31 December 2017.

In order to align its existing technology with the BAT, INA, d.d. initiated a few projects that are in various stages of implementation. During 2013 Requirements for obtaining environmental permits and Technical-Technological solutions for four INA, d.d. plants (Fractionation Facilities Ivanić Grad (FFIG), Gas Processing Facilities Molve (GPFM), in Sisak Refinery (SR), Rijeka Refinery (RR)) were sent to the competent authorities on opinion and establishing conditions for plants. Public hearings for SR, FFIG and GPFM have been successfully conducted. For those facilities the Environmental Terms and Books of unified conditions, which are an integral part of the environmental permit were submitted to the Ministry of Environment Protection and Nature (MEPN). In December 2013 the Ministry of Environmental and Nature Protections issued a Decision accepting the construction of the coke complex at the Rijeka Refinery, including a birth and the port of Urinj 2, which also enabled the continuation of the process of obtaining the environmental permit for the Rijeka Refinery.

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

European Union Emissions Trading Scheme, EU ETS, is one of the fundamental mechanisms of the European Union in the fight against climate change with a view to meeting the commitments made under the Kyoto Protocol. Inside the Scheme, a part of the emission allowances (one allowance = 1 tonne of CO_2) are allocated to installations for free and they are used to "cover" the emissions from the previous year. If the installation has a shortage of allowances in respect to verified emissions, the rest must be bought on the market through auctioning.

From 1 January 2013, Rijeka Refinery, Sisak Refinery, Fractionation Facilities Ivanić Grad and Gas Processing Facilities Molve are a part of the ETS. In February, requests to open four operator holding accounts (one for each installation) in the Union Registry, through which emission allowances transactions are performed, had been submitted to the Croatian Environment Agency, and the first purchase of allowances had been conducted in December 2013 during which 75% of the total estimated shortage of emission allowances had been bought (the price of one allowance was 4.99 euros and the total paid amount is 905,680 EUR).

The Annual Greenhouse Gas Emissions Reports were delivered for all four installations to the Croatian Environment Agency in accordance with the regulations in March 2013. The European Commission published a new form for Greenhouse Gas Emissions Monitoring Plans and INA submitted Plans for all four installations to the Ministry of Environmental and Nature Protection in August.

40. CONTINGENT LIABILITIES (CONTINUED)

Environmental matters (continued)

Alignment of INA's operations with the air protection legislation

From 1 January 2016 existing plants will have to comply with more stringent ELV, as stipulated by Industrial Emissions Directive (IED). The provisions of this Directive have been transposed into Croatian legislation by Regulation on limit values for pollutant emissions from stationary sources into the air (OG 117/12). In January 2013 oil refineries in Sisak and Rijeka submitted an Application for inclusion of its existing large combustion plants in the Transitional National Plan (TNP). Large Combustion Plants involved in the TNP, in the period from 1 January in 2016 until 30 June 2020, may be exempted from compliance with the ELV, if they meet certain conditions prescribed by the Regulation. In June 2013 Ministry of Environment Protection and Nature submitted the TNP to the European Commission for approval.

Regarding compliance with the technical environmental standards for Volatile Organic Compound (VOC) emissions resulting from the storage and distribution of petrol, in compliance is the entire INA's retail network as well as tank truck loading station in Sisak Refinery are in compliance with technical standards. In the next few years it is planned HRK 540 million for full compliance with the technical environmental standards for VOC's.

Harmonisation of INA's operations with the REACH

According 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 substances before deadline. The pre-registration period has ended on 31 December 2013.

The registration deadline for CMR or very 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-REACH team has collected data for a total of 14 registration dossiers (9 substances and 5 on site intermediates), which were submitted to European Chemicals Agency (ECHA). Besides registration, notification of 8 substances was completed in accordance with the CLP Regulation which is exempted from registration obligations.

For 18 substances (14 substances and 4 intermediates) that INA exported to the territory of the EU, before accession of the Republic of Croatia to EU, transfer of all rights from MOL to INA was completed. Registration dossiers of these substances were updated, due to the presence of new information. After a successful registration under REACH and CLP notification, INA accomplished the goal and is able to manufacture, store, use and put on the market products on the European Union territory.

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 2013, INA, d.d. made environmental provisions in the amount of HRK 288 million, whereas the provisions at the Group level amounted to HRK 301 million. Contingencies at the INA Group and INA, d.d. levels were estimated at HRK 651 million and HRK 438 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.

40. CONTINGENT LIABILITIES (CONTINUED)

Litigation

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.

The status of INA, d.d. has not changed even after the hearing held on 8 February 2011, delivery of the governing law shall for sure be lasting for a certain time, and only at the hearings to be determined following the acquisition of the governing law will be clear in which direction the proceedings will be continued.

Management believes, based on legal advice, that no losses will be incurred, so no provision has been recognized as of 31 December 2013.

OTF

On 27 August 2013, INA, d.d. received information from the Secretariat of the Permanent Arbitration Court, Croatian Chamber of Commerce, that OTF Fovallalkozo Zrt., Hungary (OTF) has submitted a Statement of Claim against INA, d.d.

In its Statement of Claim OTF seeks from INA, d.d. the payment of the amount of the Performance Guarantee stating that it was fraudulently, unlawfully and unjustifiably activated by INA, d.d., payment of additional costs based on the so called "change order" claims and other costs related to the project paid by OTF due to reasons solely attributable to INA, d.d. as well as compensation of damage caused to OTF by INA's delayed payment and other actions in the total amount of EUR 9 million.

On 11 October 2013 INA, d.d. submitted a detailed Answer to the Statement of Claim within the set deadline. INA, d.d. in its Answer to the Statement of Claim, states that OTF has provided an incomplete and a misleading description of the nature and circumstances of the dispute. First of all INA, d.d. is claiming that the delay of the project was attributable solely to reasons for which OTF was responsible for by virtue of the Contract concluded among the Parties.

40. CONTINGENT LIABILITIES (CONTINUED)

Litigation (continued)

OTF (continued)

This argumentation INA, d.d. also bases on the nature of the Lump Sum Turn Key Contract that the Parties concluded and the fact that OTF undertook the sole responsibility for detailed engineering and design of the project, the procurement of the entire equipment and necessary materials and finally the construction with a responsibility to deliver to INA, d.d. a fully functioning plant, what OTF failed to do. Further, INA, d.d. claims that FEEDSTOCK was not the reason for the malfunctioning of the plant nor was it caused by INAs operational personnel.

It is INAs point of view that the malfunctions of the plant were the result of poor design and construction of the plant that being the sole responsibility of OTF.

In relation to the activation of the bank guarantee INAs claims are in line with its argumentation that by activating the bank guarantee and collecting the amount of EUR 4 million INA, d.d. collected damages suffered during the shutdowns caused by plant deficiencies and also other costs suffered by INA, d.d. due to OTFs breach of contract.

Although we are still in the initial phase of the arbitral proceedings some issues such as the procedural rules and the direction in which the Tribunal wishes to take the arbitration have been clarified after the teleconference held on 13 December 2013, including deadlines for next round of written submissions. On the other hand, at this point the position of the Parties regarding the merits of the dispute is still difficult to evaluate due to the fact that there was only one round of written submissions. OTF’s Statement of Claim has been designed and submitted in an imprecisely and briefly manner without any excess elaborating on facts or calling upon evidence so it is expected that OTF will submit its fully elaborated and evidentiary supported Reply to the Answer to the Statement of Claim in this second round of submissions, until 31 January 2014, if it has any desire to strengthen its position in this arbitral proceedings.

Management believes, based on legal advice, that no losses will be incurred, so no provision has been recognized as of 31 December 2013.

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, d.d. 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.

40. CONTINGENT LIABILITIES (CONTINUED)

Litigation (continued)

Ljubljanska banka (continued)

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 2013.

Supreme court hasn't decided on review to this date, so legal actions weren’t taken during 2013.

(all amounts are presented in HRK millions)

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 37.

Capital structure of the INA 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 2013	31 December 2012	31 December 2013	31 December 2012
Debt:	**5,163**	**7,152**	**4,845**	**6,758**
Long term loans	1,889	1,161	1,826	1,053
Short term loans	2,975	1,266	2,764	1,057
Current portion of long-term borrowings	299	4,725	255	4,648
Cash and cash equivalents	(402)	(488)	(252)	(270)
Net debt	**4,761**	**6,664**	**4,593**	**6,488**
Equity	12,875	14,954	13,329	15,502
Equity and net debt	17,636	21,618	17,922	21,990
Gearing ratio	**27%**	**31%**	**26%**	**30%**

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, retained earnings or transferred loss and non-controlling interests of the Group that are managed as capital.

(all amounts are presented in HRK millions)

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Categories of financial instruments

	INA Group		INA, d.d.	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Financial assets				
Cash and cash equivalents	402	488	252	270
Financial assets designated as at fair value through profit and loss	6	7	6	6
Embedded derivative financial instruments	5	7	-	-
Loans and receivables	3,826	3,651	4,260	4,855
Available-for-sale financial assets	330	340	330	340
Positive fair value of derivatives	29	6	29	6
Financial liabilities				
Amortised cost	8,004	8,836	7,558	8,104
Embedded derivative financial instruments	18	40	-	-
Negative fair value of derivatives	-	3	-	3

Financial risk management objectives

INA Group in course of business continuously monitors and manages 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 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 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.

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk

Commodity price risk management (price risk)

The volatility of crude oil and gas prices is the prevailing element in the business environment of INA Group. INA Group buys crude oil mostly through short-term arrangements in US dollars at the current spot market price. In 2013, INA Group had imported a t portion of natural 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 in 2013, specified by the Highest Retail Refined Product Pricing Regulation, to a limited extent had protected 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 2013 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 2013 positive fair value of commodity derivatives amounted to HRK 54 million, while negative fair value from such transactions amounted to HRK 54 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 currency risk using natural hedging, which is based on the principle that the combination of currencies in the debt portfolio should reflect the currency position of 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 Highest Retail Refined Product Pricing Regulation applicable in 2013 had allowed transferring 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 2013 there were no outstanding cross-currency transactions.

(all amounts are presented in HRK millions)

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

INA Group

	Liabilities		Assets	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Currency USD	3,674	3,574	1,836	1,609
Currency EUR	3,140	4,263	715	633
	6,814	**7,837**	**2,551**	**2,242**

INA, d.d.

	Liabilities		Assets	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Currency USD	3,387	3,167	1,747	1,437
Currency EUR	2,810	4,044	623	491
	6,197	**7,211**	**2,370**	**1,928**

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 2013 (in 2012: 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 monetary assets and liabilities in foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a change in foreign currency rates expressed as percentage. A negative number below indicates a decrease in profit where 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 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Loss	(184)	(196)	(243)	(363)
	(184)	(196)	(243)	(363)

INA, d.d.

	Currency USD Impact		Currency EUR Impact	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Loss	(164)	(173)	(219)	(355)
	(164)	(173)	(219)	(355)

(all amounts are presented in HRK millions)

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign currency sensitivity analysis (continued)

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

Interest rate risk management

The INA Group is exposed to interest rate risk as entities in the INA Group borrow funds at both fixed and floating interest rates. Most of the INA Group's borrowings are contracted with floating interest rates.

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 2013 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 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Short-term interest expense change	59.3	25.3	55.0	21.1
Long-term interest expense change	39.1	111.4	37.1	107.7
Total change:	**98.4**	**136.7**	**92.1**	**128.8**

If interest rates would be 200 basis points higher/lower, the profit of the INA Group as of 31 December 2013 would be decreased / increased by HRK 98.4 million, while the decrease/increase would amount to HRK 24.6 million with a change of 50 basis points, (2012: decrease / increase by HRK 136.7 million had the interest rates been 200 basis points higher/lower, and by HRK 34 million had the interest rates been 50 basis points higher / lower), and in 2013 the profit of the INA, d.d. would decrease/increase by HRK 92.1 million if interest rates had been 200 basis points higher/lower, while the decrease/increase would amount to HRK 23 million with a change of 50 basis points (2012: decrease / increase by HRK 128.8 million had the interest rates been 200 basis points higher/lower, and by HRK 32 million had the interest rates been 50 basis points higher/lower).

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 2013 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 27 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.

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 decrease of JANAF in the stock exchange, the cumulative loss in amount of HRK 7 million is recognised in equity at 31 December 2013.

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.

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

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

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 2013 INA Group had contracted short term bank credit lines amounting to HRK 1.63 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 5.89 billion (CNB middle rate).

Based on international practice, INA, d.d. has contracted short term credit facilities (''trade finance'') with first class banking groups for financing crude oil and oil products purchase. As of 31 December 2013 INA Group had contracted short term credit facilities for financing crude oil and oil products purchase amounting to USD 1.186 million.

For details of the main external sources of funding for INA Group see Note 26 and 29.

With the purpose of diversification of funding sources and in order to ensure sufficient liquidity and financial stability level, INA, d.d. is in constant negotiations with other creditors as well.

(all amounts are presented in HRK millions)

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk management (continued)

Liquidity and interest risk tables

The following tables detail the remaining contractual maturity for financial liabilities of INA, 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 2013					
Non-interest bearing	2,474	1,164	38	28	3,704
Interest bearing	2,357	1,014	2,009	-	5,380
	4,831	**2,178**	**2,047**	**28**	**9,084**
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**

INA, d.d.

	Less than 1month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2013					
Non-interest bearing	1,996	1,021	28	28	3,073
Interest bearing	2,364	878	1,942	-	5,184
	4,360	**1,899**	**1,970**	**28**	**8,257**
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**

Non-interest bearing liabilities of INA, d.d. due in a period of less than one month consist mainly of trade accounts payable in the amount of HRK 1,864 million in 2013 (2012: HRK 621 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.

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments

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

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (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 recognized 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).

(all amounts are presented in HRK millions)

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

Fair value measurements recognized in the statement of financial position (continued)

INA GROUP

				31 December 2013
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets available-for-sale	272	-	58	330
Embedded derivative financial assets	-	5	-	5
Positive fair value of derivatives	-	29	-	29
Positive fair value of hedge commodity transactions	-	25	-	25
Financial liabilities at fair value				
Embedded derivative financial liabilities	-	18	-	18
Negative fair value of hedge commodity transactions	-	54	-	54

				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				
Embedded derivative financial liabilities	-	40	-	40
Negative fair value of derivatives	-	3	-	3

(all amounts are presented in HRK millions)

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

Fair value measurements recognised in the statement of financial position (continued)

INA, d.d.

				31 December 2013
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Financial assets available-for-sale	272	-	58	330
Positive fair value of derivatives	-	29	-	29
Positive fair value of hedge commodity transactions	-	25	-	25
Financial liabilities at fair value				
Negative fair value of hedge commodity transactions	-	54	-	54

				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				
Embedded derivative financial liabilities	-	3	-	3
Negative fair value of derivatives	-	1	-	1

There were no transfers between levels 1 and 2 during the year.

Reconciliation of Level 3 fair value measurements of financial assets:

INA Group and INA, d.d.

31 December 2013

	Financial assets available-for-sale	**Total**
Fair value at 1 January	58	58
Fair value at 31 December	**58**	**58**

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

Fair value measurements recognised in the statement of financial position (continued)

(a) Financial instruments in level 1

The fair value of financial instruments included in Level 1 comprise JANAF shares equity investments classified as available for sale and is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available.

(b) Financial instruments in level 2 and level 3

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.
Specific valuation techniques used to value financial instruments include:

- The fair value of hedge commodity transactions is calculated on the basis of actual historic quotations from Platts and market forward quotations of the underlying commodities.
- The fair value of forward foreign exchange contracts has been determined on the basis of exchange rates effective at the statement of financial position date and an embedded derivative has been determined as the difference between the cumulative inflation index of the contracted inflation escalation index and the inflation rate in the country of contract execution.

These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

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.

(all amounts are presented in HRK millions)

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Derivative financial instruments (continued)

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 2013	31 December 2012
Fair value at 1 January	(33)	(15)
Financial loss relating to the net change in fair value in the year	20	(18)
Fair value at 31 December	**(13)**	**(33)**

	INA Group	
	31 December 2013	31 December 2012
Analysed as:		
Current portion	(5)	(8)
Non-current portion	(8)	(25)
	(13)	**(33)**

(all amounts are presented in HRK millions)

42. BUSINESS COMBINATION

Pursuant to the Purchase Agreement INA, d.d. acquires 50% of equity in the entity Croplin d.o.o. from E.ON Hungaria Zrt. for HRK 9 million. At 3 September 2013 Commercial Court in Zagreb changes the ownership, and INA, d.d. becomes the sole shareholder of Croplin d.o.o.

Following the acquisition of 100% ownership, a total investment amounting to HRK 46 million and impairment of investments in the amount of HRK 25 million is transferred from investments in associates to investments in subsidiaries.

	Headquarters	Principal activity	Date of acquisition	Proportion of shares (%)	Consideration transferred
Croplin d.o.o.	Zagreb, R. Croatia	Production of gas, distribution network of gas fuels	3 September 2013	50%	9

	Carrying amount	Fair value adjustment	Fair value on acquisition
Current assets			
Cash and cash equivalents	2	-	2
Trade and other recivables	3	-	3
Other current assets	7	-	7
Prepaid expenses and accrued income	1	-	1
Non-current assets			
Property, plant and equipment	27	(9)	18
Investments in associates and joint ventures	6	(6)	-
Investments in other companies	24	(24)	-
	70	(39)	31

Goodwill arising on acquisition

Consideration transferred	31
Less: fair value of identifiable net assets acquired	(31)
Goodwill arising on acquisition	**-**

Net cash outflow on acquisition of subsidiaries

Consideration paid in cash	9
Less: cash and cash equivalent balances acquired	(2)
	7

43. SUBSEQUENT EVENTS

Decision of the Croatian Ministry of Economy concerning obligatory natural gas sale

A package of resolutions related to INA's obligation on delivering the gas produced in Croatia under regulated price, put forward by the Ministry of Economy, has been adopted on 27 February 2014. This decision obliges INA to sell the portion of its natural gas production for household supplies to state-owned company HEP as the wholesale market supplier, also introducing distributors' purchase obligation from HEP.

So far INA (through Prirodni plin) received 2.2000 HRK/m3 for sales in the household segment while now INA shall receive 1.7058 HRK/m3 for the respective volumes. According to the new regulation - on a like-for-like basis, taking into account adjustments in cost items INA, d.d. will have to transfer, depending on the natural gas quantities, from HRK 250 – 350 million from its own revenues to HEP, annually.

MOL notification

On 28 February 2014 INA received a letter from MOL asking the co-operation of the Management Board in organizing a dataroom as part of a standard third party due diligence procedure related to the preparation for its potential sale of its shareholding in INA through its mandated advisors.

44. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 19 March 2014.

Signed on behalf of the Company on 19 March 2014 by:

András Huszár	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

INDUSTRIJA NAFTE, d.d.
FINANCE FUNCTION

REPORT
ON COMPANY AND INA-GROUP STATUS
FOR JANUARY-DECEMBER 2013

Zagreb, 2014

INDUSTRIJA NAFTE, d.d.

CONTENTS

INA Group and INA d.d. financial results (IFRS) Q1-Q4 2013 2

Management discussion 4
- Exploration and Production 4
- Refining and Marketing, including Retail 6
- Corporate Functions 8

Financial overview 9
- Income statement – INA Group 9
- Income statement – INA d.d. 10
- Balance sheet – INA Group 11
- Balance sheet – INA d.d. 11
- Cash flow – INA Group 12
- Cash flow – INA d.d. 12

Financial instruments and risk management 13

Investments in subsidiaries 14
Related party transactions – INA Group 15
Related party transactions – INA, d.d. 16

Special items 23
Main external parameters 23
Subsequent events after the balance sheet date 23
Announcements in 2013 24
Changes in organization, Management Board or Supervisory Board 24
Management representation 24

INA Group and INA d.d. financial results (IFRS) Q1-Q4 2013

This report contains unaudited financial statements for the period ending 31 December 2013 as prepared by the management in accordance with the International Financial Reporting Standards.

INA Group financial results (IFRS)	INA, d.d.						INA GROUP					
	2012		2013		Change %		2012		2013		Change %	
	HRK mln	USD mln	HRK mln	USD mln	HRK	USD	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Net sales revenues	26,404	4,513	23,882	4,185	(9.6)	(7.3)	29,895	5,109	27,444	4,810	(8.2)	(5.9)
EBITDA reported [(1)]	5,707	975	4,052	710	(29.0)	(27.2)	4,581	783	3,672	644	(19.8)	(17.8)
EBITDA excl. special items [(2)]	**6,000**	**1,025**	**4,179**	**732**	**(30.4)**	**(28.6)**	**4,966**	**849**	**3,799**	**666**	**(23.5)**	**(21.6)**
Operating profit/(loss)	1,772	303	(1,832)	(321)	n.a.	n.a.	1,359	232	(1,570)	(275)	n.a.	n.a.
Operating profit excl. special items [(2)]	**3,134**	**536**	**537**	**94**	**(82.9)**	**(82.4)**	**2,866**	**490**	**799**	**140**	**(72.1)**	**(71.4)**
Net financial expenses	(103)	(18)	(135)	(24)	31.1	34.4	(292)	(50)	(246)	(43)	(15.8)	(13.6)
Net profit/loss for the period [(3)]	1,323	226	(1,633)	(286)	n.a.	n.a.	681	116	(1,508)	(264)	n.a.	n.a.
Net profit for the period excl. special items [(2)]	**2,413**	**412**	**828**	**145**	**(65.7)**	**(64.8)**	**1,887**	**322**	**953**	**167**	**(49.5)**	**(48.2)**
Operating cash flow	3,702	633	4,058	711	9.6	12.4	3,742	640	4,543	796	21.4	24.5
Earnings per share												
Basic and diluted earnings per share (kunas per share)	132.3	22.6	(163.3)	(28.6)	n.a.	n.a.	68.1	11.6	(150.8)	(26.4)	n.a.	n.a.
Net debt	6,488	1,109	4,593	805	(29.2)	(27.4)	6,664	1,139	4,761	834	(29)	(27)
Net gearing	29.50		25.63		(13.1)		30.83		26.99			
CAPEX total	1,143	195	1,894	330	65.7	69.4	1,286	220	2,013	352.9	56.5	60.5
Domestic							1,166	199	1,655	290	41.9	45.5
International							120	21	358	63	198.5	206.1

[(1)] EBITDA = EBIT + Depreciation + Impairment + Provisions
[(2)] The 2013 EBIT was negatively influenced by HRK 2,369 million special items
[(3)] INA Group net profit attributable to equity holder
[(4)] In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for Q3 2013 – 5.6928 HRK/USD; Q4 2012 – 5.804 HRK/USD; Q4 2013 – 5.6036 HRK/USD; Q1-Q4 2012 – 5.8509 HRK/USD; Q1-Q4 2013 – 5.7059 HRK/USD
[(5)] Starting from 1 January 2013, the reporting of Refining and Marketing segment and Retail segment is merged as Refining and Marketing including Retail segment value chain aligning the presentation with international industry reporting practice. As a result of this resegmentation, the Group has the following two reporting segments: Upstream and Refining and Marketing including Retail. Comparative periods have been restated accordingly.
[(6)] Linear depreciation method was applied starting from 01 January 2013 in order to fairly reflect the amortization of the equipment in Syria.

In 2013 INA Group EBITDA amounted to HRK 3.7 billion, which is a 20% drop compared to 2012. The shrinking EBITDA was largely driven by lower hydrocarbon production in domestic fields in the Upstream segment, as operations are characterized by the natural production decline and slightly decreased realized hydrocarbon prices with 3% lower Brent price. Gas imports in 2013 have been lower by 31% but still negative price movement in gas trading continuously burdens Upstream operations.

Refining & Marketing performance was impacted by highly pressured European refining macro environment. At the same time economic slowdown in Croatia and INA's other key markets influenced the performance in a negative way. Even though the Refining and Marketing segment's result was significantly impacted by lower available quotations on international markets with lower average crack spread and lower motor fuel sales of own retail, the clean CCS EBITDA improved, but remained in negative territory. The improving clean result was supported by strong domestic wholesale performance with solid growth of exports in the neighboring markets and further optimization of production capacities including on-demand refineries operation.

Operating cash flow was in line in a yearly comparison, while with exclusion of working capital, cash flow decreased by 20% which is in line with company's operational result movement.
Operating profit excluding special items decreased to a larger extent than EBITDA excluding special items as linear depreciation was applied in 2013 in order to reflect the amortization of fixed assets in Syria, which impacted EBIT on top of the business drivers described above.

In 2013 INA d.d. realized EBITDA excluding special items in the amount of HRK 4,179 million and operating profit excluding special items of HRK 537 million. The shrinking EBITDA was largely driven by lower hydrocarbon production in domestic fields in the Upstream segment, as operations are characterized by the natural production decline and slightly decreased realized hydrocarbon prices with 3% lower Brent price. Gas imports in 2013 have been lower by 31% but still negative price movement in gas trading continuously burdens Upstream operations.

On net profit level, INA, d.d. realized HRK 828 million excluding special items, and operating cash flow of HRK 4,058 million.

Group's financial position further improved with gearing level decreasing from 31% to 27% and net debt amounting to HRK 4,761 million, a 29% respectively compared to 31 December 2012. Net financial expenses also decreased in 2013 to the amount of HRK 246 million, compared to HRK 292 million in 2012.

- **Exploration and Production**: In 2013, EBITDA reached HRK 5,04 billion, which is by HRK 321 million lower than last year due to lower average realized hydrocarbon price, lower hydrocarbon production reflecting natural depletion of domestic fields and lower INA share from block production on Annamaria offshore field. These negative trends were moderated by decreased losses of the gas trading operations (driven by decreased imported natural gas volumes) and decreased operating expenditures. Constantly monitoring the situation in Syria INA has, in accordance with international practice and taking into consideration the prolonged political risk included, adjusted the value of its Syrian assets. Impairment of HRK 1,504 million in Syria, was recorded in 2013 which has driven the operating result to the HRK 1,521 million. This impairment does not have a direct cash effect but it was applied in accordance with good business practice to ensure fair valuation of INA Syrian assets.
- **Refining and Marketing (including Retail)**: The Refining and Marketing segment's reported 'clean' CCS-based EBITDA amounted to HRK (164) mln, HRK 254 million improvement compared to 2012 result. Positive drivers, including improved motor fuel wholesale performance resulting in increased market share, increased export to Bosnia and Slovenia, continuous optimization of production capacities (on-demand refineries operation), as well as focused cost control efforts are still affected by high employee costs in Retail and lower Retail sales on the other side. In the same period EBITDA is under pressure of lower average crack spreads.
- **Corporate and Other**[1]**:** Operating loss of the segment was 3% higher (HRK 610 million) in 2013 compared to the same period last year.
- **Capital expenditures** in 2013 increased significantly compared to 2012, by 57% to the level of HRK 2,013 million, with more than 80% invested domestic, mainly in the Upstream segment. There are multiple projects aimed at moderating natural production decline underway, including continuation of EOR project at Ivanić-Žutica and Međimurje project, raising level of domestic investments to the level of HRK 1,655 million.

[1] Include Corporate Functions and subsidiaries providing safety and protection services, technical services, accounting services, corporate support and other services.

INDUSTRIJA NAFTE, d.d.

Management discussion

Exploration and Production*

Segment IFRS results in millions	INA, d.d. 2012 HRK mln	2012 USD mln	2013 HRK mln	2013 USD mln	Change % HRK	Change % USD
Net sales revenues	8,432	1,441	6,948	1,218	(17.6)	(15.5)
EBITDA reported	6,500	1,111	5,445	954	(16.2)	(14.1)
EBITDA excl. special items**	6,670	1,140	5,445	954	(18.4)	(16.3)
Operating profit reported	4,132	706	1,188	208	(71.2)	(70.5)
Operating profit excl. special items**	4,762	814	2,692	472	(43.5)	(42.0)
CAPEX including one-off exploration Opex	666	114	1,285	225	92.9	97.8

Segment IFRS results in millions	INA GROUP 2012 HRK mln	2012 USD mln	2013 HRK mln	2013 USD mln	Change % HRK	Change % USD
Net sales revenues	12,264	2,096	10,526	1,845	(14.2)	(12.0)
EBITDA reported	5,356	915	5,035	882	(6.0)	(3.6)
EBITDA excl. special items**	5,566	951	5,035	882	(9.5)	(7.2)
Operating profit reported	3,783	647	1,521	267	(59.8)	(58.8)
Operating profit excl. special items**	4,471	764	3,025	530	(32.3)	(30.6)
CAPEX including one-off exploration Opex	746	128	1,396	245	87.1	91.8

* Exploration and Production refers to the Upstream of INA, d.d. and following subsidiaries: Crosco Group, INA Naftaplin IE&PL, Guernsey, Adriagas S.r.l. Milano, Prirodni plin d.o.o.

Hydrocarbon production	2012	2013	Ch. %
Crude oil production (boe/d)*	**12,296**	**11,617**	**(5.5)**
Croatia	8,792	8,608	(2.1)
Syria*	109	0	n.a.
Egypt	1,909	1,881	(1.4)
Angola	1,486	1,128	(24.1)
Natural gas production (boe/d)	**33,025**	**26,198**	**(20.7)**
Croatia - offshore	15,768	11,897	(24.5)
Croatia - onshore	14,978	14,301	(4.5)
Syria*	2,278	0	n.a.
Condensate (boe/d)	**3,234**	**2,365**	**(26.9)**
Croatia	2,537	2,365	(6.8)
Syria*	697	0	n.a.
Total hydrocarbon production (boe/d)	**48,555**	**40,180**	**(17.2)**
Average realised hydrocarbon price**			
Total hydrocarbon price (USD/boe)*	83	82	(1.0)
Natural gas trading - mln cm			
Natural gas imports	1,129	774	(31.5)
Total natural gas sales - domestic market	2,631	2,228	(15.3)

*The production on Syrian fields in 2012 lasted only 57 days. From 26 of February 2012 Syrian production was stopped by Force Majeure announcement. (the data should not be taken into consideration).
** Calculated based on total external sales revenue including natural gas selling price as well

The Upstream result decline over 2012 reflects (1) lower hydrocarbon production reflecting natural depletion of fields in both onshore and offshore Croatia (excluding Syrian production volumes in 2012, the comparable total hydrocarbon production decrease was 11.6%) and (2) decreased average realized hydrocarbon prices. These negative trends were moderated by (1) 31% lower natural gas imports combined with a lower price differential visible in improved but still negative contribution of the gas trading operations with Prirodni plin EBITDA loss of HRK 775 million in 2013 and (2) internal efficiency improvements resulting in decreased operating expenditures.

Total **natural gas** production was 20.7 % lower than in 2012:

- as Croatian offshore fields decreased due to natural decline on North Adriatic, downtime on Ika B platform as per drilling activities on new development well Ika B3 that was partly compensated with optimization of well working parameters and acid treatments as well as higher production on Aiza Laura because of lower intensity of maintenance works on the partner's side. During 2013 INA share from the total block production was lower due to higher investments of the partners on exploration and developments projects, leading to an average offshore contribution of around 12 thousand barrel of oil equivalent (mboepd) daily during 2013.

- also reflecting the absence of Syrian production in 2013 due to the earlier announcement of Force Majeure, and natural decline and water cuts on both onshore and offshore fields in Croatia.

Crude oil production declined by 6% on corporate level:

- production was foremost impacted by 24.1 % lower crude production in Angola mostly related to gas lift injection related problem, delayed well workover activities and natural decline.
- domestic production shrank by 2% in 2013 due to natural depletion of the fields
- no Syrian crude volumes were recorded in 2013 as the Company temporarily suspended activities and Egyptian output fell by 1.4% due to a natural production decline at the mature fields on Ras Qattara and West Abu Gharadig concessions.

In the absence of parameters needed for unit-cost production depreciation calculation method due to Force Majeure, linear depreciation method was applied starting from 01 January 2013 in order to fairly reflect the amortization of the equipment. Depreciation impact for 2013 was HRK 547 million. Additonally, the value of its Syrian assets has been adjusted with impairment of HRK 1,504 million, not having a direct cash effect but applied in accordance with good business practice to ensure fair valuation of INA Syrian assets.

As a result of the above mentioned negative trends, Upstream sales revenues were 14% lower year-on-year at HRK 10,526 million. Under current practice and in line with the international accounting standards, the Company adjusts its receivables that are 60 days or older. Adjustment of receivables is a recurring process generally applicable to all receivables; therefore it is not considered a one-off item. Accordingly, the Company has impaired HRK 98 million of its receivables in Egypt that meet these criteria during 2013.

Exploration and Production capital expenditures

Exploration and Production segment's CAPEX in 2013 amounted to HRK 1,396 million (o/w HRK 2.3 million exploration one off opex). Capital investments in Croatia amounted HRK 967.0 million, capital investments abroad HRK 290.9 million and CROSCO's investment HRK 138.8 million. In comparison with 2012 capital investments are higher in total for HRK 650.6 million or 87.2%. Investments level in Croatia was higher for HRK 442.2 mln and investments abroad higher for HRK 208.4 mln. Higher Croatia investments level is mainly result of exploration and development offshore drilling activities, Panon exploration drilling activities and EOR project activities, CROSCO's investments were also higher. Higher investments abroad were result of drilling activities on Disouq concession, higher level of development activities on other concessions in Egypt and higher investments in Angola due to activities performed in scope of main projects on block 3/05.

INDUSTRIJA NAFTE, d.d.

Refining and Marketing, including Retail*

Segment IFRS results (in millions)	INA, d.d. 2012 HRK mln	2012 USD mln	2013 HRK mln	2013 USD mln	Change % HRK	Change % USD
Revenues	20,628	3,526	19,464	3,411	(5.6)	(3.2)
EBITDA reported	(295)	(50)	(528)	(93)	79.0	83.5
EBITDA excl. special items**	(229)	(39)	(401)	(70)	75.1	79.6
Operating profit/(loss) reported	(1,797)	(307)	(2,061)	(361)	14.7	17.6
Operating profit/(loss) excl. special items**	(1,123)	(192)	(1,196)	(210)	6.5	9.2
CAPEX and investments (w/o acquisition)	455	78	544	95	19.6	22.6

Segment IFRS results (in millions)	INA GROUP 2012 HRK mln	2012 USD mln	2013 HRK mln	2013 USD mln	Change % HRK	Change % USD
Revenues	20,994	3,588	20,137	3,529	(4.1)	(1.6)
EBITDA reported	(287)	(49)	(469)	(82)	63.4	67.6
EBITDA excl. special items**	(210)	(36)	(342)	(60)	62.9	67.0
CCS-based R&M EBITDA**	(418)	(71)	(164)	(29)	(60.8)	(59.8)
Operating profit/(loss) reported	(1,829)	(313)	(2,114)	(370)	15.6	18.5
Operating profit/(loss) excl. special items**	(1,106)	(189)	(1,249)	(219)	12.9	15.8
*CCS-based R&M operating loss****	(1,314)	(225)	(1,055)	(185)	(19.7)	(17.7)
CAPEX and investments (w/o acquisition)	457	78	545	96	19.3	22.3

*Refers to Refining & Marketing including retail INA. d.d. and following subsidiaries: INA Maziva, Interlna Ljubljana, INA BH Sarajevo, Holdina Sarajevo, INA Hungary, INA Crna Gora, INA Beograd, INA Kosovo
**Excluding negative special items (HRK 865 million in 2013)
***As of Q4 2013 applied clean CCS methodology eliminates from EBITDA/operating profit inventory holding gain/loss (i.e.: reflecting actual cost of supply of crude oil and other major raw materials); impairment on inventories; FX gains/losses on debtors and creditors/operating profit by capturing the results of underlying hedge transactions. Clean CCS figures of the base periods were modified as well according to the improved methodology.

Refinery processing (kt)	2012	2013	Ch. %
Domestic crude oil	496	433	(12.6)
Imported crude oil	2,448	2,427	(0.8)
Condensate	113	96	(14.8)
Other feedstock	1,009	750	(25.6)
Total refinery throughput	**4,065**	**3,707**	**(8.8)**

Refinery production (kt)	2012	2013	Ch. %
LPG	236	209	(11.6)
Motor gasoline	1,135	1,068	(5.9)
Diesel	1,334	1,268	(5.0)
Heating oil	181	193	6.8
Kerosene	97	109	12.1
Naphtha	61	27	(55.1)
Fuel oil	440	419	(4.7)
Bitumen	26	38	47.2
Other products*	23	(56)	n.a.
Total	**3,532**	**3,274**	**(7.3)**
Refinery loss	26	23	(13.1)
Own consumption	507	410	(19.2)
Total refinery production	**4,065**	**3,707**	**(8.8)**

Refined product sales by country (kt)	2012	2013	Ch. %
Croatia	1,828	1,877	2.7
B&H	485	509	5.0
Slovenia	38	237	523.0
Other markets	1,090	844	(22.5)
Total	**3,440**	**3,467**	**0.8**

Refined product sales by product (kt)	2012	2013	Ch. %
LPG	259	231	(10.6)
Motor gasoline	981	955	(2.6)
Diesel	1,321	1,394	5.5
Heating oil	154	161	4.5
Kerosene	117	124	5.6
Naphtha	60	30	(50.8)
Fuel oil	402	418	4.0
Bitumen	57	57	0.8
Other products*	90	98	8.2
Total	**3,440**	**3,467**	**0.8**
o/w Retail segment sales	1,042	1,019	(2.2)

*Other products = Benzene-rich cut, liquid sulphur, coke, motor oils. Ind, lubricants, base oils, spindle oil, waxes, blend. gas oil "M", atmosp. residue, intermediaries and other

The Refining and Marketing segment's reported 'clean' CCS-based EBITDA amounted to HRK (164) mln surpassing 2012 result by HRK 254 million. Management initiatives to improve results include (1) strong domestic wholesale performance, (2) timely captured export opportunities (3) diversified feedstock selection and extending the crude basket, (4) continued optimization of production capacities including on- demand refineries operation, (5) stringent cost control resulting in lower operating expenses and (6) lower own consumption and losses. Effect of these positive contributors was partially mitigated with (1) lower available quotations on international markets resulting in lower average crack spread, especially lower gasoline and gasoil crack spreads and (2) lower motor fuel sales of own retail resulting in segment's reported EBITDA excluding special items of HRK (342) million, representing a decrease compared to 2012.

The segment operating profit in 2013 excluding special items declined over the last year by HRK 143 million, reaching HRK (1,249) million.

Wholesale performance improved increasing sales by 2% compared to the previous year, while transfers to own retail decreased. Additionally, INA improved its sales position in the value creating motor fuel sales with higher sales in Bosnia and significantly improved export to Slovenia, strengthening also its domestic sales position with 8% growth, while sales on other export markets (where available margins are lower) decreased.

The yield of profitable motor fuel products further improved which predominantly resulted from on-demand refinery operations and increased share of more quality crude oil used in processing.

Retail operations sales volume

In 2013, Retail Segment recorded 2% fall in total retail sales volumes compared to 2012. The decline in sales was mainly driven by the continuing economic downturn, increased unemployment and weakening purchasing power. Consequently, throughput per site in 2013 was 1% lower compared to previous year.

In relation to the previous year, sales volumes of gasoline declined by 5% indicating a decrease in the share of gasoline in favor of diesel, while sales of gas oil fell by 1% due to decrease in heating oil sales. However, excluding heating oil sales, diesel sales were in line with 2012. LPG sales were down by 4%, but in relation to the previous years, negative sales trend decelerated partly due to installation of few additional LPG units. Negative trend in LPG sales should be terminated until the end of 2014 when a significant increase in the number of LPG units is expected.

On 31 December 2013, INA Group operated a network of 444 stations (392 in Croatia and 52 abroad, of which 45 in Bosnia and Herzegovina, 6 in Slovenia and 1 in Montenegro).

Capital expenditures

Capital expenditures in 2013 were HRK 88 million higher than in the previous year. Major projects in R&M are under way, Turnaround in Rijeka Refinery completed in Q4 enabling operation of the refinery for coming years. Numerous HSE/sustainable projects launched in 2012 as part of Refining and Marketing including Retail division's development programs were completed and further developed in 2013. Positive opinion on the Environmental impact assessment study for the Residue upgrade project in Rijeka refinery received in December 2013.

Realization of retail capital expenditure in 2013 amounted to HRK 221 million that represent 2% higher realization compared to the previous year. The main reason for such high realization in 2013 is still an intensive modernization program.

INDUSTRIJA NAFTE, d.d.

Corporate Functions

Segment IFRS results in millions	INA, d.d. 2012 HRK mln	2012 USD mln	2013 HRK mln	2013 USD mln	Change % HRK	Change % USD
Revenues	52	9	84	15	61.5	65.6
EBITDA reported	(498)	(85)	(498)	(87)	(0.0)	2.5
EBITDA excl. special items**	(441)	(75)	(498)	(87)	12.9	15.8
Operating profit/(loss) reported	(563)	(96)	(592)	(104)	5.2	7.8
Operating profit/(loss) excl. special items**	(517)	(88)	(592)	(104)	14.5	17.4
CAPEX and investments (w/o acquisition)	78	13	67	12	(14.1)	(11.9)

Segment IFRS results in millions	INA GROUP 2012 HRK mln	2012 USD mln	2013 HRK mln	2013 USD mln	Change % HRK	Change % USD
Revenues	598	102	671	118	12.2	15.1
EBITDA reported	(488)	(83)	(494)	(87)	1.2	3.8
EBITDA excl. special items**	(390)	(67)	(494)	(87)	26.7	29.9
Operating profit/(loss) reported	(595)	(102)	(610)	(107)	2.5	5.1
Operating profit/(loss) excl. special items**	(499)	(85)	(610)	(107)	22.2	25.4
CAPEX and investments (w/o acquisition)	83	14	72	13	(13.3)	(11.0)

Operating loss of the segment was 3% higher (HRK 610 million) in 2013 compared to the same period last year.

INDUSTRIJA NAFTE, d.d.

Financial overview

Income statement – INA Group

Total sales revenues in 2013 amounted to HRK 27,444 million and were 8% below the 2012 level, primarily triggered by lower Brent, lower average crack spread, decreased natural gas sales volumes.

Costs of raw materials and consumables were 8% below 2012 levels at HRK 13,875 million, as processing of other raw material volumes was lower.

Costs of goods sold recorded a increase of 3% to HRK 5.536 million resulting from higher import of crude oil products compared to 2012.

Within **other operating costs** realized in 2013:

- Other material costs were lower by 4% year-on-year at HRK 1,622 million.
- Service costs in the amount of HRK 1,249 million recorded a decrease of 5% mainly due to lower royalty and lower other non-production services.
- Depreciation was 12% higher and amounted to HRK 2,261 million mainly due to depreciation method change in Syria.
- Adjustments and provisions of HRK 2.981 million increased 147% mainly related to Syrian Hayan concession and Refining and Marketing assets impairment.

Staff costs in the amount HRK 2,415 million were 8% lower compared to 2012 as a result of workforce optimization. Staff cost represents cost of net salaries in the amount of HRK 1,273 million, cost of employee income tax in the amount of HRK 546 million, tax on payroll in the amount of HRK 300 million and other payroll related costs in the amount of HRK 296 million for the twelve month period ended 31 December 2013. For the twelve month period ended 31 December 2012 staff cost includes cost of net salaries in the amount of HRK 1,309 million, cost of employee income tax in the amount HRK 569 million, tax on payroll in the amount HRK 330 million, and other payroll related costs in the amount HRK 428 million.

Income tax in 2013 amounted to HRK 308 million compared to tax expense of HRK 380 million in 2012. Tax costs and deferred taxes during the interim period are calculated on the basis of actual results and the profit tax rate, 20% for the periods ended 31 December 2013 and 31 December 2012.

Net financial expenses in the amount of HRK 246 million were recorded in 2013, compared to net financial expenses of HRK 292 million in 2012.

- Net foreign exchange gain was HRK 0,1 million in 2013, compared to HRK 39,6 million net foreign exchange gains recorded in 2012 related to long-term loans.
- Interest payable amounted to HRK 195 million and interest received HRK 17 million in 2013, compared to interest payable of HRK 192 million and HRK 23 million interests received in 2012.
- Other financial expenses amounted to HRK 68 mln, compared to HRK 162 mln in 2012

Special items

In addition to international accounting standards and international reporting standards and regulatory requests the company discloses special items to achieve higher level of transparency and to provide better understanding of the usual business operations. Special items are considered to be the ones not occurring regularly and having the significant effect to the result. Beginning 2013 INA has adopted the materiality level for the special items of EUR 10 million. Furthermore, in accordance with adopted accounting policies and IFRS 36 – Impairment of Assets, INA performs impairment testing at the end of each reporting period. Accordingly, significant amounts of impairments were recorded in the last quarter of 2013 thus increasing the loss from operations. Net profit excluding special items in the amount of HRK 953 million excludes special items included in the operating loss of HRK 2,369 million and special item included in the current taxation of HRK 92 million. This figure has not been adjusted for the impact of deferred taxation related to special items in the amount of HRK 474 million.

Intersegment eliminations

Intersegment elimination line within the operating results has been introduced for the company to be able to provide segmental results as International Accounting Standards requests, guided with the transparency of presented information which needs to fulfill the highest requests of consistency and reliability. For this purpose and for purpose of having the segmental results presenting fair market relations between the segments, which are fully aligned with on demand operations of the Refining and Marketing including Retail segment, parity of internal transfer between E&P and R&M including retail has changed to be based on delivered quantities. This line shows the effect on operating profit of the change in the amount of unrealized profit deferred in respect of transfers between segments. Unrealized profits arise where the item transferred is held in inventory by the receiving segment and a third party sale takes place only in a subsequent quarter. For segmental reporting purposes the deliverer segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place. The change is introduced from 1st of January 2013 and effect on E&P and R&M including retail results amounts to HRK 166 million and HRK 202 million, respectively.

Income statement – INA d.d.

Total sales revenues in 2013 amounted HRK 23,882 million, 10% lower compared to 2012 level, primarily triggered by lower Brent, lower average crack spread, decreased natural gas sales volumes.

Costs of raw materials and consumables were 9% lower and amounted to HRK 14,253 million, as processing of other raw material volumes was lower.

Costs of goods sold recorded increase of 67%, and amounted HRK 2,210 million, resulting from higher import of crude oil products compared to 2012.

Within the **other operating costs** realized in 2013:

- Other material costs were lower by 10% and amounted to HRK 1,394 million.
- Service costs in the amount of HRK 1,074 million recorded a decrease of 9% mainly due to lower royalty and lower other non-production services.
- Depreciation was 14% higher and amounted to HRK 2,101 million mainly due to depreciation method change in Syria.
- Adjustments and provisions of HRK 3,783 million increased by 80% mainly related to Syrian Hayan concession and Refining and Marketing assets impairment.

Staff costs in the amount HRK 1,472 million were 9% lower compared to 2012 as a result of workforce optimization.

Net financial expenses in the amount of HRK 135 million were recorded in 2013. compared to the HRK 103 million in 2012.

Balance sheet – INA Group

As at 31 December 2013, INA Group **total assets** amounted to HRK 25,909 million and were 8% lower compared to 31 December 2012.

In the period ended 31 December 2013, INA Group invested HRK 247 million in intangible assets. The effect of depreciation equals to HRK 30 million. Foreign exchange revaluation of oil and gas fields decreased the net book value in amount of HRK 23 million. Impairment of intangible assets equals HRK 1 million and disposals equal additional HRK 4 million. Impairment of investments equals HRK 343 million. Transfer from tangible assets increased net book value of intangible assets in amount of HRK 2 million.

In the period ended 31 December 2013, INA Group invested HRK 1.764 million in property, plant and equipment. Reversal of capitalized decommissioning costs decreased the value of assets by HRK 52 million. Foreign exchange revaluation decreased the net book value in amount of HRK 164 million. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 2.231 million. In the absence of parameters needed for unit-cost production depreciation calculation method due to Force Majeur, straight-line depreciation method for surface assets in Syria was applied starting from 1 January 2013, in order to fairly reflect the amortization of the equipment. In 2013 depreciation impact of surface assets in Syria was HRK 547 million and a foreign currency retranslation of depreciation was HRK 89 million. Correction of prior year depreciation increased net book value of property, plant and equipment in amount of HRK 8 million. Impairment of assets equals HRK 2.037 million and impairment of investment equals HRK 65 million. Decrease of INA Group net book value is also result of foreign exchange differences in the amount of HRK 19 million. Transfer to intangible assets decreased net book value in amount of HRK 2 million. A disposal of tangible assets equals HRK 14 million. Acquisition of Croplin subsidiary increased net book value in amount of HRK 19 million, and transfer of PP&E from Plinacro additionally increased NBV in amount of HRK 6 million. Correction of prior year eliminations increased INA Group net book value in amount of HRK 34 million. Correction of prior year impairment increased INA Group net book value in amount of HRK 16 million.

Issued capital as at 31 December 2013 amounted to HRK 9,000 million. There was no movements in the issued capital of the Company in either the current or the prior financial reporting.

Inventories amounted to HRK 3,219 million, which is an decrease of 4% compared to 31 December 2012, result of lower crude oil inventories.

Trade receivables decreased by 7% to the amount of HRK 2,564 million resulting from lower sales revenues, lower Brent, lower average crack spread, decreased natural gas sales volumes.

Total liabilities amounted to HRK 13,034 million as at 31 December 2013, which is a decrease of 2% compared to the 31 December 2012 level.
INA Group **net debt** decreased by 29% and amounted to HRK 4,761 million, as a result of lower working capital compared to 31 December 2012. **Gearing ratio**[2] decreased from 30.8% as at 31 December 2012, to 27.0% as at 31 December 2013.

Trade payables increased by 69% to HRK 2,841 million, as a result of higher liabilities for imported crude oil.

Balance sheet – INA d.d.

Total assets of INA, d.d., as at 31 December 2013 amounted to HRK 25,172 million and were 8% lower compared to 31 December 2012.

Property, plant and equipment amounted to HRK 14,340 million and were lower 16% as 31 December 2012

Trade receivables outside INA-Group amounted to HRK 1,291 million and were 17% higher compared to 31 December 2012.

Total liabilities amounted to HRK 11,843 million and remained at almost the same level compared to 31 December 2012.

Net indebtedness of INA, d.d., amounted to HRK 4,593 million as at 31 December 2013 what is 29% lower compared to 31 December 2012. **Gearing ratio**[2] decreased from 29.5% as at 31 December 2012, to 25.6% as at 31 December 2013.

Trade payables increased by 122% to HRK 2,144 million, as a result of higher liabilities for imported crude oil.

[2] Net debt / net debt plus equity incl. minority interests

Cash flow – INA Group

The **operating cash-flow before changes in working capital** amounted to HRK 3,649 million in 2013, representing a decrease of HRK 892 million, or 20%, compared to 2012, mainly as a result of lower EBITDA.

Changes in working capital affected the operating cash flow positively by HRK 1,384 million, primarily due to

- Increase in trade payables by HRK 1,599 mln
- Decrease value of inventories by HRK 88 million partially offset by
- Increase in receivables by HRK 303 million.

Net outflows in investing activities amounted to HRK 2,151 million, in comparison with HRK 1,118 million of outflows in 2012.

Cash flow – INA d.d.

The operating cash-flow before changes in working capital amounted to HRK 3,929 million in 2013, decrease of 30% compared to the same period last year, mainly as result of lower EBITDA.

Changes in working capital affected the operating cash flow positively by HRK 486 million, primarily due to:

- Increased value of inventories by HRK 122 million
- Increase in receivables by HRK 787 million, while
- Payables increased by HRK 1,395 million.

Taxes paid influenced the operating cash flow in the amount of HRK 357 million. All the above factors resulted in HRK 4,058 million net inflows from operating activities generated by INA d.d. in 2013.

Financial instruments and 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 in US dollars, mostly through short-term credit facility arrangements. The required quantities of gas had been purchased at a price denominated in US dollars in accordance to 3-year supply contract with Italian ENI. Domestic prices of refined products had been determined under the pricing formula set out in the Highest Retail Refined Product Pricing Regulation which, to a limited extent, had protected 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 exposure of operative cash flow position. The Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of December 31, 2013, there were no open cross currency transactions.

Interest rate risk management

INA Group companies use borrowed funds at both fixed and floating interest rates consequently the Group is exposed to the interest rate risk. The Group does not speculate on interest rate developments and primarily chooses floating rates. As of December 31, 2013, 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

Sales of goods and services with deferred payment create credit risk, a risk of non-payment and risk that the counterparty will default on its contractual obligations. According to existing “Customer Credit Management Procedure” creditworthiness and risk in dealing with customers is estimated based on internal credit assessment model 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. INA to a limited extent 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, 2013, the INA Group had contracted short-term bank credit lines amounting to HRK 1.63 bn, 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 5.89 bn.

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.

INDUSTRIJA NAFTE, d.d.

Investments in subsidiaries

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

		Shareholding	
Name of company	**Activity**	**31 December 2013**	**31 December 2012**
Oilfield services			
*Crosco Naftni Servisi d.o.o. Zagreb	Oilfield services	100%	100%
Crosco International Limited, Guernsey	Oilfield services	100%	100%
Crosco B.V. Amsterdam, Netherlands	Oilfield services	100%	100%
Nordic Shipping Ltd, Marshall Islands	Platform ownership	100%	100%
Sea Horse Shipping Inc, Marshall Islands	Platform ownership	100%	100%
Crosco International d.o.o. Slovenia	Oilfield services	100%	100%
Rotary Zrt., Hungary	Oilfield services	100%	100%
Crosco S.A. DE C.V. Monterrey, Mexico	Oilfield services	99.90%	100%
Crosco International d.o.o. Tuzla, BiH	Oilfield services	100%	100%
Mideast Integrated Drilling & Well Services Company LLC, Oman	Oilfield services	49%	49%
Oil exploration and production			
*INA Naftaplin International Exploration and Production Ltd, Guernsey	Oil exploration and production	100%	100%
CorteCros d.o.o., Zagreb	Distribution of anti-corrosion products	60%	60%
Tourism			
*Hostin d.o.o. Zagreb	Tourism	100%	100%
Auxillary services			
*STSI integrirani tehnički servisi d.o.o. Zagreb	Technical services	100%	100%
*Sinaco d.o.o. Sisak (until Jan 2013)	Security	-	100%
*ITR d.o.o., Zagreb	Car rental	100%	100%
*TRS Top računovodstvo servisi d.o.o. za računovodstvene usluge	Accounting, buying and selling goods, foreign companies representation, advertising, IT and related activities	100%	100%
Production and trading			
*INA Maziva 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 (in bankruptcy)	Foreign trading	100%	100%
*INA Hungary Kft., Budapest, Hungary (until May 2013)	Foreign trading	100%	100%
*Holdina (Guernsey) Ltd, Guernsey (in liquidation)	Foreign trading	100%	100%
Inter Ina (Guernsey) Ltd, Guernsey (ntil March 2013)	Foreign trading	100%	100%
Holdina (Cyprus) Ltd, Cyprus (until June 2013)	Foreign trading	100%	100%
*Holdina d.o.o. Sarajevo, B&H	Foreign trading	100%	100%
*INA d.o.o. Beograd, Serbia	Foreign trading	100%	100%
*INA Kosovo d.o.o. Priština	Foreign trading	100%	100%
*Adriagas S.r.l. Milan, Italy	Pipeline project company	100%	100%
*Croplin d.o.o. Zagreb	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	Trading	100%	100%
*Petrol d.d. Jurdani	Trading	83.26%	83%
*INA-Osijek – Petrol d.d.	Trading	100%	97%
*Polybit d.o.o. Rijeka (in liquidation)	Oil production and trading	100%	100%

Related party transactions – INA Group

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

Transactions between INA, d.d. and its subsidiaries, which are related parties of the Company, have been eliminated on Group level consolidation.

During 2013, INA Group entered into the following trading transactions with the following related parties:

INA-Group	Amounts owed from related parties	Amounts owed to related parties
HRK mln	31 Dec 2013	31 Dec 2013
Companies available for sale		
JANAF d.d. Zagreb	-	46
Strategic partner		
MOL Plc	83	43
Companies controlled by strategic partner		
Energopetrol d.d.	50	-
Tifon d.o.o.	36	2
Kalegran Ltd.	31	-
MOL SLOVENIJA d.o.o.	4	9
Slovnaft, a.s.	44	8
IES-Italiana Energia e Servizi s.p.a.	-	2
Companies controlled by the State		
Hrvatska elektroprivreda	159	16
Petrokemija Kutina	167	-
Hrvatske željeznice	40	14
Jadrolinija	26	2
Croatia Airlines	20	-
Podzemno skladište plina Okoli	14	15
Plinacro	-	20
HANDA	15	121

INA-Group	Sales of goods	Purchase of goods
HRK mln	31 Dec 2013	31 Dec 2013
Companies available for sale		
JANAF d.d. Zagreb	3	86
Strategic partner		
MOL Plc	427	709
Companies controlled by strategic partner		
Energopetrol d.d.	535	1
Tifon d.o.o.	835	65
Kalegran Ltd.	129	3
Mol Commodity Trading Kft.	115	-
MOL SERBIA d.o.o.	5	-
MOL SLOVENIJA d.o.o.	41	85
IES-Italiana Energia e Servizi s.p.a.	2	5
Slovnaft, a.s.	101	82
Companies controlled by the State		
Hrvatska elektroprivreda	2,024	181
Petrokemija Kutina	1,253	1
Croatia Airlines	226	-
Jadrolinija	183	7
Hrvatske željeznice	138	69
Podzemno skladište plina Okoli	65	151
Plinacro	9	215
HANDA	112	189

Related party transactions – INA, d.d.

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

Transactions between INA, d.d. and its subsidiaries, which are related parties of the Company, have been eliminated on Group level consolidation.

During 2013, INA Group entered into the following trading transactions with the following related parties:

INA, d.d. HRK mln	Amounts owed from related parties 31 Dec 2013	Amounts owed to related parties 31 Dec 2013
Foreign related companies		
Holdina Sarajevo	227	21
INA – Crna Gora d.o.o. Podgorica	6	1
INA – Beograd d.o.o. Beograd	7	-
Interina d.o.o. Ljubljana	2	-
Domestic related companies		
Prirodni plin d.o.o. Zagreb	3,531	105
Osijek Petrol d.d.	15	1
Maziva Zagreb d.o.o. Zagreb	1	7
STSI d.o.o. Zagreb	6	196
Crosco Grupa	2	101
TOP Računovodstvo servisi d.o.o. Zagreb	2	-
ITR d.o.o. Zagreb	-	4
Companies available for sale		
JANAF d.d. Zagreb	-	46
Strategic partner		
MOL Nyrt	38	34
Companies controlled by strategic partner		
Tifon d.o.o.	36	2
Energopetrol d.d.	1	-
MOL SLOVENIJA d.o.o.	4	-
Companies controlled by the State		
Hrvatske željeznice	39	14
Croatia Airlines	20	-
Jadrolinija	25	-
Hrvatska elektroprivreda	6	16
HANDA	15	121

INA, d.d. HRK mln	Sales of goods 31 Dec 2013	Purchase of goods 31 Dec 2013
Foreign related companies		
Holdina Sarajevo	2,521	-
INA – Crna Gora d.o.o. Podgorica	80	-
Interina d.o.o. Ljubljana	16	-
INA – Beograd d.o.o. Beograd	1	-
Domestic related companies		
Prirodni plin d.o.o. Zagreb	4,541	722
Osijek Petrol d.d.	102	-
Maziva Zagreb d.o.o. Zagreb	20	65
STSI d.o.o. Zagreb	28	533
Crosco Grupa	12	284
TOP Računovodstvo servisi d.o.o. Zagreb	8	50
ITR d.o.o. Zagreb	1	21
Companies available for sale		
JANAF d.d. Zagreb	3	86
Strategic partner		
MOL Plc	159	598
Companies controlled by strategic partner		
Tifon d.o.o.	833	61
Energopetrol d.d.	20	1
MOL Commodity Trading Kft.	115	-
MOL Srbija d.o.o.	5	-
MOL SLOVENIJA d.o.o.	39	-
IES-Italiana Energia e Servizi s.p.a.	2	5
Slovnaft a.s.	101	82
Companies controlled by the State		
Croatia Airlines	226	-
Jadrolinija	177	7
Hrvatske željeznice	133	69
Hrvatska elektroprivreda	18	177
Petrokemija Kutina	1	-
Podzemno skladište plina Okoli	1	-
HANDA	112	189

INA Group and INA d.d.
Summary Segmental Results of Operations

	INA, d.d. 2012 HRK mln	INA, d.d. 2013 HRK mln	INA, d.d. Ch. %	INA GROUP 2012 HRK mln	INA GROUP 2013 HRK mln	INA GROUP Ch. %
Sales						
Exploration & Production	8,432	6,948	(18)	12,264	10,526	(14)
Refining & Marketing including Retail	20,628	19,464	(6)	20,994	20,137	(4)
Corporate and Other	52	84	62	598	671	12
Inter-segment revenue	(2,708)	(2,614)	(3)	(3,961)	(3,890)	(2)
Sales	**26,404**	**23,882**	**(10)**	**29,895**	**27,444**	**(8)**
Operating expenses, net other income from operating activities						
Exploration & Production	(4,300)	(5,760)	34	(8,481)	(9,005)	6
Refining & Marketing including Retail	(22,425)	(21,525)	(4)	(22,823)	(22,251)	(3)
Corporate and Other	(615)	(676)	10	(1,193)	(1,281)	7
Inter-segment eliminations	2,708	2,247	(17)	3,961	3,523	(11)
Expenses	**(24,632)**	**(25,714)**	**4**	**(28,536)**	**(29,014)**	**2**
Profit/(loss) from operations						
Exploration & Production	4,132	1,188	(71)	3,783	1,521	(60)
Refining & Marketing including Retail	(1,797)	(2,061)	15	(1,829)	(2,114)	16
Corporate and Other	(563)	(592)	5	(595)	(610)	3
Inter-segment eliminations	-	(367)	n.a.	-	(367)	n.a.
Profit from operations	**1,772**	**(1,832)**	**n.a.**	**1,359**	**(1,570)**	**n.a.**
Share in the profit of associate companies						
Net loss from financial activities	**(103)**	**(135)**	**31**	**(292)**	**(246)**	**(16)**
Profit before taxation	**1,669**	**(1,967)**	**n.a.**	**1,067**	**(1,816)**	**n.a.**
Income tax expense	**(346)**	**334**	**n.a.**	**(380)**	**308**	**n.a.**
Profit for the year	**1,323**	**(1,633)**	**n.a.**	**687**	**(1,508)**	**n.a.**
Depreciation (HRK mln)						
Exploration & Production	1,065	1,405	32	1,192	1,521	28
Refining & Marketing including Retail	703	629	(11)	720	645	(10)
Corporate and Other	67	67	0	104	95	(9)
Total	**1,835**	**2,101**	**14**	**2,016**	**2,261**	**12**
EBITDA* (HRK mln)						
Exploration & Production	6,500	5,445	(16)	5,356	5,035	(6)
Refining & Marketing including Retail	(295)	(528)	79	(287)	(469)	63
Corporate and Other	(498)	(498)	(0)	(488)	(494)	1
Inter-segment eliminations	-	(367)	n.a.	-	(400)	n.a.
Total	**5,707**	**4,052**	**(29)**	**4,581**	**3,672**	**(20)**
EBIT wo special items (HRK mln)						
Exploration & Production	4,762	2,692	(43)	4,471	3,025	(32)
Refining & Marketing including Retail	(1,123)	(1,196)	7	(1,106)	(1,249)	13
Corporate and Other	(517)	(592)	15	(499)	(610)	22
Inter-segment eliminations	-	(367)	n.a.	-	(367)	n.a.
Total	**3,122**	**537**	**(83)**	**2,866**	**799**	**(72)**

** EBITDA = EBIT + Depreciation + Impairment + Provisions*

Sales data include intra-group sales and related costs are included in the operating costs of the business segment making the purchase. Intra-group transactions are eliminated for consolidated sales data and operating costs.

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated Income Statement
INA Group and INA d.d. for the period ended 31 December 2012 and 2013
(in HRK millions)

	INA, d.d.			INA GROUP		
	2012 HRK mln	2013 HRK mln	Ch. %	2012 HRK mln	2013 HRK mln	Ch. %
Sales revenue						
a) domestic	17,188	15,558	(9)	19,090	17,531	(8)
b) exports	9,216	8,324	(10)	10,805	9,913	(8)
Total sales revenue	**26,404**	**23,882**	**(10)**	**29,895**	**27,444**	**(8)**
Income from own consumption of products and services	2	-	n.a.	269	361	34
Other operating income	410	644	57	313	655	109
Total operating income	**26,816**	**24,526**	**(9)**	**30,477**	**28,460**	**(7)**
Changes in inventories of finished products and work in progress	181	(71)	n.a.	281	(91)	n.a.
Cost of raw materials and consumables	(15,628)	(14,253)	(9)	(15,151)	(13,875)	(8)
Depreciation and amortization	(1,835)	(2,101)	14	(2,016)	(2,261)	12
Other material costs	(1,546)	(1,394)	(10)	(1,696)	(1,622)	(4)
Service costs	(1,175)	(1,074)	(9)	(1,317)	(1,249)	(5)
Staff costs	(1,617)	(1,472)	(9)	(2,636)	(2,415)	(8)
Cost of other goods sold	(1,324)	(2,210)	67	(5,377)	(5,536)	3
Impairment and charges (net)	(1,967)	(3,637)	85	(1,063)	(2,780)	162
Provisions for charges and risks (net)	(133)	(146)	10	(143)	(201)	41
Operating expenses	**(25,044)**	**(26,358)**	**5**	**(29,118)**	**(30,030)**	**3**
Profit/(loss) from operations	**1,772**	**(1,832)**	**n.a.**	**1,359**	**(1,570)**	**n.a.**
Share in the profit of associated companies						
Finance income	402	819	104	177	620	250
Finance costs	(505)	(954)	89	(469)	(866)	85
Net loss from financial activities	**(103)**	**(135)**	**31**	**(292)**	**(246)**	**(16)**
Profit/(loss) before tax	**1,669**	**(1,967)**	**n.a.**	**1,067**	**(1,816)**	**n.a.**
Income tax expense	(346)	334	n.a.	(380)	308	n.a.
Profit/(loss) for the year	**1,323**	**(1,633)**	**n.a.**	**687**	**(1,508)**	**n.a.**
Attributable to						
Owners of the Company	1,323	(1,633)	n.a.	681	(1,508)	n.a.
Non-controlling interests			n.a.	6		n.a.
	1,323	(1,633)	n.a.	687	(1,508)	n.a.
Earnings per share						
Basic and diluted earnings/(loss) per share (kunas per share)	132.3	(163.3)	n.a.	68.1	(150.8)	n.a.

Condensed Consolidated Statement of Comprehensive Income
INA Group and INA d.d. for the period ended 31 December 2012 and 2013
(in HRK million)

	INA, d.d.			INA GROUP		
	2012 HRK mln	2013 HRK mln	Ch. %	2012 HRK mln	2013 HRK mln	Ch. %
Profit/(loss) for the year	**1,323**	**(1,633)**	**n.a.**	**687**	**(1,508)**	**n.a.**
Other comprehensive income, net of income tax:						
Items that will not be reclassified subsequently to profit or loss:						
Remeasurement of defined benefit obligation		(9)	n.a.		(11)	n.a.
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translating foreign operations	(116)	(180)	55	(111)	(210)	89
Net fail value gain/(loss) on available-for-sale financial assets	13	(8)	n.a.	13	(7)	n.a.
Other comprehensive income, net	**(103)**	**(197)**	**91**	**(98)**	**(228)**	**133**
Total comprehensive income/(loss) for the year	**1,220**	**(1,830)**	**n.a.**	**589**	**(1,736)**	**n.a.**
Attributable to:						
Owners of the Company				583	(1,736)	n.a.
Non-controlling interests				6	-	n.a.

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated Statement of Financial Position INA-Group and INA d.d. at 31 December 2013 (in HRK millions)

	INA, d.d.			INA GROUP		
	1 Jan 2013 HRK mln	31 Dec 2013 HRK mln	Ch. %	1 Jan 2013 HRK mln	31 Dec 2013 HRK mln	Ch. %
Assets						
Non-current assets						
Intangible assets	671	522	(22)	676	524	(22)
Property, plant and equipment	17,063	14,340	(16)	18,716	15,979	(15)
Goodwill			n.a.	183	183	0
Investments in subsidiaries	1,161	1,127	(3)			
Investments in associates and joint ventures	34	22	(35)	34	22	(35)
Other investments	798	795	(0)	187	169	(10)
Long-term receivables	210	239	14	202	230	14
Derivative financial instruments	-	-	n.a.	5	3	(40)
Deferred tax	494	1,076	118	557	1,127	102
Available for sale assets	340	330	(3)	340	330	(3)
Total non-current assets	20,771	18,451	(11)	20,900	18,567	(11)
Current assets						
Inventories	2,485	2,526	2	3,352	3,219	(4)
Trade receivables net	1,103	1,291	17	2,770	2,564	(7)
Intercompany receivables	2,226	1,677	(25)			
Other receivables	428	728	70	516	847	64
Derivative financial instruments			n.a.	2	2	0
Other current assets	83	149	80	30	142	373
Prepaid expenses and accrued income	79	98	24	142	166	17
Cash and cash equivalents	270	252	(7)	488	402	(18)
Current assets	6,674	6,721	1	7,300	7,342	1
Assets classified as held for sale			n.a.			n.a.
Total current assets	6,674	6,721	1	7,300	7,342	1
Total assets	27,445	25,172	(8)	28,200	25,909	(8)
Equity and liabilities						
Capital and reserves						
Share capital	9,000	9,000	0	9,000	9,000	0
Revaluation reserve	13	5	(62)	13	6	(54)
Other reserves	2,123	1,934	(9)	2,505	2,284	(9)
Retained earnings / (Deficit)	4,366	2,390	(45)	3,437	1,586	(54)
Equity attributable to equity holder of the parent	15,502	13,329	(14)	14,955	12,876	(14)
Non-controlling interests			n.a.	(1)	(1)	0
Total equity	15,502	13,329	(14)	14,954	12,875	(14)
Non-current liabilities						
Long-term loans	1,053	1,826	73	1,161	1,889	63
Other non-current liabilities	71	65	(8)	101	76	(25)
Employee benefits obligation	67	98	46	100	135	35
Provisions	2,663	2,707	2	2,713	2,754	2
Deferred tax liability				13	7	(46)
Total non-current liabilities	3,854	4,696	22	4,088	4,861	19
Current liabilities						
Bank loans and overdrafts	1,057	2,764	161	1,266	2,975	135
Current portion of long-term debt	4,648	255	(95)	4,725	299	(94)
Intercompany payables	383	569	49			
Trade payables	964	2,144	122	1,684	2,841	69
Taxes and contributions	385	590	53	497	749	51
Other current liabilities	328	388	18	596	661	11
Accruals and deferred income	34	40	18	36	126	250
Employee benefits obligation	6	7	17	10	11	10
Provisions	284	390	37	344	511	49
Current liabilities	8,089	7,147	(12)	9,158	8,173	(11)
Liabilities directly associated with assets classified held for sale			n.a.			n.a.
Total current liabilities	8,089	7,147	(12)	9,158	8,173	(11)
Total liabilities	11,943	11,843	(1)	13,246	13,034	(2)
Total equity and liabilities	27,445	25,172	(8)	28,200	25,909	(8)

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated Cash Flow Statement
INA Group and INA d.d. for the period ended 31 December 2012 and 2013
(in HRK millions)

	INA, d.d.			INA GROUP		
	2012	2013	Ch. %	2012	2013	Ch. %
Profit/(loss) for the year	1,323	(1,633)	n.a.	687	(1,508)	n.a.
Adjustments for:						
Depreciation and amortisation	1,835	2,101	14	2,016	2,261	12
Income tax (benefit)/expenses recognized in (loss)/profit	346	(334)	n.a.	380	(308)	n.a.
Impairment charges (net)	2,156	4,732	119	1,281	3,046	138
Reversal of impairment	(189)	(1,095)	479	(218)	(266)	22
Gain on sale of property, plant and equipment	(6)	(5)	(17)	(36)	(4)	(89)
Gain on purchase of investments and shares						
Foreign exchange loss/(gain)	(29)	12	n.a.	44	(35)	n.a.
Interest expense (net)	(16)	(110)	588	123	128	4
Other financial expense recognised in profit	(4)	7	n.a.	98	88	(10)
Increase in provisions	121	172	42	136	199	46
Decommissioning interests	113	80	(29)	115	82	(29)
Other non-cash items	3	2	(33)	(85)	(34)	(60)
Operating cash flow before working capital changes	5,653	3,929	(30)	4,541	3,649	(20)
Movements in working capital						
(Increase)/decrease in inventories	413	(122)	n.a.	190	88	(54)
(Increase)/decrease in receivables and prepayments	(873)	(787)	(10)	379	(303)	n.a.
(Decrease)/increase in trade and other payables	(247)	1,395	n.a.	(120)	1,599	n.a.
Cash generated from operations	4,946	4,415	(11)	4,990	5,033	1
Taxes paid	(1,244)	(357)	(71)	(1,248)	(490)	(61)
Net cash inflow from operating activities	3,702	4,058	10	3,742	4,543	21
Cash flows used in investing activities						
Payments for property, plant and equipment	(1,048)	(1,689)	61	(1,190)	(1,854)	56
Payment for intangible assets	(147)	(245)	67	(99)	(248)	151
Proceeds from sale of non-current assets	6	5	(17)	9	14	56
Purchase of subsidiaries				-	(11)	n.a.
Proceeds from sale of investments						
Acquisition of investments in associates and joint ventures and other companies	(16)	(10)	(38)			
Dividends received from companies classified as available for sale and from other companies	1	2	100	1	3	200
Proceeds from profit of companies	33	39	18			
Interest received and other financial income	96	98	2	19	25	32
Investments and loans to third parties, net	(43)	14	n.a.	142	(80)	n.a.
Net cash used for investing activities	(1,118)	(1,786)	60	(1,118)	(2,151)	92
Cash flows from financing activities						
Additional long-term borrowings	168	6,160	3,567	318	6,160	1,837
Repayment of long-term borrowings	(1,808)	(9,798)	442	(1,934)	(9,878)	411
Additional short-term borrowings	14,894	15,060	1	15,280	15,086	(1)
Repayment of short term borrowings	(15,612)	(13,240)	(15)	(15,936)	(13,386)	(16)
Dividends paid	-	(343)	n.a.	-	(343)	n.a.
Interest paid on long-term loans	(82)	(79)	(4)	(93)	(88)	(5)
Other long-term liabilities, net	(36)	(7)	(81)			
Interest paid on short term loans and other financing charges	(52)	(40)	(23)	(96)	(24)	(75)
Net cash from financing activities	(2,528)	(2,287)	(10)	(2,461)	(2,473)	0
Net (decrease)/increase in cash and cash equivalents	56	(15)	n.a.	163	(81)	n.a.
At 1 January	229	270	18	337	488	45
Effect of foreign exchange rate changes	(15)	(3)	(80)	(12)	(5)	(58)
At the end of period	270	252	(7)	488	402	(18)

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated Statement of Changes in Equity INA Group and INA d.d. for the period ended 31 December 2012 and 2013 (in HRK millions)

Attributable to equity holders of the parent

INA, d.d.	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total
Balance as at 1 January 2012	**9,000**	**2,239**	**-**	**3,043**	**14,282**
Profit for the period				1,323	1,323
Other comprehensive gain, net		(116)	13		(103)
Total comprehensive profit for the year	-	(116)	13	1,323	1,220
Balance as at 31 December 2012	**9,000**	**2,123**	**13**	**4,366**	**15,502**
Balance as at 1 January 2013	**9,000**	**2,123**	**13**	**4,366**	**15,502**
Loss for the period				(1,633)	(1,633)
Other comprehensive loss, net		(189)	(8)		(197)
Total comprehensive loss for the year	-	(189)	(8)	(1,633)	(1,830)
Dividends paid				(343)	(343)
Balance as at 31 December 2013	**9,000**	**1,934**	**5**	**2,390**	**13,329**

INA-Group	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Non controlling interest	Total equity
Balance as at 1 January 2012	**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 loss, net		(111)	13		(98)		(98)
Total comprehensive profit for the year	-	(111)	13	678	580	9	589
Balance as at 31 December 2012	9,000	2,505	13	3,437	14,955	(1)	14,954
Balance as at 1 January 2013	**9,000**	**2,505**	**13**	**3,437**	**14,955**	**(1)**	**14,954**
Loss for the period				(1,508)	(1,508)	-	(1,508)
Other comprehensive loss, net		(221)	(7)		(228)		(228)
Total comprehensive loss for the year	-	(221)	(7)	(1,508)	(1,736)	-	(1,736)
Dividends paid				(343)	(343)		(343)
Balance as at 31 December 2013	**9,000**	**2,284**	**6**	**1,586**	**12,876**	**(1)**	**12,875**

INDUSTRIJA NAFTE, d.d.

Special items

HRK million	2012	2013
INA GROUP		
Total impact of special items on operating profit	**(1,507)**	**(2,369)**
Total impact of special items on EBITDA	**(385)**	**(127)**
Exploration & Production	**(688)**	**(1,504)**
Incentive measures	(82)	-
Write-off - Aphamia	-	(215)
Impairment of assets - Syria	-	(1,289)
Impairment of assets	(161)	-
Angola	(273)	-
Egypt - extra cost of production	(11)	-
Provisions (ENI, litigations, incentives)	(43)	-
Reversal - IAS 36	77	-
Reversal of provisions for incentives and litigations	(196)	-
Refining & Marketing including Retail	**(723)**	**(865)**
Impairment of assets	(696)	(738)
Refinery - tax case	-	(127)
Incentive measures	(92)	-
Provisions (litigations, incentives)	(10)	-
Reversal of provisions (litigations, incentives)	60	-
Revenues from insurance	15	-
Corporate functions	**(96)**	**-**
Incentive measures	(99)	-
Impairment of assets	(1)	-
Reversal of provisions (litigations, incentives)	21	-
Provisions for incentives	(18)	-
Revenues from insurance	1	-

Main external parameters

	2012	2013	Ch. %
Brent dtd (USD/bbl)	111.6	108.7	(2.6)
Premium unleaded gasoline 10 ppm (USD/t)*	1,021.1	981.4	(3.9)
Gas oil – ULSD 10 ppm (USD/t)*	968.5	930.8	(3.9)
Fuel oil 3,5% (USD/t)*	624.6	587.8	(5.9)
LPG (USD/t)*	930.9	852.5	(8.4)
Average crack spread	78.3	62.1	(20.7)
Crack spread – premium unleaded (USD/t)*	177.0	159.4	(9.9)
Crack spread – gas oil (USD/t)*	124.4	108.8	(12.6)
Crack spread - fuel oil 3,5% (USD/t)*	(219.5)	(234.2)	6.7
Crack spread - LPG (USD/t)*	86.8	30.5	(64.9)
HRK/USD average	5.85	5.71	(2.5)
HRK/USD closing	5.73	5.55	(3.1)
HRK/EUR average	7.51	7.57	0.8
HRK/EUR closing	7.55	7.64	1.2
3m USD LIBOR (%)	0.43	0.27	(37.9)
3m EURIBOR (%)	0.58	0.22	(61.7)

** FOB Mediterranean*

IRAN Moghan-2 Block

INA entered into the Service Contract for the Exploration and Development of the Moghan-2 Block with the National Iranian Oil Company (NIOC) on 8 April 2008, with the minimum financial obligation amounting to USD 40.3 million. Obligatory Exploration phase expired on 31 May 2012 with the actual project costs amounting to USD 4.5 million. Since the coming into force of international restrictive measures, INA has been constantly taking significant steps to comply with the sanctions regime in relation to its investment in Iran. Since 2011 INA has not conducted any of its contracted activities and after the expiry of the Exploration phase of the contract in May 2012 INA ceased all of its activities in Iran.

Subsequent events after the balance sheet date

Decision of the Croatian Ministry of Economy concerning obligatory natural gas sale

A package of resolutions related to INA's obligation on delivering the gas produced in Croatia under regulated price, put forward by the Ministry of Economy, has been adopted on 27 February 2014. This decision obliges INA to sell the portion of its natural gas production for household supplies to state-owned company HEP as the wholesale market supplier, also introducing distributors' purchase obligation from HEP. So far INA (through Prirodni plin) received 2.2000 HRK/m3 for sales in the household segment while now INA shall receive 1.7058 HRK/m3 for the respective volumes.

MOL notification

On 28 February 2014 INA received a letter from MOL asking the co-operation of the Management Board in organizing a dataroom as part of a standard third party due diligence procedure related to the preparation for its potential sale of its shareholding in INA through its mandated advisors.

Announcements in 2013

December 04, 2013	Contract with Jadrolinija on procurement of fuel signed
November 11, 2013	Tax resolution
September 03 2013	Acquisition of a further 50% in Croplin d.o.o.
June 28 2013	Arbitral Tribunal resolution
May 06 2013	General Meeting decisions
May 02 2013	Code of Corporate Governance Questionnaire for 2012
April 25 2013	General Meeting notice
April 12 2013	Contract on gas supply signed with Petrokemija d.d.
April 04 2013	Revolving credit facility agreement signed
March 29, 2013	Annual document of disclosed information
March 29, 2013	Disposal of shares
March 28, 2013	Supervisory Board Meeting held
January 15, 2013	Answer to Zagreb Stock Exchange Query

INA, d.d. Shareholders structure by number of shares

	31 Dec 06	31 Dec 07	31 Dec 08	31 Dec 09	31 Dec 10	31 Dec 11	31 Dec 12	31 Dec 13
MOL Plc.	2,500,001	2,500,001	4,715,538	4,715,538	4,715,538	4,725,620	4,908,207	4,908,207
Government of the Rep. of Croatia	5,180,367	4,484,918	4,483,552	4,483,552	4,483,552	4,483,552	4,483,552	4,483,552
Private and institutional investors	2,319,632	3,015,081	800,91	800,91	800,91	790,828	608,241	608,241
Total	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**

Source: Central Clearing Depositary Company.

Changes in organization, Management Board or Supervisory Board

Supervisory Board
During the fourth quarter there was no change in the Supervisory Board

Management Board
During the fourth quarter there was no change in the Management Board.

Board of Executive Directors
During the fourth quarter there was no change in the Board of Executive Directors.

Management representation

INA Group's consolidated financial statements for I-XII 2013 have been prepared in accordance with the International Financial Reporting Standards (IFRS), i.e. they present fairly, in all material aspects, the financial position of the company, results of its operations and cash flows.
Management Board:

Zoltán Áldott	President of INA, d.d. Board
Niko Dalić	Member
Pál Zoltán Kara	Member
Ivan Krešić	Member
Davor Mayer	Member
Péter Ratatics	Member