



# ANNUAL REPORT 2014

ECONOMIC, SOCIAL AND ENVIRONMENTAL PERFORMANCE



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Ivan Kolar, Angelika Brnada  
EDITOR-IN-CHIEF: Martina  
Bandula, Ivanka Lebinec  
Merzel

### PHOTOGRAPHY:

Ferdo  
Buva, Ina's archive

DESIGN AND LAYOUT: Stela  
Blažok, Zrinka Belošić



# INA GROUP AT A GLANCE

INA is a medium-sized European oil and gas company. With 12,503 employees and Group EBITDA of HRK 2,580 million INA has a leading role in Croatian oil and gas business stretching from exploration and production, oil processing, natural gas trading and oil products distribution activities and a strong position in the regional motor fuel market.

At the end of 2014, INA had 237 MMboe proven and probable hydrocarbon reserves and hydrocarbon production of 38.4 Mboe/day on yearly average. Its refineries in Rijeka and Sisak have a total distillation capacity of 6.7 Mtpa and have produced a total of 2.7 Mt of refined products in 2014. As 31<sup>st</sup> of December, 2014, Retail Services operated a network of 442 petrol stations.

## OUR CORE ACTIVITIES IN A SNAPSHOT

**Exploration and Production Business Segment** is engaged in exploration, development and production of oil and natural gas in Croatia and abroad. Since its establishment, INA Group has been involved in oilfield operations in 20 foreign countries, currently in Angola and Egypt. During more than 60 years of existence 45 oil and 30 gas fields were equipped and put into operation, around 4,500 exploration and development wells with total depth of about seven million meters, about 1,200 producing oil wells with more than 4,000 km of various pipelines and more than 200 production gas wells and oil facilities and installations were built. Until these days, INA's hydrocarbon production was and still is between 50 and 60 percent of total domestic primary energy production.

**Refining and Marketing Business Segment's** key competencies are processing of crude oil as well as production, distribution and sales of crude

oil products on the domestic and international markets. INA operates Croatia's two refineries located in Rijeka and Sisak. INA has invested over HRK 5 billion in the development of its refinery systems in the last few years. In Rijeka Refinery three facilities within Hydrocracking complex were built - Mild Hydrocracking, Hydrogen unit and Desulphurization Plant (so-called Claus), as well as numerous supporting facilities and installations.

In February 2014 a contract on basic design for the Delayed Coking Unit for Rijeka Refinery was signed and delivered with the company Bechtel Hydrocarbon Technical Solutions (BHTS). In Sisak Refinery three plants have been completed: Desulphurization plant, Hydrodesulphurization of FCC gasoline plant and Isomerization plant. Furthermore, from mid-2013 Sisak Refinery has the possibility of production of diesel fuels with bio component and in the same year in September a system of additional wastewater treatment KROFTA was put into operation, while in April 2014 the installation of new coke chambers was carried out at the Coking plant.

**Retail Business Segment** operates a regional network of 442 petrol stations, of which 391 stations in Croatia with additional 51 petrol stations in the neighbouring countries: Bosnia and Herzegovina, Slovenia and Montenegro. The extensive retail network development and modernization project "Blue Concept" continued in 2014 throughout Croatia on numerous locations. "Blue Concept" project has been initiated to offer top quality products to our customers, as well as higher level of services on our stations, with significant improvement of site appearance, efficiency and technical conditions including new Retail Visual Identity. As a result of the project INA has the biggest modernized filling station network in Croatia.

# INA IN THE COMMUNITY

Being among leading Croatian companies, INA Group has a significant impact on a wide range of stakeholders. Conscious of its responsibilities in the context of social awareness, INA is committed to maintaining a good partnership with stakeholders through openness, constructive dialogue and proactive approach.

In its everyday activities INA strives to be a desirable partner to the communities in which it operates, remaining open to cooperation and supporting initiatives that contribute to better life quality in local communities.

Contribution to wider social community in 2014 INA Group has shown through participation in public policy development projects, supporting local projects, granting donations, and investing volunteers' hours in community service. INA also initiated new projects and activities

aimed at improving the life quality or with the aim of raising awareness about the importance of sustainable development such as "Green Belt" program or "Space for your ideas" project. INA approved 54 donations, mostly for humanitarian projects (80%), sport, culture, and education. Apart from funds allocated for flooded areas (My sun for Gunja project), INA's donations were mostly related to children and the most vulnerable social groups in order to improve health care and educational and career development for the youth.

To be able to measure the results of these projects, monitoring at the same time the long-term impact on the communities, a new methodology, known as the LBG (London Benchmarking Group) model, has been introduced. This model takes into account cash payments, time invested, volunteering of the employees, donations in kind, as well as management costs.

# AWARDS

## of the

# YEAR

## BEST CORPORATE GOVERNANCE IN CROATIA

INA was the winner of the award „Best Corporate Governance in Croatia“ given by the World Finance, financial magazine based in the UK. The award was presented in the category “The World Finance Corporate Governance”, based on the opinion of business and financial journalists, supported by a research team. The winner is selected based on the efficiency of governance structure, work of company committees and necessary quorums for making decisions, boardroom composition and independence, shareholder rights, risk management procedures, disclosure of relevant information about company's results and transparency, and remuneration and say on pay. There were around 10 nominated companies from Croatia while in this category 4 to 6 were shortlisted.

## GOLDEN INDEX AWARDS

INA won "Golden Index" in three categories: "Participation in student projects organized by students and student organizations", „Investing in students' associations" and "The Grand Prix". The Golden Index award is a unique award in Croatia, awarded to companies which have

contributed most to the quality of student life student education and professional training.

## EMPLOYER PARTNER CERTIFICATE

For the fourth year in a row INA received the Employer Partner Certificate, awarded for excellence in human resources management.

## RECOGNITION FOR CONTRIBUTION OF BUSINESS SECTOR TO THE DEVELOPMENT OF VOLUNTEERING

INA Volunteer Club received "Recognition for contribution of business sector to the development of volunteering". The award was given by Volunteer Centre Osijek with the support of The Council for the Development of Volunteering.

## AWARD FOR THE QUALITY OF SERVICE AT THE PETROL STATIONS

The award was given as a part of Mystery shopping days, by Heraklea agency.

## KEY FINANCIAL AND OPERATING DATA

	2012	2013	2014	2014/2013
HRK mln	HRK mln	HRK mln	HRK mln	%
Net sales revenues	29,895	27,444	23,759	(13)
EBITDA	4,578	3,726	2,580	(31)
EBITDA excl. special items	4,966	3,805	2,699	(29)
CCS EBITDA excl.spec.items	4,992	3,983	3,329	(16)
Operating profit/(loss)	1,359	(1,505)	(1,712)	14
Operating profit excl. special items	2,866	816	523	(36)
Net financial expenses	(292)	(311)	(622)	100
Net profit/loss for the period	681	(1,508)	(1,897)	26
Net profit for the period excl. special items	1,887	953	344	(64)
Operating cash flow	3,742	4,576	3,859	(15)
Capital expenditures with one-off	1,286	2,013	1,691	(16)
Earnings per share				
Basic and diluted earnings per share (kunas per share)	68.1	(150.8)	(189.7)	26
Net gearing %	30.83	26.99	20.41	-
<b>KEY EXPLORATION AND PRODUCTION DATA</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014/2013</b>
Gross crude oil reserves (MM bbl ) 2P	97	95	97	2
Gross natural gas reserves (MM boe ) 2P	154	141	125	(11)
Total gross hydrocarbon reserves (MM boe ) 2P	267	251	237	(6)
Average crude oil production (M bbl /day)	12.3	11.6	12.1	4
Average condensate production (M boe /day)	3.2	2.4	2.1	(13)
Average natural gas production (M boe /day)	33.0	26.2	24.2	(8)
Total hydrocarbon production (M boe /day)	48.6	40.2	38.4	(4)
<b>KEY REFINING AND MARKETING DATA</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014/2013</b>
Total refinery throughput (kt)	4,065	3,707	3,125	(16)
Total crude oil product sales (kt)	3,440	3,467	3,284	(5)
<b>KEY RETAIL DATA</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014/2013</b>
Total number of petrol stations	448	444	442	(0)
Total sales (000 t)	1,042	1,019	994	(2)

## Net sales revenues (HRK mln)



## EBITDA (HRK mln)



## Operating result (HRK mln)



## CCS EBITDA excl.spec.items (HRK mln)



## Number of employees



# LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD



Zoltán ÁLDOTT  
President of the Management Board of INA

For all of us in INA, 2014 was a special year. We have marked the 50th anniversary and on this occasion I would like to express my gratitude to everyone, former and current employees, who have invested much of themselves in the first 50 years of INA.

Business of INA Group in 2014 was marked by continued economic downturns in the Croatian and regional markets, while significant decline of oil and gas prices and a series of regulatory decisions have had a negative impact on the business results of INA.

Despite these challenges, INA continued to strengthen its financial position. The profit from the core business amounted to HRK 523 million and net profit to HRK 344 million, excluding special items. We maintained our investments at the level of HRK 1.7 billion which is more than the average of the last two years, while our oil production has increased by 5%, which is an unprecedented result in over a decade.

The profitability of the Exploration and Production Business Segment was impacted by the fall of crude oil prices, combined with the unfavourable changes in the regulatory environment. Namely, the forced sales of gas had a negative effect on the

result in the amount of HRK 270 million, while the decrease in regulated gas price created additional HRK 260 million of costs, compared to last year. The doubled royalty resulted in negative influence in the amount of HRK 223 million so the overall negative effect of mentioned regulatory changes on upstream amounted to HRK 753 million in 2014. However, CAPEX in 2014 amounted to HRK 1,048 billion, out of which almost 900 million were investments in Croatia.

Refining and Marketing segment was influenced by unfavourable external factors. The steep decline of the price of Brent crude oil resulted in a lower average refining margin, while the market demand remained poor. CAPEX amounted to HRK 314 million with a significant turnaround project in the Sisak refinery completed in late 2014, which included the installation of the new Coking plant chambers.

As of December 31st 2014 INA Group controls a network of 442 petrol stations (391 in Croatia and 51 abroad). Retail's CAPEX amounted to HRK 156 million, marking the continuation of the intense modernization project in Croatia and initiating a complete renovation of petrol stations in Bosnia and Herzegovina.

Since 2007 INA has been a signatory of UN Global Compact, the largest global initiative aimed at sustainable business, and thus committed to promotion of human and labour rights, as well as environmental protection and anti-corruption. In that sense, one of INA's priorities is to respect the particularities and needs of the communities in which we operate. Accordingly, in 2014 we supported a number of projects in culture, sports, environmental protection and science. Also, our on-going focus on attracting the best talents and young people was continued through the traditional programs such as Growww and Freshhh, and in 2014 we launched for the first time in Croatia a competition called Junior Freshhh intended for high school students with strong interest in natural science.

INA entered 2015 with strengthened financial position; our net debt was reduced by an additional 37%, as well as the gearing ratio (from 27 % at 2013 year-end to 20.4 % at the end of last year).

We have therefore set ambitious mid-term goals in our strategy – annual production growth of 5 to 10 % by diversifying our asset portfolio with more active international activities joined with available potentials in Croatia, while securing

more than 100% reserve replacement. In the refining business INA's key strategic direction is to achieve long-term sustainability of the business segment by 2019 at the latest. To achieve this, INA will need to concentrate its refining activity on one site. We remain focused on maintaining our market shares, both on the domestic market and key export markets. With regard to Rijeka refinery's planned residue upgrade unit, a new organizational unit has been formed and dedicated to co-ordinate the project. In our retail business we are continuing with the modernization project and new investments in order to further improve our retail business, at the same time leveraging opportunities to expand our captive market in the SEE region.

Our mission for 2015, to which we will dedicate our efforts, is to maintain and further improve our position as a desirable and important partner and an influential stakeholder on the markets in Croatia and neighbouring countries. I hold that the wealth of knowledge and experience of INA's employees is our great comparative advantage and strength that will allow us to overcome any challenge ahead of us.



# OVERVIEW OF THE ENVIRONMENT

## The Global Economy: Strong US growth, China slowing down while the Eurozone ended 2014 positively

During the course of 2014 the United States economy went from strength to strength enabling the US Federal Reserve to exit its third quantitative easing programme by October. With labour market data improving as the year progressed, financial markets have begun to speculate when in 2015 interest might rise in the US. The world's second largest economy, China, continued to slow down, recording growth of 7.4%, the slowest pace of economic expansion in over a decade. The Eurozone economy grew by 0.9% in 2014 and 1.4% in the European Union, with growth picking up at the end of the year. Although the unemployment rate fell during the year, at over 10% on average, and with youth unemployment significantly higher, especially in Southern Europe, economic conditions remain weak in Europe. This was underlined in 2014 as the Eurozone slipped into deflation during the final quarter of the year. As a result in December the European Central Bank announced a programme of quantitative easing amounting to EUR 60 bn per month from March 2015 to at least September 2016 with the express aim to lift inflation towards 2%.

## GLOBAL OIL DEMAND AND SUPPLY: WEAKER DEMAND AND STRONG SUPPLY SEE PRICES FALL SIGNIFICANTLY

After three and a half years of stable prices the middle of 2014 saw the beginning of a significant decline in oil prices from \$115/barrel to \$62/barrel at the end of the year, with further falls in early 2015. The trigger for this movement was a reduction in unplanned supply outages with the return of Libyan production in the summer, resulting, at its peak in an increase in supply of close to 1 million barrels a day. Thus the balance in the cumulative increase between 2011 and mid-2014 in US unconventional oil production and unplanned supply outages of roughly 3 million barrels a day was undone. With concerns over China's economic slowdown and stagnation in Europe leading to weak global demand growth of 0.7 million barrels a day the drop in oil prices continued and gathered pace in the aftermath of OPEC's decision on 27 November not to

cut production quotas. Thus, the decades' long practice of OPEC trying to control supply ended (for now) – as 2014 ended the market was still in the process of finding a floor for the oil price. Brent averaged \$99/barrel in 2014 while WTI traded at an average price of \$93.3/barrel. On the Mediterranean market Urals averaged \$98/barrel compared to \$108.2/barrel in 2013. Gasoline crack spreads in Europe were stronger in 2014, especially after the summer driving season although towards the end of the year a combination of weak year-end demand and increased supply saw the crack spread sharply lower. Diesel crack spreads were more volatile in 2014 compared to 2013, heading seasonally lower over summer before recovering as demand increased as winter approached. In addition, the introduction of more stringent bunker fuel specifications at the start of 2015 generated increased demand for diesel/gasoil, supporting crack spreads. This effect was not enough to counterbalance the impact of lower oil prices, which resulted in lower diesel-fuel oil spread at the end of 2014.

## THE CROATIAN ECONOMY IN 2014: SIGNS OF LIFE TOWARDS THE END OF THE YEAR

The Croatian economy remained in recession in 2014 contracting an estimated 0.4%. While private consumption again contracted in 2014, it did so at a slower pace than the previous year. At the same time, the slowing in investment activity became more pronounced. The overall smaller contraction in GDP in 2014 compared to 2013 was the result of slower import growth (partly due to lower oil prices) and exports of goods and services rising in an estimated 2.5% yoy. Although 2014 real wages rose marginally, the continued fall in the number of persons employed and on-going deleveraging by both households and corporates constrained domestic demand growth. Nonetheless, economic data for the second half of 2014 and particularly the final quarter of the year point to a mild recovery in 2015. Industrial production rose 1.3% in 2014, the first rise recorded since 2008; in the second half of 2014 industrial production grew at an accelerating pace every month according to trend data so that in the final quarter of the year industrial

production expanded 4.1% yoy.

This expansion was mirrored to an extent by merchandise trade data where exports recorded full year growth of 8.4% yoy. Due to changes in methodology associated with adopting Eurostat standards upon entering the EU in mid-2013, export growth data from July 2014 onwards is more representative of underlying performance as it is based on a consistent methodological approach. It reveals that merchandise exports rose by 4.2% yoy in the second half of 2014.

Shadowing the increase in industrial production in the latter part of the year diesel demand rose from October leading to an increase in diesel consumption of 4% in 2014. Despite the drop in prices of motor gasoline, gasoline consumption contracted by a double digit amount (13.2%), while the structural decline in fuel oil consumption continued in 2014.

Croatia entered deflation in February 2014 and apart from an increase in the price level in November, recorded a fall in price each month thereafter. Falling food and oil prices contributed to the annual average fall in prices of 0.2% in 2014, but weak domestic demand and the impact of increased competition in the traded goods sector from companies in the EU were also important factors behind this outcome.

Fiscal policy settings remained broadly unchanged throughout 2014 and we estimate the consolidated general government deficit was in the 5.5-6.0% of GDP range. Croatia is in the EU's Excessive Deficit Procedure, which provides an anchor for fiscal policy, but no immediate tightening should be expected. Monetary policy

remained accommodative throughout 2014 with domestic interest rates low. Although the current account was in balance in 2014 the currency weakened slightly as banks continued to provision for bad loans and because of high external debt obligations.

2014 again saw amendments to existing legislation governing exploration and production and the domestic gas market. In March, the government increased the royalty for new concessions from 5% to 10%. With respect to the domestic gas market, pursuant to a government decision under the auspices of the Gas Market Act, gas producers are obliged to deliver gas produced in Croatia at a regulated price to the nominated wholesale gas supplier for households, which has adverse financial implications for INA's gas business. Forced gas inventory sale negatively impacted 2014 result by HRK (270) million, while the reduction in the regulated gas price created additional HRK (260) million loss. Furthermore the effect of doubled royalty reached a negative impact of HRK (223) million, totaling HRK (753) million of negative effect in 2014.

The other main event in 2014 was the tendering of offshore licences for oil and gas exploration and production in the Adriatic. The increase in diesel demand during the latter months of 2014 coupled with better high frequency economic data in the final quarter of the year allow scope for tempered optimism with respect to the local economy in 2015. Yet, with oil prices well below their 2014 peaks, 2015 will be another challenging year for INA.



# OUR BUSINESSES







# EXPLORATION AND PRODUCTION

**E**xploration and Production Business Segment is engaged in exploration, development and production of oil and natural gas in Croatia and abroad. Since it was founded, it has been involved in oilfield operations in 20 foreign countries, currently in Angola and Egypt. At the end of 2014, INA had 237 million boe proven and probable hydrocarbon reserves with hydrocarbon production of 38.4 mboe/day.

INA continued exploration activities from the previous year in the continental part of Croatia, despite the revocation and expiration of licenses for exploration. INA remains dedicated to exploration activities in Croatia, therefore three (3) “conventional” exploration wells were drilled in 2014. One exploration well Hrastilnica-4 encountered hydrocarbon saturation and is

connected for early oil production. Drilling of the fourth (4th) well planned to be drilled in 2014 had to be postponed to 2015 due to resolving property relations issue with the Government.

Considering “unconventional” projects in Croatia, the second phase of the Well stimulation campaign, as the continuation from the previous year 2013 was performed successfully in 2014 on three (3) wells. Evaluation of the obtained results and analysis is in progress.

Croatia Offshore and Onshore tenders are completed. INA performed comprehensive geological and economic evaluations on the area of interest, followed by bid preparations.

Croatian Government announced, on April 2nd 2014, First Offshore Licensing Round for Licenses for the Exploration and Production of Hydrocarbons on the Adriatic Sea including 29

blocks in the North, Central and South Adriatic. INA Bid was successfully submitted on November 3rd 2014, after which Croatian Government granted INA the license for two (2) exploration blocks, South Adriatic 25 and South Adriatic 26. Negotiations and signing of the production sharing agreement are to follow.

Croatian Government announced, on 18<sup>th</sup> of July 2014, the First Onshore Licensing Round for Licenses for the Exploration and Production of Hydrocarbons on six (6) onshore exploration blocks. Bid submission deadline was February 18th 2015 and INA submitted bid for selected blocks.

Activities of INA Group at Hayan and Aphamia Blocks, Syria, were burdened with difficulties in collection of Syrian receivables and US/UN/EU restrictive measures against Syrian Arab Republic from 2011. As the security situation deteriorated and in order to protect its employees INA Group had withdrawn all the expatriates to Croatia. INA announced “force majeure” on 26<sup>th</sup> of February 2012, in line with EU/UN sanctions, and temporarily suspended all its business activities in Syria until the “force majeure” circumstances cease to exist. Oil, condensate, gas and LPG

production in Syria is still ongoing (although INA’s expatriates 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<sup>th</sup> of January 2012) and the main production activities have been taken over by HPC’s local workforce, which INA, d.d. considers illegal.

## KEY ACHIEVEMENTS IN 2014

### PRODUCTION

In 2014, total Croatian onshore production amounted to 8.9 mboepd crude oil, 2.1 mboepd condensate and 13.0 mboepd gas. Due to field production decline, this corresponds to decreases of 8.9 % in onshore natural gas, as well as 11.3% in condensate production compared to 2013. Result of successfully performed workover operation and production optimization on oil fields is 3.7% higher achievement compared to the previous year.

In 2014, total Croatian offshore production amounted to 11.1 mboepd natural gas. Consequences of natural decline, higher water cuts, downtime due to drilling activities on Ika field and Anamaria restitution in the North Adriatic



## HIGHLIGHTS

► **Daily production of 38.4 mboepd achieved in 2014**

► **Oil production is 5% higher compared to the previous year; natural decline on mature oil fields stopped after more than 15 years**

► **New gas fields are put in production: two offshore fields Izabela (July) and Ika SW (November) and one onshore field Bilogora (December) 4,270 boepd**

► **Three exploration wells were drilled in 2014, one of which exploration well, Hrastilnica-4, encountered hydrocarbon saturation (342–550 boepd)**

► **EOR Project: Trial exploitation of the CO<sub>2</sub> injection on Ivanić oil field started in October**

► **Egypt: fifteen (15) wells successfully drilled, sixteen (16) development wells put in production, 2,034 boepd**

► **Negative effect of regulatory decisions - forced gas sale, regulated gas price reduction, doubled royalty**

Contract Area, water cut on Aiza Laura Contract Area caused decreases of 6.4% compared to 2013. In 2014 INA's share of production in Angola amounted to 1.2 mboepd, from one non-operated concession. To improve performance operations were focused on facilities maintenance.

Egyptian production contributed to Group results with a production of 2.0 mboepd from three non-operated and one operated concession. Investment in 2014 was focused primarily on drilling and workover activities in order to increase production rate. INA share of production in 2014 was 8% higher than production in 2013 due to higher production on North Bahariya and East Yidma Concessions. Intensive and successful drilling campaign on North Bahariya Concession was reflected on higher production. On East Yidma Concession it is the result of production share increase (from 29% to 58%), as well as higher production rate.

### CROATIA ONSHORE

- Reserves (SPE 2P, 2014 Y/E): 167.7 MMboe
- Production (2014): 24.06 Mboepd

### EXPLORATION

Regarding exploration activities on Croatia onshore, INA continued exploration activities from the previous year, three (3) "conventional" exploration wells were drilled in 2014. One exploration well Hrastilnica-4 encountered hydrocarbon saturation. The drilling was carried out from 27<sup>th</sup> of November 2013 to February 3<sup>rd</sup> 2014. Well test of main Iva sandstone reservoir was performed from 22<sup>nd</sup> of April to 18<sup>th</sup> of June 2014. Due to unfavourable drilling results, exploration well Čepelovac-1 North are plugged and abandoned and Hrastilnica-5 drilled and continue with drilling deviated well Hra-5α.

Considering "unconventional" projects in Croatia, the Second phase of the well stimulation campaign, as the continuation from the previous year 2013, was performed successfully on three (3) wells: Iva-2Du, Peteranec-4 and Žutica-249Du. Cleaning of all the stimulated wells is finished. Peteranec-4 and Iva-2D wells are currently closed, measurement of pressure build-up in progress. Evaluation of the obtained results and analysis is in progress. Execution of the second phase of well stimulation campaign in tight gas reservoirs will

contribute to determination of such reservoirs and their potential. Moreover, obtained results will be useful for further stimulating activities planned in the coming years.

### DEVELOPMENT

Drilling new development well Gola-10 started in March 2014. After finishing third side-track due to technical problems and completing the well bore, drilling was temporarily terminated in July. After modification of the well bore construction, drilling is planned to be continued in February 2015.

In order to achieve planned recovery efficiency, maintain production and prolong economic life of mature fields, development activities included numbers of successful workovers that resulted with higher crude production compared to 2013 and lower natural decline on mature fields.

Gas wells on the field Bilogora, completed within the first phase of Project Bilogora, were put in test production in October. Goal of the Project Bilogora, by constructing production and gathering-transportation system, is to enable gas and condensate on the fields Bilogora and Bačkovica. Within the first phase of the project, it was planned to bring into production gas wells already connected to existing oil gathering system. The main of the rest onshore development activities were related to Well General Workovers and Pilot Project of Frac Pack technology implementation. As per activities related to Well General Workovers, 41 capital well workovers were performed, 28 related to 4P program. 4P program was initiated with the primary goal to increase hydrocarbon production through improving wells performance from existing onshore fields, while its secondary goal refers to increase hydrocarbon reserves recovery onshore Croatia through improving reservoirs performance. As a result of activities carried out by the 4P programme, total 2P hydrocarbon reserves increased by 7 MMboe, while increase of domestic crude oil production was approx. 1900 boe/d in December 2014, with trend of further growth. Workover activities on completion the layers with Frac Pack technology were performed in two wells on oil field Privlaka and in two wells on oil field Stružec. The aim of the Pilot project was to evaluate shallow reservoirs production potential by utilizing contemporary sand control Frac Pack reservoir completion technique. Although production not



achieved as expected, the method proved to be successful.

Preparation of necessary documentation and settling of property legal relations to obtain necessary licences were in focus of Međimurje, Selec, Deletovci Zapad and Hrastilnica projects to achieve new gas and oil production in coming years. Harmonization process prescribed by the HC Act is on-going and one third of the total amount is resolved.

EOR project activities planned for onsite work on compressor stations and CO<sub>2</sub> pipelines on oil fields are finished according to schedule. Compressor stations CS CO<sub>2</sub> Ethane, CS CO<sub>2</sub> Molve and Membrane separator unit on CS Žutica passed technical inspection and received use permit. Workovers on well re-lining in 22 injection wells Ivanić and Žutica are completed. Workover operations on preparation of injection wells for re-lining on Žutica south (2. phase) successfully finished on 13 wells. Workover on 5 production wells in Ivanić is completed. Trial exploitation of the CO<sub>2</sub> injection system and injection into 12 Ivanić wells has started on October 14<sup>th</sup> after received approval from Ministry. First phase of EOR project on Žutica field finished too but trial exploitation, injection of CO<sub>2</sub> in wells, could not start due to obtaining concession for Žutica field is in progress because of solving property rights is not finished yet

The progress of activities within Međimurje Project: EPC contracts were signed at the beginning of 2014, four (4) construction licenses were obtained and works have started on well sites, nodes and reconstruction of CGS Mihovljan as well as the laying of technological gas pipelines. Property relations have been resolved and the application for building permit has been submitted.

### CROATIA OFFSHORE

- Reserves (SPE 2P, 2014 Y/E): 27.2 MMboe
- Production (2014): 11.14 mboepd

### EXPLORATION

Exploration activities in the North Adriatic contract area, in 2014, included preparation of final well reports for two (2) exploration wells Ilena-1 and Ivna-1 drilled in 2013. Revision of the North Adriatic Exploration Potential, should serve as the basis for further planning of exploration

activities on the North Adriatic contract area. Croatian Government granted INA the license on the Adriatic Sea for two exploration blocks, South Adriatic 25 and South Adriatic 26 on the First Offshore Licensing Round for Licences for the Exploration and Production of Hydrocarbons.

#### DEVELOPMENT

Through a joint operating company INAgip, INA and Eni finished development project of gas field Ika JZ. Project included drilling & production completion of four dual completed wells. During the year, platform deck was designed, constructed, process equipment was mounted and deck was installed on site. Gas test production of Ika JZ gas field started on the 27<sup>th</sup> of November 2014 and it's in progress. Development well Ika A-4 Hor was drilled and production completed. Exploitation of natural gas reservoirs on the Ika JZ field will diminish decline of gas production and bring additional gas from the Adriatic off shore. INA with Edison through a joint operating company EDINA started gas production from Izabela gas field on the 2<sup>nd</sup> of July 2014. Ivana A/K optimization project continued with start of the 2nd phase of activities which includes engineering, procurement, construction and installation of booster compressor skid unit. Related activities are directly connected with development of the Izabela field in order to enhance gas recovery.

#### INTERNATIONAL CONCESSIONS

##### a) ANGOLA

- Reserves (SPE 2P, 2014 Y/E): 3.2 MMboe
- Production (2014): 1.18 Mboepd

INA has been involved in E&P activities in Angola since 1981, participating in exploration, development and production activities on two concessions, all located on offshore Block 3. INA is a non-operating partner with various percentages of participating interest and production sharing.

##### BLOCK 3/05

Block's Operator is Sonangol P&P with 25% participating interest. Other partners are: China Sonangol (25%), AJOCO (20%), ENI (12%),

Somoil (10%) and NIS (4%). INA's participating interest is 4% and production sharing is ranging between 0.89 - 3.50%, averaging 2.46% in 2014. The Block covers areas of former Blocks 3/80, 3/85 and 3/91 and consists of eight production oil fields: Palanca, Pacassa, Bufalo, Impala SE, Impala, Cobo, Pambi and Oombo. Due to fields maturity operations were focused on facilities maintenance in order to improve performance. The Block's license will expire in 2025.

In the forthcoming period up to ten infill wells will be drilled on several fields. An extensive workover campaign is also to be executed across the Block. Work will also continue on the upgrading of production separators and produced water treatment facilities.

##### BLOCK 3/05A

Block's Operator is Sonangol P&P with 25% of participating interest. Other partners are: China Sonangol (25%), AJOCO (20%), ENI (12%), Somoil (10%), and NIS (4%). INA's participating interest is 4%. The Block consists of two oil fields under development: Caco-Gazela and Punja. The Block's license will expire in 2030.

One development well that was drilled on Caco-Gazela development area during 2014 is to be completed and put in production in Q1 2015. The Caco-Gazela development Decision Support Package will be delivered to Partners later in 2015 when its Final Investment Decision is to be made. The Operator will be proposing drilling of two development wells during 2017 from Block 3/05 existing platforms.

Punja development Decision Support Package has been received in Q4 2014 and the Final Investment Decision is to be made by the Contractor Group Partners during Q1 2015. The Operator is proposing Engineering, Procurement, Construction & Installation of two Wellhead Platforms, drilling of eleven development wells and Early Production System rental.

##### b) EGYPT

- Reserves (SPE 2P, 2014 Y/E): 3.4 MMboe
- Production (2014): 2.03 mboepd

INA has been involved in E&P activities in Egypt since 1989. INA holds interests in four development concessions in Western Desert.

INA is the operator on Sidi Rahman and Rizk Development Leases of the East Yidma Concession, while it has non-operator status on three other concessions (Ras Qattara, West Abu Gharadig and North Bahariya). Investments in 2014 were focused primarily on drilling and workover activities.

##### East Yidma Concession – Sidi Rahman & Rizk Development Leases

INA is the operator with 100% working interest and 58% share in production.

In 2012 INA signed Sale and Purchase Agreement with RWE Dea thus acquiring additional 50% interest in East Yidma Concession. By endorsement of Deed of Assignment in October 2013, INA became a 100% operator on this concession.

Sidi Rahman oil field is in production from 2007 while Rizk field started to produce in May 2012. Both fields are operated by joint venture company Marina Petroleum Company (MPC).

In 2014, a side track well Rizk East-1ST was drilled with the aim to reach the reservoir in better structural position. The well was drilled in April and May 2014 and put in production on 8<sup>th</sup> of June, 2014 as oil producer. Work program in 2015 is restricted to workover operations and does not include drilling activities.

##### Ras Qattara Concession

The Concession consists of two oil fields: Zarif and El Faras. Oil production started in 1994 on Zarif field and 1996 on Faras field. The Operator is IEOC (Eni Egyptian branch). INA is Partner with 25% working interest and 10.83 % share in production. Two development wells were successfully drilled in 2014. Faras-53 development well was drilled in August/September 2014 and put in production on 29<sup>th</sup> of September, 2014 as oil producer. Faras-54 development well was drilled in September and October 2014 and put in production on 13<sup>th</sup> of November, 2014 as oil producer.

Several workover operations were performed on both fields in order to optimize production. Project activities on Faras Gas Power Generation, OHTL Faras, facility upgrading, flow line connection and other small projects were ongoing.

Work Program for 2015 does not include drilling activities. In fact, drilling activities are not planned till the end of Concession license in March 2018 due to cost recovery issue. Workover operations

and project activities will continue in 2015.

##### West Abu Gharadig Concession

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

Four development wells were successfully drilled in 2014. Development wells Raml-30, Raml-31, Raml-32 and Raml-33 were drilled and put in production in the second half of 2014.

Workover operations were performed in order to decrease natural production decline. Activities on several projects such as camp construction, facility upgrading, production flow line connections and overhauling facilities were ongoing.

Work program for 2015 does not include drilling activities while work program for 2016 includes drilling of three development wells (two oil producers and one water injection well). Projects, such as Alamein oasis road, contaminated sand treatment, facilities upgrading and civil works are planned in 2015. Workover activities are also planned in 2015 in order to optimize production and decrease natural decline.

##### North Bahariya Concession

The Concession consists of five oil fields (Ferdous, Ganna, Rawda, Ryan and Abrar). The project started in 2004. The operator is Sahara North Bahariya; the partners are INA and IPR. INA holds 20% working interest while share in production is calculated according to production share sliding scale.

Six development, one exploratory and one water injection well were drilled in 2014. All development wells as well as exploratory well are put in production as oil producers.

Workover operations were performed on 20 wells. Integrated reservoir studies for three fields were completed in 2014 and Operator presented new development plan based on its results. Development plan includes intensive drilling and water injection system that will maximize oil recovery till the license expiry.

The main objective in 2015 is implementation of field development plan, based on recently completed integrated fields' studies. The aim of development plan is production increase through development drilling and water injection system. Work program for 2015 includes drilling of 10



wells, 3 water source wells, workover operations, upgrading the facilities to accommodate new production and completion of 3D simulation field studies for better development of producing fields.

**GAS TRADING - PRIRODNI PLIN d.o.o.**

Gas trading regulation changes have appointed HEP as wholesale market supplier for tariff customers starting from 1<sup>st</sup> of April, 2014 and INA has been obliged to supply HEP at a reduced price of 1.7 HRK/cm compared to the previous 2.2 HRK/cm. By its decision The Government also allocated most of the gas storage capacity to HEP, which faced INA (through Prirodni plin d.o.o.) with forced sale of remaining gas inventory at significantly adverse prices.

As of November 3, 2014, INA, d.d. has become universal legal successor of company Prirodni plin d.o.o. and thus enters into all legal relations of company Prirodni plin d.o.o., which therefore cease to exist. Natural Gas Trade Sector was established within INA d.d., under Exploration and Production Business Division, which takes over all the rights and obligations arising from the contractual relations of the company Prirodni plin d.o.o. and continues to supply natural gas to suppliers on the distribution system and end customers on the transmission and distribution system. Security of gas supply is the primary objective of the Sector and it is being accomplished by contracting natural gas storage capacity and natural gas supply from various sources (domestic production and import).

**OUTLOOK**

For the next three years, the plan is to continue with drilling exploration and development wells, 3D seismic acquisition and geological studies, activities on projects EOR and Međimurje as well as put in production Selec, Hrastilnica and Đeletovci zapad. Other onshore activities are related to intensifying activities on additional development of mature fields through the 4P program, process plant optimization and well general workovers in order to maintain production level.

Despite the revocation and expiration of licenses for exploration in the continental part of Croatia, INA remains dedicated to exploration activities in Croatia. Having necessary knowledge, experience

and equipment in order to accelerate exploration activities in continental Croatia, pending the decision of the new government regarding exploration licensing, plan is to continue with "conventional" exploratory/appraisal wells drilling and testing and acquiring 3D/2D Seismic.

Further exploration activities in the North Adriatic will be planned based on results of all analyses, data reinterpretations and revision of the North Adriatic exploration potential.

Future intensification of exploration activities in the South Adriatic is planned i.e. preparation of all necessary geological and environmental studies, and acquiring 3D seismic acquisition, based on the fact that INA is granted the license for two exploration blocks, South Adriatic 25 and South Adriatic 26 on the First Offshore Licensing Round for Licences for the Exploration and Production of Hydrocarbons.

Development activities on onshore will be focused on 3D seismic acquisition on the area of Jamarice, Kozarice and Lipovljani fields, continued drilling of Go-10 well on the Gola deep gas condensate field; drilling injection well (Mačkovec-1R) in scope of Međimurje project and development well Selec-2 within oil field Žutica in the next year, continuing 4P program for increasing production and reserves on existing oil and gas fields and well workover operations.

EOR project will continue with injection of CO<sub>2</sub> on the oilfield Ivanič, start of CO<sub>2</sub> injection on Žutica north part of the field after solving property rights with Croatian Republic and obtaining permits in 2015 and workovers on the production wells and second phase of the project related to Žutica south part of the field in forthcoming years.

Project Međimurje is planned to be finished in 2016. In 2015 continuation of construction works on Vuckovec, Vukanovec and Zebanec fields, CGS Mihovljan and start of construction works on Gas pipeline route

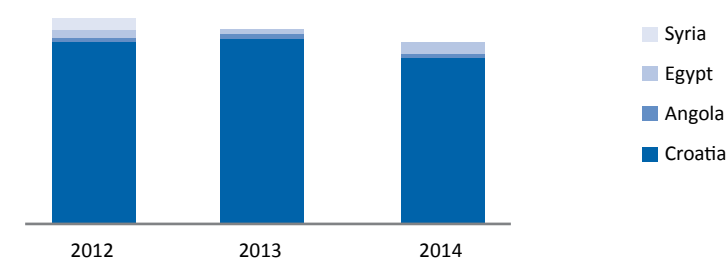
**RESERVES BREAKDOWN**

MMBOE	1P			2P		
	2012	2013	2014	2012	2013	2014
<i>By region</i>						
Croatia onshore	147	141	133	183	174	168
Croatia offshore	21	18	16	38	34	27
Syria	22	22	22	36	36	36
Egypt	2	2	2	3	2	3
Angola	2	2	2	6	5	3
<b>Total</b>	<b>196</b>	<b>186</b>	<b>175</b>	<b>266</b>	<b>251</b>	<b>237</b>
<i>By product</i>						
Oil	74	75	71	97	95	97
Gas	110	99	93	153	141	125
Condensate + LPG	12	11	11	16	15	15
<b>Total</b>	<b>196</b>	<b>186</b>	<b>175</b>	<b>266</b>	<b>251</b>	<b>237</b>

**HYDROCARBON PRODUCTION BY REGION**

Hydrocarbon production (Mboe/day)	2012	2013	2014	'14/'13Δ*
Croatia	42.1	37.2	35.2	-5%
Angola	1.5	1.1	1.2	4%
Egypt	1.9	1.9	2.0	8%
Syria	3.1	0.0	0.0	n.a.
<b>Total</b>	<b>48.6</b>	<b>40.2</b>	<b>38.4</b>	<b>-4%</b>

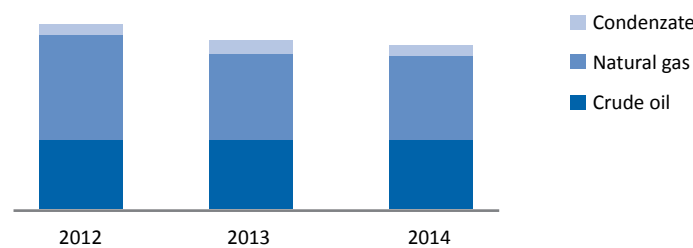
\* calculation of relative changes made on the basis of the original value boe/day



HYDROCARBON PRODUCTION BY PRODUCTS

Hydrocarbon production (Mboe/day)	2012	2013	2014	'14/'13Δ*
Crude oil	12.3	11.6	12.1	5%
Natural gas	33.0	26.2	24.2	-8%
Condensate	3.2	2.4	2.1	-11%
<b>Total</b>	<b>48.6</b>	<b>40.2</b>	<b>38.4</b>	<b>-4%</b>

\* calculation of relative changes made on the basis of the original value boe/day



EXPLORATION AND PRODUCTION SUSTAINABILITY ACHIEVEMENTS

For both INA Exploration & Production facilities Fractionation Facility Ivanić Grad (FFIG) and the Gas Processing Facilities Molve (GPF Molve), IPPC (Integrated Pollution Prevention and Control) Permits with five years validity, as well as the improvement program were issued in 2014.

Among a few on-going optimization projects (e.g. Reconstruction of Ethane Plant Waste Heat Recovery Units, Optimization System of CS Kalinovac), Optimization Project of the Fractionation Facilities Ivanić Grad was completed in 2014, with the main purpose of optimizing Plant operation and reducing operating costs by reduction of fuel gas consumption and maintenance costs. Beside energy efficiency, the optimization project results in GHG emissions decrease, because the emissions from previously used gas compressors are eliminated and their function partially taken over by the newly installed electric engine driven propane compressor.

In E&P BD, the year 2014 was marked with start of the CO<sub>2</sub> EOR project. Before the project started, a comprehensive Baseline study analysis of air, water, soil, and forest vegetation was done although it was not a legal requirement. This analysis will serve as a reference for all future measurements. Trial exploitation and injection into 12 Ivanić wells started on 14<sup>th</sup> of October, after received approval from Ministry. Project's primary goal is to increase oil recovery (residual oil production) on mature fields Ivanić and Žutica. Secondary target is to significantly reduce CO<sub>2</sub> emissions, extending the both fields' life cycle enabling further development of this region and local community. Until the end of 2014, quantity of over 27 million m<sup>3</sup> CO<sub>2</sub> was injected into the Ivanić Field mature oil reservoirs.

E&P BD has a long tradition of technological and geothermal water production from existing fields. The annual production volume of water is about 3 million m<sup>3</sup>. Produced technological water is used for internal consumption and distribution to customers, while geothermal water from the geothermal fields Bizovac and Zagreb is used for thermal needs.

Total water withdrawal decreased in 2014, because, instead of withdrawn water, formation

water produced within EOR project has served for formation pressure support purpose.

Preliminary site investigation has been done on three locations that are planned for instalation of the new facility type of improved technology for regeneration of the technological fluid, generated during exploration and production processes. It considers washing out, heating and chemical treatment of dense phase in order to improve oil recovery and produce less waste.

By rehabilitation and replacement of pipeline's critical sections, continuous and safe operation system is achieved, resulting also in decreasing leakage risks. During 2014, 20,500 meters of damaged and/or corroded pipeline sections were renewed and 1,575 m replaced.

Communication with the communities in E&P BD went through public debates held regularly in the process of environmental impact assessment and environmental permits obtaining. There is also the regular annual general and comprehensive monitoring, measuring and sampling at the Gas Processing Facilities (GPF) Molve which have been performing for more than 30 years. In addition to water and soil, the monitoring includes various tastings on local animals, vegetation and people. Comprehensive monitoring, sampling and measuring at location GPF Molve are regularly done on annual basis while the results are being published.





# REFINING AND MARKETING

INA Refining and Marketing Business Division (“INA R&M”) manages two crude oil refineries, lubricants production, a commercial wholesale network, and a logistics network for storing and distributing crude oil derivatives to the market. The refined products are transported by road, sea, rail, river, and pipeline utilizing owned and rented product depots. Main refinery products include EURO V quality gasoline and diesel, JET fuel, virgin naphtha, benzene concentrate, heating oils, several grades of fuel oil, sulphur, bitumen, and calcined and green (regular) petroleum coke. INA’s core markets are Croatia and Bosnia and Herzegovina with other export markets involving sales to Slovenia, Serbia, Albania, Hungary, Italy, and the Mediterranean.

## RIJEKA REFINERY

The refinery is located on the Mediterranean Sea with a connection to the Jadranski naftovod (“JANAF”) crude oil pipeline system. This location enables the Rijeka Refinery to purchase crude oil, feedstock, and finished products from the world market and to export finished products to the liquid Mediterranean market. The refinery is also connected to other depots located on the Adriatic coast line via vessels while an extensive rail network connects it to inland depots.

During the modernisation programme which was completed in 2011, three facilities were completed within the Hydrocracking complex - Mild Hydrocracking, Hydrogen Unit, and Desulphurization Plant (Claus) as well as numerous supporting facilities and installations.

The hydrocracking complex significantly increased conversion and the complexity of the refinery (9.1 Nelson Complexity Index, “NCI”). After the modernisation programme, the Rijeka Refinery produces only EURO V quality gasoline and diesel fuels, and complies with high European environmental standards. Besides gasoline and diesel fuels, the Rijeka Refinery produces JET fuel, virgin naphtha for the petrochemical industry, benzene concentrate, heating oils, and several grades of fuel oils.

## SISAK REFINERY

The Sisak Refinery is located in central Croatia in close vicinity of Zagreb, placing it near the main centre of Croatian motor fuel consumption. The local oil pipeline is used to transport crude oil and condensate from domestic oil fields in Moslavina and the Sava River is used to transport crude oil from the Slavonian fields.

Recent infrastructural improvements included the Isomerization Unit, finalised in 2011 as part of the refinery modernisation programme increasing refinery complexity index to and NCI of 6.1. The Turnaround in the Sisak Refinery (which included the installation of new coke chambers in the

Delayed Coker Unit) was successfully finished in 2014.

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

## COMPETITIVE ADVANTAGE

INA’s access to the liquid Mediterranean market increases the sales potential and the purchasing flexibility of semi-finished products.

Key competitive advantages include:

- Rijeka Refinery’s Mediterranean access enables a high level of market coverage, maximisation of crude selection, and optimization possibilities.
- Access to domestic crude oil and natural gas sources.
- Strong logistic connections between refineries and depots, including the possibility to transport products by road, rail and sea which ensure flexible, safe, and efficient market supply.
- Group level synergies and joint optimisation of several production sites, continuously improving



## HIGHLIGHTS

► **Strong focus on zero accident operation resulted in safe and secure operations, bringing performance in line with European industry benchmarks, both LTI and LTIF;**

► **Market share on the domestic market remained stable**

► **Trading activities in line with production optimization, shifting the focus more on captive market supply and maintaining a strong position on the domestic market and also enabling fast reaction to market conditions with increased flexibility in production;**

► **Trading activities enabled fast reaction to market conditions with increased flexibility in production;**

► **Efficiency improvement initiatives including energy efficiency, loss management, inventory management, removing logistics bottlenecks and strengthening the synergies between the refineries were successfully continued;**

► **An important project in Refining and Marketing, the Turnaround in the Sisak Refinery (which included the installation of new coke chambers in the Delayed Coker Unit) was successfully finished.**

refining yields by increasing the utilization of key conversion units, and optimizing the use of fuel components.

### KEY ACHIEVEMENTS IN 2014

INA has been facing sluggish mainland demand development due to the recession in the region, as well as changes in environmental product standards. The declining trend in market demand in Croatia continued in 2014, putting further pressure on R&M operations. The external price environment was also less favourable than in the previous year. While the average dated Brent price in 2014 decreased by 9.7 \$/barrel vs. 2013, the average available product prices declined at a faster pace resulting in lower available crack spreads. Despite lower market demand and unfavourable external environment in the first three quarters of 2014 (partially offset by the fourth quarter improvement in refinery margins), INA R&M managed to keep its market position stable on both Croatian and Bosnian markets. Proven management efforts to capture favourable market opportunities, on-demand and block operations, extending the crude basket which led to a greater share of marketable motor fuels, proactive feedstock selection, energy and inventory management as well as disciplined cost control, while contributing positively to results, were not enough to offset the external environment and subsequently leading to lower financial performance.

**Key achievements for the year include:**

### HSE PERFORMANCE

Strong focus on zero accident operation resulted in safe and secure operations. Refining and Marketing over-performed set targets in terms of work related accidents with LTIF ending the year at 1.1, well in line with European refinery industry benchmarks.

### MARKET PRESENCE AND COMMERCIAL ACTIVITIES

- INA kept its strong market position on the Croatian and Bosnian motor fuel markets
- Higher sales of diesel were driven by returns to HANDA (Croatian Compulsory Oil Stocks Agency) on the domestic market, higher sales on the Bosnian market and other export markets

(i.e. spot diesel sales to Hungary in May). In connection with low refinery margins and in line with optimization, third party sourcing of middle distillates was enhanced.

- Capturing of favourable gasoline crack spreads by flexible and timely reactions on spot market opportunities.

- Bio diesel blending project to strengthen INA's position on the sustainable development market and allow for further product differentiation successfully launched and in line with project schedule.

### EFFICIENCY MANAGEMENT

- Block and on-demand operation mode in Rijeka and Sisak refineries successfully continued and developed.

- Proactive crude and feedstock selection - 25 crude grades in evaluation basket to increase the share of marketable motor fuels. Three of five alternative grades processed (Basrah, Al Jurf, and Bonga) were new in 2014.

- Initiatives to increase energy efficiency, improve loss management and yield improvement continued.

- The Turnaround in the Sisak Refinery (which included the installation of new coke chambers in the Delayed Coker Unit) was successfully finished in 2014 aimed at improving asset performance.

- Continuous bi-monthly evaluation whether to "make or buy" in order to generate value in downstream. The decision lead time was reduced considerably, thereby improving accuracy of decisions in regards to the economic environment.

- Completed asset and process changes required for alternative supply mode of operation.

### LOGISTICS AND DISTRIBUTION OPERATIONS

- Key infrastructure optimization multi-year-program executed, resulting in major asset utilization improvements and product loss management efficiency yielding a 10% reduction in annual operational costs. Modernization of key strategic locations started with the objective of providing high HSE standards and high efficiency.

- Inventory management efforts decreased the average inventory level and subsequently the overall working capital costs.

- Compared to the previous year, petroleum



product transfer via rail increased by 3% and annual seaborne throughput increased by 6%. The new coastal sea supply strategy adopted decreased sea-transport costs by 20%.

To keep the pace with European downstream competition, business processes in INA R&M were focused on optimizing operations throughout the entire value chain. The main goal was to maintain high security of market supply on core markets of Croatia and Bosnia (proven during the fire in the Rijeka Refinery during highest market demand season), increase profitability (i.e. reduce losses with improved efficiency), flexible operations, disciplined cost control, and by capturing market opportunities.

### OUTLOOK

INA is focused on maintaining high supply security of the Croatian and Bosnian markets while further strengthening its market presence by serving its markets with high quality fuels and services at lowest possible cost. We will continue to focus on safe and reliable operations, improving the overall performance and cost efficiency. Furthermore, we believe that adjusting refinery capacities to market demand and investments in increasing the refining unit conversion level are key for future sustainable development and success. Utilizing Group level synergies will provide additional optimization possibilities and create value in the current market environment.

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

#### Efficiency and production management:

I.) Production and sales flexibility in case of favourable spreads of certain products.

II.) Increasing white product ratio by refinery on-demand operation mode and increased utilization of main conversion units.

III.) Initiatives that focus on lowering energy costs will be done via the newly formed energy department which will coordinate all related activities.

#### Market presence and commercial operations:

IV.) Optimizing a mix of term and spot contracts



► **Direct access to Mediterranean markets utilised by flexibly placing volumes on sea borne trade; Proven management tactics of adjusting production assets to reflect market realities continued with:**

- **on-demand and block operation in the refineries;**
- **INA extended its crude basket by processing different light/heavy/low-mid sulphur crude oil types. The different crude grades were sourced from multiple supply regions - Black Sea, Caspian, Mediterranean and West Africa;**
- **crude oil portfolio of all processed crudes moved in the direction of increasing the share of non-REB crude types (increased from 15% in 2013 to current alternative crudes takes of 47% in 2014 of all imported processed crude grades);**
- **processing alternative feedstock (other than crude oil) to optimise key processing units and increase white product yields;**

for buying raw materials and ensuring their stable supply as well as product exports.  
 V.) Increasing market share in the region by using the advantages of refinery location, warehouse coverage, efficient distribution, modernised retail stations, and high quality fuels.

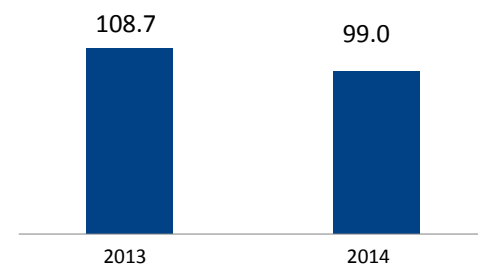
**Optimisation and risk management operations:**  
 VI.) Global and local optimisation to further utilize Group level synergies and to produce the most valuable products in the most profitable way. Further widening the crude basket, carefully balancing inventory levels and logistic costs and defining the on-demand refinery capacities with optimisation both on global and local level.

VII.) Risk management improvements, including improved operations hedging with derivative instruments expected to continue and develop further.

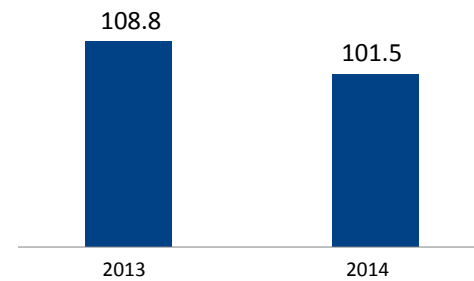
On a medium term horizon, we are further strengthening logistic connections between assets to facilitate INA R&M synergic operations and flexibility. Besides the existing asset structure, a residue upgrade project worth more than USD 400 mln is on-going in the Rijeka Refinery, this will increase conversion to lighter and more valuable products, improving the overall INA R&M competitiveness on the market.

**ENVIRONMENT**

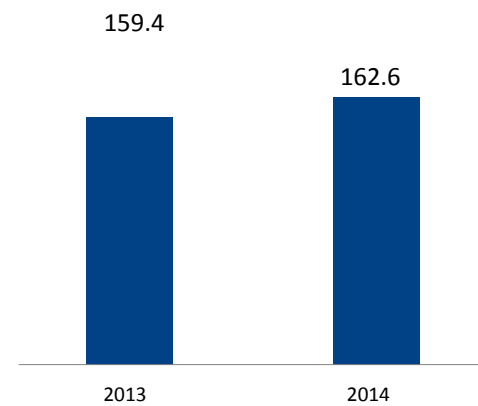
**Crude oil prices average USD/bbl**



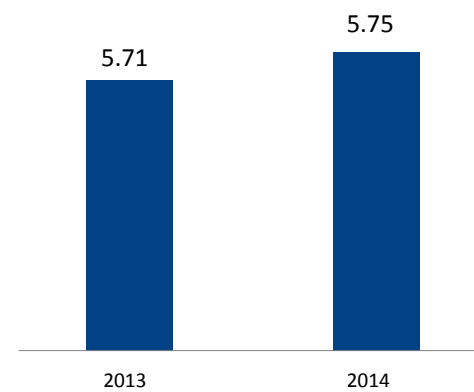
**Diesel crack-spread average USD/t**



**Gasoline crack-spread average USD/t**



**USD/HRK exchange rate average**



**REFINING AND MARKETING SUSTAINABILITY**

In accordance with Decision on Integrated Environmental Protection Requirements (Environmental permit) issued by Ministry of Environmental Protection and Nature for both INA refineries, an adequate plan to fulfil all environmental requirements till the end of given 5 years period has been set up.  
 In both INA refineries successful ISO 14001 and OHSAS 18001 recertification audits have been implemented, as a proof of continuous improvement in systematic approach to HSE issues management. Additionally, activities on implementing Process Management System started as one of the main strategy HSE topic in 2015. Objective is to upgrade, improve and harmonise overall HSE management system.  
 INA safety performance has been developed for the last few years. Several different awareness programs were fully implemented in year 2014 in order to achieve better results (like Life Saving Rules, new Contractor safety program, improvements of safety audits and work permitting system and other). One of the most important safety indicators LTIF (Lost Time Injury Frequency per million hours worked) decreased from 1.3 in 2013 to 1.1 in 2014. R&M LTIF value is very close to European refinery benchmark and on track to achieving Aim Zero Injuries in further period.  
 In the year 2014 INA continues with the investments in biofuels blending projects in INA refineries and for bioethanol blending projects in INA refineries all documentation is finished and civil permits obtained. The ISCC-EU recertification audit regarding Sustainability of Biofuels has been conducted in 2014. According to the Auditor's report INA's BIO process meets all the requirements of the ISCC-EU and the

certificate has been prolonged. Sisak Refinery is implementing a flare gas recovery project to recover hydrocarbons from the flare system. By installing a new recompression stations FGR System collect sour low pressure gases and use it as fuel which will also result in total emissions reduction from the flares.  
 The measures from Rehabilitation program to reduce emissions / imission of SO<sub>2</sub> were implemented in Rijeka Refinery. With the use of environmentally friendly fuel (use of natural gas) along with other measures related to energy efficiency improvement, resulted with lower fuel consumption which directly leads to reduction of SO<sub>2</sub> emissions. Total SO<sub>2</sub> emissions decreased by 2.5% compared to 2013. Air quality for SO<sub>2</sub> parameter on all surrounding measurement stations at both refineries show fully acceptable air quality conditions.

Underground remediation project in Rijeka Refinery has been successfully carried out for last two decades. In 2014 site investigation was performed at Sisak Refinery and the first monitoring wells set up as preparation activities for the beginning of site remediation.  
 Overall objective of Downstream Development Energy Efficiency Improvement Projects was to identify and implement energy efficiency improvement projects, supporting energy saving, decreasing CO<sub>2</sub> emissions and improve the efficiency and profitability of Refinery production. Several projects have been completed and successfully implemented, and according to preliminary estimation, predicted improvements are already visible and expected benefits will be achieved.  
 Cooperation with the local communities has been established, and INA sites organises interesting education programs for school and kindergarten children.

## HIGHLIGHTS

► Implementation of new operating model on 17 filling stations

► 22 additional filling stations modernized in INA's retail network, bringing the total number of modern filling stations close to 200

► Increase in non-fuel category is entrusted to the newly organized Non-fuel Category Management team, with the aim to improve activities and services that will empower the identity and image of company as well as customer loyalty



# RETAIL

On 31<sup>st</sup> of December 2014, INA Group operated a retail network of 442 stations, of which 391 in Croatia while the remaining 51 stations are located in the region - 44 in Bosnia and Herzegovina, 6 in Slovenia and 1 in Montenegro.

Total sales volumes of Retail segment in 2014 amounted to 994 kt, recording a 2% decrease in comparison to the previous year as a result of weaker purchasing power, still present economic downturn and negative consequences of bad weather and the floods in May 2014. Throughput per site in 2014 was 3% lower compared to the same period last year. The decrease in sales volumes compared to 2013 was influenced by lower sales of motor gasoline by 7% while gas and heating oils maintained the same level as in 2013. Analysis of the structure of motor gasoline sales showed decrease in sales of premium fuels in favor of regular fuels with more affordable price, indicating still present market contraction.

New Law on Oil and Oil Derivatives Market came into force on 20<sup>th</sup> February 2014, thereby repealing the Petroleum Products Pricing Regulation, which enabled free formation of prices (liberalization of energy market and differentiation of fuel prices). In line with the new Act, free pricing at each filling station and frequent price changes are possible, so market positions can be leveraged more via micro-pricing.

Although revenues from fuel sales greatly dominate and account for about 80% of retail revenues, while sales of non-fuel category makes up about 20%, it is an equally important element of Retail offer. For the purpose of maintaining a unique position on the market, differentiation from the competition and to fulfill the needs of different groups of consumers, emphasis in the retail business was placed on extending and creation of special offers at filling stations such as: gastro offer - developing new concept and implementation of new assortment / equipment

(eg. coffee to go, sandwiches & bakery products); shop - developing promotional zones, adopting layouts, changing assortment offer and developing concept of new price strategy; establishing the basis for development of various services - paysafe card, travel insurance, ticket sales, etc.

### OUTLOOK

Modernization program of the retail network is planned to be continued in 2015. During the year 2015, the main emphasis will be on customer service improvement, preserved fuel and non-fuel sales performance and operation cost reductions. Non-fuel margin increase is expected to be additionally boosted by the positive impact of the modernisation project, in the scope of which store space is expanded and offer is improved through the implementation of new promotional activities, seasonal assortment, new categories, improvement in gastro offer, space organization and the introduction of new services (pay bills, postal services) and car wash services. Better contract terms based on new approach and projects negotiated with suppliers are also expected to improve non-fuel margin. Strong focus of Retail BD will be directed on minimizing of all types of risks upon fuel receipt

at retail sites and increasing competitiveness by ensuring continuous fuel quality followed by positive effect on turnover due to market liberalization.

### RETAIL SUSTAINABILITY

During a year 2014, retail modernization program continued with main aim to keep existing volumes and increase non-fuel sales through shop space adjustment and application of new non-fuel category management initiatives. From the start of the "Blue Concept" program until the end of 2014, some 180 filling stations were modernized through KDRs, interior and partial interior refurbishments, as well as the new visual identity.

The major emphasis in retail operations during the year was placed on implementation and development of a new retail operational model, i.e. engaging partners to manage INA's filling stations. In December 2014, based on detailed trend analyses, 17 pilot filling stations were already operating according to the new model, while the Management Board expressed positive opinion towards the project continuation.

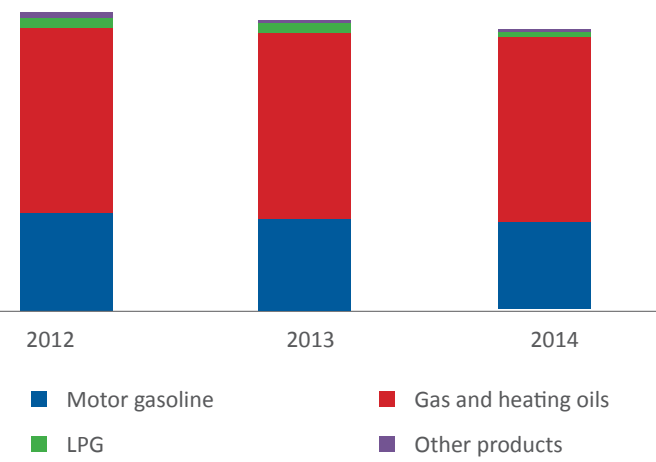


Various events are being organized for the customers, out of which the most highlighted are: Brazil PWG / FIFA World Cup - fan zone on INA filling stations organized, INA Ladies' Days free check-up of car, eyes check-up with partner "Essilor" at FS throughout Croatia, summer promotion with Zagrebačka banka on selected FS, fruit stand - sale of strawberries at FS in Slavonia and Zagreb region.

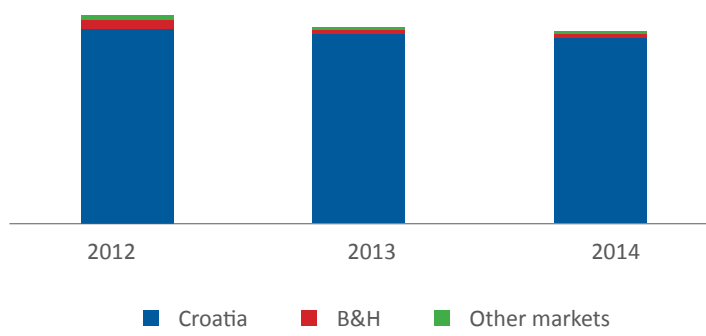
maintaining compliance with local environmental regulations and internal standards, continuation of HSE training for work in a safe manner also for employees on those filling stations where the new operational model was implemented, as well as proceeding with strengthened facility safety before commissioning and ensuring healthy workplaces by continuous supervision over contractors and improved site inspection practice (made risk assessment for all locations).

In Retail HSE area special focus was on

Retail sales by product

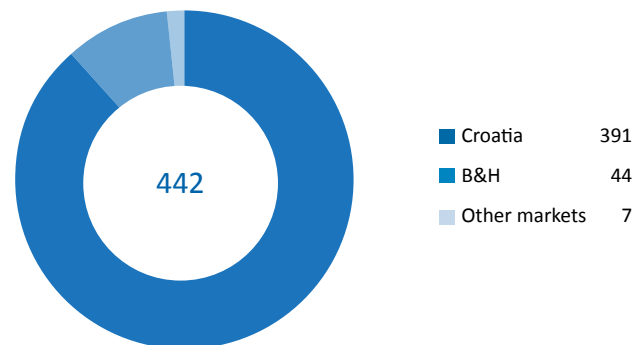


Retail sales by country



NUMBER OF FILLING STATIONS

Number of filling stations	2012	2013	2014
Croatia	396	392	391
B&H	45	45	44
Other markets	7	7	7
<b>Total</b>	<b>448</b>	<b>444</b>	<b>442</b>





# FINANCIAL AND OPERATING PERFORMANCE





# MANAGEMENT DISCUSSION AND ANALYSIS

## SUMMARY OF 2014 RESULTS

INA Group CCS operating profit excluding special items in 2014 amounted to HRK 1,157 million, a 15% increase compared to 2013. Reported operating results were impacted by further impairment of Syrian assets of HRK 1.6 billion, not having direct cash effect but applied in accordance with previous good business practice, as well as a significant Brent drop and HRK 395 million impairment in the Downstream segment. INA Group CCS EBITDA excluding special items amounted to HRK 3.3 billion, which is a 16% decrease compared to 2013. Negative regulatory decisions had a significant and ongoing negative effect on Upstream operations. The combined negative effect of forced gas sale, regulated gas price reduction and doubled royalty as well as another subsequent refinery tax obligation on the result reached almost HRK

1.1 billion. Consequently realized hydrocarbon prices decreased and were also influenced by considerable Brent price drop in the second half of the year. Constant efforts of Exploration & Production in compensating the natural decline have resulted in crude oil production increase, first time in more than a decade, 5% higher compared to 2013. This increase was however not enough to compensate for the drop in gas production of 8%, bringing the total production to a 4% decrease. Furthermore Upstream hydrocarbon production rose significantly by 5 mboepd in the last quarter partly due successful development activities both on- and off- shore. Refining & Marketing made efforts to increase productivity and market position of INA but the performance was impacted by sustained tight European refining macro environment and the impact of prolonged economic slowdown in Croatia and INA's other key markets resulting in

lower sales volumes. In spite of these negative impacts the retail sales domestically remained rather stable with a decrease of 2%. At the same time the Company continues with operations optimization with the development of new retail operating model that ensures more efficient operations. Operating cash flow reached the level of HRK 3,859 million in 2014, a drop of 16%. In order to compensate the effect of adverse regulatory changes, measures have been made resulting in the further improvement of already stable financial position, decreasing net debt by further 37% to the level of HRK 2,991 million and net gearing to 20.4%, compared to 27.0% at the end of 2013.

Investment level of HRK 1,691 million is 16% lower than in 2013, but having in mind the regulatory changes not stimulating the investment it remains as strong figure, focused mainly in Croatia, primarily in the Upstream segment.

**Exploration and Production:** In 2014, EBITDA reached HRK 3,739 million, which is lower by HRK 1,088 million than in the same period last year. In 2014 the regulatory environment changed significantly which had a negative impact on Upstream business. Royalty rate was increased from 5% to 10% starting from March 26, 2014 and the regulated price of natural gas to households was reduced from 2.2 to 1.7 HRK/cm, resulting in a much lower average realized hydrocarbon price. Besides, the significant Brent drop down in H2 2014 had additional negative effect on the result.

Additionally, the crude oil inventory transfer in 2013 had a one-off positive effect on previous year results. Finally, despite some major achievements as a result of continuation of investment activities, the Group faced production decline in offshore and onshore production of natural gas as well as condensate production in comparison with the base period. On the positive side INA increased its crude oil production by 5% in 2014 compared to the base period.

**Refining and Marketing (including Retail):** In 2014 the Refining and Marketing segment's reported 'clean' CCS-based EBITDA amounted to HRK (554) million and was below 2013 levels. Although total sales volumes decreased, the sales structure improved (i.e. motor fuel share increased, while fuel oil share decreased). The fire in the Sisak Delayed Coker Unit boiler in 2013 led to further availability problems in the same boiler in 2014 and production upsets on FCC units in both refineries in 2014 resulted in less favourable production yields. Refining and Marketing continued its disciplined cost control efforts, on-demand operation, and reduced the reaction time in response to market changes.

**Corporate and Other:** EBITDA of the segment increased by HRK 439 million from HRK (274) million in 2013 to HRK 165 million in 2014, mainly because of higher Crosco contribution. Higher Crosco revenues are a result of better capacities utilization, higher well services and workover rigs revenues. This was backed with lower maintenance, transportation costs and freight forwarding services than in 2013.

	2013		2014		Change 14/13%	
	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
HRK mln.						
Net sales revenues	27,444	4,810	23,759	4,133	(13)	(14)
EBITDA (1)	3,726	653	2,580	449	(31)	(31)
EBITDA excl. special items (2)	3,805	667	2,699	469	(29)	(30)
Operating profit	(1,505)	(264)	(1,712)	(298)	14	13
Operating profit excl. special items (2)	816	143	523	91	(36)	(36)
Net financial expenses	(311)	(55)	(622)	(108)	100	98
Net profit/loss for the period	(1,508)	(264)	(1,897)	(330)	26	25
Net profit for the period excl. special items (2)	953	167	344	60	(64)	(64)
Operating cash flow	4,576	802	3,859	671	(16)	(16)
Earnings per share						
Basic and diluted/(loss) earnings per share (kunas per share)	(150.8)	(26.4)	(189.7)	(33.0)	26	25
Net gearing %	26.99		20.41			

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

(2) The 2014 EBIT was negatively influenced by HRK 2,235 million special items (INA Group); HRK 2,188 million (INA, d.d.)

In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for Q3 2014 – 5.7390 HRK/USD; Q4 2013 – 5.6036 HRK/USD; Q4 2014 – 6.1287 HRK/USD; Q1-Q4 2013 – 5.7059 HRK/USD; Q1-Q4 2014 – 5.7493 HRK/USD

## EXPLORATION AND PRODUCTION OVERVIEW

In 2014, EBITDA reached HRK 3,739 million, which is 23% lower than last year. Average Brent price decrease of 9% coupled with significant adverse changes in the regulatory environment, had a negative impact on the Upstream segment result through lower realized prices. Forced gas inventory sale negatively impacted the result by HRK (270) million, while the reduction in the regulated gas price created additional HRK (260) million difference compared to the base period. Furthermore the effect of doubled royalty reached a negative impact of HRK (223) million, totalling HRK (753) million of negative effect in 2014. Additionally, the inventory transfer in 2013 had one off positive effect on the previous year results. Finally, overall production volumes decreased by 4% despite the increase in crude oil

production, both domestic and international.

Similarly to 2013, operating profit of 2014 was also impacted by impairment of fixed assets. In the absence of parameters needed for unit-cost production depreciation calculation method due to Force Majeure in Syria, linear depreciation method was applied starting from 01 January 2013 in order to fairly reflect the amortization of the equipment. Syrian depreciation impact for 2014 was HRK 306 million. Additionally, the value of its Syrian assets has been adjusted with impairment of HRK 1,562 million, not having direct cash affect but applied in accordance with good business practice to ensure fair valuation of INA's Syrian assets.

Total natural gas production in 2014 was 7.8% lower than in 2013,

- The year-on-year decrease on off-shore

natural gas production mainly derives from water cuts and higher restitution on Annamaria offshore field. Natural decline was somewhat compensated by the start-up of production on Izabela field.

- Onshore-natural gas production was impacted by more complex and longer annual overhaul on main facilities GTP Molve and Ethane plant aggravated by natural decline.

Crude oil production increased in 2014 by 5% compared to 2013:

- The natural decline of domestic crude oil production was more than offset with performed workovers, well optimisation and additional production from Hrastilnica.
- Lower domestic condensate production was a consequence of more complex and longer annual overhaul on main facilities GTP Molve and Ethane plant and natural decline.
- Egyptian oil production in 2014 was higher by

8.1% than 2013 as a result of higher production on North Bahariya after an aggressive drilling campaign and performed workover operations and of higher production on East Yidma since the production share changed from 29% to 58%.

- Angolan 2014 crude oil production in yearly comparison showed a 4.4% decrease due to natural decline.

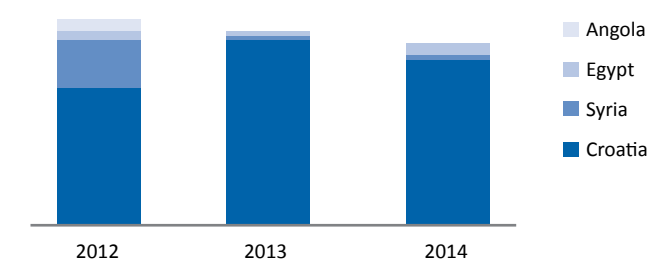
Additional unfavourable regulatory changes have been imposed on the Upstream segment, which have already affected Q1 results and continue to burden operations on an on-going basis, started in Q2 2014. Gas trading regulation changes have appointed HEP as wholesale market supplier for tariff customers starting from 1 April 2014 and INA has been obliged to supply HEP at a reduced price compared to the previous regulated household gas price. As a result operating loss of Prirodni Plin amounted to HRK 537 mln in 2014.

	2013		2014		Change %	
	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Segment IFRS results						
Net sales revenues	9,325	1,634	6,732	1,171	(27.8)	(28.4)
EBITDA	4,827	846	3,739	650	(22.5)	(23.1)
EBITDA excl. special items	4,827	846	3,739	650	(22.5)	(23.1)
Operating profit	1,489	261	961	167	(35.4)	(35.9)
Operating profit excl. special items	2,993	525	2,565	446	(14.2)	(14.9)
CAPEX with one-off	1,396	245	1,048	182	(25.0)	(25.5)

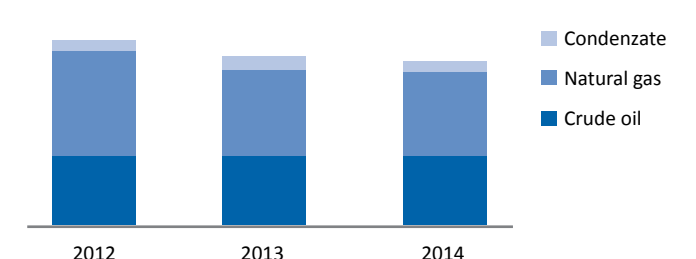
Exploration and Production refers to the Upstream of INA, d.d. and following subsidiaries: INA Naftaplin IE&PL, Guernsey, Adriagas S.r.l. Milano, Prirodni plin d.o.o.

The 2014 EBIT performance includes HRK 1,604 million negative special items

### Production by Region



### Production by Products





## REFINING AND MARKETING (INCLUDING RETAIL) OVERVIEW

In 2014, the Refining and Marketing (including Retail) 'clean' CCS-based EBITDA and EBITDA excluding special items amounted to HRK (554) million and HRK (1,184) million respectively, both significantly below 2013 level. Reported EBITDA drop mostly derived from the collapse in Brent price which caused inventory revaluation in the amount of HRK 523 million.

The result was mainly under the pressure by (1) a continuing unfavourable crack environment reflected in 5% lower average crack spreads (i.e. lower diesel crack spreads), which also led to (2) lower sales volumes by 5% combined with (3) less favourable production yields mainly related to fall-outs of some conversion units during Q1 2014, which was driven by the fire in the Sisak Delayed Coker Unit's boiler in 2013 which led to further availability problems in the same boiler in 2014 and also production upsets on Fluid Catalytic Cracker units in both refineries during 2014. These production upsets also caused (4) higher share of own consumption and losses.

However, (1) although total sales volumes decreased, sales structure improved, i.e. motor fuel share increased and fuel oil share decreased, (2) Brent-Ural spread was more favourable and (3) Retail margins were higher.

A decline in estimated motor fuel demand in Croatia as well as weaker purchasing power put pressure on sales resulting in lower transfers to own retail and sales volumes to end users. Export sales volumes primarily on Slovenian and Albanian markets were lower primarily due to lower levels of processing and partly due to lower

sales margins. Additionally 2013 performance was positively influenced by the change in inventory evaluation methodology HRK 216 mln and revenues from insurance and contractual penalties HRK 85 mln.

## RETAIL SALES VOLUME

Total sales volumes of Retail segment in 2014 amounted to 994 kt, recording (2%) decrease in comparison to the previous year as a result of weaker purchasing power, still present economic downturn and negative consequences of bad weather and the floods in May 2014. Throughput per site in 2014 was 3% lower compared to the same period last year. The decrease in sales volumes compared to 2013 was influenced by lower sales of motor gasoline by 7% while gas and heating oils maintained the same level as in 2013. Analysis of the structure of motor gasoline sales showed decrease in sales of premium fuels in favor of regular fuels with more affordable price, indicating still present market contraction.

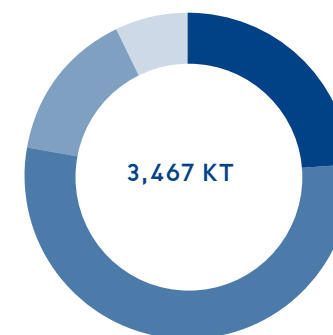
On 31<sup>st</sup> of December 2014, INA Group operated a network of 442 stations (391 in Croatia and 51 abroad, of which 44 in Bosnia and Herzegovina, 6 in Slovenia and 1 in Montenegro). During 2014 strong focus of Retail was on development of new retail operating model by launching a pilot project with the objective that certain filling stations use a form of partnership governance that ensures more efficient operations. Based on detailed trend analyses of 17 pilot filling stations already operating according to the new operational model, the Management Board expressed their positive opinion towards the project continuation.

## REFINING AND MARKETING (INCLUDING RETAIL)

Segment IFRS results	2013		2014		Change %	
	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Revenues	20,137	3,529	18,222	3,169	(9.5)	(10.2)
EBITDA reported	(427)	(75)	(1,303)	(227)	205.2	202.8
EBITDA excl. special items	(348)	(61)	(1,184)	(206)	240.2	239.6
CCS-based R&M EBITDA	(170)	(30)	(554)	(96)	225.9	223.4
Operating profit/(loss) reported	(2,068)	(362)	(2,489)	(433)	20.4	19.4
Operating profit/(loss) excl. special items	(1,251)	(219)	(1,925)	(335)	53.9	53.0
CCS-based R&M operating loss	(1,057)	(185)	(1,291)	(225)	22.1	21.4
CAPEX and investments (w/o acquisition)	545	96	470	82	(13.8)	(14.4)

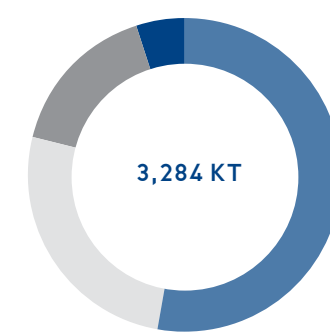
Refers to Refining & Marketing including Retail INA. d.d. and following subsidiaries: Maziva Zagreb, InterIna Ljubljana, INA BH Sarajevo, Holdina Sarajevo, INA Hungary, INA Crna Gora, INA Beograd, INA Kosovo  
The 2014 EBIT performance includes HRK 564 million negative special items

## REFINED PRODUCT SALES BY COUNTRY



2013

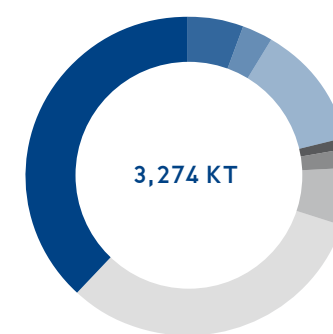
Croatia	54%
Other markets	24%
B&H	15%
Slovenia	7%



2014

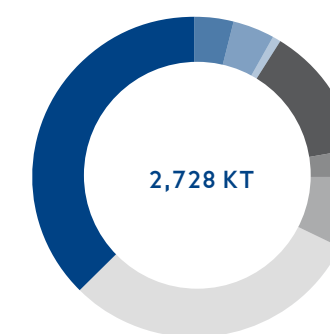
Croatia	53%
Other markets	26%
B&H	16%
Slovenia	5%

## REFINERY PRODUCTION



2013

Heating oil	6%
Kerosene	3%
Naphtha	1%
Fuel oil	13%
Bitumen	1%
Other products	-2%
LPG	6%
Motor gasoline	33%
Diesel	39%



2014

Heating oil	4%
Kerosene	4%
Naphtha	1%
Fuel oil	13%
Bitumen	0%
Other products	3%
LPG	7%
Motor gasoline	30%
Diesel	37%

**CAPITAL EXPENDITURES**

Exploration and Production capital expenditures Exploration and Production segment's CAPEX with one-off in period 2014 amounted to HRK 1,048 million. Capital investments in Croatia amounted to HRK 899 million and capital investments abroad HRK 149 million. In comparison with 2013 capital investments are lower in total for HRK 209 million or 17%. Decreased investments level is mainly result of lower offshore development, lower development activities in Angola and Egypt and finishing of exploration activities in Egypt in 2013.

**Refining and Marketing (including Retail) capital expenditures**

Capital expenditures amounted to HRK 470 million in 2014, which is HRK 75 million lower than the investments in the same period of the 2013.

R&M capital expenditures in 2014 amounted to HRK 314 million. CAPEX spending was lower due to achieved savings in contracting, projects postponements and delays in contracts realization. An important project in Refining and Marketing, the Turnaround in Refinery Sisak (which included the installation of new coke chambers in the Delayed Coker Unit) is finished in Q4. Many projects, that are still on-going, continued in 2014 in regards to improving the logistics infrastructure as well.

Retail capital expenditures in 2014 amounted to HRK 156 million and were lower by HRK 65 million than the investments in the same period of the 2013. CAPEX performance is lower due to tender savings, delay in construction start Knock Down Rebuilds and delay of tender for Property protection equipment. The major part of realization consisted of intensive program of modernization in Croatia and start of KDR's in Bosnia and Herzegovina.

**Balance Sheet – INA Group**

Condensed Consolidated Statement of Financial Position – INA-GROUP  
At December 31 2013 and 2014 (in HRK millions)

	31 Dec 2013	31 Dec 2014	%
<b>Assets</b>			
Non-current assets			
Intangible assets	524	457	(13)
Property, plant and equipment	15,979	14,038	(12)
Goodwill	183	183	0
Investments in associates and joint ventures	22	22	0
Other investments	169	23	(86)
Long-term receivables	233	170	(27)
Deferred tax	1,127	1,742	55
Available for sale assets	330	462	40
<b>Total non-current assets</b>	<b>18,567</b>	<b>17,097</b>	<b>(8)</b>
Current assets			
Inventories	3,219	1,924	(40)
Trade receivables net	2,564	1,998	(22)
Other receivables	426	181	(58)
Corporative income tax receivables	421	112	(73)
Other current assets	144	282	96
Prepaid expenses and accrued income	166	154	(7)

	31 Dec 2013	31 Dec 2014	%
Cash and cash equivalents	402	467	16
Current assets	7,342	5,118	(30)
Assets classified as held for sale	-	0	n.a.
<b>Total current assets</b>	<b>7,342</b>	<b>5,118</b>	<b>(30)</b>
<b>Total assets</b>	<b>25,909</b>	<b>22,215</b>	<b>(14)</b>
Equity and liabilities			
Capital and reserves			
Share capital	9,000	9,000	0
Revaluation reserve	6	121	1,917
Other reserves	2,284	2,851	25
Retained earnings / (Deficit)	1,586	(311)	n.a.
Equity attributable to equity holder of the parent	12,876	11,661	(9)
Non-controlling interests	(1)	(1)	0
<b>Total equity</b>	<b>12,875</b>	<b>11,660</b>	<b>(9)</b>
Non-current liabilities			
Long-term loans	1,889	628	(67)
Other non-current liabilities	76	64	(16)
Employee benefits obligation	135	172	27
Provisions	2,754	2,837	3
Deferred tax liability	7	9	29
<b>Total non-current liabilities</b>	<b>4,861</b>	<b>3,710</b>	<b>(24)</b>
Current liabilities			
Bank loans and overdrafts	2,975	2,631	(12)
Current portion of long-term debt	299	199	(33)
Trade payables	2,841	1,713	(40)
Taxes and contributions	720	1,054	46
Other current liabilities	690	554	(20)
Accruals and deferred income	126	114	(10)
Employee benefits obligation	11	12	9
Provisions	511	568	11
Current liabilities	8,173	6,845	(16)
Liabilities directly associated with assets classified held for sale	-	-	n.a.
<b>Total current liabilities</b>	<b>8,173</b>	<b>6,845</b>	<b>(16)</b>
<b>Total liabilities</b>	<b>13,034</b>	<b>10,555</b>	<b>(19)</b>
<b>Total equity and liabilities</b>	<b>25,909</b>	<b>22,215</b>	<b>(14)</b>



As at 31 December 2014, INA Group total assets amounted to HRK 22,215 million and were 14% lower compared to 31 December 2013.

In the period ended 31 December 2014, INA Group invested HRK 40 million in intangible assets. The effect of amortization equals to HRK 35 million. Foreign exchange revaluation of oil and gas fields increased net book value in amount of HRK 31 million. Impairment of negative wells reduced a value of intangible assets in amount of HRK 107 million. Purchase of emission quotas increased an intangible asset for HRK 4 million.

In the period ended 31 December 2014, INA Group invested HRK 1,649 million in property, plant and equipment. Decommissioning costs decreased the value of assets by HRK 173 million. Foreign exchange revaluation increased net book value in amount of HRK 499 million. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 2,097 million. In the absence of parameters needed for unit-cost production depreciation calculation method due to Force Majeure, 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. Depreciation impact of surface assets in Syria in 2014 was HRK 306 million. Impairment of assets is HRK 1,784 million. Disposals of tangible assets in amount of HRK 29 million. Transfer from strategic inventories increased a value of tangible assets by HRK 5 million. Furthermore, transfer to merchandizing goods decreased a value of tangible assets by HRK 1 million.

Issued capital as at 30 September 2014 amounted to HRK 9,000 million. There was no movement in the issued capital of the Company in either the current or the prior financial reporting.

Inventories amounted to HRK 1,924 million, which is a decrease of 40% compared to 31 December 2013 as a result of lower inventories of crude oil, crude oil products and natural gas inventories (caused by changes in Croatian gas market).

Trade receivables decreased by 22% to the amount of HRK 1,998 million due to lower sales of oil products and lower natural gas sales deriving from lower production due to natural decline and lower prices reflecting direct sales to HEP.

As at 31 December 2014 total liabilities amounted to HRK 10,555 million, which is a decrease of 19% compared to the 31 December 2013 level.

INA Group net debt decreased by 37% and amounted to HRK 2,991 million compared to 31 December 2013. Gearing ratio decreased from 27.0% as at 31 December 2013, to 20.4% as at 31 December 2014.

Trade payables decreased by 40% to HRK 1,713 million, as a result of lower liabilities for imported crude oil and natural gas.

After transfer of other reserves to retained earnings in INA d.d., in amount of HRK 1,640 million, same will be firstly used for the coverage of losses from prior periods and afterwards total retaining earnings will amount to HRK 1,466 million out of which HRK 329 million are legal reserves.



## Income Statement – INA Group

Condensed Consolidated Income Statement – INA-GROUP

For the period ended December 31 2013 and 2014 (in HRK millions)

	2013	2014	%
Sales revenue			
a) domestic	17,531	14,187	(19)
b) exports	9,913	9,572	(3)
<b>Total sales revenue</b>	<b>27,444</b>	<b>23,759</b>	<b>(13)</b>
Capitalised value of own performance	361	459	27
Other operating income	488	277	(43)
<b>Total operating income</b>	<b>28,293</b>	<b>24,495</b>	<b>(13)</b>
Changes in inventories of finished products and work in progress	(91)	(935)	927
Cost of raw materials and consumables	(13,727)	(11,353)	(17)
Depreciation and amortization	(2,261)	(2,132)	(6)
Other material costs	(1,983)	(2,455)	24
Service costs	(815)	(1,000)	23
Staff costs	(2,415)	(2,467)	2
Cost of other goods sold	(5,536)	(3,705)	(33)
Impairment and charges (net)	(2,769)	(2,052)	(26)
Provisions for charges and risks (net)	(201)	(108)	(46)
Operating expenses	(29,798)	(26,207)	(12)
<b>Profit/(loss) from operations</b>	<b>(1,505)</b>	<b>(1,712)</b>	<b>14</b>
Share in the profit of associated companies			
Finance income	213	234	10
Finance costs	(524)	(856)	63
<b>Net loss from financial activities</b>	<b>(311)</b>	<b>(622)</b>	<b>100</b>
<b>Profit/(loss) before tax</b>	<b>(1,816)</b>	<b>(2,334)</b>	<b>29</b>
Income tax expense	308	437	42
<b>Profit/(loss) for the year</b>	<b>(1,508)</b>	<b>(1,897)</b>	<b>26</b>
Attributable to			
Owners of the Company	(1,508)	(1,897)	26
Non-controlling interests	-	-	n.a.
	(1,508)	(1,897)	26
Earnings per share			
Basic and diluted earnings per share (kunas per share)	(150.8)	(189.7)	26

Total sales revenues in 2014 amounted to HRK 23,759 million and were 13% below the 2013 level, primarily triggered by lower natural gas sales deriving from lower production due to natural decline and lower prices reflecting direct sales to HEP, unfavourable external environment which reflected in lower average crack spread and lower sales volumes of oil products.

Costs of raw materials and consumables were 17% below 2013 levels at HRK 11,353 million, as processing of other raw material volumes was lower.

Costs of goods sold recorded a decrease of 33% to HRK 3,705 million resulting from lower import of natural gas compared to 2013.

Within other operating costs realized in 2014:

- Other material costs were higher by 24% and amounted to HRK 2,455 million, firstly due to subcontractors costs related to STSI project in Belarus and secondly due to long term gas transportation contracts which are on 'take or pay' principle and transportation costs were incurred although there was no imports.
  - Service costs in the amount of HRK 1,000 million recorded an increase of 23% mainly due to ENI tax related to 2013 which had neutral impact on 2014 result due to release of related provision.
  - Depreciation in the amount of HRK 2,132 million was 6% lower compared to 2013 mainly due to lower Syrian and R&M depreciation.
  - Impairments, charges and provisions had a positive effect of HRK 810 million compared to 2013 due to lower impairment of natural gas as a result on lower natural gas inventories, value adjustments reversal related to EGPC receivables and lower impairment of Syrian assets.
- Staff costs in the amount HRK 2,467 million

were 2% higher compared to 2013. Staff cost represents cost of net salaries in the amount of HRK 1,250 million, cost of employee income tax in the amount of HRK 542 million, tax on payroll in the amount of HRK 319 million, severance payments for employees whose employment contracts are terminated due to business reasons in amount of HRK 100 million and other payroll related costs in the amount of HRK 256 million for the year ended 31 December 2014. For the year ended 31 December 2013 staff cost includes cost of net salaries in the amount of HRK 1.273 million, cost of employee income tax in the amount HRK 546 million, tax on payroll in the amount HRK 300 million, severance payments for employees whose employment contracts are terminated due to business reasons in amount of HRK 37 million and other payroll related costs in the amount HRK 259 million.

Income tax in 2014 amounted to HRK 437 million compared to HRK 308 million in 2013.

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 2014 and 31 December 2013.

Net financial expenses in the amount of HRK 622 million were recorded in 2014, compared to net financial expenses of HRK 311 million in 2013.

Net foreign exchange loss was HRK 247 million in 2014, compared to HRK 0.1 million net foreign exchange received recorded in 2013.

Interest payable amounted to HRK 292 million and interest received HRK 19 million in 2014, compared to interest payable of HRK 250 million and HRK 17 million interests received in 2013.

Other financial net expenses amounted to HRK 102 mln, compared to financial net expenses of HRK 61 mln in 2013.

## Cash Flow – INA Group

Condensed Consolidated Cash Flow Statement - INA GROUP

For the period ended 31 December 2013 and 2014 (in HRK millions)

HRK mln	2013	2014	%
Net cash inflow from operating activities	4,576	3,859	(16)
Net cash used for investing activities	(2,136)	(1,465)	(31)
Net cash from financing activities	(2,521)	(2,301)	(9)
Net (decrease)/increase in cash and cash equivalents	(81)	93	n.a.

The operating cash-flow before changes in working capital amounted to HRK 2,507 million in 2014, representing a decrease of HRK 1,175 million, or 32%, compared to 2013, mainly as a result of lower EBITDA.

Changes in working capital affected the operating cash flow positively by HRK 1,506 million, primarily due to:

- Decrease in trade payables by HRK 534 mln
- Decrease value of inventories by HRK 1,201 million and
- Decrease in receivables by HRK 839 million.

Net outflows in investing activities amounted to HRK 1,465 million, in comparison with HRK 2,136 million of outflows in 2013.



## FINANCIAL 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 are the credit risk and the liquidity risk.

### a) Market risk

Commodity price risk management (price risk) INA purchases crude oil on a spot market in USD, mostly using short-term credit facility arrangements. The required quantities of gas had been purchased in EUR based on spot prices. INA may use derivative instruments in managing its commodity exposure. As of December 31, 2014 INA, d.d. had opened short-term forward commodity swap transactions to hedge its exposure on changes in pricing periods and fixed price contracts.

### 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, 2014, there were no open cross currency swap 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. The Group may use interest rate swap to manage interest rate risk. As of December 31,

2014 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 credit rating agencies. There is no significant credit risk exposure of INA Group that is not covered with collateral, other than those to the institutions and entities controlled by the state and the local government, and exposure toward customers under certain concession agreements abroad. In order to minimize credit risk INA is using credit risk insurance services. 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, 2014, the INA Group had contracted short-term bank lines amounting to HRK 1.88 bln, excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and long-term credit lines amounting to HRK 5.35 bln.

## APPENDIX 1

IMPACT OF SPECIAL ITEMS ON OPERATING PROFIT AND EBITDA of INA Group (in HRK million)

	2013	2014
INA GROUP		
Total impact of special items on net profit/(loss)	(2,461)	(2,241)
Total impact of special items on operating profit/(loss)	(2,321)	(2,235)
Total impact of special items on EBITDA	(79)	(119)
Exploration & Production		
Total impact of special items on operating profit/(loss)	(1,504)	(1,604)
Total impact of special items on EBITDA	-	-
Write-off - Aphamia	(215)	-
Impairment of assets - Syria	(1,289)	(1,562)
Impairment of assets under construction	-	-
Provisions for incentives	-	(42)
Refining & Marketing including Retail		
Total impact of special items on operating profit/(loss)	(817)	(564)
Total impact of special items on EBITDA	(79)	(119)
Impairment of assets	(738)	(395)
Refinery - tax case*	(79)	(119)
Provisions for incentives	-	(50)
Corporate functions		
Total impact of special items on operating profit/(loss)	-	(67)
Total impact of special items on EBITDA	-	-
Impairment of assets - Syria	-	(34)
Provisions for incentives	-	(33)
Impacts on financial result and income tax		
Finance expenses*	(48)	(106)
Income tax*	(92)	(100)

\*Total impact of refinery tax case amounts to HRK 325 mln in 2014 (HRK 219 mln in 2013)



#### APPENDIX 1

##### BRANCH AND REPRESENTATIVE OFFICES ON DECEMBER 31 2014

###### INA d.d.

- Branch office Damascus, Syria (temporary not active due to existing economic sanctions and suspension of activities in Syria)
- Branch office Cairo, Egypt
- Representative office Luanda, Angola

###### CROSCO d.o.o.

- Branch office Zadar, Croatia
- Branch office Tirana, Albania
- Branch office Tripoli, Libya
- Branch office Damascus, Syria (temporary not active due to existing economic sanctions and suspension of activities in Syria)
- Branch office Cairo, Egypt
- Branch office Nagykanizsa, Hungary

###### Rotary Zrt.

- Branch office Erbil, Iraq

###### STSI d.o.o.

- Branch office Damascus, Syria (temporary not active due to existing economic sanctions and suspension of activities in Syria)
- Representative office Novopolotsk, Belarus



# KEY GROUP OPERATING DATA

## EXPLORATION AND PRODUCTION

	2012	2013	2014	*14/13%
Hydrocarbon production				
<b>Crude oil production (boe/d)</b>	<b>12,296</b>	<b>11,617</b>	<b>12,142</b>	<b>5</b>
Croatia	8,792	8,608	8,931	4
Syria	109	0	0	N.A.
Egypt	1,909	1,881	2,034	8
Angola	1,486	1,128	1,177	4
<b>Natural gas production (boe/d)</b>	<b>33,025</b>	<b>26,198</b>	<b>24,166</b>	<b>(8)</b>
Croatia - offshore	15,768	11,897	11,136	(6)
Croatia - onshore	14,978	14,301	13,030	(9)
Syria	2,278	0	0	N.A.
<b>Condensate (boe/d)</b>	<b>3,234</b>	<b>2,365</b>	<b>2,097</b>	<b>(11)</b>
Croatia	2,537	2,365	2,097	(11)
Syria	697	0	0	N.A.
<b>Total hydrocarbon production (boe/d)</b>	<b>48,555</b>	<b>40,180</b>	<b>38,405</b>	<b>(4)</b>
Average realised hydrocarbon price				
Crude oil and condensate price (USD/bbl)	96	95	89	(7)
Average realised gas price (USD/boe)	78	77	59	(23)
<b>Total hydrocarbon price (USD/boe)</b>	<b>83</b>	<b>82</b>	<b>69</b>	<b>(17)</b>
Natural gas trading - mln cm				
Natural gas imports	1,129	774	107	(86)
<b>Total natural gas sales - domestic market</b>	<b>2,631</b>	<b>2,228</b>	<b>1,718</b>	<b>(23)</b>
Natural gas price differential to import prices (HRK/000 cm)				
Eligible customers' price	(285)	(463)	(216)	(53)
Tariff customers' price	(1,248)	(898)	9	(101)
HEP	-	-	(516)	N.A.
<b>Total price</b>	<b>(536)</b>	<b>(596)</b>	<b>(270)</b>	<b>(55)</b>

\* calculation of relative changes made on the basis of the original value boe/day

## RESERVES BREAKDOWN

MMBOE	1P			2P		
	2012	2013	2014	2012	2013	2014
By region						
Croatia onshore	147	141	133	183	174	168
Croatia offshore	21	18	16	38	34	27
Syria	22	22	22	36	36	36
Egypt	2	2	2	3	2	3
Angola	2	2	2	6	5	3
<b>Total</b>	<b>196</b>	<b>186</b>	<b>175</b>	<b>266</b>	<b>251</b>	<b>237</b>
By product						
Oil	74	75	71	97	95	97
Gas	110	99	93	153	141	125
Condensate + LPG	12	11	11	16	15	15
<b>Total</b>	<b>196</b>	<b>186</b>	<b>175</b>	<b>266</b>	<b>251</b>	<b>237</b>

## REFINING AND MARKETING INCLUDING RETAIL

	2012	2013	2014	*14/13%
Refinery processing (kt)				
Domestic crude oil	496	433	394	(9.0)
Imported crude oil	2,448	2,427	1,880	(22.6)
Condensate	113	96	102	6.0
Other feedstock	1,009	750	749	(0.2)
<b>Total refinery throughput</b>	<b>4,065</b>	<b>3,707</b>	<b>3,125</b>	<b>(15.7)</b>
Refinery production (kt)				
LPG	236	209	190	(9.1)
Motor gasoline	1,135	1,068	824	(22.9)
Diesel	1,334	1,268	1,022	(19.4)
Heating oil	181	193	107	(44.3)
Kerosene	97	109	107	(2.1)
Naphtha	61	27	33	20.8
Fuel oil	440	419	358	(14.7)
Bitumen	26	38	3	(93.0)
Other products**	23	(56)	86	(253.0)
<b>Total</b>	<b>3,532</b>	<b>3,274</b>	<b>2,728</b>	<b>(16.7)</b>
Refinery loss	26	23	22	(0.8)
Own consumption	507	410	374	(8.7)
<b>Total refinery production</b>	<b>4,065</b>	<b>3,707</b>	<b>3,125</b>	<b>(15.7)</b>
Refined product sales by country (kt)				
Croatia	1,828	1,877	1,756	(6.4)
B&H	485	509	510	0.1
Slovenia	38	237	151	(36.3)
Other markets	1,090	844	867	2.7
<b>Total</b>	<b>3,440</b>	<b>3,467</b>	<b>3,284</b>	<b>(5.3)</b>
Refined product sales by product (kt)				
LPG	259	231	214	(7.7)
Motor gasoline	981	955	844	(11.6)
Diesel	1,321	1,394	1,415	1.5
Heating oil	154	164	146	(11)
Kerosene	117	124	128	3.5
Naphtha	60	30	37	24.6
Fuel oil	402	418	366	(12.3)
Bitumen	57	57	40	(29.9)
Other products**	90	95	95	(0)
<b>Total</b>	<b>3,440</b>	<b>3,467</b>	<b>3,284</b>	<b>(5.3)</b>
o/w Retail segment sales	1,042	1,019	994	(2.5)

\* calculation of relative changes made on the basis of the original value in tones

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

# sustainability

We are committed to doing business in a responsible and sustainable way, while continuous improvement is our regular task



## SUSTAINABILITY IN NUMBERS

## ENVIROMENTAL DATA

	2012		2013		2014	
	INA, d.d.	INA Group	INA, d.d.	INA Group	INA, d.d.	INA Group
Greenhouse gas emissions						
Carbon dioxide (CO <sub>2</sub> ) (million tons)	1.87	1.88	1.86	1.93	1.72	1.78
Flaring emissions (thousand tons CO <sub>2</sub> equivalent)	72.70	72.70	80.30	80.30	99.40	99.40
Energy						
Total direct energy consumption* (million GJ)	23.07	23.26	20.31	21.18	19.33	19.58
Total indirect energy consumption** (million GJ)	0.96	1.01	0.96	1.02	0.85	0.90
Acid gases						
Sulphur oxides (SO <sub>2</sub> ) (thousand tons)	5.60	5.60	3.58	3.58	2.86	2.86
Nitrogen oxides (NOx) (thousand tons)	3.91	3.91	3.14	3.14	2.35	2.35
Water						
Total water withdrawal (million m <sup>3</sup> )	43.38	43.77	38.51	38.99	42.35	42.73
Total water discharge (million m <sup>3</sup> )	38.37	38.77	34.54	34.99	39.11	39.44
Chemical oxygen consumption (COD) (tons)	438.82	n/a	346.24	n/a	281.7	331.96
Biological oxygen consumption (BOD5) (tons)	140.28	n/a	59.69	n/a	60.18	77.67
Total suspended solids (tons)	107.99	n/a	73.67	n/a	104.90	116.84
Total petroleum HC (tons)	19.89	n/a	27.03	n/a	43.11	44.98
Waste***						
Total hazardous waste (thousand tons)	6.45	6.92	5.55	5.87	11.55	13.91
Total non-hazardous waste (thousand tons)	12.03	12.55	9.81	11.10	17.20	19.82
Recycled waste (thousand tons)	3.29	n/a	6.88	n/a	7.40	10.36
Disposed waste (thousand tons)	15.16	n/a	8.43	n/a	21.36	23.38
Spills						
Spills > 1m <sup>3</sup>	12	12	7	8	3	3
Quantity of materials used in the production process (tons/year)						
Crude oil + condensate (domestic)	627,187	n.a.	547,892	n.a.	515,848	n.a.
Crude oil (imported)	2,447,958	n.a.	2,427,280	n.a.	1,879,586	n.a.
Total crude oil	3,075,145	n.a.	2,975,172	n.a.	2,395,434	n.a.
Intermediates, feedstock, additives	982,882	n.a.	543,456	n.a.	715,462	n.a.
Total production input	4,058,028	n.a.	3,518,627	n.a.	3,110,896	n.a.

\*Total direct energy consumption = Total natural gas consumption (as energy source) + Total consumption of other HC energy sources

\*\*Total indirect energy consumption = Total electricity consumption + Total consumption of other indirect sources (steam, heat..)

\*\*\*Municipal waste is not included

## HEALTH AND SAFETY INDICATORS

	2012		2013		2014	
	INA d.d.	INA Group	INA d.d.	INA Group	INA d.d.	INA Group
Lost time injury (LTI) (No.)	34	59	24	44	16	36
Lost time injury frequency (LTIF)	1.9	2.1	1.4	1.7	1.1	1.5
Total reportable occupational illnesses frequency (TROIF)	0	0	0	0	0	0
Absence rate (AR) (%)	3.1	4.3	3.0	3.3	3.0	3.1
Lost day rates (LDR) (%)	0.32	0.27	0.34	0.36	0.25	0.26
Fatalities amongst employees (No.)	0	1	0	0	0	0
Fatalities amongst contractors (No.)	0	0	0	1	0	0
Fatalities amongst 3rd parties (No.)	1	1	0	1	0	0
Process safety events (Tier 1+Tier 2)	n/a	n/a	n/a	n/a	6+5	6+5
INA Group Process safety events						
	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2
Exploration & Production	n/a	n/a	n/a	n/a	4	2
Refining & Marketing	n/a	n/a	n/a	n/a	2	3

LABOR PRACTICES AND DECENT WORK INDICATORS AT INA Goup IN 2014

	INA, d.d.	Crosco	STSI	Maziva Zagreb	Hostin	TRS	Interina Ljubljana	Holdina Sarajevo
No. of workers	8,150	1,363	912	223	15	297	84	408
No. of workers w. shortened working hours	20	9	0	3	0	4	2	17
No. of newly employed employees	89	27	8	0	41	26	0	26
No. of departed employees	552	106	113	22	49	5	3	21
No. of employees working abroad	55	346	3	0	0	0	0	6
% of women in total workforce	21.36	5.81	8.20	33	53.33	91.58	33	21.81
% of woman in menagerial positions	13.25	14.29	27.30	3.14	13.33	5.39	0	1.22
% of invalids in total work force	2.25	2.51	4.30	6	0	3.37	2	5.40
Education level								
No. of Unskilled workers	54	10	10	0	0	0	2	0
No. of Semi-skilled workers	23	2	19	1	1	0	0	0
No. of Primary school degree workers	33	21	5	20	0	1	0	2
No. of Skilled workers	635	247	119	18	0	3	33	147
No. of High school degree workers	4,743	769	368	106	10	181	30	157
No. of Highly skilled workers	362	60	168	2	0	0	0	8
No. of Assoc.degr./bacc. workers	538	53	64	13	3	43	5	15
No. of Univ.degr./mag. workers	1,615	227	156	62	1	68	13	76
No. of MA/univ. spec. workers	110	4	2	1	0	1	1	3
No. of PhD workers	37	1	1	0	0	0	0	0
Age structure of workers								
Under the age of 30	862	165	66	5	0	20	7	49
31-40 years	1,982	358	181	28	4	35	26	150
41-50 years	2,495	335	267	80	4	100	31	130
51-60 years	2,616	500	383	104	7	138	19	73
over 61 years	195	36	15	6	2	4	1	6
Education								
Average training time per employee (hours)	16.6	15.39	12.5	11.25	n.a	8	6.5	11.7
Average cost of training per employee (HRK)	1,115	985	1,596	439	n.a	1,136	86	128,9
Data related to parental leave in INA Group, by gender								
	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M
Number of employees entitled to parental leave	110/343	9/0	3	3/0	n.a.	5/0	3/0	4/0
Number of employees by gender that took parental leave	110/6	9/0	3	3/0	n.a.	5/0	1/2	4/0
Number of employees who returned to work after their parental leave ended	52/3	4/0	0/0	0/0	n.a.	1/0	1/2	3/0
Number of employees who returned to work after their parental leave ended who are still employed twelve months after their return to work	122/5	0/0	0/0	0/0	n.a.	0	1/2	3/0
The return to work and retention rates of employees who returned to work after leave ended (%)	100	0	0	0	n.a.	100	100	75

LABOR PRACTICES AND DECENT WORK INDICATORS FOR INA, D.D.

	Dec 31st 2012	Dec 31st 2013	Dec 31st 2014
No. of employees with fixed term contracts	8,215	8,094	7,917
No. of employees w. shortened working hours	18	20	20
No. of departed employees	782	579	552
No. of newly employed employees	503	384	89
No. of employees working abroad	27	31	55
No. of work-disabled empl. and war veteran invalids	177	172	64+101
Structure of workers by education level			
No. of Unskilled workers	81	63	54
No. of Semi-skilled workers	27	26	23
No. of Primary school degree workers	64	48	33
No. of Skilled workers	753	714	635
No. of High school degree workers	5,009	4,931	4,743
No. of Highly skilled workers	400	378	362
No. of Assoc.degr./bacc. workers	400	551	538
No. of Univ.degr./mag. workers	1,818	1,651	1,615
No. of MA/univ. spec. workers	131	122	110
No. of PhD workers	29	33	37
Age structure of workers			
Under the age of 30	1,088	1,016	862
31-40 years	2,220	2,085	1,982
41-50 years	2,794	2,683	2,495
51-60 years	2,500	2,577	2,616
over 61 years	110	156	195
TOTAL	8,712	8,517	8,150



ECONOMIC SUSTAINABILITY DATA

INA Group realized revenue by region									
	2012			2013			2014		
	mIn HRK	mIn USD	2012/2011	mIn HRK	mIn USD	2013/2012	mIn HRK	mIn USD	2014/2013
Croatia	19,090	3,263	105%	17,531	3,072	92%	14,187	2,468	81%
Bosnia and Herzegovina	2,650	453	125%	2,936	515	111%	2,777	483	95%
European countries	3,089	528	89%	2,594	455	84%	5,313	924	205%
Syria	30	5	1%	-	-		0	0	
Other countries	5,036	861	131%	4,383	768	87%	1,482	258	34%
<b>TOTAL</b>	<b>29,895</b>	<b>5,110</b>	<b>100%</b>	<b>27,444</b>	<b>4,810</b>	<b>92%</b>	<b>23,759</b>	<b>4,132</b>	<b>87%</b>

INA, d.d. realized revenue by region									
	2012			2013			2014		
	mIn HRK	mIn USD	2012/2011	mIn HRK	mIn USD	2013/2012	mIn HRK	mIn USD	2014/2013
Croatia	17,188	2,938	109%	15,558	2,727	91%	13,394	2,330	86%
Bosnia and Herzegovina	2,504	428	219%	47	8	2%	2,450	426	5,213%
European countries	3,089	528	88%	2,594	455	84%	4,112	715	159%
Syria	0	0	0%	0	0		0	0	
Other countries	3,623	619	101%	5,683	996	157%	1,123	195	20%
<b>TOTAL</b>	<b>26,404</b>	<b>4,513</b>	<b>100%</b>	<b>23,882</b>	<b>4186</b>	<b>90%</b>	<b>21,079</b>	<b>3,666</b>	<b>88%</b>

Cost of purchased materijals, goods and services in INA Group									
	2012			2013			2014		
	mIn HRK	mIn USD	2012/2011	mIn HRK	mIn USD	2013/2012	mIn HRK	mIn USD	2014/2013
	23,584	4,031	107	22134	3,879	94	18,513	3220	84%
Costs of purchased materials, goods and services in INA, d.d.									
	19,692	3,366	104	18,783	3,292	95	17,135	2,980	91%
INA Group profit earned (EBIT)									
	mIn HRK	mIn USD	2012/2011	mIn HRK	mIn USD	2013/2012	mIn HRK	mIn USD	2014/2013
	1,356	232	45	(1,571)	(275)	(116)	(1,712)	(297.81)	109%
INA, d.d. profit earned (EBIT)									
	1,763	301	56	(1,833)	(321)	(104)	108	18.75	(6%)

**INA GROUP Return on Assets Profitability indicator (ROA) in 2014**

$$ROA (\%) = \frac{\text{Profit}}{\text{Total Assets}} \times 100 = \frac{(1,897)}{22,215} \times 100 = 8.54$$

**INA, d.d. Return on Assets Profitability indicator (ROA) in 2014**

$$ROA (\%) = \frac{\text{Profit}}{\text{Total Assets}} \times 100 = \frac{631}{21,193} \times 100 = 2.98$$

INA Group 2012-2014 Payroll costs									
	2012			2013			2014		
	mIn HRK	mIn USD	2012/2011	mIn HRK	mIn USD	2013/2012	mIn HRK	mIn USD	2014/2013
Net	1,309	224	96%	1,272	223	97%	1,250	217	98%
Taxes and contributions	899	154	93%	846	148	94%	861	150	102%
Other salary expenses	428	73	102%	297	52	69%	356	62	120%
<b>TOTAL</b>	<b>2,636</b>	<b>451</b>	<b>96%</b>	<b>2,415</b>	<b>423</b>	<b>92%</b>	<b>2,467</b>	<b>429</b>	<b>102%</b>

INA d.d. 2012-2014 Payroll costs									
	2012			2013			2014		
	mIn HRK	mIn USD	2012/2011	mIn HRK	mIn USD	2013/2012	mIn HRK	mIn USD	2014/2013
Net	807	138	96%	786	138	97%	766	133	97%
Taxes and contributions	584	100	95%	553	97	95%	557	97	101%
Other salary expenses	225	39	105%	134	23	60%	165	29	123%
<b>TOTAL</b>	<b>1,616</b>	<b>277</b>	<b>97%</b>	<b>1,473</b>	<b>258</b>	<b>91%</b>	<b>1,488</b>	<b>259</b>	<b>101%</b>

INA, d.d. total taxes paid									
State	2012*			2013*			2014		
	mIn HRK	mIn USD	2012/2011	mIn HRK	mIn USD	2013/2012	mIn HRK	mIn USD	2014/2013
Croatia	9,930	1,734	88%	8,816.05	1,589	113%	8,125.25	1,289.29	92%
Angola	94	16	2,1%	41.48	7	226%	31,98	5,60	77%
<b>TOTAL</b>	<b>10,024</b>	<b>1,750</b>	<b>87%</b>	<b>8,857.53</b>	<b>1,596</b>	<b>88%</b>	<b>8,157.23</b>	<b>1,294.89</b>	<b>92%</b>

Note: Taxes paid in Croatia include income tax and surtax, WAT, special tax on petroleum products, petroleum products highway fees and petroleum products road fees  
 \* Amount does not include petroleum products highway fees and petroleum products road fees (since 1st of January 2010 no longer charged)  
 \* The amount includes fee for biofuel production stimulation (came into force on April 5th, 2011).  
 \* corporate income tax included.

Paid VAT, excise duties, biofuels fee, profit tax, income tax and surtax and Croatian Compulsory Oil Stocks Agency (HANDA)			
mIn HRK	2012	2013	2014
Value added tax	1,052.48	751.16	760.81
Value added tax - IMPORT	3,359.98	3,092.19	2,372.34
Corporate income tax ( PROFIT TAX)	1,172.02	357.39	86.17
Excise duties	3,733.57	4,460.91	4,758.64
Croatian Energy Market Operator (HROTE) -Biofuels fee*	75.79	5.20	According to Law on amendments to the Law on biofuels for transport (OG 144/12) amount of fee to encourage the production of biofuels from 1 January 2013 is paid to the respective agency from the State Budget
Income tax and surtax	158.24	149.19	147.30
Croatian Agency for mandatory Oil and Oil Derivatives	378.28	Law on Amendments to the Law on Oil and Petroleum Products (OG 144/12) abolished the fee of a liter of fuel wich was till Dec 31st 2012 paid to the benefit of HANDA, and funding of agencies work since Jan 1st.2013 is done through the state budget.	Law on Amendments to the Law on Oil and Petroleum Products (OG 144/12) abolished the fee of a liter of fuel wich was till Dec 31st 2012 paid to the benefit of HANDA, and funding of agencies work since Jan 1st.2013 is done through the state budget.
<b>TOTAL</b>	<b>9,930.35</b>	<b>8,816.05</b>	<b>8,125.25</b>

\* By the Law on Amendments to the Law on Biofuels for Transport (OG 144/12) the amount of compensation to encourage the production of biofuels from January 1st 2013 is paid from the state budget.

# THE LONG-TERM SUSTAINABLE AND SOCIALLY RESPONSIBLE BUSINESS OPERATIONS AS A STRATEGIC DESIGNATION

**A**t INA, the largest industrial company in Croatia and a leading company in the exploration and production of oil and gas in the region, great attention is paid to the long-term sustainable and socially responsible business operations as a strategic designation. This commitment is best attested in everyday operational work of our company. We do this through our internal regulations and procedures which have precisely defined requirements and standards relating to socially responsible business operations and compliance with the requirements of health, safety and environment (HSE). In addition, we do so in cooperation with all our business partners and the communities through activities which are beneficial to society in order to build trust and acceptance.

We consider focus on increasing productivity, innovation and expertise of our human resources the grounds for long-term sustainable development and corporate social responsibility.

In this regard, we have continued to review the existing solutions in order to find new technologically more efficient and ecologically more acceptable ones. Examples include the optimization of fleet management with the result of rationalization of fuel consumption and CO<sub>2</sub> emission reduction, and the use of e-bidding with the result of reducing the consumption of paper.

INA was also this year certified as an employer partner. As before, the emphasis remains on a structured management and development of our human resources, further increasing expertise and retaining talent through a strong platform of focused education for management and experts from our key business areas.

With numerous innovations in our practices of human resource management according to examples of modern world practice, it is important to mention that this year we implemented a unified system of performance management and rewarding, and career development for all employees, where one of the most important criteria is the attitude towards HSE requirements.

Furthermore, at INA Group, the Code of Ethics has become an integral part of all our contracts with business partners. In our relationship with contractors, safe working environment is ensured not only through the monitoring system implemented last year through the HSE appendix in contracts, but also through education on Life Saving Rules adopted this year at Group level. In addition, training with regard to the specifics of the location is mandatory for all contractors. In this way, we nurture the relationship with our contractors at all stages, carrying out pre-qualification of potential contractors, supervision during the execution of

work, post evaluation to identify critical suppliers and the use of sanctions in the event of breaches of HSE rules.

In terms of good cooperation with the community in which we operate, as part of the "Green Belt" program, which was initiated with the aim of spreading awareness on the importance of sustainable development, INA will support 12 projects through co-financing, and activities of the INA Volunteers club whose Members shall assist in the implementation of aforementioned projects. We have also launched the project "The space for your ideas" with the aim of contributing to the development of quality projects in the local community through which we will upon completion of the project lease our premises at 18 locations across Croatia to interested legal or natural persons.

INA's results presented in this report provide evidence of our commitment to socially responsible business that we will continue to nourish in the future through continued long-term efforts to increase resource efficiency, to implement proactive practices in health and safety, and to promote responsible leadership.

*Tvrtko Perković, Executive Director of Corporate Centre*



**WE IMPLEMENTED A UNIFIED SYSTEM OF PERFORMANCE MANAGEMENT AND REWARDING, AND CAREER DEVELOPMENT FOR ALL EMPLOYEES**





# INA GROUP HEALTH, SAFETY, ENVIRONMENT AND SOCIAL IMPACT POLICY

Our long term business success is only possible in conditions of socially responsible development with care for health and safety of our employees and protection of environment in which we work and live. We are committed to develop goals and actions appropriate to principles of:

- sustainable development and responsible management of all our activities in the field of safety, health, environment and social impact
- the highest standards and the best industry practices in area of health, safety and environment
- proactive health, safety and environment protection culture distinctive to all our employees and contractors

All our employees and contractors are personally responsible to act in line with our health, safety and environmental protection principles, while total INA Group management structures are obliged to take leading role in promotion, development and practice of:

- full compliance with all legal requirements
- full compliance with INA Group Code of Ethics and other internal standards
- health care of our employees and health care improvement measures
- high standards of safety work and personal protection by all employees and contractors
- strict control of safety workplace and process safety at all our sites
- management system for health, safety, environment and social risks control and decrease
- prevention of major accidents involving hazardous substances
- the highest standards of action and immediate response in emergency and crises situations
- support and active participation in initiatives related to climate changes
- environment protection in line with the principles of natural heritage and biodiversity
- energy management and use of energy efficient technologies
- the system for continuous monitoring, transparent reporting and the best industry practice benchmarking of our sustainable development, environment, health and safety performances
- awareness of our employees in area of sustainable development, environment, health and safety
- evaluation and rewarding of the best health, safety and environment performances and socially responsible activities

INA Group health, safety, environment and social impact policy is valid for all INA Group companies.

Zagreb, January 2015  
 President of INA MB  
 Zoltán Áldott

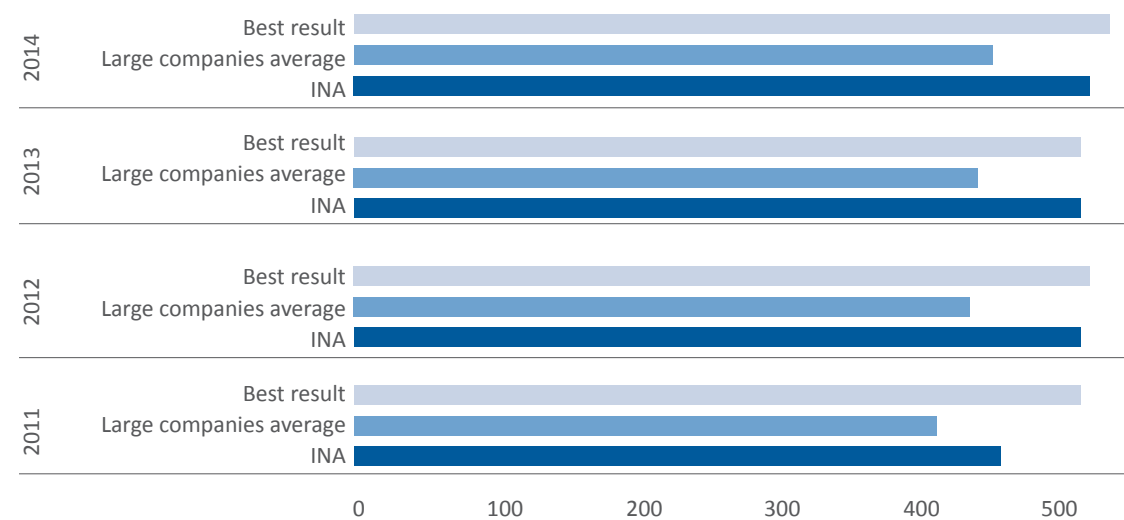
## INTRODUCTION AND OVERVIEW

Sustainable development (SD) activities in INA Group are coordinated by Sustainable Development & Health, Safety and Environment (SD&HSE) Sector. SD is incorporated in HSE activities and responsibilities and in SD&HSE organization of INA Group companies. Coordinative SD working group has continued its work, aiming to ensure involvement of all the relevant INA Group organizational units and businesses in sustainable development. Besides that, SD Council, established in 2012, has had regular quarterly meetings, in order to participate in internal and external communication on SD related issues, analyse sustainability related data and information received from external evaluators, and support, verify and control sustainability reporting on the INA Group level.

SD governance structure and management of the SD related issues in INA Group companies is defined by Sustainable Development Guideline. Second year in a row, SD Guideline implementation audits were held in different INA, d.d. organisational units and INA Group companies.

For the 4th time in a row, INA participated in the Croatian Corporate Social Responsibility (CSR) Index, an annual comparative assessment of the most successful Croatian companies based on their responsibility and sustainable business principles application. The activities of companies are evaluated in six key areas: economic sustainability, inclusion of CSR in business strategy, working environment, environmental protection, market relations and community relations. INA's results have been continuously improving.

CSR Index results for INA,d.d., compared to average results and the best results in the large companies group



New HSE and Social Impact Policy was issued in the beginning of 2015. Updating previous HSE policy was undertaken in order to harmonize it with the INA Group's full commitment to principles and objectives of sustainable development and socially responsible activities.

## MEMBERSHIPS, EXTERNAL INITIATIVES AND PUBLIC POLICIES

In 2014, INA has actively participated in the work of national associations especially Croatian Employers' Association (Association for Energy) and Croatian Chamber of Economy (Industry Sector) in the preparation and drafting of national regulations contributing to its quality and applicability. In addition, following the membership of Croatia to the European Union, INA is, by its expert knowledge and experience within the scope of its business activities, contributing to the process of preparation and formulation of EU regulations through joint cooperation with national regulator and through developing positions within the work of the European Petroleum Refiners Association (Concawe & FuelsEurope). Upon the adoption of the European legislation, INA actively participates in the transposition of provisions of European legislation into national legal framework. INA is a member of:

- European Petroleum Refiners Association - (CONCAWE + FuelsEurope - former EUROPIA)
- PMI - Project Management Institute
- EACD - European Association of Communication Directors
- SPE - Society of Petroleum Engineers (Croatian Branch)
- International Organisation for Industrial Hazard
- HGK –Croatian Chamber of Economy
- HUP - Croatian Employers' Association
- HSUP - Croatian Gas Association
- HUNIG - Croatian Association of Petroleum Engineers and Geologists
- HNK - Croatian National Committee of World Petroleum Council
- HED – Croatian Energy Association
- HR PSOR – Croatian Business Council for Sustainable Development
- HZN – Croatian Associations for Standards
- HI – Croatian Exporters
- HGD – Croatian Geological Association
- HATZ – Academy of Technical Sciences
- HDK – Croatian Society for Quality
- HMD – Croatian Metrology Society
- CROLAB – Laboratoria Croatica
- HUKR – Croatian Association of Corporate Treasurers
- ICC – International Chamber of Commerce
- CROMA – Croatian Managers' & Entrepreneurs' Association
- CIGRE – Comité Croate Conseil International des Grands Réseaux Électriques
- HND – Croatian Journalists' Association
- HR-Usko – Croatian Information Technology Society – Association of SAP users
- HUOJ – Croatian r Healthy Work Place
- Croatian Institute for Health Protection & Safety at Work
- Association for the Advancement of Human Safety
- Croatian Association for Professional Fire-fighters
- HAZU – Croatian Academy of Sciences and Arts
- HIIR – Croatian Institute of Internal Auditors
- HDO – Croatian Maintenance Society
- HVZ - Croatian Fire fighting Association
- JOIFF-International Organisation of Industrial Hazard Management

## REPORT PARAMETERS AND MATERIALITY

INA Group Sustainability report for 2014 is for the first time integrated with the financial report, which represents the importance given to sustainability in our Company. The Report is prepared in accordance with GRI G3.1 Guidelines and Oil and gas sector supplement, with self-declared reporting level A.

The report covers a full range of economic, environmental and social impacts of INA Group companies on stakeholders in 2014.

Health, safety and the environmental protection data are monitored and reported in accordance with the directives of the International Labour Organization and Croatian legislation, and according to methodology for monitoring injuries by EU association of oil companies - CONCAWE. Emissions of pollutants into the environment are determined by measuring, emission factors and / or on the basis of material balancing. Sustainability data of INA Group are also included in the Annual Report of MOL Group for the year 2014, which has been verified by an independent auditor – Ernst & Young.

INA Group publishes its sustainability report on annual basis, and the last report was published in August 2014. This Report also covers the requirements of the Communication on progress related to 10 principles of UN Global Compact (detailed in the Table of Contents According to G3.1 GRI Performance Indicators).

All topics describing significant economic, environmental and social impacts of INA Group, as well as those that could have an impact on our stakeholders, are treated in this report as material issues of a particular importance. When identifying the material issues, in addition to the internal strategy and financial impact to the Company, GRI G3.1 guidelines, additional indicators from Oil and gas Sector supplement, results of customer satisfaction research, recommendations from SD Report independent assessment, CSR Index results, comments and suggestions from employee surveys, peers benchmark etc. have also been taken into account. Priority is given to those areas where INA Group has significant impact and where it can improve its performance:

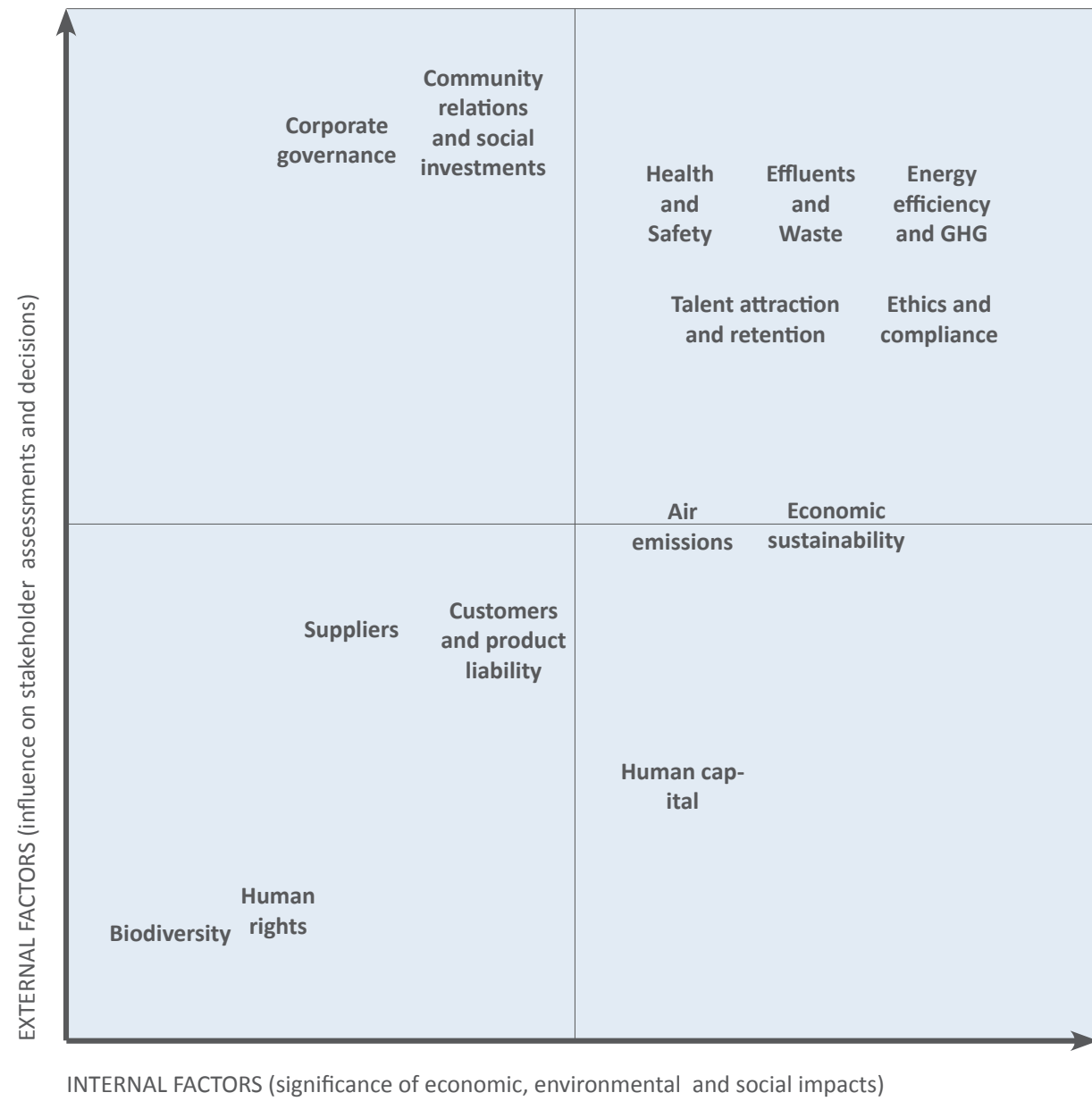
- Corporate governance,
- Ethics and compliance,
- Climate change and energy efficiency,
- Environmental protection,
- Health and safety,
- Human capital and talent attraction and retention,
- Customers and product responsibility,
- Community relations and social investment,
- Economic sustainability.

More information can be found at [www.ina.hr](http://www.ina.hr) or can be received by e-mail address: [Odrzivi\\_Razvoj@ina.hr](mailto:Odrzivi_Razvoj@ina.hr) or [PR@ina.hr](mailto:PR@ina.hr).

We hope that the report will be useful to INA Group current and potential future employees, shareholders, customers, management structure, suppliers, non-governmental organisations, local communities and the wider community.



Materiality of relevant topics



## STAKEHOLDER ENGAGEMENT

At INA Group we have identified the following stakeholders: employees, unions, capital market, local communities and authorities, suppliers, partners, the media, citizens' associations, customers and consumers.

INA Group members use the appropriate levels and methods of the engagement of these groups and as a result of changes in the surroundings and maturation of the process, the methods of involvement also change and are being updated. Responses, comments and suggestions acquired through consultations and dialogue with the attitude makers and representatives of main interest groups are used as a valuable source of information for activity planning, revision of external communications and preparations for sustainability reports.

Methods of stakeholder engagement are: surveys, individual interviews, meetings with selected individuals/groups, public meetings, advisory boards, toll-free helpline, forums of interest and influential groups, advisory panels, processes of consensus building, processes of joint decision-making, programs for obtaining feedback on the internet (discussion forums, etc.), workshops, collective negotiations with unions, negotiations on contracts, joint projects, joint ventures, partnerships, initiatives of several interest and influential groups.

## SD & HSE PERFORMANCE IN 2014

Sustainable development activities and projects are an integral part of the business plan of INA, d. d. organizational units / INA Group companies and are related to defined six sustainability focus areas: climate change, environment, health and safety, communities, human capital and economic sustainability. Besides that, activities are planned considering compliance with the legislation requirements and contract requirements laid down by the customers (environmental, social and economic criteria), voluntarily assumed external obligations and internal policies, as well as the results of dialogues with various stakeholders, external sustainability assessments, monitoring / measuring of the efficiency and best practices, and the self-assessment in relation to voluntary standards.

Sustainability actions/projects are defined in order to correct any eventual non-compliance in the above-mentioned fields, but also for the fields where, through assessment and evaluation processes, the opportunities for improvement have been identified.

Our impact in 2014	Strategic focus areas	Our performance in 2014
Carbon footprint: 1.78 mln tons	Climate Change	<ul style="list-style-type: none"> <li>Injection activities on EOR project started in October, and till the end of 2014 27,045,379 m<sup>3</sup> of CO<sub>2</sub> have been injected.</li> </ul>
Direct energy consumption: 19.5 mln GigaJoules		<ul style="list-style-type: none"> <li>Energy ROAD Map Projects saved 12,636,133 USD</li> </ul>
Total produced waste: 33.7 thousand tons	Environment	<ul style="list-style-type: none"> <li>STSI, d.o.o. obtained a permit for hazardous waste management which refers to the waste collection and waste treatment using biological treatment, physical-chemical treatment and storage of waste and a licence for activities aimed at prevention and remediation of consequences of accidental water pollution.</li> </ul>
3 sites located in sensitive area		<ul style="list-style-type: none"> <li>Preparation of Biodiversity action plans for three Exploration&amp; Production sites started</li> </ul>
12,503 employees in INA Group	Health & Safety	<ul style="list-style-type: none"> <li>Lost time injury frequency at INA Group level decreased from 1.7 in 2013 to 1.5 in 2014. No on-site fatalities happened (among own staff and contractors).</li> <li>Life Saving Rule program activities; Contractor Management process and Road Safety Programme updated</li> </ul>
	Human Capital	<ul style="list-style-type: none"> <li>„Golden Index“ award received</li> <li>Total of 13,008 INA Group employees participated in various forms of internal (6,451) and external (6,557) trainings (some employees participated in more than 1 training)</li> </ul>
INA donated a total HRK 2.5 mln for community investment and charitable gift.	Communities	<ul style="list-style-type: none"> <li>Green Belt project - an expert tendering committee has selected best 12 out of 58 received projects, which INA will support through co-financing and the activities of the INA Volunteers Club.</li> <li>INA Volunteer Club carried out 19 actions with the participation of 259 members, which equals a total of 2,072 volunteer hours</li> </ul>
756 audits of contractors held in 2014	Economic Sustainability	<ul style="list-style-type: none"> <li>Contractor Safety project implemented</li> </ul>
INA has been publishing non-financial reports since 1998		<ul style="list-style-type: none"> <li>CSR Index results 2014 improved in relation to previous year</li> <li>Sustainability reporting in accordance to GRI G.4 in 2016</li> </ul>
HRK 8,157.23 mln taxes paid to governments		<ul style="list-style-type: none"> <li>E-learning for INA Group employees on Code of Ethics;</li> <li>Ethical trainings for 96 new managers and newcomers in INA Group held by the president of INA Group Ethics Council</li> </ul>



# OUR RESULTS AND EFFORTS IN SD&HSE PERFORMANCE IMPROVEMENT

In 2014 we were focused on informing on the activities taken and raising awareness and education of employees in the area of sustainable development. So by publishing articles and interviews in INA Glasnik, internal magazine, creating an Intranet site and the organization of workshops, we wanted to bring closer sustainable development principles, their application in the business, as well as the processes of reporting on sustainability to the employees.

In the last few years, we have put a special emphasis on improving health and safety at work for our employees and suppliers. After successful completion of Life Saving Rules campaign, in 2014 we are focused on the prevention of incidents through a number of initiatives, including Prevention of falls from height program, Reporting potentially dangerous situations campaign, Isolation of hazardous energy sources and a number of forums aimed at raising awareness about impact of certain factors on health. The fact that in the period from 2009 till 2014, the Lost time injury frequency rate decreased by 19% shows the success of these activities.

Considering the large number of contractors working on our sites, often in the medium and high risk jobs, our preventive activities, such as training, risk assessment, licensing

process, health protection and safety at work campaigns, we focused on our contractors and their HSE performance, in the same way as on INA's employees.

Road accident rate in INA Group decreased more than three times in the last four years, which, in large amount, can be attributed to many years of activities focused on raising awareness of safe driving through a series of seasonal campaigns and safe driving trainings. In 2015, with the continuation of safe driving trainings, we introduce education of drivers on energy efficient driving, in order to reduce fuel consumption and consequent emissions to environment.

By implementing the European Union regulation into the Croatian legislation, we are faced with the compliance costs of doing business in accordance with a number of requirements of EU regulations, which came into force or will take effect in the next few years. This especially applies to refinery business, since harmonization of INA refineries' operation with the high environmental requirements, especially in the field of air protection, has defined a series of measures from the Decision on integrated environmental protection requirements (Environmental permits).

Because of large financial investment that these measures require, compliance with new regulatory requirements, while ensuring competitiveness in the market, is one of our major challenges.

Along with existing quality, environmental and safety at work management systems, in accordance with ISO 9001, ISO 14001, OHSAS 18001, in 2015 we will introduce Energy management system according to ISO 50001 for INA Group companies in Croatia and approach to Safety of external contractors system certification (SCC "Safety Certificate Contractors") of our company STSI d.o.o., as the general contractor for risk activities on the sites.

Despite good initiatives and results in 2014, we are aware of the opportunities for improvement in all segments, and in 2015, as part of continuous improvement cycle, we continue with challenging goals setting, including improvement of Process safety management and Emergency response, improvement of existing waste management system, with emphasis on leadership engagement by their own example in all initiatives, thereby we provide an example to all employees and partners.

*Angelika Brnada, SD & HSE Director*



**ROAD ACCIDENT RATE IN INA GROUP DECREASED MORE THAN THREE TIMES IN THE LAST FOUR YEARS**

REALIZATION OF SD &HSE GOALS OF INA GROUP FOR 2014

Indicator	Plan		Realization
Fatalities – INA Group and Contractors	0	★	0
LTIF* (INA Group)	1.6	★	1.5
LTIF* (INA Group and Contractors)	1.7	★	1.8
Total reported injuries rate (TRIR) – INA Group	2.6	★	2.2
Total reported injuries rate (TRIR) – INA Group and Contractors	2.9	★	2.5
Spills (number of spills greater than 1m³) - INA Group	8	★	3
Process safety event rate (PSER (T1+T2))** - INA Group	2.4	★	1.6
Road Accident Rate (RAR)	1.5	★	1.0
CO <sub>2</sub> intensity of the refinery (tCO <sub>2</sub> /kt CWT) – indicator of CO <sub>2</sub> efficiency of the refinery (Rijeka Refinery)	30-55***	★	45.5
High Consequence and High Potential Incident Inquiry Rate – INA Group and Contractors	100%	★	100%
Action alert closure rate, recommended by HSE notifications - INA Group	100%	★	100%
Completion rate of remediation program (Remediation)	71%	★	95%

\* LTIF - Lost Time Injury Frequency

\*\* Process Safety Event Rate (PSER) – number of incident at the plant that results in one or more defined consequences (Tier 1 and Tier 2) divided by number of worked hours\*1000000

\*\*\* 90 % of refineries in European Union have CO<sub>2</sub> intensity in 30 – 55 t CO<sub>2</sub>/kt CWT range

CLIMATE CHANGE

Achievements

- Trial exploitation of hydrocarbons and CO<sub>2</sub> injection into 12 production wells near Ivanić Grad started in October and till the end of 2014 quantity of over 27 million m<sup>3</sup> CO<sub>2</sub> was injected;
- Post evaluation of Energy Efficiency improvement of process unit's project conducted in Rijeka refinery shows that expected benefits such as energy saving, decreased fuel and electricity consumption, decreased CO<sub>2</sub> emissions and increased steam production will be achieved.

Challenges

- Ensure that our refineries remain compliant with European and national legislation in this challenging time for oil and gas industry.

Four INA, d.d. installations are a part of the third phase of European Union Emissions Trading System (EU ETS): Rijeka Refinery, Sisak Refinery, Gas Processing Facilities Molve and Fractionation Facilities Ivanić Grad. To manage risks and activities related to ETS in a transparent way and to ensure compliance with relevant European and national legislation, Regulation on greenhouse gas and emission allowances management in INA, d.d. was published. Monitoring legal development of EU ETS related legislation remained in focus, due to the fact that European Commission is debating several structural reforms to address the surplus of emission allowances and to increase their price. In 2014 emission allowances equal to the verified emissions from 2013 had been surrendered for the first time.

In October 2014, European Council agreed on the challenging 2030 framework for climate and energy, including a binding domestic target for reducing greenhouse gas (GHG) emissions of at least 40% in 2030 as compared to 1990. To meet this target, the European Council agreed that the emissions in the EU Emission Trading System should be reduced, compared to 2005, by 43%.

In 2014 INA, d.d. continued with the investments in biofuels-bioethanol blending projects in INA's refineries. To fulfil the national target in 2014, INA, d.d. blended biodiesel (FAME – Fatty Acids Methyl Esters), certificated according to ISCC (International Sustainability and Carbon Certification). ISCC is one of the leading certification systems for sustainability and greenhouse gas emissions, and the European Commission recognized it as one of the first certification schemes to demonstrate compliance with the EU Renewable Energy Directive's (RED) requirements.

ENERGY EFFICIENCY AND GREENHOUSE GAS EMISSIONS

To ensure compliance with a new Act on Energy Efficiency, large companies are obliged to draw up an energy audit for big companies every four years (in accordance with the rules for conducting energy audit of large companies) or the company needs to implement energy management system (ISO 5001). In 2014 INA Group began certification in accordance with Energy management system ISO 50001 and in this way contribute to the savings by applying energy efficiency measures in order to achieve the EU objective of increasing energy efficiency by 20% until 2020.

To increase energy efficiency and savings, Rijeka Refinery had four key activities in 2014 which are a part of Energy Road Map: network maintenance, condensation recovery implemented on group of facilities (GP5), controlling the condensation mode in turbo generators and combined electricity production and purchasing. Realization of planned savings value was 70% for 2014. Energy ROAD Map measures saved USD mln 12.6 mln.

Beside Energy Road Map measures, one of the conducted projects was Energy Efficiency improvement of process units. Nine out of ten projects are finished and the last one will be completed in first quarter of 2015. At the moment of writing this report post evaluation of the project is in progress. According to preliminary estimation, predicted improvements are already visible and expected benefits such as decreased fuel consumption and CO<sub>2</sub> emissions, increased steam production and decreased electricity consumption, longer process cycle with substantial lower cleaning maintenance costs, will be achieved.

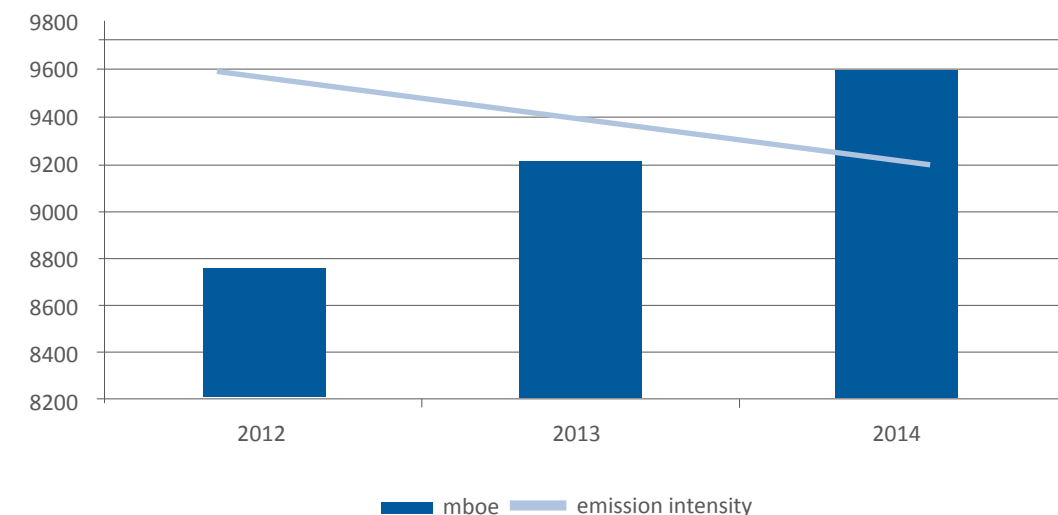
Compared to 2013, calculation of CO<sub>2</sub> emissions from Rijeka Refinery in the year 2014 had been slightly changed so the figures cannot be compared. This is a result of continuous improvement in calculation methodology, as advised by European and national authorities. In

2014, CO<sub>2</sub> intensity continued to be reported as a key performance indicator for refining sector. CO<sub>2</sub> intensity in Rijeka Refinery has decreased compared to 2013 (48.08 t CO<sub>2</sub> / kt CWT) and was equal to 45.5 t CO<sub>2</sub> / kt CWT where CWT (Complexity Weighted Tonne) is used as a benchmarking scheme for European Union refineries. As a comparison, 10% of the mainstream refineries in European Union with the lowest emissions intensity in the period 2005 – 2007 had CO<sub>2</sub> intensity equal to 29.5 t CO<sub>2</sub> /kt CWT, while average CO<sub>2</sub> intensity for European refineries for the same period was equal to 37.0 t CO<sub>2</sub>/kt CWT.

Exploration & Production Optimization Project of the Fractionation Facilities Ivanić Grad is completed. Primary goal of Optimization Project is to assure production continuance with new electrical compressor for gas cooling, what increases efficiency of the turboelectric aggregates as well as the total yield of the gas plant (energy saving is 257,000 GJ). Beside energy efficiency, the optimization project decreases GHG emissions. Reconstruction of the Fractionation Facilities Ivanić Grad Waste Heat Recovery Units is in progress. Aim of the project is to significantly increase efficiency of Fractionation Facilities Ivanić Grad operation through cogeneration effect. In 2014, as a result of optimization projects at Gola, Kalinovac and Molve fields, E&P managed to reduce gas consumption in Northern Croatia Production Region by 3,056,111 m<sup>3</sup> (energy saving is 104,519 GJ). Optimization Project of the Fractionation Facilities Ivanić Grad has saved USD 21,496 and a Group of projects in Northern Croatia Production Region have saved USD 1,608,479.

These projects have led to continuous decrease of emission intensity\* in Exploration and production (production is continuously increasing but the emissions are continuously decreasing).

Emission intensity Exploration and Production



\* (Emission intensity shows CO<sub>2</sub> tons equivalent / mboe)



Energy-saving projects in Information services

Server virtualization

Server virtualization enables company to use fewer servers, thus decreasing electricity consumption and waste heat. One watt-hour of energy savings at the server level results in roughly 1.9 watt-hours of facility-level energy savings by reducing energy waste in the power infrastructure and reducing energy needed to cool the waste heat produced by the server.

INA has performed server virtualization and virtualization ratio target for 2014 was 65% of full scope of servers determined for virtualization and the target has been accomplished. Electricity consumption was reduced (shutting down the old servers) what resulted in an estimated monthly saving of 86,148 kWh, namely 61,424 HRK (0.713 HRK/kWh).

INA Unified Communication System Efficiency

Influenced by growing internationalization, business trip optimization initiatives and collaboration trends, videoconferencing was introduced and integrated communication services are enabled across different platforms.

Unified communications (UC) is the integration of communication services such as instant messaging, presence information, IP/mobile telephony, video conferencing, data sharing, Interactive White Boards and call control. Unified communications system increases efficiency in daily work and provide savings in travel costs. Decreasing number of long distance business trips results in energy and cost savings, pollution decreasing as well as reducing possibility of traffic accidents (health positive effect). Estimated annual saving is 1.1 mln HRK.

Due to the work organisation and maintenance of existing equipment in INA Maziva in 2014, steam consumption was reduced for 30% and consequently CO<sub>2</sub> emissions were decreased for 31%.

Total direct energy consumption in 2014 for INA Group is 19.5 million GJ and total indirect energy consumption is 0.90 million GJ.

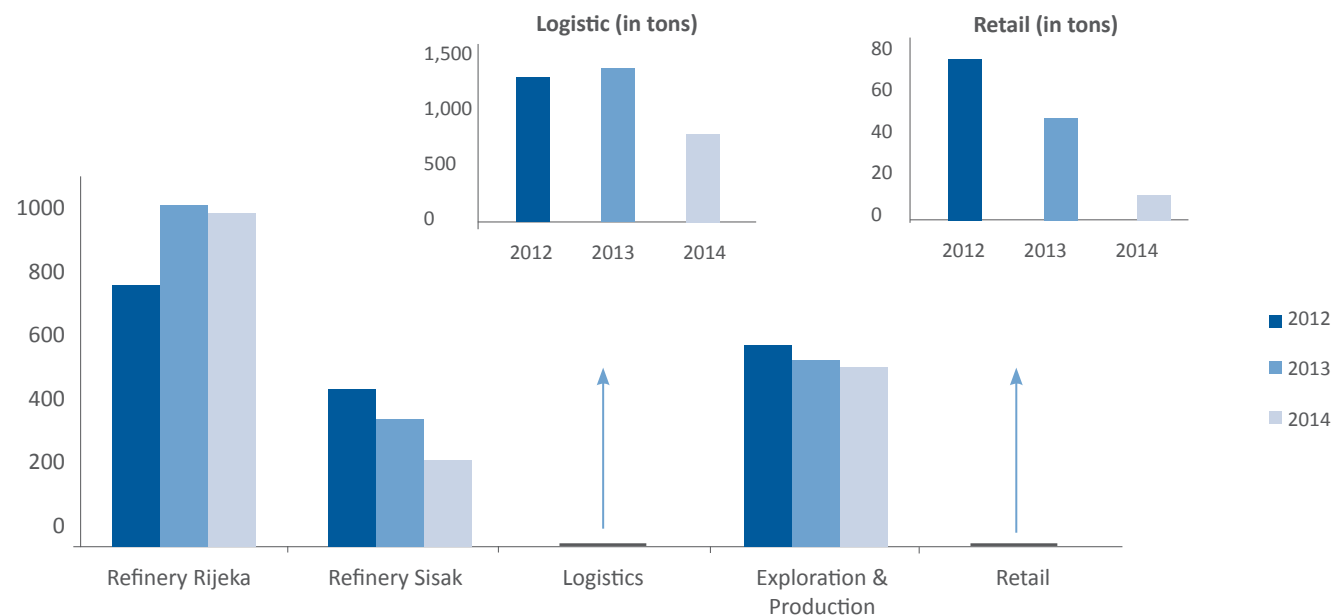
INA Group indirect emissions from transport of employees by corporate vehicles amounted 13,558 tons of CO<sub>2</sub> and by airplane amounted 340\* tons of CO<sub>2</sub> (\*without CROSCO Group).

CO <sub>2</sub> t/year	2012	2013	2014
Refinery Rijeka - Urinj	n/a*	966,413	952,377
Refinery Sisak	445,347	362,310	257,723
Logistics	1,292	1,389	737
Exploration & Production	571,467	539,749	518,420
Retail	76	48	13
<b>Total CO<sub>2</sub> t/year</b>	<b>1,878,904</b>	<b>1,869,909</b>	<b>1,729,271</b>

INA, d.d. CO<sub>2</sub> emissions

\*At the time of preparation of this Report, competent authorities still have not made a decision on the calculation methodology for year 2012

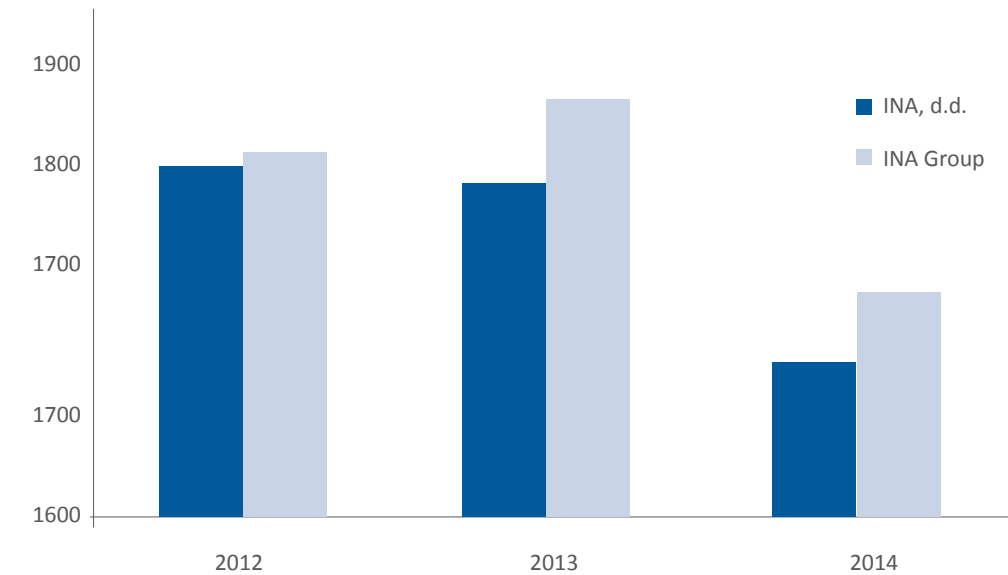
INA, d.d. CO<sub>2</sub> emissions (in thousand tons)



INA, D.D. CO<sub>2</sub> EMISSIONS (IN THOUSAND TONS)

INA Group	2012	2013	2014
Total CO <sub>2</sub> t/year	1,887,428	1,938,255	1,781,682

INA Group direct CO<sub>2</sub> emissions



INA d.d. does not use materials which contain ozone depleting substances in its processes, products and services. In some refrigeration equipment INA Group companies still have refrigerants that deplete the ozone layer, such as refrigerant R22. However, R22 can stay in the cooling systems until the first need to substitute the refrigerant, after which it will be handed over to an authorized company and disposed in a legally prescribed manner.

'Green' petrol station

Project of first 'green' petrol station construction is in the process of obtaining the necessary permits for petrol station Stupnik-istok. In the Split region tender was launched for a new 'green' petrol station.

CO<sub>2</sub> EOR Ivanić and Žutica

Project's primary goal is to increase oil recovery residual oil on mature oil fields Ivanić and Žutica. Secondary target is to significantly reduce CO<sub>2</sub> emissions, extending both fields life cycle and enforce further

development of this region and local community. The Baseline study which includes analysis of baseline air, water, soil and forest vegetation conditions before start of the CO<sub>2</sub> EOR project had been prepared and it will serve as a reference for all future measurements done by the competent company. Such analysis is not a legal requirement but evidence that sustainability is included in this extremely important project.

Positive opinion from the Ex Agency (authorized body for testing and certification of Ex-equipment and technical supervision of plants in areas at risk of explosive atmospheres) was received in 2014 for CO<sub>2</sub> injection and disposal wells on the Ivanić oil field. Request for trial exploitation of the injection system and start of CO<sub>2</sub> injection have been submitted to the Ministry. Trial exploitation and injection into 12 Ivanić wells started on 14<sup>th</sup> of October after received approval from Ministry. By the end of 2014, quantity of 27,045,379 m<sup>3</sup> CO<sub>2</sub> was injected.

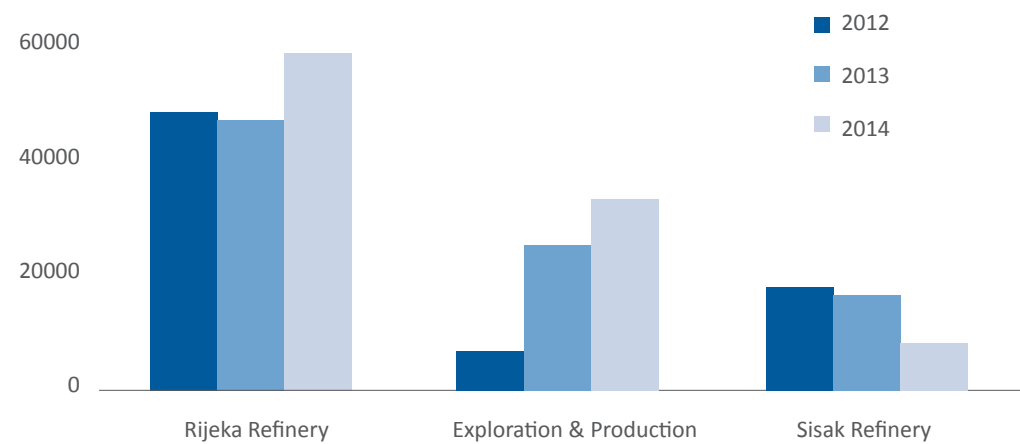
**GAS LEAKAGES**

Hydrocarbon burning system represents important safety measure in case of dysfunctional operation (relief function) in E&P, or in case of discharging of equipment before planned overhaul works. Gaseous hydrocarbons are burned on the vertical flaring objects, while liquid phase is burned within the flaring pits. During regular operations, only flare pilot ignition system is turned on. On Stružec field the metering line on flare pipeline is installed.

INA, d.d. CO <sub>2</sub> from flaring (t/year)	2012	2013	2014
Exploration & Production	7,108	24,552	32,864
Sisak Refinery	18,231	16,853	8,560
Rijeka Refinery	47,430	46,429	57,979

Increased quantity of burned hydrocarbon is due to overhaul works on the fields of Duboka Podravina and pipeline pigging of the Gas Processing Facilities Molve-Fractionation Facilities Ivanić Grad.

**Direct CO<sub>2</sub> emissions from flaring in INA, d.d. organizational units (in tons)**



The gases released into the atmosphere as a result of natural gas processing at the Fractionation Facilities Ivanić Grad and Gas Processing Facilities Molve are shown as venting. Since the beginning of the EOR project (October 2014), CO<sub>2</sub> emitted into atmosphere at the Gas Processing Facilities Molve has been injected into the fields in order to achieve enhanced oil recovery, which directly decreases venting emission quantities. Total CO<sub>2</sub> emissions from E&P venting process in 2014 are 358,947 tons.

**ENVIRONMENTAL PROTECTION**

**ACHIEVEMENTS**

- Obtained Decisions on Integrated Environmental Protection Requirements (Environmental Permits) for Sisak Refinery, Rijeka Refinery, Gas Processing Facilities Molve and Fractionation Facilities Ivanić Grad;
- Sisak and Rijeka refineries large combustion plants included in National Transitional Plan;
- Two important projects for emission reduction from Sisak refinery finished: Replacement of existing coke chambers and Construction of new Recompression station on the flares;
- STSI, d.o.o. obtained a permit for hazardous waste management which refers to the waste collection and waste treatment using biological treatment, physical-chemical treatment and storage of waste;
- STSI, d.o.o. obtained a licence for activities aimed at prevention and remediation of consequences caused by accidental water pollution.

**CHALLENGES**

- High cost of hazardous waste disposal due to fact that Republic of Croatia doesn't have hazardous waste incinerator
- Setting the best Waste Management framework for INA Group
- Activities on illegal connections detection and prevention
- Preparation of waste management and remediation strategy and implementation of defined activities.
- Implementation of all projects given in Decisions on Integrated Environmental Protection Requirements for our refineries in required deadlines

Due to transposition of European Union legislation in the Republic of Croatia, INA, d.d. is facing an increase in compliance costs where stringent requirements in the field of environmental protection, particularly in air protection, will demand significant investments in a short period of time. On 28<sup>th</sup> of October 2014 new Best Available Techniques (BAT) Conclusions for the Refining of Mineral Oil and Gas were published as an implementing act by the EU Commission. The publication date determines the start of the four year period for implementation of eventual new measures needed to comply with. Refinery BAT Conclusions now include an integrated emission management technique ("bubble") as one of BAT for overall reduction of SO<sub>x</sub> and/or NO<sub>x</sub> emissions at a refinery site.

That technique is especially suitable to oil refining sites with a recognised site complexity, multiplicity of combustion and process units interlinked in terms of their feedstock and energy supply; with frequent process adjustments required in function of the quality of the crude received and with a technical necessity to use a part of process residues as internal fuels, causing frequent adjustments of the fuel mix according to process requirements. Bubble allows refineries to treat all their stacks as they are enclosed by a giant bubble and provides flexibility in choosing which unit shall be upgraded based on the lowest cost, so long as overall resulting emissions are equal to or lower than emissions that would be achieved through a unit-by-unit application of the individual Best Available Techniques - Associated Emission Levels (BAT-AELs).

European directives with most significant financial impact are European directive on emission trading scheme (EU ETS), Industrial Emissions Directive (IED), the REACH&CLP Regulation, Directive on Renewable Energy (RED), Directive on the prevention of major accidents (SEVESO), Fuel Quality Directive (FQD), Directive on the reduction of sulphur content of certain liquid fuels (SLFD) and regulation relating to the marine fuels (MFD).

**AIR EMISSIONS**

*Retail*

In 2014, 88 stage II petrol vapour recovery units (VRU II) were installed during capital reconstruction and modernization of INA d.d. petrol stations (FS), so the total number of petrol stations with installed VRU II is now 165 out of 172 on which it has to be installed. From this number, 16 of them have a flow rate of more than 3,000 m<sup>3</sup> per year and should install stage II petrol vapour recovery units by 31<sup>st</sup> of December 2018. Nine of them already have built-in VRU II and on the rest it will be installed during capital reconstruction.

*Sisak Refinery*

During 2014, in Sisak Refinery two projects that significantly reduce air emissions have been completed. By installing new recompression stations on the flares, collection of sour gases rich with hydrogen sulfide is enabled, as well as their directing to the Claus plant where hydrogen sulfide is isolated and converted to elemental sulphur. Cleaned and dry gas is then used for firing. This measure will completely eliminate continuous burning of gases on the flares, which will result in total emissions reduction from the flares and by processing refinery gases in desulfurization unit SO<sub>2</sub> and H<sub>2</sub>S emissions will be also significantly reduced.



Significantly reduce of hydrogen sulphide emissions to the environment were achieved by replacement of two 44 years old coke chambers at Delay Coker Unit.

With the aim of reducing volatile organic compounds (VOC) emissions, existing seals on five floating roof tanks (out of nine) on the Sisak refinery tank farm were replaced with new double seals.

*Rijeka Refinery*

In 2014 the number of hourly SO<sub>2</sub> imission oversteps was significantly reduced, so the first category of air quality has been achieved on all three (3) imission monitoring stations near the refinery. Rijeka refinery implemented measures from Rehabilitation program to reduce emissions/imission of SO<sub>2</sub> such as use of environmentally friendly fuel (natural gas) which directly leads to a reduction of SO<sub>2</sub> emissions as well as measures for energy efficiency improvement which caused lower fuel consumption and also contributed to SO<sub>2</sub> reduction.

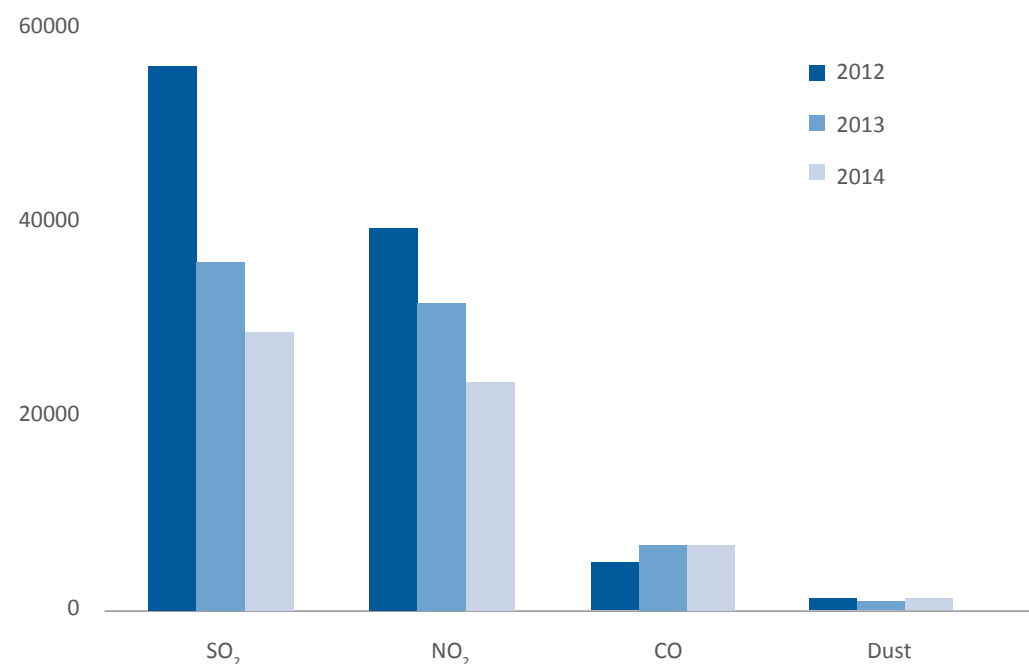
With the aim to decrease H<sub>2</sub>S emissions from Rijeka Refinery vacuum destillation unit, Sweet-Vac unit and liquid ring compressor were installed so the sour-off gases can be treated properly before combustion in process furnaces.

On Power plant and Atmospheric and Vacuum destillation furnaces fuel oil consumption was reduced by 15% compared to 2013 due to higher natural gas consumption and decreased refinery production.

Rijeka Refinery continued to perform LDAR (Leak Detection and Repair) program to detect and repair leaking spots of fugitive emissions, using thermo graphic camera. In 2014, measurements were conducted within all five groups of processing units. The reports generated after the measurements are used to plan the repair and/or replacement of the equipment.

According to 2010/75/EU Industrial Emission Directive, large combustion plants must achieve compliance with more stringent emission limit values for existing installations from 1<sup>st</sup> of January 2016. To achieve the prescribed emission limit values, IED provides the ability to use the exemption for existing plants and one of them is inclusion in the Transitional National Plan (TNP). By inclusion in the TNP, INA large combustion plants are given the option of gradual SO<sub>2</sub>, NOx and dust emission reduction over the period from 1<sup>st</sup> of January 2016 to 30<sup>th</sup> of June 2020 respectively, additional period is given for realization of all investments and measures to ensure compliance with more stringent ELV's.

INA Group air emissions (in tons)					
	2010	2011	2012	2013	2014
SO <sub>2</sub> (t)	10,203	7,841	5,573	3,581	2,864
NO <sub>2</sub> (t)	4,432	4,331	3,905	3,135	2,359
CO (t)	736	880	457	646	689
Dust (t)	176	132	134	102	124



**WATER**

For its activities, INA Group uses water from all types of sources: surface and groundwater, sea water, municipal water supply systems, rainwater that is collected and wastewater that comes from production activities or other organizations. The water is drawn from the rivers Sava and Kupa, wells, the Tribalj accumulation dam, the sea and from the water supply system. Neither of the water sources was significantly affected by the water withdrawal. Technological, precipitation, cooling and sanitary water is being discharged from INA installations and where it is needed is adequately cleaned by physical – chemical – biological processes. No water body is significantly threatened by discharging waste water from the INA installations.

In 2014, total water withdrawal in INA Group was 39.4 million m<sup>3</sup> which represents a slight increase as compered with 2013. Main reason is increased water withdrawal in Rijeka Refinery because of increased

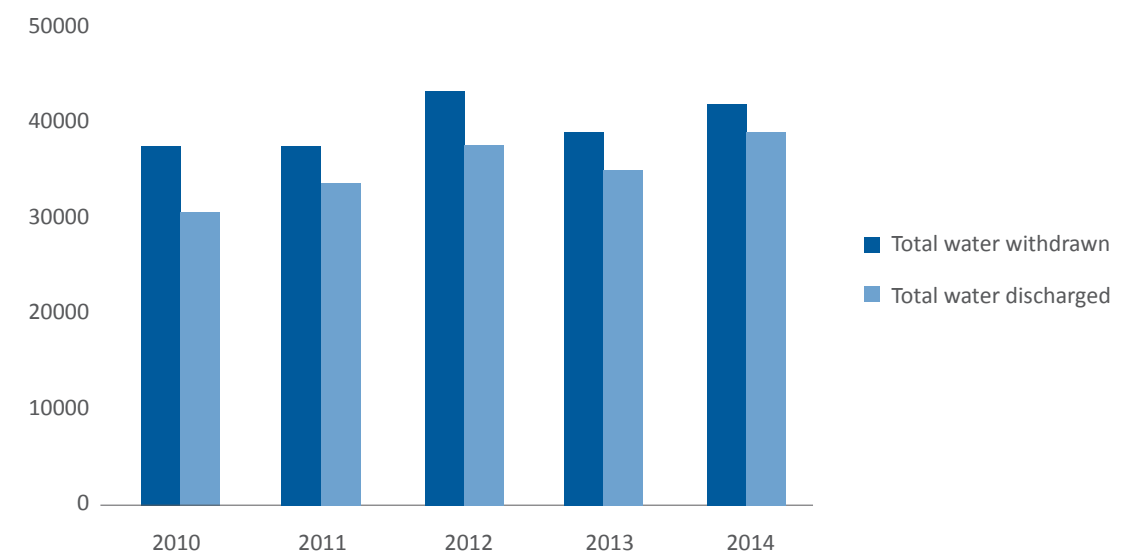
electricity production at refinery site and need for additional cooling of heat exchangers. Water intensity was equal to 14.3 % (m<sup>3</sup> / t raw material). Water loss reduction program in underground water piping was continuously conducted. According to findings, places of detected leakages were repaired 100 %.

In the same time, total water withdrawal in Exploration and Production was decreased by 32%. Instead of fresh water, formation water produced within the EOR project serves for formation pressure supporting. The amount of drinking water in Sisak Refinery was reduced in 2014 for 23.8% due to repair of municipal water network.

The quantity of water discharge in INA Maziva was reduced by 38% in relation to the water discharge in 2013, due to the work organization and maintenance of existing equipment for water resources management and steam production.

Quantity of water withdrawn and discharged by INA Group from 2010 till 2014					
INA Group	2010	2011	2012	2013	2014
Total water withdrawn (m <sup>3</sup> )	37,846,879	37,644,539	43,776,404	38,999,304	42,734,286
Total water discharged (m <sup>3</sup> )	31,115,100	33,770,579	38,770,275	34,996,968	39,448,370

Quantity of water withdrawn and discharged by INA Group from 2010 till 2014 (in thousand tons)



**GEOHERMAL WATER**

For many years E&P has been producing technological and geothermal water from the fields discovered during exploitation. The annual production volume of water is at the level of about 3 million m<sup>3</sup>. Produced water is used for internal consumption and distribution to customers, while geothermal water from the geothermal fields Bizovac

and Zagreb is used for thermal needs of the users.

In 2014 INA E&P did not independently develop any new geothermal projects, nor was there any request to participate in geothermal projects on the basis of the submitted data on geothermal resources in the process of amending the physical plans of local communities.

**Total water production**

Water quantities m <sup>3</sup>	2012	2013	2014
Water produced from water stations	2,228,903	2,274,964	1,938,749
Water produced from wells	516,806	530,360	492,827
Geothermal water	418,254	386,986	402,498
<b>Total water production:</b>	<b>3,163,963</b>	<b>3,192,310</b>	<b>2,834,074</b>

**WASTE**

INA Group waste management strategy for the period from 2011 to 2015 was adopted in order to improve waste management, technological development, and coordinate them with the industrial trends in this area. Since generation of waste is inevitable during oil production and refining continuous efforts are made in order to reuse or recycle as much of the generated waste as possible.

During 2014 waste management internal audits were conducted at eight INA's production sites with aim to identify areas for improvements with emphasis on waste reporting process. Main findings are related to underdeveloped waste reporting process and control weaknesses, and will be useful for revision of waste management strategy. Dedication to improvements in all segments of waste management system is highlighted with the aim to enhance waste separation at the point of generation, along with higher recovery ratio and stronger cost control.

In INA Group maintenance and cleaning of facilities and equipment causes quantitatively the most common types of waste such as oily sludge (waste code 05 01 06\*), iron and steel (17 04 05) and soil and stones containing dangerous substances (17 05 03\*).

In Rijeka Refinery during manipulation and refining processes of oil and petroleum products, various types of oily waste materials are generated. The majority of this waste is generated from usual content of sediment in crude oil (0.1 to 0.2%), but also for various other technological reasons in refinery processes: cleaning oil tanks, oily sludge after wastewater treatment and sludge from cleaning the colon and vessels. Rijeka Refinery produced 410 tons of hazardous waste, and 892 tons of non-hazardous waste. In Rijeka Refinery progress is made regarding obtaining waste management licence for existing waste installation in accordance with already developed legal requirements. Also, in 2014 collection of waste paper is established in refinery, and waste recovery ratio was 47%, but waste reporting process has to be improved.

Sisak Refinery produced 2,266 tons of hazardous waste, of which the largest amount is oily sludge from maintenance activities that are treated by authorised company using physical-chemical method (solidification). Non-hazardous waste is registered in quantities of 1,347 tons, and refers to the iron and steel and sludge from water decarbonisation process. In 2014 Sisak Refinery has achieved recovered/recycled ratio of 21%, and reduction for 15% in waste generation.

Logistics Sector succeeded to manage its waste in a sustainable manner. The total amount of recycled non-hazardous waste in Logistics Sector for 2014 was 1,662 tons, containing waste from river barge, old tank cars, rail tank cars and warehouse tanks. This old equipment was sold to authorised company for waste recycling.

Produced hazardous waste in Exploration & Production in 2013 was 819 t and in 2014 is 3,289 t. Significant discrepancies are caused by scrapping (chemicals and different materials) and spill incident at Dapci pipeline due to illegal connection. Non-hazardous waste in 2014 amounted 10,161.33 tons. 7,830.53 tons of aqueous waterbased drilling mud and cuttings waste was injected into deep wells and 4,353.83 tons was recovered or recycled.

In Retail contaminated soil occurred during modernization, capital reconstruction or closing of petrol stations which was temporary stored on closed logistic warehouses before final treatment or disposal.

In 2014, INA Group company STSI, d.o.o. obtained a permit for hazardous waste management. The permit is issued by the Ministry of Environmental and Nature Protection and refers to the waste collection and waste treatment using biological treatment, physical-chemical treatment and storage of waste. The permit is issued for 51 waste code numbers that can be processed by approved methods. This provides engagement of

STSI, d.o.o. in providing waste treatment services for waste from oil industry. Also, license for activities aimed at prevention and remediation of consequences caused by accidental pollution of water and water estate has been obtained.

In 2014, INA Maziva as a manufacturer and authorized collector of waste lubricating oil, collected 349 tons of waste lubricant oil, which was

handed over for treatment to an authorized company. Also, INA Maziva is registered in the Register of subjects storing their own industrial waste. Procedure for obtaining waste management licence is in progress, required documentation has been prepared in 2014 and submitted to competent authority.

Municipal waste data is not presented in this report.

**Quantity of hazardous and non-hazardous waste produced at INA, d.d. and INA Group (without municipal waste)**

	2012		2013		2014	
	Hazardous waste (t)	Non-hazardous waste (t)	Hazardous waste (t)	Non-hazardous waste (t)	Hazardous waste (t)	Non-hazardous waste (t)
Refinery Rijeka	120.27	717.79	513.84	1,314.49	410.40	892.30
Refinery Sisak	3,357.53	1,188.50	2,873.10	1,374.32	2,266.35	1,346.66
Sektor Maziva (Mlaka)	0.00	91.50	4.48	44.86	713.92	33.70
Exploration& Production	1,599.25	6,928.40	819.33	6,726.49	3,289.35	10,161.33
Retail	495.34	2,883.78	1,088.52	112.82	4,536.77	3,878.14
Logistics	867.26	207.46	240.4	222.11	1,053.50	900.40
Corporative Centre	11.15	21.51	16.89	0.00	4.16	29.83
<b>Total INA, d. d. (t)</b>	<b>6,450.99</b>	<b>12,038.93</b>	<b>5,557.00</b>	<b>9,816.30</b>	<b>11,559.23</b>	<b>17,208.54</b>
Crosco	269.31	250.31	112.84*	1,416.64*	375.77*	1,793.69*
INA Maziva	132.03	47.51	179.14	97.00	141.58	107.35
Holdina	0.70	5.80	1.37	-	467.30	168.56
Energopetrol	-	-	1.69	-	1,339.43	0.00
InterINA	0.38	36.10	6.19	34.56	12.55	53.17
STSI	30.37	170.07	18.82	572.09	20.24	477.97
Osijekpetrol	44.00	2.71	1.29	2.24	0.79	19.00
<b>Total INA Group (t)</b>	<b>6,927.78</b>	<b>12,556.71</b>	<b>5,878.20</b>	<b>11,938.83</b>	<b>13,916.91</b>	<b>19,828.41</b>

\* - Waste quantity is related to Crosco Group (Crosco + Rotary)

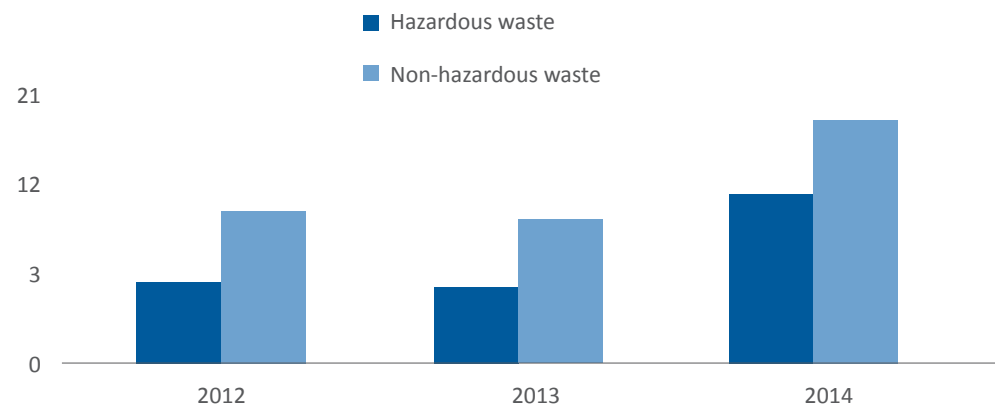
**Quantity of hazardous and non-hazardous waste produced at INA, d.d. and INA Group (without municipal waste)**

**Waste quantities in INA, d.d (in thousand tons)**





Waste quantities in INA Group (in thousand tons)



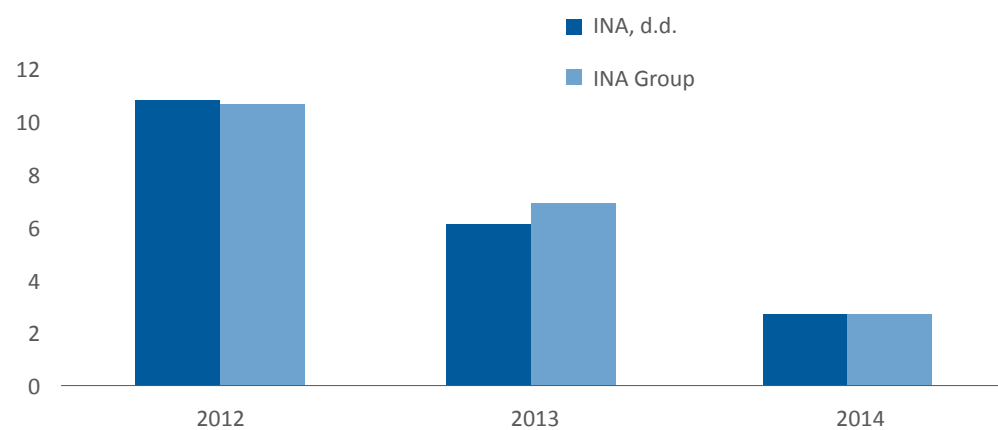
Increased amount of hazardous and non-hazardous waste in INA Group is a result of large scale of maintenance, and cleaning process and treatment of waste that was stored in legally prescribed deadlines. Retail oily soil waste that was produced during soil excavation in the process of petrol station reconstruction, was temporarily stored in a closed warehouse and it was treated in 2014. Also, hazardous waste quantities at Energopetrol are significantly higher compared to 2013, due to treatment of oily soil.

**SPILLS**

Spills are prevented by careful construction, rigorous inspection and efficient operations and these are the principles that INA Group constantly considers when operating its facilities. As a part of our prevention plan, regular maintenance was conducted and emergency response plans were developed for each of Ina sites. After detecting any incidents, all the measures necessary to restore the pre-spill status of the affected areas are immediately put into effect.

During 2014 in INA, d.d. there were three hydrocarbons (HC) spills over 1 m<sup>3</sup> which presents 57% decrease in relation to previous year. Two of the most significant spills in 2014 were recorded at E&P. In May, due to human cause, 210 m<sup>3</sup> (70 m<sup>3</sup> of oil and 140 m<sup>3</sup> of formation water) from dehydrator overflowed the technological sewage reservoir and the rain water collector system, causing pollution of 1,000 m<sup>2</sup> of soil and a water pollution. In October, illegal connection caused a spill where 100 m<sup>3</sup> of HC was released. Approximately 2,000 m<sup>2</sup> of soil and 7,000 m of water stream channel were polluted. Remediation activities started immediately and are still in progress. Remediation costs in 2014 were increased by 81%, due to higher volume of released HC.

Spills >1m<sup>3</sup> in INA Group in the last three years



**BIODIVERSITY**

Biodiversity Action Plan (BAP) is a general term that is used worldwide and across a large number of sectors, but in the context of this recommended practice it only refers to an action plan associated with an oil&gas site or project. BAP is developed in five steps, which are: 1. Defining all operating locations 2. Business units (BU) have to assess their sites from the risks and impacts on biodiversity, 3. Defining action plans for sensitive areas (BU), management schedule and monitoring programme, 4. Defining targets and performance indicators, 5. Monitoring action plans, review and report.

In 2015 INA Group has a goal to develop BAP for all INA Group sites which are situated in/adjacent to environmentally sensitive areas. BAP is an instrument that may help businesses to conserve or enhance biodiversity by defining a set of actions to be implemented at the local level.

During 2014, INA has made a database of all INA Group sites where it is assessed which sites are located in sensitive areas. A sensitive area is defined by three indicators: 1. Biodiversity critical site (geographically legally defined area that is designated, regulated, or managed to achieve specific conservation objectives; including nature protection network NATURA 2000), 2. Landscape critical site (site that is protected for its cultural or recreational value), 3. Water bodies significantly affected (Ramsar listed wetland, water scarced areas). According to applied criteria, three E&P sites were evaluated due their placement in significant biodiversity and water sensitive area and for them BAP will be developed during 2015 (Gola, Kalinovac and Stružec field).

In the vicinity of INA business locations four species of endangered birds that are listed in the Red Book of Croatia can be found: white and black stork, lesser spotted eagle and spoonbill. Potential impacts of our activities on the environment are prevented with regular protection measures and a proper work organization.

**REMEDIATION**

In 2014 INA, d.d. has started with fundamental preliminary site investigation on few locations in order to identify potentially

contaminated area and assess corrective action techniques, and to establish groundwater monitoring. Site investigation results are framework which is helpful for focusing on areas with the highest potential risks.

There are no specific regulations or procedures covering remediation of pollution to the soil and groundwater in Croatia, but we expect that the relevant practices will be gradually adopted into the national laws. Nevertheless, INA, d.d. has a proactive approach towards soil and groundwater protection, and has been for many years using an acceptable remedial technology (pump and treat) at Rijeka Refinery. Underground remediation in Rijeka Refinery represents a long-term process of multidisciplinary activities that are carried out continuously since 1993. Continuous activities on the elimination of hydrocarbons from the underground by pumping from drillholes and works on the repair of oily sewage system contributed to the reduction of hydrocarbons from the underground. During 2014, 415 m<sup>3</sup> of hydrocarbons were pumped out from the underground, which is lower quantity than in the previous year (684 m<sup>3</sup>). It points to the recent stabilization and minimum recharge of total accumulated underground pollution. Using many years of experience and acquired knowledge during underground remediation process in Rijeka Refinery, it can be concluded that control over the contaminated area is fully established and that in the future even better results can be expected.

Retail continued with remediation activities and plan for 2014 had been realised. Preliminary site investigations were conducted at 22 petrol stations. Recovery programme approved by Ministry of Environmental and Nature Protection was prepared for 19 petrol stations. Capital reconstruction was performed at seven petrol stations. All excavated polluted soil produced during reconstruction or closure projects (3,615 tons as non-hazardous waste, and 1,977 tons as hazardous waste) was treated and disposed in correct manner. Demolition was done at three petrol stations.

**An old Danube barge disposal postponed because of a swan's nest**

A nearly century old Danube barge, manufactured in 1916 at German shipyard in Regensburg, with length of seventy and width of nine meter. Until it became INA's property, this river barge was used for the transportation of crude oil and petroleum products. In certain periods sailors also lived there with their families. In early 1980's the barge became the property of INA and was renovated and cleaned, that it could serve as a trans-shipment facility – port. The barge was situated on the Danube River in Opatovac near Vukovar. Thanks to the river barge, the market was supplied with around 10,000 m<sup>3</sup> of diesel per month and it had strategic importance in supply

between Sisak and Bosanski Brod Refinery. After the war in the 90's, new road supply routes were created and as it was no longer in use for almost two decades, INA decided to dispose it as waste. Administrative work related to the river barge disposal began in the beginning of 2014 and realization was planned to start in April, but it was postponed because of the nesting swans on the floats close to the barge. Dismantling process was postponed till swans left their nest in October and then the river barge was towed to the dock in the port of Vukovar. All environmental requirements were fulfilled and we have succeeded in preserving biodiversity, in this case of a young swan family.



**HEALTH AND SAFETY**

**Achievements**

- Lost time injury frequency at INA Group level decreased from 1.7 in 2013 to 1.5 in 2014;
- No on-site fatalities happened in 2014 (among own staff and contractors);
- With the aim of further reducing the number of serious accidents and fatalities INA Group continued with activities included into Life Saving Rules (LSR) program; updated Contractor Management process and continued with the Road Safety Program.

**Challenges**

- Further improvement of process safety management elements and decrease of process safety incidents;
- Further increase road safety and further reduce number of serious incidents with introducing new programs for support to Life Saving Rule program such as job safety analysis program and stop card program;
- Further improvement of HSE awareness at all levels including contractors.

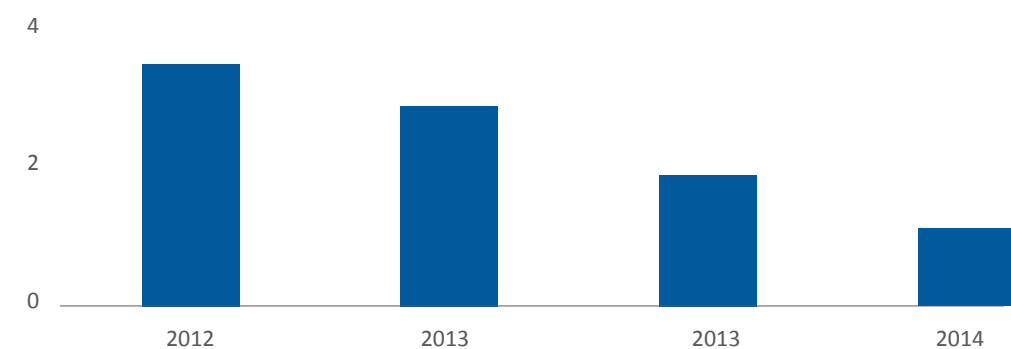
**PERSONAL SAFETY**

**Workforce Safety**

INA Group has had a positive trend based on on-going projects realization and new projects implementation effected in improving the values of workplace health and safety indicators. Also based on the numerous activities related to those projects awareness of health and safety continues to rise. In 2014 number of LTIs was 36, which showed further improvement in comparison to 2013 (LTI=44) as well as LTIF which was 1.5 (1.7 in 2013). There were no fatalities at any of our facilities. An analysis shows that the most of our injuries can be contributed to slip, trip, fall type of injuries, road and improper equipment handling which resulted with injuries of extremities, minor wounds and bruises. A new INA Group corporate HSE Alert system has been implemented, in order to share knowledge about the incidents and corrective actions applied, to avoid incidents repeating in the future.

Staff LTIF	2010	2011	2012	2013	2014
INA Group	3.5	2.6	2.2	1.7	1.5

LTIF in INA Group (Lost Time Injuries per million worked hours)





In INA there is one Central occupational health and safety committee established where on a company level the health and safety issues and programs are discussed between employer and representatives of employees with participation of M.D. (medical doctors) specialist for occupational health and occupational health specialist. Also there are 6 subcommittees organized in: E&P, Retail, Refinery and Marketing, Logistics Sector, Rijeka Refinery, Sisak Refinery and greater number of organized committees on lower organizational levels, where specific topics for the businesses are discussed and presented on the central committee. 100 % of total workforce is represented in these committees. Their representatives are selected through elections within the workforce based on business organizations and location of work. The strategic aim of representative is to detect, monitor and advise management on the field of workforce health and safety.

All legally required workplace risk assessments and measurements of workplace environment hazards and yearly medical check-ups are performed regularly. Through the established safety committee boards in business organization structures, monitoring and execution of measures and actions with the aim of improving safety from risk assessments are carried out. First phase of Fall Protection Program started in INA in 2014. In this program in 2014 education for 100 nominated employees for risk assessments and 25 risk assessments with contracted company were done. Risk assessments for fall protection program for all sites were finished in December 2014. The ultimate goal is to detect critical locations and work performance which will increase safety for works at height and reduce the number of injuries caused by work at height to zero.

Also a program for dioptric protective glasses started in 2014 where needs from all subsidiaries were collected, and Rijeka Refinery was selected as the pilot site for program start. Total of 100 employees was sent to eye check and they received dioptric protective glasses.

To enforce the Life Saving Rules (LSR) program that started in 2013 and continued in 2014, three more programs are planned in 2015 – LOTO (lock out – tag out) program for which first steps in 2014 were done (procurement for the pilot phase) and Job Safety Analysis (JSA) program & STOP Card System program. In INA Group in 2014 as a continuation of LSR program 4 forums with contractors were held and all together in access of 9600 trainings for contractor workers were done.



### ROAD SAFETY

As a continuation of a well-established program in INA, Safe Driving Program was continued in 2014. INA's Safe Driving Program aims to improve awareness of traffic hazards and support more responsible driving. INA cannot influence other road users, but can develop our own employees' driving skills and ensure serviceability of its vehicles.

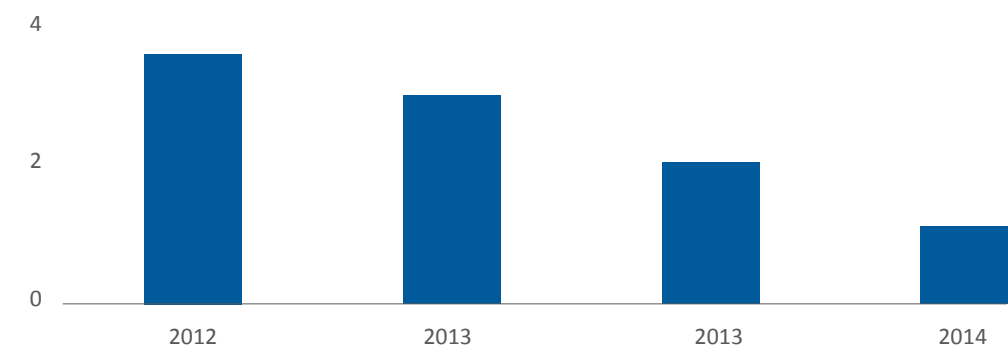
INA started this program in 2011, followed by Safe Driving Standard in 2012 which prescribed procedures and rules connected with safe driving. In 2013 the main focus of the project has been on training. Total of 509 employees took Basic Safe Driving training on a polygon, led by certified professionals. Targeted group was professional drivers, employees that drive more than 30.000 kilometres yearly, young drivers and employees that participated in traffic accident.

In 2014 focus continued on training of personnel and extension of the program to other INA subsidiaries. Total of 129 employees of INA were trained and 59 employees of STSI as an INA subsidiary were trained in basic safe driving program training. Implementation and auditing of the preventive measures, on-going periodic education and also through daily communication through safety meetings on every business locations, implementation of the system for daily vehicle control, have significantly changed employees' awareness regarding business vehicle usage.

RAR (road accident rate) is for a key performance indicator in INA Group. Through last 4 years with conduction of above mentioned projects a great improvement has been shown in this KPI which steadily dropped from 3.4 in 2011 on a group level on 1.0 in 2014. When we look the numbers for INA d.d. improvements are even greater – 6.5 in 2010 to 1.0 in 2014.

**RAR in INA Group (road accident rate - number of road accidents per million kilometres driven)**

RAR	2011	2012	2013	2014
INA Group	3.4	2.8	1.9	1.0



The goals of the program for next year are to further continue with the trainings for employees but not to stop only there. Also our intention is to issue a Group program of Life Saving Rules for transportation which would serve to prescribe and emphasize well known rules for safe driving (this will include preparing of the materials and regulation for LSR for transportation, training of employees and contractors).

## CONTRACTOR SAFETY

Updated version of Contractor management regulation for INA Group has been published in September. Trainings for all involved personnel within INA Group have been organized and performed with special attention paid to Procurement Sector with HSE emphasis. In the new simplified process focus was on high-risk activities. In line with industry practice, compulsory 24/7 safety coordination and frequent site inspections have been undertaken for complex, high risk activities. The gradual introduction of mandatory Safety Checklist Contractors (SCC/VCA) certification for contractors and INA Group Single Service Company is also scheduled for the coming years. Contractor post-evaluation and HSE management system certification of contractors has been incorporated into the tender-evaluation process as the first step towards an integrated corporate supplier management system.

Contractor management goes hand in hand with Life Saving Rules program. Within these two programs a monitoring system of contractors is established on supervisions and on-going reporting system. In 2014 there were 756 audits of contractors that resulted with 456 rules being broken. Applied measures differ from written warnings (98) to banning from site (17). Also according to Contractor management and HSE Appendix fines for breaking of Life Saving Rules were applied. All of these steps are confirming implementation of these two vital programs (contractor management and Life Saving Rules) for ensuring contractor and employee safety on our sites.

To further increase importance of contractor management two new performance indicators were introduced – LTIF for contractors and TRIR (total recordable injury rate).

In CROSCO all contractors' employees working on the project "Class Renewal Labin 2014" have passed HSE induction course prior to start of activities. HSE Induction program includes rules of behaviour on the platform, PPE rules, use of tools and equipment, work at height, lifting management, work in confined spaces, PTW system, emergency drills, emergency signals, rules on incident reporting and STOP system, smoking rule, LSR, STOP Work Policy, alcohol and drugs rules. Safety engineers supervise the implementation of these rules on daily basis.

In 2014, Croscos had two HSE Forums for contractors, with 16 contractors participating. Croscos held Quality, Health, safety and Environmental (QHSE) audits of 6 main contractors included on project Class Renewal Labin 2014.

In STSI, HSE management is implemented in the processes involving external contractors. 57 prequalification audits were conducted. Prequalification is conducted continuously in accordance with the procurement process.

In 2014 in INA Group total of 86 prequalification audits were conducted.

## HEALTH PROTECTION AND PROMOTION

### Occupational Health

As in previous years there were no occupational illnesses recorded in INA

Group. That fact does not prevent us from continuing well-established and new programs to protect the health of our employees. Health program refers to activities undertaken in the workplace that support the health and wellbeing of employees and offering all employees the opportunity to participate regardless of their current health. These activities especially focus on the increase in preventable disease and workplace injury, resulting from unhealthy living and low levels of physical activity, that are a major cause of workplace absence and disruption in workforce.

There is a long term program in INA Group aiming to increase employees' health protection called Medically Programmed Active Vacation (MPAV). During 2014, 130 employees of INA d.d. of different medical status and employed at different positions were sent to a ten day Medically Programmed Active Vacation in The Specialised Hospital for Medical Rehabilitation "Naftalan" in order to receive medical treatment based on natural healing factors, medical rehabilitation and kineziological recreation activities for the purpose of achieving positive changes in functional and motor abilities of basic body systems, positive impact on preserving and improving health and maintaining their working abilities. Two more campaigns were presented in 2014 – "Health and safety at high temperatures work environment campaign" and "Outdoor work in low temperature and safe driving in winter conditions campaign". Both campaigns aimed to raise awareness and teach the employees on campaign subjects through distribution of posters, information and education about general recommendations and advice on code of conduct in certain outdoor conditions.

### Workplace Health Promotion

Protection of employees' health as an area of corporate social responsibility includes workplace health promotion and raising awareness on the need for its continuous control. The association of health, work activities and working environment is an important element of the health status of employees.

In order to raise awareness about health and healthy lifestyle of the employees, we launched the "Workplace health promotion project", which was implemented through four forums, after which employees could have contacted our M.D. specialist for occupational health in person or via e-mail in order to get advice and further instructions.

### Less stress (March 2014)

We implemented Less Stress campaign to raise awareness on a stress levels and to show employees how to manage stress, both within the private life, on the level of a single workplace as well as on the level of the corporation. With this campaign we have been a part of EU-OSHA two year global campaigns of the healthy workplaces "Manage Stress". Nine M.D. specialists for occupational health held interactive lectures titled "Manage stress. How to?". Employees were given questionnaire to evaluate the impact of stress on their health. They also got advice on



how to successfully cope with stress and the brochures "How to manage stress?".

### Celebration of the World Day for Safety and Health at Work (April 2014)

The World Day for Safety and Health at Work was marked in INA with apposite lecture for INA's employees and guests, related to impact of REACH and CLP regulations on INA's operations, health status of INA's employees working with petroleum products and other chemicals for the period from 2012 to 2013, and health effects of toxic gases in the work environment.

SD & HSE Sector activities related to staff training on working with chemicals and the publication of the brochure Dangerous Chemicals were also announced.

### Addiction Prevention (June / July 2014)

The general aim of "Addiction prevention campaign" was to raise awareness on addiction to alcohol, smoking or drugs, with constructive

and stimulating proposals based on employee information. Following the same model as for the stress prevention nine M.D. specialists for occupational health held interactive lectures titled "Addiction prevention". As guidance for the employees the brochures "Addiction prevention?" was made.

### Prevention of malignant diseases (December 2014)

Cancers are among the leading causes of morbidity and mortality worldwide. Creating a culture that supports healthy behaviours which is also based on early detection of the disease can improve employee health and well-being. Educational leaflet with basic information "Cancer Prevention" was created for our employees.

## PROCESS SAFETY MANAGEMENT

Process safety refers to how we manage the integrity of hazardous operating systems and processes to prevent accidents and spills. To track our progress in process safety management, we use leading indicators that focus on the strength of controls to prevent incidents. Since INA is aware of the importance of Process Safety Management (PSM) System in preventing serious, process-related incidents that might affect plant personnel, the off-site communities, environment and result in significant loss of property (Company and / or Community assets), business continuity and loss of reputation in general INA paid in 2014 special attention to the preparation of the organizational structure related to the implementation of the project, PI and P&ID (Process and Instrumentation Diagram) GAP analysis as well auditing process in Rijeka Refinery and Gas processing facility Molve. Identified recommendation measures will be used as tools for improvement within our system implementation plans. Apart from this, great attention is paid to faithful implementation of the new regulatory system that contains better recommended practices in the field of process safety.

During 2014 INA experts from Fire Protection and Process Safety Department have done functional testing and certification of 410 system for fire detection, alarms and fire extinguishing, 2,283 pieces of hazardous machinery and equipment, and 201 locations, (testing and certification of working environment).

### Emergency preparedness and response

During the Fire Protection month "May 2014", activities defined in Decision on Activity Plan and Program for "May 2014", were carried out. Organizational units in INA Group companies have adopted their implementing programs of activities, taking into account their specific characteristics and needs, and made reports on the performed activities. Executor of fire fighting tasks in implementation of the operational part of this Plan and Program in INA, d.d. was Fire Fighting & Emergency Response Department of SD & HSE Sector.

The final fire drill demonstration on INA Group level was held in Refining and Marketing BD, Logistics Sector, at Warehouse Solin on May 29, 2014.



Activities carried out in „May 2014“, Month of fire protection at INA Group companies

Data on the carried out activities in „May 2014“, Month of fire protection at INA Group Companies	Number held fire exercises - total	Number of participants own and contracted fire-fighters - total	Number of participants - Foreign fire-fighters (VFB, PFB, other ...) - total	Number of participants - technological personnel - total	Used Foam - kg	Used dry powder - kg	Number held evacuation exercises	The number of skilled workers from their own areas of FP	The number of skilled foreign workers in the field of FP	Number performed internal control and functional testing in the areas of the FP	Number of detected irregularities and / or non-compliance in the area of the FP (if any)	Number undertaken and completed corrective measures and actions in the field of FP (if any)	Number of professional meetings and lectures (including OSH committees) with topics from the field of FP	The number of posters and leaflets in promotional and educational activities,	The amount of the cost of program execution Month of FP "May 2014" (in HRK)
Name of INA Group Company/ Organisational Unit															
INA, d.d., Logistics Sector	15	114	24	104	30	224	7	296	114	53	10	13	23	128	15,000
INA, d.d., Refinery Rijeka	1	11	0	30	0	0	1	21	16	29	5	5	8	60	0
INA, d.d., Refinery Sisak	18	116	0	204	0	0	15	181	360	116	4	4	0	390	0
INA, d.d., Exploration & Production BD	12	39	127	96	200	100	12	5	0	0	0	0	2	650	116,100
INA, d.d., Retail BD	0	0	0	98	0	95	43	861	95	290	51	40	132	4,432	900
INA, d.d., Corp. Communications Sector	0	0	0	0	0	0	0	0	0	0	0	0	0	10,800	3,000
CROSCO Group	29	9	0	869	0	240	7	0	0	27	1	1	34	900	0
STSI d.o.o.	9	7	0	234	0	48	0	0	0	15	6	1	2	330	1,280
INA Maziva d.o.o.	50	20	0	50	10	90	0	100	0	1,440	14	5	1	10	0
Hostin d.o.o.	2	0	0	20	0	36	2	16	0	17	0	0	1	10	0
TRS d.o.o.	0	0	0	0	0	0	1	16	0	1	0	0	0	9	0
Holdina d.o.o., Sarajevo	2	8	3	10	300	60	0	16	0	2	2	2	0	0	8,000
Interina d.o.o. Ljubljana	0	0	0	0	0	0	1	86	0	1	0	0	1	30	6,000
Energopetrol d.d. Sarajevo	2	8	3	10	50	8	0	10	0	23	2	1	0	0	0
<b>INA GRUPA - TOTAL</b>	<b>140</b>	<b>332</b>	<b>157</b>	<b>1,725</b>	<b>590</b>	<b>901</b>	<b>89</b>	<b>1,608</b>	<b>585</b>	<b>2014</b>	<b>95</b>	<b>72</b>	<b>204</b>	<b>17,749</b>	<b>150,280</b>

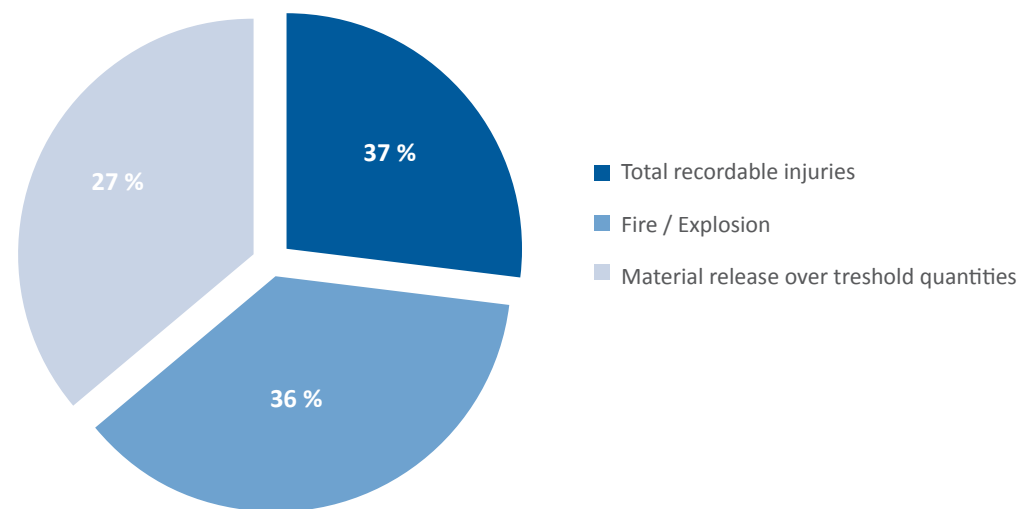
**PROCESS SAFETY EVENTS**

Tier 1 and Tier 2 process safety events are those with the greatest consequence. There were 6 tier 1 process safety events reported in INA Group in 2014. Also in 2014 there were 5 Tier 2 process safety events. After careful analysis, we determined human factors, procedures and preventive maintenance were the primary contributing elements to the occurrence of these events, allowing us to develop and enhance prevention strategies more effectively. We track loss of primary containment (LOPC), which includes those releases that did not reach the environment. Through what we learn, we improve our procedures, training, maintenance programs and designs to avoid repeating incidents.

**Process Safety Events in INA Group**

	INA E&P BD	INA R&M BD	Total INA Group
PSE Tier 1	4	2	6
PSE Tier 2	2	3	5

**Tier 1&2 events by consequences in INA Group**



One serious process safety event happened in Rijeka Refinery where fire occurred due to LOPC at the operating atmospheric residue pump. After detailed root cause analysis, few basic risk factors were identified and corrective recommendations accepted by responsible managers. All necessary corrective actions have been undertaken and knowledge about this incident was shared within the Group so these kinds of events would not occur again.

**HSE COSTS AND ENVIRONMENTAL PROTECTION INVESTMENTS**

For three years in a row, INA, d.d. systematically monitors non-project related operative costs for all health, safety and environmental protection costs, while from 2014 at the level of INA Group.

In HRK mln	2012	2013	2014	
	INA d.d.	INA d.d.	INA d.d.	INA Group
Health protection	1.35	0.35	0.32	1.91
Occupational safety	0.17	1.46	1.18	2.11
Fire protection	9.61*	3.22	2.92	3.48
Surface waters protection	1.02	1.26	1.43	1.48
Hazardous waste treatment	0.99	1.05	2.15	2.35
Non-hazardous waste treatment			0.17	0.44
Soil and groundwater protection	2.9	1.68	2.18	2.19
Air protection	0.51	0.58	0.59	0.66
Non material HSE services	1.68	0.86	0.73	0.75
REACH and Product Safety	n/a	n/a	0.16	0.17
Fees and charges	8.27	3.64	3.95	6.24
<b>Total</b>	<b>26.5</b>	<b>14.1</b>	<b>15.78</b>	<b>21.77</b>

\* Due to the change of fire-fighting operating model and integration of related activities from INA Group subsidiary to INA d.d. in Q3 2014, fire protection services were changed by content as own workforce costs was not considered as the part of Fire protection cost category.

HSE projects monitoring at the level of INA Group was also started in 2014 as integrated activity for already established activity for INA, d.d. projects and HSE projects monitoring in major Group companies by using unique HSE project taxonomy.

Total monitored capital investments and project related operating costs in 2014 were realised in amount of HRK 347.8 mln, out of which the majority (HRK 274.2 mln) was related to environmental type of projects. INA d.d. share in INA Group HSE capital investments/project related costs by 99% with the highest impact of Exploration and Production by HRK 189.1 mln (mostly by EOR projects) and Refining and Marketing investments in Sisak refinery, Rijeka Refinery and Logistics projects (by HRK 134 mln) for wide range of environmental type of projects (Coke chamber replacement, installation Delayed Coker closed blow down system, bio diesel and bio-ethanol blending, oil sewer repairing, building the VRU units, etc.), fire prevention and process safety projects (fire protection pump room reconstruction, reconstruction of fire water net and hydrant network, etc.) and health & safety type of projects (modernization of RTC loading and unloading unit, modernization of the port Bakar, etc.).



## HUMAN RESOURCES

### ACHIEVEMENTS

- „Zlatni indeks“ award received;
- Employer Partner Certificate;
- Total of 13,008 INA Group employees participated in various forms of internal (6,451) and external (6,557) trainings (some employees participated in more than 1 training)

### CHALLENGES

- Employee Performance Management System (EPMS) implementation.

The Human Resources Sector undertakes the activities related to creating human resources strategies and coordinates planning related to the human resources area in accordance with decisions and strategic plans of the Management Board.

At INA, d.d., procedures are in place to ensure information exchange, consultations and negotiations between the employer and employee representatives on the matters of mutual interest. Internal communication and employee participation in management is regulated by several regulations, some of which are specific for certain organizational units.

In 2014, 552 employees left the company due to various reasons, whereas new 89 persons were employed. Based on redundancy program, 103 employees left INA, d.d.

### ATTRACTING EMPLOYEES

#### Competitive compensation

Compensations in INA Group companies are market competitive. Internal payscales & compensation principles are regularly aligned with market trends, based on salary market survey. Both managers and employees participate in performance management system. There is a wide range of material benefits defined with Collective Agreement (fringe benefits such as Christmas and Easter bonus, holiday allowance, transport allowance, health care insurance).

#### AVERAGE GROSS SALARY (HRK) IN 2014

	2012	2013	2014
Republic of Croatia*	7,853	7,939	7,953
Sectors according to national classification*			
Mining and exploration	9,878	9,758	9,715
Processing industry	6,828	6,943	7,048
Electricity, gas and water distribution	10,020	10,571	10,367
Civil engineering	6,364	6,488	6,545
INA-Industrija nafte, d.d.**	10,669	10,727	10,580

\* Source: Central Bureau of Statistics

\*\* Operational "Report on the salaries paid in INA, d.d. in 2014"

### INVESTING IN EDUCATION

INA is the winner of "Zlatni indeks" award, which was organized by the eStudent association, with a purpose of awarding and promoting companies and institutions which participate in the student life through their work, actions and overall activities, help Association activities or participate in their projects.

High school and university students were offered a possibility to attend student practical training by which young adults are familiarized, through the method of mentorship, with specific business processes, whereas from the perspective of the Employer, the practical training is used as a valuable tool for assessment of motivation and competencies of the interns as future potential employment candidates.

### PARTNERSHIPS WITH EDUCATIONAL INSTITUTIONS

INA maintains continuous strategic partnership with student associations eSTUDENT, AIESEC Croatia, BEST and website Srednja.hr and has become a strategic partner of the most popular student website Studentski.hr. The cooperation was realized through the project "INA Pitalica" in which high school students solved mathematical and logical problems.

INA provides local financial support to various projects of aforementioned associations, such as:

Organize Your Talk is a competition in team presentation skills in foreign languages (Graduate School of Business and Economics, Zagreb), EBEC case study competition – case study competition organized by BEST association of students of engineering, eSTUDENT case study competition – case study competition organized by eSTUDENT student association and "Slagalica" - case study competition for high school students organized by student website srednja.hr.

In 2014 new recruitment channels, Facebook & LinkedIn company pages, were upgraded and introduced through social media, and LinkedIn Golden Career page was introduced.

INA is present at Job and Career Fairs in order to build its image of a desirable employer and to present its programs to student population: BEST Company Day (March), Career Education Day (April), 9. Student Future Day (April), Virtual Days of Career and Knowledge (October), Career Day on Faculty of Mining, geology and petroleum engineering, University Fair (November).

For the purpose of attracting and recruiting newly graduated talents, the following programs were created and realized:

Best Mentor award 2014: Supporting secondary education in natural sciences in order to increase its popularity - creating talent pool; furthermore to orientate students at early age towards natural sciences. More than 220 nominations were received. The awards were presented to high school teachers in three categories: mathematics, chemistry, and physics. The most inspiring nomination was submitted by a student from the Faculty of Mechanical Engineering and Naval Architecture who was awarded with a tablet.

UPPP is the new Exploration & Production dedicated international talent acquisition program of MOL Group which was launched to students and graduates in the fields of geoscience and petroleum engineering. 57 registered teams from Croatia (3 teams in top 10).

Collection of applications for Scholarships for children of Homeland War veterans and other Scholarships is on-going.

### FRESHHH AND GROWWW

FRESHHH, an international competition amongst three-member groups of senior students from technical and business faculties from all over the world in an online game form in which they solve tasks and problems from given areas. In 2014 were 114 registered teams from Croatia (5 teams in TOP 40).

Junior Freshhh, online game launched in 2014 for the first time in Croatia; supporting secondary education in natural sciences and to increase its popularity - creating talent pool; furthermore to steer students from

an early age towards natural sciences; 294 registered teams from 57 different Croatian cities; live finals with top 5 teams was held on Jan 30th 2015 in Zagreb.

Growww program is directed at employing young talents of different professional profiles, and it is carried out in all countries where MOL Group companies are present. Growww program is used to select university graduates from specific faculties, with the aim of selecting the best trainees for one-year internship in the company, offering a possibility of a permanent employment.

The fifth Growww contest was carried out in 2014 and the requested educational profiles were oil engineers, chemical technology engineers, mechanical engineers, economists, IT specialists, as well as lawyers, civil engineers and safety at work engineers. 1,019 applications were received and 47 trainees were employed.

### PROGRAMS FOR NEWLY EMPLOYED

Business Education Program is a series of structured lectures and presentations aimed at introducing trainees to the organization and activities of the company. Lectures and presentations are given by reputable professionals, experts and managers in leading positions.

Upon their arrival, the trainees are assigned to a mentor – a person who is in charge of and responsible for managing and supervising the entire internship and preparation and implementation of the professional part of the Internship program. The purpose of mentorship is faster integration and adjustment of trainees with the support and help of more experienced employees.

Within the Buddy program, a former trainee "Colleague" / "Buddy" becomes responsible for a new colleague and tries to facilitate and speed up the new trainee's adjustment to the working environment and assimilation into the collective, through an informal approach. The purpose of this program is to exchange knowledge and introduce the trainees to their work tasks and the team of associates, on an informal level.

Naj Mentor or Best Mentor competition for selection of the best high school teacher of mathematics, physics and chemistry was launched by INA, d.d. in 2011. The competition is designed in such a way that students from the technical / technological faculties, faculties of science and faculty of geosciences are given the opportunity to nominate their high school teachers who encouraged their desire to learn and progress and instilled a love of science in them. The Best Mentor project honours the dedicated tutoring and effort in developing the potential of young talents which are expected to give a positive contribution in the future, not only to the development of the companies which will employ them, but also to the society as a whole.

More than 370 nominations were received from 15 different faculties, and 170 high school teachers were nominated. Three awards were presented to high school teachers in the following categories: mathematics, chemistry and physics, the fourth award was given to a student whose nomination was proclaimed the most inspirational.

## RETAINING AND MOTIVATING EMPLOYEES

### Managerial Performance Management System

Management PMS policy had been revised and in December 2014 a common APC IT platform was rolled out, integrating all three pillars of APC (Annual People Cycle process): Performance management, Career management, Development and Succession Planning. The new IT tool will ensure to have integrated, clear and transparent APC processes.

Performance Management System (PMS) for Top Managers (MPMS) and non-managerial job positions is continuously carried out.

### Employee Performance Management System (EPMS)

Employee PMS policy is developed and in place with aim to establish performance based culture and ensures merit reward system for all employees. INA introduced a new transparent system to reward individual performance as a key tool which facilitates the identification and rewarding of employees who perform their work exceptionally well. With internal IT resources an IT system is being developed which will support target setting, performance evaluation and bonus calculation of EPMS participants. In 2014 employees on non-managerial positions participated in the EPMS. Targets for all employees were set and the performance of which will be evaluated at the beginning of 2015.

In order for the PMS to be more efficient, with the use of internal knowledge and resources, an application supporting the entire process was implemented. The main advantage of INA PMS application is integration of data related to targets and employee performance. Rewarding system is connected with the performance monitoring system, which allows rewarding excellent performance through the payment of annual bonus.

The rewarding system is linked to the PMS, and depending on the total success of the company and evaluation of performance, the bonus payment is expected mid-2015. Retail employees are involved in a special incentives program, by which the sale performance is assessed, and depending on the realized sales, reward bonus is paid to employees on a quarterly basis.

### Career Management System (CMS)

Career Management System is a tool for managing employee careers through the evaluation of their competencies, the creation of individual development plans as well as career and succession plans. CMS is a combination of structured planning and active management of employees' professional careers. This complex process equally involves employees, their superiors and representatives of the Human Resources Sector, aiming to establish a desirable corporate culture.

In 2014 an HRIS platform was implemented in order to integrate PMS and CMS processes. The solution covers the three pillars of APC: Performance Management, Career and Succession Planning and Development Planning.

Career Management system for APC population is regulated via booth INA Group level document and local INA level document: "Career

management and succession planning in INA" with aim to establish desirable corporate culture

All persons included in employee appraisal systems underwent a specialized in-house tailor-made trainings "Performance management" and "Communication excellence" in order to improve people management skills and boost performance management culture.

Retaining efforts: New Exit interview form has been introduced in 2014 for collecting relevant data to understand possible reasons behind voluntary turnover with an aim to prevent turnover of key employees in the future.

Employee Engagement Survey is used for monitoring realization of action plans and regular reporting to INA management. Champion coordination quarterly meetings have been established, revision of action plans done and pulse check survey conducted.

## DEVELOPMENT OF HUMAN RESOURCES

Employees of INA are aware that the company's success is based on educated, creative and innovative employees. Owing to their financial strength, accumulated knowledge and market experience INA is an ideal environment for development of human resources.

The objectives of education policy at INA are formation of collective competencies in order to adjust to the market and increase competitiveness, on account of which the high level of quality of knowledge and abilities is constantly improved, both on individual level, as well as on the company level. Human Resources Sector is implementing the concept of lifelong learning, via formal and informal education, and education related activities include:

- Development and implementation of programs for development of human resources,
- Organization of internal trainings,
- Planning and preparation of internships, assessment of interns' performance and final evaluation through internship exam,
- Coordination of assignment to work-and-study-scheme and education,
- Implementation and talent program development,
- Workplace safety training.

It is our objective to promote the need for and importance of knowledge on both the company and personal level through the processes of management of intellectual property. The guidelines leading us through the management of the corporate knowledge are open and communicative corporate culture, focus on the main line of business, encouraging creativity and converting knowledge of employees to a form suitable for transferring and sharing within the company. With that objective in mind, Corporate Knowledge Base was established and is continuously maintained and which contains everything that is considered as creative creations of INA d.d. employees. Corporate Knowledge Base is available to all employees through INA –Intranet.

Career and development planning is done through individual development plans based on assessment of competencies and

identifying improvement and development areas through the Annual People Cycle which incorporates all the crucial HR processes executed through a standardised set of activities.

### Individual development planning

INA continuously invests in education of its employees through various individual and group educational programs. One of these programs is LEAD - Leadership program that was designed for the current managers and top talents; it was executed in 2014, with 14 INA Group employees participating in the program.

A module development program "Intensity", which is aimed at specialization of managers and experts in the areas of managerial skills and professional skills, has been launched. Following the competence assessment of employees and strategic guidelines of the company for the future period, the total of 15 education modules was designed, which will improve the key competences through a focused approach to topics. One of the particularities of the Intensity program is a unique combination of the theoretical part, analysis of real case studies and independent work of the attendees, which intertwine over the period of 7 weeks, the so-called "learning journey". In 2014, three modules were implemented and 8 INA Group employees participated.

In cooperation with EDI Energy Delta Institute, INA, as the host of international Oil&Gas Fellowship program, organized module 1 in Zagreb in order to extend cooperation with academic institutions beyond borders and to ensure capability development of INA employees in line with international benchmark (3 participants from INA in the Fellowship program).

New methods of learning were introduced for foreign language studies in 2014 – a combination of classroom and online learning method has been introduced to all employees enrolled to ensure a more flexible approach and involvement of a greater number of employees.

Internal trainings were held by INA experts for certain business areas. In the area of Employee Performance Management System, several internal trainings were held in order to familiarize the employees with the principles and tools to be used in people and performance management. Internal trainings were also held for the Customer service employees in the area of human resources in order to improve customer satisfaction. For all INA employees Safe operations and work processes training was organized and implemented.

For the employees of Refining and Marketing, Exploration and Production, and for the employees of the SD and HSE, project and evaluation managers of expert competencies held professional trainings in order to improve the levels of competencies and higher security in performing everyday work tasks.

HR Sector employees participated in international HR trainings and events, as well as local professional trainings in Strategic HR partnering model in practice in-house training by internationally CIPD certified trainer.

In 2014 various forms of 6,451 internal and 6,557 external trainings was conducted and average number of hours per employee amounted to 16.6 hours.

In 2014, almost 100 internal trainers from specific fields of expertise, i.e. exploration and production, refining and marketing, HSE, and the field of soft and leadership skills, were hired.

In 2014 2,359 employees passed the exam in workplace safety, and 3,354 employees were referred to workplace safety training (one employee to several types of trainings).

Managerial curriculum is a structured approach to the development of managerial competences in the field of interpersonal skills and personal development of managers, aimed at increasing work efficiency of teams they manage. Individual development plans were created in order to attain objectives related to the company's strategy.

360° feedback analysis consisting of self-assessment, assessment by superiors, peers and subordinate employees was implemented in order to ensure as objective assessment of managerial competences as possible. After the 360° analysis, a deep structure interview was conducted with each participant. Integrated assessment by multiple assessors supplemented with a personal view of their own competences and future expectations of each participant jointly present a quality basis for identifying development focus areas.

Development Centre / Assessment Center, implemented in 2011, is a method incorporating a variety of selection techniques designed to allow candidates to demonstrate, under standardized conditions, the skills and abilities that are most essential for success in a given job. This method allows for assessment of employees' competencies, identifying their development needs and potential for career development, and also providing feedback to the candidates on their strengths and areas in need of improvement.

Petroskills, the world's leading company for training and education in the oil industry and a member of OGCI association, has developed the CAT system (Competency Analysis Tool) designed for assessing technical competency for US and DS white collar employees, in the BD Exploration and Production and in the BD Refining & Marketing and HSE Sector.

Based on competency analysis we made individual and group education plans in order to improve professional competencies in performing tasks for which they are in charge. Education is carried out through internal professional trainings, professional practice and employee rotation within MOL Group, as well as through external trainings at which renowned experts in certain areas participate.

In 2014, the project went on to include newly employed highly expert employees within the business division of exploration and production (317 employees) employees of refining and marketing (132 employees) from HSE (116 employees).

On-the job trainings / MOL Group rotation is used in order to develop professional skills and knowledge, as well as share the experience amongst employees.



Training and development data for INA Group in 2014

Educational level	No of educations		
	Age	Male	Female
Bacc. <240 ECTS	-	110	59
	24 - 35	40	12
	36 - 45	49	21
	46 - 55	19	25
	> 55	2	1
Bacc. >=240 ECTS	-	18	26
	24 - 35	17	26
Without final. certificate	36 - 45	1	-
	46 - 56	8	-
PhD	-	13	8
	36 - 45	5	-
	46 - 55	8	8
Dr.sc.	-	8	20
	36 - 45	2	7
	46 - 55	6	13
	-	467	8
Skilled workers	19 - 23	22	-
	24 - 35	33	-
	36 - 45	55	5
	46 - 55	139	2
	> 55	218	1
	-	636	266
Mag.	24 - 35	631	262
	36 - 45	1	2
	46 - 55	4	2
	-	43	24
Mr	24 - 35	4	11
	36 - 45	17	1
	46 - 55	17	12
	> 55	5	-
	-	31	31
Mr.sc.	36 - 45	16	21
	46 - 55	15	9
	> 55	-	1
	-	35	-
Unskilled workers	46 - 55	16	-
	> 55	19	-
	-	14	-
Primary school degree workers	36 - 45	5	-
	46 - 55	7	-
	> 55	2	-
	-	-	-

	No of educations		
	Age	Male	Female
Semi-skilled workers	-	18	-
	24 - 35	2	-
	36 - 45	1	-
	46 - 55	12	-
	> 55	3	-
Assoc.degr./bacc.Workers with completed two years of study + 120 ECTS)	-	4	1
	24 - 35	1	-
	36 - 45	3	-
	46 - 55	-	1
High school degree workers	-	3,704	427
	18 - 23	141	41
	24 - 35	807	95
	36 - 45	1,217	121
	46 - 55	1,331	154
Experts. spec.	> 55	208	16
	-	54	49
	24 - 35	4	30
	36 - 45	30	14
	46 - 55	20	5
Univ. bacc. <240 ECTS	-	5	16
	24 - 35	5	14
	46 - 55	-	2
Univ. bacc. >=240 ECTS	-	4	9
	24 - 35	3	7
	36 - 45	1	2
Univ. spec.	-	11	31
	24 - 35	4	15
	36 - 45	4	12
	46 - 55	3	4
Univ.mag.	-	-	3
	36 - 45	-	3
Highly skilled workers	-	445	6
	36 - 45	58	2
	46 - 55	266	4
	> 55	121	-
Univ.degr./mag. workers	-	941	786
	24 - 35	346	352
	36 - 45	275	225
	46 - 55	232	171
	> 55	88	38
Assoc.degr./bacc. workers	-	233	66
	24 - 35	54	13
	36 - 45	88	19
	46 - 55	67	31
	> 55	24	3
<b>Total</b>	-	<b>6,802</b>	<b>1,836</b>

**COMMITMENT TO FAIR EMPLOYMENT**

**Employee relations**

In 2014, Agreement with Trade Unions (TU) on working conditions for occupational safety commissioners and their coordinators was in force at INA, d.d. Revision of Croatian Labour Act, (new Labour Act came into force on August 7th 2014) redefined the procedure of safety-at-work commissioners selection so INA, d.d. is currently in the process of coming to a new agreement with TU's, according to the new Labour Act.

Percentage of total workforce is represented in formal joint management-employee health and safety committees which help monitor and provide consultations on occupational health and safety programs.

Rights and obligations of employees are established under the provisions of the Collective Agreement, Company Labour Relations by-Laws and other relevant internal acts. When assigning employees to their job positions, the Employer takes into consideration special needs of employees with disabilities. When posting announcements for new job positions, gender is not specified under requirements of the position.

INA, d.d. and INA Group companies pay certain allowances and financial supports established by the Collective Agreement or special agreements arranged over the course of negotiations between the Employer and the Trade Unions, i.e. Company Labour Relations by-laws or other regulations of the Employer. Collective Agreement was concluded in 2014 for the period of two years and it is applied after the expiry of the period for which it was concluded, but no longer than three months. 100 % of employees of INA, d.d. are encompassed by the Collective Agreement.

INA, d.d. is committed to continuous improvement of the social dialogue through cooperation with the Works Council of INA, d.d. and trade unions, which essentially exists of regular meetings between HR representatives and the social partners, negotiations on employee fringe benefits – collective negotiations, negotiations on social clauses relating to compensation for employees included in optimization and restructuring projects.

Informing employees on the changes in operations is carried out indirectly through consultations with the Works Council regarding every decision that could have an effect on the employees. Deadline for response from the Works Council is eight days, and if a decision is made prior to expiry of that deadline or without having conducted consultations it would be considered null.

In INA, d.d. in 2014, there were total of 29 safety-at-work committees and subcommittees and 79 safety-at-work commissioners which cover total of 8,165 employees of INA, d.d.

At the locations outside Croatia, INA subsidiaries and operating companies seek to employ a greater share of the members of the local population on managerial positions.

**Employee forums**

The purpose of a forum is to improve the relations between employees and the management, and through them the employees are introduced to the company strategy and strategy for certain organizational units, as well as the tasks and targets set before them. In 2014, there were 21 Employee Forums held at INA d.d.

Exchange of information between the management and employees is carried out through: Internal newsletter „Glasnik“, Intranet, News, Internal regulations, Decisions, Instructions, Business meetings, Employee forums, Individual talks between directors and employees, Manuals and catalogues for employees, meetings with particular interest groups of employees, meetings with members of Management Board and Executive Board, meetings with Sector Directors, "Ask Human Resources" service and meetings between the management and the trade unions.

**Equal opportunities and diversity**

The main objective is to enhance responsible employer practices to ensure the engagement and diversity of the workforce.

INA has demonstrated its commitment to equal opportunity rights by implementing its principles in all internal acts and regulations: INA Code of Ethics, Employment by-laws, Collective Agreement and other internal acts.

INA, d.d. abides by the principle of equal opportunity in realization of rights and obligations arising from employment, and in line with legal regulations and established policy and goals within the scope of human resources management at INA, as well as the INA Code of Ethics.

Cooperation with a professional association was established in 2014 through a project for issuance of "Mamforce Company" certificates in order to be able to initiate an audit procedure of the working conditions of working mothers and work environment, and ultimately to be awarded "Family-friendly Company" certificate.

The initiatives related to benefits for working parents and employment disabled employees has started.



In order to further promote equal opportunities and inclusion, INA has entered into partnership with Cotrugli School of Business to support on-line MBA studies for graduates with disabilities offering them employment opportunity upon graduation.

Ratio of base salary of male and female based on all categories of employees is 1:1, which means that there is no discrimination and that the principle of equal salary for equal work is followed.

**Freedom of association**

At INA, d.d. 4 trade unions are active: Oil Industry Trade Union, INAŠ – Trade Union of INA Employees and INA Companies Zagreb, EKN - Autonomous Trade Union of Workers in the Power Industry, Chemistry and Non-Metal Industry of Croatia, Croatian Drivers' Trade Union.

Out of the total number of employees of INA d.d. 77% of them are members of one or more trade unions.

In 2014, 22 regular meetings were held with the social partners (WC & TU's), and 6 meetings with TU's which resulted in an agreement on 3 social clauses for employees, as well as 35 negotiation meetings, including meetings with managers of certain business segments.

**INA GROUP – Share of membership in the total number of employees at December 31th 2014**

Company	INA, d.d.	Crosco	STSI	TRS	Hostin	INA Maziva	INA Osijek Petrol	Total
% employees members of TU	77	77	78	74	58	86	89	77



## EMPLOYEE INCENTIVES

INA looks after the health of its employees by providing them with the possibility to undergo a complete physical examination as well as additional specialist medical and targeted examinations.

In 2012 was started a project of Glasnik, INA internal newsletter, distribution to employees who were taking their maternity/parental leaves, in order to encourage the feeling of belonging to the organization despite their temporary absence, and their continuous awareness about the activities of companies at which they are employed. In 2014, the distribution of Glasnik continued, and thus each month 60 to 80 copies of Glasnik were delivered to parents at their home addresses. Almost every month one father uses his parental leave.

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

Committee for establishing the eligibility of employees of INA, d.d. to aid in case of illness is a working body of the HR Sector Director. The Committee reviews individual requests of employees, acquires expert opinions of the contracted primary health physician on the grounds of the request and the amount of necessary funds, and prepares proposals of decision on the allocation of aid within the framework of planned costs.

In 2014, 11 requests for aid were received and processed, 7 of which were requests for the support of children of employees of INA d.d. for serious illnesses, 1 request was on account of serious illness of the employee's spouse and 3 aid requests were related to seriously ill employees of INA, d.d.

For all stated cases the Committee established that a financial aid would be justified and awarded app. HRK 200,000 in total.

### Awarding financial support to children of deceased employees

Pursuant to Collective Agreement, children of the deceased employees and children of employees deceased in the Homeland War are entitled to a monthly financial support during the period of regular education. In 2014, such support was awarded to 176 children in total, 28 of which were elementary school students, 148 were high school and college students.

### Other forms of support to INA and INA Group companies employees

INA and INA Group companies support the work of INA

employees associations, associations of employees with the war veteran status, disabled employees and pensioners' association, by donating certain amounts for their activities. Supports for employee associations with the status of war veterans are regulated under a special agreement, and among the more important ones are the programmed active vacations, medically programmed active vacations, organization of events that are of importance for veteran associations, and for the education and other forms of education of veterans and children of veterans.

At INA, a special attention is paid to promotion and encouragement of volunteering, on account of which INA employees are eligible for 3 days of paid leave a year

### Jubilee Awards

Jubilee awards are financial awards as defined under the Collective Agreement, and they are awarded to employees for the total years of service at INA. In 2014, 1,446 employees received jubilee awards.

### Employee Awards

An award model "Award Your Colleagues" was introduced at INA in which employees nominate their colleagues in the following categories: "Hearty Smile", "Big Heart", "Thinking Green", "Best Colleague" and "Best Mentor".

The purpose of these awards is to encourage a positive working atmosphere, promoting friendliness among colleagues, promoting company values and employee satisfaction. In 2014 almost 500 nominations were received, and 5 awards were given in each category.

### Lifetime Achievement Award

Lifetime Achievement Award was founded to honour the employees with an outstanding performance, who made a great personal and/or professional contribution during their long tenure at INA and INA Group companies (for at least 25 years) and who significantly contributed to the business success of the Company. In 2014 13 INA Group employees received the award.

### Work-life balance

Work-life balance will also be the subject of the above mentioned audit which will ensure that specific action steps are taken to promote work-life balance across the organization.

Additional and supplementary health insurance, aerobic, fitness, concerts and other forms of recreation and concerts are available to INA's employees for free or at a discount.



## COMMUNITIES

### ACHIEVEMENTS

- INA donated HRK 2.5 mln; 35.57% for community investment and 64.43% for charitable gift;
- INA Volunteer Club carried out 19 actions with the participation of 259 members, which equals a total of 2.072 volunteer hours;
- Green Belt project - an Expert Tendering Committee has selected best 12 out of 58 received projects, which INA will support through co-financing and the activities of the INA Volunteers Club.

### CHALLENGES

- Improvement of community engagement process.

Being among leading Croatian companies, INA Group has a significant impact on a wide range of stakeholders. Aware of its responsibilities in the context of social awareness, INA is committed to maintaining a good partnership with stakeholders through openness, constructive dialogue, and proactive approach.

INA communicates with its stakeholder through its Annual and Sustainability Report, web page, Facebook page, free phone, and different e-mail addresses related to different issues.

INA is also engaged in different business organisations, e.g. Croatian Employers Organisation, Croatian Chamber of Economy and Croatian Business Council for Sustainable Development, where is the member of Governing Council. As a signatory of UN Global Compact INA publish Sustainability report on their web page and take part in annual surveys.

In INA E&P BD comprehensive monitoring, sampling and measuring at location Gas Processing Facilities Molve are regularly done on yearly basis. The monitoring results are publicly revealed. Communication to the communities goes through public debates regularly held in the process of environmental impact assessment and environmental permits obtaining.

The Exploration & Production Green Forum 2014 was held on 28<sup>th</sup> of November 2014 in Đurđevac with AIR PROTECTION as the main topic. Forum presented the basics of environmental protection measures applied in the E&P processes in order to control impact of our processes on the environment, to meet the increasingly stringent legal obligations and to maintain trust and reputation that we have gained in all of the communities in which we operate. The results of the Baseline study analysis of the environment before start of the CO<sub>2</sub> EOR project, which will



serve as a reference for all future measurements, as well as an evidence of sustainability for this extremely important project, were presented.

**LOCAL COMMUNITIES**

INA continued to support projects in the area in which it operates, particularly near our refineries in Sisak and Rijeka, as well as in the Pannonia Basin where significant part of INA's Upstream activities are carried out.

- INA supported the reconstruction of children's playgrounds and kindergartens in Sisak, Križ, and Kloštar Ivanić.
- INA supported kindergartens' Olympic Games in Bakar and kindergartens' Olympic Festival in Primorsko-Goranska County.
- INA helped Rijeka City Library with purchasing "Bibliobus" (bus with books).
- In accordance with Rijeka Refinery "Investing in the community" plan, a project of cooperation with primary schools and kindergartens in the immediate surrounding was implemented. On 17<sup>th</sup> of December 2014 an educational presentation related to fire protection was

held by representatives of Rijeka Refinery from SD&HSE department, Director's office and representatives of Volunteer Fire Department Kostrena for the first and second grade pupils of Primary school "Kostrena" and for the children of two pre-school kindergarten groups from Kindergarten "Zlatna ribica" in Kostrena.

- Rijeka Refinery fire protection experts introduced the participants of fire fighting education (founded by Firefighting Association of Primorsko-goranska County -54 students) to the topic - fire protection in industrial plants.
- Rijeka Refinery representative in October took part in the field exercise "Earthquake 2014", organized by Headquarters for Protection and rescue and Firefighting association of Primorsko-goranska County in the Centre for rescue services training in Šapjane (20 km from Rijeka).
- In Sisak Refinery 7 meetings with schools from Sisak and Croatia on SD&HSE issues were conducted during 2014.

**SOCIAL INVESTMENT**

From a total HRK 2.5 million, INA donated 35.57% for community investment and 64.43% for charitable gift.

Category	Amount/people/hours	
Cash (HRK)	2,500,000	
Time (hours)	2,072	
In-kind giving (HRK)	510,425	

Charitable gift	HRK 1,612,915	64.43%
Community investment	HRK 890,444	35.57%

**INA's response to flood-devastated Western Slavonia**

INA was among first companies in Croatia to help Western Slavonia following the catastrophic floods in May 2014 that left many communities in that area completely devastated. In its efforts to assist the victims of the floods, INA donated HRK 500,000 to the Croatian Red Cross, while 64,000 litres of Euro diesel was shipped to the flooded areas. The Company also donated protective clothing and footwear for the citizens, put at disposal petrol stations as well as its own fire department. In addition, in cooperation with the National Office for Protection and Rescue INA sent technical vehicles with multiple uses for pumping sludge and water, as well as eco boat that was used for taking the absorption of dams and removal of debris to Slavonia. INA's employees collected more than 3 tons of clothing, bedding, 1.5 tons of hygiene supplies, half-ton of food and more

than 2,000 litres of water. INA's petrol station in Drenovci adapted to working hours from 0-24 and became a base for fuel supply for fire trucks and logistics teams. Furthermore, INA allocated funds for the construction of the Community Centre in Gunja, Slavonia. Also, within the project "My sun for Gunja", ten famous Croatian artists made works of art inspired by the exhibition of Joan Miro that was sponsored by INA. Their works will be donated to Gunja Community centre upon its completion. Finally, INA's damaged petrol station in Gunja was modernized within the Blue concept modernization project.

Founds 20,000 HRK aimed at organizing traditional HSE Day in Croscos for the best employees in HSE were donated to Croatian Red Cross to support flooded areas in Slavonia. In September 2014, Croscos also participated in the action of collecting goods for flooded in Rajevo Selo and Gunja. For



ten days school supplies, men's and women's clothing and footwear and bedding had been collecting.

**"Green Belt" project**

With the aim of raising awareness about the importance of sustainable development, INA launched the "Green Belt" in 2014, a program within which the NGOs and educational institutions were invited to contribute to environmental protection in local communities. An Expert Tendering Committee has selected best 12 out of 58 received projects, which INA will support through co-financing with 280,000 HRK and the activities of the INA Volunteers Club. Projects were selected based on clearly defined criteria: the degree of favourable impact on the environment, the involvement of the local community, and the possibility of realization of the project within six months of the approval. Based on a great feedback and a significant number of environmental initiatives that were submitted, INA decided to continue with this program in 2015.

**Supporting private entrepreneurs and citizens' associations**

With the aim of contributing to the development of local communities, INA launched the project "Space for your ideas", within which INA rents its unused premises and locations to the interested candidates. The goal of the project is to contribute to the development of the quality projects in local communities. As many as 18 locations were on disposal to all interested candidates. For the future partners INA offers favourable terms and rates for long-term lease, helps in developing business ideas, and, based on the project itself, can potentially participate as an investment partner.

**Care for the children and education**

- INA continued to support SOS Children's Village Croatia through various projects and initiatives, donations, and actions of INA Volunteers Club. In the past five years, INA donated more than HRK one million to the SOS Children Village Croatia. In 2014 INA helped SOS Children's Village Ladimirevci with donation of 200,000 HRK, while the INA Volunteers Club participated in their volunteering action.
- INA donated HRK 150,000 to the "Special Hospital for Children with Developmental Disabilities Goljak" in Zagreb, for the purchase of ultrasound device necessary for the early diagnosis.
- INA donated a van to the Association "Love in Action", which supports children suffering from malignant diseases. Considering that most of the children live outside of Zagreb, the vehicle will greatly assist them in their everyday activities.



- For the fifth consecutive year, INA organized a competition for best eco projects for primary schools and high-schools in cooperation with Rijeka-based daily newspaper Novi list. This year's competition attracted a great interest among schools throughout Croatia, with 38 schools applying for the competition, and seven schools being awarded.
- Within the project "Together for biodiversity", INA and Novi list have rewarded the best photos of flora and fauna for the calendar "Croatian varieties and breed" for the sixth consecutive year.

**"Energy for the future"**

As a part of the project "Energy for the Future", INA initiated a tender for the conceptual urban and architectural design for the self-sustainable petrol station at the location of the present station Split-Kman-South, which will be the second petrol station of this kind in Croatia, after the Zagreb "green" station that will be constructed at the location of the present station Stupnik-East.

The aim of the project is to construct "green" petrol stations that are completely self-sustainable through the application of alternative energy sources for the purposes of heating/cooling, ventilation and air-conditioning, use of rainwater for cleaning, flushing toilets and watering green surfaces, heating of traffic areas in order to melt the snow, use of nanotechnology on external and internal areas for the purposes of achieving high durability and self-cleaning effect, the use of LED lighting in the interior and exterior with a consumption control system and the use of recycled materials wherever possible and justified.

**CORPORATE VOLUNTEERING**

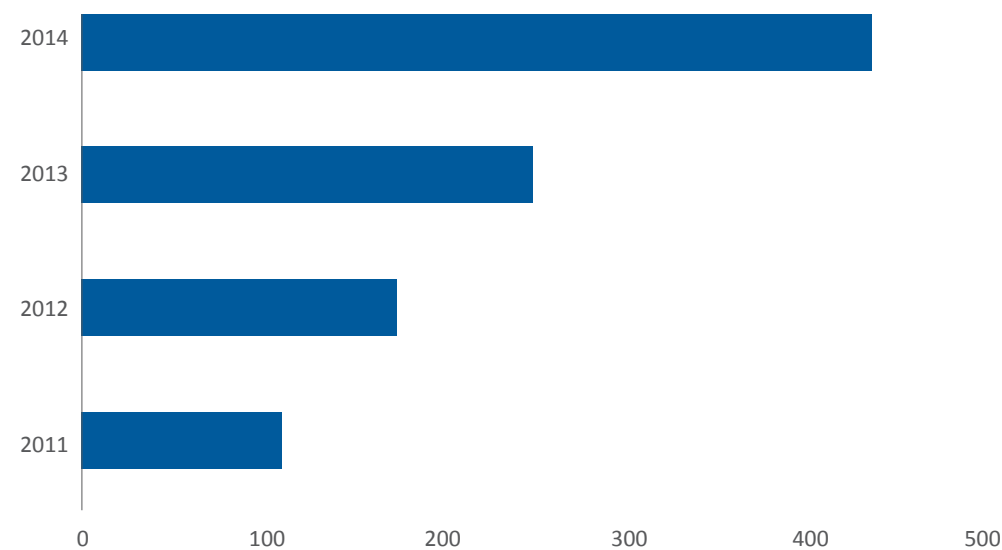
- **439 members**
- **44% increased membership compared to 2013**
- **19 actions**
- **2,072 volunteer hours**

At the end of 2014 INA Volunteers Club had 439 members, which is 44% more than in 2013. In 2014 INA Volunteer Club carried out 19 actions with the participation of 259 members, which equals a total of 2,072 volunteer hours. Club's focus was on ecological and humanitarian projects and projects for children and youth.

- Volunteers organized actions that helped in socialization and development of communication skills of children and people with special needs together with raising funds for the associations: in Special Hospital Krapinske Toplice volunteers made souvenirs with school attendants; on the occasion of Down Syndrome International Day volunteers volunteered in association "Rijeka 21".
- They also helped Association for Assistance to Mentally Disabled "Krapina". INA Volunteers Club also renovated educational path „Bliznac“, the first educational trail in Croatia adapted for people with disabilities, in cooperation with the Nature Park Medvednica. 80 employees cleaned up the path and the environment and renovated educational signs.
- Furthermore, Volunteers Club had a few ad-hoc emergency actions due to natural disasters, such as floods in Lekenik in February and Slavonia floods in May.
- Volunteers have their Facebook application where fans and visitors can suggest or vote for volunteering projects.



Number of INA volunteers



For their efforts, INA Volunteer Club received "Recognition for contribution of business sector's to the development of volunteering" given by the Volunteer Centre Osijek with the support of The Council for the Development of Volunteering. This recognition serves as a confirmation of values that INA and INA's volunteers promote through its activities, but also serves as a motivation for further efforts.



## ECONOMIC SUSTAINABILITY

### ACHIEVEMENTS

- E-learning for employees on INA Group Code of Ethics
- CSR Index results improved in relation to previous year

### CHALLENGES

- There is space to improve final grade of all customers satisfaction
- Sustainability reporting in accordance to GRI G.4 in 2016

### CUSTOMERS

Annual survey of customer satisfaction on domestic market has been regularly conducted since 2007.

According to the new methodology, including qualitative and quantitative research, 75% of respondents have been satisfied with INA as their supplier.

2014's survey showed that the final satisfaction grade of all customers surveyed is relatively high, but slightly lower than in the previous year's. Customer satisfaction with invoicing, process of concluding purchase contract and all the characteristics of sales representatives is higher than in previous year, and the total number of customers' complaints/claims has considerably decreased.

18 years ago INA has launched a tool free phone for the constant direct communication with customers and general public. During 2014, a total of 10,822 calls have been received, which is 2.19% less than previous year. From the received calls there was 9,943 information, 435 complaints, 302 praises, 9 proposals and 133 notifications related to LPG (liquid pressured gas). Each complaint received is processed in accordance with the Consumer Protection Act and INA Procedure on dealing with customers' complaints (objections) related to quality of goods and services at the retail location.

Customer privacy is respected as much as possible in accordance with all codes of practice, procedures of INA, d.d. and legal requirements. The security of cards and protection of data of natural and legal persons is very rigorous. So far there were no complaints relating the breaches of customer privacy.

### Product responsibility

The quality of all products is regulated by INA standards, which are based on verified scientific, technical and practical results, and provide guidelines for products and services that ensure the protection of human health and life, and environmental safety.

For all new and existing products and services, before placing the product on the market, surveillance and periodic control in proportion to the existing risks are conducted. This entails product monitoring when introducing the significant changes related to risk exposure, use of the product, the legal framework and/or other parameters.

Data on the composition and properties of the product, means of storage, handling the product, transportation and disposal of waste are contained in the safety data sheet and on the label of material.

Introduction of REACH and CLP Regulations into the Croatian legislation and their full acceptance with the admission of the Republic of Croatia to the EU fulfils the guidelines of product management.

Since first registration deadline (November 30, 2010) INA has registered a total of 32 substances. INA REACH team continuously supports implementation of REACH Regulation in all business segments, maintenance and update registration dossiers. In 2014, 5 on-site intermediates were registered like full substance, 27 registration dossiers of substances were updated according to ECHA requirements (concentration ranges for substance constituents).

### Marketing communications

In the field of advertising, INA adheres not only to the rules laid down by the advertisers, but also to promoting ethics and Consumer Protection Act, the Personal Identification Number Act, the Personal Data Protection Act, Code of Association of Marketing Communications (HURA) and other relevant internal documents.

Marketing communications in the Sector of Corporate Communications is in charge for advertising in INA. In accordance with the fundamental objectives of the INA business policy, business results and success in domestic and foreign markets are shown, with the aim of taking the position of a desirable partner. There is also a desire for an on-going cooperation and connection with the customers, which is manifested through promotions, campaigns, continuous communication, and information inquiries. Sponsorship and charity activities, promotional presentations of caring for the welfare of employees, environmental protection and health and safety protection are also part of the advertising policy.

### SUPPLIERS

INA Procurement performs pre-screening for bidders, subcontractors and manufacturers to ensure the minimizing of risks related to HSE activities. This includes introducing



the bidder with HSE requirements that they will be required to apply during the effectiveness of the contract, establishing which bidders meet the HSE requirements of INA Group company and creating/maintaining a database of bidders containing detailed information about the HSE, technical and other capabilities of the bidder. Vendor performances are also post-evaluated on a half yearly basis with respect to HSE requirements. As a result of post-evaluation, vendors are classified in categories (meets expectations, below expectations and not acceptable level of performance). In justified cases, the vendor may be added to the List of unreliable business partners if performance of the vendor presents material breach of HSE regulations and is in violation of HSE requirements resulting in medium or large accident.

Ratio of local suppliers in 2014 was 72% in number and 75% in value. INA d.d. definition of 'local' geographic location entails the geographic area of Croatia.

## ETHICS AND COMPLIANCE

### Ethics

INA Group Code of Ethics is based on the respect for fundamental human rights and ethical principles of integrity, honesty, trust, respect, humanity, tolerance and responsibility. The INA Group Code of Ethics is available to the public on the INA website, and is a part of most of the contracts with our suppliers. In INA, d.d. 100% of contracts with suppliers includes the obligation of compliance with INA Group Code of Ethics, while in INA Group this number is 91.7 %.

In 2014, after managerial trainings on INA Group Code of Ethics, E-learning for employees was conducted and most of the employees have passed the exam, except those on long-term sick leaves or maternity leaves. Full time and seasonal employees in Retail were also involved in the training.

Ethical training for 96 new managers and newcomers in INA Group were held by Viktor Gotovac, president of INA Group Ethics Council.

Director of Human resources sector has published an article on Protection of employees' personal data and human rights in INA Glasnik and regularly communicates the topics to all HR colleagues regarding employees' personal data processing during HR operations.

During 2014, INA Group Ethics Committee has processed 24 complaints and Ethics Committee made 15 decisions based on ethical procedures, investigations of Corporate Security and available information. In 3 cases breaches of



INA Group Code of Ethics were established. The reports were related to "harassment, including dignity protection /inappropriate communication" (38%), "theft/fraud" (4%), "discrimination" (8%), "good reputation violation" (12%), "misuse of digital system/IT security" (4%) and other issues, like irregularities in business operations and recruitment procedure (35%).

INA does not endanger the rights of indigenous communities with its business operations, neither it uses children or forced labour and requires the same from its suppliers as well. In addition, it does not provide a financial or in-kind assistance to political parties, politicians and related institutions.

There was no special training on Human rights for the security personnel in INA, but all of Security Management Sector's employees were trained on Code of Ethics, as well as the other employees, and Contractors have an obligation of compliance with INA Group Code of Ethics. During December 2014, Corporate Security organized training and testing of INA, Plc. employees in the field of general security.

**COMPLIANCE**

In 2014 there was 5 grievances recorded, all of them in Rijeka Refinery.

HSE penalties

In 2014 INA, d.d. paid a total of HRK 44,500 penalties related to the environmental protection and occupational health and safety inspection findings, while for INA Group that amount was HRK 56,800.

**Misdemeanour cases**

In 2014, 38 misdemeanour cases were initiated in total against INA, whereas legally binding decisions have been reached in 14 of them with the others still in progress. In procedures in which INA was found guilty, the court ordered fines in total amount of HRK 101,000.

The procedures were most often initiated due to failure to comply with the provisions of the following acts: Fire

Protection Act (5 procedures), Occupational Health and Safety Act (4 procedures), Act on Flammable Liquids and Gases (4 procedures), Hospitality and Catering Industry Act (4 procedures) and Excise Duties Act (4 procedures).

**Competition**

In 2014, one procedure was initiated against INA for anti-competitive practices, but the Croatian Competition Agency dismissed the subject initiative.

**TRANSPARENCY**

INA has a long tradition of non-financial reporting. The first Report on environmental protection was published in 1997 and since then HSE, Social and Sustainability reports have been regularly issued. Since INA is United Nations Global Compact (UN GC) signatory, the Reports have also been published on UN GC web site as "Communication on progress".

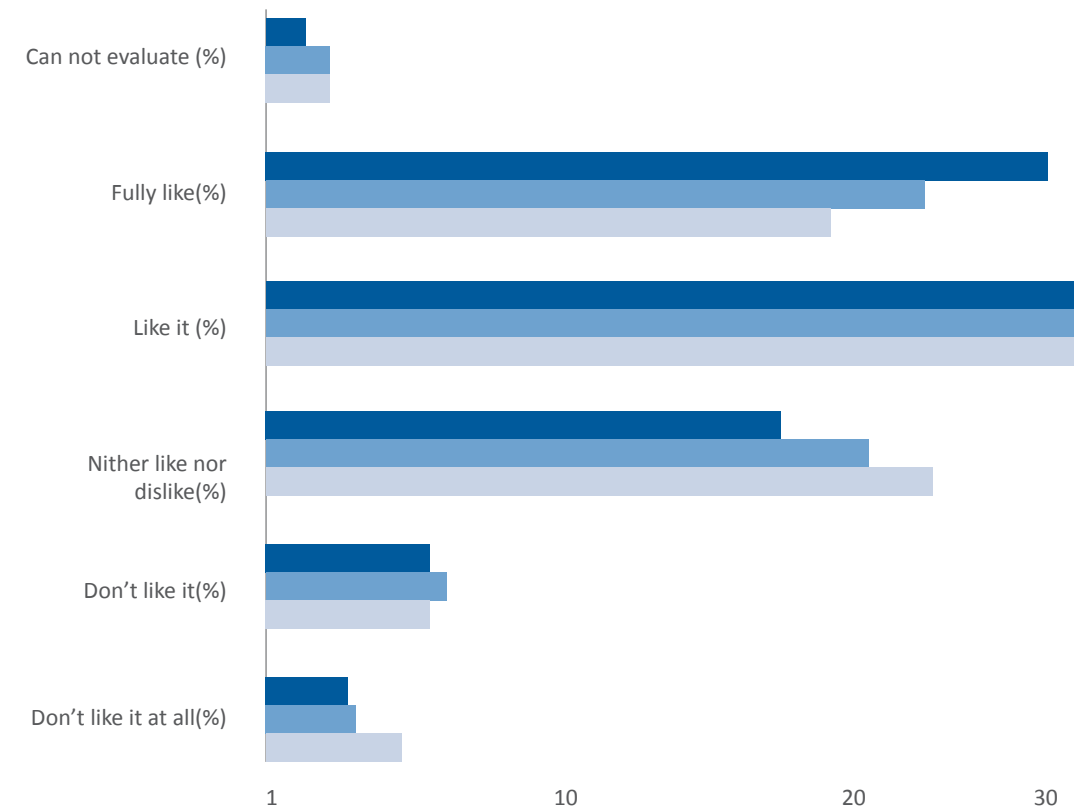
In 2014, for the 4th year in a row, INA took part in Croatian CSR Index and the results achieved show continuous improvement (see Chapter Introduction and overview).

**Image and reputation research results**

Regular INA's image and reputation research showed an improvement in perception of INA in public. The research was conducted by Henda using CATI (Computer Assisted Telephone Interviewing) methodology and highly structured quantitative survey.

With blind research of oil companies INA was mentioned by 95% of participants and 80% of them mentioned INA first. Comparing to other companies, INA has significantly highest spontaneous awareness. During assisted memory (reading oil companies to subjects), it was shown that 100% of users know INA.

Two thirds (66%) of survey participants expresses its liking towards INA. 34% expressed that INA is oil company they like and 32% said that they like it entirely. In average INA is overall liked by survey participants (average grade=3.86)



**Results of INA's image and reputation research in last three years**

Compared to two previous years, INA has maintained its position of the leading oil company in the Croatian market. The average liking grade of INA has significantly increased in comparison to two previous years and has shown statistically significantly higher value compared to 2012 and 2013.

In regard with the image specific for oil companies, the respondents have connected INA mostly with the statement on retail network outspread (88%). Additionally, the respondents were well acquainted with other INA's businesses and have listed oil refining and fuel production in high numbers (83%), exploration and production of oil (79%) and gas (76%).

More than half of respondents (57%) have recognized INA as the most active oil company in implementation of sponsorship activities.

**DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (IN MLN. HRK)**

Indicator	2012	2013	2013/ 2012	2014	2014/ 2013
Realized revenues	29,895	27,444	92%	23,759	87%
Financial assistance received from government	0	0		0	
Operating costs	29,118	29,882	103%	26,207	88%
Cash added value (company cash)	488	402	82%	467	116%
Employee wages and benefits	2,636	2,415	92%	2,467	102%
Capital investors	344	0	0%	0	
Payments to governments	10,024	8,858	88%	8,157	92%
Economic value retained	3,437	1,586	46%	-311	

**Realized revenues**

Realized revenues were lower by 13% in 2014 compared to 2013 mainly due to lower natural gas sale (as a result of natural production decrease and lower prices reflecting direct sale to HEP), unfavourable external environment which reflected in lower crack spread and lower sales volume of oil products.

**Operating costs**

Operating costs were lower in 2014 by 11% compared to 2013 mainly as a result of lower costs of raw materials and consumables by 17% (due to lower other raw material volume processing) and lower costs of goods sold by 33% (due to lower natural gas import).

**Employee wages and benefits**

Staff costs were higher by 2% in 2014 compared to 2013 mainly as a result of severance payments for employees whose employment contracts are terminated due to business reasons in amount of HRK 100 million compared to 2013 in the amount of HRK 37 million. Staff cost also represents cost of net salaries in the amount of HRK 1,250 million, cost of employee income tax in the amount of HRK 542 million, tax on payroll

in the amount of HRK 319 million and other payroll related costs in the amount of HRK 256 million for the year ended 31 December 2014. For the year ended 31st of December 2013 staff cost includes cost of net salaries in the amount of HRK 1.273 million, cost of employee income tax in the amount HRK 546 million, tax on payroll in the amount HRK 300 million and other payroll related costs in the amount HRK 259 million.

**Payments to governments**

Payments to governments decreased in 2014 compared to 2013 mainly as the result of Value added tax concerning import. Since Croatia joined EU, there is no VAT on import of goods from EU countries.

**Retained earnings**

Fall of retained earnings in 2014 compared to 2013 resulted from net loss in 2014 mainly due to value adjustments of assets in Syria.

After transfer of other reserves to retained earnings in INA d.d., in amount of HRK 1,640 million, same will be firstly used for the coverage of losses from prior periods and afterwards total retaining earnings will amount to HRK 1,466 million out of which HRK 329 million are legal reserves.





# CORPORATE GOVERNANCE



# CORPORATE GOVERNANCE

## ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

INA's management structure is based on a two-tier board system, comprising a Supervisory Board and a Management Board. With the General Assembly, these constitute the three mandatory internal bodies of INA in accordance with INA's Articles of Association and the Companies Act.

At a meeting held on 10 June 2009, INA Management Board appointed Executive Directors, authorized to operate, manage and supervise the respective business divisions/functions of the Company, while each Executive Director is responsible for the general operation of the assigned segment towards the Management Board.

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

## MANAGEMENT BOARD

The list below contains the names of current members of the Management Board and their respective positions on December 31, 2014. The business address for all members of the Management Board is Avenija V. Holjevca 10, 10002 Zagreb, Croatia.

Zoltán Sándor Áldott, President of the Management Board  
 Niko Dalić, Member of the Management Board  
 Gábor Horváth, Member of the Management Board (mandate of Mr. Horváth started on May 22, 2014 and before the position was taken by Mr. Pál Zoltán Kara who resigned on May 21, 2014)  
 Ivan Krešić, Member of the Management Board  
 Davor Mayer, Member of the Management Board  
 Péter Ratatics, Member of the Management Board

## EXECUTIVE DIRECTORS

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

List of Executive Directors as of 31 December 2014:

András Huszár, Executive Director in charge of Finance  
 Darko Markotić, Executive Director in charge of Retail  
 Bengt Viktor Oldsberg, Executive Director in charge of Refining and Marketing (mandate of Mr. Oldsberg started on August 1, 2014 and before the position was taken by Mr. Artur Thernesz who resigned on July 30, 2014)  
 Tvrtko Perković, Executive Director in charge of Corporate Centre  
 Želimir Šikonja, Executive Director in charge of Exploration and Production  
 Tomislav Thür, Executive Director in charge of Corporate Affairs

## SUPERVISORY BOARD

The list below contains the names of current members of the Supervisory Board and their respective positions (on December 31, 2014). The business address for all members of the Supervisory Board is Avenija V. Holjevca 10, 10002 Zagreb, Croatia.

Siniša Petrović, President of Supervisory Board  
 Szabolcs I. Ferencz, Member of Supervisory Board  
 Ferenc Horváth, Member of Supervisory Board  
 Maja Rilović, Member of Supervisory Board (mandate of Ms. Rilović started on July 9, 2014 and before the position for taken by Mr. Božo Mikuš who was recalled on the same day by Works Council)  
 József Molnár, Member of Supervisory Board  
 György Mosonyi, Vice President of Supervisory Board  
 Željko Perić, Member of Supervisory Board  
 Mladen Proštenik, Member of Supervisory Board  
 Oszkár Világi, Member of Supervisory Board

## ISSUER'S AUDIT COMMITTEE

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

Audit Committee's responsibilities are connected to:

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

In performing its tasks, the Audit Committee is authorised to oversee



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

Members of INA Audit Committee on December 31, 2014 are:

Željko Perić, Chairman  
 József Molnár, Member  
 József Simola, Member  
 Damir Vandelić, Member

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

- INA, d.d. does not publish nor update the list of shareholders. The ownership structure is available on the Company's Internet page, while a detailed list of shareholders is kept by the Central Depository

& Clearing Company Inc. which, in accordance with law, publishes a list of the ten largest shareholders on its Internet page.

- INA, d.d. does not publish data on the Company's shares held by the Management or Supervisory Board members on its Internet page. Instead all announcements in reference to the securities held by Management or Supervisory Board members can be found on the Company's Internet page.

- INA, d.d. does not provide proxies to the Company's shareholders who, for any reason, would not be able to do it themselves, without any additional costs for these shareholders who are obliged to vote at the General Assembly in accordance with the instructions of the shareholders. The shareholders who are not able to vote themselves should, at their own discretion, appoint appropriate proxies who are obliged to vote in accordance with their instructions. The Company did not receive any request of any shareholder in this respect.

- The Company sets the terms and formal conditions to the shareholders for their participation in the General Assembly in accordance with the Companies Act and the Company's Articles of Association, in order to protect the shareholders' rights in conditions of a large number of shareholders.

- The Supervisory Board is not composed of a majority of independent members. It is composed of major shareholders representatives and a workers representative in accordance with Company Act.

- The long-term succession plan has not been published; however, the existing systems of electing members to the Supervisory Board, Management Board and upper management take account of the continuity in performing supervisory, management and administrative functions.

- The Company's bonus policy is part of the internal rules which are published on the Company's Internet page. Data on remunerations to the Management and Supervisory Board members are published in the annual report in their full amount. The current internal regulations do not envisage the possibility of public announcement of these data.

- The amounts of remunerations paid to independent auditors for rendered services have not been published and constitute business secret.





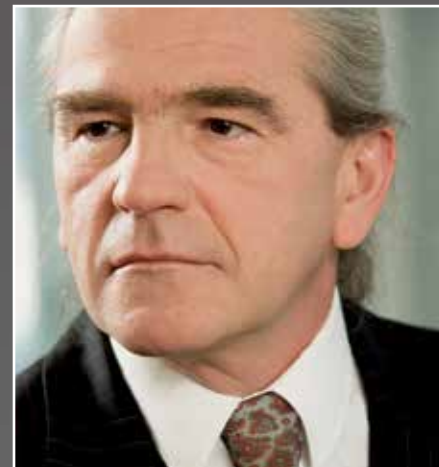
**ZOLTÁN ÁLDOTT**  
PRESIDENT OF THE  
MANAGEMENT BOARD

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



**NIKO DALIĆ**  
MEMBER OF THE  
MANAGEMENT BOARD

Niko Dalić has been appointed member of Ina Management Board in February 2011. He started his career in 1986 as a geologist working on upstream projects in Croatia. In 1996, he was appointed Head of business unit, responsible for Eastern Slavonia and Podravina. From 2005 to 2008, he was Assistant Executive Director of Naftaplin, where he was in charge of running international projects. Apart from that, he was also the Head of the strategy team in Naftaplin and the team for Energy Strategy of the Republic of Croatia, as well as the IPO team. After that, from 2008 to 2009, he was the Head of the Exploration Sector. As of June 2009, he has served as a member of the Management Board of Edina, a joint venture of Ina and Italian Edison, where he has focused on the activities in the Izabela field in Northern Adriatic. He graduated from the Zagreb Faculty of Science (Prirodoslovno – matematički fakultet), where he later acquired his master's degree. He passed his state licence exam at the Ministry of Science in 1996. Mr Dalić attended a number of seminars and professional trainings in Croatia and abroad. He is a member of many professional associations, and has published several papers. He spent two terms in the position of the president of the Croatian Geological Society, and is currently serving as the chair of the Supervisory Board of the Croatian Geological Society. As of December 2014. Mr. Dalić is serving as the co-chairman for geology in HUNIG.



**DR. GÁBOR HORVÁTH**  
MEMBER OF THE  
MANAGEMENT BOARD

Gábor Horváth has been appointed member of INA Management Board from 22 May 2014. He studied legal sciences at Eötvös Loránd University (ELTE) in Budapest. During his long career he worked at the Hungarian National Development Bank, and as a lawyer worked in fields of corporate finance, treasury, and corporate governance. He has held, among others, positions of President of the Revision Committee, Supervisory Board member, and Deputy President of the Supervisory Board at OTP Bank since 1995. From 1999 until 2014 he acted as the member of the Board of Directors at MOL, and before coming to INA he also held position of the member of the Supervisory Board at the Budapest Capital City Wealth Management Holding.



**IVAN KREŠIĆ**  
MEMBER OF THE  
MANAGEMENT BOARD

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



**DAVOR MAYER**  
MEMBER OF THE  
MANAGEMENT BOARD

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



**PÉTER RATATICS**  
MEMBER OF THE  
MANAGEMENT BOARD

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





**ANDRÁS HUSZÁR**  
EXECUTIVE DIRECTOR IN  
CHARGE OF FINANCE

Andras Huszár joined INA in 2010 as the Executive Director for Finance Function, prior to which he was the Head of MOL Treasury since 2001. Over the years, he has held Finance positions in prominent companies/institutions, from 1991 to 1994 at Budapest Stock Exchange, from 1994 to 2001 in Matáv (Deutsche Telekom Group). He graduated in 1988 from the University of Economic Sciences, Faculty of economic planning and in 1993 he earned a PhD of Economic Science at the Corvinus University. He holds the CFA Institute's Chartered Financial Analyst designation since 1999.



**DARKO MARKOTIĆ**  
EXECUTIVE DIRECTOR IN  
CHARGE OF RETAIL

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



**BENGT VIKTOR  
OLDSBERG**  
EXECUTIVE DIRECTOR IN  
CHARGE OF REFINING AND  
MARKETING

Mr. Bengt Viktor Oldsberg assume the position of Executive director of Refining & Marketing on August 1, 2014. Mr. Bengt Viktor Oldsberg has more than 30 years of experience in the refining industry. While working for Shell Group from 1982 to 2005 Mr Oldsberg led projects in Sweden, Netherlands, and Australia, and held several management positions. His professional experience also includes management positions at Preem Petroleum AB and Nynas AB. Since 1 August 2013 Mr Oldsberg held a position of Director of INA's Production Centre where he was tasked with strengthening of the production process and company's position in the international refining markets, management of health, safety and environment protection and capital investments in the Refining and Marketing business segment. Mr Oldsberg holds a Master of Science degree in Chemical Engineering. He has attended executive management training programmes within the Shell Group and with IFL Sweden."



**TVRTKO PERKOVIĆ**  
EXECUTIVE DIRECTOR IN  
CHARGE OF CORPORATE  
CENTRE

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



**ŽELIMIR ŠIKONJA**  
EXECUTIVE DIRECTOR  
OF EXPLORATION AND  
PRODUCTION

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



**TOMISLAV THÜR**  
EXECUTIVE DIRECTOR IN  
CHARGE OF CORPORATE  
AFFAIRS

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



# CORPORATE AND SHAREHOLDERS INFORMATION

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

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

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

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

INA - Industrija nafte, d.d. was officially listed at the Zagreb Stock Exchange on 30 November 2006. The trading in INA's shares officially started at 11:15 on 1 December 2006. The ticker for INA shares is INA-R-A. INA shares were also listed on the London Stock Exchange, but the global depository receipts ("GDR") program has been terminated and the standard listing of INA's "GDRs" on the London Stock Exchange has been cancelled on September 2, 2014.

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

On 14 July 2008, MOL Hungarian Oil and Gas Public Limited Company sent a letter of intent to the Croatian Financial Services Supervision Agency announcing a voluntary offer to take over all the shares not held by MOL or the Republic of Croatia. In September 2008, the Croatian Financial Services Supervision Agency published a decision in the Official Gazette 102/08 approving the publication of the MOL's offer to take over the public joint stock company INA. Following the takeover offer, the total number of ordinary bearer shares held by MOL is 4,715,538, accounting for 47.15538 % of the total share capital, Croatian Government held 4,483,552 shares, while private and institutional investors held 800.910 shares.

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

As of 31<sup>st</sup> of December 2014 INA's shareholders' structure is as follows:

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

# QUALITY MANAGEMENT

## INNOVATION AND AWARDS

Regulation of area of innovative work exists at INA, d.d. for more than 40 years, and is constantly improved.

Numerous awards at innovation exhibitions in the country and abroad, and regulated innovative work issues confirm a long-standing company tradition of encouraging employee inventiveness and creativity ultimately resulting in company innovativeness and finally, intellectual property that can be protected.

INA, d.d. workers continuously apply their innovation proposals which can be categorized as: patent (invention), industrial design, technical improvement, business rationalization or useful idea. Innovation Proposal Evaluation Committee in 2014 accepted 6 innovation proposals: "Connecting SWS in RNR", "Use of output water for the POOV for water closures in the shut-off containers of flare system in RNR", "Preservation of activities and life cycle of hydrocracking catalyst when starting plant 376 hydrocracking", "Proposal for the improvement of work ARU - upgrade measurement and control", "Proposal for the Improvement of work 378 SWS PWA HCU, refrigerator, regulation, flow meter", "Proposal to improve the quality of work and safety at the plant for the production of sulphur". 8 works of authorship was validated: "How to manage stress", "Just say NO and choose health", "Technological manuals for facilities: Topping 3, Unifying 2 and Platforming 2, FCC, HCK, HPP, KPV".

## QUALITY

Throughout all areas of business, INA Group companies are focused on the management systems harmonization. At the same time technologies, processes, products and services are being continuously developed. While doing that related risks regarding to human health, safety and environment are being monitored and minimized, and actions to prevent and / or reduce negative impacts are being taken. Since the first publishing of international standards of quality management system, at INA Group companies awareness about the need for action in accordance with these standards was developed. Today the ISO 9001 standard is applied through the integrated company system on main processes and on processes in function of management and support to INA, d.d. activities. Business management system certified according to ISO 9001 was also introduced by bigger INA Group companies. INA, d.d. divisions/sectors and other INA Group companies who have potential or actual impact on the environment, maintain and certify environmental management systems, in accordance with standard ISO 14001. Health and safety protection at work is performed in order to prevent injury, occupational diseases, diseases related to the work, protection of working and living environment and material goods, in accordance with the standard OHSAS 18001. Since 2011 certification cycle for all three standards was harmonized on INA Group level.

First step at INA, d.d. was certification of core processes in accordance with ISO 9001 standard (quality management). At the beginning of 2000, INA, d.d. Management opted for a new philosophy of management. A unique system was developed that is basically an integrated business management system, based on laws, company regulations, rules of profession and requirements of ISO 9001, ISO 14001 and OHSAS 18001 standards.

INA, d.d. has today 9 certificates in total according to ISO 9001, ISO 14001, OHSAS 18001 standards and ISCC certificate on biofuels sustainability (International Sustainability and Carbon Certification System). Proving of viability of biofuels at INA, d.d. in accordance with the ISCC standard is a required condition for the sale of biofuels on the EU market.

On the INA, d.d. level two certificates are obtained:

- Quality management according to ISO 9001 from 2005
- ISCC Standard (International Sustainability and Carbon Certification) certifies sustainable biofuels from 2013.

Commitment of INA, d.d. Management Board to continuously improve business processes and business quality was also acknowledged by introduction of an integrated information system SAP in 2006, and as late as 2007 the obligation of developing information security management system was determined. During 2008, in accordance with legal obligation, a HACCP system (Hazard Analysis and Critical Control Points) was implemented in INA restaurants. This year a necessity to implement Energy Management System in accordance with international Standard ISO 50001 was analysed.

We are active participants in the development of these systems in a way of full integration into existing business management system. By integrating business management system, we improved and achieved enhancements in transparent management processes, measurement and presentation of business results, customers and employees satisfaction.

Monitoring of the entire system is implemented with external monitoring audits, internal audits and supplier audits in accordance with the

annual planning, through specially developed IT support and by collecting and analysing data, and reporting to the Management Board. Due to the requirements for further development of our company and other INA Group companies, we continue with improvement of unified, centralized document management system at INA Group level to enable more successful implementation and control of business rules on the INA Group level. Documents are published on Management System Regulation Database which is available to all INA Group companies. In cooperation with users, activities for further improvement of database are initiated, to achieve even better alignment with user requirements.

In order to improve quality management at INA, d.d., we conduct internal training for management, management representatives and internal auditors. Furthermore, INA, d.d. experts actively participate in the work of the Croatian Society for Quality (CCS), and thru membership in CCS Supervisory Board they contribute to the development of good relations with stakeholders and build the reputation of our company. In the Proceedings of the 14th annual Croatian Conference on Quality 2014, i.e. 5th CCS scientific congress two scientific papers were published, which were presented with lecture: "Planned obsolescence and quality-management" and poster "Experience and improvement proposals for internal audits". During Conference preparation, we actively participated in work of Organizational and program Committee, where INA, d.d. was silver sponsor.

This year recertification external audit again confirmed compliance with corporate policies and conformity with the requirements of the standards as a prerequisite for certification preservation.

High degree of customer satisfaction and loyalty with our products and services confirmed that the quality management system is appropriate, effective and achieves defined goals.

#### STANDARDISATION

On INA Group level basic principles and business rules for standardisation management system are defined, as well as framework and guideline

for standard creation of certain companies. Control over application of these business rules is managed centrally by INA, d.d. INA Group companies are free to define relevant areas for internal standards creation, in respect to impact of these standards on business and company image. INA Group companies cooperate with Croatian Standards Institute related to creation and publishing of standards relevant to INA Group companies.

For many years INA, d.d. has been developing and improving standardization system on corporate level with the aim of establishing unique corporate standards. INA standards define the specification of our products and raw materials, the elements of the visual identity of the company and prescribe rules and standards in the field of business communication. This year nine INA standards were revised (Fuel Marking at INA Petrol Stations, Liquefied petroleum gases, Unleaded Petrol, Aviation turbine fuel, Diesel Fuels, Marine Fuel, Fuel Oils Extra Light, Liquefied Petroleum Gas Automotive Fuels, Petrol Stations - Blue Concept) according to requirements of international and European standards and internal requirements.

INA, d.d. experts actively participate in the work of more than 36 technical committees, 7 subcommittees and 7 working groups at CSI. At these committees, our experts also improve the process of sustainable development of our company while maintaining excellent links with stakeholders, promoting the interests of the company in society in a transparent and mutually acceptable manner.

#### REACH

INA, d.d. was among first Croatian companies that started with activities related to substance pre-registration and registration according to REACH Regulation. Besides that, INA experts actively participated in creation of text addendum to Chapter 27 (Environment) of Treaty of accession of Republic of Croatia to European Union, related to pre-registration and registration deadline extension for Croatian companies, after the accession of Croatia to the EU. Also, INA REACH team was nominated, and until first registration

deadline (November 30, 2010) INA registered 18 substances, and immediately after the accession of Croatia to the EU (beginning of August 2013) further 14 substances were registered

This year 27 dossiers of INA substances were updated according to ECHA requirements (concentration ranges for substance constituents) or according to internal company requirements. INA experts actively participate in activities of CONCAWE workgroups (Petroleum Products Management Group (PPMG), Reach Delivery Management Group (RDMG), Toxicology subgroup (TSG), Substance Identification Group (SIG) and Iuclid Policy Team (IPT)).

#### INTELLECTUAL PROPERTY

Basic principles and business rules for intellectual property management system are defined on INA Group level. These include: protection of certain forms of intellectual property for which a requirement for protection was defined by INA Group companies, prevention of possible infringement of protected intellectual property rights of INA Group companies by third party and vice versa, copyright work and intellectual property rights which are not defined by legislation (technical improvements, business rationalisation, useful ideas, knowledge transfer within company and all other information which are under protection or should be protected in the scope of business secret).

Protection of intellectual property rights on INA Group level is managed since 2008. By centralization of protected intellectual property on INA Group level, intellectual property of the INA Group (Crosco, Proplin, INA Maziva, Sinaco and STSI) becomes a part of the INA brand and an integral part of the intellectual property of INA, d.d. This approach allows us to implement consistent and effective protection of intellectual property rights at INA Group level and to take appropriate measures if such rights are violated, bringing our company to the level required by the actual market environment. Prevention of possible infringement of intellectual property of INA Group companies is carried out by continuous control of proprietary identity on the market. Success of conducted protection is proportional



to successful control and prevention of possible infringement of our protected rights. Protecting intellectual property of INA, d.d. and other INA Group companies includes the protection of inventions (patents), trade and service mark (trademark) and the protection of the external appearance i.e. product appearance (industrial design). It is implemented in accordance with the Company's Intellectual Property Management Strategy both in Croatia and abroad, on the markets where INA, d.d. and other companies of INA Group are already present or intend to be present. Great attention is given to logo protection (the names of the companies of INA Group), and protection of the lubricant product range, visual identity of INA's filling stations and all market recognisable marks in order to achieve the legal basis for countermeasures against their infringement and abuse.

International registration of INA name was also accomplished, which ensures protection of mentioned name in 23 countries. In Croatia, there are 47 protected trademarks and 28 industrial designs. Abroad, INA, d.d. protects 19 trademarks in Slovenia, 17 trademarks in Macedonia, 17 trademarks in Bosnia and Herzegovina, 21 trademarks in Serbia, 11 trademarks in Albania, in Kosovo 22 trademarks, in Montenegro 22 trademarks and 9 trademarks in Hungary as well as 5 industrial designs in Bosnia and Herzegovina, Slovenia, Serbia, Kosovo and Montenegro. According to business interest, protection for 7 trademarks – names of lubricant product range and industrial design – lubricant containers was extended in Croatia. Protection for 11 visual identity trademarks of filling stations in Bosnia and Herzegovina, Slovenia, Macedonia and Kosovo was extended, as well as protection of 2 trademarks of Interina in Slovenia and industrial design for lubricant containers in Serbia. Protection of 17 trademarks in Croatia was aborted, due to lack of further business interest. In the last years great attention is given to protection on INA web domain due to its extreme importance for company recognisability on the Internet and easy access.

INA, d.d. created, maintains and improves

the complete process of intellectual property management that recognizes the authority and responsibility and all activities from idea generation thru product realization, marketing and sales to the protection of the resulting intellectual property.

INA representative is active member of Intellectual Property Commission of National Committee of ICC (International Chamber of Commerce) Croatia at International Chamber of Commerce and active member of national team "Stop forgery and piracy". During creation of Agenda of International Chamber of Commerce for area of intellectual property for 2014, a suggestion given by INA representative was accepted. This contributes to development of good relationship with interested parties and improves our company's reputation.

Other part of INA, d.d. intellectual property are employees and all their knowledge, ideas and skills applied in their work in order to enrich the Company's tangible property. Where appropriate, such intellectual property is adequately protected. INA, d.d. supports and develop awareness that knowledge, creativity, innovativeness and intellectual creation result in company development. INA's aim is to promote the importance and need of know-how on company and personal level through intellectual property management processes. Consequently INA constantly strive to improve a use of its fundamental operational resources, information and employee knowledge, and as efficiently as possible manage the intangible company assets as they are vital factors of competitiveness. The guidelines for managing corporate knowledge are an open and communicative corporate culture, a focus on core activities, and encouragement of creativity and employee knowledge transformation into a form that can be used and shared within the company. That was the goal behind setting up the Company Knowledge Base which is continuously maintained, where it is possible to find all information related to creative work of INA, d.d. employees. Company Knowledge Base is available to all INA Intranet users.

# EXPECTED DEVELOPMENT

During the second half of 2014, the sharp decline of crude oil prices had a negative impact on the business operations of oil companies and presented them with great challenges. Uncertainty about future developments of crude oil prices will significantly affect the determination of guidelines for their further development and the necessary reallocation of resources to projects of strategic interest aimed at rapid adjustments to challenges from the business environment and more successful business operations.

Since the overall situation significantly affects the business operations in INA, INA's management will, be focused on ensuring sustainable development of the company, creating value for its shareholders. As INA is a vertically integrated oil company in which each of the business segments contributes to the creation of the total value, the long-term sustainability of INA is targeted by focusing on growth in those segments where business activities have the potential to create the greatest added value for company.

In the Exploration and Production Business Division, as the key profit generator of the company, development will be focused on increasing the level of production and reserves developing existing and new projects with the diversification of the portfolio through organic and inorganic growth. In Croatia, onshore production and development activities will be focused on drilling activities, 3D development seismic and geological exploration, continuing in the EOR project, 4P project and implementation of new reservoir stimulation technologies while in offshore, projects will be focused on production activities as well as new, future exploration activities. In Egypt and Angola, planned development and production activities will continue.

Given the fact that in the INA's key markets there is still stagnant or at best minimal growth demand for petroleum products caused mostly with ongoing recession, that European refining is characterized by excess capacity and smaller European refinery are still exposed to pressure from large and complex world scale refineries, in the Refining and Marketing Business Division, developments will focus on generating long-term sustainability through capacity optimization and continuously improving operational and cost efficiency. The management in INA remains committed to satisfying demand for petroleum products and achieving the preferred share in strategic markets.

Despite stagnating or at best minimal growth demand for motor fuels in INA's strategic markets, the Retail Business Division will strengthen INA's position in the retail market by selling quality motor fuels, increasing sales of non-fuel products and providing superior customer service with competitive operating costs. This will be achieved by continuing the program of reconstruction and modernization of filling stations as well as continuing to apply the new retail business model.

# SUBSEQUENT EVENTS

## *Tax Inspection for the financial years 2010 and 2011*

INA, d.d. received the Tax Resolution from the Ministry of Finance, Tax Authorities on 30 December 2014 following the tax inspection covering value-added tax and corporate income tax for the years 2010 and 2011. The additional tax liability and penalty interest determined by the Tax Resolution amounted to approximately HRK 319 million.

Since this subsequent event is considering event that requests the adjusting after the balance sheet date INA, d.d. recorded a liability at 31 December 2014 of HRK 325 million.

## *Decision by the High Administrative Court*

INA-Industrija nafte, d.d. received the verdict by the High Administrative Court accepting INA's

lawsuit and annulling the Resolution of the Ministry of Economy, Labour and Entrepreneurship from 29 July 2011, which has revoked INA's license for mineral resources exploration in the exploration area "Drava".

Although the exploration license has once again become valid with this verdict, deadline for exploration activities expired at the end of 2014 and there is also a significant overlap of concession area "Drava" with the blocks currently involved in the Croatian onshore exploration bid round.

Therefore prior to starting any exploration process INA, d.d. will request for the prolongation of the exploration license validity for the period from the revocation of the license until reaching a verdict by the Republic of Croatia High Administrative Court.





# SHAREHOLDERS INFORMATION

## Corporate address

INA-Industrija nafte,d.d.  
Av. Većeslava Holjevca 10  
10 000 Zagreb  
Phone: +358 1 645 0000  
Web: www.ina.hr

## Central depository and clearing company Inc.

Heinzelova 62a  
10 000 Zagreb  
Phone: +385 1 4607 300  
Web: www.skdd.hr

## Zagreb Stock Exchange

Ivana Lučića 2a  
10000 Zagreb  
Phone: +385 1 4686 800  
Web: www.zse.hr

## Announcements

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

## Investor Relations

Šubićeva 29  
10 000 Zagreb  
Phone: +385 1 459 2718  
Fax: + 385 1 645 2444  
E-mail: [investitori@ina.hr](mailto:investitori@ina.hr)

## SD & HSE sector

Av. Većeslava Holjevca 10  
10 000 Zagreb  
Phone: +385 1 64 50 71  
E-mail: [Odrzivi\\_Razvoj@ina.hr](mailto:Odrzivi_Razvoj@ina.hr)

## Corporate Communications sector

Av. Većeslava Holjevca 10  
10 000 Zagreb  
Phone: +385 1 6450 552  
Fax.: +385 1 6452 406  
E mail: [PR@ina.hr](mailto:PR@ina.hr)

## G3.1 GRI PERFORMANCE INDICATORS

APPLICATION LEVEL OF THE GRI G3.1 GUIDELINE AND OIL AND GAS SECTOR SUPPLEMENT: A  
GRI G3.1 AND O&GSS CONTENT INDEX AND THE RELATION TO UN GLOBAL COMPACT PRINCIPLES

Profile	UNGC COP Element	Page
Strategy and Analysis		
1.1 Letter from the President of the Management Board	Statement of Continuing Support. Beyond stating on-going commitment to the GC, the CEO letter might also mention how the Global Compact influences strategy and management, and refer to key actions and achievements that support the principles.	6
1.2 Key Impacts, Risks, Opportunities		8, 26, 34, 44
<b>Organizational Profile</b>		
2.1-2.10 Organizational Profile	No Specific COP Requirement. However, descriptions of company size, nature, and locations, present the context for understanding actions and performance on GC principles.	2, 123, 158
<b>Report Parameters</b>		
3.1-3.13 Report Parameters	No Specific COP Requirement. However, descriptions of report scope provide readers with understanding of any qualifications or limitations of the report and how a company defines its "sphere of influence".	65
<b>Governance, Commitments, and Engagement</b>		
4.1-4.7 Governance	Actions Taken to Implement Principles 1-10 Descriptions of governance systems and responsibilities offer the opportunity to express how the company has organized addressing the GC principles (e.g., whether there is a committee responsible for oversight of implementation of GC principles).	63, 116
4.8 Governance	Actions Taken to Implement Principles 1-10. If the company's statements of commitment are inspired by, or reflect the GC principles, this can be noted here.	62
4.9-4.10 Governance	Actions Taken to Implement Principles 1-10. A company can use these disclosures to describe mechanisms for high-level oversight of aspects relevant for continuous improvement and implementation of the GC principles.	60, 68
4.11 Commitments	Actions Taken to Implement Principle 7	70
4.12-4.13 Commitments	Actions Taken to Implement Principles 1-10 In addition to mentioning participation in the GC, these disclosures can explain how adoption and implementation of the GC principles motivated the company to undertake similar additional commitments and participation.	6, 60
4.14-4.17 Engagement	Sharing the COP with the Company's Stakeholders In addition to explaining how the company has shared the COP with stakeholders these disclosures can be used to describe how implementation of the principles is influenced by stakeholders.	68, 69

<b>Economic Performance Indicators</b>		
EC1	No Specific COP Requirement.	112
EC2	Actions Taken to Implement Principle 7.	72
EC3	No Specific COP Requirement.	102
EC4		112
<b>Market Presence</b>		
EC5	Outcomes from Implementing Principle 1.	94
EC6	No Specific COP Requirement.	108
EC7	Actions Taken and Outcomes from Implementing Principle 6.	n.a.
<b>Indirect Economic Impacts</b>		
EC8	No Specific COP Requirement.	104
EC9		69
OG1		50
<b>Environmental Performance Indicators</b>		
<b>Materials</b>		
EN1	Outcomes from Implementing Principle 8.	54
EN2	Outcomes from Implementing Principles 8 and 9.	80
<b>Energy</b>		
EN3	Outcomes from Implementing Principle 8.	54
EN4		54
OG2		27
OG3		n.a.
EN5	Outcomes from Implementing Principles 8 and 9.	73
EN6	Actions Taken to Implement Principles 8 and 9.	73
EN7		73
<b>Water</b>		
EN8	Outcomes from Implementing Principle 8.	79
EN9		79
EN10	Outcomes from Implementing Principles 8 and 9.	79
<b>Biodiversity</b>		
EN11	Outcomes from Implementing Principle 8.	83
EN12		83
EN13		83
EN14	Actions Taken to Implement Principle 8.	83
OG4		83
EN15	Outcomes from Implementing Principle 8.	83
<b>Emissions, Effluents, and Waste</b>		
EN16		74
EN17		74

EN18	Actions Taken and Outcomes from Implementing Principles 7, 8 and 9.	74
EN19	Outcomes from Implementing Principle 8.	75
EN20		78
EN21		79
EN22		81
OG5		79
EN23		82
OG6		76
OG7		80
EN24		80
EN25		79
<b>Products and Services</b>		
EN26	Actions Taken to Implement Principles 7, 8 and 9.	108
EN27	Outcomes from Implementing Principles 8 and 9.	80
OG8		22
<b>Compliance</b>		
EN28	Outcomes from Implementing Principle 8.	110
<b>Transport</b>		
EN29		74
<b>Overall</b>		
EN30	Actions Taken and Outcomes from Implementing Principles 7, 8 and 9.	93
<b>Social Performance Indicators</b>		
<b>Labor Practices and Decent Work</b>		
<b>Employment</b>		
LA1	No Specific COP Requirement.	56
LA2	Outcomes from Implementing Principle 6.	57
LA3	No Specific COP Requirement.	102
LA15		56
<b>Labor/Management Relations</b>		
LA4	Outcomes from Implementing Principles 1 and 3.	100
LA5	Outcomes from Implementing Principle 3.	100
<b>Occupational Health and Safety</b>		
LA6	Outcomes from Implementing Principle 1.	100
LA7		55
LA8	Actions Taken to Implement Principle 1.	88
LA9		100
<b>Training and Education</b>		
LA10	No Specific COP Requirement.	98
LA11		96



LA12		96
Diversity and Equal Opportunity		
LA13	Outcomes from Implementing Principles 1 and 6.	56
<b>Equal remuneration for women and men</b>		
LA14		100
<b>Human Rights Performance Indicators</b>		
<b>Investment and Procurement Practices</b>		
HR1	Outcomes from Implementing Principles 1, 2, 3, 4, 5, and 6.	109
HR2	Actions Taken and Outcomes from Implementing Principles 1, 2, 3, 4, 5, and 6.	110
HR3	Outcomes from Implementing Principles 1, 2, 3, 4, 5 and 6.	109
Non-discrimination		
HR4	Actions Taken and Outcomes from Implementing Principles 1, 2 and 6.	110
<b>Freedom of Association and Collective Bargaining</b>		
HR5	Actions Taken to Implement Principles 1, 2 and 3.	108
<b>Child Labor</b>		
HR6	Actions Taken to Implement Principles 1, 2 and 5.	109
<b>Forced and Compulsory Labor</b>		
HR7	Actions Taken to Implement Principles 1, 2 and 4.	109
<b>Security Practices</b>		
HR8	Outcomes from Implementing Principles 1 and 2.	110
<b>Indigenous rights</b>		
HR9	Actions Taken and Outcomes from Implementing Principles 1 and 2.	110
OG9		110
<b>Assessment</b>		
HR10		110
<b>Remediation</b>		
HR11		119
<b>Society Performance Indicators</b>		
<b>Community</b>		
SO1	No Specific COP Requirement.	104
SO9		104
SO10		104
OG10		110
OG11		83
<b>Corruption</b>		
SO2	Outcomes from Implementing Principle 10.	110
SO3		109
SO4	Actions Taken to Implement Principle 10.	110
<b>Public Policy</b>		
SO5	Actions Taken to Implement Principles 1-10.	64
SO6	Outcomes from Implementing Principle 10.	110

<b>Anti-competitive Behavior</b>		
SO7	No Specific COP Requirement.	110
<b>Compliance</b>		
SO8		110
<b>Involuntary resettlement</b>		
OG12		n.a.
<b>Asset integrity and process safety</b>		
OG13		92
<b>Product Responsibility Performance Indicators</b>		
<b>Customer Health and Safety</b>		
PR1	Actions Taken and Outcomes from Implementing Principle 1.	108
PR2	Outcomes from Implementing Principle 1.	110
<b>Product and Service Labeling</b>		
PR3	Actions Taken and Outcomes from Implementing Principle 8.	110
PR4	Outcomes from Implementing Principle 8.	110
PR5	No Specific COP Requirement.	110, 111
<b>Marketing Communications</b>		
PR6		108
PR7		108
<b>Customer Privacy</b>		
PR8	Outcomes from Implementing Principle 1.	108
<b>Compliance</b>		
PR9	No Specific COP Requirement.	110
<b>Biofuels</b>		
OG14		27, 72

# INA GROUP 2014 SUSTAINABILITY REPORT OPINION

The Commission of the Governing Council of the Croatian Business Council for Sustainable Development concluded that the scope of the content of INA Group Sustainability Report 2014 is in accordance with the requirements of A Level of the Global Reporting Initiative G3 reporting guidelines. This is the first time that INA offered to the public the Integrated report containing financial and non-financial data on INA Group operations in 2014. The financial data have been prepared and presented in accordance with the International Financial Reporting Standards (IFRS). By controlling the performance indicators representation, the degree of clarity, detail and balance within the limits of the Report, the commission found that INA Group Sustainability Report 2014 was prepared according to the GRI G3.1 Guidelines together with the use of additional indicators for the Oil and Gas Sector. This level of report complexity represents a unique example of integrated reporting in the Republic of Croatia. We would like to emphasize that the presented opinion of this commission refers only to the part of the report which includes non-financial impacts and which was prepared using the Global Reporting Initiative G3 guidelines.

This comprehensive report covers all the issues that are of importance not only for INA Group operations, but also the society as a whole because INA affects all the dimensions of the society due to its size. The reporting process indicates a clear understanding of important sustainability topics ranging from environmental protection, climate change, energy efficiency, product responsibility to health protection and safety, human capital and relations with the community, as well as commitment to improve relations and a systematic approach to these important issues. The structure of part of the sustainability report follows more or less the structure of previous reports, and by connecting into one integrated report, traceability and transparency of data has been preserved and a new component in the clarity of economic sustainability presentation has been added. Progress was also made in strengthening the connection between

the strategic goals of the company and ethical principles. More significant commitment to the topics aimed at connecting INA Group and the community is also evident. Good foundations seem to have been set for the transition to the G4 Guidelines for sustainability reporting with which the next report should be harmonized.

The report is a tool with which the companies can increase their understanding of sustainability and indicate progress in the creation of new value in business and society. Attention was previously focused on monitoring and measuring the effects, and now the focus is on understanding the key issues and their relation to the basic activity of the company. Despite the complex economic situation in Croatia during the last several years and the complex business environment, every year INA manages to increase the scope of its reporting and update the information that it provides to its stakeholders both in a quantitative and a qualitative manner. While the fact that the stakeholders are presented with such a large number of indicators and information related to business is highly commendable, we must still conclude that they make this report relatively difficult to read, as well as very long and complex, which certainly reduces the number of potential interested stakeholders who will read this report. We propose to consider the possibility of preparing a summarized form of the report for the needs of the general interested public.

It is a great pleasure to ascertain that, same as every year, INA is introducing a number of innovations aimed at having positive effects on the business, sustainability and reduction of the negative impact INA's operations have on the environment. This year INA is introducing a fleet management optimization process to reduce fuel consumption and greenhouse gas emissions. INA is also introducing the e-tendering process to reduce paper consumption.

The part of the report containing non-financial indicators begins with a series of tabular displays with a large number of environmental and social indicators, which already over several pages provide an

exhaustive presentation of the business results in the previous year. At the very beginning INA provides an overview of the realisation of the sustainable development goals set for the reporting period which grades the achievements in a clear manner and offers an explanation. The goals for the following reporting period in the field of material aspects are set in the same manner.

In the part containing the environmental indicators, we have noted a reduction in air emissions with regard to greenhouse gas emissions and NOx and SOx emissions, but at the same time, we have noted an increase in water consumption and generation of higher quantities of hazardous and non-hazardous waste. It is important that INA also provides adequate explanations for this change in trends, so that the increase in water consumption is explained through increased electricity production and the need of the heat exchanger, while a large quantity of waste was generated by oily soils disposal during the reconstruction of petrol stations and waste oils taken over from consumers which have been sent for processing.

INA is certified as an Employer Partner, and human resources management is based on the introduced system of performance management, rewards and career development for all employees, which is based on sustainable development principles. We would especially like to emphasize the large number of employees involved in various forms of education, while INA has also established systems for managing employees and the management, as well as precise satisfaction and personal development monitoring processes.

One of especially interesting programs aimed at fostering employee satisfaction is a comprehensive volunteering program which INA has been developing for years, and the number of actions, the number of employees involved in the program and the number of hours donated is in steady increase. We can thus conclude that INA has managed to engage volunteers in programs of interest to the individuals and the community, and the increase in the number of participants in these activities indicates the satisfaction employees receive from them.

Sustainability reporting represents only one element of an integrated approach to sustainable and socially responsible business which is reflected on all stakeholders. Compliance of the company management strategy with sustainability principles can significantly contribute to the reputation, credibility and trust of the stakeholders. Therefore, we propose that one part of the most important information is presented in a manner understandable to the general interested public. We believe that this is exactly what INA Group can improve during the following period. Furthermore, according to the upcoming G4 guidelines, INA has to display its communication with the stakeholders and the process of selecting the material aspects for future reports in a more detailed and precise manner.



# REVIEW OF INA GROUP SUSTAINABILITY REPORT 2014

The surrounding, in which an energy company operates, is what mostly shapes its business activities. In the years before the crisis, although shiny and sporadic a new view of business economics began to emerge. Since the crisis started to fade, it has begun to blossom as many see that in the near future, socially responsible behaviour will not represent only a competitive advantage for few, but a necessity for all. Corporate responsibility includes not only the responsible behaviour and commitment of its top managers as we know it today, but it also features a comprehensive and long-term impact of business activities on contemporary society. In order to conduct business on a sustainable basis, a growing number of companies are introducing non-financial reporting knowing that transparency on long term leads to better performance. By fostering this triple balance sheet approach non-financial reporting became an extension and progression of earlier forms of corporate reporting in order to include matters of company's economic, environmental and societal impacts and policies.

With multiple new trends emerging almost on daily basis, responsible corporate behaviour at its core has focused on transparency and accountability. An integrated financial and non-financial report helps large and medium sized companies in providing key financial and narrative information regarding their performance. This kind of approach helps companies create added value for their stakeholders (shareholders included), increases corporate reliability, drive operational efficiency, enhances its reputation, foster innovation, enables access to key resources and enhances competitive advantage in times of economic (in)stability. Although INA, d.d. has been conducting non-financial reports for nearly two decades now, in the last 10 years their reports have been aligned with the standards defined by the GRI initiative. In this report INA, d.d. uses a holistic approach, which takes into consideration all related aspects which are important to their business activities. While going through this Report it became obvious that in INA, d.d. they truly

believe that corporate social responsibility and sustainability are integrated business platforms that build long-term shareholder value, sustainable business model and prosperity to local economy. All economic activities require energy resources; therefore energy industry has a crucial role in the emerging economy. A sustainable approach is important for every type of organization, but it is essential for large companies and corporations that have a strong influence on their economies and societies. In that context, the information from the Report stating that the share of domestic suppliers in 2014 accounted for 72% of the total suppliers, and with regard to the contracted value of 75% of total procurement, although in decline from previous year those figures are still exceptionally important and positive. Consequentially, INA, d.d. is having significant role and influence in encouraging the suppliers throughout their value chain to innovate and adhere to the high corporate social responsibility standards, in the same manner as the company itself.

This non-financial report shows both environmental and societal effects of INA, d.d. Although there are many cases where most affected was the social sphere of business impact on society, where due to crises companies have been forced into shrinkage and limiting of number of employees it is great that INA, d.d. is aware of its demanding role in society. Therefore a special emphasis is made on the company's relationship with their workers, taking into consideration ways in which the company is both keeping old and attracting new workers on all organizational levels. Being a University I might be biased, but the level of engagement INA has done in recruiting and awarding University students is especially compelling, taking into consideration that youth unemployment is one of the mayor problems both Croatia and the EU are facing. In my opinion this is the clear sign of a true market leadership that others will hopefully follow.

Companies are essential to creating meaningful change primarily because they have resources others don't have. That is way I think

that INA's continues commitment to volunteering programmes is also important, where at the end of year 2014 INA Volunteers Club had 439 members, which was 44% increase in comparison to previous year. Similar initiatives within company are conveying the same, clear messages to all stakeholders. It is clear that corporate volunteering in INA, d.d. isn't just a one-way deal but it leads to stronger local community and increased public reputation.

Written in a clear and simple way, the report provides us with all the necessary information regarding sustainable development and CSR related activities made by the company. It shows us the path INA, d.d. is willing to take in order to tackle all the environmental and societal challenges that it is facing in today's turbulent economy. Once writing a report, it is very important on focusing on who it is written for. It is clear that INA, d.d. made a great effort in enhancing distributing of its report to all of its key stakeholders but they should work further on a two-way, inclusive communication with their stakeholders since it is a key to the success of corporate sustainability programs and long-term competitiveness. Also it could be written in a way that is more understandable to all of its stakeholder groups. This goes in part with the positive image INA d.d. has created in last three years, where not only that they have 66% people who expressed its liking towards INA d.d. but its positive reputation growing every year so expectations are rather high.

As stated before INA, d.d. is a company with rather long tradition and the most advanced practice of non-financial reporting in Croatia, which is also confirmed by this year's Sustainability Report. Although companies seem to have near total discretion to decide to what extent they will report with this scope of the content the 2014 INA Group Sustainability Report complies with the requirements of the A level of non-financial reporting of the G3.1 GRI Guidelines with the use of additional indicators for the oil and gas production sector. In addition this report provides a clear, understandable and well written

representation of the concrete company's performance, taking into consideration the authenticity of the information in the report, as well as the overall balance of content selection. This all suggests that INA, d.d. is ready for transition to the G4 guidelines and I do hope that it will follow that demanding but rewarding path.



Mislav Ante Omazić, associate professor  
Department of organisation and management  
Faculty of Economics and Business University of Zagreb

# FINANCIAL STATEMENTS AND NOTES

Consolidated and separate  
Financial Statements for the year ended  
31 December 2014  
Together with Independent Auditors' Report



# TO THE SHAREHOLDERS AND THE BOARD OF INA-INDUSTRIJA NAFTE, D.D.:

I. We have audited financial statements of INA-Industrija Nafta, d.d. ("the Company") and its subsidiaries (together the Group) as at 31 December 2014 which have been issued on 18 March 2015. We issued the following audit report dated 18 March 2015 on the separate and consolidated financial statements (presented in the Annual report on pages 144 to 231):

### **Independent Auditors' Report**

To the shareholders and the Board of INA – Industrija Nafta, d.d.

We have audited the accompanying financial statements ("the financial statements") of INA – Industrija Nafta, d.d. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated and separate statement of financial position as at 31 December 2014, and consolidated and separate statement of comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information (as set out on pages 4 to 125).

### **Management Responsibility**

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 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 judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity'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 entity'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 financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2014 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.

### **Other matters**

The financial statements of the Company and the Group as at and for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 19 March 2014.

Slaven Đuroković  
Director and certified auditor

Ernst & Young d.o.o. Zagreb  
Republic of Croatia  
Zagreb, 18 March 2015

II. We have also audited the consistency of the annual report as set out on pages 1 to 139 with the above-mentioned financial statements. The Management Board is responsible for the preparation of the Annual report in accordance with the Croatian Accounting Law and for its accuracy. Our responsibility is to perform procedures we consider necessary to reach a conclusion on whether the Annual report is consistent with the audited financial statements. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company.

III. In our opinion, the accounting information presented in the Annual report of the Company and of the Group for the year ended 31 December 2014 is consistent, in all material respects, with the audited financial statements for that year which were issued on 18 March 2015.

Ernst & Young d.o.o.  
Republic of Croatia  
Zagreb, 22 May 2015

Slaven Đuroković  
Director and certified auditor

## 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 separate financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed and
- the financial statements are prepared on the going concern basis, 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 Ádott, the President of the Management Board of INA, d.d.  
INA - Industrija Nafte, d.d.  
Avenija Većeslava Holjevca 10  
10000 Zagreb  
Republic of Croatia



## INDEPENDENT AUDITORS' REPORT

### To the shareholders and the Board of INA – Industrija Nafte, d.d.

We have audited the accompanying financial statements ("the financial statements") of INA – Industrija Nafte, d.d. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated and separate statement of financial position as at 31 December 2014, and consolidated and separate statement of comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information (as set out on pages 4 to 125).

### Management Responsibility

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 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 judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity'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 entity'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 financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2014 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.

### Other matters

The financial statements of the Company and the Group as at and for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 19 March 2014.

Ernst & Young d.o.o. Zagreb  
Republic of Croatia  
Zagreb, 18 March 2015



ERNST & YOUNG  
d.o.o.  
Zagreb, Radnička cesta 50



**INA GROUP CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

(ALL AMOUNTS ARE PRESENTED IN HRK MILLIONS)

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Sales revenue			
a) domestic		14,187	17,531
b) exports		9,572	9,913
<b>Total sales revenue</b>	<b>4</b>	<b>23,759</b>	<b>27,444</b>
Capitalised value of own performance		459	361
Other operating income	5	277	488
<b>Total operating income</b>		<b>24,495</b>	<b>28,293</b>
Changes in inventories of finished products and work in progress		(935)	(91)
Cost of raw materials and consumables		(11,353)	(13,727)
Depreciation and amortisation	6	(2,132)	(2,261)
Other material costs		(2,455)	(1,983)
Service costs		(1,000)	(815)
Staff costs	7	(2,467)	(2,415)
Cost of other goods sold		(3,705)	(5,536)
Impairment charges (net)	8	(2,052)	(2,769)
Provision for charges and risks (net)	9	(108)	(201)
<b>Operating expenses</b>		<b>(26,207)</b>	<b>(29,798)</b>
<b>Loss from operations</b>		<b>(1,712)</b>	<b>(1,505)</b>
Finance income	10	234	213
Finance costs	11	(856)	(524)
<b>Net loss from financial activities</b>		<b>(622)</b>	<b>(311)</b>
<b>Loss before tax</b>		<b>(2,334)</b>	<b>(1,816)</b>
Income tax benefit	12	437	308
<b>Loss for the year</b>		<b>(1,897)</b>	<b>(1,508)</b>
<b>Attributable to:</b>			
Owners of the Company		(1,897)	(1,508)
Non-controlling interests		-	-
		(1,897)	(1,508)
<b>Earnings per share</b>			
Basic and diluted loss per share (kunas per share)	13	(189.7)	(150.8)

Signed on behalf of the Group on 18 March 2015 by:

András Huszár

Executive Director for Finance



Zoltán Sándor Áldott

President of the Management Board



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

**INA GROUP CONSOLIDATED STATEMENT OF OTHER  
COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

(ALL AMOUNTS ARE PRESENTED IN HRK MILLIONS)

	Note	Year ended 31 December 2014	Year ended 31 December 2013
<b>Loss for the year</b>		<b>(1,897)</b>	<b>(1,508)</b>
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	33	-	(11)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	36	567	(210)
Gain/(loss) on available-for-sale financial assets	35	115	(7)
<b>Other comprehensive gain/(loss), net of income tax</b>		<b>682</b>	<b>(228)</b>
<b>Total comprehensive loss for the year</b>		<b>(1,215)</b>	<b>(1,736)</b>
<b>Attributable to:</b>			
Owners of the Company		(1,215)	(1,736)

Signed on behalf of the Group on 18 March 2015 by:

András Huszár

Executive Director for Finance



Zoltán Sándor Áldott

President of the Management Board



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

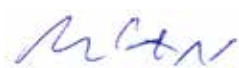
**INA, D.D. SEPARATE STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

(ALL AMOUNTS ARE PRESENTED IN HRK MILLIONS)

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Sales revenue			
a) domestic		13,394	15,558
b) exports		7,685	8,324
<b>Total sales revenue</b>	<b>4</b>	<b>21,079</b>	<b>23,882</b>
Capitalised value of own performance		4	4
Other operating income	5	361	480
<b>Total operating income</b>		<b>21,444</b>	<b>24,366</b>
Changes in inventories of finished products and work in progress		(705)	(71)
Cost of raw materials and consumables		(11,624)	(14,105)
Depreciation and amortisation	6	(1,980)	(2,101)
Other material costs		(1,960)	(1,755)
Service costs		(803)	(657)
Staff costs	7	(1,488)	(1,472)
Cost of other goods sold		(2,704)	(2,210)
Impairment and charges (net)	8	7	(3,633)
Provision for charges and risks (net)	9	(79)	(146)
<b>Operating expenses</b>		<b>(21,336)</b>	<b>(26,150)</b>
<b>Profit/(loss) from operations</b>		<b>108</b>	<b>(1,784)</b>
Finance income	10	807	412
Finance costs	11	(765)	(595)
<b>Net profit/(loss) from financial activities</b>		<b>42</b>	<b>(183)</b>
<b>Profit/(loss) before tax</b>		<b>150</b>	<b>(1,967)</b>
Income tax benefit	12	481	334
<b>Profit/(loss) for the year</b>		<b>631</b>	<b>(1,633)</b>

Signed on behalf of the Group on 18 March 2015 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 separate statement of profit or loss.


**INA, D.D. SEPARATE STATEMENT OF OTHER COMPREHENSIVE  
INCOME FOR THE YEAR ENDED 31 DECEMBER 2014**

(ALL AMOUNTS ARE PRESENTED IN HRK MILLIONS)

	Note	Year ended 31 December 2014	Year ended 31 December 2013
<b>Profit/(loss) for the year</b>		<b>631</b>	<b>(1,633)</b>
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	33	-	(9)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	36	596	(181)
Gain/(loss) on available-for-sale financial assets	35	115	(7)
<b>Other comprehensive income/(loss), net of income tax</b>		<b>711</b>	<b>(197)</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>1,342</b>	<b>(1,830)</b>

Signed on behalf of the Group on 18 March 2015 by:

András Huszár  
Executive Director for Finance



Zoltán Sándor Áldott  
President of the Management Board



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



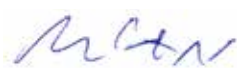
**INA GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 31 DECEMBER 2014**

(ALL AMOUNTS ARE PRESENTED IN HRK MILLIONS)

ASSETS	Note	31 December 2014	31 December 2013
<b>Non-current assets</b>			
Intangible assets	14	457	524
Property, plant and equipment	15	14,038	15,979
Goodwill	16	183	183
Investments in associates	18	22	22
Other investments	19	23	169
Long-term receivables and other assets	20	170	233
Deferred tax	12	1,742	1,127
Available-for-sale assets	21	462	330
<b>Total non – current assets</b>		<b>17,097</b>	<b>18,567</b>
<b>Current assets</b>			
Inventories	22	1,924	3,219
Trade receivables, net	23.39	1,998	2,564
Other receivables	24	181	426
Corporate Income tax receivables		112	421
Other current assets	25	282	144
"Prepaid expenses and accrued income"		154	166
Cash and cash equivalents	26	467	402
<b>Total current assets</b>		<b>5,118</b>	<b>7,342</b>
<b>TOTAL ASSETS</b>		<b>22,215</b>	<b>25,909</b>

Signed on behalf of the Group on 18 March 2015 by:

András Huszár  
Executive Director for Finance



Zoltán Sándor Áldott  
President of the Management Board



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

**INA GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 31 DECEMBER 2014**

(ALL AMOUNTS ARE PRESENTED IN HRK MILLIONS)

EQUITY AND LIABILITIES	Note	31 December 2014	31 December 2013
<b>Capital and reserves</b>			
Share capital	34	9,000	9,000
Revaluation reserve	35	121	6
Other reserves	36	2,851	2,284
Accumulated loss/retained earnings	37	(311)	1,586
<b>Equity attributable to owners of the Company</b>		<b>11,661</b>	<b>12,876</b>
Non-controlling interests	38	(1)	(1)
<b>TOTAL EQUITY</b>		<b>11,660</b>	<b>12,875</b>
<b>Non – current liabilities</b>			
Long-term loans	30	628	1,889
Other non-current liabilities	31	64	76
Employee benefit obligation	33	172	135
Provisions	32	2,837	2,754
Deferred tax liabilities		9	7
<b>Total non–current liabilities</b>		<b>3,710</b>	<b>4,861</b>
<b>Current liabilities</b>			
"Bank loans and overdrafts"	27	2,631	2,975
Current portion of long-term loans	27	199	299
Trade payables	28.39	1,713	2,841
Taxes and contributions	28	1,054	720
Other current liabilities	28	554	690
Accruals and deferred income	29	114	126
Employee benefit obligation	33	12	11
Provisions	32	568	511
<b>Total current liabilities</b>		<b>6,845</b>	<b>8,173</b>
<b>Total liabilities</b>		<b>10,555</b>	<b>13,034</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>22,215</b>	<b>25,909</b>

Signed on behalf of the Group on 18 March 2015 by:

András Huszár  
Executive Director for Finance



Zoltán Sándor Áldott  
President of the Management Board



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

**INA, D.D. SEPARATE STATEMENT OF FINANCIAL POSITION  
AT 31 DECEMBER 2014**

(ALL AMOUNTS ARE PRESENTED IN HRK MILLIONS)

ASSETS	Note	31 December 2014	31 December 2013
<b>Non-current assets</b>			
Intangible assets	14	455	522
Property, plant and equipment	15	12,564	14,340
Investment in subsidiaries	17	1,133	1,127
Investments in associates	18	22	22
Other investments	19	23	795
Long-term receivables	20	178	239
Deferred tax	12	1,702	1,076
Available-for-sale assets	21	462	330
<b>Total non-current assets</b>		<b>16,539</b>	<b>18,451</b>
<b>Current assets</b>			
Inventories	22	1,659	2,526
Intercompany receivables	39	117	1,677
Trade receivables, net	23.39	1,399	1,291
Other receivables	24	122	330
Corporate Income tax receivables		92	397
Other current assets	25	789	150
"Prepaid expenses and accrued income"		149	98
Cash and cash equivalents	26	327	252
<b>Total current assets</b>		<b>4,654</b>	<b>6,721</b>
<b>TOTAL ASSETS</b>		<b>21,193</b>	<b>25,172</b>

Signed on behalf of the Group on 18 March 2015 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 separate statement of financial position.


**INA, D.D. SEPARATE STATEMENT OF FINANCIAL POSITION  
AT 31 DECEMBER 2014**

(ALL AMOUNTS ARE PRESENTED IN HRK MILLIONS)

EQUITY AND LIABILITIES	Note	31 December 2014	31 December 2013
<b>Capital and reserves</b>			
Share capital	34	9,000	9,000
Revaluation reserve	35	121	6
Other reserves	36	2,529	1,933
Accumulated loss/retained earnings	37	(174)	2,390
<b>TOTAL EQUITY</b>		<b>11,476</b>	<b>13,329</b>
<b>Non-current liabilities</b>			
Long term loans	30	619	1,826
Other non-current liabilities	31	63	65
Employee benefit obligation	33	128	98
Provisions	32	2,849	2,707
<b>Total non-current liabilities</b>		<b>3,659</b>	<b>4,696</b>
<b>Current liabilities</b>			
Bank loans and overdrafts	27	2,391	2,764
Current portion of long-term loans	27	187	255
Intercompany payables	39	443	569
Trade payables	28.39	1,256	2,146
Taxes and contributions	28	970	561
Other current liabilities	28	293	415
Accruals and deferred income	29	88	40
Employee benefit obligation	33	8	7
Provisions	32	422	390
<b>Total current liabilities</b>		<b>6,058</b>	<b>7,147</b>
<b>Total liabilities</b>		<b>9,717</b>	<b>11,843</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>21,193</b>	<b>25,172</b>

Signed on behalf of the Group on 18 March 2015 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 separate statement of financial position.

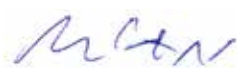
**INA GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2014**

(ALL AMOUNTS ARE PRESENTED IN HRK MILLIONS)

	Share capital	Other reserves	Revaluation reserves	Retained earnings/ Accumulated loss	Attributable to equity holders of the parent	Non controlling interest	Total
<b>Balance at 1 January 2013</b>	<b>9,000</b>	<b>2,505</b>	<b>13</b>	<b>3,437</b>	<b>14,955</b>	<b>(1)</b>	<b>14,954</b>
Loss for the year	-	-	-	(1,508)	(1,508)	-	(1,508)
Other comprehensive loss, net	-	(221)	(7)	-	(228)	-	(228)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(221)</b>	<b>(7)</b>	<b>(1,508)</b>	<b>(1,736)</b>	<b>-</b>	<b>(1,736)</b>
Dividend paid	-	-	-	(343)	(343)	-	(343)
<b>Balance at 31 December 2013</b>	<b>9,000</b>	<b>2,284</b>	<b>6</b>	<b>1,586</b>	<b>12,876</b>	<b>(1)</b>	<b>12,875</b>
Loss for the year	-	-	-	(1,897)	(1,897)	-	(1,897)
Other comprehensive income, net	-	567	115	-	682	-	682
<b>Total comprehensive income/(loss) for the year</b>	<b>-</b>	<b>567</b>	<b>115</b>	<b>(1,897)</b>	<b>(1,215)</b>	<b>-</b>	<b>(1,215)</b>
<b>Balance at 31 December 2014</b>	<b>9,000</b>	<b>2,851</b>	<b>121</b>	<b>(311)</b>	<b>11,661</b>	<b>(1)</b>	<b>11,660</b>

Signed on behalf of the Group on 18 March 2015 by:

András Huszár  
Executive Director for Finance



Zoltán Sándor Áldott  
President of the Management Board



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


**INA, D.D. SEPARATE STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2014**

(ALL AMOUNTS ARE PRESENTED IN HRK MILLIONS)

	Share capital	Other reserves	Revaluation reserves	Retained earnings/ Accumulated loss	Total
<b>Balance at 1 January 2013</b>	<b>9,000</b>	<b>2,123</b>	<b>13</b>	<b>4,366</b>	<b>15,502</b>
Loss for the year	-	-	-	(1,633)	(1,633)
Other comprehensive loss, net	-	(190)	(7)	-	(197)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(190)</b>	<b>(7)</b>	<b>(1,633)</b>	<b>(1,830)</b>
Dividend paid	-	-	-	(343)	(343)
<b>Balance at 31 December 2013</b>	<b>9,000</b>	<b>1,933</b>	<b>6</b>	<b>2,390</b>	<b>13,329</b>
Profit for the year	-	-	-	631	631
Other comprehensive income, net	-	596	115	-	711
<b>Total comprehensive income/(loss) for the year</b>	<b>-</b>	<b>596</b>	<b>115</b>	<b>631</b>	<b>1,342</b>
Loss brought forward from legal merger	-	-	-	(3,195)	(3,195)
<b>Balance at 31 December 2014</b>	<b>9,000</b>	<b>2,529</b>	<b>121</b>	<b>(174)</b>	<b>11,476</b>

Signed on behalf of the Group on 18 March 2015 by:

András Huszár  
Executive Director for Finance



Zoltán Sándor Áldott  
President of the Management Board



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



**INA GROUP CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

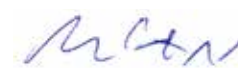
(ALL AMOUNTS ARE PRESENTED IN HRK MILLIONS)

	Note	31 December 2014	31 December 2013
<b>Loss for the year</b>		<b>(1,897)</b>	<b>(1,508)</b>
<b>Adjustments for:</b>			
Depreciation and amortisation		2,132	2,261
Income tax benefit recognised in income statement		(437)	(308)
Impairment charges (net)		2,052	2,769
Gain on sale of property, plant and equipment		(16)	(4)
Foreign exchange loss/(gain)		249	(35)
Interest expense (net)		196	176
Other finance expense recognised in income statement		87	88
Increase in provisions		47	199
Decommissioning interests and other provision		89	82
Other non-cash items		5	(38)
		2,507	3,682
<b>Movements in working capital</b>			
Decrease in inventories		1,201	88
Decrease/(increase) in receivables and prepayments		839	(303)
(Decrease)/increase in trade and other payables		(534)	1,599
<b>Cash generated from operations</b>		<b>4,013</b>	<b>5,066</b>
Taxes paid		(154)	(490)
<b>Net cash inflow from operating activities</b>		<b>3,859</b>	<b>4,576</b>
<b>Cash flows used in investing activities</b>			
Capital expenditures, exploration and development costs		(1,292)	(1,832)
Payments for intangible assets		(297)	(248)
Proceeds from sale of non-current assets		34	3
Payments for acquisition of subsidiaries		-	(7)
Dividends received from companies classified as available-for-sale and from other companies		7	3
Interest received and other financial income		34	25
Investments and loans to third parties, net		49	(80)
<b>Net cash used for investing activities</b>		<b>(1,465)</b>	<b>(2,136)</b>

	Note	Year ended 31 December 2014	Year ended 31 December 2013
<b>Cash flows from financing activities</b>			
Additional long-term borrowings		2,202	6,160
Repayment of long-term borrowings		(3,706)	(9,878)
Additional short-term borrowings		14,715	15,086
Repayment of short-term borrowings		(15,258)	(13,386)
Dividends paid		-	(343)
Interest paid on long-term loans		(45)	(88)
Interest paid on short term loans and other interest charges		(209)	(72)
<b>Net cash used in financing activities</b>		<b>(2,301)</b>	<b>(2,521)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>93</b>	<b>(81)</b>
At 1 January		402	488
Effect of foreign exchange rate changes		(28)	(5)
<b>At 31 December</b>	<b>26</b>	<b>467</b>	<b>402</b>

Signed on behalf of the Group on 18 March 2015 by:

András Huszár  
Executive Director for Finance



Zoltán Sándor Áldott  
President of the Management Board



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

**INA, D.D. SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

(ALL AMOUNTS ARE PRESENTED IN HRK MILLIONS)

	Note	Year ended 31 December 2014	Year ended 31 December 2013
<b>Profit/(loss) for the year</b>		<b>631</b>	<b>(1,633)</b>
<b>Adjustments for:</b>			
Depreciation and amortisation		1,980	2,101
Income tax benefit recognised in income statement		(481)	(334)
Impairment charges (neto)		(7)	3,633
Gain on sale of property plant and equipment		-	(5)
Foreign exchange loss		192	12
Interest income, net		(105)	(62)
Other finance expense recognised in income statement		162	7
Increase in provisions		252	172
Decommissioning interests		87	80
Other non-cash items		63	2
		2,774	3,973
<b>Movements in working capital</b>			
Decrease/(increase) in inventories		766	(122)
Decrease/(increase) in receivables and prepayments		1,090	(787)
(Decrease)/increase in trade and other payables		(910)	1,395
<b>Cash generated from operations</b>		<b>3,720</b>	<b>4,459</b>
Taxes paid		(86)	(357)
<b>Net cash inflow from operating activities</b>		<b>3,634</b>	<b>4,102</b>
<b>Cash flows used in investing activities</b>			
Capital expenditures, exploration and development costs		(1,542)	(1,689)
Payment for intangible assets		(28)	(245)
Proceeds from sale of non-current assets		-	9
Aquisition of investments in subsidiaries, associates and other companies		-	(10)
Dividends received from companies classified as available-for-sale and from other companies		7	3
Payments received from subsidiaries		4	39
Interest received and other financial income		82	97
Investments and loans, net		54	14
<b>Net cash used in investing activities</b>		<b>(1,423)</b>	<b>(1,782)</b>

	Note	Year ended 31 December 2014	Year ended 31 December 2013
<b>Cash flows from financing activities</b>			
Additional long-term borrowings		2,202	6,160
Repayment of long-term borrowings		(3,564)	(9,798)
Additional short-term borrowings		14,767	15,060
Repayment of short-term borrowings		(15,368)	(13,240)
Dividends paid		-	(343)
Interest paid on long-term loans		(41)	(79)
Other long-term liabilities, net		(2)	(7)
Interest paid on short term loans and other interest charges		(131)	(88)
<b>Net cash used in financing activities</b>		<b>(2,137)</b>	<b>(2,335)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>74</b>	<b>(15)</b>
At 1 January		252	270
Effect of foreign exchange rate changes		1	(3)
<b>At 31 December</b>	<b>26</b>	<b>327</b>	<b>252</b>

Signed on behalf of the Group on 18 March 2015 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 separate statement of cash flow.

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

## 1. GENERAL

### HISTORY AND INCORPORATION

INA was founded on 1 January 1964 through the merger of Naftapljin 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 depository receipts (GDRs) started. Due to subsequent decrease in activity on the London Stock Exchange, GDRs have been cancelled on 2 September 2014. 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 2014 and 2013:

#### THE OWNERSHIP STRUCTURE

	31 December 2014		31 December 2013	
	Number of shares	Ownership in %	Number of shares	Ownership in %
Zagrebačka banka d.d./Unicreditbank Hungary Zrt, for MOL Nyrt, Hungary	4,908,207	49.08	4,908,207	49.08
Government of the Republic of Croatia	4,483,552	44.84	4,483,552	44.84
Institutional and private investors	608,241	6.08	608,241	6.08
	<b>10,000,000</b>	<b>100</b>	<b>10,000,000</b>	<b>100</b>

\*Source: Central Depository & Clearing Company Inc.

### PRINCIPAL ACTIVITIES

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

- exploration and production of oil and gas deposits, primarily onshore and offshore within Croatia; other licence interests are held in abroad; Angola and Egypt;
- import of natural gas and sale of imported and domestically produced natural gas to industrial consumers and municipal gas distributors;
- refining and production of oil products through refineries located at Rijeka (Urinj) and Sisak, and Zagreb lubricants plants;
- distribution of fuels and associated products through a chain of 442 retail outlets in operation as of 31 December 2014 (of which 391 in Croatia and 51 outside Croatia).
- trading in petroleum products through a network of foreign subsidiaries and representative offices, principally in Ljubljana and Sarajevo; and
- service activities incidental to on-shore and off-shore oil extraction through its drilling and oilfield services subsidiary Croscos 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 2014 there were 12,503 persons employed at the Group (13,460 as at 31 December 2013). As at 31 December 2014 there were 8,150 persons employed at INA, d.d. (8,517 as at 31 December 2013).

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 since 18 December 2012 until 10 July 2014

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.

Supervisory Board since 10 July 2014

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
Maja Rilović	Representative of employees in the Supervisory Board

### MANAGEMENT BOARD

Management Board since 9 June 2011 until 21 May 2014

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

Management Board since 22 May 2014

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

### EXECUTIVE BOARD

Executive Board appointed by the decision of the Management Board from 1 September 2012 until 31 August 2014

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



# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

Tvrtko Perković Executive Director in charge of Corporate Centre  
Tomislav Thür Executive Director in charge of Corporate Affairs

Executive Board appointed by the decision of the Management Board since 1 September 2014

Želimir Šikonja Executive Director of Exploration and Production  
Bengt Viktor Oldsberg 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 separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### PRESENTATION OF THE FINANCIAL STATEMENTS

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

The Company's and the Group's financial statements are prepared in millions of HRK, which is the Company's functional currency.

### BASIS OF ACCOUNTING

The Company maintains its accounting records in Croatian language, in Croatian kuna 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 with-

in 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.

### 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:

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosures of Interests in Other Entities and IAS 27 (revised in 2011) Separate Financial Statements, 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).

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

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

- IFRIC 21 Levies, issued in May 2013, provides guidance on when to recognize a liability for a levy imposed by a government, adopted by EU 13 June 2014 (effective date in EU for annual periods beginning on or after 1 July 2014).
- Amendments to IAS 19 Employee Benefits - Defined Benefit Plans: Employee Contributions, adopted in EU 17 December 2014 (effective in EU for annual periods beginning on or after 1 February 2015).
- 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, adopted

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

12 December 2013 (amendments are to be applied for annual periods beginning on or after 1 February 2015 in EU).

- 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, adopted in EU 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015 in EU).

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

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

- IFRS 9 Financial Instruments, as amended in 2010 (effective for annual periods beginning on or after 1 January 2018).

- IFRS 14 Regulatory Deferral Accounts, issued in January 2014. IFRS 14 cannot be applied by entities that have already adopted IFRSs (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016)

- IFRS 15 Revenue from Contracts with Customers, issued in May 2014 provides a single, principles based five-step model to be applied to all contracts with customers, furthermore introduce a new disclosures about revenue (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2017)

- Amendments to IFRS 11 Joint Arrangements on accounting for acquisitions of interests in joint operations, as amended in May 2014. The amendments apply prospectively to acquisitions of interests in joint operations in which the activities of the joint operations constitute businesses, as defined in IFRS 3 (effective date for annual periods beginning on or after 1 January 2016).

- Amends IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets on clarification of Acceptable Methods of Depreciation and Amortization, issued in May 2014 (effective date for annual periods beginning on or after 1 January 2016).

- Amendments to IAS 27 Separate Financial Statements (as amended in 2011) reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements, issued in August 2014 (effective date for annual periods beginning on or after 1 January 2016)

- Annual Improvements to IFRSs (cycle 2012-2014) resulting from the amendments on standards IFRS 5 and IAS 19 issued in September 2014 (effective date for annual periods beginning on or after 1 January 2016)

- Amendments to IFRS 10 and IAS 28, regarding the sale or contribution of assets between an investor and its associate or joint venture issued in September 2014 (effective date for annual periods beginning on or after 1 January 2016)

- Amendments to IFRS 10, IFRS 12 and IAS 28, regarding the application of the consolidation exception, issued in December 2014 (effective date for annual periods beginning on or after 1 January 2016)

Management anticipates that the adoption of IFRS 9 Financial instruments will have impact on disclosure of financial instruments and no impact on measurement of financial instruments.

The new standards IFRS 15 Revenue from Contracts with Customers will have a significant impact on revenue recognition, so Company need to assess how financial reporting, information system and processes will be affected.

## **BASIS OF PARENT COMPANY FINANCIAL STATEMENT (INA, D.D.)**

The separate 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 group 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-con-

trolling 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.

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.

## **LEGAL MERGER**

In a case of legal merger pooling of interest method is applied, balances of company that is merged are carried at net book values to a Company which is legal successor and no restatements of prior periods are done.

## **BUSINESS COMBINATION**

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 Employee Benefits 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, and then the gain is recognized in profit and loss.

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 not remeasured and 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

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

## GOODWILL

Goodwill arising from an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognised directly in profit or loss. 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 us-

ing 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.

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's con-

solidated financial statements only to the extent of interests in the associate or a joint venture that are not related to the Group.

## 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.

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 statement of profit or loss in the period in which they are incurred.

If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are charged to the statement of profit or loss in the period. If the prospects are deemed 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 domes-

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

## INTANGIBLE ASSETS

Intangible assets acquired separately are capitalized at cost and from a business acquisition are capitalized at fair value as at the date of acquisition. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. Amortisation is charged on assets with a finite useful life over the best estimate of their useful lives using the straight line method, except intangible assets on oil and gas fields are charged with a unit of production method. The amortisation period and the amortisation method are reviewed annually at each financial year-end. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against income in the year in which the expenditure is incurred. Intangible assets are tested for impairment annually either individually or at the cash generating unit level. Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure the cost model is applied requiring the asset to be carried at cost less any accumulated impairment losses. Costs in development stage cannot be amortized. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are shown at historical cost or valuation less accumulated depreciation and any accumulated impairment loss, except for land, which is stated at cost less any accumulated impairment loss. The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing an asset to its working condition and location for its intended use.

Expenditures incurred after property, plant and equipment have been put into operation are normally charged to statement of profit or loss in the period in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance, the expenditures are capitalised as an additional cost of property, plant and equipment. Costs eligible for capitalisation include costs of



# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

periodic, planned significant inspections and overhauls necessary for further operation.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss.

## Depreciation, Depletion and Amortisation

Intangible assets and property, plant and equipment in use (excluding oil and gas properties) are depreciated on a straight-line basis on the following basis:

Software	5 years
Buildings	5 - 50 years
Refineries and chemicals manufacturing plants	3 - 15 years
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.

## IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as expenditure, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss

is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## FINANCE AND OPERATING LEASES

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

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

Initial direct costs incurred in negotiating a operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as the lease income. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of profit or loss 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.

Accrued revenues are recorded at the end of reporting period for delivered goods or services if they have not been invoiced yet.

The accounting policies adopted by the Company, defining and recording impairment of short-term receivables for which there is uncertainty that receivables will be collected 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.

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 nat-

ural gas are valued as follows:

- Crude oil is carried at the weighted average cost or the production cost. If finished i.e. refined products are impaired, a calculation is used to reduce the crude oil reserve by an aliquot share to its net recoverable amount.
- Finished products are valued at the lower of cost or approximately 96.5% 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. when the calculation shows that their net realisable value may not be recovered, by applying the impairment percentage to each individual semi-finished product on stock at the period-end.
- Imported natural gas held in underground storage is valued at the lower of cost, based on the price of imported gas at year-end including transport costs, and weighted average sales price based on year-end prices.
- Domestic natural gas held in underground storage is valued at the lower of weighted average sales price and cost.
- Other inventories, which comprise mainly spare parts, materials and supplies, are valued at the lower of cost or valuation and net realisable value.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and bank, and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

## BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Used capitalisation rate for 2014 was 2.06% and for 2013 was 2.68%.

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 prepared in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Croatian 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 denom-

inated 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.

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.

# Notes to the financial statements

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## 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.

## TAXATION

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

### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's and the Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

### Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and are accounted for using the statement of financial position liability method. Deferred tax 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 for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 acquisition, the tax effect is included in the accounting for the business combination.

## FINANCIAL ASSETS

All financial assets are recognised and derecognised on a trade date 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, plus 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, financial assets at fair value through profit and loss and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instruments and of allocating interest income

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

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

### AFS financial assets

Listed shares held by the Company and Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 42. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve directly except for 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.

### Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Attributable transaction costs are recognised in profit or loss as incurred. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

### Loans and receivables

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

### Impairment of financial assets

Financial assets are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired

when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

### Investments

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

## FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

### Classification as debt or equity

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

### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

### Financial liabilities

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

### Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabili-

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

ty is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

## Other financial liabilities

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

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

## Derecognition of financial liabilities

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

## DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain

or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

## 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 statement of profit or loss.

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 statement of profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss 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 statement of profit or loss.

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 statement of profit or loss. The changes in the fair value of the hedging instrument are also recognized in the statement of profit or loss.

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 statement of profit or loss.

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.

## 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 rate are also treated as an

adjustment to the cost of the property, plant and equipment and thus dealt with prospectively in the statement of profit or loss through future depreciation of the asset.

## 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
- 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.



# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

### 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:

#### *Consequences of certain legal actions*

INA Group members are involved in number of litigations arisen from the regular course of business. If there is a present obligation as a result of a past event (taking into account all available evidence, including the opinion of law experts) for which is probable that outflow of resources will be required to settle the obligation and if a reliable estimate can be made of the amount of the obligation, provisions are recorded (see note 32).

#### *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, period of cash flow projections, as well as assumptions and judgments used in determining cash receipts and expenditure. The impairment of assets based on IAS 36 reported in the consolidated statement of profit or loss amounted to HRK 1,784 million in 2014 (2013: HRK 2,074 million).

#### *Carrying value of goodwill*

There was no impairment of goodwill in 2014 and 2013 (see note 16). The carrying amount of goodwill amounted to HRK 183 million as of 31 December 2014 and 2013 respectively (see note 16).

#### *Carrying value of intangible exploration and appraisal assets*

The carrying amount of intangible exploration and appraisal assets amounted to HRK 302 million as of 31 December 2014 and HRK 378 million 2013 (see note 14). In INA Group the impairment of intangible exploration and appraisal assets reported in amount of HRK 107 million in 2014 (2013: HRK 343 million) (see note 14).

#### *Carrying value of production oil and gas assets*

The carrying amount of production oil and gas assets amounted to HRK 4,332 million as of 31 December 2014 and HRK 5,414 million 2013 (see note 15). In INA Group the impairment reported in amount of HRK 1,380 million in 2014 while in 2013 the reversal of impairment was reported in amount of HRK 1,340 million. (see note 15).

#### *Carrying value of property, plant and equipment in refineries and marketing*

The carrying amount of property, plant and equipment in refineries and marketing amounted to HRK 5,073 million as of 31 December 2014 and HRK 5,578 million in 2013. As a consequence of the unfavourable economic environment, the impairment of refineries reported in amount of HRK 385 million in 2014 and HRK 679 million in 2013. (see note 15).

avourable economic environment, the impairment of refineries reported in amount of HRK 385 million in 2014 and HRK 679 million in 2013. (see note 15).

### KEY ASSUMPTIONS USED

#### *Refining and Marketing BD*

The calculation of value in use for the refinery plant CGU is most sensitive to the following assumptions:

- Crack spreads
- Discount rates
- Crude oil prices
- USD foreign exchange rate

Change in the estimates of these premises would influence the amount of impairment recognized in relation to Refining and Marketing BD.

Forecast quotation prices and exchange rates are based on management's estimates and available market data. Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rates are based on the specific circumstances of the Group and its operating segments and are derived from its WACC, with appropriate adjustments made to reflect the risks specific to the CGU.

#### *UPSTREAM BD*

The calculation of value in use for the CGUs in Upstream BD is most sensitive to the following assumptions:

- Discount rates
- Crude oil prices

Forecast quotation prices are based on management's estimates and available market data. Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rates are based on the specific circumstances of the Group and its operating segments and are derived from its WACC, with appropriate adjustments made to reflect the risks specific to the CGU. With regard to the assessment of impairment test on oil and gas properties, management believes that there are no reasonably possible changes in any of the above key assumptions that would cause the carrying value of the oil and gas properties to materially exceed their recoverable amount.

#### *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. Ex-

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

#### *Investments in Syria*

INA, d.d. is the operator at the Aphamia exploratory block. INA, d.d. has acquired 270 km<sup>2</sup> 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 2012, with a non-fulfilled commitment to drill one exploratory well in order to confirm the commerciality of oil saturated layers, if the Force Majeure was not declared. In regards to this matter, INA, d.d. has not received any comment from GPC or Ministry side yet.

#### *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 judgment. 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. Until 26 February 2012 INA regularly issued invoices, the last invoice being issued for February 2012, however. August 2011 was the last month for which INA invoices were paid in full. INA's unrecorded revenues until February 2013 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. Since the production in Hayan Block is still ongoing, the Group has not recognized production volumes since the announcement of Force Majeure.

Due to inadequate and still continuous operating condition and lack of regular maintenance of the assets, the physical deterioration of surface facilities needs to be reflected in depreciation charge, which - in the absence of parameters needed for unit-of-production depreciation calculation method due to Force Majeure is calculated with straight-line depreciation method, applied starting from 1 January 2013 calculated based on an average residual useful life of 3.5 years. Depreciation charge for 2014 was recognized in amount of HRK 306 million (2013: 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).

The most significant variables in determining cash flows are discount rates, the period for which cash flow projections are made, proba-

bilities 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) Destruction: the properties are subject to physical damage as a result of targeted or accidental attacks. In case of only partial damage, return to operation is still possible, while in case of full damage of properties, no return is assumed.

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 upstream weighted average cost of capital and are adjusted for project-specific risks, as applicable. The discount rate applied was 17.3% (see note 15). Based on multiple-scenario discounted cash flow calculations the Group has recorded impairment in amount of HRK 1,507 million on tangible assets including asset-under-construction on Hayan Block. Additionally, impairment in amount of HRK 55 million was recorded on other current assets related to Hayan and Aphamia Blocks. Also Croscos d.o.o. impaired assets and inventories in Syria in the amount of HRK 33 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.

### USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with International Reporting Financial Standards, as adopted by EU requires man-

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

agement 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 ESTIMATES IN APPLYING ACCOUNTING POLICIES

### 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 2,253 million as at 31 December 2014 (31 December 2013: HRK 2,360 million) (see note 32).

### 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 2014 INA Group recognized environmental provision in amount HRK 309 million (2013: HRK 301 million) (see note 32), which covers investigation to determine the extent of contamination at specific site, treatment of accumulated waste generated by former activity, preliminary site investigation with corresponding laboratory analyses, soil excavation and replacement during the reconstruction of filling stations. It does not cover the cost of remediation in lack of detailed National regulations.

### 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 realised 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 2014 the carrying amount of deferred tax assets of the INA Group amounted to HRK 1,742 million (2013: HRK 1,127 million) and deferred tax liabilities amounted HRK 9 million (2013: HRK 7 million), while the carrying amount of deferred tax assets of INA, d.d. amounted to HRK 1,702 million, (31 December 2013: HRK 1,076 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 184 million as at 31 December 2014 (31 December 2013: HRK 146 million), and INA, d.d. amounted to HRK 136 million as at 31 December 2014 (31 December 2013: HRK 105 million) (see note 33).

### 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 2014 had no significant changes compared to the previous estimate.

### Hydrocarbonate reserves

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 statement of profit or loss period in which they are incurred.

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. As the economic as-

sumptions use may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:

- The carrying value of exploration and evaluation assets; oil and gas properties; property, plant and equipment; and goodwill may be affected due to changes in estimated future cash flows
- Depreciation and amortization charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the Units of Production (UOP) method, or where the useful life of the related assets change
- Provisions for decommissioning may require revision — where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities
- The recognition and carrying value of deferred tax assets may change due to changes in the judgments regarding the existence of such assets and in estimates of the likely recovery of such assets

### Reclassification of profit and loss account and statement of financial position

In 2014 in order to ensure consistency of presentation with current year the Company and the Group reclassified expense of mining fee from service cost to other material costs, interest expenses regarding tax inspection from other material cost to financial cost, decommissioning depreciation reversal from operating income to other material cost, loans fee charges from service cost to finance cost, value adjustment of sold assets from impairment charges to other operative income. The effect of reclassification of profit and loss account is as follows:

INA GROUP							
	2013 before restatement	Reclassification of decommissioning depreciation reversal	Loan fees	Netting off PPE disposal	Interest - tax resolution	Mining rent restatement	2013 restated
Other operating income	507	(8)	-	(11)	-	-	488
Other material costs	(1,622)	8				(369)	(1,983)
Service costs	(1,249)		17	-	48	369	(815)
Impairment charges, net	(2,780)	-	-	11	-	-	(2,769)
Finance cost	(459)	-	(17)	-	(48)	-	(524)
<b>Total</b>	<b>(5,603)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,603)</b>

INA, D.D.							
	2013 before restatement	Reclassification of decommissioning depreciation reversal	Loan fees	Netting off PPE disposal	Interest - tax resolution	Mining rent restatement	2013 restated
Other operating income	496	(8)	(4)	(4)	-	-	480
Capitalised value of own performance	-	-	-	4	-	-	4
Other material costs	(1,394)	8	-	-	-	(369)	(1,755)
Service costs	(1,074)	-	-	-	48	369	(657)
Impairment charges, net	(3,637)	-	4	-	-	-	(3,633)
Finance cost	(547)	-	-	-	(48)	-	(595)
<b>Total</b>	<b>(6,156)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,156)</b>

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

The effect of reclassification on statement of financial position is as follows:

INA GROUP			
	2013 before restatement	Mining rent restatement	2013 restated
Effect of taxes and contributions	749	(29)	720
Effect of other current liabilities	661	29	690
<b>Total</b>	<b>1,410</b>	<b>-</b>	<b>1,410</b>

INA, D.D.			
	2013 before restatement	Mining rent restatement	2013 restated
Effect of taxes and contributions	590	(29)	561
Effect of other current liabilities	386	29	415
<b>Total</b>	<b>976</b>	<b>-</b>	<b>976</b>

## 4. SEGMENT INFORMATION

The INA Group operates through three core business segments. The strategic business segments offer different products and services. Reporting segments, which 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. Starting from 1 January 2014 due to organizational change Crosco Group is no longer part of BD Upstream and it is consolidated in BD Corporate and other. 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.

### BY BUSINESS

INA Group	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
<b>2014</b>					
Sales to external customers	4,039	18,187	1,533	-	23,759
Inter-segment sales	2,693	35	1,132	(3,860)	-
<b>Total revenue</b>	<b>6,732</b>	<b>18,222</b>	<b>2,665</b>	<b>(3,860)</b>	<b>23,759</b>
Operating expenses, net of other operating income	(5,771)	(20,711)	(2,849)	3,860	(25,471)
<b>Profit/(loss) from operations</b>	<b>961</b>	<b>(2,489)</b>	<b>(184)</b>	<b>-</b>	<b>(1,712)</b>
Net finance loss					(622)
Loss before tax					(2,334)
Income tax benefit					437
<b>(Loss)/profit for the year</b>					<b>(1,897)</b>
<b>2013</b>					
Sales to external customers	6,098	20,084	1,262	-	27,444
Inter-segment sales	3,227	53	873	(4,153)	-
<b>Total revenue</b>	<b>9,325</b>	<b>20,137</b>	<b>2,135</b>	<b>(4,153)</b>	<b>27,444</b>
Operating expenses, net of other operating income	(7,836)	(22,205)	(2,694)	3,786	(28,949)
<b>Profit/(loss) from operations</b>	<b>1,489</b>	<b>(2,068)</b>	<b>(559)</b>	<b>(367)</b>	<b>(1,505)</b>
Net finance loss					(311)
Loss before tax					(1,816)
Income tax expense					308
<b>(Loss)/profit for the year</b>					<b>(1,508)</b>



# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

## BY BUSINESS

INA Group	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
<b>31 December 2014</b>					
<b>Assets and liabilities</b>					
Property, plant and equipment	7,270	5,107	1,774	(113)	14,038
Intangible assets	318	19	120	-	457
Investments in associates	22	-	-	-	22
Inventories	152	1,844	262	(334)	1,924
Trade receivables, net	630	983	701	(316)	1,998
Not allocated assets					3,776
<b>Total assets</b>					<b>22,215</b>
Trade payables	479	1,123	427	(316)	1,713
Not allocated liabilities					8,842
<b>Total liabilities</b>					<b>10,555</b>
<b>Other segment information</b>					
Property, plant and equipment	1,039	467	143	-	1,649
Intangible assets	8	3	29	-	40
<b>Capital expenditure:</b>	<b>1,047</b>	<b>470</b>	<b>172</b>	-	<b>1,689</b>
<b>Depreciation and amortisation</b>					
Impairment losses PP&E, net recognized in profit and loss	1,380	387	17	-	1,784
Other impairment losses, net recognized in profit and loss	99	180	10	(21)	268
<b>Total impairment charges, net *</b>	<b>1,479</b>	<b>567</b>	<b>27</b>	<b>(21)</b>	<b>2,052</b>
<b>31 December 2013</b>					
Property, plant and equipment	8,581	5,589	1,865	(56)	15,979
Intangible assets	389	16	119	-	524
Investments in associates	22	-	-	-	22
Inventories	509	2,779	305	(374)	3,219
Trade receivables, net	936	1,432	585	(389)	2,564
Not allocated assets					3,601
<b>Total assets</b>					<b>25,909</b>
Trade payables	873	1,949	408	(389)	2,841
Not allocated liabilities					10,193
<b>Total liabilities</b>					<b>13,034</b>
<b>Other segment information</b>					
Property, plant and equipment	1,062	540	162	-	1,764
Intangible assets	194	5	48	-	247
<b>Capital expenditure:</b>	<b>1,256</b>	<b>545</b>	<b>210</b>	-	<b>2,011</b>
<b>Depreciation and amortisation</b>					
Impairment losses/(income) PP&E, net recognized in prof. and loss	1,340	734	-	-	2,074
Other impairment losses, net recognized in profit and loss	528	167	33	(33)	695
<b>Total impairment charges/(income), net *</b>	<b>1,868</b>	<b>901</b>	<b>33</b>	<b>(33)</b>	<b>2,769</b>

\* See note 8.

## BY GEOGRAPHICAL

INA Group	Republic of Croatia	Syria	Other countries	Total
<b>31 December 2014</b>				
Property, plant and equipment	12,651	620	767	14,038
Intangible assets	318	118	21	457
Investments in associates	22	-	-	22
Inventories	1,787	3	134	1,924
Trade receivables, net	1,154	-	844	1,998
Not allocated assets				3,776
<b>Total assets</b>				<b>22,215</b>
<b>Other segment information</b>				
Property, plant and equipment	1,450	-	199	1,649
Intangible assets	43	-	(3)	40
<b>Capital expenditure:</b>	<b>1,493</b>	-	<b>196</b>	<b>1,689</b>
<b>31 December 2013</b>				
Property, plant and equipment	12,321	2,213	1,445	15,979
Intangible assets	385	105	34	524
Investments in associates	22	-	-	22
Inventories	3,010	17	192	3,219
Trade receivables, net	1,604	-	960	2,564
Not allocated assets				3,601
<b>Total assets</b>				<b>25,909</b>
<b>Other segment information</b>				
Property, plant and equipment	1,522	-	242	1,764
Intangible assets	137	-	110	247
<b>Capital expenditure:</b>	<b>1,659</b>	-	<b>352</b>	<b>2,011</b>

## Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

### REVENUES FROM EXTERNAL CUSTOMERS

INA Group	2014	2013
Republic of Croatia	14,187	17,531
Switzerland	1,618	2,180
Bosnia and Hercegovina	2,777	2,936
Italy	732	446
Other countries	4,445	4,351
	<b>23,759</b>	<b>27,444</b>

INA, d.d.	2014	2013
Republic of Croatia	13,394	15,558
Switzerland	1,537	2,180
Bosnia and Hercegovina	2,450	47
United Kingdom	500	414
Other countries	3,198	5,683
	<b>21,079</b>	<b>23,882</b>

#### Information about major customers

No single customer contributed 10% or more to the Group's revenue in either 2014 or 2013.

## 5. OTHER OPERATING INCOME

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Income from rental activities	52	50	71	59
Surpluses	31	31	36	35
Income from collected damage claims	30	67	17	53
Additional discounted from contracts	26	13	26	13
Income from sale of assets	24	12	16	25
Penalty interest from customers	16	22	123	196
Commission Fee	13	11	12	11
Income from contractual penalties	4	180	2	35
Other	81	102	58	53
<b>Total</b>	<b>277</b>	<b>488</b>	<b>361</b>	<b>480</b>

## 6. DEPRECIATION AND AMORTISATION

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Depreciation of property, plant and equipment (note 15 b)	2,097	2,231	1,947	2,074
Amortisation of intangible assets (note 14)	35	30	33	27
	<b>2,132</b>	<b>2,261</b>	<b>1,980</b>	<b>2,101</b>

## 7. STAFF COSTS

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Net payroll	1,250	1,272	766	786
Tax and contributions for pensions and health insurance	861	846	557	553
Other payroll related costs	356	297	165	133
	<b>2,467</b>	<b>2,415</b>	<b>1,488</b>	<b>1,472</b>

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

### NUMBER OF EMPLOYEES

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Exploration and production	1,465	1,500	1,464	1,469
Refining and marketing	6,518	6,579	5,685	5,721
Corporate function	4,520	5,381	1,001	1,327
	<b>12,503</b>	<b>13,460</b>	<b>8,150</b>	<b>8,517</b>

## Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

### 8. IMPAIRMENT CHARGES (NET)

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Impairment of PP&E and intangible assets, net*	1,784	2,078	1,765	2,072
Writte-off PP&E and intangibles, net	118	376	117	369
Impairment of inventory, net	89	39	119	67
Impairment of trade receivables, net	(4)	208	(2,067)	1,064
Other impairment, net	65	68	59	61
	<b>2,052</b>	<b>2,769</b>	<b>(7)</b>	<b>3,633</b>

\* See note 15.

Amount of HRK 2,067 million of revenues from trade receivables in 2014 relates mostly to company Prirodni plin d.o.o. (HRK 2,075 million) and consists of collected impaired receivables from prior year (HRK 1,739 million) and remaining part of impaired receivable recognized as revenue (HRK 336 million) due to legal merger of Prirodni plin d.o.o. to INA, d.d.

### 9. PROVISIONS FOR CHARGES AND RISKS (NET)

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Provision for incentives	46	20	45	30
Provision for retirement and jubilee benefits	30	18	23	18
Provision for legal claims	28	34	34	39
Provision/(income from released provision) for unused holidays	24	(6)	-	(3)
Provision for emission rights	9	10	9	10
Provision/(income from released provision) for employees benefits	3	42	(1)	28
(Income from released provision)/provision for contractual liabilities for taxation	(88)	110	(79)	53
Income from released provision for environmental liabilities	(10)	(26)	(10)	(25)
(Income from released provision)/provision for Angolan taxes and other provisions	66	(1)	58	(4)
	<b>108</b>	<b>201</b>	<b>79</b>	<b>146</b>

### 10. FINANCE INCOME

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Foreign exchange gains from trade receivables and payables	108	24	57	6
Foreign exchange gains from loans and cash	74	102	69	74
Interest received and other financial income	19	21	644	246
Positive fair value changes of embedded derivatives	26	63	26	44
Income from dividends	7	3	7	3
Dividend received from subsidiaries	-	-	4	39
	<b>234</b>	<b>213</b>	<b>807</b>	<b>412</b>

### 11. FINANCE COSTS

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Foreign exchange losses from loans and cash	322	67	247	62
Other interest expense	150	137	145	132
Interest expense regarding tax resolutions	108	48	108	48
Other financial costs	98	114	105	232
Foreign exchange losses from trade receivables and payables	96	59	69	31
Interest for long-term loans	55	102	51	94
Negative fair value changes of embedded derivatives	37	11	50	11
Capitalized borrowing costs	(10)	(14)	(10)	(15)
	<b>856</b>	<b>524</b>	<b>765</b>	<b>595</b>



# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

## 12. TAXATION

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Current tax expense	204	263	174	243
Deferred tax (income)/charge related to origination and reversal of temporary differences	(641)	(571)	(655)	(577)
Income tax (benefit)/expense	<b>(437)</b>	<b>(308)</b>	<b>(481)</b>	<b>(334)</b>

Tax on profit generated in Croatia is determined by applying the rate of 20 percent, both in 2014 and 2013, on pre-tax profit for the year. Income taxes are recorded on the basis of estimated taxable income in accordance with the fiscal laws prevailing in the country in which they originate. INA, d.d. is subject to corporate income tax on its taxable profits in Croatia. The income tax, determined on the basis of the accounting profit, is assessed as follows:

	INA Group		INA, d.d.	
	2014	2013	2014	2013
(Loss)/profit before tax	(2,334)	(1,816)	150	(1,967)
(Benefit)/expense tax calculated at 20%	(467)	(363)	30	(393)
Tax loss previously not recognized	(432)	(52)	(533)	(5)
Effect of different tax rates of entities operating in other jurisdictions	17	2	32	3
Tax effect of permanent differences	131	(135)	(315)	(179)
Tax effect of previous years	314	240	305	240
Income tax (benefit)	<b>(437)</b>	<b>(308)</b>	<b>(481)</b>	<b>(334)</b>

In 2014, INA, d.d. recognised HRK 100 million tax effects of prior year in respect of Tax finding of Ministry of finance after tax inspection for year 2010 and 2011.

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:

INA Group	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Subsequent tax liability from tax inspection	Tax losses	Total
<b>Balance at 1 January 2013</b>	<b>40</b>	<b>390</b>	<b>(127)</b>	<b>121</b>	<b>98</b>	<b>-</b>	<b>22</b>	<b>544</b>
Charge directly to equity	-	-	-	3	2	-	-	5
Reversal of temporary differences	(5)	(11)	(26)	(18)	(4)	-	(10)	(74)
Origination of temporary differences	1	415	-	45	35	-	149	645
<b>Balance at 31 December 2013</b>	<b>36</b>	<b>794</b>	<b>(153)</b>	<b>151</b>	<b>131</b>	<b>-</b>	<b>161</b>	<b>1,120</b>
Charge directly to equity	-	-	-	-	(28)	-	-	(28)
Reversal of temporary differences	(2)	(18)	(90)	(31)	-	-	(172)	(313)
Origination of temporary differences	7	386	-	81	8	45	427	954
<b>Balance at 31 December 2014</b>	<b>41</b>	<b>1,162</b>	<b>(243)</b>	<b>201</b>	<b>111</b>	<b>45</b>	<b>416</b>	<b>1,733</b>

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	Subsequent tax liability from tax inspection	Tax losses	Total
<b>Balance at 1 January 2013</b>	<b>29</b>	<b>395</b>	<b>(127)</b>	<b>113</b>	<b>84</b>	<b>-</b>	<b>-</b>	<b>494</b>
Charge directly to equity	-	-	-	2	2	-	-	4
Reversal of temporary differences	(4)	(10)	(26)	(13)	(4)	-	-	(57)
Origination of temporary differences	1	415	-	34	36	-	149	635
<b>Balance at 31 December 2013</b>	<b>26</b>	<b>800</b>	<b>(153)</b>	<b>136</b>	<b>118</b>	<b>-</b>	<b>149</b>	<b>1,076</b>
Charge directly to equity	-	-	-	-	(29)	-	-	(29)
Reversal of temporary differences	(1)	(14)	(90)	(28)	-	-	(149)	(282)
Origination of temporary differences	3	382	-	73	8	45	426	937
<b>Balance at 31 December 2014</b>	<b>28</b>	<b>1,168</b>	<b>(243)</b>	<b>181</b>	<b>97</b>	<b>45</b>	<b>426</b>	<b>1,702</b>

## 13. EARNINGS PER SHARE

	INA Group	
	31 December 2014	31 December 2013
<b>Basic and diluted (loss)/earnings per share (in HRK)</b>	<b>(189.7)</b>	<b>(150.8)</b>
<b>Earnings</b>		
(Loss)/earnings used in the calculation of total basic earnings per share	(1,897)	(1,508)
	(1,897)	(1,508)
<b>Number of shares</b>		
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share (in millions)	10	10

In 2014, there was no dividend approved.

On 17 July 2013, approved dividend amounted to 34.36 kunas per share (total dividend HRK 343 million).

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

## 14. INTANGIBLE ASSETS

INA Group	Oil and gas properties	Software	Patents, Licences and other rights	Intangible assets under construction	Total
<b>Balance at 1 January 2013</b>	<b>558</b>	<b>69</b>	<b>15</b>	<b>34</b>	<b>676</b>
Additions	186	-	-	61	247
Amortisation	-	(25)	(5)	-	(30)
Foreign 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
<b>Balance at 31 December 2013</b>	<b>378</b>	<b>99</b>	<b>9</b>	<b>38</b>	<b>524</b>
Additions	-	-	-	40	40
Amortisation	-	(32)	(3)	-	(35)
Foreign exchange translation of foreign operations	31	-	-	-	31
Impairment	(107)	-	-	-	(107)
Disposals	-	-	-	-	-
Transfer	-	49	1	(50)	-
Transfer to property, plant and equipment	-	3	1	(4)	-
Other	-	-	4	-	4
<b>Balance at 31 December 2014</b>	<b>302</b>	<b>119</b>	<b>12</b>	<b>24</b>	<b>457</b>

INA, d.d.	Oil and gas properties	Software	Patents, Licences and other rights	Intangible assets under construction	Total
<b>Balance at 1 January 2013</b>	<b>558</b>	<b>26</b>	<b>8</b>	<b>79</b>	<b>671</b>
Additions	186	-	-	57	243
Amortisation	-	(24)	(3)	-	(27)
Foreign exchange translation of foreign operations	(23)	-	-	-	(23)
Impairment	(343)	(1)	-	-	(344)
Transfer	-	50	-	(50)	-
Transfer to property, plant and equipment	-	5	-	(3)	2
<b>Balance at 31 December 2013</b>	<b>378</b>	<b>56</b>	<b>5</b>	<b>83</b>	<b>522</b>
Additions	(4)	-	-	43	39
Amortisation	-	(31)	(2)	-	(33)
Foreign exchange translation of foreign operations	31	-	-	-	31
Impairment	(107)	-	-	-	(107)
Transfer	-	48	1	(49)	-
Reclassification between categories	1	43	2	(46)	-
Transfer to property, plant and equipment	-	3	-	(3)	-
Other	-	-	3	-	3
<b>Balance at 31 December 2014</b>	<b>299</b>	<b>119</b>	<b>9</b>	<b>28</b>	<b>455</b>

At 31 December 2014 INA Group impairment of intangible assets amounts to HRK 107 million, consisting of impairment of dry well costs: Northern Adriatic (IKA SW2, HRK 98 million), Egypt (Disouq HRK 8 million), Syria (Hayan HRK 1 million).

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.

## 15. PROPERTY, PLANT AND EQUIPMENT

### A) BY BUSINESS SEGMENT

INA Group	Oil and gas exploration and production	Refining and marketing	Other	Total
<b>Balance at 1 January 2013</b>				
<b>Cost</b>	34,896	19,516	6,927	61,339
Accumulated depreciation	24,510	13,059	5,054	42,623
<b>Net book value</b>	<b>10,386</b>	<b>6,457</b>	<b>1,873</b>	<b>18,716</b>
<b>Balance at 31 December 2013</b>				
<b>Cost</b>	35,807	19,940	6,987	62,734
Accumulated depreciation	27,216	14,362	5,177	46,755
<b>Net book value</b>	<b>8,591</b>	<b>5,578</b>	<b>1,810</b>	<b>15,979</b>
<b>Balance at 31 December 2014</b>				
<b>Cost</b>	37,062	20,335	7,005	64,402
Accumulated depreciation	29,889	15,262	5,213	50,364
<b>Net book value</b>	<b>7,173</b>	<b>5,073</b>	<b>1,792</b>	<b>14,038</b>
<b>INA, d.d.</b>				
<b>Balance at 1 January 2013</b>				
<b>Cost</b>	34,797	18,873	1,762	55,432
Accumulated depreciation	24,440	12,582	1,347	38,369
<b>Net book value</b>	<b>10,357</b>	<b>6,291</b>	<b>415</b>	<b>17,063</b>
<b>Balance at 31 December 2013</b>				
<b>Cost</b>	35,640	19,320	1,867	56,827
Accumulated depreciation	27,144	13,896	1,447	42,487
<b>Net book value</b>	<b>8,496</b>	<b>5,424</b>	<b>420</b>	<b>14,340</b>
<b>Balance at 31 December 2014</b>				
<b>Cost</b>	37,041	19,781	1,810	58,632
Accumulated depreciation	29,828	14,825	1,415	46,068
<b>Net book value</b>	<b>7,213</b>	<b>4,956</b>	<b>395</b>	<b>12,564</b>

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

## B) BY ASSET TYPE

INA Group	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
<b>Cost</b>							
<b>Balance at 1 January 2013</b>	<b>30,905</b>	<b>11,081</b>	<b>14,996</b>	<b>1,767</b>	<b>41</b>	<b>2,549</b>	<b>61,339</b>
Additions	-	-	-	-	-	1,764	1,764
Change in capitalised decommissioning costs	(52)	-	-	-	-	-	(52)
Foreign exchange translation of foreign operations	(164)	-	-	-	-	-	(164)
Acquisition 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
<b>Balance at 31 December 2013</b>	<b>30,950</b>	<b>11,697</b>	<b>14,776</b>	<b>1,873</b>	<b>39</b>	<b>3,399</b>	<b>62,734</b>
Additions	-	-	-	-	-	1,649	1,649
Change in capitalised decommissioning costs	(173)	-	-	-	-	-	(173)
Foreign exchange translation of foreign operations	499	-	-	-	-	-	499
Assets put in use	910	268	385	69	-	(1,632)	-
Disposals	-	-	-	-	-	-	-
Transfer to intangible assets	-	-	4	-	-	(4)	-
Transfers	13	1	(2)	(12)	-	-	-
Reclassification between categories	45	60	(657)	552	-	-	-
Disposals	(5)	(20)	(91)	(126)	-	(41)	(283)
Currency translation	-	(1)	(28)	3	-	(1)	(27)
Other movements	-	-	5	(2)	-	-	3
<b>Balance at 31 December 2014</b>	<b>32,239</b>	<b>12,005</b>	<b>14,392</b>	<b>2,357</b>	<b>39</b>	<b>3,370</b>	<b>64,402</b>

INA Group	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
<b>Accumulated depreciation</b>							
<b>Balance at 1 January 2013</b>	<b>22,830</b>	<b>7,433</b>	<b>10,656</b>	<b>1,620</b>	<b>33</b>	<b>51</b>	<b>42,623</b>
Charge for the year	1,375	225	536	95	-	-	2,231
Reversal of decommissioning and IAS 36 for a prior year	(8)	(11)	-	(5)	-	-	(24)
Acquisition 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)
<b>Balance at 31 December 2013</b>	<b>25,536</b>	<b>7,967</b>	<b>11,451</b>	<b>1,734</b>	<b>31</b>	<b>36</b>	<b>46,755</b>
Charge for the year	1,316	217	486	78	-	-	2,097
Impairment (net)	1,380	(5)	16	(2)	-	395	1,784
Transfers	7	3	(9)	(1)	-	-	-
Reclassification between categories	(327)	510	(668)	483	(5)	7	-
Disposals	(5)	(18)	(91)	(109)	-	(31)	(254)
Currency translation	-	-	(19)	2	-	-	(17)
Other movements	-	-	-	(1)	-	-	(1)
<b>Balance at 31 December 2014</b>	<b>27,907</b>	<b>8,674</b>	<b>11,166</b>	<b>2,184</b>	<b>26</b>	<b>407</b>	<b>50,364</b>
<b>Carrying amount</b>							
<b>Balance at 31 December 2014</b>	<b>4,332</b>	<b>3,331</b>	<b>3,226</b>	<b>173</b>	<b>13</b>	<b>2,963</b>	<b>14,038</b>
<b>Balance at 31 December 2013</b>	<b>5,414</b>	<b>3,730</b>	<b>3,325</b>	<b>139</b>	<b>8</b>	<b>3,363</b>	<b>15,979</b>



# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

## B) BY ASSET TYPE

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
<b>Cost</b>							
<b>Balance at 1 January 2013</b>	<b>30,905</b>	<b>9,442</b>	<b>11,342</b>	<b>1,172</b>	<b>30</b>	<b>2,541</b>	<b>55,432</b>
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)
<b>Balance at 31 December 2013</b>	<b>30,950</b>	<b>10,033</b>	<b>11,140</b>	<b>1,330</b>	<b>28</b>	<b>3,346</b>	<b>56,827</b>
Additions	-	-	-	-	-	1,578	1,578
Change in capitalised decommissioning costs	(134)	-	-	-	-	-	(134)
Foreign exchange translation of foreign operations	499	-	-	-	-	-	499
Transfer from intangible assets	-	-	3	-	-	(3)	-
Assets put in use	910	269	304	63	-	(1,546)	-
Transfers	13	1	(2)	(12)	-	-	-
Reclassification between categories	46	59	(656)	551	-	-	-
Disposals	(6)	(19)	(63)	(12)	-	(41)	(141)
Other	-	-	5	(2)	-	-	3
<b>Balance at 31 December 2014</b>	<b>32,278</b>	<b>10,343</b>	<b>10,731</b>	<b>1,918</b>	<b>28</b>	<b>3,334</b>	<b>58,632</b>

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
<b>Accumulated depreciation</b>							
<b>Balance at 1 January 2013</b>	<b>22,830</b>	<b>6,126</b>	<b>8,393</b>	<b>941</b>	<b>29</b>	<b>50</b>	<b>38,369</b>
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)
<b>Balance at 31 December 2013</b>	<b>25,536</b>	<b>6,655</b>	<b>9,138</b>	<b>1,095</b>	<b>28</b>	<b>35</b>	<b>42,487</b>
Charge for the year	1,320	183	379	65	-	-	1,947
Impairment (net)	1,380	(7)	(1)	(2)	-	395	1,765
Transfers	7	3	(139)	-	-	129	-
Prior period reclassification	(327)	510	(668)	483	(5)	7	-
Disposals	(5)	(17)	(65)	(11)	-	(31)	(129)
Other	(1)	-	-	(1)	-	-	(2)
<b>Balance at 31 December 2014</b>	<b>27,910</b>	<b>7,327</b>	<b>8,644</b>	<b>1,629</b>	<b>23</b>	<b>535</b>	<b>46,068</b>
<b>Carrying amount</b>							
<b>Balance at 31 December 2014</b>	<b>4,368</b>	<b>3,016</b>	<b>2,087</b>	<b>289</b>	<b>5</b>	<b>2,799</b>	<b>12,564</b>
<b>Balance at 31 December 2013</b>	<b>5,414</b>	<b>3,378</b>	<b>2,002</b>	<b>235</b>	<b>-</b>	<b>3,311</b>	<b>14,340</b>

### I) Oil and gas reserves

The ability of INA Group and INA, d.d. to realise the net book value of oil and gas properties (see b) above) in the future is dependent upon the extent to which commercially recoverable oil and gas reserves are available. During 2014 Exploration and Production segment performed assessment of the quantities of the Company's remaining proved developed oil and gas reserves which were commercially recoverable.

### II) Ownership of land and buildings

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

### III) Collective consumption assets

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

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

The Management Board has assessed the carrying values of its Exploration and Production BD, Refining & Marketing BD and Business Function 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 1,784 million in 2014 (2013: HRK 2,102 million).

- Exploration and Production BD recorded an impairment of property, plant and equipment in amount of HRK 1,380 million in 2014, compared to impairment in amount of HRK 1,340 million in 2013.
- Refinery and Marketing BD recorded an impairment of property, plant and equipment in amount of HRK 385 million in 2014 (HRK 395 million impairment refinery assets under construction and HRK 10 million reversal of retail impairment), compared to impairment in amount of

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

HRK 763 million in 2013 (HRK 738 million impairment of refinery and retail, HRK 25 million impairment refinery assets under construction).

- Business functions BD and others recorded an impairment of property, plant and equipment in amount of HRK 19 million in 2014, compared 2013 when there was no impairment.

Discount rates used in the current assessment in 2014 and for 2013 are assets specific and are as follows:

Exploration and Production	2014	2013
Croatia	9.80%	10.65%
Syria	17.30%	17.50%
Egypt	14.30%	14.50%
Angola	13.30%	14.50%
<b>Refining and Marketing</b>		
Croatia	9.80%	10.55%
Bosnia and Herzegovina	13.30%	12.84%

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 16, and no need for any adjustment to the residual values related to the current or prior periods has been established.

## 16. GOODWILL

	INA Group	
	2014	2013
<b>Cost</b>		
Cost	296	296
Accumulated impairment losses	(113)	(113)
	183	183
<b>Cost</b>		
Balance at the beginning of year	296	296
<b>Balance at the end of year</b>	<b>296</b>	<b>296</b>
<b>Accumulated impairment losses</b>		
Balance at the beginning of year	(113)	(113)
Impairment losses recognised in the year	-	-
<b>Balance at the end of year</b>	<b>(113)</b>	<b>(113)</b>
<b>Net book value</b>	<b>1 January 2014</b>	<b>31 December 2014</b>
Investment of Croscos, d.o.o. in Rotary Zrt. Hungary	183	183
<b>Total</b>	<b>183</b>	<b>183</b>

During 2014 and 2013 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 9.50% per annum (2013: 9.97% per annum)

## 17. INVESTMENTS IN SUBSIDIARIES (IN SEPERATE FINANCIAL STATEMENT OF INA, D.D.)

	INA, d.d.	
	31 December 2014	31 December 2013
Investments in subsidiaries	1,133	1,127
	2014	2013
Investments in subsidiaries at 1 January	1,127	1,161
INTERINA d.o.o. LJUBLJANA -additional capitalization by intragroup loan	14	-
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	(8)	(48)
<b>Total as of 31 December</b>	<b>1,133</b>	<b>1,127</b>

Pursuant to the Sales Contract in 2013, 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. 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.

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.

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

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).

The following impairments were recorded in 2014: Interina d.o.o. Ljubljana, Slovenija – HRK 5.3 million, INA Kosovo, d.o.o. Priština – HRK 1.2 million i INA Crna Gora, d.o.o. – HRK 808 thousand.

The share capital increase of Interina d.o.o. Ljubljana, Slovenia in amount of HRK 13.7 million was performed in 2014 by transferring intercompany receivables to share capital receivables of intercompany loan. The Commercial Court in Ljubljana registered the share capital increase of Interina d.o.o. Ljubljana in amount of EUR 1.8 million on 29 December 2014.

The liquidity proceeding for Interina d.o.o. Skopje, Macedonia was completed in 2014. Commercial Court in Skopje deleted the company from Court Register on 1 July 2014.

INA, d.d. Management Board in the function of Prirodni Plin Assembly adopted the decision on merger of Prirodni Plin d.o.o. in INA d.d. on 7 October 2014. Commercial Court in Zagreb registered the merger of Prirodni Plin d.o.o. to INA d.d. in court register on 3 November 2014.

Upon legal merger balances of Prirodni Plin were transferred at net book values and loss of HRK 3,195 million decreased the retained earnings of INA, d.d.

Legal merger of Prirodni plin to INA, d.d. resulted with reversal of previously impaired receivables and loan in total amount of HRK 3,184 million only on INA d.d. statement of profit or loss (out of which HRK 2,499 million are impaired receivables and amount of HRK 685 million refers to impaired loan).

Upon the consolidation of the Group figures, Prirodni plin merger effect is eliminated in the Group statement of profit or loss, and accordingly Group result for the year is lower in comparison with INA d.d.

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 2014	31 December 2013
<i>Oilfield services</i>				
*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 International d.o.o.	Oilfield services	Bosnia and Herzegovina	100%	100%
Crosco S.A. DE C.V.	Oilfield services	Mexico	99.9%	99.9%
CorteCros d.o.o.	Distribution of anti-corrosion products	Croatia	60%	60%
Mideast Integrated Drilling & Well Services Company LLC	Oilfield services	Oman	49%	49%

The name of subsidiaries	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
<i>Oil exploration and production</i>				
*INA Naftaplin International Exploration and Production Ltd	Oil exploration and production	Guernsey	100%	100%
<i>Tourism</i>				
*Hostin d.o.o. Zagreb	Tourism	Croatia	100%	100%
<i>Ancillary services</i>				
*STSI integrirani tehnički servisi d.o.o.	Technical services	Croatia	100%	100%
*ITR d.o.o.,	Car rental	Croatia	100%	100%
*Top računovodstvo servisi d.o.o.	Accounting services	Croatia	100%	100%
<i>Production and trading</i>				
*INA Maziva d.o.o.	Production and lubricants trading	Croatia	100%	100%
<i>Trading and finance</i>				
*Interina d.o.o.	Foreign trading	Slovenia	100%	100%
*INA BH d.d.	Foreign trading	Bosnia and Herzegovina	100%	100%
*Interina d.o.o. (until July 2014)	Foreign trading	Macedonia	-	100%
*Holdina (Guernsey) Ltd, (in liquidation)	Foreign trading	Guernsey	100%	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. (until November 2014)	Trading	Croatia	-	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%	100%
*Polybit d.o.o. (in liquidation)	Oil production and trading	Croatia	100%	100%
*Croplin d.o.o. (from September 2013)	Production of gas, distribution network of gas fuels	Croatia	100%	100%
*INA Maloprodajni servisi d.o.o. (from April 2013)	Trade agency in the domestic and foreign market	Croatia	100%	100%

At 31 December 2014 and 31 December 2013 Croplin d.o.o. has ownership interest of 9.1% in Energo d.o.o. Rijeka and of 40% in Plinara Istočne Slavonije d.o.o. Vinkovci.



# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

## 18. INVESTMENTS IN ASSOCIATES

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Investments in associates	22	22	22	22
	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>

Name of company	Activity	Proportion of ownership	INA Group		INA, d.d.	
			31 December 2014	31 December 2013	31 December 2014	31 December 2013
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%	-	-	-	-
			<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>

Pursuant to the Sales Contract, for the share of RWE DEA AG company in East Yidma concession, in 2014 INA, d.d. acquired additional 25% equity share in Marina Petroleum Company Egypt which was in ownership of company RWE. INA d.d. recorded the increase in share capital of company RWE in amount of EGP 5.000,00 and became owner of 50% share in Marina Petroleum Company.

Besides investments stated above, the Company also has interests in other entities as follows:

Name of company	Activity	Place of incorporation and operation	INA Group and INA, d.d.	
			31 December 2014	31 December 2013
				22
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	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	50%	25%

\*investments that are joint operations

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

	31 December 2014 Energopetrol
<b>Place of business</b>	<b>Bosnia and Herzegovina</b>
<b>Percentage of interests</b>	<b>33.5%</b>
Current assets	62
Non-current assets	262
Current liabilities	72
Non-current liabilities	542
Operating income	665
Loss for the year	(37)
<b>Total comprehensive loss for the year</b>	<b>(37)</b>
Group' share of loss	-
Group's share of net assets	-
Investments in associates	132
Impairment	(132)
Carrying amount of the interest, net	-
	31 December 2013 Energopetrol
<b>Place of business</b>	<b>Bosnia and Herzegovina</b>
<b>Percentage of interests</b>	<b>33.5%</b>
Current assets	55
Non-current assets	265
Current liabilities	74
Non-current liabilities	478
Operating income	661
Loss for the year	(45)
<b>Total comprehensive loss for the year</b>	<b>(45)</b>
Group' share of loss	-
Group's share of net assets	-
Investments in associates	132
Impairment	(132)
Carrying amount of the interest, net	-

## Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

The following table summarises, in aggregate, the financial information of all non-individually material associates in which Group has interests:

	INA Group and INA, d.d.	
	31 December 2014	31 December 2013
Name of company		
Aggregate carrying amount of the interests in these associates	22	22
The Group's share of profit from interest in non individually material associates	-	2

## 19. OTHER INVESTMENTS

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Deposits	17	25	17	25
Financial assets at fair value through profit or loss	6	6	6	6
Long-term loans to Energopertol	-	138	-	138
Other long-term loans	-	-	-	626
	<b>23</b>	<b>169</b>	<b>23</b>	<b>795</b>

## 20. LONG-TERM RECEIVABLES

INA Group	31 December 2014	31 December 2013
Receivables for apartments sold	94	105
Prepayments for intangible assets	50	64
Prepayments for property, plant and equipment	26	61
Derivative financial instruments	-	3
Other long-term receivables	-	-
	<b>170</b>	<b>233</b>
INA, d.d.	31 December 2014	31 December 2013
Receivables for apartments sold	94	104
Prepayments for intangible assets	50	64
Prepayments for property, plant and equipment	23	60
Long-term receivables from related party	11	11
	<b>178</b>	<b>239</b>

Prior to 1996, the Company had sold apartments it owned to its employees as provided by the laws of the Republic of Croatia. The properties were generally sold on credit, and the related housing receivables are repayable on 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 31). The receivables are secured with mortgage over the sold apartments. The principle is presented in the receivable amounts. The amounts do not include the interest portion.

## 21. AVAILABLE-FOR-SALE ASSETS

Equity instruments available-for-sale			INA Group and INA, d.d.	
Name of the Company	% shareholding held by INA, d.d.	Activity	31 December 2014	31 December 2013
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			76	(56)
			<b>462</b>	<b>330</b>

As discussed in note 39, 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 2014. The net book value of the equity investment in JANAF increased by HRK 144 million compared to the balance as of 31 December 2013 due to increase in the market value of the JANAF shares on the Zagreb Stock Exchange. The market value of the shares (118,855 shares) as of 31 December 2014 amounted to HRK 3,498.98 per share (31 December 2013: HRK 2,290.00 per share). In 2014 the impairment on investment for entity HOC Bjelolasica d.o.o. Ogulin was recorded in amount of HRK 3 million (bankruptcy proceeding for the company has started) as well as impairment of investment for the entity Bina-Fincom d.d. in the amount of HRH 8 million, regarding the net assets of the consolidated financial statements of Bina-Fincom d.d.

## 22. INVENTORIES

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Work in progress	603	875	601	872
Refined products	403	956	347	881
Crude oil	303	436	303	436
Raw material	208	267	153	188
Spare parts, materials and supplies	226	237	78	94
Merchandise	181	61	177	55
Gas inventories	-	387	-	-
	<b>1,924</b>	<b>3,219</b>	<b>1,659</b>	<b>2,526</b>

As of 31 December 2014, inventories were measured at the lower of cost or net realizable value.

## Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

### 23. TRADE RECEIVABLES, NET\*

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Trade receivables	2,916	3,488	2,051	1,820
Impairment of trade receivables	(918)	(924)	(652)	(529)
	<b>1,998</b>	<b>2,564</b>	<b>1,399</b>	<b>1,291</b>

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

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
less 30 days	56	81	32	14
31 - 60 days	31	23	18	15
61+ days	182	122	163	-
	<b>269</b>	<b>226</b>	<b>213</b>	<b>29</b>

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 2014	31 December 2013	31 December 2014	31 December 2013
Balance at beginning of the year	924	769	529	465
Effect of merger of Prirodni plin d.o.o.	-	-	115	-
Impairment losses recognised on receivables	276	381	297	254
Amounts written off as uncollectible	(5)	(53)	(34)	(36)
Reversal of impairment on amounts recovered	(277)	(173)	(255)	(154)
Balance at end of the year	<b>918</b>	<b>924</b>	<b>652</b>	<b>529</b>

The ageing analysis of impaired trade receivables:

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
less than 60 days	-	24	-	-
61-120 days	73	58	72	54
121-180 days	79	58	78	39
181-365 days	137	205	136	139
366+ days	629	579	366	297
	<b>918</b>	<b>924</b>	<b>652</b>	<b>529</b>

Trade receivables, net balance also includes intercompany receivables of HRK 194 million as of 31 December 2014 (2013: HRK 248 million) with related party entities out of INA Group (see note 39).

### 24. OTHER RECEIVABLES

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Foreign concessions receivables	68	60	72	51
Prepayment receivables	56	69	12	21
Tax prepayments	22	260	8	228
Interest receivables	18	18	18	18
Employees receivables	4	5	4	4
Other receivables	13	14	8	8
	<b>181</b>	<b>426</b>	<b>122</b>	<b>330</b>

### 25. OTHER CURRENT ASSET

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Current portion of long terms loans	267	-	857	136
Positive fair value of hedge commodity transactions	56	26	56	26
Short-term loans and deposits	38	87	27	30
Positive fair value of derivatives	23	29	23	29
Derivative contracts	-	2	-	-
Impairment of loans	(103)	-	(175)	(71)
Other	1	-	1	-
	<b>282</b>	<b>144</b>	<b>789</b>	<b>150</b>

### 26. 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 2014	31 December 2013	31 December 2014	31 December 2013
Cash in the bank	421	304	298	184
Deposits until three months	14	64	-	37
Cash on hand	3	4	-	-
Other	29	30	29	31
	<b>467</b>	<b>402</b>	<b>327</b>	<b>252</b>



## Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

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

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Current portion of long-term loans (note 30)	199	299	187	255
Overdrafts and short-term loans	2,631	2,975	2,391	2,764
	<b>2,830</b>	<b>3,274</b>	<b>2,578</b>	<b>3,019</b>
Unsecured bank loans in EUR	1,631	1,132	1,594	1,097
Unsecured bank loans in USD	853	1,684	794	1,651
Unsecured bank loans in HRK	147	159	-	16
	<b>2,631</b>	<b>2,975</b>	<b>2,388</b>	<b>2,764</b>

The most significant short-term loans as at 31 December 2014 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.

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

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Trade payables	1,713	2,841	1,256	2,146
Production and sales and other taxes payable	978	643	924	513
Advance Payments	232	243	22	22
Payroll payables	200	159	151	113
Payroll taxes and contributions	76	77	46	48
Mining fee	52	29	52	29
Negative fair value of hedge commodity transactions	35	54	35	54
Negative fair value of derivatives	20	-	20	-
Embedded derivative financial liabilities	9	7	9	-
Other	6	198	4	197
	<b>3,321</b>	<b>4,251</b>	<b>2,519</b>	<b>3,122</b>

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

Trade payables, net balance also includes intercompany payables of HRK 70 million as of 31 December 2014 (2013: HRK 62 million) with related party entities out of INA Group (see note 39).

### 29. ACCRUALS AND DEFERRED INCOME

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Deferred income from underlifting of gas	47	1	47	1
Accrued interest – long-term loans	27	29	27	29
Accrued expenses	24	72	-	4
Other	16	24	14	6
	<b>114</b>	<b>126</b>	<b>88</b>	<b>40</b>

### 30. LONG-TERM LOANS

Long-term loans are denominated in a variety of foreign currencies and are subject to a range of interest rates. Long-term loans of INA, d.d. are unsecured and the majority of these loans contain financial covenants which are fulfilled. 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:

Purpose of the loan	Loan currency	31 December 2014	31 December 2013
General corporate purpose	USD, EUR	-	1,035
Project financing	USD, EUR	806	1,046
		<b>806</b>	<b>2,081</b>
Due within one year		(187)	(255)
<b>Total long-term loans INA, d.d.</b>		<b>619</b>	<b>1,826</b>
Other long term loans	EUR,USD,HUF,HRK	21	107
		21	107
Due within one year		(12)	(44)
<b>Total long-term loans INA Group</b>		<b>628</b>	<b>1,889</b>

INA Group	Weighted average interest rate		31 December 2014	31 December 2013
	31 December 2014	31 December 2013		
	%	%		
Bank loans in USD	2.30	3.75	496	649
Bank loans in EUR	4.04	4.18	326	1,484
Bank loans in HRK	3.80	5.10	5	6
Bank loans in HUF	-	6.98	-	49
Total			827	2,188
Payable within one year			(199)	(299)
<b>Total long-term loans</b>			<b>628</b>	<b>1,889</b>

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

INA, d.d.	Weighted average interest rate	Weighted average interest rate		
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
	%	%		
Bank loans in USD	2.28	3.80	480	600
Bank loans in EUR	4.04	4.18	326	1,481
Total			806	2,081
Payable within one year			(187)	(255)
<b>Total long-term loans</b>			<b>619</b>	<b>1,826</b>

The maturity of the loans may be summarised as follows:

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Current portion of long-term debt	199	299	187	255
Payable within one to two years	194	294	187	252
Payable within two to three years	187	1,331	186	1,312
Payable within three to four years	124	263	123	262
Payable within four to five years	123	1	123	-
<b>Total</b>	<b>827</b>	<b>2,188</b>	<b>806</b>	<b>2,081</b>

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

	INA Group	INA, d.d.
<b>Balance at 31 December 2013</b>	<b>2,188</b>	<b>2,081</b>
Payable within one year (included within bank loans and overdrafts – note 27)	299	255
Payable after more than one year	1,889	1,826
<b>Balance at 1 January 2014</b>	<b>2,188</b>	<b>2,081</b>
New borrowings raised	2,202	2,202
Amounts repaid	(3,650)	(3,564)
Foreign exchange losses	87	87
<b>Balance at 31 December 2014</b>	<b>827</b>	<b>806</b>
Payable within one year (included within bank loans and overdrafts – note 27)	199	187
Payable after more than one year	628	619

The principal long-term loans outstanding at 31 December 2014 and loans signed during 2014 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. In 2014 amendment agreement was signed by which for the remaining outstanding amount terms are more favourable and maturity was prolonged until 2019.

## 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 with maturity in 2016.

## Compliance with loan agreements

During 2014 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.

## 31. OTHER NON-CURRENT LIABILITIES

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Liabilities to Government for sold apartments	51	57	51	57
Deferred income for sold apartments	8	8	7	8
Liabilities for derivatives financial instruments	5	11	5	-
	<b>64</b>	<b>76</b>	<b>63</b>	<b>65</b>

The long-term payable to the government relates to obligation arising on the sale of housing units to employees under the government program (note 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.

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

## 32. PROVISIONS

INA Group	Environmental provision	Decommissioning charges	Legal claims	Redundancy costs	Unused vacation	Tax obligation claims of Holdina Sarajevo	Provision for employee benefits	Other	Total
<b>Balance at 1 January 2013</b>	<b>309</b>	<b>2,345</b>	<b>62</b>	<b>22</b>	<b>67</b>	<b>23</b>	-	<b>229</b>	<b>3,057</b>
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)
<b>Balance at 31 December 2013</b>	<b>301</b>	<b>2,360</b>	<b>96</b>	<b>42</b>	<b>61</b>	<b>80</b>	<b>45</b>	<b>280</b>	<b>3,265</b>
Charge for the year	19	-	60	126	83	-	42	312	642
Effect of change in estimates	4	(229)	-	-	-	4	-	-	(221)
Interest	8	72	-	-	-	-	-	-	80
Provision utilised during the year	(23)	(5)	(31)	(79)	(60)	(13)	(42)	(108)	(361)
<b>Balance at 31 December 2014</b>	<b>309</b>	<b>2,198</b>	<b>125</b>	<b>89</b>	<b>84</b>	<b>71</b>	<b>45</b>	<b>484</b>	<b>3,405</b>

INA Group	Environmental provision	Decommissioning charges	Legal claims	Redundancy costs	Unused vacation	Provision for employee benefits	Other	Total
<b>Balance at 1 January 2013</b>	<b>295</b>	<b>2,345</b>	<b>42</b>	-	<b>47</b>	-	<b>218</b>	<b>2,947</b>
Charge for the year	10	-	54	31	44	27	88	254
Effect of change in estimates	(16)	(52)	-	-	-	-	-	(68)
Interest	8	68	-	-	-	-	-	76
Provision utilised during the year	(9)	(1)	(15)	-	(47)	-	(40)	(112)
<b>Balance at 31 December 2013</b>	<b>288</b>	<b>2,360</b>	<b>81</b>	<b>31</b>	<b>44</b>	<b>27</b>	<b>266</b>	<b>3,097</b>
Charge for the year	18	-	54	112	45	27	286	542
Effect of change in estimates	4	(174)	-	-	-	-	-	(170)
Interest	8	72	-	-	-	-	-	80
Provision utilised during the year	(23)	(5)	(22)	(67)	(44)	(27)	(90)	(278)
<b>Balance at 31 December 2014</b>	<b>295</b>	<b>2,253</b>	<b>113</b>	<b>76</b>	<b>45</b>	<b>27</b>	<b>462</b>	<b>3,271</b>

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Analysed as:				
Current liabilities	568	511	422	390
Non-current liabilities	2,837	2,754	2,849	2,707
	<b>3,405</b>	<b>3,265</b>	<b>3,271</b>	<b>3,097</b>



# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

## Environmental provision

The environmental provision recorded by INA Group is HRK 309 million on 31 December 2014 (31 December 2013: HRK 301 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.

## Decommissioning charges

The INA Group records provisions after initial recognition for the present value of estimated future costs of abandoning oil and gas production facilities after the end of production. The estimate of provisions is based on the applicable legal regulations, technology and price levels. Decommissioning assets are created in an amount equal to the estimated provision, which is also amortized as part of the capital asset costs. Any change to the present value of the estimated costs is reflected as an adjustment of the provisions and the decommissioning assets.

As of 31 December 2014, the Company recognised a decommissioning provision for 57 oil and gas production fields, 2 non-production fields, 8 positive non-production wells and 144 negative non-production wells. 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.

## Legal case

Provisions for legal claims are based on the advice of the legal counsel, taking into consideration claim value and probability of outflow of resources that will be required to settle the obligation.

## Redundancy cost

Provisions for redundancy are recorded based on Management Decision on Redundancy for the termination of employment in order to decrease the number of employees due to economic, technical and organizational reasons.

## Unused holiday

Provisions for unused holiday is determined based on actual data (number of employees, unused days, payroll) taken into calculation.

Provision for employee benefits

Provisions for employee benefits refer to the calculation of estimated value of the future reimbursements, which are paid off to the employees as benefits for a certain time spent in INA Group companies.

## Other provision

Other provisions of HRK 222 million relate to provision for contractual liability for investments in Iran initially recognized in 2012. INA d.d. is committed to spend certain resources by Production Agreement. Since Iran activities have been discontinued, the difference between Contractual liability and actual spent funds was recognized as provisions. Remaining amount mainly relates to provision for oil profit tax in Angola in the amount of HRK 163 million and provision for workers incentives in the amount of HRK 42 million.

## 33. 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 20,000 of which HRK 12,000 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 re-

spective 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 2014 by independent actuarial expert. In 2014, the Company made a provision of HRK 60 million in respect of jubilee awards and HRK 76 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.

Actuarial estimates were derived based on the following key assumptions:

	Valuation at	
	31 December 2014	31 December 2013
Discount rate	3.7%	5.4%
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 2014	31 December 2013	31 December 2014	31 December 2013
<b>Service cost:</b>				
Cost of current period	14	7	8	4
Interest	9	5	7	4
Past service cost, including losses/(gains) on curtailments	23	(4)	16	(4)
<b>Components of defined benefit costs recognized in profit and loss:</b>	<b>46</b>	<b>8</b>	<b>31</b>	<b>4</b>
<b>Remeasurement of the net defined benefit liability:</b>				
Actuarial gains and losses arising from changes in demographic assumptions	-	20	-	20
Actuarial gains and losses arising from changes in financial assumptions	13	(8)	11	(7)
Actuarial gains and losses arising from experience adjustments	(10)	12	(4)	10
Components of defined benefit costs recognised in profit and loss account and other comprehensive income:	3	24	7	23
<b>Total</b>	<b>49</b>	<b>32</b>	<b>38</b>	<b>27</b>

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

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

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Present value of defined benefit obligations	184	146	136	105
Liability recognised in the balance sheet	<b>184</b>	<b>146</b>	<b>136</b>	<b>105</b>
This amount is presented in the balance sheet as follows:				
Current liabilities	12	11	8	7
Non-current liabilities	172	135	128	98
	<b>184</b>	<b>146</b>	<b>136</b>	<b>105</b>

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

	INA Group		INA, d.d.	
	2014	2013	2014	2013
At 1 January	146	110	105	73
Past service cost recognised in other comprehensive income	-	13	-	11
Cost of current period	14	7	8	4
Interest	9	5	7	4
Actuarial (gains) or losses				
Actuarial gains and losses arising from changes in demographic assumptions	-	20	-	20
Actuarial gains and losses arising from changes in financial assumptions	13	(8)	11	(7)
Actuarial gains and losses arising from experience adjustments	(10)	12	(4)	10
Past service cost, including losses/(gains) on curtailments	23	(4)	16	(4)
Benefit paid	(11)	(9)	(7)	(6)
<b>Closing defined benefit obligation</b>	<b>184</b>	<b>146</b>	<b>136</b>	<b>105</b>

## 34. SHARE CAPITAL

	INA Group and INA, d.d.	
	31 December 2014	31 December 2013
Issued and fully paid:		
10 million shares (HRK 900 each)	<b>9,000</b>	<b>9,000</b>

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.

## 35. REVALUATION RESERVES

	INA Group and INA, d.d.	
	31 December 2014	31 December 2013
Balance at beginning of year	6	13
Increase/(decrease) arising on revaluation of available-for-sale securities (Janaf)	144	(9)
Deferred tax effect	(29)	2
<b>Balance at the end of year</b>	<b>121</b>	<b>6</b>

In 2013 the price of the JANAF shares on the stock exchange fell, and the surplus previously credited to the revaluation reserves was reduced. In 2014 there was a significant increase in the value of JANAF on the stock market; therefore an increase value of adjustments has been recorded in the revaluation reserve.

## 36. OTHER RESERVES

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

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

Movements on reserves during the year were as follows:

## Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

INA Group	Combined reserves at 31 December 1993	Foreign currency translation reserves	Other reserves	Total
<b>Balance at 1 January 2013</b>	<b>2,132</b>	<b>(74)</b>	<b>447</b>	<b>2,505</b>
Movements during 31 December 2013	-	(221)	-	(221)
<b>Balance at 31 December 2013</b>	<b>2,132</b>	<b>(295)</b>	<b>447</b>	<b>2,284</b>
Movements during 31 December 2014	-	567	-	567
<b>Balance at 31 December 2014</b>	<b>2,132</b>	<b>272</b>	<b>447</b>	<b>2,851</b>
<b>INA, d.d.</b>				
Balance at 31 December 2014	1,667	415	447	2,529
Balance at 31 December 2013	1,667	(181)	447	1,933

## 37. RETAINED EARNINGS

	INA Group	INA, d.d.
	Retained earnings	Retained earnings
<b>Balance at 1 January 2013</b>	<b>3,437</b>	<b>4,366</b>
Profit for the year	(1,508)	(1,633)
Effect of purchase of non - controlling interest	(343)	(343)
<b>Balance at 31 December 2013</b>	<b>1,586</b>	<b>2,390</b>
Loss for the year	(1,897)	631
Loss brought forward from merger of Prirodni plin	-	(3,195)
<b>Balance at 31 December 2014</b>	<b>(311)</b>	<b>(174)</b>

## 38. NON-CONTROLLING INTEREST

	INA Group	
	31 December 2014	31 December 2013
Balance at beginning of year	(1)	(1)
Share of profit for the year	-	-
<b>Balance at end of year</b>	<b>(1)</b>	<b>(1)</b>

## 39. RELATED PARTY TRANSACTIONS

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

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

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

INA Group	Sales of goods		Purchase of goods	
	2014	2013	2014	2013
<b>Companies available-for-sale</b>				
JANAF d.d. Zagreb	3	3	29	86
<b>Strategic partner</b>				
MOL Nyrt.	649	427	756	936
<b>Companies controlled by strategic partner</b>				
Tifon d.o.o.	733	835	28	43
Energopetrol d.d.	341	370	-	1
Kalegran Ltd.	135	129	3	3
MOL Commodity Trading Kft.	109	115	5	-
MOL SLOVENIJA d.o.o.	92	41	81	85
Slovnaft, a.s.	26	101	123	82
TVK Ingtatlankezelő Kft.	10	-	-	-

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 2014	31 December 2013	31 December 2014	31 December 2013
<b>Companies available-for-sale</b>				
JANAF d.d. Zagreb	-	1	-	46
<b>Strategic partner</b>				
MOL Nyrt.	77	83	56	43
<b>Companies controlled by strategic partner</b>				
Tifon d.o.o.	51	36	1	2
Energopetrol d.d.	41	50	-	-
Kalegran Ltd.	22	31	-	-
MOL SLOVENIJA d.o.o.	3	4	7	9
Slovnaft, a.s.	-	44	6	8



# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

Loan to and from related parties:

INA Group	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Companies controlled by strategic partner				
Energopetrol d.d.	267	237	-	-
MOL Group Finance SA	-	-	-	611

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

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

INA Group	Sales of goods		Purchase of goods	
	2014	2013	2014	2013
<b>Related companies</b>				
Prirodni plin d.o.o. Zagreb (until November 2014)	3,523	4,541	568	722
Holdina Sarajevo	2,426	2,521	-	-
Osijek Petrol d.d.	92	102	-	-
INA Crna Gora d.o.o. Podgorica	88	80	-	-
STSI d.o.o. Zagreb	25	28	617	552
Crosco d.o.o.	21	12	353	284
Interina d.o.o. Ljubljana	13	16	-	-
INA Maziva d.o.o.	4	20	56	61
TOP Računovodstvo Servisi d.o.o.	7	8	48	50
ITR d.o.o. Zagreb	1	1	5	21
<b>Companies available-for-sale</b>				
JANAF d.d. Zagreb	3	3	28	86
<b>Strategic partner</b>				
MOL Nyrt.	464	159	539	599
<b>Companies controlled by strategic partner</b>				
Tifon d.o.o.	731	833	28	43
MOL Commodity Trading Kft	109	115	5	-
MOL SLOVENIJA d.o.o.	89	39	-	-
Slovnaft, a.s.	26	101	123	82
Energopetrol d.d.	22	20	-	1
TVK Ingotlankezele Ktt.	10	-	-	-

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

INA Group	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
<b>Subsidiaries</b>				
Holdina Sarajevo	128	227	34	21
Osijek Petrol d.d.	14	15	1	1
STSI d.o.o. Zagreb	8	6	233	196
INA Beograd d.o.o. Beograd	8	7	-	-
INA Crna Gora d.o.o. Podgorica	7	6	-	1
Crosco d.o.o.	5	2	88	101
Interina d.o.o. Ljubljana	1	2	-	-
TOP Računovodstvo Servisi d.o.o.	1	2	3	-
INA Maziva d.o.o.	1	1	6	7
Prirodni plin d.o.o. Zagreb (until november 2014)	-	3,531	-	105
ITR d.o.o. Zagreb	-	-	-	4
<b>Companies available-for-sale</b>				
JANAF d.d. Zagreb	1	-	-	46
<b>Strategic partner</b>				
MOL Nyrt.	43	38	47	34
<b>Companies controlled by strategic partner</b>				
Tifon d.o.o.	51	36	1	2
MOL SLOVENIJA d.o.o.	3	4	-	-
Energopetrol d.d.	1	1	-	-
Slovnaft, a.s.	-	44	6	8

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

In 2014 INA, d.d. recognised impairment on receivables from related parties in the amount of HRK 2 million, while income from collection of impaired receivables from related parties amounted to HRK 2,075 million.

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

Loan to and from related parties:

INA Group	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
<b>Related companies</b>				
Crosco d.o.o.	461	626	-	-
Osijek Petrol d.d.	90	81	-	-
INA BH d.d. Sarajevo	33	29	-	-
INA Crna Gora d.o.o. Podgorica	22	23	-	-
Interina d.o.o. Ljubljana	16	21	-	-
Prirodni plin d.o.o. (until November 2014)	-	555	-	-
ITR	-	12	-	-
INA Maziva d.o.o.	-	-	61	45
Adrigas Milano	-	-	8	8
Hostin d.o.o.	-	-	7	5
Polybit	-	-	2	2
STSI d.o.o. Zagreb	-	-	-	73
<b>Companies controlled by strategic partner</b>				
Energopetrol d.d.	267	237	-	-
MOL Group Finance SA	-	-	-	611

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.

#### 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 2014	31 December 2013
Short-term employee benefits	42.1	44.7
Termination bonuses	1.0	2.6
<b>Total</b>	<b>43.1</b>	<b>47.3</b>

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.

#### Other related party transactions

The Company remains the customer of company JANAF d.d., in which it has a holding of 11.795% (Note 21). During 2014, approximately HRK 29 million of JANAF's total revenue in the amount of HRK 446 million account for sales revenue in respect of INA, d.d. as user of the pipeline system of JANAF d.d. (2013: HRK 86 million out of HRK 452 million total revenue).

## 40. COMMITMENTS

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

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

#### 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%.

On the North Adriatic Area (3 development concession) are in total 18 production platforms and 1 compressor platforms, with a total of 46 production wells.

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. Following completion of negotiations between INA, d.d. and Edison and signing of all necessary Contracts and Procedures, production started on Izabela gas field at the beginning of July 2014. INA's share of gas from Izabela field by the end of 2014 amounts 54.872.120 Sm<sup>3</sup>, which is 43% of total gas delivered from Izabela field on Ivana K platform.

On 31 December 2014 INAgip had in both contract areas 194 active contracts amounting in total to HRK 731.72 million. The remaining commitments under these contracts on 31 December 2014 amounted to HRK 233.1 million.

For the need of the development of the Izabela gas field from 1 January 2008 until 31 December 2014, ED-INA has concluded 93 (35 are still active) contracts amounting in total to EUR 141 million from which EUR 139.8 million has been carried out on 31 December 2014.

#### "Take or pay" contract

On 1 October 2014 additional the contract with MET International AG was signed regarding natural gas import valid until 30 September 2015. As of 31 December 2014 future obligations in total amount HRK 22.8 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 amount to approximately HRK 221 million in total.

#### Operating leases

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

Minimum lease payments under non-cancellable operating leases are as follows:

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
within 1 year	55	59	44	40
between 2-5 years	78	74	59	74
beyond 5 years	-	-	-	-
	<b>133</b>	<b>133</b>	<b>103</b>	<b>114</b>

Out of the outstanding operating lease liabilities as of 31 December 2014 HRK 103 million were contracted by INA, d.d. and HRK 25 million were contracted by Rotary Zrt.

## 41. 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. The environmental effects are monitored by local and national governmental environmental authorities. For all the stated release into the environment, the Company and Group, in accordance with the principle of "polluter pays" bear the costs caused by pollution. The costs include costs connected with environmental pollution, costs of environmental monitoring and the application of established measures and costs of taking measures to prevent environmental pollution, regardless of whether these costs are incurred as a result of the prescribed liability for environmental pollution, the release of emissions into the environment or as a fee established under appropriate financial instruments, or an obligation prescribed by regulation.

#### *Harmonization of INA's operations with the Industrial Emission Directive (IED)*

Directive 2010/75/EU on industrial emissions (integrated pollution prevention and control) combines legislation concerning environmental protection for industrial plants in one single document and completely replaces the IPPC Directive from 7 January 2014. Industrial Emissions Directive regulates the issue of environmental permits by which plant working conditions are determined and requires the application of best available techniques (BAT) by which a high level of environmental protection in general is achieved (an integrated approach for prevention and control of emissions to air, water and soil, in waste management, in energy efficiency and accident prevention).

In order to align the existing technology with the best available techniques, INA, d.d. has initiated several projects that are in various stages of implementation. Since alignment with BAT requires time and considerable financial investments, INA, d.d. in Croatia pre-accession negotiations with the EU obtained for its refineries in Sisak and Rijeka a transition period to achieve full compliance by 31 December 2017.

During 2014 INA obtained Decisions on integrated environmental protection (environmental permits) for its four plants: Fractionation Facilities Ivanić grad, Gas Processing Facilities Molve, Sisak Refinery and Rijeka Refinery.

In October 2014 in the Official Journal of the EU, a new Commission Implementing Decision establishing best available techniques (BAT) conclusions for the refining of mineral oil and gas (2014/738/EU), under Directive 2010/75/EU on industrial emissions. These BAT conclusions are a key element of refinery reference document on BAT (REF BREF, Refinery Best Available Technique Reference Document) which, among other things, prescribes the ranges of emission limit values that can be achieved by using the best available techniques as well as requirements for emission monitoring and are a reference for determining the conditions of the environmental permit. In these conclusions as one of the best available techniques for integrated emission management of SO<sub>x</sub> and / or NO<sub>x</sub> it is recognized so called "bubble" concept. Bubble is especially suitable for oil refining sites because it allows refineries to treat all their stacks as they are enclosed by a giant bubble, which provides flexibility in choosing which unit shall be upgraded based on the lowest cost, so long as overall resulting emissions are equal to or lower than emissions that would be achieved through a unit-by-unit application of the individual BAT-AELs.

The new Regulation on environmental permit (OG 08/14), which entered into force at the end of January 2014, a list of activities for which it is mandatory to obtain the environmental permit has been extended so INA Maziva d.o.o. are now also obliged to obtain the environmental permit (temporary storage of hazardous waste in storage capacities of more than 50 tons).

#### *Harmonization of INA's operations with the greenhouse gas emission (GHG) legislation*

European Union Emissions Trading Scheme, EU ETS, is one of the fundamental mechanisms of the European Union in the fight against climate change with a view to meeting the commitments made under the Kyoto Protocol. Inside the Scheme, a part of the emission allowances (one allowance = 1 tonne of CO<sub>2</sub>) are allocated to installations for free and they are used to "cover" the emissions from the previous year. If the installation has a shortage of allowances in respect to verified emissions, the rest must be bought on the market through auctioning.

From 1 January 2013 Rijeka Refinery, Sisak Refinery, Fractionation Facilities Ivanić Grad and Gas Processing Facilities Molve are a part of the ETS. All four INA's ETS installations have open Operator Holding Account in the Union Registry. Verified Annual Greenhouse Gas Report had been submitted to Croatian Environment Agency on time, until 31 March 2014, verifier then entered verified emissions into the Registry and emission allowances had been surrendered in amount equal to verified emissions until 30 April 2014.

#### *Harmonization of INA's operations with the air protection legislation*

From 1 January 2016 existing plants have to comply with more stringent emission limit values (ELV), as stipulated by Industrial Emissions Directive (IED). The provisions of 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, OG 90/14). To achieve the prescribed emission limit values, IED provides a possibility to use the exemption for existing plants and one of them is the inclusion in the Transitional National Plan (TNP), in addition to meeting certain conditions. Sisak and Rijeka Refineries have submitted an application for inclusion of its existing large combustion plants in the TNP, which was approved by the European Commission during 2014.

By inclusion in the TNP, facilities are given the possibility of gradual emission reduction of one or more pollutants (nitrogen oxides, sulphur dioxide and particulate matter) through the period of 1 January 2016 to 30 June 2020 for the realization of investments and measures for emission reduction which ensure compliance with more stringent ELVs.

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. In the next three years it is planned HRK 428.5 million for full compliance with the technical environmental standards for VOC's.

#### *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 2014, INA, d.d. made environmental provisions in the amount of HRK 295 million, whereas the provisions at the Group level amounted to HRK 309 million. Contingencies at the INA Group and INA, d.d. levels were estimated at HRK 635 million and HRK 423 million, respectively. The estimates were not recognised because the timing of the event is uncertain and there is no evidence of pollution.

### EMISSION ALLOWANCES

Under European Union Emission Trading Scheme, INA, d.d. companies receive a certain amount of emission allowances for free. The allowances are received on an annual basis, and in return, INA, d.d. is required to surrender allowances equal to its actual verified emissions. The number of emission allowances allocated for free is calculated using European Commission filled in by installations, and submitted to Ministry of Environmental and Nature protection by 31 December of the current year for that year.

INA, d.d. has adopted the net liability approach to the emission allowances granted. Therefore, a provision is recognised only when actual emissions exceed the allocated emission allowances. Provision recorded for exceeding amount of emission rights granted should be charged with purchased rights. The emission costs are recognised as other operating costs. Detail explanation on the accounting and provision calculation is regulated by internal Regulation on greenhouse gas and emission allowances management in INA, d.d.

Free Emission allowances are granted with respect to one year period and are distributed by competent authority.

### LITIGATION

#### *GWDF Partnership München and GWDF Limited Cyprus*

GWDF claims compensation for damage incurred due to loss of rights resulting from the Joint Venture Agreement concluded with the company Saknavtobi, which allegedly occurred through defendant's conduct, i.e. due to its withdrawal from negotiations whereby it should have become a party in the joint business venture.

In the hearing held on 8 February 2011, after the parties repeated their standpoints, the court decided to request from to request from the German Republic and the Republic of Cyprus by diplomatic ways the text of the law relevant from making decisions in this case.

We believe that the court has most probably still not investigated the quite unusual procedural situation in the case and that it still does not have a clear standpoint regarding the direction in which the case should be conducted, which is why it has decided to first gather all relevant laws and then to pass further decisions.

After more than three years, a hearing was held on 11 September, 2014 with a new judge, but still no decision was made on relevant law.

The situation of INA, d.d. has not changed even after the hearing of 11 September, 2014, while the delivery of relevant law has still not been resolved. The evidence processed so far has not significantly changed the position of the parties in relation to what it was at the beginning of the dispute, while the heard witnesses primarily gave statements on the capacity to sue. After a long period of inactivity, the case was assigned to a new judge, who held the afore-stated hearing. Despite the hearing, no decision was made on relevant law and no significant progress was made in the case concerned. Thus, INA's position has remained unchanged.

Since pre-contractual liability for damage (culpa in contrahendo) is very differently regulated in German and Croatian law, the choice of relevant law will directly affect the outcome of the dispute. Since the witnesses have not been heard on the merits of the case, its outcome is at the moment completely uncertain. Therefore, no provision is required for this matter.

#### *OTF*

OTF is seeking actual damages and lost profit in amount of HRK 66 million due to non-compliance with i.e. breach of the provisions of the LSTK Sulphur Recovery Unit (Claus unit) Construction Agreement for the Rijeka Refinery and due to unpaid amounts under the invoiced change orders. Management believes, based on legal advice, that potential loss in relation to OTF case is up to HRK 23 million as of 31 December 2014 and for that amount provision is recognized.

OTF also deems that INA has illegally collected a bank guarantee equalling 15% of the stipulated price, so it is seeking reimbursement of that amount as well.

The plaintiff initiated arbitral proceedings by filing a statement of claim to the Permanent Arbitration Court at the Croatian Chamber of Economy on 23 July 2013, which INA received on 27 August 2013.

The outcome of the dispute is uncertain. Considering the progress of the hearings, expert reports and witness statements, it can be expected



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For the year ended 31 December 2014 (all amounts are presented in HRK millions)

that OTF will be rejected with more than 50% of the litigation claim. However, the outcome of arbitration is also uncertain because it is not probable that the litigation claim will be fully dismissed or adopted. Namely, the claim contains several requests, and in many of them there are elements of divided liability of INA and OTF. Moreover, success in the dispute also depends on the manner in which the court will apply substantive law, which has not been suggested in any way by the Tribunal.

## 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, d.d. is also objecting in relation to the plaintiff's capacity to sue.

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 2014.

Supreme Court has not decided on review to this date, so legal actions were not taken during 2014.

## 42. 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 27 and 30 offset by cash and bank balances (so called net debt) and shareholder equity comprising of issued capital, reserves, retained earnings and non-controlling interests as detailed in notes 34 to 38.

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 2014	31 December 2013	31 December 2014	31 December 2013
<b>Debt:</b>	<b>3,458</b>	<b>5,163</b>	<b>3,197</b>	<b>4,845</b>
Long term loans	628	1,889	619	1,826
Short term loans	2,631	2,975	2,391	2,764
Current portion of long-term borrowings	199	299	187	255
Cash and cash equivalents	(467)	(402)	(327)	(252)
<b>Net debt</b>	<b>2,991</b>	<b>4,761</b>	<b>2,870</b>	<b>4,593</b>
Equity	11,660	12,875	11,476	13,329
Equity and net debt	14,651	17,636	14,346	17,922
<b>Gearing ratio</b>	<b>20%</b>	<b>27%</b>	<b>20%</b>	<b>26%</b>

Debt is defined as long-term and short-term borrowings and credit lines (excluding derivatives and financial guarantee contracts), as described in notes 27 and 30.

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

### Categories of financial instruments

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
<b>Financial assets</b>				
Cash and cash equivalents	467	402	327	252
Loans and receivables	2,549	3,756	3,564	4,200
Available-for-sale financial assets	462	330	462	330
Positive fair value of hedge commodity transactions	56	26	56	26
Positive fair value of derivatives	23	29	23	29
Financial assets designated as at fair value through profit and loss	6	6	6	6
Embedded derivative financial instruments	-	5	-	-
<b>Financial liabilities</b>				
Loans and borrowings	3,459	5,164	3,640	5,414
Trade payables	1,713	2,841	1,256	2,146
Negative fair value of hedge commodity transactions	35	54	35	54
Negative fair value of derivatives	20	-	20	-
Embedded derivative financial instruments	14	18	14	-

### 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.

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

## 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. Out of gas quantities imported in 2014, INA Group imported gas mostly in EUR based on spot prices, while only smaller portion was imported in USD based on fixed prices.

In addition to exploration and production, and refinery operations, one of the main core activities of INA, d.d. are marketing and sale of refinery products and natural gas. Prices of crude products were determined in accordance with the Highest Retail Refined Product Pricing Regulation until it was repealed, after which prices were determined weekly based on market principles, which enables quicker responses to market prices fluctuations.

In accordance with The Risk Management and Hedging Policy for INA Group, for the purpose of hedging financial risk exposure on corporate and business segments level, INA, d.d. may use forward (swap) and option instruments. In 2014 INA, d.d. entered into short-term forward 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 qualify for hedge accounting treatment under IFRS in case of matching the pricing period of purchased crude oil and crude products with the crude oil processing and refinery product retail pricing periods.

At 31 December 2014 fair value of hedged items under commodity derivative transaction designated as fair value hedge was a net receivable of HRK 56 million and net payable of HRK 35 million. The corresponding figures at 31 December 2013 were HRK 26 million receivable and HRK 54 million payable (see Note 25).

### Foreign currency risk management

As INA Group operates both in Croatia and abroad, many of its transactions are denominated and executed in foreign currencies, hence INA, d.d. is exposed to exchange rate risks.

INA Group has a net long USD and EUR, and a net short HRK operating cash flow position. Generally, 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.

INA, d.d. may use a cross-currency swap to adjust its currency mix in the debt portfolio. At 31 December 2014 there were no outstanding cross-currency transactions.

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 2014	31 December 2013	31 December 2014	31 December 2013
Currency EUR	2,246	2,298	268	219
Currency USD	2,145	3,697	1,124	1,280
	<b>4,391</b>	<b>5,995</b>	<b>1,392</b>	<b>1,499</b>
<b>INA, d.d.</b>				
Currency EUR	2,065	2,831	546	633
Currency USD	1,974	3,387	1,339	1,745
	<b>4,039</b>	<b>6,218</b>	<b>1,885</b>	<b>2,378</b>

### Foreign currency sensitivity analysis

INA Group is mainly exposed to the currency risk related to change of HRK 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 HRK against EUR, as a part of its debt portfolio is denominated in EUR.

The following table details the Company's sensitivity to a 10% weakening in HRK in 2014 (in 2013: 10%) against the relevant foreign currencies. The sensitivity rates used represent management's assessment of the usual change in foreign exchange rates. The sensitivity analysis includes monetary assets and liabilities in foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a change in foreign currency rates expressed as percentage. A negative number

below indicates a decrease in profit where HRK changes against the relevant currency by the percentage specified above. For the same change of HRK versus the relevant currency in the opposite direction, there would be an equal and opposite impact on the profit.

INA Group	Currency USD Impact		Currency EUR Impact	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Loss	(102)	(242)	(198)	(208)
	(102)	(242)	(198)	(208)
<b>INA, d.d.</b>				
Loss	(63)	(164)	(152)	(220)
	(63)	(164)	(152)	(220)

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 favourable.

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 2014 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 2014	31 December 2013	31 December 2014	31 December 2013
Short-term interest expense change	54	59	49	55
Long-term interest expense change	13	39	12	37
<b>Total change:</b>	<b>67</b>	<b>98</b>	<b>61</b>	<b>92</b>

If interest rates would be 200 basis points higher, the profit of the INA Group as of 31 December 2014 would be decreased by HRK 67 million, while with a change of 50 basis points the decrease would amount to HRK 17 million, (2013: decrease by HRK 98 million had the interest rates been 200 basis points higher, and by HRK 25 million had the interest rates been 50 basis points higher), and in 2014 the profit of the INA, d.d. would decrease by HRK 61 million if interest rates had been 200 basis points higher, while the decrease would amount to HRK 15 million with a change of 50 basis points (2013: decrease by HRK 92 million had the interest rates been 200 basis points higher, and by HRK 23 million had the interest rates been 50 basis points higher). Equivalent decrease of interest rates would result in an increased profit in equal amounts.

### 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.

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

## 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 2014 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 41.5 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.

## 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 Customer Credit 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 risk groups is derived from the official financial statements and is 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.

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. Regarding 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 insurance of receivables is used as well, 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 2014 INA Group had contracted short term bank credit lines amounting to HRK 1.88 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 5.35 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 2014 INA Group had contracted short term credit facilities for financing crude oil and oil products purchase amounting to USD 1.26 billion. (2013: USD 1,186 million).

For details of the main external sources of funding for INA Group see Note 27 and 30.

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

## 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 1 month	1 - 12 months	1 - 5 years	5+ years	Total
<b>31 December 2014</b>					
Non-interest bearing	1,793	594	37	21	2,445
Interest bearing	2,392	483	688	-	3,563
	<b>4,185</b>	<b>1,077</b>	<b>725</b>	<b>21</b>	<b>6,008</b>
<b>31 December 2013</b>					
Non-interest bearing	2,503	1,164	38	28	3,733
Interest bearing	2,357	1,014	2,009	-	5,380
	<b>4,860</b>	<b>2,178</b>	<b>2,047</b>	<b>28</b>	<b>9,113</b>
<b>INA, d.d.</b>					
<b>31 December 2014</b>					
Non-interest bearing	1,541	458	34	22	2,055
Interest bearing	2,390	308	678	-	3,376
	3,931	766	712	22	5,431
<b>31 December 2013</b>					
Non-interest bearing	2,024	1,021	29	29	3,103
Interest bearing	2,364	878	1,942	-	5,184
	<b>4,388</b>	<b>1,899</b>	<b>1,971</b>	<b>29</b>	<b>8,287</b>

Non-interest bearing liabilities of INA, d.d. due in a period of less than one month consist mainly of trade accounts payable in the amount of HRK 1,355 million in 2014 (2013: HRK 1,866 million).

Included in non-interest bearing liabilities of INA, d.d. due in a period of over five years are, liabilities to Government for sold flats and deferred income for sold flats.

Interest bearing liabilities include short-term and long-term borrowings.

## Fair value of financial instruments

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

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

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



# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

## 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).

INA GROUP	31 December 2014			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Financial assets available-for-sale*	416	-	-	416
Positive fair value of hedge commodity transactions	-	56	-	56
Positive fair value of derivatives	-	23	-	23
<b>Financial liabilities at fair value</b>				
Negative fair value of hedge commodity transactions	-	35	-	35
Negative fair value of derivatives	-	20	-	20
Embedded derivative financial liabilities	-	14	-	14
	31 December 2013			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Financial assets available-for-sale*	272	-	-	272
Positive fair value of derivatives	-	29	-	29
Positive fair value of hedge commodity transactions	-	26	-	26
Embedded derivative financial assets	-	5	-	5
<b>Financial liabilities at fair value</b>				
Negative fair value of hedge commodity transactions	-	54	-	54
Embedded derivative financial liabilities	-	18	-	18

INA GROUP	31 December 2014			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Financial assets available-for-sale*	416	-	-	416
Positive fair value of hedge commodity transactions	-	56	-	56
Positive fair value of derivatives	-	23	-	23
<b>Financial liabilities at fair value</b>				
Negative fair value of hedge commodity transactions	-	35	-	35
Negative fair value of derivatives	-	20	-	20
Embedded derivative financial liabilities	-	14	-	14
	31 December 2013			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Financial assets available-for-sale*	272	-	-	272
Positive fair value of derivatives	-	29	-	29
Positive fair value of hedge commodity transactions	-	26	-	26
<b>Financial liabilities at fair value</b>				
Negative fair value of hedge commodity transactions	-	54	-	54

\* only assets available-for-sale at fair value are presented in tables above, the remaining equity instruments classified as available-for-sale in total amount of HRK 46 million are measured at cost (2013: HRK 58 million) and therefore not included in tables above-

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

### (a) Financial instruments in level 1

The fair value of financial instruments included in Level 1 comprise JANAF shares equity investments classified as 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.

# Notes to the financial statements

For the year ended 31 December 2014 (all amounts are presented in HRK millions)

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

Managements consider that the carrying amounts of financial assets and financial liabilities recognised in the 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		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Fair value at 1 January	(13)	(33)	-	-
Financial loss relating to the net change in fair value in the year	(1)	20	(14)	-
<b>Fair value at 31 December</b>	<b>(14)</b>	<b>(13)</b>	<b>(14)</b>	-
Analysed as:				
Current portion	(9)	(5)	(9)	-
Non-current portion	(5)	(8)	(5)	-
	<b>(14)</b>	<b>(13)</b>	<b>(14)</b>	-

## 43. SUBSEQUENT EVENTS

### Tax Inspection for the financial years 2010 and 2011

INA, d.d. received the Tax Resolution from the Ministry of Finance, Tax Authorities on 30 December 2014 following the tax inspection covering value-added tax and corporate income tax for the years 2010 and 2011. The additional tax liability and penalty interest determined by the Tax Resolution amounted to approximately HRK 319 million.

INA, d.d. has filed the Appeal against the Tax Resolution on 29 January 2015 within the prescribed deadline. On 6 February 2015 the Tax Authorities issued the Resolution on dismissal of INA d.d.'s appeal to the Tax Resolution as untimely due to procedural error. Consequently, INA, d.d. settled the tax and penalty interest liability determined in the Tax Resolution as at 10 February 2015. INA d.d. will file an Appeal to the Resolution on dismissal of the Appeal and shall undertake all available legal action in order to dispute the Resolution on untimely submission of Appeal. Since this subsequent event is considering event that requests the adjusting after the balance sheet date INA, d.d. recorded a liability at 31 December 2014 of HRK 325 million.

### Decision by the High Administrative Court

INA-Industrija nafte, d.d. received the verdict by the High Administrative Court accepting INA's lawsuit and annulling the Resolution of the Ministry of Economy, Labour and Entrepreneurship from 29 July 2011, which has revoked INA's license for mineral resources exploration in the exploration area "Drava".

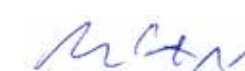
Although the exploration license has once again become valid with this verdict, deadline for exploration activities expired at the end of 2014 and there is also a significant overlap of concession area "Drava" with the blocks currently involved in the Croatian onshore exploration bid round. Therefore prior to starting any exploration process INA, d.d. will request for the prolongation of the exploration license validity for the period from the revocation of the license until reaching a verdict by the Republic of Croatia High Administrative Court.

## 44. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 18 March 2015.

Signed on behalf of the Company on 18 March 2015 by:

András Huszár  
Executive Director for Finance



Zoltán Sándor Ádott  
President of the Management Board

