INA - INDUSTRIJA NAFTE, d.d.

and INA GROUP

Consolidated and unconsolidated

Financial Statements and Notes for the year ended

31 December 2010

Together with Independent Auditors' Report

Contents

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB").

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

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

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

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

Signed on behalf of the Group:

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

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

17 March 2011

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Independent Auditors' Report

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

We have audited the accompanying consolidated and unconsolidated financial statements of INA - Industrija Nafte d.d. ("the Company") and its subsidiaries ("the Group"), set out on pages 4 to 134, which comprise the consolidated and unconsolidated statement of financial position as at 31 December 2010, and the consolidated and unconsolidated income statements, consolidated and unconsolidated statements of comprehensive income, consolidated and unconsolidated statements of changes in equity and consolidated and unconsolidated cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's and the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2010, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte d.o.o.

Branislav Vrtačnik, Certified Auditor

Zagreb, Republic of Croatia

17 March 2011

INA Group Consolidated Income Statement

For the year ended 31 December 2010

(all amounts in HRK millions)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Sales revenue			
a) domestic		15,712	14,212
b) exports		10,154	8,119
Total sales revenue	3	**25,866**	**22,331**
Income from own consumption of products and services		366	189
Other operating income	4	1,590	1,623
Total operating income		**27,822**	**24,143**
Changes in inventories of finished products and work in progress		260	(50)
Cost of raw materials and consumables		(12,288)	(10,461)
Depreciation and amortisation	5	(1,750)	(1,507)
Other material costs		(2,087)	(2,271)
Service costs		(1,514)	(1,591)
Staff costs	6	(3,154)	(2,808)
Cost of other goods sold		(3,991)	(4,155)
Impairment and charges		(570)	(1,256)
Provision for charges and risks (net)		(600)	(249)
Operating expenses		**(25,694)**	**(24,348)**
Profit from operations		**2,128**	**(205)**
Finance income	7	68	203
Finance costs	8	(878)	(487)
Net loss from financial activities		(810)	(284)
Profit/(loss) before tax		**1,318**	**(489)**
Income tax (expense)/benefit	9	(363)	95
Profit/(loss) for the year		**955**	**(394)**
Attributable to:			
Owners of the Company		**961**	**(392)**
Non-controlling interests		(6)	(2)
		955	**(394)**
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share (kunas per share)	10	96.1	(39.2)

Signed on behalf of the Group on 17 March 2011 by:

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

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

INA Group Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

(all amounts in HRK millions)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Profit/(loss) for the year		**955**	**(394)**
Other comprehensive income:			
Exchange differences arising from foreign operations		29	4
Gains on available-for-sale investments, net		17	145
Other comprehensive income, net		**46**	**149**
Total comprehensive income/(loss) for the year		**1,001**	**(245)**
Attributable to:			
Owners of the Company		1,007	(243)
Non-controlling interests		(6)	(2)

Signed on behalf of the Group on 17 March 2011 by:

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

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

INA, d.d. Unconsolidated Income Statement

For the year ended 31 December 2010

(all amounts in HRK millions)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Sales revenue			
a) domestic		13,985	12,822
b) exports		8,561	5,832
Total sales revenue	3	**22,546**	**18,654**
Income from own consumption of products and services		6	16
Other operating income	4	1,428	860
Total operating income		**23,980**	**19,530**
Changes in inventories of finished products and work in progress		67	(32)
Cost of raw materials and consumables		(12,059)	(9,996)
Depreciation and amortisation	5	(1,483)	(1,221)
Other material costs		(1,477)	(1,789)
Service costs		(1,357)	(1,301)
Staff costs	6	(1,978)	(1,697)
Cost of other goods sold		(1,875)	(2,729)
Impairment and charges		(689)	(1,115)
Provision for charges and risks (net)		(397)	(226)
Operating expenses		**(21,248)**	**(20,106)**
Profit/(loss) from operations		**2,732**	**(576)**
Finance income	7	322	205
Finance costs	8	(875)	(399)
Loss from financial activities		**(553)**	**(194)**
Profit/(loss) before tax		**2,179**	**(770)**
Income tax (expense)/benefit	9	(412)	139
Profit/(loss) for the year		**1,767**	**(631)**
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share (kunas per share)	10	176.7	(63.1)

Signed on behalf of the Company on 17 March 2011 by:

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

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

INA, d.d. Unconsolidated Statement of Comprehensive Income

For the year ended 31 December 2010

(all amounts in HRK millions)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Profit/(loss) for the year		**1,767**	**(631)**
Other comprehensive income:			
Gains on available-for-sale investments,net		17	145
Other comprehensive income, net		**17**	**145**
Total comprehensive income/(loss) for the year		**1,784**	**(486)**

Signed on behalf of the Company on 17 March 2011 by:

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

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

INA Group Consolidated Statement of Financial Position

At 31 December 2010

(all amounts in HRK millions)

ASSETS	Notes	31 December 2010	31 December 2009
Non-current assets			
Intangible assets	11	840	731
Property, plant and equipment	12	21,555	20,353
Goodwill	13	232	296
Investments in associates and joint ventures	15	22	68
Other investments	16	334	138
Long-term receivables	17	240	385
Derivative financial instruments	41	4	-
Deferred tax	9	280	434
Available-for-sale assets	18	417	397
Total non – current assets		**23,924**	**22,802**
Current assets			
Inventories	19	3,157	2,887
Trade receivables, net	20	3,052	2,925
Other receivables	21	586	805
Derivative financial instruments	41	1	56
Other current assets	22	40	32
Prepaid expenses and accrued income	23	142	72
Cash and cash equivalents	24	317	367
		7,295	**7,144**
Assets classified as held for sale	25	12	121
Total current assets		**7,307**	**7,265**
TOTAL ASSETS		**31,231**	**30,067**

Signed on behalf of the Group on 17 March 2011 by:

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

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

INA Group Consolidated Statement of Financial Position

At 31 December 2010

(all amounts in HRK millions)

EQUITY AND LIABILITIES	Notes	31 December 2010	31 December 2009
Capital and reserves			
Share capital	33	9,000	9,000
Revaluation reserve	34	27	10
Other reserves	35	2,340	2,311
Retained earnings	36	1,424	463
Equity attributable to owners of the Company		**12,791**	**11,784**
Non-controlling interests	37	2	8
TOTAL EQUITY		**12,793**	**11,792**
Non – current liabilities			
Long-term loans	29	7,301	5,764
Other non-current liabilities	30	125	139
Employee benefit obligation	32	129	126
Provisions	31	2,620	2,573
Total non–current liabilities		**10,175**	**8,602**
Current liabilities			
Bank loans and overdrafts	26	1,659	2,104
Current portion of long-term loans	26	1,295	655
Trade payables	27	3,786	4,286
Taxes and contributions	27	789	1,781
Other current liabilities	27	200	415
Accruals and deferred income	28	124	157
Employee benefit obligation	32	16	17
Provisions	31	394	229
		8,263	**9,644**
Liabilities directly associated with assets classified held for sale	25	-	29
Total current liabilities		**8,263**	**9,673**
TOTAL LIABILITIES		**18,438**	**18,275**
TOTAL EQUITY AND LIABILITIES		**31,231**	**30,067**

Signed on behalf of the Group on 17 March 2011 by:

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

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

INA, d.d. Unconsolidated Statement of Financial Position

At 31 December 2010

(all amounts in HRK millions)

ASSETS	Notes	31 December 2010	31 December 2009
Non-current assets			
Intangible assets	11	827	716
Property, plant and equipment	12	19,522	18,120
Investment in subsidiaries	14	1,224	1,257
Investments in associates and joint ventures	15	51	189
Other investments	16	437	403
Long-term receivables	17	341	496
Deferred tax	9	223	429
Available-for-sale assets	18	417	397
Total non–current assets		**23,042**	**22,007**
Current assets			
Inventories	19	2,218	2,314
Intercompany receivables		2,229	1,544
Trade receivables, net	20	1,816	1,332
Other receivables	21	287	577
Derivative financial instruments	41	-	27
Other current assets	22	253	159
Prepaid expenses and accrued income	23	99	36
Cash and cash equivalents	24	260	68
		7,162	**6,057**
Assets classified as held for sale	25	12	-
Total current assets		**7,174**	**6,057**
TOTAL ASSETS		**30,216**	**28,064**

Signed on behalf of the Company on 17 March 2011 by:

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

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

INA, d.d. Unconsolidated Statement of Financial Position

At 31 December 2010

(all amounts in HRK millions)

EQUITY AND LIABILITIES	Notes	31 December 2010	31 December 2009
Capital and reserves			
Share capital	33	9,000	9,000
Revaluation reserve	34	27	10
Other reserves	35	1,952	1,952
Retained earnings	36	1,556	(211)
TOTAL EQUITY		**12,535**	**10,751**
Non–current liabilities			
Long term loans	29	7,148	5,646
Other non-current liabilities	30	117	125
Employee benefit obligation	32	84	84
Provisions	31	2,563	2,541
Total non–current liabilities		**9,912**	**8,396**
Current liabilities			
Bank loans and overdrafts	26	838	581
Current portion of long-term loans	26	1,233	575
Intercompany payables		3,056	2,878
Trade payables	27	1,611	2,704
Taxes and contributions	27	650	1,585
Other current liabilities	27	114	338
Accruals and deferred income	28	58	54
Employee benefit obligation	32	8	12
Provisions	31	201	190
Total current liabilities		**7,769**	**8,917**
TOTAL LIABILITIES		**17,681**	**17,313**
TOTAL EQUITY AND LIABILITIES		**30,216**	**28,064**

Signed on behalf of the Company on 17 March 2011 by:

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

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

INA Group Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

(all amounts in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained earnings	Attributable to equity holders of the parent	Non controlling interest	Total
Balance at 1 January 2009	**9,000**	**2,307**	**(135)**	**855**	**12,027**	**10**	**12,037**
Loss for the year	-	-	-	(392)	(392)	(2)	(394)
Other comprehensive loss, net	-	4	145	-	149	-	149
Total comprehensive loss for the year	**-**	**4**	**145**	**(392)**	**(243)**	**(2)**	**(245)**
Balance at 31 December 2009	**9,000**	**2,311**	**10**	**463**	**11,784**	**8**	**11,792**
Balance at 1 January 2010	**9,000**	**2,311**	**10**	**463**	**11,784**	**8**	**11,792**
Profit for the year	-	-	-	961	961	(6)	955
Other comprehensive income, net	-	29	17	-	46	-	46
Total comprehensive income for the year	**-**	**29**	**17**	**961**	**1,007**	**(6)**	**1,001**
Balance at 31 December 2010	**9,000**	**2,340**	**27**	**1,424**	**12,791**	**2**	**12,793**

Signed on behalf of the Group on 17 March 2011 by:

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

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

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

For the year ended 31 December 2010

(all amounts in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained earnings / (Accumulated deficit)	Total
Balance at 1 January 2009	**9,000**	**1,952**	**(135)**	**420**	**11,237**
Loss for the year	-	-	-	(631)	(631)
Other comprehensive loss, net	-	-	145	-	145
Total comprehensive loss for the year	**-**	**-**	**145**	**(631)**	**(486)**
Balance at 31 December 2009	**9,000**	**1,952**	**10**	**(211)**	**10,751**
Balance at 1 January 2010	**9,000**	**1,952**	**10**	**(211)**	**10,751**
Profit for the year	-	-	-	1,767	1,767
Other comprehensive income, net	-	-	17	-	17
Total comprehensive income for the year	**-**	**-**	**17**	**1,767**	**1,784**
Balance at 31 December 2010	**9,000**	**1,952**	**27**	**1,556**	**12,535**

Signed on behalf of the Company on 17 March 2011 by:

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

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

INA Group Consolidated Cash Flow Statement

For the year ended 31 December 2010

(all amounts in HRK millions)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Profit/(loss) for the year		**955**	**(394)**
Adjustments for:			
Depreciation and amortisation		1,750	1,507
Income tax expense/(benefit) recognized in loss		363	(95)
Impairment charges		570	1,256
Reversal of impairment		(771)	(128)
Gain on sale of property, plant and equipment		(8)	(10)
Gain on sale of investments and shares		(11)	-
Foreign exchange loss/(gain)		531	(79)
Interest expense (net)		156	184
Other finance expense recognised in profit		87	149
Increase in provisions		383	50
Net book value of sold assets classified as held for sale		-	42
Decommisioning interests		144	126
Other non-cash items		(8)	4
		4,141	**2,612**
Movements in working capital			
Increase in inventories		(373)	(269)
Increase in receivables and prepayments		(57)	(170)
(Decrease)/increase in trade and other payables		(2,122)	812
Cash generated from operations		**1,589**	**2,985**
Taxes paid		(26)	(25)
Net cash inflow from operating activities		**1,563**	**2,960**
Cash flows used in investing activities			
Payments for property, plant and equipment		(2,384)	(4,183)
Payments for intangible assets		(205)	(163)
Proceeds from sale of non-current assets		10	15
Acquisition of subsidiaries		-	(103)
Payment related to sale of subsidiaries		(39)	-
Dividends received from companies classified as available for sale and from other companies		3	3
Interest received		21	-
Investments and loans to third parties, net		(215)	(59)
Net cash used for investing activities		**(2,809)**	**(4,490)**

(all amounts in HRK millions)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from financing activities			
Additional long-term borrowings		2,803	2,044
Repayment of long-term borrowings		(1,098)	(120)
Additional short-term borrowings		10,466	8,705
Repayment of short-term borrowings		(10,921)	(9,127)
Interest paid on long-term loans		(32)	(70)
Other long-term liabilities, net		(8)	(8)
Interest paid on short-term loans and other financing charges		(239)	(103)
Net cash from financing activities		**971**	**1,321**
Net decrease in cash and cash equivalents		**(275)**	**(209)**
At 1 January		367	579
Effect of foreign exchange rate changes		225	(3)
At 31 December	24	**317**	**367**

Signed on behalf of the Group on 17 March 2011 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 cash flow statement.

INA, d.d. Unconsolidated Cash Flow Statement

For the year ended 31 December 2010

(all amounts in HRK millions)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Profit/(loss) for the year		**1,767**	**(631)**
Adjustments for:			
Depreciation and amortisation		1,483	1,221
Income tax expense/(benefit) recognized in loss		412	(139)
Impairment charges		687	1,116
Reversal of impairment		(667)	(261)
Gain on sale of property plant and equipment		(6)	(9)
Gain on sale of shares or stakes		(11)	-
Foreign exchange loss/(gain)		582	(91)
Interest expense (net)		218	158
Other finance (income)/expense recognised in loss		(53)	151
Increase in provisions		195	72
Decommisioning interests		144	126
		4,751	**1,713**
Movements in working capital			
Decrease/(increase) in inventories		107	(126)
Increase in receivables and prepayments		(1,840)	(166)
(Decrease)/increase in trade and other payables		(2,351)	333
Cash generated from operations		**667**	**1,754**
Taxes paid		-	-
Net cash inflow from operating activities		**667**	**1,754**
Cash flows used in investing activities			
Payment for property, plant and equipment		(2,459)	(4,064)
Payment for intangible assets		(218)	(158)
Proceeds from sale of non-current assets		8	9
Payment related to sale of subsidiaries		(39)	-
Aquisition for investments in subsidiaries, associates and joint ventures and other companies		(1)	-
Dividends received from companies classified as available for sale and from other companies		4	3
Interest received		254	10
Investments and loans, net		139	(35)
Net cash used in investing activities		**(2,312)**	**(4,235)**

(all amounts in HRK millions)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from financing activities			
Additional long-term borrowings		2,708	2,041
Repayment of long-term borrowings		(1,018)	(45)
Additional short-term borrowings		2,403	538
Repayment of short-term borrowings		(2,148)	(202)
Interest paid on long-term loans		(22)	(66)
Other long-term liabilities, net		(9)	(9)
Interest paid on short term loans and other financing charges		(82)	(25)
Net cash from financing activities		**1,832**	**2,232**
Net increase/(decrease) in cash and cash equivalents		**187**	**(249)**
At 1 January		68	318
Effect of foreign exchange rate changes		5	(1)
At 31 December	24	**260**	**68**

Signed on behalf of the Company on 17 March 2011 by:

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

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

1. GENERAL

History and incorporation

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

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

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

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

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

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

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

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

1. GENERAL (continued)

History and incorporation (continued)

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

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

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

The shares became publicly traded on 1 December 2006.

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

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

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

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

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

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

(all amounts in HRK millions)

1. GENERAL (continued)

History and incorporation (continued)

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

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

On 9 June 2009, the Croatian Competition Agency passed a decision allowing a conditional take-over.

On 2 December 2010 MOL Plc. offered to INA's private and institutional shareholders in order to purchase the total of 800,910 un-encumbered and fully paid off INA ordinary shares, bearing the symbol INA-R-A, each in nominal value of HRK 900 for the price of HRK 2,800 per share. Validity period of this offer is from 15 December 2010 to 14 January 2011 (see note 44).

The ownership structure of the INA Group as of 31 December 2010 and 2009:

	31 December 2010		31 December 2009	
	Number of shares	**Ownership in %**	**Number of shares**	**Ownership in %**
Zagrebačka banka d.d./Unicreditbank Hungary Zrt, for MOL Zrt, Hungary	4,715,538	47.15	4,715,538	47.15
Government of the Republic of Croatia	4,483,552	44.84	4,483,552	44.84
Institutional and private investors	800,910	8.01	800,910	8.01
	10,000,000	**100**	**10,000,000**	**100**

In 2010 and 2009, no decisions were made in the General Meeting of Shareholders regarding the payment of bonuses to the Supervisory Board and the Management Board members.

Principal activities

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

(i) exploration and production of oil and gas deposits, primarily onshore and offshore within Croatia; other licence interests are held in Angola, Egypt, Syria, Namibia and Iran;

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

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

(all amounts in HRK millions)

1. GENERAL (continued)

Principal activities (continued)

(iv) distribution of fuels and associated products through a chain of some 477 retail outlets in operation as of 31 December 2010 (of which 424 in Croatia and 53 outside Croatia);

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

(vi) service activities incidental to on-shore and off-shore oil extraction through its drilling and oilfield services subsidiary Crosco d.o.o.

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

The headquarters of the Group are located in Zagreb, Avenija V. Holjevca 10, Croatia. As at 31 December 2010 there were 14,703 persons employed at the Group (16,304 at 31 December 2009). As at 31 December 2010 there were 9,061 persons employed at the INA, d.d. (9,931 at 31 December 2009).

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

Directors, Management and Supervisory Board

Supervisory Board from 1 January until 10 July 2009

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

Supervisory Board from 10 July 2009 until 28 December 2009

Damir Polančec	Chairman
György Mosonyi	Deputy chairman
Zoltán Sándor Áldott	
József Simola	
Ábel Galácz	
Oszkár Világi	
Tomislav Ivić	
Vesna Orlandini	

(all amounts in HRK millions)

Supervisory Board from 29 December 2009 until 18 April 2010

Ivan Šuker	Chairman
György Mosonyi	Deputy chairman
Zoltán Sándor Áldott	Gave in resignation with the first day of validiation 1 April 2010
Ábel Galácz	
Tomislav Ivić	
József Simola	
Božidar Pankretić	
Oszkár Világi	

Supervisory Board since 19 April 2010

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

Management Board from 1 January 2009 until 10 June 2009

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

Management Board from 10 June 2009 until 1 April 2010

László Geszti	President of the Management Bord - Gave in resignation 31 March 2010
Alács Lajos	Member of the Management Board
Holoda Attila István	Member of the Management Board
Josip Petrović	Member of the Management Board
dr.sc.Tomislav Dragičević	Member of the Management Board
Dubravko Tkalčić	Member of the Management Board

Management Board since 1 April 2010

Zoltán Sándor Áldott	President of the Management Board
Alács Lajos	Member of the Management Board
Holoda Attila István	Member of the Management Board
Josip Petrović	Member of the Management Board
dr.sc.Tomislav Dragičević	Member of the Management Board
Dubravko Tkalčić	Member of the Management Board

(all amounts in HRK millions)

Executive Board appointed by the decision of the Management Board from 10 July 2009 until 31 December 2009

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

Executive Board appointed by the decision of the Management Board from 1 January 2010 until 31 October 2010

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

Executive Board appointed by the decision of the Management Board since 1 November 2010

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

Secretary since 18 June 2008

Nives Troha, BLL	Secretary of INA d.d.

2. ACCOUNTING POLICIES

These consolidated and unconsolidated financial statements are prepared under going concern assumptions.

A summary of the Group's principal accounting policies which have been applied consistently in the current year and prior year, except for change in accounting policies related to over / under lifting balances (gas imbalances), a summary is set out below.

Presentation of the financial statements

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

Basis of accounting

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

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

Adoption of new and revised standards

Standards and Interpretations effective in the current period

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

- **IFRS 1 (revised) "First-time Adoption of IFRS"** (effective for annual periods beginning on or after 1 July 2009),
- **IFRS 3 (revised) "Business Combinations"** (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"**- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010),
- **Amendments to IFRS 2 "Share-based Payment"** - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),
- **Amendments to IAS 27 "Consolidated and Separate Financial Statements"** (effective for annual periods beginning on or after 1 July 2009),

2. ACCOUNTING POLICIES (continued)

Adoption of new and revised standards (continued)

Standards and Interpretations effective in the current period (continued)

- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),

- **Amendments to various standards and interpretations "Improvements to IFRSs (2009)"** resulting from the annual improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),

- **IFRIC 17 "Distributions of Non-Cash Assets to Owners"** (effective for annual periods beginning on or after 1 July 2009),

- **IFRIC 18 "Transfers of Assets from Customers"** (effective for transfer of assets from customers received on or after 1 July 2009)

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Entity's accounting policies.

Standards and Interpretations in issue not yet adopted

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

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IFRS 1 "First-time Adoption of IFRS"**- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),

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

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

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

- **Amendments to IAS 24 "Related Party Disclosures" -** Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),

- **Amendments to IAS 32 "Financial Instruments: Presentation"** – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),

2. ACCOUNTING POLICIES (continued)

Adoption of new and revised standards (continued)

Standards and Interpretations in issue not yet adopted (continued)

- **Amendments to various standards and interpretations "Improvements to IFRSs (2010)"** resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011),

- **Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" -** Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),

- **IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"** (effective for annual periods beginning on or after 1 July 2010).

INA Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Entity anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Entity in the period of initial application except for IFRS 9 Financial instruments which will have a significant impact on measurement and disclosure of financial instruments.

2. ACCOUNTING POLICIES (continued)

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

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

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

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 where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

Business combination

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

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

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

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

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

2. ACCOUNTING POLICIES (continued)

Business combination (continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

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

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

2. ACCOUNTING POLICIES (continued)

Investments in associates (continued)

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

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

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

Interests in joint ventures

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

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

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

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary. Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

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

2. ACCOUNTING POLICIES (continued)

Oil and gas properties

Exploration and appraisal costs

Exploration and appraisal costs are accounted for on the successful efforts basis. Costs relating to exploration and appraisal drilling are initially capitalised as intangible oil and gas assets pending determination of the commercial viability of the relevant oil and gas properties.

License and data provision costs and costs associated with geological and geophysical activities are charged to the income statement period in which they are incurred.

If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are charged to the income statement in the period. If the prospects are deemed to be commercially viable, such costs are transferred to oil and gas properties. The status of such prospects is reviewed regularly by management.

Fields under development

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

Depreciation

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

Commercial reserves

Commercial reserves are net proved developed oil and gas reserves. Changes in the commercial reserves of fields affecting unit of production calculations are dealt with prospectively over the revised remaining reserves.

Reporting currency

The Company's and the Group's financial statements are prepared in Croatian kuna (HRK).

Property, plant and equipment

Property, plant and equipment are shown at historical cost or valuation less accumulated depreciation and any accumulated impairment loss, except for land, which is stated at cost. Property, plant and equipment in use (excluding oil and gas properties) are depreciated on a straight-line basis on the following basis:

2. ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Software	5	years
Buildings	5 - 50	years
Refineries and chemicals manufacturing plants	3 - 15	years
Petrol service stations	5 - 25	years
Telecommunication and office equipment	2 - 10	years

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

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing an asset to its working condition and location for its intended use.

Expenditures incurred after property, plant and equipment have been put into operation are normally charged to income statement in the period in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance, the expenditures are capitalised as an additional cost of property, plant and equipment. Costs eligible for capitalisation include costs of periodic, planned significant inspections and overhauls necessary for further operation.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment of tangible and intangible assets other than goodwill

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

2. ACCOUNTING POLICIES (continued)

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (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. Lease payments are apportioned between the finance charges and reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Initial direct costs incurred in negotiating a operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as the lease income. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

Receivables from customers

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

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

2. ACCOUNTING POLICIES (continued)

Receivables from customers (continued)

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

Company records impairment on doubtful debt based on the final 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 final estimate, regardless of their financial amount but in amount of due doubtful debt that exceeds 120 days from the maturity date.

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

Inventories

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

- Crude oil is carried at the weighted average cost or the production cost. If finished i.e. refined products are impaired, a calculation is used to reduce the crude oil reserve by an aliquot share to its net recoverable amount.
- Finished products are valued at the lower of cost or 97% of future average sales price, which approximates the net recoverable amount.
- Semi-finished products are measured using a calculation method, by which they are impaired to the extent that finished products on the basis of actual inventories at the period-end are impaired i.e. that the calculation shows that their net realisable value may not be recovered, by applying the impairment percentage to each individual semi-finished product on stock at the period-end.
- Imported natural gas held in underground storage is valued at the lower of cost, based on the price of imported gas at year-end including transport costs, and weighted average sales price based on year-end prices.
- Domestic natural gas held in underground storage is valued at the lower of weighted average sales price and cost.
- Other inventories, which comprise mainly spare parts, materials and supplies, are valued at the lower of cost or valuation and net realisable value, less any provision for slow-moving and obsolete items.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2. ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Foreign currencies

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

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

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

2. ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

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

Retirement Benefit and Jubilee Costs

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

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

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

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company’s and the Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

2. ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

Current and deferred tax for the period

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

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

2. ACCOUNTING POLICIES (continued)

Financial assets

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

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

Effective interest method

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

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

AFS financial assets

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

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

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

Loans and receivables

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

2. ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets

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

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

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

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

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

Investments

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

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity 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.

2. ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments (continued)

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' or ‘other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

2. ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments (continued)

Other financial liabilities

Other financial liabilities (including borrowings) 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.

Embedded derivatives

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

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

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

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

2. ACCOUNTING POLICIES (continued)

Segmental information

The Group has adopted IFRS 8 *Operating Segments* with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Provisions for decommissioning and other obligations

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

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

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Reporting Financial Standards, as published by the International Accounting Standards Board requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to employee benefits, impairment of assets, determination of fair values of assets and liabilities and estimated decommissioning costs. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements when determinable.

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.

2. ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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 balance sheet date;

– servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and

– revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Dividend and interest revenue

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

(all amounts in HRK millions)

2. ACCOUNTING POLICIES (continued)

Change in Accounting policy in relation to over / under lifting balances (gas imbalances)

From 1 January 2010 INA changed accounting policy in relation to over / under lifting of gas from sales method to entitlement method.

According to entitlement method, INA Group should recognize revenue at the end of the period based on its share of the production regardless of the amount actually sold and record a receivable in the statement of financial position in the value of the difference between the contracted amount and the actually sold amount. This receivable will be derecognized when INA Group takes actually its share of production.

Any additional measurement should be recorded in Income Statement as Other income / expense.

Change of method resulted in HRK 35 million as other income, or under lifting, in Income Statement for the year ended 31 December 2010.

Effect for the same period in 2009 is HRK 11 millions as cost or over lifting.

Significant accounting judgements and estimates

Critical judgements in applying accounting policies

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

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

Reclassification of part of financial income and costs

In 2010 INA Group reclassified income and expense of interest and foreign exchange differences relating to customers and suppliers from financial activities to operating activities. The effect of such reclassification is as follows:

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Reclassification of finance income	(145)	(196)	(120)	(142)
Reclassification on other operating income	145	196	120	142
Reclassification of finance costs	544	419	531	423
Reclassification on service costs	(544)	(419)	(531)	(423)
Total	-	-	-	-

(all amounts in HRK millions)

2. ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates (continued)

Change in cash-generating unit

In 2010 INA Group changed assets grouping for determining cash generating units on production areas of North Adriatic, Angola and Egypt. Instead of production geological fields, or geographic areas, cash generating units are contracts areas (blocks). Each contract area consists of several production geological fields.

Effects of changed cash-generating units for the year ended 31 December 2010 are as follows:

	Changed cash-generating units	
Contract area	**Impairment**	**Reversal of impairment**
North Adriatic	-	309
Angola	5	-
Egypt	40	-
Total	**45**	**309**

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

The 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 2,117 million and HRK 2,330 million at 31 December 2010 and 2009 (see note 31) respectively. Consequently, the amounts reported are subject to a large number of variables that may affect the calculation.

The level of provisioning for environmental obligations and decommissioning of oil and gas properties

The applicable regulations, specifically the environmental protection legislation, do not specify the exact scope of activities or technology to be applied. 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 2010 Ina Group recognized environmental provision in amount HRK 322 million which covers treatment of accumulated waste generated by former activity, soil excavation and replacement during the reconstruction of filling stations and investigation to determine the extent of the contaminations. It does not cover the cost of remediation in lack of detailed National regulations.

2. ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates (continued)

Impairment of non-current assets, including goodwill

The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, time values, the period of cash flow projections, as well as assumptions and judgements used in determining cash receipts and expenditure. The reversal of impairment reported in the consolidated income statement for 2010 amounted to HRK 503 million and impairment reported in the consolidated income statement for 2009 amounted to HRK 837 million. The carrying amount of goodwill as of 31 December 2010 amounted to HRK 232 million and HRK 296 million as of 31 December 2009 (see note 13).

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

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. In determining the amount of deferred taxes that can be recognised are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. The carrying amount of deferred tax assets amounts to HRK 280 million and HRK 434 million in INA Group and HRK 223 million and HRK 429 million in INA d.d. as of 31 December 2010 and 2009, respectively (see note 9).

Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions of discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. Provisions for retirement bonuses and jubilee awards amounted to HRK 145 million and HRK 143 million as at 31 December 2010 and 31 December 2009, respectively (see note 32).

Consequences of certain legal actions

INA Group members are involved in number of litigations arisen from the regular course of business. If there is a present obligation as a result of a past event (taking into account all available evidence, including the opinion of law experts) for which is probable that outflow of resources will be required to settle the obligation and if a reliable estimate can be made of the amount of the obligation, provisions are recorded (see note 31).

Gas business classification in financial statements

Gas business no longer meets the criteria to be classified as a discontinued operation, and therefore it is not presented as discontinued operations in the consolidated financial statements for the year ended 31 December 2010 as described in Note 14. Corresponding figures as of and for the year ended 31 December 2009 were reclassified accordingly to provide comparative information.

(all amounts in HRK millions)

2. ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates (continued)

Gas business classification in financial statements (continued)

Summary of reclassification is the following

INA Group

	31 December 2009	Reclassification of discontinued operations	Reclassification of financial income and finance cost	31 December 2009 After reclassification
Domestic sales revenue	12,254	1,958	-	14,212
Other operating income	1,356	71	196	1,623
Other material costs	(1,909)	(362)	-	(2,271)
Service costs	(1,169)	(3)	(419)	(1,591)
Staff costs	(2,802)	(6)	-	(2,808)
Cost of other goods sold	(1,514)	(2,641)	-	(4,155)
Impairment and charges	(1,210)	(46)	-	(1,256)
Finance income	399	-	(196)	203
Finance costs	(794)	(112)	419	(487)
Deferred tax	(35)	130	-	95
Loss for the year from discontinued operations	(1,011)	1,011	-	-

INA, d.d.

	31 December 2009	Reclassification of discontinued operations	Reclassification of financial income and finance cost	31 December 2009 After reclassification
Domestic sales revenue	11,636	1,186	-	12,822
Other operating income	654	64	142	860
Other material costs	(1,507)	(282)	-	(1,789)
Service costs	(878)	-	(423)	(1,301)
Staff costs	(1,694)	(3)	-	(1,697)
Cost of other goods sold	(1,184)	(1,545)	-	(2,729)
Impairment and charges	(1,115)	-	-	(1,115)
Finance income	347	-	(142)	205
Finance costs	(752)	(70)	423	(399)
Deferred tax	9	130	-	139
Loss for the year from discontinued operations	(520)	520	-	-

This reclassification has no impact on the statement of financial position of the INA Group, or INA, d.d.

2. ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates (continued)

Useful life of asset

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 affects on the change in depreciation rates. The new estimation of asset useful life at the end of 2010 had no significant changes compared to previous estimate.

Crude oil and natural gas prices

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

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

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

Exploration and development

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

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

Oil and natural gas reserves in Syria

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

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

2. ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates (continued)

Oil and natural gas reserves in Syria

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

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

Oil reserves in Egypt

INA started with exploration activities in Egypt in 1989, as a partner, and in 1997 as an operator, when Branch office was established in Cairo. Oil production, a result of exploration activities, started in 1994.

INA has a share of production on Ras Qattara and West Abu Gharadig concessions operated by IEOC, on North Bahariya concession operated by Sahara Oil and Gas, and on Sidi Rahman development lease operated by INA.

Concession Agreements about petroleum exploration and exploitation rights, were contracted between The Arab Republic of Egypt, national petroleum company EGPC and partners. Produced oil is sold to EGPC as per contract.

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.

3. SEGMENT INFORMATION

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

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

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

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

(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

BY BUSINESS

INA Group

2010	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination	Total
Sales to external customers	8,688	10,671	6,419	88	-	25,866
Inter-segment sales	2,194	5,106	34	634	(7,968)	-
Total revenue	**10,882**	**15,777**	**6,453**	**722**	**(7,968)**	**25,866**
Operating expenses, net of other operating income	(6,272)	(16,655)	(6,643)	(2,136)	7,968	(23,738)
Profit/(loss) from operations	**4,610**	**(878)**	**(190)**	**(1,414)**	**-**	**2,128**
Net finance loss						(810)
Profit before tax						1,318
Income tax expense						(363)
Profit for the year						**955**

(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

INA Group

2009	**Exploration and production**	**Refining and marketing**	**Retail**	**Corporate and other**	**Elimination**	**Total**
Sales to external customers	6,937	9,230	5,802	362	-	22,331
Inter-segment sales	1,757	4,224	10	547	(6,538)	-
Total revenue	**8,694**	**13,454**	**5,812**	**909**	**(6,538)**	**22,331**
Operating expenses, net of other operating income	(7,107)	(14,075)	(5,938)	(1,954)	6,538	(22,536)
Profit/(loss) from operations	**1,587**	**(621)**	**(126)**	**(1,045)**	**-**	**(205)**
Net finance loss						(284)
Loss before tax						(489)
Income tax benefit						95
Loss for the year						**(394)**

(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

BY BUSINESS (continued)

INA Group

2010 **Assets and liabilities**	**Exploration and production**	**Refining and marketing**	**Retail**	**Corporate and other**	**Elimination**	**Total**
Property, plant and equipment	13,119	6,884	950	602	-	21,555
Intangible assets	715	7	4	114	-	840
Investments in associates and joint ventures	22	-	-	-	-	22
Inventories	783	2,274	70	30	-	3,157
Trade receivables, net	1,696	1,071	357	302	(374)	3,052
Not allocated assets						2,605
Total assets						**31,231**
Trade payables	771	2,727	204	462	(378)	3,786
Not allocated liabilities						14,652
Total liabilities						**18,438**
Other segment information						
Capital expenditure:	**1,473**	**1,328**	**52**	**38**	**-**	**2,891**
Property, plant and equipment	1,293	1,328	51	14	-	2,686
Intangible assets	180	-	1	24	-	205
Depreciation and amortisation	**1,160**	**330**	**94**	**166**	**-**	**1,750**
Impairment losses recognized in profit and loss	(443)	-	(60)	-	-	(503)

(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

BY BUSINESS (continued)

INA Group

2009 **Assets and liabilities**	**Exploration and production**	**Refining and marketing**	**Retail**	**Corporate and other**	**Elimination**	**Total**
Property, plant and equipment	12,863	5,888	920	682	-	20,353
Intangible assets	552	9	10	160	-	731
Investments in associates and joint ventures	57	11	-	-	-	68
Inventories	803	1,973	63	48	-	2,887
Trade receivables, net	1,279	1,266	296	470	(386)	2,925
Not allocated assets						3,103
Total assets						**30,067**
Trade payables	1,277	2,624	286	485	(386)	4,286
Not allocated liabilities						13,989
Total liabilities						**18,275**
Other segment information						
Capital expenditure:	**3,039**	**1,367**	**47**	**51**	**-**	**4,504**
Property, plant and equipment	2,902	1,365	46	36	-	4,349
Intangible assets	137	2	1	15	-	155
Depreciation and amortisation	951	299	106	151	-	1,507
Impairment losses recognized in profit and loss	555	113	169	-	-	837

(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

BY GEOGRAPHICAL

INA Group

2010	**Republic of Croatia**	**Syria**	**Other countries**	**Total**
Property, plant and equipment	15,413	4,949	1,193	21,555
Intangible assets	319	269	252	840
Investments in associates and joined ventures	22	-	-	22
Inventories	3,007	44	106	3,157
Trade receivables, net	2,085	215	752	3,052
Not allocated assets				2,605
Total assets				**31,231**
Other segment information				
Capital expenditure:	**1,782**	**936**	**173**	**2,891**
Property, plant and equipment	1,749	797	140	2,686
Intangible assets	33	139	33	205

INA Group

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

(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

BY BUSINESS (continued)

INA, d.d.

2010	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination	Total
Sales to external customers	6,186	10,529	5,810	21	-	22,546
Inter-segment sales	1,681	4,399	-	1	(6,081)	-
Total revenue	**7,867**	**14,928**	**5,810**	**22**	**(6,081)**	**22,546**
Operating expenses, net of other operating income	(2,955)	(15,735)	(5,937)	(1,268)	6,081	(19,814)
Profit/(loss) from operations	**4,912**	**(807)**	**(127)**	**(1,246)**	**-**	**2,732**
Net finance loss						(553)
Profit before tax						2,179
Income tax expense						(412)
Profit for the year						**1,767**

(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

INA, d.d.

2009	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination	Total
Sales to external customers	4,718	8,824	5,098	14	-	18,654
Inter-segment sales	1,416	3,598	5	1	(5,020)	-
Total revenue	**6,134**	**12,422**	**5,103**	**15**	**(5,020)**	**18,654**
Operating expenses	(4,704)	(13,176)	(5,215)	(1,155)	5,020	(19,230)
Profit/(loss) from operations	**1,430**	**(754)**	**(112)**	**(1,140)**	**-**	**(576)**
Net finance loss						(194)
Loss before tax						(770)
Income tax benefit						139
Loss for the year						**(631)**

(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

BY BUSINESS (continued)

INA, d.d.

2010 **Assets and liabilities**	**Exploration and production**	**Refining and marketing**	**Retail**	**Corporate and other**	**Elimination**	**Total**
Property, plant and equipment	11,868	6,590	820	244	-	19,522
Intangible assets	712	5	4	106	-	827
Investment in subsidiaries	648	308	(3)	271	-	1,224
Investments in associates and joint ventures	22	29	-	-	-	51
Inventories	229	1,930	59	-	-	2,218
Trade receivables, net	2,607	1,054	314	70	(2,229)	1,816
Not allocated assets						4,558
Total assets						**30,216**
Trade payables	626	3,516	189	336	(3,056)	1,611
Not allocated liabilities						16,070
Total liabilities						**17,681**
Other segment information						
Capital expenditure:	**1,404**	**1,328**	**48**	**36**	**-**	**2,816**
Property, plant and equipment	1,224	1,328	48	12	-	2,612
Intangible assets	180	-	-	24	-	204
Depreciation and amortisation	1,007	293	75	108	-	1,483
Impairment losses recognized in profit and loss	(443)	-	(62)	-	-	(505)

(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

BY BUSINESS (continued)

INA, d.d.

2009 **Assets and liabilities**	**Exploration and production**	**Refining and marketing**	**Retail**	**Corporate and other**	**Elimination**	**Total**
Property, plant and equipment	11,521	5,550	780	269	-	18,120
Intangible assets	549	8	8	151	-	716
Investment in subsidiaries	647	327	-	283	-	1,257
Investments in associates and joint ventures	57	132	-	-	-	189
Inventories	618	1,640	56	-	-	2,314
Trade receivables, net	1,380	1,193	270	33	(1,544)	1,332
Not allocated assets						4,136
Total assets						**28,064**
Trade payables	966	3,831	241	544	(2,878)	2,704
Not allocated liabilities						14,609
Total liabilities						**17,313**
Other segment information						
Capital expenditure:	**2,980**	**1,345**	**33**	**20**	**-**	**4,378**
Property, plant and equipment	2,845	1,344	33	6	-	4,228
Intangible assets	135	1	-	14	-	150
Depreciation and amortisation	738	278	88	117	-	1,221
Impairment losses recognized in profit and loss	556	113	149	-	-	818

(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

BY GEOGRAPHICAL (continued)

INA, d.d.

2010	**Republic of Croatia**	**Syria**	**Other countries**	**Total**
Property, plant and equipment	14,267	4,821	434	19,522
Intangible assets	309	269	249	827
Investment in subsidiaries	1,144	-	80	1,224
Investments in associates and joined ventures	22	-	29	51
Inventories	2,218	-	-	2,218
Trade receivables, net	1,154	147	515	1,816
Not allocated assets				4,558
Total assets				**30,216**
Other segment information				
Capital expenditure:	**1,769**	**931**	**116**	**2,816**
Property, plant and equipment	1,736	792	84	2,612
Intangible assets	33	139	32	204

INA, d.d.

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

(all amounts in HRK millions)

3. SEGMENT INFORMATION (continued)

INA Group

	Revenues from external customers	
	2010	**2009**
Republic of Croatia	15,698	14,212
Bosnia and Hercegovina	1,934	1,599
Switzerland	3,291	1,905
Other countries	4,943	4,615
	25,866	**22,331**

INA, d.d.

	Revenues from external customers	
	2010	**2009**
Republic of Croatia	13,985	12,822
Bosnia and Hercegovina	758	1,277
United Kingdom	3,037	2,893
Other countries	4,766	1,662
	22,546	**18,654**

Information about major customers

No single customers contributed 10% or more to the Group's revenue in both 2010 and 2009.

(all amounts in HRK millions)

4. OTHER OPERATING INCOME

	INA Group		INA, d.d.	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
Reversal of impairment	693	301	687	270
Reversal of provisions	219	180	202	127
Foreign exchange gains of trade receivables and payables	145	197	120	142
Collected impaired trade receivables	125	20	57	12
Surpluses	34	57	33	32
Gain on exchange of non - monetary assets	25	-	25	-
Rent revenue	22	54	16	15
Debit-notes and refunds	13	68	10	54
Non-current and current assets sold	12	35	10	16
Sale of underground gas storage	-	472	-	25
Other	302	239	268	167
Total	**1,590**	**1,623**	**1,428**	**860**

Other income in 2010 includes an amount of HRK 125 million (HRK 20 million in 2009) relating to collection of receivables previously provided for. Part of this is relating to fair valuation of LPG storage in amount to HRK 25 million.

5. DEPRECIATION AND AMORTISATION

	INA Group		INA, d.d.	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
Amortisation of intangible assets (note 11)	86	84	82	81
Depreciation of property, plant and equipment (note 12 b)	1,664	1,423	1,401	1,140
	1,750	**1,507**	**1,483**	**1,221**

(all amounts in HRK millions)

6. STAFF COSTS

	INA Group		INA, d.d.	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
Net payroll	1,488	1,464	913	880
Tax and contributions for pensions and health insurance	1,108	1,057	723	678
Other payroll related costs	558	287	342	139
	3,154	**2,808**	**1,978**	**1,697**

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

	INA Group		INA, d.d.	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
	Number of employees	Number of employees	Number of employees	Number of employees
Exploration and production	4,350	5,025	1,616	2,070
Refining and marketing	3,428	3,625	2,625	2,731
Retail	3,589	3,901	3,116	3,255
Corporate function	3,336	3,753	1,704	1,875
	14,703	**16,304**	**9,061**	**9,931**

7. FINANCE INCOME

	INA Group		INA, d.d.	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
Foreign exchange gains	39	180	27	164
Interest from financial assets	22	15	254	10
Dividends	3	3	4	2
Other interest income	4	5	37	29
	68	**203**	**322**	**205**

(all amounts in HRK millions)

8. FINANCE COSTS

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Foreign exchange losses	588	40	548	19
Interest payable on long-term loans	155	121	145	107
Other interest payable	149	90	92	29
Loss on embedded derivatives	55	140	33	156
Other financial expenses	179	141	305	133
Capitalized borrowing costs	(248)	(45)	(248)	(45)
	878	**487**	**875**	**399**

9. TAXATION

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Current tax expense	214	34	210	-
Deferred tax charge/(benefit) relating to origination and reversal of temporary differences	149	(129)	202	(139)
Income tax expense/(benefit) for the year	**363**	**(95)**	**412**	**(139)**

Domestic income tax rate is calculated at 20 percent in 2010 (2009 20 percent) of the income before taxes for the year.

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

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

(all amounts in HRK millions)

9. TAXATION (continued)

	INA Group		INA, d.d.	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
Profit/(loss) before tax	1,318	(489)	2,179	(770)
Income tax expense/(benefit) calculated at 20%	264	(98)	436	(154)
Unrecognized deferred tax assets	111	97	-	-
Tax effect of permanent differences	(12)	(94)	(24)	15
Current and deferred tax expense / (benefit)	**363**	**(95)**	**412**	**(139)**

In addition to the deferred tax in 2010 deferred tax recognized in amount of HRK 4 million (in 2009 HRK 36 million). The Group did not recognise HRK 111 million deferred tax assets in 2010 (2009 HRK 97 million) arising from the carryforward of unused tax loss in Prirodni Plin d.o.o., because future taxable profit may not be available at the entity. The movements in deferred tax assets were as follows:

(all amounts in HRK millions)

9. TAXATION (continued)

INA Group	Value adjustment of current assets	Value adjustment of tangible and intangible assets	Reversal of depreciation for impaired asset	Provision recorded for ENI tax case	Other provisions	Value adjustment of financial investments	Tax losses	Total
Balance at 1 January 2009	**123**	**102**	**(29)**	**28**	**-**	**70**	**47**	**341**
Credit to equity for the year	-	-	-	-	-	(36)	-	(36)
Reversal of temporary differences	(99)	(26)	(12)	(28)	-	(13)	-	(178)
Origination of temporary differences	11	189	-	-	27	-	80	307
Balance at 31 December 2009	**35**	**265**	**(41)**	**-**	**27**	**21**	**127**	**434**
Credit to equity for the year	-	-	-	-	-	(4)	-	(4)
Reversal of temporary differences	(7)	(116)	(40)	-	(24)	(13)	(127)	(327)
Origination of temporary differences	14	27	-	-	72	34	30	177
Balance at 31 December 2010	**42**	**176**	**(81)**	**-**	**75**	**38**	**30**	**280**

INA, d.d.	Value adjustment of current assets	Value adjustment of tangible and intangible assets	Reversal of depreciation for impaired asset	Provision recorded for ENI tax case	Other provisions	Value adjustment of financial investments	Tax losses	Total
Balance at 1 January 2009	123	98	(29)	28	-	60	47	327
Credit to equity for the year	-	-	-	-	-	(36)	-	(36)
Reversal of temporary differences	(99)	(26)	(12)	(28)	-	(4)	-	(169)
Origination of temporary differences	11	189	-	-	27	-	80	307
Balance at 31 December 2009	**35**	**261**	**(41)**	**-**	**27**	**20**	**127**	**429**
Credit to equity for the year	-	-	-	-	-	(4)	-	(4)
Reversal of temporary differences	(7)	(116)	(40)	-	(13)	(13)	(127)	(316)
Origination of temporary differences	6	15	-	-	65	28	-	114
Balance at 31 December 2010	**34**	**160**	**(81)**	**-**	**79**	**31**	**-**	**223**

10. EARNINGS PER SHARE

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Basic and diluted earnings/(loss) per share (in HRK)	**96.1**	**(39.2)**	**176.7**	**(63.1)**

Earnings	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Earnings used in the calculation of total basic earnings per share (loss/profit for the period attributable to equity holders of the parent)	961	(392)	1,767	(631)
	961	**(392)**	**1,767**	**(631)**

Number of shares	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	Number of shares	Number of shares	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share (in millions)	10	10	10	10

(all amounts in HRK millions)

11. INTANGIBLE ASSETS

	INA Group	INA, d.d.
Balance at 1 January 2009	**664**	**648**
Additions	155	150
Amortisation	(84)	(81)
Impairment	(1)	(1)
Asset classified as held for sale - Crobenz	(2)	-
Other movements	(1)	-
Balance at 31 December 2009	**731**	**716**
Additions	205	204
Amortisation	(86)	(82)
Impairment	(8)	(8)
Other movements	(13)	(13)
Transfer from property, plant and equipment	11	10
Balance at 31 December 2010	**840**	**827**

(all amounts in HRK millions)

12. PROPERTY, PLANT AND EQUIPMENT

a) By business segment

INA Group	**Oil and gas exploration and production, gas**	**Refining and marketing**	**Retail**	**Other**	**Total**
Balance at 1 January 2009					
Cost	33,217	12,951	2,978	2,267	**51,413**
Accumulated depreciation	22,995	8,015	1,739	1,515	**34,264**
Net book value	**10,222**	**4,936**	**1,239**	**752**	**17,149**
Balance at 31 December 2009					
Cost	37,354	14,251	2,889	2,112	**56,606**
Accumulated depreciation	24,491	8,363	1,969	1,430	**36,253**
Net book value	**12,863**	**5,888**	**920**	**682**	**20,353**
Balance at 31 December 2010					
Cost	38,227	15,547	2,931	2,115	**58,820**
Accumulated depreciation	25,108	8,663	1,981	1,513	**37,265**
Net book value	**13,119**	**6,884**	**950**	**602**	**21,555**

INA, d.d.	**Oil and gas exploration and production, gas**	**Refining and marketing**	**Retail**	**Other**	**Total**
Balance at 1 Januarv 2009					
Cost	**29,341**	**12,067**	**2,571**	**1,035**	**45,014**
Accumulated depreciation	**20,598**	**7,480**	**1,593**	**700**	**30,371**
Net book value	**8,743**	**4,587**	**978**	**335**	**14,643**
Balance at 31 December 2009					
Cost	33,403	13,362	2,596	902	**50,263**
Accumulated depreciation	21,882	7,812	1,816	633	**32,143**
Net book value	**11,521**	**5,550**	**780**	**269**	**18,120**
Balance at 31 December 2010					
Cost	34,236	14,680	2,634	906	**52,456**
Accumulated depreciation	22,368	8,090	1,814	662	**32,934**
Net book value	**11,868**	**6,590**	**820**	**244**	**19,522**

(all amounts in HRK millions)

12. PROPERTY, PLANT AND EQUIPMENT (continued)

b) By asset type

INA Group

	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective Consumption assets	Total
Cost						
Balance at 1 January 2009	**22,696**	**10,079**	**17,003**	**1,589**	**46**	**51,413**
Additions	-	-	4,349	-	-	4,349
Change in capitalised decommissioning costs	1,207	-	-	-	-	1,207
Addition - acquisition of Drill Trans Group	-	6	2	52	-	60
Asset classified as held for sale - Crobenz	-	(119)	(1)	(23)	-	(143)
Transfer from intangible assets	-	-	(1)	-	-	(1)
Transfers	1,789	414	(2,301)	98	-	-
Disposals	(31)	(17)	(134)	(84)	(2)	(268)
Exchange differences	-	(1)	(10)	-	-	(11)
Balance at 31 December 2009	**25,661**	**10,362**	**18,907**	**1,632**	**44**	**56,606**
Additions	-	-	2,686	-	-	2,686
Change in capitalised decommissioning costs	(356)	-	-	-	-	(356)
Polybit - share capital increase	-	-	2	-	-	2
Assets classified as held for sale- Crobenz	-	(4)	-	-	-	(4)
Transfer to intangible assets	-	-	(13)	-	-	(13)
Transfers	1,194	103	(1,333)	37	(1)	-
Disposals	(1)	(22)	(34)	(38)	(1)	(96)
Exchange differences	-	1	(7)	1	-	(5)
Balance at 31 December 2010	**26,498**	**10,440**	**20,208**	**1,632**	**42**	**58,820**

(all amounts in HRK millions)

12. PROPERTY, PLANT AND EQUIPMENT (continued)

b) By asset type (continued)

INA Group	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective Consumption assets	Total
Accumulated depreciation						
Balance at 1 January 2009	**18,113**	**6,778**	**8,056**	**1,282**	**35**	**34,264**
Charge for the year	675	216	393	138	1	1,423
Charge for decommissioning for a prior year	-	-	-	-	(1)	(1)
Addition - acquisition of Drill Trans Group	-	1	1	24	-	26
Asset classified as held for sale - Crobenz	-	(17)	-	(19)	-	(36)
Impairment	553	155	109	23	-	840
Transfers	-	6	(3)	(3)	-	-
Disposals	(31)	(17)	(133)	(77)	(2)	(260)
Exchange differences	-	-	(3)	-	-	(3)
Balance at 31 December 2009	**19,310**	**7,122**	**8,420**	**1,368**	**33**	**36,253**
Charge for the year	949	203	384	128	-	1,664
Charge for decommissioning for a prior year	(46)	-	-	-	-	(46)
Polybit - asset capital increase	-	-	1	-	-	1
Asset classified as held for sale - Crobenz	-	(3)	-	(2)	-	(5)
Transfer to intangible assets	-	-	(2)	-	-	(2)
Impairment	(43)	(458)	(6)	(4)	-	(511)
Transfers	1	-	3	(4)	-	-
Disposals	(1)	(20)	(32)	(34)	(1)	(88)
Exchange differences	-	-	(3)	2	-	(1)
Balance at 31 December 2010	**20,170**	**6,844**	**8,765**	**1,454**	**32**	**37,265**

(all amounts in HRK millions)

12. PROPERTY, PLANT AND EQUIPMENT (continued)

b) By asset type (continued)

INA Group	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective Consumption assets	Total
Carrying amount						
Balance at 31 December 2010	**6,328**	**3,596**	**11,443**	**178**	**10**	**21,555**
Balance at 31 December 2009	**6,351**	**3,240**	**10,487**	**264**	**11**	**20,353**

(all amounts in HRK millions)

12. PROPERTY, PLANT AND EQUIPMENT (continued)

b) By asset type (continued)

INA, d.d.	**Oil and gas properties**	**Land and buildings**	**Plant and machinery and assets under construction**	**Vehicles and office equipment**	**Collective Consumption assets**	**Total**
Cost						
Balance at 1 January 2009	**22,695**	**8,209**	**13,257**	**818**	**35**	**45,014**
Additions	-	-	4,228	-	-	4,228
Change in capitalised decommissioning costs	1,207	-	-	-	-	1,207
Transfers	1,789	302	(2,152)	61	-	-
Disposals	(31)	(10)	(115)	(28)	(2)	(186)
Balance at 31 December 2009	**25,660**	**8,501**	**15,218**	**851**	**33**	**50,263**
Additions	-	-	2,612	-	-	2,612
Change in capitalised decommissioning costs	(356)	-	-	-	-	(356)
Transfer to intangible assets	-	-	(12)	-	-	(12)
Transfers	1,194	87	(1,315)	35	(1)	-
Disposals	(1)	(20)	(14)	(15)	(1)	(51)
Balance at 31 December 2010	**26,497**	**8,568**	**16,489**	**871**	**31**	**52,456**

(all amounts in HRK millions)

12. PROPERTY, PLANT AND EQUIPMENT (continued)

b) By asset type (continued)

INA, d.d.	**Oil and gas properties**	**Land and buildings**	**Plant and machinery and assets under construction**	**Vehicles and office equipment**	**Collective Consumption assets**	**Total**
Accumulated depreciation						
Balance at 1 January 2009	**18,113**	**5,551**	**6,065**	**609**	**33**	**30,371**
Charge for the year	675	159	246	60	-	1,140
Impairment	553	138	104	22	-	817
Disposals	(31)	(10)	(115)	(28)	(1)	(185)
Balance at 31 December 2009	**19,310**	**5,838**	**6,300**	**663**	**32**	**32,143**
Charge for the year	949	146	252	54	-	1,401
Reversal of depreciation of decommissioning from a prior year	(46)	-	-	-	-	(46)
Transfer to intangible assets	-	-	(2)	-	-	(2)
Impairment	(43)	(461)	(6)	(3)	-	(513)
Transfer	(1)	-	2	1	(2)	-
Disposals	(1)	(18)	(14)	(15)	(1)	(49)
Balance at 31 December 2010	**20,168**	**5,505**	**6,532**	**700**	**29**	**32,934**

(all amounts in HRK millions)

12. PROPERTY, PLANT AND EQUIPMENT (continued)

b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective Consumption assets	Total
Carrying amount						
Balance at 31 December 2010	**6,329**	**3,063**	**9,957**	**171**	**2**	**19,522**
Balance at 31 December 2009	**6,350**	**2,663**	**8,918**	**188**	**1**	**18,120**

I) Oil and gas reserves

The ability of INA and Group to realise the net book value of oil and gas properties (see b) above) in the future is dependent upon the extent to which commercially recoverable oil and gas reserves are in place. During 2010 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, through the local courts in Croatia. To date, no claims have been made against the Company concerning its title to these assets.

(all amounts in HRK millions)

12. PROPERTY, PLANT AND EQUIPMENT (continued)

III) Collective consumption assets

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

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

At 31 December 2010 the net book values of the Group's property, plant and equipment in BD Exploration and Production was HRK 13,119 million and for 31 December 2009 the amount was HRK 12,863 million. At 31 December 2010 the net book values of the Group's property, plant and equipment in BD Refining and Marketing was HRK 6,884 million and for 31 December 2009 the amount was HRK 5,888 million. At 31 December 2010 the net book values of the Group's property, plant and equipment in BD Retail was HRK 950 million and at 31 December 2009 the amount was HRK 920 million. At 31 December 2010 the net book values of the Group's property, plant and equipment in Corporate and other was HRK 602 million and at 31 December 2009 the amount was HRK 682 million.

The Management Board has assessed the carrying values of its Exploration and Production, Refining & Marketing and Retail assets with reference to the discounted estimated future net cash flows from the refining and wholesale business, in accordance with the requirements of IAS 36. The total net reversal of impairment in accordance with IAS 36 is HRK 503 million in 2010 which comprises of reversal of impairment in amount of HRK 511 million for property, plant and equipment and impairment in amount of HRK 8 million for intangible assets. The impairment charge on assets in 2009 was HRK 837 million:

- The reversal of impairment increased BD Exploration and Production assets by HRK 443 million in 2010, and decreased by HRK 555 million in 2009.
- At BD Refining and Marketing no impairment or reversal was recorded in 2010. An impairment of HRK 113 million was recorded in 2009.
- The reversal of impairment increased BD Retail assets by HRK 60 million in 2010, and the recorded impairment decreased by HRK 169 million in 2009.

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

Discount rates used in the current assessment in 2010 and for 2009 are:

Part of INA, d.d.	2010	2009
Exploration and Production	10.760%	13.329%
Refining and Marketing	11.020%	12.574%
Retail	11.020%	10.800%

V) *Review of the residual value*

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

(all amounts in HRK millions)

13. GOODWILL

	INA Group
Investment of Crosco, d.o.o. in Rotary Ztr. Hungary (100%)	191
Investment of INA, d.d. in Energopetrol d.d. Sarajevo (INA i MOL 67%)	132
Total investments	**323**
Net assets of Rotary Zrt.	(93)
Net assets of Energopetrol d.d. Sarajevo	(67)
Total net assets	**(160)**
Goodwill Rotary Zrt.	104
Goodwill Energopetrol d.d. Sarajevo	93
Balance at 1 January 2009	**197**
Investment of Crosco d.o.o. in Drill Trans Group	103
Net asset of Drill Trans Group	(4)
Balance at 31 December 2009	**296**
Impairment of Energopetrol	(64)
Balance at 31 December 2010	**232**

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

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

Discount rate used for impairment test were 8.83% (EUR) and 13.00% (HUF) respectively in case of Energopetrol d.d. and Rotary Co.LTD.

On 1 September 2009, the subsidiary Crosco d.o.o. Zagreb, acquired the entire equity share in the company Drill Trans Kft., headquarter in Nagykanizsa, Hungary, for consideration of HRK 103 million (see note 42).

(all amounts in HRK millions)

14. INVESTMENTS IN SUBSIDIARIES

	INA, d.d.	
	31 December 2010	**31 December 2009**
Equity investments in subsidiaries	1,224	1,257

	INA, d.d.	
	2010	**2009**
Equity investments in subsidiaries at 1 January	1,257	1,259
Polybit d.o.o. Rijeka - purchase 50% shares	2	-
STSI d.o.o. Zagreb - impairment	(5)	-
Interina d.o.o. Ljubljana – impairment	(3)	(1)
Crobenz d.d. Zagreb - disposal	(20)	-
Hostin d.o.o Zagreb – impairment	(1)	-
INA Kosovo d.o.o. Priština – impairment	(1)	(1)
Sinaco d.o.o. Sisak - impairment	(5)	-
Total as of 31 December 2010	**1,224**	**1,257**

Pursuant to the Agreement on the Sale of Crobenz d.d., Zagreb, to the oil company LUKOIL, the value of the investment was written down to the selling price i.e. by HRK 20 million. At 31 December 2010, Crobenz d.d. was derecognised from the accounts of INA d.d. (the gross carrying amount of HRK 105 million, plus an impairment of HRK 105 million).

Under the Agreement on the Acquisition and Transfer of a 50% share in the company Polybit d.o.o. Rijeka, concluded between SHELL Overseas Investments B.V. and INA d.d., INA d.d., as the acquirer, became the sole owner of the company Polybit. The purchase price amounts to HRK 1.6 million.

(all amounts in HRK millions)

14. INVESTMENTS IN SUBSIDIARIES (continued)

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

Name of company	Activity	Shareholding 31 December 2010	Shareholding 31 December 2009
Oilfield services			
*Crosco Naftni Servisi d.o.o. Zagreb	Oilfield services	100%	100%
Crosco International Limited, Guernsey	Oilfield services	100%	100%
Geotehnika International LLC, Abu Dhabi, UAE	Oilfield services	49%	49%
Crosco B.V. Amsterdam, Nizozemska (from January 2008)	Oilfield services	100%	100%
Nordic Shipping Ltd, Marshall Islands	Platform ownership	100%	100%
Sea Horse Shipping Inc, Marshall Islands	Platform ownership	100%	100%
Crosco International d.o.o. Slovenia	Oilfield services	100%	100%
Rotary Zrt., Hungary	Oilfield services	100%	100%
Drill-Trans Zrt, Hungary (from September 2009)	Road transport of cargo	100%	100%
Crosco S.A. DE C.V. Monterrey, Mexico (from January 2008)	Oilfield services	100%	100%
Crosco International d.o.o. Tuzla, BiH	Oilfield services	100%	100%
Mideast Integrated Drilling & Well Services Company LLC, Oman	Oilfield services	49%	49%
Oil exploration and production			
*INA Naftaplin International Exploration and Production Ltd, Guernsey	Oil exploration and production	100%	100%
CorteCros d.o.o., Zagreb	Distribution of anti-corrosion products	60%	60%
Tourism			
*Hostin d.o.o. Zagreb	Tourism	100%	100%
Ancillary services			
*STSI integrirani tehnički servisi d.o.o. Zagreb	Technical services	100%	100%
*Sinaco d.o.o. Sisak	Security	100%	100%
*ITR d.o.o., Zagreb	Car rental	100%	100%
Production and trading			
*Maziva Zagreb d.o.o. Zagreb	Production and lubricants trading	100%	100%
*Proplin d.o.o. Zagreb	Production and LPG trading	100%	100%

(all amounts in HRK millions)

14. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Activity	Shareholding 31 December 2010	Shareholding 31 December 2009
Trading and finance			
*Interina d.o.o. Ljubljana, Slovenia	Foreign trading	100%	100%
*INA BH d.d. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%	100%
*Interina d.o.o. Skopje, Macedonia (in bankruptcy)	Foreign trading	100%	100%
*Inter Ina Ltd, London, UK	Foreign trading	100%	100%
*INA Hungary Kft., Budapest, Hungary	Foreign trading	100%	100%
*FPC Ltd, London, UK	Foreign trading	100%	100%
*Holdina (Guernsey) Ltd, Guernsey	Foreign trading	100%	100%
Inter Ina (Guernsey) Ltd, Guernsey	Foreign trading	100%	100%
Holdina (Cyprus) Ltd, Cyprus	Foreign trading	100%	100%
Holdina (Ireland) Ltd, Ireland	Foreign trading	100%	100%
*Holdina d.o.o. Sarajevo, Bosnia and Herzegovina (from March 2008 Interina d.o.o. Sarajevo merged to Holdina Sarajevo)	Foreign trading	100%	100%
*INA d.o.o. Beograd, Serbia	Foreign trading	100%	100%
*INA Kosovo d.o.o. Priština	Foreign trading	100%	100%
*Adriagas S.r.l. Milan, Italy	Pipeline project company	100%	100%
*INA Crna Gora d.o.o. Kotor	Foreign trading	100%	100%
*INA Crobenz d.d. Zagreb (until September 2010)	Trading	-	100%
*Prirodni plin d.o.o. Zagreb	Trading	100%	100%
*INA BL d.o.o. Banja Luka	Trading	100%	100%
*Petrol d.d. Jurdani	Trading	83%	83%
*INA-Osijek – Petrol d.d.	Trading	76%	76%
*Polybit d.o.o. Rijeka	Oil production and trading	100%	50%

On 28 November 2008 INA, d.d. paid the sum of 50,000 kuna for the establishment of a Prirodni Plin d.o.o whose primary activity will be the natural gas purchase and supply.

The company did not start its operations immediately, and the supply of natural gas was recorded in the ledgers of INA d.d. for the first six months of 2009. As of 1 July 2009, the natural gas trading operations were taken over by the company Prirodni plin, from INA d.d. and become INA's subsidiary. Prirodni plin d.o.o. is registered for trade, mediation and representation on the energy market.

14. INVESTMENTS IN SUBSIDIARIES (continued)

The Government of the Republic of Croatia and the Hungarian oil company MOL signed a Gas Master Agreement (a framework agreement regulating some basic issues regarding the future of the natural gas market and the supply of natural gas in Croatia) on 30 January 2009.

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

According to IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), Prirodni plin d.o.o. was presented in INA Group financial statement for years ended 31 December 2009 and 2008 as discontinued operation, because there was a co-ordinated plan for disposal of gas business, which was considered as separate major business line.

Contract between Croatian Government and MOL Plc. of sale of Prirodni plin d.o.o. expired as at 1 December 2010 without executing the transaction. Also INA, d.d. currently does not actively seek a buyer for Prirodni plin. Prirodni plin d.o.o. is not presented as discontinued operations in the consolidated financial statements for the year ended 31 December 2010.

(all amounts in HRK millions)

15. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Investments in associates and joint ventures	22	68	51	189
	22	**68**	**51**	**189**

Name of company	Activity	Proportion of ownership	INA Group		INA, d.d.	
			31 December 2010	31 December 2009	31 December 2010	31 December 2009
Croplin d.o.o Zagreb	Gas trading	50%	-	35	-	35
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%	-	11	29	132
			22	**68**	**51**	**189**

Other investments in associates and joint ventures are as follows:

Name of company	Activity	INA Group and INA, d.d.	
		31 December 2010	31 December 2009
Hayan Petroleum Company, Damascus, Syria	Operating company (oil exploration, development and production)	50%	50%
TERME Zagreb d.o.o., Zagreb (from September 2008)	Recreation and medical tourism	50%	50%
INAgip d.o.o. Zagreb	Exploration and production operator (joint venture)	50%	50%
ED INA d.o.o. Zagreb	Research, development and hydrocarbon production	50%	50%
Genan Trading Services Co. WLL Doha, Qatar (in liquidation)	Maintenance and technical engineering services	49%	49%
Belvedere d.d., Dubrovnik	Hotel trade	32%	32%
Marina Petroleum Company Egypt, Cairo	Exploration and production operator	25%	25%
Adria LNG Study Company Ltd	Oil exploration	22.2%	22.2%

(all amounts in HRK millions)

15. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Investment in Croplin d.o.o. Zagreb

The sale of Croplin d.o.o., Zagreb, was initiated based on the Decision of the Managing Board of INA d.d. of 16 June 2010 .

In 2010, the investment in Croplin d.o.o. was impaired by HRK 23 million. The net book value was written down to the price offered by the buyers (HRK 12 million). The negotiations with the buyers are in progress. The sale is expected to take place in 2011. Net asset of Croplin in amount of HRK 12 million has been reclassified to assets classified as held for sale.

16. OTHER INVESTMENTS

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Financial assets at fair value through profit or loss	6	6	6	6
Long-term loans	306	109	409	374
Deposits	22	23	22	23
Other investments	**334**	**138**	**437**	**403**

17. LONG-TERM RECEIVABLES

INA Group	31 December 2010	31 December 2009
Receivables for apartments sold	137	148
Prepayments for property, plant and equipment	61	210
Prepayments for intangible assets	39	24
Other long-term receivables	3	3
	240	**385**

INA, d.d.	31 December 2010	31 December 2009
Receivables for apartments sold	136	146
Long-term receivables from Proplin	69	68
Prepayments for property, plant and equipment	50	205
Prepayments for intangible assets	37	23
Long-term receivables from Crosco	32	32
Long-term receivables from STSI	15	15
Other long-term receivables	2	7
	341	**496**

(all amounts in HRK millions)

17. LONG-TERM RECEIVABLES (continued)

Prior to 1996, the Company had sold apartments it owned to its employees as provided by the laws of the Republic of Croatia. The properties were generally sold on credit, and the related housing receivables are repayable on a monthly basis over periods of 20-35 years. The amounts payable to Croatian state, accounting for 65% of the value of sold apartments are included in other non-current liabilities (note 30). The receivables are secured by mortgages over the sold apartments. The principle is presented in the receivable amounts. The amounts do not include the interest portion.

18. AVAILABLE-FOR-SALE ASSETS

Company available for sale

			INA Group and INA, d.d.	
Name of the Company	**% shareholding held by INA**	**Activity**	**31 December 2010**	**31 December 2009**
Jadranski Naftovod d.d. (JANAF d.d. till 30 June 2009 16.00%)	11.795%	Pipeline ownership and operations	356	336
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	6	6
BINA-FINCOM d.d. Zagreb	5.00%	Construction of highways and other roads, airfields airports	12	12
Impairment			(5)	(5)
			417	**397**

As explained in note 38, a substantial portion of the trading income of JANAF d.d. is derived from INA. The value of the equity share in JANAF was reported by reference to the market value of the shares as quoted on the Zagreb Stock Exchange as of 31 December 2010. The net book value of the equity investment in JANAF increased by HRK 20 million compared to the balance as of 31 December 2009 due to a increase in the market value of the JANAF shares on the Zagreb Stock Exchange. The market value of the shares (118,855 shares) as of 31 December 2010 amounted to HRK 3,000 per share (HRK 2,826 per share as of 31 December 2009).

(all amounts in HRK millions)

19. INVENTORIES

	INA Group		INA, d.d.	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
Work in progress	825	566	824	565
Refined products	660	685	592	679
Spare parts, materials and supplies	466	459	82	78
Gas inventories	381	419	1	419
Crude oil	378	330	378	330
Raw material	293	293	202	174
Merchandise	154	135	139	69
	3,157	**2,887**	**2,218**	**2,314**

The cost of inventories recognised as an expense for the year amount to HRK 14.7 billion (2009: HRK 13.1 billion).

- The cost calculation was based on the monthly output and actual production overheads.
- The cost of domestic oil and isopenthane was measured by reference to the cost price of the BS Exploration and Production.
- The adjusted quantities were determined on the basis of the equivalent and actual monthly output (future prices divided by the BS Eurodiesel, with equivalent 1, multiplied by the actual output), and the production cost was allocated to individual finished products on the basis of the adjusted quantities, while semi-finished products were measured taking account of their stage of completion.

As of 31 December 2010, most inventories were measured at cost, and, based on the comparison with future prices, no significant impairment was identified.

Pursuant to Act on Oil and Oil Derivates Market (Official Gazette 57/2006) which changed the method for calculating compulsory stocks, Croatian Government brought a Decision on quantity and structure of the compulsory stocks of oil and oil derivates for 2010. On the basis of the decision, the Ministry of Economy, Labor and Entrepreneurship established INA d.d. share in keeping compulsory stocks for 2010, defined in quantity (ton) and structure of all three derivate groups as defined by the Act, total quantity being 26,365 t of derivates as follows: 5,500 t motor gasolines, 500 t JET fuel, 12,250 t diesel fuels, 2,800 t gas oils and 5,315 t fuel oils. Pursuant to the Act, a part of compulsory stocks can be kept in crude oil and intermediates, up to 40% of the commitment of motor gasolines, up to 40% of diesel fuels and gas oils, and up to 50% of fuel oils. The translation of product quantities to an adequate quantity of benchmark crude (REB in our case) is done on the basis of production yield for benchmark crude from the adopted Business Plan for the current year (originates from EU Directive).

Based on the aforementioned, on 31 December 2010, INA compulsory stocks amounted to 26,365 t of derivates. Out of this quantity, INA d.d. has in 19,879 t of REB type crude kept a quantity of 11,077 t of Group I,II and III derivates, while the remaining quantity of compulsory stocks of 15,288 t INA d.d. kept as derivates.

The cited stocks are reported by INA d.d. to the Croatian Compulsory Oil Stocks Agency on a weekly basis.

(all amounts in HRK millions)

20. TRADE RECEIVABLES, NET

	INA Group		INA, d.d.	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
Trade receivables	3,470	3,327	2,042	1,542
Allowance for doubtful receivables	(418)	(402)	(226)	(210)
	3,052	**2,925**	**1,816**	**1,332**

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

	INA Group		INA, d.d.	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
60-90 days	63	110	32	51
90-120 days	36	113	29	39
120+ days	190	214	78	43
	289	**437**	**139**	**133**

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

(all amounts in HRK millions)

20. TRADE RECEIVABLES, NET (continued)

Allowance for doubtful receivables:

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Balance at beginning of the year	402	273	210	157
Impairment losses recognised on receivables	225	177	88	84
Amounts written off as uncollectible	(85)	(29)	(20)	(26)
Amounts recovered during the year	(124)	(19)	(52)	(5)
Balance of the end of the year	**418**	**402**	**226**	**210**

The ageing analysis of trade receivables provided for:

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
less than 120 days	8	78	8	39
121-150 days	6	20	6	7
151-180 days	3	19	3	14
181-365 days	73	37	25	17
366+ days	328	248	184	133
	418	**402**	**226**	**210**

21. OTHER RECEIVABLES

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Tax prepayments	387	700	109	513
Other	199	105	178	64
	586	**805**	**287**	**577**

(all amounts in HRK millions)

22. OTHER CURRENT ASSETS

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Short-term loans and deposits	35	26	61	17
Current portion of long terms loans	2	3	186	137
Other	3	3	6	5
	40	**32**	**253**	**159**

23. PREPAID EXPENSES AND ACCRUED INCOME

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Prepayments for customs, duties and other charges	78	48	57	33
Accrued income	47	10	41	2
Other	17	14	1	1
	142	**72**	**99**	**36**

24. CASH AND CASH EQUIVALENTS

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

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Cash on hand	3	3	-	-
Cash in the bank	272	333	222	42
Other	42	31	38	26
	317	**367**	**260**	**68**

(all amounts in HRK millions)

24. CASH AND CASH EQIVALENTS (continued)

Credit risk

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

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

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

25. ASSETS CLASSIFIED AS HELD FOR SALE

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Intangible assets	-	2	-	-
Property, plant and equipment	-	107	-	-
Investments	12	-	12	-
Inventory	-	6	-	-
Trade receivables, net	-	5	-	-
Other receivables	-	1	-	-
TOTAL ASSETS	**12**	**121**	**12**	**-**
Long-term loans	-	19	-	-
Provisions	-	1	-	-
Current portion of long-term loans	-	4	-	-
Trade payables	-	3	-	-
Taxes and contributions	-	1	-	-
Other current liabilities	-	1	-	-
TOTAL LIABILITIES	**-**	**29**	**-**	**-**
ASSETS CLASSIFIED AS HELD FOR SALE	**12**	**92**	**12**	**-**

The sale of Croplin d.o.o., Zagreb, was initiated based on the Decision of the Managing Board of INA d.d. of 16 June 2010.

At 31 December 2010 INA d.d. reclassified Croplin d.o.o., in which it holds an ownership share of 50 percent, to investments available for sale. The negotiations with the buyers are in progress. The sale is expected to take place in 2011. The net book value of the investment in Croplin d.o.o. amounts to HRK 12 million.

(all amounts in HRK millions)

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

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Overdrafts and short-term loans	1,659	2,104	838	581
Current portion of long-term loans (note 29)	1,295	655	1,233	575
	2,954	**2,759**	**2,071**	**1,156**

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Secured bank loans in USD	663	1,454	-	248
Secured bank loans in EUR	60	149	-	73
Secured bank loans in HRK	64	96	-	46
Secured bank loans in HUF	34	45	-	-
Unsecured bank loans in USD	75	159	75	139
Unsecured bank loans in EUR	548	-	548	-
Unsecured bank loans in HRK	215	201	215	75
	1,659	**2,104**	**838**	**581**

The most significant short-term loans as at 31 December 2010 were provided by Raiffeisen Bank Austria d.d. Zagreb, Raiffeisen Bank International AG, BNP Paribas, Credit Agricole Suisse, PBZ and MOL.
INA Group subsidiaries short - term loans are secured mostly by INA d.d. corporate guarantees, debenture notes, bills of exchange, and in some cases by pledges.

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

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Trade payables	3,786	4,286	1,611	2,704
Production and sales taxes payable and other taxes	698	1,670	596	1,515
Payroll taxes and contributions	91	111	54	70
Payroll and other	200	415	114	338
	4,775	**6,482**	**2,375**	**4,627**

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

(all amounts in HRK millions)

28. ACCRUALS AND DEFERRED INCOME

	INA Group		INA, d.d.	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
Accrued interest – long-term loans	52	21	51	20
Accrued expenses	65	136	1	33
Other	7	-	6	1
	124	**157**	**58**	**54**

29. LONG-TERM LOANS

Long-term loans are denominated in a variety of foreign currencies and are subject to a range of interest rates. The majority of these loans are secured by bills of exchange, debentures and financial contractual clauses. The loans of the Group outstanding at 31 December 2010 and 2009 are analysed as follows:

	Type of loan	Loan currency	**31 December 2010**	**31 December 2009**
PBZ-API 80003	Loan	USD	2	2
EBRD	Environmental	EUR	17	52
MOL Plc	Fin tax liabilities	USD, EUR	945	1,078
ICF DEBT POOL	Refinery modernisation	EUR	364	-
EBRD	Refinery modernisation	USD, EUR	1,178	-
INTESA San Paolo	Loan	EUR	204	-
PBZ	Loan	EUR	166	-
Bayerische Landesbank	Syndicate / Revolving	USD, EUR	5,505	5,089
			8,381	**6,221**
Due within 1 year			(1,233)	(575)
Total long-term loans – INA, d.d.			**7,148**	**5,646**
OTP	Loan (equipment)	EUR, HUF	193	173
Other long term Group loans			22	25
			215	**198**
Due within 1 year			(62)	(80)
Total long-term loans – INA Group			**7,301**	**5,764**

(all amounts in HRK millions)

29. LONG-TERM LOANS (continued)

INA Group

	Weighted average interest rate 31 December 2010	Weighted average interest rate 31 December 2009	31 December 2010	31 December 2009
	%	%		
Bank loans in USD	2.02	1.45	4,626	5,636
Bank loans in EUR	3.01	4.97	3,873	761
Bank loans in HUF	7.45	6.25	7	12
Bank loans in HRK	5.10	7.53	90	10
Total			**8,596**	**6,419**
Payable within 1 year			(1,295)	(655)
Total long-term loans - INA Group			**7,301**	**5,764**

INA, d.d.

	Weighted average interest rate 31 December 2010	Weighted average interest rate 31 December 2009	31 December 2010	31 December 2009
	%	%		
Bank loans in USD	2.02	1.48	4,626	5,636
Bank loans in EUR	2.97	5.39	3,755	585
Total			**8,381**	**6,221**
Payable within 1 year			(1,233)	(575)
Total long-term loans - INA, d.d.			**7,148**	**5,646**

The maturity of loans may be summarised as follows:

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Current portion of long-term debt	1,295	655	1,233	575
Payable within one to two years	1,757	562	1,749	557
Payable within two to three years	4,498	1,323	4,373	1,285
Payable within three to four years	271	3,842	258	3,804
Payable within four to five years	258	24	257	-
Payable within over five years	517	13	511	-
Total	**8,596**	**6,419**	**8,381**	**6,221**

(all amounts in HRK millions)

29. LONG-TERM LOANS (continued)

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

	INA Group	INA, d.d.
Balance at 31 December 2009	**6,419**	**6,221**
Payable within 1 year (included within bank loans and overdrafts – note 26)	655	575
Payable after more than 1 year	5,764	5,646
Balance at 1 January 2010	**6,419**	**6,221**
New borrowings raised	2,803	2,708
Amounts repaid	(1,098)	(1,018)
Foreign exchange losses	472	470
Balance at 31 December 2010	**8,596**	**8,381**
Payable within 1 year (included within bank loans and overdrafts – note 26)	1,295	1,233
Payable after more than 1 year	7,301	7,148

The principal long-term loans outstanding at 31 December 2010 and the principal new loans drawn down and repaid during 2010 were as follows:

Privredna banka Zagreb

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

Erste & Steiermaerkische Bank and Viktor Lenac

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

EBRD

In 2001 the Company concluded a long-term agreement with EBRD for a loan in the amount of EUR 36 million to finance environmental projects at INA. The loan is repayable in 12 semi-annual instalments, with the last instalment due on 30 March 2011.

Bayerische Landesbank

In 2007, the Company entered into a new loan agreement with consortium for a loan facility in the amount of USD 1 billion. The loan funds are intended to be used for general corporate purposes (including repayment of the syndicated loan of USD 400 million agreed earlier and partially refinery modernization project). The loan period is five years with option of extension for additional 2 years (1+1).

29. LONG-TERM LOANS (continued)

MOL, Plc

In 2009, the Company concluded with MOL two loan agreements, one for an EUR-loan and a USD-loan loan each. The loans are intended for the financing of outstanding taxes payable to the state (VAT, excise duties, fees payable to Hrvatske autoceste - HAC and Hrvatske ceste - HC).

PBZ

In 2010, the Company concluded a Long-term Loan Agreement with PBZ, with the total loan facility amounting to EUR 40 million. The loan is intended for the financing of costs of the project North Adria - Blocks Isabela, Iris and Iva.

INTESA San Paolo

In 2010, the Company concluded a Long-term Loan Agreement with Banca Intesa San Paolo, with the total loan facility amounting to EUR 31.14 million. The purpose of the loan is to finance the construction of the Hydrogen Generation Plan at the Rijeka Refinery.

EBRD

In 2010, the Company concluded a Long-term Loan Agreement with EBRD, with the total loan facility amounting to EUR 160 million, with an option to draw the loan funds in US dollars. The purpose of the loan is finalization of the phase I of modernization Sisak and Rijeka Refineries.

ICF DEBT POOL LLP

In 2010, the Company concluded a Long-term Loan Agreement with the EBRD for a loan facility in the total amount of EUR 50 million. The purpose of the loan is to finance the completion of the first phase of the modernisation of the Sisak and Rijeka Refineries.

Compliance with loan agreements

During 2010 INA d.d. and INA Group repaid all of their liabilities in respect of loans (principal, interest, and fees) on a timely basis, and there were no instances of default or delinquency in this respect.

(all amounts in HRK millions)

30. OTHER NON-CURRENT LIABILITIES

	INA Group		INA, d.d.	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
Liabilities to Government for sold apartments	75	81	75	81
Deferred income for sold apartments	44	48	42	44
Liabilities for derivatives financial instruments	6	10	-	-
	125	**139**	**117**	**125**

The long-term payable to the government relates to obligation arising on the sale of housing units to employees under the government program (note 17). According to the law regulating housing sales, 65% of the proceeds from the sale of apartments to employees were payable to the state at such time as the proceeds were collected by the Company. According to the law, INA has no liability to remit the funds unless and until they are collected from the employee.

(all amounts in HRK millions)

31. PROVISIONS

INA Group	Environmental provision	Decommissioning Charges	Legal claims	Potential tax obligation	Redundancy costs	Cost of unutilised holiday	Tax obligation claims of Holdina Sarajevo	Other	Total
Balance at 1 January 2009	**35**	**1,009**	**274**	**-**	**6**	**-**	**55**	**186**	**1,565**
Charge for the year	-	1,207	128	-	-	60	-	49	**1,444**
Effect of change in estimates	-	125	-	-	-	-	-	-	**125**
Provision utilised during the year	-	(11)	(127)	-	(6)	-	(34)	(154)	**(332)**
Balance at 31 December 2009	**35**	**2,330**	**275**	**-**	**-**	**60**	**21**	**81**	**2,802**
Charge for the year	319	-	40	112	17	65	-	29	**582**
Effect of change in estimates	-	(357)	-	-	-	-	-	-	**(357)**
Interest	3	144	-	-	-	-	-	-	**147**
Provision utilised during the year	(35)	-	(52)	-	-	(58)	-	(15)	**(160)**
Balance at 31 December 2010	**322**	**2,117**	**263**	**112**	**17**	**67**	**21**	**95**	**3,014**

At 31 December 2010 Ina Group recognized environmental provision in amount HRK 322 million which covers treatment of accumulated waste generated by former activity, soil excavation and replacement during the reconstruction of filling stations and investigation to determine the extent of the contaminations. It does not cover the cost of remediation in lack of detailed National regulations.

(all amounts in HRK millions)

31. PROVISIONS (continued)

INA, d.d.	Environmental provision	Decommissioning Charges	Legal claims	Redundancy costs	Cost of unutilised holiday	Other	Total
Balance at 1 January 2009	**35**	**1,009**	**240**	**-**	**-**	**177**	**1,461**
Charge for the year	-	1,207	126	-	52	54	**1,439**
Effect of change in estimates	-	125	-	-	-	-	**125**
Provision utilised during the year	-	(11)	(127)	-	-	(156)	**(294)**
Balance at 31 December 2009	**35**	**2,330**	**239**	**-**	**52**	**75**	**2,731**
Charge for the year	307	-	31	-	48	9	**395**
Effect of change in estimates	-	(357)	-	-	-	-	**(357)**
Interest	3	144	-	-	-	-	**147**
Provision utilised during the year	(35)	-	(50)	-	(52)	(15)	**(152)**
Balance at 31 December 2010	**310**	**2,117**	**220**	**-**	**48**	**69**	**2,764**

(all amounts in HRK millions)

31. PROVISIONS (continued)

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Analysed as:				
Current liabilities	394	229	201	190
Non-current liabilities	2,620	2,573	2,563	2,541
	3,014	**2,802**	**2,764**	**2,731**

Decommissioning charges

Provision relates to the decommissioning and removal of assets, such as an oil and gas production facility. The initial recognition of the decommissioning provision is treated as part of the cost of the related property, plant and equipment. Subsequent adjustments to the provision arising from changes in estimates are also treated as an adjustment to the cost of the property, plant and equipment and thus dealt with prospectively in the income statement through future depreciation of the asset. As of 31 December 2010, the Company recognised a decommissioning provision for 56 production oil and gas fields , 5 non-production fields, 7 positive non-production wells and 148 negative non-production wells. As of 31 December 2009, the Company recognised a decommissioning provision for 55 production oil and gas fields , 4 non-production fields, 8 positive non-production wells and 181 negative non-production wells.

Legal claims

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

Municipality of Velika Ludina

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

In 2009, the Municipal Court in Ivanić Grad passed a judgement ordering payment in the amount of HRK 53 million, with penalty interest and dispute costs. The penalty interest on individual amounts amounted to HRK 43 million as of 31 December 2010. Dispute costs were HRK 1.5 million at 31 December 2010. INA d.d. lodged an appeal, and the decision of the County Court in Velika Gorica is still pending. The total amount of provision is HRK 98 million.

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

31. PROVISIONS (continued)

Legal claims (continued)

GWDF Partnership München i GWDF Limited Cipar

HRK 29 million has been included in the books of INA, d.d. in respect of legal action between GWDF Partnership, Gesellschaft Bürgerlichen Rechts, and GWDF Limited Cyprus filed against INA d.d. Zagreb and INA-Naftaplin International Exploration, Channel Islands on the grounds of the damage incurred to the claimants for unfounded termination of negotiations. This resulted in refrain from signing the contract on the transfer of shares between GWDF Ltd Cyprus and INA -Naftaplin International Exploration. INA d.d. filed its statement of defence in September 2007, disputing both the grounds and the amount of the claim, maintaining that the claimants abandoned the negotiations because of a business decision and they were the ones negotiating in conflict with the principles of conscientiousness and fairness. Furthermore, INA d.d. filed an objection challenging the capacity to sue and be sued of GWDF Partnership, Gesselschaft Bürgerlichen Rechts, and for the failed passive legitimation in relation to INA d.d., as well as an objection challenging the competence of a Croatian Court in international disputes in relation to GWDF Ltd Cyprus. The competent court should first decide on the law applicable to this dispute and whether the court indeed has the jurisdiction. The first instance proceedings are under way. Several hearings were held in 2008, 2009 and 2010, in which process matters (the capacity of the parties to sue and be sued, the competency of the court and the applicable law). The position of INA is equal as GWDF and the expected timing until the resolution of the dispute cannot currently be determined.

Uljanik Pula

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

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

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

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

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

31. PROVISIONS (continued)

Legal claims (continued)

City of Sisak

HRK 5.5 million has been included in the books of INA, d.d. in respect of legal action between and INA, d.d. Claimant, The City of Sisak has filed a legal action in respect of indemnity for hazardous emissions from the Sisak Refinery. The plaintiff claims that hazardous emissions impair the market value of properties in the Sisak area owned by the City of Sisak. INA d.d. maintains in its statement of defence that the plaintiff has produced no evidence of the market value being impaired as a result of hazardous emissions from the Sisak Refinery. The City of Sisak, as plaintiff, has proposed a motion to perform an expert valuation of the impact of the Sisak Refinery on the pollution of the air and with it the market value of properties, which the court acknowledged and ordered the expertise. During 2010, an expert witness was called, whose testimony supported the claims of INA d.d. The plaintiff objected to the expert's findings. Unless further objections are filed, the claim is likely to be rejected.

Potential tax obligation in Prirodni plin

In June 2010 Prirodni plin has received a conclusion from the Tax Authorities with the opinion that the entity has been selling natural gas (from import) to domestic customers (tariff customers, HEP and Petrochemical Kutina) below market price from July 2009 until April 2010. Prirodni plin has submitted requested information on quantities and prices of natural gas sold to the above mentioned customers to the Tax Authority.

On 21 October 2010 Prirodni plin received the Minutes from Tax Authority. The document repeats all the arguments as in the above-mentioned conclusion.

The Minutes shows that Tax Authorities did not accept arguments from Prirodni plin that the price was regulated by the Government from July 2009 until April 2010, as well as it is regulated onwards. According to the Minutes the Prirodni plin should calculate and pay VAT on the difference between real market prices and selling prices.

For the period from July 2009 until April 2010 Prirodni plin should pay the total amount of HRK 109.5 million of VAT and interest.

On 10 November 2010 Prirodni plin filed a Complaint against the Minutes toward the Tax Administration.

In the Complaint Prirodni plin stated that the conclusions of the Tax Administration about the additional obligation for paying VAT on the basis of deliveries of natural gas to tariff and privileged customers in the amount of the difference between the invoiced amount and market value are based on incorrect facts and misapplication of substantive law.

Prirodni plin explained in detail how the natural gas market is functioning in Croatia as well as its obligation to deliver the gas to its customers suppliers of tariff customers at prices determined by decisions of the Government and the privileged customers HEP and Petrokemija at prices specified in contracts, that are based on the Government's Model for calculating the sales price of gas.

On 23 November 2010 the Tax Administration issued a Tax Resolution with the same findings, and again the arguments of Prirodni plin presented in the Complaint were not respected.

31. PROVISIONS (continued)

Potential tax obligation in Prirodni plin (continued)

Prirodni plin filed an Appeal against the Tax Resolutions on 22 December 2010 and emphasized again incorrect facts, misapplication of substantive law and substantial violation of the procedure.

In the Appeal there were presented arguments that Prirodni plin delivered gas in the course of their business activities and, in accordance with the legislation, the VAT was calculated on the fee invoiced to customers.

Prirodni plin expects that the Independent Service for the second level procedure of the Ministry of Finance will accept the Appeal and through the new tax act cancel the disputed Tax Resolution.

On 18 February 2011 Ministry of Finance, Independent Service for Second Instance Procedure issued a decision which upheld the Appeal filed of Prirodni plin and the same cancelled tax resolution issued by the Tax Administration and the case is back to first instance procedure.

Nevertheless, management still believes there is a considerable risk related to this dispute. Therefore, Prirodni plin recorded a provision for liability for paying VAT and interest on late payments in the amount of HRK 112.4 million.

(all amounts in HRK millions)

32. RETIREMENT AND OTHER EMPLOYEE BENEFIT SCHEMES

Defined Benefit Schemes

According to the Collective Agreement the Group has obligation to pay jubilee awards, retirement and other benefits to employees. The Group operates defined benefit schemes for qualifying employees. Under the schemes, the employees are entitled to an early retirement benefit in the net amount of HRK 8,000. For regular retirement (no early retirement bonus), employees receive HRK 16,000 net, of which HRK 8,000 are taxable. No other post-retirement benefits are provided. Jubilee awards are paid out according to the following fixed amounts and anniversary dates:

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

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

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

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2010 by I.A.C.T.A. Actuarial Consulting Ltd . In 2009, the Company made a provision of HRK 52 million and HRK 40 million in respect of jubilee awards and regular retirement allowance, respectively.

The present value of the defined benefit obligation, the related current service cost and past service cost were determined using the projection method based on the total number of employees.

	Valuation at			
Key assumptions used:	**31 December 2010**		**31 December 2009**	
Discount rate		5.50%		5.00%
Turnover rate		1-3%		0-3%
Mortality table	HR2004	70,00%	HR2004	70,00%
Average expected remaining working lives (in years)		15.5		13.7

(all amounts in HRK millions)

32. RETIREMENT AND OTHER EMPLOYEE BENEFIT SCHEMES (continued)

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

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Cost of current period	8	8	6	6
Interest	8	7	6	6
Actuarial gains or losses	(14)	4	(16)	(3)
	2	**19**	**(4)**	**9**

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

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Present value of defined benefit obligations	145	143	92	96
Liability recognised in the balance sheet	**145**	**143**	**92**	**96**

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
This amount is presented in the balance sheet as follows:				
Current liabilities	16	17	8	12
Non-current liabilities	129	126	84	84
	145	**143**	**92**	**96**

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

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
At 1 January	143	124	96	87
Recognised cost in the current period	8	8	6	6
Interest	8	7	6	6
Actuarial gains or losses	(5)	10	(8)	5
Payments	(9)	(6)	(8)	(8)
At 31 December	**145**	**143**	**92**	**96**

(all amounts in HRK millions)

33. SHARE CAPITAL

	INA Group and INA, d.d.	
	31 December 2010	31 December 2009
Issued and fully paid:		
10 million shares (HRK 900 each)	**9,000**	**9,000**

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

34. REVALUATION RESERVES

	INA Group and INA, d.d.	
	31 December 2010	31 December 2009
Balance at beginning of year	10	(135)
Increase/ (decrease) arising on revaluation available for sale securities (Janaf)	21	181
Deferred tax	(4)	(36)
Balance at the end of year	**27**	**10**

(all amounts in HRK millions)

35. OTHER RESERVES

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

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

Movements on reserves during the year were as follows:

INA Group

	Combined reserves at 31 December 1993	Foreign currency translation reserves	Other reserves	Total
Balance at 1 January 2009	**2,132**	**(272)**	**447**	**2,307**
Movements during 31 December 2009	-	4	-	4
Balance at 31 December 2009	**2,132**	**(268)**	**447**	**2,311**
Movements during 31 December 2010	-	29	-	29
Balance at 31 December 2010	**2,132**	**(239)**	**447**	**2,340**

INA, d.d.

	Combined reserves at 31 December 1993	Other reserves	Total
Balance at 31 December 2009	1,667	285	**1,952**
Balance at 31 December 2010	1,667	285	**1,952**

(all amounts in HRK millions)

36. RETAINED EARNINGS

	INA Group Retained earnings/ (Accumulated deficit)	INA, d.d. Retained earnings/ (Accumulated deficit)
Balance at 1 January 2009	**855**	**420**
Loss for the year	(392)	(631)
Balance at 31 December 2009	**463**	**(211)**
Profit for the year	961	1,767
Balance at 31 December 2010	**1,424**	**1,556**

37. NON CONTROLLING INTEREST

	INA Group	
	2010	**2009**
Balance at beginnig of year	8	10
Share of loss for the year	(6)	(2)
Balance at end of year	**2**	**8**

38. RELATED PARTY TRANSACTIONS

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

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

(all amounts in HRK millions)

38. RELATED PARTY TRANSACTIONS (continued)

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

INA, d.d.

	Sales of goods		Purchase of goods	
	2010	**2009**	**2010**	**2009**
Foreign related companies				
Interina Ltd Guernsey	2,815	2,567	280	238
Holdina Sarajevo	526	539	-	-
Interina d.o.o. Ljubljana	27	16	-	1
Interina Ltd London	6	206	10,666	8,073
Adriagas Milano	-	-	4	4
INA Crna Gora d.o.o Podgorica	55	37	-	-
INA Beograd d.o.o Beograd	100	47	-	-
Domestic related companies				
Crosco Grupa	7	5	124	130
Osijek Petrol d.d.	399	491	-	-
Crobenz d.d. Zagreb	334	487	2	5
Proplin d.o.o. Zagreb	498	460	-	85
STSI d.o.o. Zagreb	19	7	258	304
Maziva Zagreb d.o.o. Zagreb	95	59	8	9
ITR d.o.o. Zagreb	1	2	24	30
Sinaco d.o.o. Zagreb	3	2	124	134
Hostin d.o.o. Zagreb	-	-	-	1
Prirodni plin d.o.o. Zagreb	3,970	1,210	235	41
Polybit d.o.o. Rijeka	-	1	-	-
Companies available for sale				
JANAF d.d. Zagreb	1	-	45	40
Strategic partner				
MOL Plc	347	170	941	1,238
Companies controlled by strategic partner				
Tifon d.o.o.	-	-	6	-
Companies controlled by the State				
Hrvatske željeznice	26	104	42	42
Hrvatska elektroprivreda	344	1,753	142	56
Croatia osiguranje	2	5	44	1
Hrvatske vode	-	-	22	19
Hrvatska pošta	-	1	2	3
MORH	51	45	-	-
Hrvatske šume	-	-	-	-
Jadrolinija	111	94	5	5
Narodne novine	-	-	2	3
Croatia Airlines	158	132	-	-
Petrokemija Kutina	6	834	-	-
Plinacro	-	4	-	242
Hrvatske autoceste	-	1	60	17
Podzemno skladište plina Okoli	1	11	-	-

(all amounts in HRK millions)

38. RELATED PARTY TRANSACTIONS (continued)

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

INA, d.d.	Amounts owed from related parties		Amounts owed to related parties	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Foreign related companies				
Interina Ltd Guernsey	-	239	128	57
Holdina Sarajevo	81	104	5	3
Interina d.o.o. Ljubljana	3	2	-	-
Interina Ltd London	-	6	2,183	2,153
Adrigas Milano	-	-	1	1
INA Crna Gora d.o.o Podgorica	15	8	-	-
INA Beograd d.o.o Beograd	7	5	-	-
Domestic related companies				
Crosco Grupa	2	1	50	42
Osijek Petrol d.d.	123	96	1	1
Crobenz d.d. Zagreb	-	143	-	1
Proplin d.o.o. Zagreb	109	90	22	29
STSI d.o.o. Zagreb	8	3	173	212
Maziva Zagreb d.o.o. Zagreb	21	20	28	43
ITR d.o.o. Zagreb	-	-	14	41
Sinaco d.o.o. Zagreb	1	-	36	63
Hostin d.o.o. Zagreb	-	-	-	1
Prirodni plin d.o.o. Zagreb	2,271	849	346	196
Polybit d.o.o. Rijeka	-	-	-	-
Companies available for sale				
JANAF d.d. Zagreb	-	-	4	20
Strategic partner				
MOL Plc	30	26	609	653
Companies controlled by strategic partner				
Tifon d.o.o.	99	3	6	-
Companies controlled by the State				
Hrvatske željeznice	1	108	13	10
Hrvatska elektroprivreda	209	217	7	16
Croatia osiguranje	-	-	1	33
Hrvatske vode	-	-	3	6
Hrvatska pošta	2	2	-	-
MORH	14	14	-	-
Hrvatske šume	5	4	-	-
Jadrolinija	33	25	-	1
Narodne novine	-	-	-	-
Croatia Airlines	24	30	-	-
Petrokemija Kutina	194	199	-	-
Plinacro	-	-	-	38
Hrvatske autoceste	1	-	5	8
Podzemno skladište plina Okoli	-	1	6	61

(all amounts in HRK millions)

38. RELATED PARTY TRANSACTIONS (continued)

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

INA Group

	Sales of goods		Purchase of goods	
	2010	**2009**	**2010**	**2009**
Companies available for sale				
JANAF d.d. Zagreb	1	3	45	40
Strategic partner				
MOL Plc	655	589	967	1,245
Companies controlled by strategic partner				
Tifon d.o.o.	442	9	6	-
Companies controlled by the State				
Hrvatske željeznice	29	106	42	42
Hrvatska elektroprivreda	1,667	1,754	146	62
Croatia osiguranje	7	13	67	26
Hrvatske vode	1	2	22	20
Hrvatska pošta	-	1	2	6
MORH	51	46	-	-
Hrvatske šume	4	6	-	1
Jadrolinija	115	94	5	6
Narodne novine	-	-	2	3
Croatia Airlines	158	132	5	5
Petrokemija Kutina	937	835	1	1
Plinacro	7	5	258	242
Hrvatske auotoceste	17	21	60	17
Podzemno skladište plina Okoli	31	28	4	-

(all amounts in HRK millions)

38. RELATED PARTY TRANSACTIONS (continued)

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

INA Group	Amounts owed from related parties		Amounts owed to related parties	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Companies available for sale				
JANAF d.d. Zagreb	1	1	4	20
Strategic partner				
MOL Plc	100	110	614	662
Companies controlled by strategic partner				
Tifon d.o.o.	103	6	6	-
Companies controlled by the State				
Hrvatske željeznice	3	109	13	10
Hrvatska elektroprivreda	272	217	7	18
Croatia osiguranje	-	-	12	37
Hrvatske vode	-	-	3	6
Hrvatska pošta	2	2	-	-
MORH	14	14	-	-
Hrvatske šume	6	5	-	-
Jadrolinija	35	25	-	1
Narodne novine	-	-	-	-
Croatia Airlines	24	30	1	1
Petrokemija Kutina	200	199	-	-
Plinacro	1	-	17	38
Hrvatske autoceste	3	1	5	8
Podzemno skladište plina Okoli	4	12	6	61

(all amounts in HRK millions)

38. RELATED PARTY TRANSACTIONS (continued)

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

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

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

Compensation of key management personnel

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

	INA, d.d.	
	31 December 2010	**31 December 2009**
Short-term employee benefits	39.7	37.6
Termination bonuses	13.4	19.6
Total	**53.1**	**57.2**

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

Based on the analysis of the submitted and Independence Statements with respect to related parties, the employees of INA d.d. (44 employees), of which 5 provided by the President and Members of the Management Board, 2 by the Assistants to Executive Directors, 6 by Executive Directors and 31 by Sector Directors, neither the employees nor close family members of the key management members of INA d.d. have any ownership interest in INA d.d. or the INA Group that would provide them a significant influence or control over the entity in 2010.

The following related parties were identified during 2010 by one Executive Director and Division Directors of INA d.d.:

1 The Executive Director of Corporate Services Function, Mr. Berislav Gašo, represented to have been President of the Supervisory Board of STSI, a company headquartered in Zagreb, and a Member of the Supervisory Board of Energopetrol-Sarajevo.

2 The Director of the Corporate Security Division, Mr. Mladen Vulinec, represented to have been a Member of the Supervisory Board of the INA Group - SINACO, an integrated security and safety system service company headquartered in Sisak.

3. The Director of the Investment Management Division, Mrs. Davorka Tancer, represented that her spouse Adonis Tancer was the owner/co-owner of a business facility - IMI INSTROMONT INŽENJERING d.o.o., an electric device manufacturing, assembly and maintenance company which was involved in a business relationship with INA d.d. or the INA Group - STSI.

38. RELATED PARTY TRANSACTIONS (continued)

4 The Director of the Legal Affairs Division, Mr. Željko Brčić, represented to have been a Member of the Supervisory Board of ITR d.o.o., a car rental company headquartered in Zagreb, Šubićeva 29, during 2010.

5 The Director of the Commercial Affairs Division, Mrs. Barbara Mesterhazy, represented to have been President of the Management Board of PROPLIN, a Member of the Management Board of INTERINA - GUERNSEY, President of the Supervisory Board of INA Osijek PETROL, President of the Supervisory Board of Maziva, Zagreb, a Member of the Supervisory Board of CROBENZ, and a Member of the Supervisory Board of INA B&H during 2010.

Other related party transactions

The Company is the principal customer of Crosco Naftni Servisi d.o.o. and its subsidiaries. The Crosco Group, with the Company as its sole owner (note 14), presented consolidated 2010 revenue in the amount of HRK 1,531 million (2009: HRK 2,001 million), of which HRK 195 million (2009: HRK 185 million) were generated mainly from sale of technological services to INA, d.d.

The Company is also the major customer of STSI d.o.o. and its subsidiaries , with the Company as its sole owner (note 14), presented consolidated 2010 revenue in the amount of HRK 605 million (2009: HRK 806 million), of which HRK 542 million (2009: HRK 423 million) were generated mainly from sale to INA, d.d.

The Company is also the major customer of Maziva Zagreb d.o.o. and its subsidiaries , with the Company as its sole owner (note 14), presented consolidated 2010 revenue in the amount of HRK 212 million (2009: HRK 216 million), of which HRK 64 million (2009: HRK 76 million) were generated mainly from sale to INA, d.d.

The Company is also the major customer of Sinaco d.o.o. and its subsidiaries , with the Company as its sole owner (note 14), presented consolidated 2010 revenue in the amount of HRK 135 million (2009: HRK 147 million), of which HRK 127 million (2009: HRK 140 million) were generated mainly from sale to INA, d.d.

The Company remains the customer of its associated company JANAF d.d., in which it has a holding of 11,795% (Note 18). In 2010, approximately HRK 45 million of the associated company's total revenue in the amount of HRK 469 million account for sales revenue in respect of INA, d.d. as user of the pipeline system of JANAF d.d. (2009: HRK 45 million out of HRK 465 million total revenue).

39. COMMITMENTS

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

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

Details of guarantees relating to short term bank loans and overdrafts are provided in note 26.

Investment in refining assets

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

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

For the purposes of the implementation of the refinery modernisation project, 192 contracts were concluded with vendors as at 31 December 2010, worth HRK 3.55 billion.

Investment in contract areas of North Adriatic

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

- INA, d.d. and ENI Croatia B.V. have closed down in the 1996 and 1997 Production Sharing Agreements in contract areas Aiza - Laura and Ivana, and realization of the partnership takes place through a joint operating company INAgip with interests 50 : 50,

- INA, d.d. and EDISON INTERNATIONAL S.p.A. have closed down in the 2002 Production Sharing Agreement in the contract area Izabela & Iris / Iva.

39. COMMITMENTS (continued)

Investment in contract areas of North Adriatic (continued)

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

When Izabela gas field will be also in production, in the North Adriatic Area a total of 18 production platforms and 1 compressor platforms with a total of 46 production wells will be installed.

Until now, in the contract areas North Adriatic and Aiza-Laura, INA, d.d. has invested in capital construction of mining facilities and plants HRK 4.3 billion, while of the total gained reserves INA´s share will range about 70% of the produced gas, which is further placed on the Croatian gas market.

Two platforms (Izabela South and Izabela North) have been installed on the Izabela gas field (in partnership with Edison). Two production wells have been drilled from Izabela South and completed, each with two production strings, and the platform has been ready for starting the test production since 23 May 2010. From Izabela North, three production wells, each with two production strings, have been drilled and complete, and the platform has been ready for starting the test production since 13 July 2010. Additionally, on 28 September 2010, Ex-Agency and Croatian Register of Shipping issued their Final Reports and Safety Certificates, which are the final evidence that platforms are fully technically ready for production period. At the beginning of November 2010 Croatian Ministry of Economy has issued Approval for extension of "Test production phase" up to end of June 2011, and Final Technical Committee and Operating license obtaining are expected at the beginning of July 2011. Although technically ready, in this moment platforms still are not in the production, due to still ongoing negotiations between INA and Edison. Once production starts, INA's share of production from the Izabela gas field will be about 45%.

On 31 December 2010 INAgip had in both contract areas 285 active contracts amounting in total to HRK 207.67 million and the remaining commitments under these contracts on the same date amounted to HRK 100.94 million.

Edina has, for the need of the development of the Izabela gas field from 1 January 2008 until 31 December 2010, concluded 64 (25 are still active) contracts amounting in total to EUR 140.3 million from which EUR 138.1 million was carried out on 31 December 2010.

Investments in Syria

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

The first PSA between The Government of the Syrian Arab Republic and GPC and INA d.d. – Naftaplin was assembled 13 August 1998 for Hayan Block. The second PSA covers the Aphamia Concession and has become effective from 26 June 2004.

39. COMMITMENTS (continued)

Investments in Syria (continued)

Up to present day INA has six (6) commercial discoveries on Hayan Block (Jihar, Al Mahr, Jazal, Palmyra, Mustadira and Mazrur) with significant oil, gas and condensate reserves. The average daily production of the gas in period January-December 2010 is around 1.33 mil scm and 6,830 bbl/day of the crude oil and condensate, which is result of production start up through Hayan Oil and Gas Station.

Current situation

Hayan Oil and Gas Station (Stage 2), together with belonging oil, gas & condensate wells, transportation system and oil tanks, is under production.

Construction activities at Hayan Gas Treatment Plant (GTP Hayan), with capacity 3.9 million m^3/day inlet gas and up to 180 t/day LPG, are also finished. For the time being GTP Hayan is under process of commissioning and performance testing together with belonging gathering and transportation system for dispatching produced gas and oil/condensate. Until present moment all discovered fields are put on stream and production of gas and condensate from gas reservoirs on the Jihar and Al Mahr fields started.

On Aphamia Exploration Block where INA is Operator (100%), the Second exploration phase (First Extension of Initial Exploration phase) commenced in August 2008. During that phase INA was obliged to acquire 300 km 2D seismic or equivalent of 3D and drill 2 exploration wells (USD 6,000,000 minimum financial obligation). Completion date of that phase is August 2010. Obligations are completely done; 270km2 3D seismic was acquired and 2 exploration wells were drilled (November 2010). The prospects that were drilled fulfilled projected expectations and encourage further exploration activities. INA sent to GPC request for approval for the Second Extension of Initial Exploration phase. The work obligation for this phase is drilling 1 exploration well in the period of 2 years (USD 5,000,000 minimum obligation with validity of 30 months).Completion date of that phase is January 2013 (24 months after GPC approval).

In Syria until 31 December 2010, HPC had 21 valid contracts including 3 new. The total amounts of these contracts were HRK 3.06 billion. At 31 December 2010 remaining obligations due to these contracts were HRK 246.9 million.

“Take or pay“ contract

Starting from 1 January, 2011 Prirodni plin d.o.o. conclude a new import Contract with ENI Italy for procurement of app 2.25 bcm natural gas until 31 December 2013. As of 1 January 2011 future obligations are app HRK 4.9 billion until the contract expiry (31 December 2013).

Gas Transportation Contract

Additionally, the Company concluded transportation agreements to ensure deliveries of the gas to the destination point (FCA Croatian border). Validities of transportation contracts are, 2015 for Slovenia and 2017 for Austria. The future commitments contracted approximate to HRK 1.12 billion until 2017.

39. COMMITMENTS (continued)

Gas sales Contracts

Group had following natural gas sale contracts from 1 October 2010 i.e. from 1 January 2011 to the expiry of the underlying contract:

1. Long-term contract between Prirodni plin d.o.o. and HEP d.d. Zagreb (Annex 11 which defines the conditions for delivery in 2011 remains in INA and is not transferred to Prirodni plin d.o.o.)
   a) Contract period: from 1 January 2011 until 1 January 2016 (Annex 11 defines conditions for delivery in 2011)
   b) Sales revenue from 1 October until 31 December 2010: HRK 340 million
   c) Contracted supply quantity: 3,507,614,644 m^3 from 1 January 2011 until 1 January 2016
   d) Estimated revenue for the remaining period: HRK 9.63 billion
2. Long-term contract between Prirodni plin d.o.o. and Petrokemija d.d. Kutina
   a) Contract period: from 1 January 2011 until 31 December 2011
   b) Sales revenue from 1 October until 31 December 2010: HRK 319 million
   c) Contracted supply quantity: 654,500,000 m^3 from 1 January 2011 until 31 December 2011
   d) Estimated revenue for the remaining period: HRK 1.36 billion
3. Contracts between Prirodni plin d.o.o. and tariff-based customers (distribution - transport)
   a) Contract period: from 1 October 2010 until 30 September 2011
   b) Sales revenue 1 October until 31 December 2010: HRK 488 million:
   c) Contracted supply quantity: 494,089,359 m^3 from 1 January 2011 until 30 September 2011
   d) Estimated revenue for the remaining period: HRK 857 million
4. Contracts Prirodni plin d.o.o. – other tariff-based customers – distributors - sales
   a) Contract period: from 1 October 2010 until 30 September 2011
   b) Sales revenue from 1 October until 31 December 2010: HRK 399 million
   c) Contracted supply quantity: 340,614,159 m^3 from 1 January 2011 until 30 September 2011
   d) Estimated revenue for the remaining period: HRK 853 million
5. Contracts Prirodni plin d.o.o. – other tariff-based customers
   a) Contract period: from 1 October 2010 until 30 September 2011
   b) Sales revenue from 1 October until 31 December 2010: HRK 246 million
   c) Contracted supply quantity: 292,688,372 m^3 from 1 January 2011 until 30 September 2011
   d) Estimated revenue for the remaining period: HRK 317 million

39. COMMITMENTS (continued)

Gas selling Contracts

6. Contracts INA, d.d. – DIOKI (ethane)
    a) Contracted supply quantity: 40,900 tons in 2011 (2010 - 55,000 t)
    b) Sales revenue from 1 January until 31 December 2010: HRK 60.74 million
    c) Contract period: from 1 April 2008 until 31 March 2012 (Appendix for deliveries in 2011)
    d) Estimated revenue from 1 January 2011 – 31 December 2011: HRK 65.69 million

Water selling contracts

1. High quality process water
    a) Contracted supply quantity: 2,883,500 m^3 in 2011 (2010 - 2,868,750 m^3)
    b) Sales revenue from 1 January until 31 December 2010: HRK 4.90 million
    c) Contract period: 2011
    d) Estimated revenue for (2011) the remaining period: HRK 6.03 million
2. Geothermal water
    a) Contracted supply quantity: 410,000 m^3 in 2011 (2010 - 410,000 m^3)
    b) Sales revenue from 1 January until 31 December 2010: HRK 1.99 million
    c) Contract period: 2011
    d) Estimated revenue for (2011) the remaining period: HRK 2.30 million

N-pentane selling contracts

1. N-pentane
    a) Contracted supply quantity: 350 tons in 2011 (2010 - 880 m^3)
    b) Sales revenue from 1 January until 31 December 2010: HRK 1.69 million
    c) Contract period: 2011
    d) Estimated revenue for (2011) the remaining period: HRK 1.49 million

40. CONTINGENT LIABILITIES

Environmental matters

The principal activities of the Company and the Group, comprising oil and gas exploration, production, transportation, refining and distribution, can have inherent effects on the environment in terms of emissions into soil, water and air. The environmental effects of the activities are monitored by local management and environmental authorities.

IPPC directive implementation in Croatia was implemented through the Decree on determining of integral conditions of environmental protection (OG 114/08). To compile with the regulation during 2009 for INA facilities (Rijeka nad Sisak refineries, and upstream plants Etan and Molve) preliminary analysis were prepared and submitted to the Ministry. During 2010 final Surveys were submitted to the Ministry. Due to the IPPC Directive addition INA facilities have to prepare harmonization with BAT and financial elaborates before getting the integrated environmental licence, licence to operate. The final document has to be verified by independent authorized entity before submission to the Ministry.

In accordance with regulation on the prevention of major accidents involving dangerous substances (Official Gazette No. 110/07; 114/08,) for four INA obligated establishments sites (Rijeka nad Sisak refineries, Etan plant and logistic depot Solin) have prepared Safety reports complied with Seveso II Directive. Those reports were checked and verified as well by independent licensed company before submitting to the Ministry by the end of 2010.

According to the current regulations governing air pollution prevention, specifically the Decree on Greenhouse Gas Emission Quota and Trading in Emission Units (Official Gazette No. 142/08), the Rijeka and Sisak Refineries, and the plants Etan and Molve will be included in the European emission trading system following the accession of the Republic of Croatia to the European Union. During 2010 emission Plans were developed for those plans to serve as the basis for monitoring gas emissions during 2010. The Plans have to be approved by the Ministry of Environmental protection and the reports should be verified by independent authorized entities. The reports of greenhouse gasses emissions (CO2 for the time being) for 2010, 2011 and 2012, and for 2005-2009 as a common report, will be a basis for State free quotas allocation. Croatia will join the European Union Emissions Trading System (EU ETS) when Croatia enter EU, but not before January 2013.

The group of contingent liabilities represents the remediation and recoveries that we are not obliged to perform in accordance with Croatian or EU law or by any resolution by the authorities. They are not yet likely to happen, meaning that there is still no hard basis for them to become obligation. The amounts of HRK 440 million contingent liabilities are not booked. Part of contingent liabilities can come in the group of provision by shifting of time frame or decision to abandon the sites where INA is operating today or abandon the activity on specific location. For example if INA abandons some site which is contaminated, soil and groundwater remediation has to be performed if pollution is proven. It is based on managerial decision on site abandonment. For 2010, INA Group booked a provision on that basis in amount of HRK 319 million while INA, d.d. in amount of HRK 307 million (see note 31).

To comply with Croatian regulation Low of implementation on EC/1907/2006 and amendments EC/1995/45 (Official Gazette No. 53/08) INA had reiterated 16 substances and 4 intermediates to be able to export products to EU market. Because Croatia is not yet in EU the registration was done through MOL Group as Only Representative. INA will register all of remaining products and intermediate when Croatia enters EU.

(all amounts in HRK millions)

40. CONTINGENT LIABILITIES (continued)

Environmental matters (continued)

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

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Gearing ratio

The primary goal of the Group in managing its capital is to ensure good capital ratios by maximizing the return to shareholders through the optimization of the debt and equity balance.
The capital structure of the Group consists of net debt (borrowings as detailed in notes 32 and 34 offset by cash and bank balances) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests as detailed in notes 28 to 31).
Capital structure of the Group is reviewed quarterly. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Internally, maximum gearing ratio (net debt) of the Group is determined.
Gearing ratio (net debt)
The gearing ratio at end of the reporting period was as follows.

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Debt:	**10,255**	**8,523**	**9,219**	**6,802**
Long term loans	7,301	5,764	7,148	5,646
Short term loans	1,659	2,104	838	581
Current portion of long-term borrowings	1,295	655	1,233	575
Cash and cash equivalents	(317)	(367)	(260)	(68)
Net debt	**9,938**	**8,156**	**8,959**	**6,734**
Equity	12,793	11,792	12,535	10,751
Equity and net debt	22,731	19,948	21,494	17,485
Gearing ratio	**44%**	**41%**	**42%**	**39%**

(all amounts in HRK millions)

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Gearing ratio (continued)

Debt is defined as long – term and short-term borrowings (excluding derivatives and financial guarantee contracts), as described in notes 32 and 34.
Equity includes all capital and reserves and non controlling interests of the Group that are managed as capital.

Categories of financial instruments

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Financial assets				
Cash and cash equivalents	317	367	260	68
Financial assets designated as at fair value through profit and loss	6	6	6	6
Derivative financial instruments	5	56	-	27
Loans and receivables	4,275	4,285	5,355	4,505
Available-for-sale financial assets	417	397	417	397
Financial liabilities				
Amortised cost	14,063	12,809	13,908	13,384
Financial guarantee contracts	-	-	1,638	1,837

Corporate guarantees include parent company guarantees for core business purposes. Due to the fact that since December 2010 crude oil and petroleum products are being imported directly by parent company, outstanding amount of HRK 1,638 million as of 31 December 2010 includes HRK 987 million guarantees issued for Interina London liabilities for crude oil and petroleum products purchase so these guarantees shall be consequently cancelled during 2011.

Financial risk management objectives

Ina Group, as any other company, is responsible for determining finance risks (market risk, currency risk, interest rate risk) as early as possible. The policy of managing the market risks on the Group level provides basis within which Ina and all of Group subsidiaries manage its market, currency and interest rate risk on the acceptable level, making it possible for Ina to achieve all its strategic goals with protection of future finance stability and flexibility of the Group. Ina integrates and measures all the finance risks on the Group level in the model of determining finance risks using Monte Carlo simulation, and the higher management is regularly provided with monthly report for the exposure to finance risks.

By taking this general approach, Ina assumes all the business activities as well balances integrated portfolio and does not cover individual elements of its exposure to market risks. Therefore INA actively manages its market exposure only for the following purposes:

- on corporate level – maintaining financial ratios, covering exposure to significant monetary transactions, etc;

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk management objectives (continued)

- on the level of business segment – decrease in exposure by changing market prices in the event of changes of usual business activities (for example, planned regular overhaul of refinery plants for remount)

INA Corporate Treasury function provides finance services to Ina d.d. and co-ordinates finance operations of Group on domestic and international financial markets, monitors and manages the financial risks relating to the operations of Ina d.d. The most significant risks include finance risks (market risk, currency risk and interest rate risk), credit risk and liquidity risk.

The most significant risks, together with methods used for managing of these risks are described as follows. Within limited transactions the Group used derivative financial instruments to hedge risk exposure. The Group does not use derivative financial instruments, for speculative purposes.

Market risk

Commodity price risk management (price risk)

The volatility of crude oil and gas prices is the prevailing element in the business environment of the Group. The Group buys oil at prices mostly through short-term arrangements in US dollars at the spot market price. The Group also imports a significant portion of gas to cover its requirements at the cost price denominated in US dollars, which reprises on a quarterly basis, in accordance with the underlying long-term gas purchase agreements which expired with last day of 2010. The new three-year contract for supply was signed with the Italian ENI-operation.

INA, d.d. generates most of its sales from refinery products and wholesale of gas. The formula for determining the refinery product prices, specified by the Oil Refinery Product Price Regulation effective since 2001, hedges the Group from the changes in the oil and refinery prices, and foreign exchange risk to a limited extent, as it enables the refinery products to be reprised every two weeks, with specific limitations of derivative prices from 16 April 2010, depending on the market (Platts) prices and the fluctuations in the exchange rate of Croatian kuna to US dollars.

INA, in accordance with Policy for Commodity price risk management, can use derivative transactions for hedging market risks only for the purpose of above stated goals on the corporate level and business segment level. INA Treasury is entitled only to use forward, swap and option instruments.

Foreign currency risk management

As the INA Group operates both in Croatia and abroad, many of its transactions are denominated and executed in foreign currencies. In addition, the current Rulebook on determining the prices for oil derivatives enables INA to transfer partially the unfavourable movements in currency exchange rates to the domestic market, which provides natural hedge to INA of its exposure to USD/HRK exchange rate.

INA, in accordance with Policy for Commodity price risk management, can use FX swap in order to adjust the exposure of different currencies in the debt portfolio of currencies in the debt portfolio. As on 31 December 2010, there was no open FX swap contract.

(all amounts in HRK millions)

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Foreign currency risk management (continued)

Due to higher volatility of USD/HRK exchange rate compared to EUR/HRK exchange rate, and in accordance to Policy for Commodity price risk management INA decreased exposure towards USD and increased exposure towards EUR during last quarter of 2010.

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 2010	31 December 2009	31 December 2010	31 December 2009
Currency USD	7,094	8,672	802	697
Currency EUR	4,727	913	450	409
	11,821	**9,585**	**1,252**	**1,106**

INA, d.d.

	Liabilities		Assets	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Currency USD	7,445	8,922	824	733
Currency EUR	4,350	782	502	453
	11,795	**9,704**	**1,326**	**1,186**

Foreign currency sensitivity analysis

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

The following table details the Company's sensitivity to a 10% increase in Croatian kuna in 2010 (in 2009: 10 %). against the relevant foreign currencies The sensitivity rates used represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a change in foreign currency rates expressed as percentage. The sensitivity analysis includes monetary assets and liabilities in foreign currencies. A negative number below indicates a decrease in profit where Croatian kuna changes against the relevant currency by the percentage specified above. For the same change of Croatian kuna versus the relevant currency in the opposite direction, there would be an equal and opposite impact on the profit.

(all amounts in HRK millions)

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Foreign currency sensitivity analysis

INA Group

	Currency USD Impact		Currency EUR Impact	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
Loss	(637)	(805)	(435)	(57)
	(637)	(805)	(435)	(57)

INA, d.d.

	Currency USD Impact		Currency EUR Impact	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
Loss	(670)	(827)	(392)	(40)
	(670)	(827)	(392)	(40)

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

Interest rate risk management

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

As energetic company, the Group does not speculate with movements in interest rates, and therefore primarily chooses variable interest rates. However, in certain instruments and certain macro environment, the selection of fixed interest rate can be more favourable.

INA, in accordance to the Policy for Commodity price risk management, can use interest swap in order to manage the relative level of exposure to cash flow interest rate risk due to the possible change of the floating interest rate. As on 31 December 2010 there were no open interest rate swap transactions.

Interest rate risk analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 till 200 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates.

(all amounts in HRK millions)

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest rate risk analysis (continued)

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

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Short-term interest expense change	33	41	17	12
Long-term interest expense change	165	128	161	124
Total change:	**198**	**169**	**178**	**136**

If interest rates had been 200 basis points higher/lower, the profit of the INA Group in 2010 would be decreased / increased by HRK 198 million, while the decrease/increase amounted to HRK 50 million in change of 50 basis points, (2009: decrease / increase by HRK 169 million had the interest rates been 200 basis points higher/lower, and by HRK 42 million had the interest rates been 50 basis points higher / lower), and the profit of the INA, d.d. in 2010 would be decreased/increased by HRK 178 million, while the decrease/increase amounted to HRK 44 million in a change of 50 basis points (2009: decrease / increase by HRK 136 million had the interest rates been 200 basis points higher/lower, and by HRK 34 million had the interest rates been 50 basis points higher/lower).

Other price risks

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

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 2010 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 36 million (2009: increase by HRK 34 million) as a result of the changes in fair value of available-for-sale shares.

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

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

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk management

Credit sales of product and services gives rise to credit risk, risk of default or non-performance of contractual obligations by the Group customers. Past due receivables have an adverse effect on the liquidity of the Group, whereas past due receivables provided against have a negative impact on the financial results of the Group.

Under the current "Credit Risk Management Policy", the following measures are taken as a precaution against the risk of default:

- Counterparties are classified into risk groupings 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 of the groups.

- The information used to classify the counterparties into the risk groupings is derived from the official financial statements obtained from independent rating agencies.

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

- Whenever possible, Group collects collaterals from customers in order to minimize risk of collection of payments arising from contractual liabilities of customers.

Mainly debenture notes are collected, which are the most common collateral on the Croatian market, and some bank quarantines and mortgages are also collected. INA Group operates with significant number of customers, different in size and business operations. The part of sale with extended due dates relates to state institutions and customers in state ownership which do not deliver collaterals.
The Group does not have significant credit exposure which is not covered by collaterals (INA Group 12.5%; Ina, d.d. 11.7%), except with state institutions and companies in state ownership. Given that the Republic of Croatia is a major shareholder of the Group itself, credit risks depends to a significant extent on the policy of the Croatian Government.

Liquidity risk management

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

The policy of Ina Group is to ensure significant external finance sources in order to achieve the sufficient level of committed credit lines ensuring the liquidity of INA Group as well as investment needs.

As on 31 December 2010 the balance of unused short term bank loans was USD 233.83 million (excluding overdrafts and credit lines for financing of oil and derivative purchases) for INA.

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk management (continued)

The main sources of finance for Ina Group are:

- Sindicated multi currency revolving loan, Agent BLB, in the amount of USD 1 billion
- Contracts on loan for financing of projects in the amount of EUR 210 million - with EBRD (EUR 160 million) and ICF Debt Pool (EUR 50 million)
- INTESA credit line in the amount of EUR 31.14 million covered by insurance policy of export credit agency SACE (project financing)
- EUR 100 million RBI credit line for general purposes for financing of the company
- EUR 65 million RBA Zagreb credit line on Group level
- USD 42 million PBZ credit line

In 2007 INA signed its most significant credit line contract in the amount of USD 1 billion, originally with maturity date of 5 years with possibility for prolongation for 2 more years, with the prior approval of the creditor.

In March 2010, INA signed with RBI short term revolving credit line in the amount of EUR 50 million, which was changed in July and increased by EUR 50 million of syndicated loan for general financing purposes.

In May 2010 INA signed with Intesa and with support of SACE loan contract for project financing in the amount of EUR 31,14 million, for the purpose of partial finance of refinery modernization programme with amortizing repayment until the end of 2012.

In July, INA prolonged the available short term credit line with PBZ in the amount of USD 42 million for loans, guarantees and letters of credit.

In September 2010, INA signed a long term loan contract with EBRD, in the amount of EUR 160 million and with ICF Debt Pool in the amount of EUR 50 million for the finance of refinery modernization programme.

In October 2010, INA, STSI and Crosco signed a contract on short tem credit line with RBA Zagreb in the amount of EUR 65 million which can be used for loans, guarantees and letters of credit.

INA d.d. also used short term credit lines insured by Societe Generale, Splitska bank, Zagrebačka bank and Credit Agricole, and on the INA Group level also from Hrvatska poštanska bank and OTP bank.

As diversification of finance is priority, INA started negotiations with other creditors with the purpose of increasing sources of financing.

(all amounts in HRK millions)

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk management (continued)

Estimated bank loans will ensure sufficient level of liquidity as well as finance flexibility of INA Group.

Until December 2010 INA, d.d. was importing crude oil and derivatives through its foreign subsidiaries Interina London and Interina Guernsey, and from December 2010, Ina, d.d. imports crude oil and derivatives directly from suppliers. In accordance to usual international practice, the purchase of oil is realized by opening irrevocable letters of credit for the benefit of suppliers at first class business banks and using short term financing ('trade financing'). 31 December 2010 the available credit lines for purchase of crude oil and derivatives were USD 780 million and were ensured by BNP, UniCredit BACA, Natixis, CITIBANK, Credit Agricole, BTMU, BLB and RBI.

Liquidity and interest risk tables

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

INA Group

	Less than 1month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2010					
Non-interest bearing	3,522	1,786	300	2,575	8,183
Interest bearing	818	2,136	6,796	527	10,277
Financial guarantee contracts	-	-	-	-	-
	4,340	**3,922**	**7,096**	**3,102**	**18,460**
31 December 2009					
Non-interest bearing	4,349	2,541	484	2,355	9,729
Interest bearing	1,378	1,385	5,779	4	8,546
Financial guarantee contracts	-	-	-	-	-
	5,727	**3,926**	**6,263**	**2,359**	**18,275**

INA, d.d.

	Less than 1month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2010					
Non-interest bearing	3,431	2,208	198	2,565	8,402
Interest bearing	205	1,926	6,649	521	9,301
Financial guarantee contracts	10	1,307	309	12	1,638
	3,636	**4,134**	**6,847**	**3,086**	**19,341**
31 December 2009					
Non-interest bearing	4,323	1,301	295	2,455	8,374
Interest bearing	709	2,585	5,645	-	8,939
Financial guarantee contracts	-	1,273	544	20	1,837
	5,032	**3,886**	**5,940**	**2,455**	**19,150**

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity and interest risk tables (continued)

Non-interest bearing liabilities of INA, d.d. due in a period of less than one month consist mainly of trade accounts payable in the amount of HRK 2,677 million in 2010 (2009: HRK 2,351 million) and taxes and contributions payable in the amount of HRK 650 million (2009: HRK 1,585 million).

Included in non-interest bearing liabilities of INA, d.d. due in a period of over five years are, among others, long-term decommissioning provisions for oil and gas properties in the amount of HRK 2,111 million in 2010 (2009: HRK 2,330 million).

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

Fair value of financial instruments

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

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

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

Fair value measurements recognised in the balance sheet

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

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

(all amounts in HRK millions)

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair value of financial instruments (continued)

INA GROUP

				31 December 2010
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Financial assets available-for-sale	356	-	61	417
Assets classified as held for sale	-	-	12	12
Derivative financial assets	-	5	-	5
Financial liabilities at fair value				
Derivative financial liabilities	-	6	-	6

				31 December 2009
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Financial assets available-for-sale	336	-	61	397
Derivative financial assets	-	56	-	56
Financial liabilities at fair value				
Derivative financial liabilities	-	10	-	10

Evaluation of the share in Croplin in the amount of 12 million was made on the basis of price offer by the customer and any further changes in assessment will depend on the customer's valuation.

(all amounts in HRK millions)

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair value of financial instruments (continued)

Fair value measurements recognised in the balance sheet (continued)

INA, d.d.

				31 December 2010
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Financial assets available-for-sale	356	-	61	417
Assets classified as held for sale	-	-	12	12
Derivative financial assets	-	-	-	-
Financial liabilities at fair value				
Derivative financial liabilities	-	1	-	1

				31 December 2009
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Financial assets available-for-sale	336	-	61	397
Derivative financial assets	-	27	-	27
Financial liabilities at fair value				
Derivative financial liabilities	-	1	-	1

Reconciliation of Level 3 fair value measurements of financial assets:

INA Group and INA, d.d.

31 December 2010

	Financial assets available for sale	Assets classified as held for sale	Total
Opening balance	61	-	61
Reclassification of interest in Croplin from investment in associate and joint ventures to assets classified as held for sale (see note 15)	-	35	35
Impairment	-	(23)	(23)
Closing balance	**61**	**12**	**73**

(all amounts in HRK millions)

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair value of financial instruments (continued)

Derivative financial instruments

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

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

Managements consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements are approximate their fair values.
The fair values of embedded derivatives included in the balance sheet and the net movement in the year, are as follows:

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Fair value at 1 January	56	184	27	184
Financial income/loss relating to the net change in fair value in the year	(57)	(128)	(27)	(157)
Fair value at 31 December	**(1)**	**56**	**-**	**27**

	INA Group		INA, d.d.	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Analysed as:				
Current portion	(1)	56	(1)	27
Non-current portion	-	-	-	-
	(1)	**56**	**(1)**	**27**

(all amounts in HRK millions)

42. BUSINESS COMBINATIONS

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

2010	Headquarters	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Consideration transferred
Drill Trans Group	Nagykanizsa Hungary		1 September 2009	100%	103

Analysis of assets and liabilities assumed on acquisition:

Drill Trans Group

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

(all amounts in HRK millions)

43. DISPOSAL OF SUBSIDARY

On 30 September 2010 INA was completed the transaction for the sale of INA's 100% ownership of Crobenz d.d. ("Crobenz") to LUKOIL Croatia d.o.o. ("Lukoil"). On 21 July 2010, INA d.d. entered into a sale and purchase agreement for the sale of 100% ownership of Crobenz with LUKOIL Croatia d.o.o. The sale of Crobenz was conducted by the divestiture trustees as previously resolved by the Croatian Competition Agency ("Agency"). At its meeting of 29 July 2010, the Agency passed the decision on approving the transaction that was required for the fulfilment of the Resolution on the conditional approval of the MOL/INA concentration and it also granted the necessary clearance for the concentration between Lukoil and Crobenz. Crobenz is active in the wholesale and retail trade of petroleum products. The Crobenz retail network consists of 14 service stations operated under the Crobenz brand.

Net liabilities at 30 September 2010	(66)
Purchase price	55
Gain of sale	**(11)**

Puchase price	(55)
Compensation of INA d.d. long term loan	36
Preliminary payment	38
Receivables from Lukoil	**19**

44. SUBSEQUENT EVENTS

Changes in organization structure in INA, d.d.

On 17 January 2011 of INA, d.d. on Extraordinary Shareholders′ Assembly was held on which Ivan Šuker, Tomislav Ivić and Božidar Pankretić were released from the duty as Supervisory Board Members, while Davor Štern, Gordana Sekulić and Damir Vanđelić are elected as members of the Supervisory Board for the term of office expiring on 10 June 2013.

Subject: Selec - 1 satellite field discovery

In the near vicinity of the Žutica oil field, after the testing, a satellite oil field was discovered with Selec-1 exploratory well. The field is set next to existing production fields and infrastructure, what is going to simplify bringing the field to production. Measurements at the depth of over 2,000 meters indicated a flow of 30 cubic meters of oil per day and over 30,000 cubic meters of natural gas per day. Further analysis of the testing results will enable a more precise appraisal of the new reservoir and estimation of the commercial reserve base, after which reservoir study will be prepared.

44. SUBSEQUENT EVENTS (continued)

Launched sale of security business of company SINACO

With INA Board Decision on 22 December 2010 began the restructuring process of company SINACO d.o.o., member of INA Group. By restructuring from SINACO will be separated a part of business associated with security services into a new company. Given that the security business is not associated with INA's core business, decision was made to sell that part of the business on open tender. Sale process started on 14 January 2011 with tender notice in public media. SINACO company, which will continue with its core business, such as protection against fire, occupational health and environmental protection, remains part of INA Group. Non-binding letters of intent to purchase the new company, INA d.d. was accepting till 2 February 2011. It is expected that the entire sale process should be completed by the end of the first quarter of 2011.

INA Management Board Members Appointed

During the circular voting procedure INA Supervisory Board appointed three new members of INA Management Board. The new members of INA Management Board are Niko Dalić, Ivan Krešić and Davor Mayer, all three appointed with the mandate starting from 11 February 2011 until 1 April 2015.

At the same session Tomislav Dragičević, Josip Petrović and Dubravko Tkalčić were recalled from the duty of the members of INA Management Board as of 10 February 2011.

Besides, the term of office of Attila Holoda and Lajos Alács as members of INA Management Board is extended for the period until 1 April 2015.

According to INA corporate governance, the Management Board is a collective body responsible for the overall business of the company, while Executive Directors are responsible for the operation of each business or function and are managing the day-to-day operation and businesses of the Company.

45. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 17 March 2011.

Signed on behalf of the Company on 17 March 2011 by:

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

REPORT
ON COMPANY AND INA-GROUP STATUS
FOR 2010

Zagreb, March 2011

CONTENTS

A. SUMMARY

Financial highlights	INA, d.d.			INA Group		
HRK mln	**2009**	**2010**	**Change %**	**2009**	**2010**	**Change %**
Net sales revenues	18,654	22,546	20.9	22,331	25,866	15.8
EBITDA (1)	1,986	5,301	167.0	2,807	5,048	79.8
Operating profit	(576)	2,732	n.a.	(205)	2,128	n.a.
Operating profit excl. special items (2)	**358**	**3,198**	**793.3**	**252**	**2,925**	**1,060.7**
Net loss from financial activities	(194)	(553)	185.1	(284)	(810)	185.2
Net profit/loss (3)	(631)	1,767	n.a.	(392)	961	n.a.
Net profit/loss excl. special items	**116**	**2,222**	**1,817.4**	**72**	**1,593**	**2,124.3**
Operating cash flow	1,754	667	(62.0)	2,960	1,563	(47.2)
USD mln (5)	**2009**	**2010**	**Change %**	**2009**	**2010**	**Change %**
Net sales revenues	3,452	4,080	18.2	4,229	4,703	11.2
EBITDA (1)	367	959	161.1	532	918	72.7
Operating profit	(107)	494	n.a.	(39)	387	n.a.
Operating profit excl. special items (2)	**66**	**579**	**773.6**	**48**	**532**	**1,014.4**
Net financial gain (expenses)	(36)	(100)	178.8	(54)	(147)	173.8
Net profit/loss (3)	(117)	320	n.a.	(74)	175	n.a.
Net profit/loss excl. special items	**21**	**402**	**1,775.1**	**14**	**290**	**2,035.5**
Operating cash flow	325	121	(62.8)	561	284	(49.3)

(1) EBITDA = EBIT + Depreciation + Impairment + Provisions
(2) Excludes special items items related to asset impairment, stock evaluation, deferred taxes, provision, severance payments and special items income. The 2010 EBIT was negatively influenced by HRK 797 million special items (HRK 466 million INA, d.d.).
3) INA Group net profit attributable to equity holder.
(4) In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for 2009: 5.2804 HRK/USD, 2010: 5.5000 HRK/USD.

Overall 2010 results of **INA Group** show that the company successfully returned to profitability at both operating and net profit levels together with the drastic improvement of its stabilisation of the financial position. Our EBITDA increased by nearly 80% reaching HRK 5,048 million, while operating profit excluding special items was HRK 2,925 million, as well (**INA d.d**. has significantly improved its overall results compared to the last year, achieving HRK 5,301 million EBITDA and HRK 3,198 million operating profit excluding special items). Results were mainly driven by increased hydrocarbon production from North Adriatic offshore fields and Syria confirming all efforts and investments made into major investment programmes throughout the financial and economic crisis. Additionally, results from Upstream have benefited from improving economic environment through increasing crude prices, while the improved but still loss making Downstream benefited from the moderate upturn of realised refinery margins driven by recovering global activity. Although at a smaller extent, still INA Group experienced a HRK 334.3 million negative contribution of the gas trading business to its result.
At the net profit level 2010 was significantly better than 2009 resulting from the already mentioned trends and efforts by the management, with HRK 961 million net profit compared to HRK 392 million net loss last year. Results were partially off set by forex losses on credit facilities.

During 2010 management was focused on enhancing operational efficiency with major emphasis on cost control, procurement process optimisation and work force optimisation, while also concentrating on identifying further areas with improvement potential. In this respect we have concluded a comprehensive redundancy programme involving 1,500 employees, achieving significant cost savings related to material and service costs (exceeding HRK 450 million cost savings compared to 2008) while INA also benefited from introducing new tendering process and renegotiation of contracts targeting more than HRK 100 million savings compared to previous years.
2010 was the year of financial stabilisation during which CAPEX has been adjusted to the Group's financial position reaching HRK 2,891 million or 36% lower compared to 2009. Key investment programmes including refinery modernisation and development of Upstream projects in Syria and North Adriatic, have continued as scheduled already contributing significantly to the strengthened results. In parallel with and adjusted CAPEX program INA Group has managed to resolve overdue liabilities towards suppliers and towards the state and has also settled all late interest payments to the state budget. With settling overdue liabilities INA has stabilised its financial position that was supported by the financial assistance of MOL Group and through rising new external funds.

Our management's commitment to implementing measures for improving efficiency of operations, to continuing investment programmes started in Rijeka and Sisak refineries, intensification of upstream activities in Croatia and abroad and modernization and revitalization of the filling stations network ensures the company's secure future and a competitive position on the market. With internal restructuring efforts, the reduction of operating costs and continuing our major capital projects, INA will strengthen its market leadership in Croatia.

Overall operations

- **Exploration and Production:** operating profit excluding special items in 2010 amounted to HRK 4,615 million (USD 839 million), of which HRK 4,775 million were generated by the parent company, mainly due to higher average daily hydrocarbon production. This resulted from Annamaria offshore gas field and Jihar oil and gas station start-up in Syria offset by natural decline of crude production in Croatia onshore fields, Egypt and Angola. Increase in operating profit was additionally backed with increase in average realised hydrocarbon prices and realized efficiency improvement measures. However, segment result has experienced HRK 334.3 million negative contribution of the gas trading business.
Based on the Gas Master Agreement signed by the Government of the Republic of Croatia and MOL on 30 January 2009 and amended on 16 December 2009, the Croatian Government should have taken over the gas trading business before 1 December 2010. Since this has not happened and the ongoing negotiations do not yet indicate a revised timeline, this activity no longer meets the criteria for discontinued operations. Consequently, assets, liabilities, revenues and expenses are disclosed among continuing activities within the Exploration and Production segment. Comparative periods have been restated accordingly.
During Q4 2010 INA has undertaken actions in order to ensure stable and un-interrupted gas supply in Croatia during the heating season and in light of that concluded a supply contract with the best possible terms available on the market, selecting Eni as a reliable and credible company and concluding agreements on new business terms with HEP and Petrokemija.

- **Refining and Marketing**: In 2010, INA Group had an operating loss (excluding special items) of HRK 464 million (USD 84 million) which HRK 476 million were generated by the parent company, mainly due to still depressed refinery margins and a 9.6% drop in refined product sales compared to 2009 resulting from decreased Croatian and regional market demand. Compared to 2009, the operating loss (excluding special items) decreased by HRK 44 million resulting from optimized crude oil procurement, processing of Azeri Light oil which gave better product yields, slightly improved margins and stronger control of operating costs. Moreover, during the year strong efforts were made in improving refinery operations to produce Euro V products implemented from Q2 2010 and completion of first phase of refinery modernization programme.

- **Retail segment:** generated a HRK 34 million (6 million USD) operating profit excluding special items in 2010 (HRK 42 million contributed by INA, d.d.), or HRK 9 million below 2009 mostly because of 5.9% decrease in sales volumes due to the drop in retail demand. This negative effect was partially mitigated with cost-cutting measures, efficiency improvements initiatives and introduction of EURO V quality throughout the entire domestic network ensuring a significant improvement in quality perception of INA.

- **Corporate and Other[1]:** In 2010, operating loss excluding special items of HRK 1,260 million (USD 229 million) (HRK 1,143 million generated by INA Corporate Functions) was recorded, which was HRK 268 million higher than 2009 mainly because of higher financial loss relating to operations which were slightly offset by lower other operating costs as a result of cost-cutting measures.

- **A net financial expense** of HRK 810 million was recorded in 2010 in comparison with net financial expense of HRK 284 million in 2009 (HRK 553 million was recorded in 2010 in comparison with net financial expense of HRK 194 million in 2009 were generated by the parent company). The difference of HRK 526 million occurred mostly because of higher forex losses on credit facilities (HRK 423 million forex loss compared to a forex gain of HRK 145 million in 2009). The interest expense was at the similar level like in 2009 while other financial expenses were HRK 43 million lower compared to 2009.

- **Capital expenditures:** In 2010 INA Group CAPEX reached HRK 2,891 million (against HRK 4,504 million in 2009) as the investment budget was brought in line with current market environment, financial position and own cash generation capabilities (INA d.d. CAPEX in 2010 reached HRK 2,816 million). However the reduced CAPEX was not to the detriment of the major projects and of the retail modernisation. With HRK 1,473 million, primarily spent on development operations in Syria and North Adriatic, Exploration and Production accounted for majority of CAPEX, while Refining and Marketing spent HRK 1,328 million, mostly allocated on the refinery modernisation programme while HRK 52 million was invested into retail operations.

- **Net indebtedness:** INA Group net indebtedness increased to HRK 9.9 billion (for INA, d.d. HRK 9.0 million) compared to HRK 8.2 billion as at 31 December 2009 while its gearing[2] as at 31 December 2010 was 43.7%, growing from 40.9% as at 31 December 2009 as a result of sustaining significant level of investments and repaying overdue liabilities. In 2010 INA Group has improved its Net Debt/EBITDA ratio reducing it below the level of 2 mainly by increasing EBITDA, which offset the higher debt level.

- **Operating cash flow:** In 2010, the operating cash-flow before changes in working capital improved to HRK 4,141 million (59% up in comparison with 2009) (HRK 4,751 million for INA, d.d.). Operating cash-flow amounted to HRK 1,589 million (47% down year-on-year). Changes in working capital decreased the operating cash flow in 2010 by HRK 2,552 million, primarily as a result of huge steps taken to reduce overdue liabilities, higher value of inventories mainly work in progress (WIP) and higher trade receivables.

1 Includes Corporate Functions and subsidiaries providing safety and protection services, technical services, corporate support and other services.
2 Net debt / net debt plus equity incl. minority interests

B. INA d.d. and INA GROUP PERFORMANCE IN 2010

1. Overview of the macro environment

The global economy experienced a relatively healthy recovery overall in Q4 2010, but the sharp divisions between the performance of developed and emerging economies remained largely in place. While both the US and Japan boosted their growth somewhat with further stimulus measures, the Eurozone remained mired in its ongoing solvency crisis throughout the quarter and continued to be the weakest link within the group of advanced economies. The renewed turbulence was this time triggered by Ireland, where the troubled banking sector and the resulting fiscal sustainability concerns forced the second IMF-EU bailout in the Eurozone periphery within 6 months. The preventive measures put in place in the aftermath of the Greek debt crisis (namely the EUR 440 bn Eurozone bailout fund and ECB bond purchases) managed to contain a widespread spill over from the periphery to the core of the Eurozone in case of Ireland. Nevertheless, the apparent unwillingness of creditor nations (most importantly Germany) to preempt further market pressures with increased commitments as well as the possibility of yet more and larger member states (e.g. Portugal, Spain, Italy, Belgium) requiring financial assistance poses a substantial downside risk to the recovery of the EU as a whole, and will likely result in continuing volatility in exchange rate movements. Economic growth in emerging economies remained robust throughout Q4 2010, but inflation pressures and overheating risks are continuously building (most notably in China), which increases the risk of developing boom and bust cycles and an eventual hard landing with substantial impact on global economic growth.

Oil prices followed a more or less continuous growth pattern starting the quarter at around 80 USD/bbl and approaching the psychological 100 USD/bbl mark towards the end of Q4. The Dated Brent averaged at 86.5 USD/bbl, 12.5% higher q-o-q and 16% higher y-o-y. The oil price boom seen in the last month of Q4 reflected continuously tightening supply-demand fundamentals mainly fuelled by another massive demand increase in China. Unless the most potent downside risks (namely a deepening Eurozone crisis or a hard landing in emerging Asia) materialize, the global oil market can soon resemble again to the bull market seen in the early days of 2007, as OPEC spare capacity (now under 5 mn bbl/day for the first time in 2 years) is slowly but steadily diminishing, OECD commercial stocks (standing at 58.7 days of forward demand cover at the end of November) are declining and geopolitical tensions throughout the Middle East and parts of Africa are on the rise. Overall, the IEA estimates that global oil demand grew by 0.3 mn bbl/day q-o-q to 88.9 mn bbl/day in Q4 2010, which equals to a 3.5% y-o-y increase.

Refining margins remained below historic average levels during Q4 2010, but Ural margins posted a notable increase from Q3 2010 levels due to the widening price discount of Urals from the middle of the quarter. Diesel, gasoline, naphtha and jet fuel crack spreads all strengthened substantially from their lows seen in Q3 2010 and gasoline and naphtha even beat the 5-year average, while diesel and jet fuel crack spreads remained below their historic levels. The overall improvement of crack spreads can in part be attributed to seasonality and partly to widespread strikes against pension reform in France effectively taking out the bulk of French refining capacity for most of October. Historically negative fuel oil crack spreads dropped significantly and reached historic lows towards the end of Q4 as rising crude prices prompted substitution and consequently decreased demand for fuel oil in the power sector.

The CEE region's recovery is still mostly driven by the manufacturing boom in Germany rather than by domestic demand, which is subdued by stubbornly-high unemployment rates and continuously weak credit growth. Economic growth is likely to moderate somewhat, as most countries in the region will carry out some degree of fiscal consolidation throughout 2011. The foremost downside risk to the CEE region's recovery remains the continuing sovereign stress in the Eurozone. However, the impact of a deepening Eurozone debt crisis on most CEE economies would be manageable as long as it remains confined to the euro area's periphery, while the region's main export markets remain relatively intact in the core of the currency union.

In Q3, Croatian economy has experienced a mild 0.2% growth of the economic activity, breaking a period of continuous negative growth since the beginning of 2009. The most significant contribution to the growth was increased personal consummation (+1.9%) due to the seasonal effects of higher employment and a good tourist season and by the positive trends in foreign trade, i.e. strong increase of exports (5.7%) while imports grew only 3.1%. These positive trends have off set the negative influence of a strong drop in capital investments (9.7%) and reduced government spending (0.9%) Last quarter of 2010 should experience again a negative growth rate, mainly due to the seasonal nature of the factors which had the positive influence on the economy. Increase of unemployment and reduced personal consumption which would lead to tightening of the domestic demand together with the decreased investments will have a strong influence on the economic activity. It is expected that the economy will experience negative growth in 2010, while 2011 is to be the year of recovery with 1.5% growth rate. Foreign demand i.e. increased demand from the euro area, which would increase the exports, would be the leading contributor to the recovery.
On average, 2010 inflation rate was at low 1.1% indicating low inflationary pressures as due to the reduced domestic demand increased cost could not have been fully transferred to the consumers. Prices of goods and services for personal consumption remained at same level compared to the November, while on the annual basis comparing to December 2009 prices increased 1.8%. Increased prices were mainly coming from increased prices of housing, water, energy, gas and other fuel prices due to the increasing energy prices on the global markets backed by signs of global recovery. Opposite to the first nine months, last quarter of the year showed depreciation pressures on Kuna breaching the 7.40 HRK/EUR level. However, the central bank continued with the stable exchange rate policy with interventions to the market keeping the local currency below the mentioned level.
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Main external parameters

	2009	2010	%
Brent dtd (USD/bbl)	61.67	79.47	28.9
Premium unleaded gasoline 10 ppm (USD/t)*	582.99	728.88	25.0
Gas oil – ULSD 10 ppm (USD/t)*	532.79	681.84	28.0
Fuel oil 3,5% (USD/t)*	345.29	436.67	26.5
LPG (USD/t)*	529.10	731.09	38.2
Average crack spread	20.50	27.10	32.2
Crack spread – premium unleaded (USD/t)*	116.44	127.68	9.7
Crack spread – gas oil (USD/t)*	66.25	80.64	21.7
Crack spread - fuel oil 3,5% (USD/t)*	(121.25)	(164.53)	35.7
Crack spread - UNP (USD/t)*	62.56	129.90	107.6
HRK/USD average	5.28	5.50	4.2
HRK/USD closing	5.09	5.57	9.4
HRK/EUR average	7.34	7.29	(0.7)
HRK/EUR closing	7.31	7.39	1.1
3m USD LIBOR (%)	0.69	0.34	(49.9)
3m EURIBOR (%)	1.22	0.81	(33.2)

** FOB Mediterranean*

2. Financial overview

Operations

Based on the Gas Master Agreement signed by the Government of the Republic of Croatia and MOL on 30 January 2009 and amended on 16 December 2009, the Croatian Government should have taken over the gas trading business before 1 December 2010. Since this has not happened and the ongoing negotiations do not yet indicate a revised timeline, this activity no longer meets the criteria for discontinued operations. Consequently, assets, liabilities, revenues and expenses are disclosed among continuing activities within the Exploration and Production segment. Comparative periods have been restated accordingly. The gas trading company generated losses from operations in 2010, although it was planned to operate without losses

The transaction of selling INA's 100% ownership in Crobenz d.d. ("Crobenz") to LUKOIL Croatia d.o.o. ("Lukoil") was completed on 30 September 2010. The sale process was initiated based on INA's obligation under the decision of the Croatian Competition Agency ("the Agency") of 9 June 2009. Following the signing of the First Amendment to the Shareholders Agreement between the Croatian Government and MOL on 30 January 2009, MOL's gaining the operational control over INA had been investigated by the Croatian Competition Agency, upon which the Agency passed its final Decision on 9 June 2009 approving the transaction under certain conditions including the sale of INA's 100% ownership in Crobenz. On 21 July 2010, INA d.d. signed a sale agreement with LUKOIL for the disposal of its 100% interest in Crobenz. As decided by the Croatian Market Competition Agency ("the Agency"), the sale was conducted by a trustee. At a meeting held on 29 July 2010 the Agency decided to approve the transaction implementing the mandate from its Resolution on the conditional approval of the MOL/INA concentration and it also granted the necessary clearance for the Lukoil/Crobenz concentration. Crobenz is active in the wholesale and retail trade in petroleum products. The Crobenz retail network consists of 14 service stations operating under the Crobenz brand.

Significant accounting judgements and estimates

INA Group reclassified income and costs of interests and foreign exchange differences of buyers and suppliers from financial activities to operating activities. In North Adriatic, Egypt and Angola cash generating units are redefined in a way that the contract area has become cash generating unit. In Q3 and Q4 of 2009 INA Group has recalculated and recorded impairment losses and provisions, basis for which have incurred during the first half of the year. For the purpose of providing comparable financial data throughout the quarterly periods within 2009, mentioned adjustments were recorded to the relating period, instead of the period when they were identified.

The agreement between the major shareholders on the takeover of gas trading company by the Government was not reached by deadline as originally set out in the Amendment to the gas master agreement. The company no longer presents the gas trading business results as the results from discontinued activities.

2.1. Profit and loss statement

In 2010, **INA Group** generated HRK 25.9 billion of net sales revenues[3] or 16% higher compared to the last year, mainly due to higher sales prices and volumes of natural gas and international crude oil (because of higher production). Additional positive effect came from introduction of new EURO V products.

During 2010 costs of raw materials and consumables rose by 17% over 2009, mainly because of 21% higher cost of imported crude as its average price rose by 36% (the average price of Brent FOB Med was up by 29% on the world market) while the volume of refined crude was 11% lower. The value of finished goods and WIP inventories rose by HRK 260 million compared to the opening balance, while as at 31 December 2009 it was lower by HRK 50 million. The cost of goods for resale decreased by 4% and amounted to HRK 3,991 million mainly due to lower purchase costs of imported natural gas sales and purchase value of shop products. Other material costs and costs of services were lower as a result of cost-cutting measures. Other material costs in the amount of HRK 2,087 million decreased by HRK 184 million because of lower rental fees and transportation costs. The costs of services decreased by HRK 77 million to HRK 1,514 million as a result of lower additionally approved discounts, intellectual services and insurance premium costs which was partly offset by HRK 125 million higher financial costs related to operations. Depreciation rose by 16% to HRK 1,750 million because of assets put in use upon completion of projects. Adjustments and provisions of HRK 1,170 million were HRK 335 million lower because of lower asset impairments and lower provisions for litigation which was partially offset by higher provisions for environment.
Total staff costs increased by 12% compared to 2009, primarily due to severance payments in accordance with the Workforce Restructuring Programme. The headcount as at 31 December 2010 was 14,703 – 9.8% down on the 31 December 2009 number (16,304). On 15 September 2010, the Management Board of INA d.d. passed a decision on the workforce surplus and launch of legally prescribed procedure with an objective to draw up a Workforce Restructuring Programme. The cost of the programme which included 1,500 employees and has facilitated the necessary changes in the structure and number of employees to preserve INA´s stability in a continuously challenging business environment amounted to HRK 389 million.

Financial activities in 2010 recorded a loss of HRK 810 million, a HRK 526 million increase on the 2009 loss. Higher financial costs are coming from the strong capex in the previous periods, which increased the indebtedness that peaked in 2010, and from weakening of the Kuna, additionally increasing the costs. Net forex losses on credit facilities amounted to HRK 423 million compared to HRK 145 million gains in 2009. The interest expense of HRK 156 million was 1 million up on 2009, primarily as a result of the negative effect of higher interests on short-term debt which was mainly offset by lower long-term debt interests. Other financial expenses amounted to HRK 231 million which was HRK 43 million lower compared to 2009 mainly due to higher loss on embedded derivates.
As a result of harmonisation with international practice, the interest and forex differences on trade debtors and creditors have been reclassified in INA's business books from financial activities to operating activities. For 2009 they had a negative impact of HRK 223 million, while their negative effect on 2010 operating profit amounted to HRK 399 million.
The income tax expense for 2010 was HRK 363 million compared to HRK 95 million benefits in 2009.

In 2010, **INA d.d.** generated HRK 22.5 billion of net sales revenues or 21% higher compared to the last year, mainly due to higher sales prices and volumes of natural gas and international crude oil (because of higher production). Additional positive effect came from introduction of new EURO V products.

During 2010 costs of raw materials and consumables rose by 21% over 2009, mainly because of 21% higher cost of imported crude as its average price rose by 36% (the average price of Brent FOB Med was up by 29% on the world market) while the volume of refined crude was 11% lower. The value of finished goods and WIP inventories rose by HRK 67 million compared to the opening balance, while as at 31 December 2009 it was lower by HRK 32 million. Other material costs in the amount of HRK 1,477 million decreased by HRK 312 million because of lower rental fees and transportation costs. The costs of services increased by HRK 56 million to HRK 1,357 million as a result of higher financial cots related to operations while additionally approved discounts, intellectual services and insurance premium costs which were lower. Depreciation rose by 21% to HRK 1,483 million because of assets put in use upon completion of projects. Adjustments and provisions of HRK 1,086 million were HRK 255 million lower because of lower asset impairments and lower provisions for litigation which was partially offset by higher provisions for environment. Total staff costs increased by 17% compared to 2009, primarily due to severance payments in accordance with the Workforce Restructuring Programme.

Financial activities in 2010 recorded a loss of HRK 553 million, a HRK 359 million increase on the 2009 loss. The income tax expense for 2010 was HRK 412 million compared to HRK 139 million benefits in 2009.

[3] Consolidated sales

2.2. Statement of Financial Position

As at 31 December 2010, total assets amounted to HRK 31.2 billion increased (HRK 30.2 billion INA, d.d.) by 4% compared to 31 December 2009. Capital investments in the development of gas fields in the North Adriatic, Syria, refinery modernisation as well as redefinition of cash generating units resulted with 6% increased non-current tangible and intangible assets. Now the contract areas are cash generating units and not production fields or countries as in prior periods. Goodwill and investments in subsidiaries and joint ventures increased by HRK 86 million to HRK 588 million. Deferred taxes decreased by HRK 154 million and amounted to HRK 280 million.

The value of inventories amounted to HRK 3.2 billion (HRK 2.2 billion INA, d.d.) having grown by 9% primarily due to higher prices and higher volumes of stored up WIP inventories for starting up hydrocracking complex.

Although management made effort to collect overdue receivables net trade debtors, as at 31 December 2010, amounting to HRK 3.1 billion were up by 4% compared to 31 December 2009 as a result of the increasing price environment.

Total INA Group liabilities as at 31 December 2010 amounted to HRK 18.4 billion (HRK 17.7 billion INA, d.d.) and they were 1% higher than on 31 December 2009, mainly due to higher indebtedness which had grown to HRK 10.3 billion (HRK 9.2 billion INA, d.d.) compared to HRK 8.5 billion (HRK 6.8 billion INA, d.d.) as at 31 December 2009. Credit facilities were used to sustain significant level of investments and repay overdue liabilities towards the state, MOL and suppliers. Liabilities for taxes and contributions decreased by HRK 992 million to HRK 789 million (HRK 650 million INA,d.d.) due to the full settlement of overdue liabilities towards the state. Trade creditors decreased by HRK 500 million (HRK 1,093 million INA, d.d.) and amounted to HRK 3,786 million (HRK 1,611 million INA, d.d.). Long-term and short-term provisions rose by HRK 212 million (HRK 33 million INA, d.d.), with higher provisions for environment partly offset by lower well abandonment provisions.

INA Group total net debt amounted to HRK 9.9 billion (HRK 9.0 billion INA, d.d.) compared to HRK 8.2 billion (HRK 6.7 billion INA, d.d.) as at 31 December 2009 while the net gearing[4] rose from 40.9% to 43.7% (from 38.5% to 41.7% INA, d.d.) as at 31 December 2010 indicating currently insufficient company capitalisation as a result of continuous massive capital investments in its key activities. The company gearing grew but stayed at manageable level.

2.3. Cash flow Statement

In 2010, the operating cash flow before changes in working capital amounted to HRK 4,141 million (HRK 4,751 million INA, .d.d), HRK 1,529 million up on 2009, primarily as a result of a stronger EBITDA. The changes of working capital decreased the cash flow from operating activities by HRK 2,552 million in 2010, primarily as a result of huge steps taken to reduce overdue liabilities which decreased trade creditors by HRK 2,122 million, higher value of inventories (mainly WIP) by HRK 373 million and HRK 57 million higher trade receivables.

Net outflows in investing activities amounted to HRK 2,809 million (HRK 2,312 million INA, d.d.) and were HRK 1,681 million down on 2009. A decrease is resulted by the nature of key projects, some of which are nearing completion, and for the reason of current market environment, financial position and own cash generation capabilities.

Continued investment in key projects and decreased cash flow form operations increased strongly external funding and cash inflows from financing activities amounted to HRK 971 million (HRK 1,832 million INA, d.d.).

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

3. Segmental analysis of operating profit

3.1. Exploration and Production

	INA, d.d.					
	2009		2010		%	
Segment IFRS results (HRK mln)	HRK mln	USD mln	HRK mln	USD mln	HRK mln	USD mln
Revenues	6,134	1,162	7,867	1,430	28.3	23.1
Operating profit/(loss)	1,430	271	4,912	893	243.5	229.8
Operating profit excl. special items**	2,049	388	4,775	868	133.0	123.7
EBITDA	3,025	573	6,503	1,182	115.0	106.4
EBITDA excl. special items	3,025	573	6,235	1,134	106.1	97.9
CAPEX	2,980	564	1,404	255	(52.9)	(54.8)
	INA Group*					
	2009		2010		%	
Segment IFRS results (HRK mln)	HRK mln	USD mln	HRK mln	USD mln	HRK mln	USD mln
Revenues	8,694	1,646	10,882	1,979	25.2	20.2
Operating profit/(loss)	1,587	301	4,610	838	190.5	178.9
Operating profit excl. special items**	1,709	324	4,615	839	170.7	159.3
EBITDA	3,459	655	6,223	1,131	79.9	72.7
EBITDA excl. special items	2,962	561	5,985	1,088	102.1	94.0
CAPEX	3,039	576	1,473	268	(51.5)	(53.5)

* Exploration and Production refers to the Exploration and Production of INA, d.d. and following subsidiaries: Crosco Group, INA Naftaplin IE&PL, Guernsey, Adriagas S.r.l. Milano, Podzemno skladište plina d.o.o. until 30 April 2009, Prirodni plin d.o.o.

** The 2010 performance was negatively influenced by HRK 5 million special items (HRK 137 million positive for Exploration and Production INA, d.d.). The redefinition of cash generating units resulted in HRK 294 million positive effects, while HRK 198 million provisions (HRK 86 million Exploration and Production INA, d.d.) and HRK 101 million redundancy payments negatively influenced 2010 (HRK 71 million Exploration and Production INA, d.d).

	INA, d.d.			INA Group		
Hydrocarbon production (gross figures before royalty)*	2009	2010	%	2009	2010	%
Crude oil production (kt)*	**777**	**799**	**2.9**	**777**	**799**	**2.9**
Croatia	526	478	(9.0)	526	478	(9.0)
Syria	62	146	135.0	62	146	135.0
Egypt	106	97	(8.7)	106	97	(8.7)
Angola**	83	78	(5.8)	83	78	(5.8)
Natural gas production (m cm, net dry)	**2,068**	**2,602**	**25.8**	**2,068**	**2,602**	**25.8**
Croatia	1,901	2,331	22.6	1,901	2,331	22.6
Croatia - onshore	1,024	923	(9.9)	1,024	923	(9.9)
Croatia - offshore	877	1,407	60.5	877	1,407	60.5
Syria	167	272	62.4	167	272	62.4
Condensate (kt)	256	259	1.1	256	259	1.1
Crude oil (Mboe/d)	15,783	16,336	3.5	15,783	16,336	3.5
Natural gas Condensate (Mboe/d)	7,447	7,170	(3.7)	7,447	7,170	(3.7)
Natural Gas (Mboe/d)	33,354	41,973	25.8	33,354	41,973	25.8
o/w: Croatia off-shore (Mboe/d)	14,137	22,700	60.6	14,137	22,700	60.6
Total hydrocarbon production (Mboe/d)**	**56,584**	**65,480**	**15.7**	**56,584**	**65,480**	**15.7**
Average realised hydrocarbon price***	**2009**	**2010**	**%**	**2009**	**2010**	**%**
Crude oil and condensate price (USD/bbl)	53	70	31.6	53	70	31.6
Total hydrocarbon price (USD/boe)*	49	57	16.8	46	59	27.9

* Excluding separated condensate

** Accounting methodology for Angolan crude production was changed in 2010 and 2009 data was modified for the purpose of comparison

*** Calculated based on total external sales revenue including natural gas selling price (discontinued operation) as well

	INA, d.d.			INA Group		
Natural Gas Trading (M cm)	**2009**	**2010**		**2009**	**2010**	**%**
Natural gas imports (net dry)	5310.50			1,044.21	1,214.30	16.3
Natural gas sales on domestic market (net dry)	1,330.90			2,777.96	3,026.16	8.9
Natural gas price differential to import prices (HRK/000 m³) *	**2009**	**2010**		**2009**	**2010**	**%**
Eligible customers' price	(869.32)			(788.42)	(355.95)	(54.9)
Tariff customers' price	(1,298.32)			(790.55)	(396.68)	(49.8)
Total price	(1,111.90)			(792.19)	(369.67)	(53.3)

*Recalculated based on prices in HRK/m³ for the purpose of providing comparable data.

Exploration and Production operating profit, excluding special[5] items more than doubled in 2010 vs. 2009 and amounted to HRK 4,615 million (HRK 4,775 million Exploration and Production INA, d.d.). The main drivers for the profit improvement were (1) 15.7% higher hydrocarbon production driven by the increased Croatian offshore and Syrian gas production, (2) 27.9% better average realized hydrocarbon price after the continuous recovery of global economy, (3) negative contribution of the gas trading operations and (4) the achievements in the Company's effort on cost reduction resulting 4.6% lower unit opex. Reported 2010 operating profit amounted to HRK 4,610 million (HRK 4,912 million Exploration and Production INA, d.d.) and was negatively influenced by HRK 5 million special items (HRK 137 million positive for Exploration and Production INA, d.d.) including redefinition of cash generating units resulted in HRK 294 million positive effects, while HRK 198 million provisions (HRK 86 million Exploration and Production INA, d.d.) and HRK 101 million (HRK 71 million Exploration and Production INA, d.d.) redundancy payments negatively influenced 2010.

Average daily hydrocarbon production in 2010 was at 65,480 boe, up 15.7% compared to 2009 as the increasing contribution of the key development projects more than offset the production decrease of the maturing onshore oil and gas fields. INA's 2010 share of North Adriatic gas production increased by 60.6% compared to 2009 reflecting the additional production during previous quarters due to the start-up of Annamaria field in Q4 2009 and the favourable effect of the Production Share Agreement. Total 2010 production cost compared to 2009 was 4.6% lower supported by the 15.7% higher production quantities.

Croatian on-shore natural gas production decreased by 9.9%, due to the natural depletion. Natural gas production outside Croatia increased by 62.4% compared to 2009, after the start-up of the Oil and gas station Jihar in Syria. International crude production rose by 27.8%, compared to 2009 because of a higher production in Syria which compensated lower production in Egypt and Angola. Onshore domestic crude production declined by 9.0%.

Exploration and Production revenues in 2010 increased by 25.2% compared to 2009 (28.3% Exploration and Production INA, d.d.) primarily as the result of (1) stronger hydrocarbon production coupled with (2) higher sales volumes, (3) higher average crude price and (4) favourable effect of weaker Kuna compared to 2009.

The average price of imported gas remained almost at the same level, decreasing only 0.3% in 2010 amounting to 2.131 HRK/m^3. The negative differential between the selling price of gas and the price of imported gas decreased by 53.3% in the reviewed period however gas trading activity still generated significant losses to the company. Additionally, natural gas supply contract was concluded with Italian ENI for the period of 3 years starting from 1 January 2011, which will provide greater flexibility of quantities and more favourable prices for INA. Meanwhile gas sales agreements with HEP, Petrokemija and tariff customers were signed for 2011 decreasing the gap between sales and import gas prices.

Exploration and Production segment's CAPEX in 2010 decreased by HRK 1,566 million to the amount of HRK 1,473 million (Exploration and Production segment's INA, d.d. CAPEX in 2010 decreased by HRK 1,576 million to the amount of HRK 1,404 million), out of which HRK 890 million in Syria (o/w exploration HRK 115 million; development HRK 775), HRK 198 million on North Adriatic (o/w exploration HRK 5 million; development HRK 193 million), HRK 67 million in Egypt (o/w exploration HRK 16 million; development HRK 51 million), HRK 131 million in on-shore Croatia (o/w exploration HRK 24.4 million; development HRK 75.1 million; sustain HRK 31.2 million) and HRK 46 million in Angola (o/w exploration HRK 15 million; development HRK 31 million). This decrease was primarily result of lower 2010 investments for development operations in Syria and North Adriatic in comparison with 2009.
In Syria on Hayan block, building up of Stage 3, including Central gas station Jihar with LPG facilities and technological infrastructure for 4 fields - Jihar, Jazal, Al Mahr and Mazrur was completed and is currently in the testing phase. After completion of the testing this investment will allow significant increase production level in 2011. Since the beginning of the Syrian project INA has invested more than HRK 5.5 billion for gas exploration and production and infrastructure. During 2010 majority of drilling activities on the North Adriatic were completed and the construction of platforms at Isabella field was finished and prepared for production. By completing these investments INA has made HRK 4.6 billion investment into the North Adriatic project since its start up.
In the on-shore Croatia two successful discoveries were made, Dravica-1 discovery in the scope of the joint exploration project with MOL confirming the successful cooperation of the strategic partners and the second one, Selec-1 satellite oil field discovery made at the end of the year, being a smaller field with lower exploration risk close to the existing infrastructure. In Syria Aphamia block Beer As Sib-1 well was drilled and successfully tested with daily test results of 126-314 barrels of oil and 177–412 boe of gas. Drilling of Mudavara 3 exploration well in the same block was started in August; testing will be performed later. Due to the recent developments and events in Egypt INA temporarily suspended exploration works on Sidi Rahman exploration field. Production and operations at other fields in Egypt remain unaffected.

[5] Due to the redefinition of cash generating units corrections of impairment amounted to HRK 334 million. Now the contracts areas are cash generating units unlike the prior periods when it was production fields or countries.

3.2. Refining and Marketing

Segment IFRS results (HRK mln)	INA, d.d. 2009 HRK mln	2009 USD mln	2010 HRK mln	2010 USD mln	% HRK mln	% USD mln
Revenues	12,422	2,352	14,928	2,714	20.2	15.4
Operating profit/(loss) reported	(754)	(143)	(807)	(147)	7.0	2.8
Operating profit excl. special items**	(641)	(121)	(476)	(87)	(25.7)	(28.7)
EBITDA	(277)	(52)	(206)	(37)	(25.6)	(28.6)
EBITDA excl. special items	(277)	(52)	(17)	(3)	(93.9)	(94.1)
CAPEX and investments (w/o acquisition)	1,345	255	1,328	241	(1.3)	(5.2)

Segment IFRS results (HRK mln)	INA Group* 2009 HRK mln	2009 USD mln	2010 HRK mln	2010 USD mln	% HRK mln	% USD mln
Revenues	13,454	2,548	15,777	2,869	17.3	12.6
Operating profit/(loss) reported	(621)	(118)	(878)	(160)	41.4	35.7
Operating profit excl. special items**	(508)	(96)	(464)	(84)	(8.7)	(12.3)
EBITDA	(66)	(12)	(130)	(24)	97.0	89.1
EBITDA excl. special items	(66)	(12)	78	14	n.a.	n.a.
CAPEX and investments (w/o acquisition)	1,367	259	1,328	241	(2.9)	(6.7)

*Refers to Refining & Marketing INA d.d. and following subsidiaries: Maziva Zagreb, Proplin, Crobenz (until September 30, 2010), Osijek Petrol, Interlna Ljubljana, INA BH Sarajevo, Holdina Sarajevo, INA Hungary, FPC London, INA-Crna Gora, INA Beograd, INA Kosovo, Interina Holding London, Holdina Guernsey.
**The 2010 performance includes HRK 414 million negative special items (HRK 331 million INA d.d. BD) comprising of HRK 115 million negative changes in value of inventories, HRK 142 million environmental provisions (total amount of changes in value of inventories and environmental provisions refers to INA, d.d.), HRK 93 million redundancy payments (HRK 74 million INA d.d. BD) and impairment of assets in the amount of HRK 64 million.

	INA, d.d.			INA Group		
Refinery processing (kt)	**2009**	**2010**	**%**	**2009**	**2010**	**%**
Domestic crude oil	538	459	(14.7)	538	459	(14.7)
Imported crude oil	4,007	3,562	(11.1)	4,007	3,562	(11.1)
Condensates	141	138	(2.2)	141	138	(2.2)
Other feedstock	327	289	(11.7)	330	291	(11.7)
Total refinery throughput	**5,013**	**4,447**	**(11.3)**	**5,016**	**4,450**	**(11.3)**
Refinery production (kt)						
Motor gasoline	1,048	958	(8.6)	1,048	958	(8.6)
Diesel	1,209	1,084	(10.3)	1,209	1,084	(10.3)
Heating oils	268	222	(17.2)	268	222	(17.2)
Kerosene	94	95	1.5	94	95	1.5
Naphtha	138	73	(47.1)	138	73	(47.1)
Bitumen	107	66	(38.0)	107	66	(38.0)
Other products	1,577	1,438	(8.8)	1,581	1,441	(8.8)
Total	**4,441**	**3,937**	**(11.4)**	**4,444**	**3,939**	**(11.4)**
Refinery loss	27	35	28.9	27	35	28.9
Own consumption	544	475	(12.6)	544	475	(12.6)
Total refinery throughput	**5,013**	**4,447**	**(11.3)**	**5,016**	**4,450**	**(11.3)**
External refined product sales by country (kt)						
Croatia	2,534	2,015	(20.5)	2,562	2,049	(20.0)
BiH	495	439	(11.2)	502	443	(11.7)
Other markets	1,372	1,499	9.3	1,377	1,520	10.4
Total	**4,401**	**3,954**	**(10.2)**	**4,440**	**4,012**	**(9.6)**
External refined product sales by product (kt)						
Motor gasoline	1,072	1,004	(6.3)	1,075	1,011	(6.0)
Diesel	1,286	1,255	(2.4)	1,295	1,266	(2.3)
Heating oils	269	230	(14.7)	270	232	(14.2)
Kerosene	97	109	12.1	97	109	12.1
Naphtha	141	74	(47.5)	141	74	(47.6)
Bitumen	115	69	(40.3)	115	68	(40.9)
Other products*	1,422	1,214	(14.7)	1,447	1,254	(13.4)
Total	**4,402**	**3,954**	**(10.2)**	**4,440**	**4,012**	**(9.6)**
o/w Retail segment sales	1,084	1,028	(5.2)	1,232	1,125	(8.6)
o/w Direct sales to other end-users	3,318	2,925	(11.8)	3,208	2,887	(10.0)

*Other products = LPG, FCC gasoline, petrol components, other gasolines, benzene-rich cut. other diesel fuels and components, fuel oils and components, liquid sulphur, coke, motor oils. Ind, lubricants, base oils, spindle oil, waxes, blend. gas oil "M", atmosp, residue, intermediaries and other, 2009 data was grouped accordingly for the purpose of providing comparable data.

In 2010, result from operations excluding special items of the division amounted to HRK 464 million loss of which was HRK 44 million lower compared to 2009. In 2010 INA, d.d business division generated HRK 476 million operating loss versus HRK 641 million loss in 2009. (1) Continued internal efficiency improvements, (2) higher yield of white products based on improved crude optimisation had a positive effect as well as (3) 32% higher average crack spreads. On the other hand (4) total sales volume decreased by 10%, as result of optimisation, mainly on fuel oil and bitumen production. Reported 2010 operating loss amounted to HRK 878 million (HRK 807 million INA, d.d. BD), including HRK 414 million negative special items (HRK 331 million INA, d.d. BD), of which HRK 115 million related to negative special effect of changes in value of inventories in Q2 2010, HRK 142 million negative effects of environmental provisions(total amount of changes in value of inventories and environmental provisions refers to INA, d.d.), HRK 93 million severance payments for redundancy payments (HRK 74 million INA d.d. BD) and HRK 64 million for impairment.

External business environment was volatile in 2010. In comparison with the 2009, average price of crude oil increased by 28.9% (from 61.7 USD/bbl to 79.5 USD/bbl), while the average crack spread (FOB Med) increased by 32% (from 20.5 USD/t to 27.1 USD/t). Crack spread of the main products was increasing gradually: for gasoline, Euro 95 V spread increased from 116.4 USD/t to 127.7 USD/t; Eurodiesel V spread increased from 66.3 USD/t to 80.6 USD/t (still considerably below the level of 5 years average); LPG spread rose from 62.6 USD/t to 129.9 USD/t. The negative spread for black products improved considerably, especially for fuel oil (from -121.3 USD/t to -164.5 USD/t). Kuna was in average 4.2% weaker in 2010 against US dollar compared to 2009 which influenced positively the results.

Lower crude processing with improved product yield outlined the 2010 operations of the segment. Total refinery throughput was 11% lower due to (1) lower fuel demand in Croatia and neighboring countries, (2) Rijeka Refinery shutdowns during the planned turnaround in the first half of the year and refineries shutdowns in December. Both refineries processed Azeri light crude oil (1,251 kt), which gave better product yield (69% of white goods in 2010 compared to 67% in 2009). Sharp increase in the price difference between the Azeri and REB, which began in middle of November, reduced the attractiveness of Azeri crude as a partial replacement for the REB. At the beginning of the second quarter, production of EURO V quality derivates started as well as their distribution to the INA retail network and wholesale customers in Croatia and Bosnia.

In despite of lower demand, the total drop of sales is in line with total market development. Domestic market had the highest decrease of 20% (513 kt from which 320 kt is fuel oil and bitumen), while the exports increased by 4% (85 kt). There was decrease of total gasoline sales by 6%, diesel sales by 2.3%, and heating oil sales by 14.2%. On the other hand, INA kept its strong market position in Croatia and B&H.

Refinery modernisation programme was in focus of 2010 R&M capital investments with 910 mln HRK 70% of total HRK 1,328 million CAPEX (HRK 39 million lower than in 2009).Capital investments in 2010 referred only to INA, d.d. business division. **In Rijeka** three new facilities have been mechanically completed at the end of 2010 - Sulphur recovery plant (Claus), Mild hydrocracking / hydrodesulphurisation plant (MHC/HDS) and Hydrogen Generation unit (HGU). From 2011 Rijeka Refinery will produce only Euro-V standard gasoline and diesel fuel. Due to previous investments **Sisak Refinery** has been producing low-sulphur components for blending EURO-IV/V gasoline grades since 2009. At the end of the 2010, the third grass root plant, Izomerisation has been mechanically completed. Start up of the new unit is planned for Q1 2011 and it will improve the gasoline octane pool**.** As a result, until the end of 2010, almost HRK 4 billion was spend on the modernisation of refineries. These investments will bring INA in line with other European refineries transforming the company into one of the regional leaders in refining.
The projects scheduled for execution in the second phase of the refinery modernisation are in the preparation phase. The objectives of the 2nd phase modernisation are the reduction of heavy fuel oil production, improving the refineries' yield structure and profitability.

3.3. Retail Services

Segment IFRS results (HRK mln)	INA, d.d. 2009		2010		%	
	HRK mln	USD mln	HRK mln	USD mln	HRK mln	USD mln
Revenues	5,103	966	5,810	1,056	13.9	9.3
Operating profit	(112)	(21)	(127)	(23)	13.4	8.9
Operating profit excl. special items**	37	7	42	8	13.5	9.0
EBITDA	150	28	76	14	(49.3)	(51.4)
EBITDA excl. special items	150	28	119	22	(20.7)	(23.8)
CAPEX and investments (w/o acquisition)	33	6	48	9	46.4	40.5

Segment IFRS results (HRK mln) INA Group	INA Group 2009		2010		%	
	HRK mln	USD mln	HRK mln	USD mln	HRK mln	USD mln
Revenues	5,812	1,101	6,453	1,173	11.0	6.6
Operating profit	(126)	(24)	(190)	(35)	50.8	44.8
Operating profit excl. special items**	43	8	34	6	(20.9)	(24.1)
EBITDA	183	35	81	15	(55.7)	(57.5)
EBITDA excl. special items	183	35	125	23	(31.7)	(34.4)
CAPEX and investments (w/o acquisition)	47	9	52	9	10.6	6.2

* Refers to Retail INA d.d. and Petrol Rijeka and retail of subsidiaries: Proplin. Crobenz (until September 30, 2010). Osijek Petrol. Interina Ljubljana. Holdina Sarajevo. INA - Crna Gora
**The 2010 performance was negatively influenced by HRK 224 million special items (HRK 169 million Retail Services INA, d.d.), of which HRK 44 million (HRK 43 million Retail Services INA, d.d.) relates to redundancy payments, HRK 90 million (HRK 47 million Retail Services INA, d.d.) to impairment and HRK 90 million (HRK 79 million Retail Services INA, d.d.) for environmental provisions.

Refined product retail sales (kt)	INA, d.d. 2009	2010	%	INA Group 2009	2010	%
Motor gasoline	412	386	(6.3)	447	418	(6.5)
Gas and heating oils	681	654	(4.0)	746	715	(4.1)
LPG	32	29	(9.4)	56	44	(22.8)
Other products	4	3	(25.0)	4	3	(16.0)
Total	**1,129**	**1,072**	**(5.0)**	**1,254**	**1,180**	**(5.9)**
Refined product retail sales (kt)						
Croatia	1,129	1,072	(5.0)	1,199	1,124	(6.2)
B&H	0	0	n.a.	39	40	1.3
Other markets	0	0	n.a.	16	16	3.1
Total	**1,129**	**1,072**	**(5.0)**	**1,254**	**1,180**	**(5.9)**

In 2010 Retail Services had HRK 34 million operating profit (HRK 42 million Retail Services INA, d.d.) excluding special items. Sales decrease by 5.9% compared to 2009 had a negative effect on 2010 result which was partially mitigated with cost saving measures, efficiency improvements initiatives and introduction of Euro V quality over the entire domestic network ensuring a significant improvement in quality perception of INA. The reported operating loss (including special items) for the 2010 amounted to HRK 190 million vs. HRK 126 million in 2009, of which HRK 127 million operating loss were generated by the parent company, mainly due to lower margins, other income (excluding IAS 36) ang higher operating costs (excluding IAS 36 and provisions for costs)

Total retail sales volumes consisted primarily of diesel fuels and motor gasoline sales. In 2010, INA Group experienced a 6.5% decrease in motor gasoline sales and 4.1% decrease in diesel sales, however with the slow improvement of economy diesel sales started to improve in the second half of 2010. LPG sales dropped by 22.8% reflecting an overall decreasing trend in LPG sales due to the increase of its sales price compared to the previous years. Average throughput per site was 5.2% down on 2010.

As of 31 December 2010 the retail services operated 476 petrol stations (of which 424 in Croatia, 45 in Bosnia-Herzegovina, 6 in Slovenia and 1 in Montenegro), what is a decrease of 12 petrol stations compared to 31 December 2009. The main reason for the decreased number of petrol stations was sale of 14 Crobenz's petrol stations.

Retail CAPEX amounted to HRK 52 million in 2010 compared to HRK 47 million in 2009 (HRK 48 million compare to HRK 33 million in 2009 Retail Services INA, d.d.). HRK 8 million was spent on newly constructed petrol station Galižana-East and beginning of construction of petrol station Galižana-West. The remaining amount of CAPEX was spent on minor projects such as technological and facility improvements, shop equipment, etc. New investment programme was started in Q4 2010 placing an increasing emphasis on the revitalisation and modernisation of the network in Croatia, starting the rebranding and redesign of the identity with 11 petrol stations.

3.4. Corporate and Other

Segment IFRS results (HRK mln)	INA, d.d.					
	2009		2010		%	
	HRK mln	USD mln	HRK mln	USD mln	HRK mln	USD mln
Revenues	15	3	22	4	46.7	40.8
Operating profit	(1,140)	(216)	(1,246)	(227)	9.3	4.9
Operating profit excl. special items**	(1,087)	(206)	(1,143)	(208)	5.2	1.0
EBITDA	(913)	(173)	(1,072)	(195)	17.4	12.7
EBITDA excl. special items	(913)	(173)	(973)	(177)	6.6	2.3
CAPEX	20	4	36	7	80.0	72.8
	INA Group*					
Segment IFRS results (HRK mln)	2009		2010		%	
	HRK mln	USD mln	HRK mln	USD mln	HRK mln	USD mln
Revenues	909	172	722	131	(20.6)	(23.7)
Operating profit	(1,045)	(198)	(1,414)	(257)	35.3	29.9
Operating profit excl. special items**	(992)	(188)	(1,260)	(229)	27.0	21.9
EBITDA	(769)	(146)	(1,126)	(205)	46.4	40.6
EBITDA excl. special items	(769)	(146)	(976)	(177)	26.9	21.9
CAPEX	51	10	38	7	(25.5)	(28.5)

* Includes Corporate Functions and subsidiaries providing safety and protection services, technical services, corporate support and other services (ITR d.o.o., Hostin, Sinaco d.o.o., STSI d.o.o.).
**The 2010 performance was negatively influenced by HRK 154 million special items (HRK 103 million Corporate INA, d.d.), of which HRK 150 million relates to redundancy payments (HRK 99 million Corporate INA, d.d.), HRK 4 million for environmental provisions (HRK 4 million Corporate INA, d.d.).

Corporate and Other: In 2010, operating loss excluding special items of HRK 1,260 million (USD 229 million) (HRK 1,143 million generated by INA Corporate Functions) was recorded, which was HRK 268 million higher than 2009 mainly because of higher financial loss relating to operations which were slightly offset by lower other operating costs as a result of cost-cutting measures.
In 2010, this INA Group segment recorded an operating loss of HRK 1.414 million (HRK 1.246 million generated by INA, d.d. Corporate Functions while the subsidiary contribution was negative and together with reversal of depreciation amounted to HRK 168 million) which was HRK 369 million higher than in 2009.

As a result of harmonisation with international practice, the interest and forex differences on trade debtors and creditors have been reclassified in INA's business books from financial activities to operating activities. For 2009 they had a negative impact of HRK 223 million, while their negative effect on 2010 operating profit amounted to HRK 399 million.

Summary Segmental Results of Operations

	INA, d.d.			INA Group		
(HRK mln)	**2009**	**2010**	**%**	**2009**	**2010**	**%**
Sales						
Exploration & Production	6,134	7,867	28	8,694	10,882	25
Refining & Marketing	12,422	14,928	20	13,454	15,777	17
Retail	5,103	5,810	14	5,812	6,453	11
Corporate and Other	15	22	47	909	722	(21)
Inter-segment revenue	(5,020)	(6,081)	21	(6,538)	(7,968)	22
Total sales	**18,654**	**22,546**	**21**	**22,331**	**25,866**	**16**
Operating expenses, net other income from operating activities						
Exploration & Production	(4,704)	(2,955)	(37)	(7,107)	(6,272)	(12)
Refining & Marketing	(13,176)	(15,735)	19	(14,075)	(16,655)	18
Retail	(5,215)	(5,937)	14	(5,938)	(6,643)	12
Corporate and Other	(1,155)	(1,268)	10	(1,954)	(2,136)	9
Inter-segment eliminations	5,020	6,081	21	6,538	7,968	22
Total expenses	**(19,230)**	**(19,814)**	**3**	**(22,536)**	**(23,738)**	**5**
Profit from operations						
Exploration & Production	1,430	4,912	243	1,587	4,610	190
Refining & Marketing	(754)	(807)	7	(621)	(878)	41
Retail	(112)	(127)	13	(126)	(190)	51
Corporate and Other	(1,140)	(1,246)	9	(1,045)	(1,414)	35
Inter-segment eliminations	0	0	0	0	0	0
Total profit/(loss) from operations	**(576)**	**2,732**	**n.a.**	**(205)**	**2,128**	**n.a.**
Share in the profit of associate companies	0	0	0	0	0	0
Net profit/(loss) from financial activities	**(194)**	**(553)**	**185**	**(284)**	**(810)**	**185**
Profit/(loss) before taxation	**(770)**	**2,179**	**n.a.**	**(489)**	**1,318**	**n.a.**
Income tax	**139**	**(412)**	**n.a.**	**95**	**(363)**	**n.a.**
Profit/(loss) for the period	**(631)**	**1,767**	**n.a.**	**(394)**	**955**	**n.a.**

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

	INA, d.d.			INA Group		
Operating Profit Excluding Special Items (HRK mln)	**2009**	**2010**	**%**	**2009**	**2010**	**%**
Exploration & Production	2,049	4,775	133	1,709	4,615	170
Refining & Marketing	(641)	(476)	(26)	(508)	(464)	(9)
Retail	37	42	14	43	34	(21)
Corporate and Other	(1,087)	(1,143)	5	(992)	(1,260)	27
Inter-segment eliminations	0	0	0	0	0	0
Total	**358**	**3,198**	**793**	**252**	**2,925**	**1,061**

Depreciation (HRK mln)	**2009**	**2010**	**%**	**2009**	**2010**	**%**
Exploration & Production	738	1,008	37	951	1,160	22
Refining & Marketing	278	292	5	297	331	11
Retail	88	75	(15)	108	93	(14)
Corporate and Other	117	107	(9)	151	166	10
Total	**1,221**	**1,482**	**21**	**1,507**	**1,750**	**16**

EBITDA* (HRK mln)	**2009**	**2010**	**%**	**2009**	**2010**	**%**
Exploration & Production	3,025	6,503	115	3,459	6,223	80
Refining & Marketing	(277)	(206)	(26)	(66)	(130)	97
Retail	150	76	(49)	183	81	(56)
Corporate and Other	(913)	(1,072)	17	(769)	(1,126)	46
Inter-segment eliminations	0	0	0	0	0	0
Total	**1,985**	**5,301**	**167**	**2,807**	**5,048**	**80**

EBITDA Excluding Special Items* (HRK mln)	**2009**	**2010**	**%**	**2009**	**2010**	**%**
Exploration & Production	3,025	6,235	106	2,962	5,985	102
Refining & Marketing	(277)	(17)	(94)	(66)	78	n.a.
Retail	150	119	(21)	183	125	(32)
Corporate and Other	(913)	(973)	7	(769)	(976)	27
Inter-segment eliminations	0	0	0	0	0	0
Total	**1,985**	**5,364**	**170**	**2,310**	**5,212**	**126**

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

Consolidated and unconsolidated Income Statement

	INA, d.d.			INA Group		
(HRK mln)	**2009**	**2010**	**%**	**2009**	**2010**	**%**
Sales revenue						
a) Domestic	12,822	13,985	9	14,212	15,712	11
b) Exports	5,832	8,561	47	8,119	10,154	25
Total sales revenue	**18,654**	**22,546**	**21**	**22,331**	**25,866**	**16**
Income from own consumption of products and services	16	6	(63)	189	366	94
Other operating income	860	1,428	66	1,623	1,590	(2)
Total operating income	**19,530**	**23,980**	**23**	**24,143**	**27,822**	**15**
Changes in inventories of finished products and work in progress	(32)	67	n.a.	(50)	260	n.a.
Cost of raw materials and consumables	(9,996)	(12,059)	21	(10,461)	(12,288)	17
Depreciation and amortization	(1,221)	(1,483)	21	(1,507)	(1,750)	16
Other material costs	(1,789)	(1,477)	(17)	(2,271)	(2,087)	(8)
Non-material costs	(1,301)	(1,357)	4	(1,591)	(1,514)	(5)
Staff costs	(1,697)	(1,978)	17	(2,808)	(3,154)	12
Cost of other goods sold	(2,729)	(1,875)	(31)	(4,155)	(3,991)	(4)
Impairment charges (net)	(1,115)	(689)	(38)	(1,256)	(570)	(55)
Provisions for charges and risks (net)	(226)	(397)	76	(249)	(600)	141
Operating expenses	**(20,106)**	**(21,248)**	**6**	**(24,348)**	**(25,694)**	**6**
Loss/(profit) from operations	**(576)**	**2,732**	**n.a.**	**(205)**	**2,128**	**n.a.**
Finance revenue	205	322	57	203	68	(67)
Finance costs	(399)	(875)	119	(487)	(878)	80
Net loss from financial activities	**(194)**	**(553)**	**185**	**(284)**	**(810)**	**185**
Loss/(profit) for the year before taxation	**(770)**	**2,179**	**n.a.**	**(489)**	**1,318**	**n.a.**
Income tax	139	(210)	n.a.	(34)	(214)	529
Deferred taxes	0	(202)	n.a.	129	(149)	n.a.
Loss/(profit) for the year	**(631)**	**1,767**	**n.a.**	**(394)**	**955**	**n.a.**
Attributable to:						
Owners of the Company	(631)	1,767	n.a.	(392)	961	n.a.
Non-controlling interests				(2)	(6)	185

Consolidated and Unconsolidated Statement of comprehensive Income

	INA, d.d.			INA Group		
(HRK mln)	**2009**	**2010**	**%**	**2009**	**2010**	**%**
Profit/(loss) for the year	**(631)**	**1,767**	**(380)**	**(394)**	**955**	**n.a.**
Other comprehensive income:						
Exchange differences arising from foreign operations	0	0	0	4	29	625
Gains on available-for-sale investments, net	145	17	(88)	145	17	(88)
Ohter comprehensive income/(loss), net	**145**	**17**	**(88)**	**149**	**46**	**(69)**
Total comprehensive income/(loss) for the year	**(486)**	**1,784**	**n.a.**	**(245)**	**1,001**	**n.a.**
Attributable to:						
Owners of the Company	(486)	1,784	n.a.	(243)	1,007	n.a.
Non- controling interests	0	0	0	(2)	(6)	185

Consolidated and Unconsolidated Statement of Financial Position

	INA, d.d.			INA Group		
HRK mln	**31 Dec 2009**	**31 Dec 2010**	**%**	**31 Dec 2009**	**31 Dec 2010**	**%**
Assets						
Non-current assets						
Intangible assets	716	827	16	731	840	15
Property, plant and equipment	18,120	19,522	8	20,353	21,555	6
Goodwill	0	0	n.a.	296	232	(22)
Investments in subsidiaries	1,257	1,224	(3)	0	0	n.a.
Investments in associates and joint ventures	189	51	(73)	68	22	(68)
Other investments	403	437	9	138	334	142
Long-term receivables	496	341	(31)	385	240	(38)
Derivative financial instruments	0	0	n.a.	0	4	n.a.
Deferred tax	429	223	(48)	434	280	(35)
Available for sale assets	397	417	5	397	417	5
Total non-current assets	**22,007**	**23,042**	**5**	**22,802**	**23,924**	**5**
Current assets						
Inventories	2,314	2,218	(4)	2,887	3,157	9
Trade receivables net	1,332	1,816	36	2,925	3,052	4
Intercompany receivables	1,544	2,229	44	0	0	n.a.
Other receivables	577	287	(50)	805	586	(27)
Derivative financial instruments	27	0	n.a.	56	1	(98)
Other current assets	159	253	59	32	40	25
Prepaid expenses and accrued income	36	99	176	72	142	97
Cash and cash equivalents	68	260	281	367	317	(14)
Current assets	**6,057**	**7,162**	**18**	**7,144**	**7,295**	**2**
Assets held for trading	0	12	n.a.	121	12	(90)
Current assets	**6,057**	**7,174**	**18**	**7,265**	**7,307**	**1**
Total assets	**28,064**	**30,216**	**8**	**30,067**	**31,231**	**4**
Equity and liabilities						
Capital and reserves						
Share capital	9,000	9,000	0	9,000	9,000	0
Revaluation reserve	10	27	160	10	27	170
Other reserves	1,952	1,952	0	2,311	2,340	1
Retained earnings / (Deficit)	(211)	1,556	n.a.	463	1,424	208
Equity attributable to equity holder	**10,751**	**12,535**	**17**	**11,784**	**12,791**	**9**
Minority interests	0	0	0	8	2	(75)
Total equity	**10,751**	**12,535**	**17**	**11,792**	**12,793**	**8**
Non-current liabilities						
Long-term loans	5,646	7,148	27	5,764	7,301	27
Other non-current liabilities	125	117	(6)	139	125	(10)
Employee benefits obligation	84	84	0	126	129	2
Long-term provisions	2,541	2,563	1	2,573	2,620	2
Total non-current liabilities	**8,396**	**9,912**	**18**	**8,602**	**10,175**	**18**
Current liabilities						
Bank loans and overdrafts	581	838	44	2,104	1,659	(21)
Current portion of long-term debt	575	1,233	114	655	1,295	98
Intercompany payables	2,878	3,056	6	0	0	n.a.
Trade payables	2,704	1,611	(40)	4,286	3,786	(12)
Taxes and contributions	1,585	650	(59)	1,781	789	(56)
Other current liabilities	338	114	(66)	415	200	(52)
Accruals and deferred income	54	58	7	157	124	(21)
Employee benefits obligation	12	8	(33)	17	16	(6)
Short-term provisions	190	201	6	229	394	72
Current liabilities	**8,917**	**7,769**	**(13)**	**9,644**	**8,263**	**(14)**
Liabilities directly associated with assets classified held for sale	0	0	0	29	0	n.a.
Total current liabilities	**8,917**	**7,769**	**(13)**	**9,673**	**8,263**	**(15)**
Total liabilities	**17,313**	**17,681**	**2**	**18,275**	**18,438**	**1**
Total equity and liabilities	**28,064**	**30,216**	**8**	**30,067**	**31,231**	**4**

Capital Expenditure

	INA, d.d.			INA Group		
Capital Expenditures (HRK mln)	**2009**	**2010**	**%**	**2009**	**2010**	**%**
Exploration & Production	2,980	1,404	(53)	3,039	1,473	(52)
Refining & Marketing	1,345	1,328	(1)	1,367	1,328	(3)
Retail	33	48	46	47	52	11
Corporate & other	20	36	80	51	38	(25)
Total	**4,378**	**2,816**	**(36)**	**4,504**	**2,891**	**(36)**

Capital Expenditures - Tangible Assets (HRK mln)	**2009**	**2010**	**%**	**2009**	**2010**	**%**
Exploration & Production	2,845	1,224	(57)	2,902	1,293	(55)
Refining & Marketing	1,344	1,328	(1)	1,365	1,328	(3)
Retail	33	48	45	46	51	11
Corporate & other	6	12	100	36	14	(61)
Total Capital Expenditure	**4,228**	**2,612**	**(38)**	**4,349**	**2,686**	**(38)**

Consolidated and unconsolidated Cash flow statement
Period ended 31 December 2009 and 2010
(All amounts in HRK millions)

	INA, d.d.			INA Group		
HRK mln	2009	2010	Ch. %	2009	2010	Ch. %
Profit for the year	**(631)**	**1,767**	**n.a.**	**(394)**	**955**	**n.a.**
Adjustments for:						
Depreciation and amortisation	1,221	1,483	21	1,507	1,750	16
Income tax expense/(benefit) recognized in loss	(139)	412	n.a.	(95)	363	n.a.
Impairment charges	1,116	687	(38)	1,256	570	(55)
Reversal of impairment	(261)	(667)	156	(128)	(771)	502
Gain on sale of property plant and equipment	(9)	(6)	(33)	(10)	(8)	(20)
Gain on sale of	0	(11)	n.a.	0	(11)	n.a.
Foreign exchange loss/(gain)	(91)	582	n.a.	(79)	531	n.a.
Interest expense (net)	158	218	38	184	156	(15)
Other financial income/(expense) recognised in profit	151	(53)	n.a.	149	87	(42)
Increase in provisions	72	195	171	50	383	666
Net book value of sold assts classified as held for sale	0	0	0	42	0	n.a.
Decommissioning interests	126	144	14	126	144	14
Other non-cash items	0	0	0	4	(8)	n.a.
Operating cash flow before working capital changes	**1,713**	**4,751**	**177**	**2,612**	**4,141**	**59**
Movements in working capital						
(Increase)/decrease in inventories	(126)	107	n.a.	(269)	(373)	39
(Increase)/decrease in receivables and prepayments	(166)	(1,840)	1,008	(170)	(57)	(66)
(Decrease)/increase in trade and other payables	333	(2,351)	n.a.	812	(2,122)	n.a.
Cash generated from operations	**1,754**	**667**	**(62)**	**2,985**	**1,589**	**(47)**
Taxes paid	0	0	0	(25)	(26)	4
Net cash inflow from operating activities	**1,754**	**667**	**(62)**	**2,960**	**1,563**	**(47)**
Cash flows used in investing activities						
Payments for property, plant and equipment	(4,064)	(2,459)	(39)	(4,183)	(2,384)	(43)
Payment for intangible assets	(158)	(218)	38	(163)	(205)	26
Proceeds from sale of non-current assets	9	8	(11)	15	10	(33)
Acquisition of subsidiaries	0	0	0	(103)	0	n.a.
Payments from sale of subsidiaries	0	(39)	n.a.	0	(39)	n.a.
Acquisition of investments in associates and joint ventures and other companies	0	(1)	n.a.	0	0	0
Dividends received from companies classified as available for sale and from other companies	3	4	33	3	3	0
Interest received	10	254	2,440	0	21	n.a.
Investments and loans to third parties, net	(35)	139	n.a.	(59)	(215)	264
Net cash (outflow) used for investing activities	**(4,235)**	**(2,312)**	**(45)**	**(4,490)**	**(2,809)**	**(37)**
Cash flows from financing activities						
Additional long-term borrowings	2,041	2,708	33	2,044	2,803	37
Repayment of long-term borrowings	(45)	(1,018)	2,162	(120)	(1,098)	815
Additional short-term borrowings	538	2,403	347	8,705	10,466	20
Repayment of short term borrowings	(202)	(2,148)	963	(9,127)	(10,921)	20
Interest paid on long-term loans	(66)	(22)	(67)	(70)	(32)	(54)
Other long-term liabilities, net	(9)	(9)	0	(8)	(8)	0
Interest paid on short term loans and other financing charges	(25)	(82)	228	(103)	(239)	132
Net cash from financing activities	**2,232**	**1,832**	**(18)**	**1,321**	**971**	**(26)**
Net (decrease)/increase in cash and cash equivalents	(249)	187	n.a.	(209)	(275)	32
At beginning of period	318	68	(79)	579	367	(37)
Effect of foreign exchange rate changes	(1)	5	n.a.	(3)	225	n.a.
At the end of period	68	260	284	367	317	(14)

Statements of changes in equity

For the period ended 31 December 2009 and 2010

(All amounts in HRK millions)

Attributable to equity holders of the parent

INA, d.d.	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total
Balance as at 1 January 2009	**9,000**	**1,952**	**(135)**	**420**	**11,237**
Profit / loss for the year	0	0	0	(631)	(631)
Other comprehensive income, net	0	0	145	0	145
Total comprehensive income for the year	0	0	145	(631)	(486)
Dividends payable	0	0	0	0	0
Balance as at 31 December 2009	**9,000**	**1,952**	**10**	**(211)**	**10,751**
Balance as at 1 January 2010	**9,000**	**1,952**	**10**	**(211)**	**10,751**
Profit / loss for the year	0	0	0	1,767	1,767
Other comprehensive income, net	0	0	17	0	17
Total comprehensive income for the year	0	0	17	1,767	1,784
Dividends payable					0
Balance as at 31 December 20010	**9,000**	**1,952**	**27**	**1,556**	**12,535**

INA GRUPA	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Minority interests	Total equity
Balance as at 1 January 2009	**9,000**	**2,307**	**(135)**	**855**	**12,027**	**10**	**12,037**
Profit / loss for the year	0	0	0	(392)	(392)	(2)	(394)
Other comprehensive income, net	0	4	145	0	149	0	149
Total comprehensive income for the year	0	4	145	(392)	(243)	(2)	(245)
Dividends payable	0	0	0	0	0	0	0
Balance as at 30 September 2009	**9,000**	**2,311**	**10**	**463**	**11,784**	**8**	**11,792**
Balance as at 1 January 2010	**9,000**	**2,311**	**10**	**463**	**11,784**	**8**	**11,792**
Profit / loss for the year	0	0	0	961	961	(6)	955
Other comprehensive income, net	0	29	17	0	46	0	46
Total comprehensive income for the year	0	29	17	961	1,007	(6)	1,001
Dividends payable	0	0	0	0	0	0	0
Balance as at 30 September 2010	**9,000**	**2,340**	**27**	**1,424**	**12,791**	**2**	**12,793**

C. OTHER DATA

1. Future development and exploration

The main constraint on world growth is finance/economics, resulting in lower global growth than before the recession. These forces determine the macro background for Central and Eastern Europe. Capital is relatively scarce compared to the early 2000's, which leads to lower investments and much less room for export-led growth due to weak demand in Western Europe. CEE medium-run growth rates will be lower than before the crisis, when their growth was boosted on strong investments and exports with growth prospects varying substantially across and within regions. Countries in the region with a strong initial fiscal position and low indebtedness could apply counter-cyclical policies and hence could mitigate the effects of the crisis. Growth in these countries can rely more on relatively healthy internal consumption. On the other hand, countries with higher debt burdens did not have room to manoeuvre, hence their recovery is weaker. The deleveraging needed in these countries will limit domestic demand and keep growth rates lower for the next few years.

Main drivers of planned growth in the future periods are investments in North Adriatic, Syria, Refineries Modernisation and filling stations revitalization and modernisation, which will have a great impact on INA Group profitability. Main effects of these investments are higher total hydrocarbon production, stable refineries operations with better white products yield, increased production of EURO V, and lower own consumption and losses. Modernisation and revitalisation of filling stations have started, in order to meet the highest expectations of customers and make filling stations the most desirable place for shopping. Positive effects of these programmes together with freed funds will enable the continuation of investments programmes and new investment initiatives.
Planned capital expenditures will support the intensification of exploration and development activities in Croatia and abroad, continuation of the Refineries Modernisation and revitalisation and modernisation of retail network in Croatia, starting change of visual identity of filling stations. Mentioned projects will significantly contribute to INA's competitiveness and ensure future growth and profitability which will bring INA to a regional market leader position.

Excepted growth and business operations developments will depend on the external factors as well, i.e. the market environment, especially developments of the global markets crude oil prices, foreign exchange rates and an overall trend relating to the global economic activity recovery which might have an ambiguous effect on INA operations.

2. Financial instruments and risk management

Gearing ratio
The primary goal of the Group in managing its capital is to ensure good capital ratios by maximizing the return to shareholders through the optimization of the debt and equity balance.
The capital structure of the Group consists of net debt and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests).
Capital structure of the Group is reviewed quarterly. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Internally, maximum gearing ratio (net debt) of the Group is determined.
On December 31, 2010, Gearing ratio of INA Group was increased from 40.9% in 2009 to 43.7%, and of INA d.d. from 38.5% to 41.7%.

Categories of financial instruments

	INA-Group		INA d.d.	
mil HRK	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Financial assets				
Cash and cash equivalents	317	367	260	68
Financial assets designated as at fair value through profit and loss	6	6	6	6
Derivative financial instruments	5	56	-	27
Loans and receivables	4.,275	4,285	5,355	4.505
Available-for-sale financial assets	417	397	417	397
Financial liabilities				
Amortised cost	14,063	1,809	13,908	13,384
Financial guarantee contracts	-	-	1,638	1,837

INA Group continuously detects and monitors financial risks (commodity risk, FX and interest rate risk) in its operation. Market Price Risk Management Policy (adopted in 2010) is providing the framework under which INA and its consolidated subsidiaries manage its commodity, foreign exchange and interest rate risk at an acceptable level, allowing the Group to achieve its strategic goals while protecting the company's future financial stability and flexibility. It integrates and measures all financial risks at group level in a model using Monte Carlo simulation while senior management reviews Financial Risk Reports monthly.

Beside financial (market) risks, the most important risks include the credit risk and the liquidity risk. The Group used derivative instruments for managing those risks to a very limited extent. The Group does not use derivative financial instruments for speculative purposes.

a) Market risk

Commodity price risk management

The Group purchases crude oil mostly through short-term arrangements in US dollars at spot market prices while the required quantities of gas are purchased at a price denominated in US dollars and adjusted on a quarterly basis in accordance with the formula in the long-term gas supply agreement which expired by the very end of 2010. New, 3-year supply contract is signed with Italian ENI.

INA is mostly engaged in the sale of refined products and wholesale of natural gas. Domestic prices of refined products are determined under the pricing formula set out in the Refined Product Pricing Regulation (effective since 2001) which, to a limited extent, hedging the Group from the changes in crude and oil product prices and the currency risk, enabling refinery products to be repriced, with certain limitations, bi-weekly (from 16 April 2010) depending on the market (Platts) prices and the fluctuations of the Croatian kuna against the US dollar.

The Group may use swap and option instruments in managing its commodity exposure. In late 2010 INA concluded short term commodity swap transaction for inventory hedging purposes. This transaction was initiated to reduce exposure to potential price movements during the refinery inventory build down.

Foreign currency risk management

While the Group operates home and abroad many company transactions are priced and denominated in foreign currency and it is thus exposed to currency risk.

The company applies natural hedge to manage its currency risk exposure based on the principle that the currency mix of the debt portfolio should reflect the free cash flow currency position of the Group.

The Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of 31 December 2010, there were no open cross currency transactions.

Additionally, the Refined Product Pricing Regulation enables the company to partly transfer the unfavourable movements of exchange rates to domestic products market.

Interest rate risk management

INA Group companies use borrowed funds at both fixed and variable interest rates (mostly variable) and the Group is consequently exposed to the interest rate risk. As an energy company, the Group does not speculate on interest rate developments and therefore primarily chooses floating rates. However, in case of certain instruments and macro environments, choosing fixed interest funds can be more advantageous

The Group may use interest rate swaps to manage the relative level of its exposure to cash flow interest rate risk associated with floating interest-bearing borrowings. As of 31 December 2010, there were no open interest rate swap transactions.

Other price risks

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

b) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Group. Overdue receivables have a negative impact on INA Group's liquidity while provisions due to overdue receivables negatively effect results. According to existing Credit Risk Management Procedure, in dealing with its customers, Group applies risk categorisation, sets up credit limits and obtains collaterals as a means of mitigating the risk of financial loss from defaults. Debentures being the prevailing payment security instrument on the Croatian market are mainly taken as collateral.

There is no significant risk exposure of INA Group that would not be covered with collateral, other than those to the institutions and entities controlled by the state. Given that the Republic of Croatia is a major shareholder of the Group itself, credit risks to a significant extent depend on the policy of the Croatian Government.

The risk of collection of overdue debt from the customers is present especially in litigated receivables from customers in bankruptcy. Collection under lawsuits and bankruptcies are lengthy trials with uncertain outcomes, on which the Group has very limited control.

c) Liquidity risk

The Group's liquidity risk is managed by maintaining adequate reserves and credit lines and by continuous monitoring of projected and actual cash flow and due dates for amounts receivable and payable.

INA Group's policy is to ensure sufficient external funding sources with the goal of reaching sufficient level of committed credit lines frame available to cover INA Group liquidity as well as investments needs.

Till December 2010 crude oil and oil products were imported through INA d.d. foreign subsidiaries Interina London and Interina Guersney, while since December 2010 it is being imported directly by parent company (INA d.d.). In accordance with international practices crude is purchased by opening irrevocable documentary letters of credit in favour of the suppliers opened at first-class commercial banks and by using short-term financing (trade financing).

d) Fair value of financial instruments

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

3. Related party transactions

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 parent company and the Group companies are disclosed below.

INA parent company HRK mln	Amounts owed from related parties	Amounts owed to related parties
	31 December 2010	31 December 2010
Foreign related companies		
Interina Ltd Guernsey	-	128
Holdina Sarajevo	81	5
Interina d.o.o. Ljubljana	3	-
Interina Ltd London	-	2,183
Adriagas Milano	-	1
INA – Crna Gora d.o.o. Podgorica	15	-
INA – Beograd d.o.o. Beograd	7	-
Domestic related companies		
Crosco Grupa	2	50
Osijek Petrol d.d.	123	1
Crobenz d.d. Zagreb	-	-
Proplin d.o.o. Zagreb	109	22
STSI d.o.o. Zagreb	8	173
Maziva Zagreb d.o.o. Zagreb	21	28
ITR d.o.o. Zagreb	-	14
Sinaco d.o.o. Zagreb	1	36
Hostin d.o.o. Zagreb	-	-
Prirodni plin d.o.o. Zagreb	2,271	346

INA parent company HRK mln	Sales of goods	Purchase of goods
	31 December 2010	31 December 2010
Foreign related companies		
Interina Ltd Guernsey	2,815	280
Holdina Sarajevo	526	-
Interina d.o.o. Ljubljana	27	-
Interina Ltd London	6	10,666
Adriagas Milano	-	4
INA – Crna Gora d.o.o. Podgorica	55	-
INA – Beograd d.o.o. Beograd	100	-
Domestic related companies		
Crosco Grupa	7	124
Osijek Petrol d.d.	399	-
Crobenz d.d. Zagreb	334	2
Proplin d.o.o. Zagreb	498	-
STSI d.o.o. Zagreb	19	258
Maziva Zagreb d.o.o. Zagreb	95	8
ITR d.o.o. Zagreb	1	24
Sinaco d.o.o. Zagreb	3	124
Hostin d.o.o. Zagreb	-	-
Prirodni plin d.o.o. Zagreb	3,970	235

4. Environmental protection

The principal activities of the Company and the Group, comprising oil and gas exploration, production, transportation, refining and distribution, can have inherent effects on the environment in terms of emissions into soil, water and air. The environmental effects of the activities are monitored by local management and environmental authorities.
IPPC directive implementation in Croatia was implemented through the Decree on determining of integral conditions of environmental protection (OG 114/08). To compile with the regulation during 2009 for INA facilities (Rijeka nad Sisak refineries, and upstream plants Etan and Molve) preliminary analysis were prepared and submitted to the Ministry. During 2010 final Surveys were submitted to the Ministry. Due to the IPPC Directive addition INA facilities have to prepare harmonization with BAT and financial elaborates before getting the integrated environmental licence, licence to operate. The final document has to be verified by independent authorized entity before submission to the Ministry.

In accordance with regulation on the prevention of major accidents involving dangerous substances (Official Gazette No. 110/07; 114/08,) for four INA obligated establishments sites (Rijeka nad Sisak refineries, Etan plant and logistic depot Solin) have prepared Safety reports complied with Seveso II Directive. Those reports were checked and verified as well by independent licensed company before submitting to the Ministry by the end of 2010.

According to the current regulations governing air pollution prevention, specifically the Decree on Greenhouse Gas Emission Quota and Trading in Emission Units (Official Gazette No. 142/08), the Rijeka and Sisak Refineries, and the plants Etan and Molve will be included in the European emission trading system following the accession of the Republic of Croatia to the European Union. During 2010 emission Plans were developed for those plans to serve as the basis for monitoring gas emissions during 2010. The Plans have to be approved by the Ministry of Environmental protection and the reports should be verified by independent authorized entities. The reports of greenhouse gasses emissions (CO2 for the time being) for 2010, 2011 and 2012, and for 2005-2009 as a common report, will be a basis for State free quotas allocation. Croatia will join the European Union Emissions Trading System (EU ETS) when Croatia enter EU, but not before January 2013.

The group of contingent liabilities represents the remediation and recoveries that we are not obliged to perform in accordance with Croatian or EU law or by any resolution by the authorities. They are not yet likely to happen, meaning that there is still no hard basis for them to become obligation. The amounts of HRK 440 million contingent liabilities are not booked. Part of contingent liabilities can come in the group of provision by shifting of time frame or decision to abandon the sites where INA is operating today or abandon the activity on specific location. For example if INA abandons some site which is contaminated, soil and groundwater remediation has to be performed if pollution is proven. It is based on managerial decision on site abandonment. For 2010, INA Group booked a provision on that basis in amount of HRK 319 million while INA, d.d. in amount of HRK 307 million (see note 31).
To comply with Croatian regulation Low of implementation on EC/1907/2006 and amendments EC/1995/45 (Official Gazette No. 53/08) INA had reiterated 16 substances and 4 intermediates to be able to export products to EU market. Because Croatia is not yet in EU the registration was done through MOL Group as Only Representative. INA will register all of remaining products and intermediate when Croatia enters EU.

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

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

5. 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 2010	31 December 2009.
Short-term employee benefits	39.7	37.6
Termination bonuses	13.4	19.6
Total	**53.1**	**57.2**

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

6. Subsequent events

Changes in organization structure in INA, d.d.
On 17 January 2011 of INA, d.d. on Extraordinary Shareholders' Assembly was held on which Ivan Šuker, Tomislav Ivić and Božidar Pankretić were released from the duty as Supervisory Board Members, while Davor Štern, Gordana Sekulić and Damir Vanđelić are elected as members of the Supervisory Board for the term of office expiring on 10 June 2013.

Subject: Selec - 1 satellite field discovery
In the near vicinity of the Žutica oil field, after the testing, a satellite oil field was discovered with Selec-1 exploratory well. The field is set next to existing production fields and infrastructure, what is going to simplify bringing the field to production. Measurements at the depth of over 2,000 meters indicated a flow of 30 cubic meters of oil per day and over 30,000 cubic meters of natural gas per day. Further analysis of the testing results will enable a more precise appraisal of the new reservoir and estimation of the commercial reserve base, after which reservoir study will be prepared.

Launched sale of security business of company SINACO
With INA Board Decision on 22 December 2010 began the restructuring process of company SINACO d.o.o., member of INA Group. By restructuring from SINACO will be separated a part of business associated with security services into a new company. Given that the security business is not associated with INA's core business, decision was made to sell that part of the business on open tender. Sale process started on 14 January 2011 with tender notice in public media. SINACO company, which will continue with its core business, such as protection against fire, occupational health and environmental protection, remains part of INA Group. Non-binding letters of intent to purchase the new company, INA d.d. was accepting till 2 February 2011. It is expected that the entire sale process should be completed by the end of the first quarter of 2011.

INA Management Board Members Appointed
During the circular voting procedure INA Supervisory Board appointed three new members of INA Management Board. The new members of INA Management Board are Niko Dalić, Ivan Krešić and Davor Mayer, all three appointed with the mandate starting from 11 February 2011 until 1 April 2015.
At the same session Tomislav Dragičević, Josip Petrović and Dubravko Tkalčić were recalled from the duty of the members of INA Management Board as of 10 February 2011.
Besides, the term of office of Attila Holoda and Lajos Alács as members of INA Management Board is extended for the period until 1 April 2015.
According to INA corporate governance, the Management Board is a collective body responsible for the overall business of the company, while Executive Directors are responsible for the operation of each business or function and are managing the day-to-day operation and businesses of the Company.

7. Shareholders structure by number of shares

	31 Dec 06	31 Dec 07	31 Dec 08	31 Dec 09	31 March 10	30 June 10	30 Sept 10	31 Dec 10
MOL Plc.	2,500,001	2,500,001	4,715,538	4,715,538	4,715,538	4,715,538	4,715,538	4,715,538
Government of the Republic of Croatia	5,180,367	4,484,918	4,483,552	4,483,552	4,483,552	4,483,552	4,483,552	4,483,552
Private and institutional investors	2,319,632	3,015,081	800,910	800,910	800,910	800,910	800,910	800,910
Total	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**

8. Corporate Governance

ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES

General

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, the Management Board of INA set up the Executive Board, which is responsible for the operational management of INA with full management responsibility over operational issues.

The Supervisory Board is responsible for the appointment and removal of Management Board members and their supervision.

Pursuant to INA' s Articles of Association, the Supervisory Board should consist of nine members.

Management Board

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

Zoltán Sandor Áldott, President of the Management Board
Lajos Alács, Member of the Management Board
Niko Dalić, Member of the Management Board
Attila Holoda, Member of the Management Board
Davor Mayer, Member of the Management Board
Ivan Krešić, Member of the Management Board
The principal function, management expertise and experience of each of the members of the Management Board are set out below.

Executive Board

Executive Board is appointed by the decision of the Management Board. The members of the Executive Board are authorised and responsible for management of operations of INA's individual business sectors (Exploration and Production, Refining and Marketing, Finance, Retail, Corporate Processes, Corporate Services).

The Management Board of INA has granted commercial Powers of Attorney to the members of the Executive Board. In line with applicable provisions of the Croatian Companies Act, the commercial powers of attorney grant Members of the Executive Board with the authority to conclude all contracts and undertake all legal action customary in operation of INA business.

Following are members of the Executive Board:
Bojan Milković, CEO and Executive Director of Exploration and Production
Peter Chmurčiak, Executive Director in charge of Refining and Marketing
András Huszár, Executive Director in charge of Finance
Darko Markotić, Executive Director in charge of Retail
Tomislav Thür, Executive Director in charge of Corporate Processes
Berislav Gašo, Executive Director in charge of Corporate Services

Supervisory Board

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

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

BOARD PRACTICES

Issuer's Audit Committee

Members of INA Audit Committee are: Ljubo Jurčić, Chairman
József Molnár, member
József Simola, member

Audit Committee is a body appointed by the Supervisory Board the purpose of which is to assist the Supervisory and Management Board in execution of their corporate managements 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 members are appointed by the Supervisory Board members.

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. Minutes from meetings held by the Audit Committee (conducted on quarterly basis, and prior to the semi annual Supervisory Board meetings) are distributed to both Supervisory Board and the Management Board.

Corporate Governance Regime(s)

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), and was adopted by the Agency's Resolution dated 26 April 2007 (Official Gazette No. 46/07) 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. abides by the provisions of the Corporate Governance Code, with the exception of the following provisions:

- 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. The Internet page of INA d.d. contains a link to the Internet page of the Central Depository & Clearing Company Inc. (item 2.5.1. of the Code).
- INA d.d. does not publish data on the Company's shares held by the Management or Supervisory Board members on its Internet page, nor does it report to the Zagreb and London Stock Exchange or the Croatian Financial Services Supervisory Agency. All announcements in reference to the securities held by Management or Supervisory Board members can be found on the Company's Internet page.
- INA d.d. does not provide proxies to the Company's shareholders who, for any reason, would not be able to this themselves, without any additional costs for these shareholders who are obliged to vote at the General Assembly in accordance with the instructions of the shareholders. The shareholders who are not able to vote themselves should, at their own discretion, appoint appropriate proxies who are obliged to vote in accordance with their instructions. The Company did not receive any request of any shareholder in this respect.
- The date on which a shareholder acquires the right to dividend disbursement has not been determined in accordance with the recommendations contained in the Code. In 2009, INA d.d. did not make any dividend disbursements.
- The Company sets the terms and 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 nine members, eight of which are elected by the General Assembly, while one member is elected and revoked by the employees in accordance with the provisions of the Labour Act. (item 3.2.2).
- The long-term succession plan has not been publish, 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. (item 3.2.3.).
- The Supervisory Board members do not receive any remuneration for their work (item 3.2.5.).
- The Supervisory Board has not organised a remuneration and bonus committee. As part of the best practice harmonisation process, in addition to the audit committee, INA d.d. also plans to establish the remaining boards. (items 3.2.11.1. and 3.2.11.2.).
- The audit committee is not composed of independent Supervisory Board members. One of three audit committee members is an independent member (item 3.2.11.3.).
- 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 Supervisory Board members are entitled to remuneration for their work in the amount determined by the General Assembly. However, in accordance with the Act on Preventing Conflict of Interest in Performing Public Duties, officials are not entitled to remuneration for their membership in supervisory boards of companies of special state interest, which INA d.d. is. In accordance with the business policies of MOL, the representatives of MOL in the Supervisory Board do not receive any remuneration. An option programme does not exist.
- The amounts of remunerations paid to independent auditors for rendered services have not been published and constitute a business secret (item 4.1.).