INA - INDUSTRIJA NAFTE, d.d.

and INA GROUP

Consolidated and unconsolidated

Financial Statements and Notes for the year ended

31 December 2011

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

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to 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

22 March 2012

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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 132, which comprise the consolidated and unconsolidated statement of financial position as of 31 December 2011, and the consolidated and unconsolidated income statements, consolidated and unconsolidated statements of comprehensive income, consolidated and unconsolidated cash flow statements and consolidated and unconsolidated statements of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's and the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Company and the Group as of 31 December 2011, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Political situation in Syria

We draw attention to Note 3 to the financial statement which describes the uncertainty related to the current political situation in Syria, where the INA Group has assets of HRK 4,918 million in statement of financial position at 31 December 2011. Our opinion is not qualified in respect of this matter.

Deloitte d.o.o.

Branislav Vrtačnik, Certified Auditor

Zagreb, Republic of Croatia

22 March 2012

INA Group Consolidated Income Statement

For the year ended 31 December 2011

(all amounts in HRK millions)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Sales revenue			
a) domestic		18,115	15,712
b) exports		11,913	10,154
Total sales revenue	4	**30,028**	**25,866**
Income from own consumption of products and services		309	366
Other operating income	5	485	553
Total operating income		**30,822**	**26,785**
Changes in inventories of finished products and work in progress		394	260
Cost of raw materials and consumables		(13,657)	(12,249)
Depreciation and amortisation	6	(2,640)	(1,789)
Other material costs		(1,801)	(2,087)
Service costs		(1,217)	(1,484)
Staff costs	7	(2,752)	(3,154)
Cost of other goods sold		(5,267)	(3,991)
Impairment charges (net)	8	(1,256)	248
Provision for charges and risks (net)		413	(381)
Operating expenses		**(27,783)**	**(24,627)**
Profit from operations		**3,039**	**2,158**
Finance income	9	145	68
Finance costs	10	(808)	(908)
Net loss from financial activities		(663)	(840)
Profit before tax		**2,376**	**1,318**
Income tax expense	11	(573)	(363)
Profit for the year		**1,803**	**955**
Attributable to:			
Owners of the Company		**1,815**	**961**
Non-controlling interests		(12)	(6)
		1,803	**955**
Earnings per share			
Basic and diluted earnings per share (kunas per share)	12	181.5	96.1

Signed on behalf of the Group on 22 March 2012 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA Group Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

(all amounts in HRK millions)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Profit for the year		**1,803**	**955**
Other comprehensive income:			
Exchange differences arising from foreign operations		276	29
(Loss)/gains on available-for-sale investments,net		(27)	17
Other comprehensive income, net		**249**	**46**
Total comprehensive income for the year		**2,052**	**1,001**
Attributable to:			
Owners of the Company		2,064	1,007
Non-controlling interests		(12)	(6)

Signed on behalf of the Group on 22 March 2012 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA, d.d. Unconsolidated Income Statement

For the year ended 31 December 2011

(all amounts in HRK millions)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Sales revenue			
a) domestic		15,820	13,985
b) exports		10,471	8,561
Total sales revenue	4	**26,291**	**22,546**
Income from own consumption of products and services		5	6
Other operating income	5	560	482
Total operating income		**26,856**	**23,034**
Changes in inventories of finished products and work in progress		349	67
Cost of raw materials and consumables		(13,814)	(12,059)
Depreciation and amortisation	6	(2,397)	(1,483)
Other material costs		(1,514)	(1,477)
Service costs		(965)	(1,327)
Staff costs	7	(1,666)	(1,978)
Cost of other goods sold		(2,644)	(1,875)
Impairment and charges (net)	8	(1,306)	55
Provision for charges and risks (net)		244	(195)
Operating expenses		**(23,713)**	**(20,272)**
Profit from operations		**3,143**	**2,762**
Finance income	9	355	322
Finance costs	10	(933)	(905)
Net loss from financial activities		**(578)**	**(583)**
Profit before tax		**2,565**	**2,179**
Income tax expense	11	(598)	(412)
Profit for the year		**1,967**	**1,767**
Earnings per share			
Basic and diluted earnings per share (kunas per share)	12	196.7	176.7

Signed on behalf of the Company on 22 March 2012 by:

András Huszár — Executive Director for Finance

Zoltán Sándor Áldott — President of the Management Board

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

INA, d.d. Unconsolidated Statement of Comprehensive Income

For the year ended 31 December 2011

(all amounts in HRK millions)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Profit for the year		**1,967**	**1,767**
Other comprehensive income:			
Exchange differences arising from foreign operations		287	-
(Loss)/gains on available-for-sale investments, net		(27)	17
Other comprehensive income, net		**260**	**17**
Total comprehensive income for the year		**2,227**	**1,784**

Signed on behalf of the Company on 22 March 2012 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA Group Consolidated Statement of Financial Position

At 31 December 2011

(all amounts in HRK millions)

ASSETS	Notes	31 December 2011	31 December 2010	1 January 2010
Non - current assets				
Intangible assets	13	880	840	731
Property, plant and equipment	14	20,294	21,807	20,590
Goodwill	15	183	232	296
Investments in associates and joint ventures	17	34	22	68
Other investments	18	355	334	138
Long-term receivables	19	162	240	385
Derivative financial instruments	43	5	4	-
Deferred tax	11	662	280	434
Available-for-sale assets	20	325	417	397
Total non – current assets		**22,900**	**24,176**	**23,039**
Current assets				
Inventories	21	3,693	2,905	2,650
Trade receivables, net	22	3,282	3,052	2,925
Other receivables	23	456	586	805
Derivative financial instruments	43	2	1	56
Other current assets	24	76	40	32
Prepaid expenses and accrued income	25	79	142	72
Cash and cash equivalents	26	337	317	367
		7,925	**7,043**	**6,907**
Assets classified as held for sale	27	-	12	121
Total current assets		**7,925**	**7,055**	**7,028**
TOTAL ASSETS		**30,825**	**31,231**	**30,067**

Signed on behalf of the Group on 22 March 2012 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA Group Consolidated Statement of Financial Position (continued)

At 31 December 2011

(all amounts in HRK millions)

EQUITY AND LIABILITIES	Notes	31 December 2011	31 December 2010	1 January 2010
Capital and reserves				
Share capital	35	9,000	9,000	9,000
Revaluation reserve	36	-	27	10
Other reserves	37	2,616	2,340	2,311
Retained earnings	38	2,759	1,424	463
Company		**14,375**	**12,791**	**11,784**
Non-controlling interests	39	(10)	2	8
TOTAL EQUITY		**14,365**	**12,793**	**11,792**
Non – current liabilities				
Long-term loans	31	5,630	7,301	5,764
Other non-current liabilities	32	126	125	139
Employee benefit obligation	34	104	129	126
Provisions	33	2,715	2,620	2,573
Total non–current liabilities		**8,575**	**10,175**	**8,602**
Current liabilities				
Bank loans and overdrafts	28	1,918	1,659	2,104
Current portion of long-term loans	28	1,904	1,295	655
Trade payables	29	2,032	3,786	4,286
Taxes and contributions	29	1,524	789	1,781
Other current liabilities	29	246	200	415
Accruals and deferred income	30	48	124	157
Employee benefit obligation	34	13	16	17
Provisions	33	200	394	229
		7,885	**8,263**	**9,644**
Liabilities directly associated with assets classified as held for sale	27	-	-	29
Total current liabilities		**7,885**	**8,263**	**9,673**
TOTAL LIABILITIES		**16,460**	**18,438**	**18,275**
TOTAL EQUITY AND LIABILITIES		**30,825**	**31,231**	**30,067**

Signed on behalf of the Group on 22 March 2012 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA, d.d. Unconsolidated Statement of Financial Position

At 31 December 2011

(all amounts in HRK millions)

ASSETS	Notes	31 December 2011	31 December 2010
Non - current assets			
Intangible assets	13	876	827
Property, plant and equipment	14	18,555	19,522
Investment in subsidiaries	16	1,033	1,224
Investments in associates and joint ventures	17	34	51
Other investments	18	799	437
Long-term receivables	19	207	341
Derivative financial instruments	41	-	-
Deferred tax	11	592	223
Available-for-sale assets	20	325	417
Total non–current assets		**22,421**	**23,042**
Current assets			
Inventories	21	3,030	2,218
Intercompany receivables		1,588	2,229
Trade receivables, net	22	1,781	1,816
Other receivables	23	379	287
Other current assets	24	313	253
Prepaid expenses and accrued income	25	54	99
Cash and cash equivalents	26	229	260
		7,374	**7,162**
Assets classified as held for sale	27	-	**12**
Total current assets		**7,374**	**7,174**
TOTAL ASSETS		**29,795**	**30,216**

Signed on behalf of the Company on 22 March 2012 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

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

At 31 December 2011

(all amounts in HRK millions)

EQUITY AND LIABILITIES	Notes	31 December 2011	31 December 2010
Capital and reserves			
Share capital	35	9,000	9,000
Revaluation reserve	36	-	27
Other reserves	37	2,239	1,952
Retained earnings	38	3,043	1,556
TOTAL EQUITY		**14,282**	**12,535**
Non–current liabilities			
Long term loans	31	5,556	7,148
Other non-current liabilities	32	106	117
Employee benefit obligation	34	61	84
Provisions	33	2,665	2,563
Total non–current liabilities		**8,388**	**9,912**
Current liabilities			
Bank loans and overdrafts	28	1,784	838
Current portion of long-term loans	28	1,817	1,233
Intercompany payables		646	3,056
Trade payables	29	1,111	1,611
Taxes and contributions	29	1,349	650
Other current liabilities	29	197	114
Accruals and deferred income	30	48	58
Employee benefit obligation	34	5	8
Provisions	33	168	201
Total current liabilities		**7,125**	**7,769**
TOTAL LIABILITIES		**15,513**	**17,681**
TOTAL EQUITY AND LIABILITIES		**29,795**	**30,216**

Signed on behalf of the Company on 22 March 2012 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA Group Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

(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 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**
Profit for the year	-	-	-	1,815	1,815	(12)	1,803
Other comprehensive income, net	-	276	(27)	-	249	-	249
Total comprehensive income for the year	**-**	**276**	**(27)**	**1,815**	**2,064**	**(12)**	**2,052**
Dividend paid	-	-	-	(480)	(480)	-	(480)
Balance at 31 December 2011	**9,000**	**2,616**	**-**	**2,759**	**14,375**	**(10)**	**14,365**

Signed on behalf of the Group on 22 March 2012 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

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

For the year ended 31 December 2011

(all amounts in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained earnings / (Accumulated deficit)	Total
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**
Profit for the year	-	-	-	1,967	1,967
Other comprehensive income, net	-	287	(27)	-	260
Total comprehensive income for the year	**-**	**287**	**(27)**	**1,967**	**2,227**
Dividend paid	-	-	-	(480)	(480)
Balance at 31 December 2011	**9,000**	**2,239**	**-**	**3,043**	**14,282**

Signed on behalf of the Company on 22 March 2012 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA Group Consolidated Statement of Cash Flows

For the year ended 31 December 2011

(all amounts in HRK millions)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Profit for the year		**1,803**	**955**
Adjustments for:			
Depreciation and amortisation		2,640	1,789
Income tax expense recognized in profit		573	363
Impairment charges		1,489	570
Reversal of impairment		(233)	(821)
Gain on sale of property, plant and equipment		(14)	(8)
Foreign exchange loss		201	531
Interest expense (net)		140	156
Other finance expense recognised in profit		166	87
(Decrease)/increase in provisions		(389)	383
Decommisioning interest		118	144
Other non-cash items		(38)	(8)
		6,456	**4,141**
Movements in working capital			
Increase in inventories		(893)	(121)
Increase in receivables and prepayments		(113)	(57)
Decrease in trade and other payables		(1,706)	(2,122)
Cash generated from operations		**3,744**	**1,841**
Taxes paid		(462)	(26)
Net cash inflow from operating activities		**3,282**	**1,815**
Cash flows used in investing activities			
Payments for property, plant and equipment		(1,281)	(2,636)
Payments for intangible assets		(121)	(205)
Proceeds from sale of non-current assets		14	10
Payment related to sale of subsidiaries		22	(39)
Dividends received from companies classified as available-for-sale and from other companies		8	3
Interest received and other financial income		28	21
Investments and loans to third parties, net		(9)	(215)
Net cash used for investing activities		**(1,339)**	**(3,061)**

INA Group Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2011

(all amounts in HRK millions)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from financing activities			
Additional long-term borrowings		80	2,803
Repayment of long-term borrowings		(1,313)	(1,098)
Additional short-term borrowings		19,267	10,466
Repayment of short-term borrowings		(19,081)	(10,921)
Dividends paid		(480)	-
Interest paid on long-term loans		(66)	(32)
Other long-term liabilities, net		(8)	(8)
Interest paid on short-term loans and other financing charges		(251)	(239)
Net cash (used in)/provided by financing activities		**(1,852)**	**971**
Net increase/(decrease) in cash and cash equivalents		**91**	**(275)**
At 1 January		317	367
Effect of foreign exchange rate changes		(71)	225
At 31 December	26	**337**	**317**

Signed on behalf of the Group on 22 March 2012 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

INA, d.d. Unconsolidated Statement of Cash Flows

For the year ended 31 December 2011

(all amounts in HRK millions)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Profit for the year		**1,967**	**1,767**
Adjustments for:			
Depreciation and amortisation		2,397	1,483
Income tax expense recognized in profit		598	412
Impairment charges		1,838	687
Reversal of impairment		(532)	(667)
Gain on sale of property plant and equipment		(3)	(6)
Gain on sale of shares or stakes		-	(11)
Foreign exchange loss		50	620
Interest expense (net)		231	218
Other finance income/(expense) recognised in profit		195	(53)
(Decrease)/increase in provisions		(161)	195
Merger of Proplin		(34)	-
Decommisioning interest		118	144
Other non-cash items		18	-
		6,682	**4,789**
Movements in working capital			
Decrease/(increase) in inventories		(934)	107
Increase in receivables and prepayments		(863)	(1,840)
Decrease in trade and other payables		(2,125)	(2,351)
Cash generated from operations		**2,760**	**705**
Taxes paid		(475)	-
Net cash inflow from operating activities		**2,285**	**705**
Cash flows used in investing activities			
Payment for property, plant and equipment		(1,267)	(2,459)
Payment for intangible assets		(121)	(218)
Proceeds from sale of non-current assets		-	8
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		8	4
Dividends received from subsidiaries		164	254
Investments and loans, net		(159)	139
Net cash used in investing activities		**(1,375)**	**(2,312)**

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

For the year ended 31 December 2011

(all amounts in HRK millions)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from financing activities			
Additional long-term borrowings		80	2,708
Repayment of long-term borrowings		(1,261)	(1,056)
Additional short-term borrowings		17,727	2,403
Repayment of short-term borrowings		(16,818)	(2,148)
Dividends paid		(480)	-
Interest paid on long-term loans		(56)	(22)
Other long-term liabilities, net		(9)	(9)
Interest paid on short term loans and other financing charges		(135)	(82)
Net cash (used in)/provided by financing activities		**(952)**	**1,794**
Net increase/(decrease) in cash and cash equivalents		**(42)**	**187**
At 1 January		260	68
Effect of foreign exchange rate changes		11	5
At 31 December	26	**229**	**260**

Signed on behalf of the Company on 22 March 2012 by:

András Huszár
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

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 47.26 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.

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.

On 19 March 2002, the Croatian Parliament passed the Law on the Privatisation of INA (Official Gazette 32/02), governing INA's privatisation. 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 offering, Croatian Homeland 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.

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 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.

(all amounts in HRK millions)

1. GENERAL (continued)

History and incorporation (continued)

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.

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

Currently, MOL holds 4,725,620 numbers of ordinary shares, accounting for 47.26 percent of the total share capital, representing 47.26 percent of the votes in the General Meeting of Shareholders.

The ownership structure of the INA Group as of 31 December 2011 and 2010*:

	31 December 2011		**31 December 2010**	
	Number of shares	**Ownership in %**	**Number of shares**	**Ownership in %**
Zagrebačka banka d.d./Unicreditbank Hungary Zrt, for MOL Zrt, Hungary	4,725,620	47.26	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	790,828	7.90	800,910	8.01
	10,000,000	**100**	**10,000,000**	**100**

*Source: Central Clearing Depository Company registrar

(all amounts in HRK millions)

1. GENERAL (continued)

History and incorporation (continued)

In 2011 and 2010, 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 abroad;

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

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

(iv) distribution of fuels and associated products through a chain of 454 retail outlets in operation as of 31 December 2011 (of which 402 in Croatia and 52 outside Croatia);

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

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

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

The headquarters of the Group are located in Zagreb, Avenija V. Holjevca 10, Croatia. As at 31 December 2011 there were 14,217 persons employed at the Group (14,703 at 31 December 2010). As at 31 December 2011 there were 8,876 persons employed at the INA, d.d. (9,061 at 31 December 2010).

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 29 December 2009 until 18 April 2010

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

(all amounts in HRK millions)

1. GENERAL (continued)

Directors, Management and Supervisory Board (continued)

Supervisory Board from 19 April 2010 until 16 January 2011

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

Supervisory Board from 17 January 2011 until 23 May 2011

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

Supervisory Board since 24 May 2011

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

Management Board from 10 June 2009 until 31 March 2010

László Geszti	President of the Management Bord
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)

1. GENERAL (continued)

Directors, Management and Supervisory Board (continued)

Management Board from 1 April 2010 until 10 February 2011

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

Management Board from 11 February 2011 until 8 June 2011

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

Management Board since 9 June 2011

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

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

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

1. GENERAL (continued)

Directors, Management and Supervisory Board (continued)

Executive Board appointed by the decision of the Management Board from 14 June 2011 until 7 November 2011

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

Executive Board appointed by the decision of the Management Board since 8 November 2011

Želimir Šikonja	Executive Director of Exploration and Production
Artur Thernesz	Executive Director in charge of Refining and Marketing
Darko Markotić	Executive Director in charge of Retail
András Huszár	Executive Director in charge of Finance
Berislav Gašo	Executive Director in charge of Corporate Services
Tomislav Thür	Executive Director in charge of Corporate Processes

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.

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

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

Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

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

- **Amendments to IFRS 1 "First - time adoption to IFRS"** – limited exemption from Comparative IFRS 7 Financial instruments – Disclosure for first time adopters (effective for annual periods beginning on or after 1 July 2010),

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

- **Amendments to IAS 32 "Financial instruments – Presentations"** - accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),

- **Amendments to various standards and interpretations (2010)** resulting from the Annual quality 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, (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),

2. ACCOUNTING POLICIES (continued)

Adoption of new and revised standards (continued)

Standards and Interpretations effective in the current period (continued)

- **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).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the INA Group 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",** as amended in 2010, (effective for annual periods beginning on or after 1 January 2013),

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

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

Adoption of new and revised standards (continued)

Standards and Interpretations in issue not yet adopted (continued)

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

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

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

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

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

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

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

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The management does not anticipate that these amendments to IFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously affected.

Key requirements of IFRS 9 are described as follows:

- Requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

2. ACCOUNTING POLICIES (continued)

Adoption of new and revised standards (continued)

Standards and Interpretations in issue not yet adopted (continued)

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

Key requirements of these five Standards are described below:

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

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

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

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

The amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 *Investment Property* are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

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

2. ACCOUNTING POLICIES (continued)

Adoption of new and revised standards (continued)

Standards and Interpretations in issue not yet adopted (continued)

INA Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The management anticipates that the adoption of IFRS 9 "Financial instruments" will have a significant impact on measurement and disclosure of financial instruments and application of IFRS 13 "Fair Value Measurement" will result in more extensive disclosures in the financial statements.

The management anticipates that the adoption of other standards (IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities"), revisions and interpretations will have no material impact on the financial statements of Group in the period of initial application.

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

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

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

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.

2. ACCOUNTING POLICIES (continued)

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

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

Business combination

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

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

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

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

2. ACCOUNTING POLICIES (continued)

Business combination (continued)

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

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

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

The policy described above is applied to all business combinations that took place on or after 1 January 2010.

Goodwill

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

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

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

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

2. ACCOUNTING POLICIES (continued)

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 statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

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

2. ACCOUNTING POLICIES (continued)

Interests in joint ventures

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

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

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

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising in a business combination.

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

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

Oil and gas properties

Exploration and appraisal costs

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

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

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

2. ACCOUNTING POLICIES (continued)

Oil and gas properties (continued)

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

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:

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.

2. ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2. ACCOUNTING POLICIES (continued)

Finance and operating leases

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

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

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

Receivables from customers

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

Inventories

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

- Crude oil is carried at the weighted average cost or the production cost. If finished i.e. refined products are impaired, a calculation is used to reduce the crude oil reserve by an aliquot share to its net recoverable amount.
- Finished products are valued at the lower of cost or 96.5% of future average sales price, which approximates the net recoverable amount.
- Semi-finished products are measured using a calculation method, by which they are impaired to the extent that finished products on the basis of actual inventories at the period-end are impaired i.e. that the calculation shows that their net realisable value may not be recovered, by applying the impairment percentage to each individual semi-finished product on stock at the period-end.
- Imported natural gas held in underground storage is valued at the lower of cost, based on the price of imported gas at year-end including transport costs, and weighted average sales price based on year-end prices.
- Domestic natural gas held in underground storage is valued at the lower of weighted average sales price and cost.
- Other inventories, which comprise mainly spare parts, materials and supplies, are valued at the lower of cost or valuation and net realisable value, less any provision for slow-moving and obsolete items.

Cash and cash equivalents

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

Borrowing costs

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

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

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

Foreign currencies

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

2. ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

Retirement Benefit and Jubilee Costs

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

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

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

Taxation

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

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognised on the basis of taxable temporary differences on investments in subsidiaries and associates and joint ventures.

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

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

2. ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

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

Current and deferred tax for the period

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

Financial assets

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

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

Effective interest method

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

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

AFS financial assets

Listed shares held by the Company and Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 43. 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.

2. ACCOUNTING POLICIES (continued)

Financial assets (continued)

AFS financial assets (continued)

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

Loans and receivables

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired 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 and accumulated under the heading of investments revaluation reserve.

Investments

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

2. ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

2. ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities at FVTPL (continued)

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

Other financial liabilities

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

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

Derecognition of financial liabilities

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

Derivative financial instruments

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

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

Embedded derivatives

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

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

2. ACCOUNTING POLICIES (continued)

Embedded derivatives (continued)

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

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

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. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. 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.

Provision relating to the decommissioning and removal of assets, such as an oil and gas production facility is initially treated as part of the cost of the related property, plant and equipment. Subsequent adjustments to the provision arising from changes in estimates as decommissioning costs, reserves and production of oil and gas, risk free interest such as discount rate and inflation rare are also treated as an adjustment to the cost of the property, plant and equipment and thus dealt with prospectively in the income statement through future depreciation of the asset.

Revenue recognition

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

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 statement of financial position date;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Dividend and interest revenue

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Use of estimates in the preparation of financial statements

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

Critical judgements in applying accounting policies

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

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

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

Management makes estimates of future expenditure in connection with environmental and decommissioning obligations using prices by reference to prior similar activities, as well as other assumptions. Furthermore, the time determined for the cash flows reflects the current estimates of priorities, technical equipment requirements and urgency of the obligations. The obligation with respect to the decommission provision for oil and gas properties amounted to HRK 2,373 million and HRK 2,117 million at 31 December 2011 and 2010 (see note 33) 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 2011 INA Group recognized environmental provision in amount HRK 292 million, and for 2010 in amount HRK 322 million (see note 33), 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Critical judgements in applying accounting policies (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 impairment reported in the consolidated income statement amounted to HRK 560 million in 2011 and reversal of impairment amounted to HRK 503 million in 2010 (see note 4). The carrying amount of goodwill amounted to HRK 183 million and HRK 232 million as of 31 December 2011 and 2010 respectively (see note 15).

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

A deferred tax asset is recognized for unused tax losses only to the extent that it is probable that the related tax benefit will be realised. Determining the amount of deferred taxes that can be recognised requires a significant level of judgement, which is based on the probable quantification of the time and level of future taxable profits, together with the future tax planning strategy. At 31 December 2011 the carrying amount of deferred tax assets of the INA Group and INA d.d. amounted to HRK 662 million and HRK 592 million, (2010: HRK 280 million and HRK 223 million respectively) (see note 11).

Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions of discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. Provisions for retirement bonuses and jubilee awards for INA Group amounted to HRK 117 million and HRK 145 million as at 31 December 2011 and 31 December 2010 respectively, and INA d.d. amounted to HRK 66 million and HRK 92 million as at 31 December 2011 and 31 December 2010 respectively (see note 34).

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 33).

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 effects on the change in depreciation rates. The new estimation of asset useful life at the end of 2011 had no significant changes compared to previous estimate.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Critical judgements in applying accounting policies (continued)

Crude oil and natural gas prices

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

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

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

Exploration and development

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

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

INA Group oil and natural gas exploration and development expenditure are accounted for using the successful efforts method. In accordance with that method the license and data provision costs and costs associated with geological and geophysical activities are charged to the income statement period in which they are incurred.

Political developments in Syria

Syria is facing increased international isolation, and the economy has been hit hard by the unrest and Western sanctions imposed in response to the regime's heavy-handed crackdown. In the short term, the current cycle of violence appears likely to continue. The continued violence has increased international pressure on the regime.

In addition to sanctions against leading regime, the US and the EU have initiated a boycott of Syrian oil. This is a major move, particularly by the EU, which previously bought 95% of Syria's oil exports. Facing increased Western pressure, Syria will rely on Russia and China to veto any resolution authorizing force or international sanctions against it at the UN Security Council.

The government is struggling to deal with the slowing of economic activity caused by the unrest and the impact of foreign sanctions. The recent policy of gradually liberalizing Syria's centrally planned economy has been largely abandoned.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Critical judgements in applying accounting policies (continued)

Political developments in Syria (continued)

Government income will be diminished by the decline in oil revenue following the imposition of EU oil sanctions, and measures have been introduced to preserve Syria's diminishing foreign reserves.

Recent spending pledges and the impact of EU sanctions on oil revenue are likely to result in a much higher fiscal deficit than expected at the start of the year. If the regime survives, grants from regional allies, particularly Iran, may be sought to cover some of these costs.

Domestic unrest has prompted fears of a run on the Syrian pound, causing the Central Bank of Syria to bring back restrictions on foreign-currency transactions.

Sanctions on oil sales in the final quarter add to the severe economic slowdown already caused by the unrest and the collapse of tourism and foreign investment.

EU sanctions should also hit oil exports in 2012, with alternative buyers in Asia likely to demand a discount of up to 25%. Business activity will be curtailed by disruptions caused by the protests and trade will be affected by new sanctions from the Arab League and Turkey.

Non-oil exports are expected to decline in 2012-13 as unrest affects trade and limits industrial production. Imports are likely to decline as political uncertainty depresses consumer confidence, and better harvests after four years of drought should make Syria more self-sufficient in food. The regime has placed restrictions on specific imports, such as cars, to protect its increasingly scarce supplies of foreign exchange. Political instability is likely to deter investment in most areas, including in the oil and gas sector. Services will decline in line with a major fall in tourist arrivals, especially from Western states.

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

Consequent to the recent political turmoil and the sanctions posed by US and EU on Syria, treatment of revenues from operations therein requires judgement. Having assessed the probability of receiving economic benefits from sales activities in INA Group's Syrian operations, including counterparty risk associated with GPC, the Syrian National Oil Company, management decided that criteria set out in IAS 18 – Revenue Recognition are not met. Therefore revenue in 2011 is recognized only once cash is received from GPC. Such circumstances also qualify as impairment indicator, therefore the Group performed an impairment test on its Syrian non-current assets, qualifying as a cash generating unit. Such an impairment calculation requires an estimate of the recoverable amount of the Syrian cash generating unit, that is, the higher of fair value less costs to sell and value in use. Value in use has been determined on the basis of discounted estimated future net cash flows. The most significant variables in determining cash flows are discount rates, the period for which cash flow projections are made, as well as the assumptions and estimates used to determine the cash inflows and outflows, including crude oil and natural gas prices (including the price formula set out in the respective Production Sharing Agreement), operating expenses and future annual production volumes. While such cash flows reflect management's best estimate for the future, these estimates are exposed to an increased uncertainty as a result of the political, security and economic conditions in Syria. Asset-specific discount rates were derived from the USD-based weighted average cost of capital for the Group and are adjusted for project-specific risks, as applicable. Discount rates applied were 14.96% and 10.76 % in 2011 and 2010, respectively.

(all amounts in HRK millions)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Critical judgements in applying accounting policies (continued)

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

Based on these calculations the management did not record any impairment since carrying amount of non-current assets in Syria are recoverable based on the net present value of discounted future cash flows. The book value of total Group assets in Syria at 31 December 2011 was amounted of HRK 4,918 million (at 31 December 2010: HRK 5,477 million). The management regularly monitors and, if needed, re-assesses impairment calculations based on the latest developments in the country.

Political developments in Egypt

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

INA Group has a share of production on Ras Qattara and West Abu Gharadig concessions operated by IEOC, on North Bahariya concession operated by Sahara Oil and Gas, and on 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. Currently the company records 100% impairment on the receivables from EGPC overdue by more than 180 days.

Reclassification in 2011

Reclassification of gas cylinder from inventories to assets

In 2011 INA Group reclassified gas cylinders from inventories to property, plant and equipment since these assets are not expected to be realised within twelve months of the reporting period. The effects of reclassification are as follows:

	INA Group		
	31 December 2011	**31 December 2010**	**1 January 2010**
Inventories	-	(252)	(237)
Property, plant and equipment	-	252	237
Amortisation and depreciation	27	39	-
Cost of raw materials and consumables	(27)	(39)	-
Total	-	-	-

Because of inventories reclassification, in accordance with IAS 1 Presentation of Financial Statements, INA Group in statement of financial position presents the beginning of the earliest comparative period, i.e. 1 January 2010.

(all amounts in HRK millions)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Reclassification in 2011 (continued)

Reclassification of income on reversal from impairment charges and provisions

In 2011 INA Group reclassified income from reversal of impairment and reversal of provisions from other operating income to impairment charges (net) and provision from charges and risks (net). The effect of such reclassification is as follows:

	INA Group		INA, d.d.	
	31 December 2011	**31 December 2010**	**31 December 2011**	**31 December 2010**
Reclassification on impairment and charges (net)	233	818	532	744
Reclasification of other operating income	(233)	(818)	(532)	(744)
Reclassification on provision for charges and risks (net)	570	219	361	202
Reclasification of other operating income	(570)	(219)	(361)	(202)
Total	-	-	-	-

Reclassification of fees arising from bank loans

In 2011 INA Group reclassified fees arising from bank loans from service costs to finance costs. The effect of such reclassification is as follows:

	INA Group		INA, d.d.	
	31 December 2011	**31 December 2010**	**31 December 2011**	**31 December 2010**
Reclassification of service costs	(17)	(30)	(17)	(30)
Reclassification on finance costs	17	30	17	30
Total	-	-	-	-

4. SEGMENT INFORMATION

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

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

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

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

(all amounts in HRK millions)

4. SEGMENT INFORMATION (continued)

BY BUSINESS

INA Group

2011	**Exploration and production**	**Refining and marketing**	**Retail**	**Business function and other**	**Elimination**	**Total**
Sales to external customers	10,684	11,609	7,649	86	-	30,028
Inter-segment sales	2,645	6,317	27	588	(9,577)	-
Total revenue	**13,329**	**17,926**	**7,676**	**674**	**(9,577)**	**30,028**
Operating expenses, net of other operating income	(7,188)	(20,454)	(7,629)	(1,295)	9,577	(26,989)
Profit from operations	**6,141**	**(2,528)**	**47**	**(621)**	-	**3,039**
Net finance loss						(663)
Profit before tax						2,376
Income tax expense						(573)
Profit for the year						**1,803**

(all amounts in HRK millions)

4. SEGMENT INFORMATION (continued)

BY BUSINESS (continued)

INA Group

2010	Exploration and production	Refining and marketing	Retail	Business function 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	(6,310)	(17,014)	(6,639)	(1,713)	7,968	(23,708)
Profit from operations	**4,572**	**(1,237)**	**(186)**	**(991)**	-	**2,158**
Net finance loss						(840)
Profit before tax						1,318
Income tax expense						(363)
Profit for the year						**955**

(all amounts in HRK millions)

4. SEGMENT INFORMATION (continued)

BY BUSINESS (continued)

INA Group

31 December 2011 **Assets and liabilities**	Exploration and production	Refining and marketing	Retail	Business function and other	Elimination	Total
Property, plant and equipment	12,375	6,417	990	524	(12)	20,294
Intangible assets	782	13	4	81	-	880
Investments in associates and joint ventures	34	-	-	-	-	34
Inventories	1,270	2,598	61	150	(386)	3,693
Trade receivables, net	1,977	985	388	318	(386)	3,282
Not allocated assets						2,642
Total assets						**30,825**
Trade payables	2,504	909	176	386	(1,943)	2,032
Not allocated liabilities						14,428
Total liabilities						**16,460**
Other segment information						
Capital expenditure:	**799**	**575**	**106**	**50**	**-**	**1,530**
Property, plant and equipment	726	567	105	11	-	1,409
Intangible assets	73	8	1	39	-	121
Depreciation and amortisation	**1,894**	**502**	**92**	**152**	**-**	**2,640**
Impairment losses/(income) PP&E,net recognized in profit and loss	(33)	655	(62)	-	-	560
Other impairment losses/(income),net recognized in profit and loss	325	351	9	11	-	696
Total impairment losses/(income), net	**292**	**1,006**	**(53)**	**11**	**-**	**1,256** *

* see note 8

(all amounts in HRK millions)

4. SEGMENT INFORMATION (continued)

BY BUSINESS (continued)

INA Group

31 December 2010 **Assets and liabilities**	**Exploration and production**	**Refining and marketing**	**Retail**	**Business function and other**	**Elimination**	**Total**
Property, plant and equipment	13,119	7,136	950	602	-	21,807
Intangible assets	715	7	4	114	-	840
Investments in associates and joint ventures	22	-	-	-	-	22
Inventories	783	2,022	70	30	-	2,905
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**	**369**	**94**	**166**	**-**	**1,789**
Impairment losses/(income) PP&E,net recognized in profit and loss	(443)	-	(60)	-	-	(503)
Other impairment losses/(income),net recognized in profit and loss	(30)	219	50	16	-	255
Total impairment losses/(income), net	**(473)**	**219**	**(10)**	**16**	**-**	**(248) ***

* see note 8

(all amounts in HRK millions)

4. SEGMENT INFORMATION (continued)

BY BUSINESS (continued)
INA Group

1 January 2010 **Assets and liabilities**	**Exploration and production**	**Refining and marketing**	**Retail**	**Business function and other**	**Elimination**	**Total**
Property, plant and equipment	12,863	6,125	920	682	-	20,590
Intangible assets	552	9	10	160	-	731
Investments in associates and joint ventures	57	11	-	-	-	68
Inventories	803	1,736	63	48	-	2,650
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**

(all amounts in HRK millions)

4. SEGMENT INFORMATION (continued)

BY GEOGRAPHICAL AREAS

INA Group

31 December 2011	Republic of Croatia	Syria	Other countries	Total
Property, plant and equipment	14,815	4,539	940	20,294
Intangible assets	300	336	244	880
Investments in associates and joint ventures	34	-	-	34
Inventories	3,505	41	147	3,693
Trade receivables, net	2,779	2	501	3,282
Not allocated assets				2,642
Total assets				**30,825**
Other segment information				
Capital expenditure:	**1,017**	**356**	**157**	**1,530**
Property, plant and equipment	960	313	136	1,409
Intangible assets	57	43	21	121

INA Group

31 December 2010	Republic of Croatia	Syria	Other countries	Total
Property, plant and equipment	15,665	4,949	1,193	21,807
Intangible assets	319	269	252	840
Investments in associates and joint ventures	22	-	-	22
Inventories	2,755	44	106	2,905
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

1 January 2010	Republic of Croatia	Syria	Other countries	Total
Property, plant and equipment	14,984	4,858	748	20,590
Intangible assets	367	340	24	731
Investments in associates and joined ventures	68	-	-	68
Inventories	2,459	59	132	2,650
Trade receivables, net	1,856	291	778	2,925
Not allocated assets				3,103
Total assets				**30,067**

(all amounts in HRK millions)

4. SEGMENT INFORMATION (continued)

INA Group

	Revenues from external customers	
	2011	**2010**
Republic of Croatia	18,115	15,698
Switzerland	2,826	3,291
Syria	2,448	1,308
Bosnia and Hercegovina	2,128	1,934
United Kingdom	658	243
Other countries	3,853	3,392
	30,028	**25,866**

INA, d.d.

	Revenues from external customers	
	2011	**2010**
Republic of Croatia	15,820	13,985
Switzerland	2,826	909
Syria	2,254	1,108
Bosnia and Hercegovina	1,141	758
United Kingdom	668	3,037
Other countries	3,582	2,749
	26,291	**22,546**

Information about major customers

No single customer contributed 10% or more to the Group's revenue in either 2011 or 2010.

(all amounts in HRK millions)

5. OTHER OPERATING INCOME

	INA Group		INA, d.d.	
	2011	**2010**	**2011**	**2010**
Foreign exchange gains of trade receivables and payables	166	145	260	120
Surpluses	118	34	69	33
Revenues from collected damage claims	59	10	53	1
Rent revenue	29	22	41	16
Gain on exchange of non - monetary assets	-	25	-	25
Other	113	317	137	287
Total	**485**	**553**	**560**	**482**

6. DEPRECIATION AND AMORTISATION

	INA Group		INA, d.d.	
	2011	**2010**	**2011**	**2010**
Depreciation of property, plant and equipment (note 14 b)	2,563	1,703	2,324	1,401
Amortisation of intangible assets (note 13)	77	86	73	82
	2,640	**1,789**	**2,397**	**1,483**

(all amounts in HRK millions)

7. STAFF COSTS

	INA Group		INA, d.d.	
	2011	2010	2011	2010
Net payroll	1,367	1,488	839	913
Tax and contributions for pensions and health insurance	964	1,108	613	723
Other payroll related costs	421	558	214	342
	2,752	**3,154**	**1,666**	**1,978**

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.	
	2011	2010	2011	2010
	Number of employees	Number of employees	Number of employees	Number of employees
Exploration and production	4,202	4,350	1,529	1,616
Refining and marketing	3,295	3,428	2,853	2,625
Retail	3,609	3,589	3,118	3,116
Business function	3,111	3,336	1,376	1,704
	14,217	**14,703**	**8,876**	**9,061**

8. IMPAIRMENT CHARGES (NET)

	INA Grupa		INA, d.d.	
	2011	2010	2011	2010
Impairment of PP&E and intangible assets, net	560	(503)	544	(505)
Impairment of trade receivables, net	273	101	189	36
Written off PP&E and intangibles, net	225	21	43	14
Impairment of goodwill and investments, net	49	106	-	-
Impairment charges of inventory, net	134	64	129	(30)
Impairment charges of loans given, net	12	-	646	-
Other impairment, net	3	(37)	(245)	430
Total	**1,256**	**(248)**	**1,306**	**(55)**

(all amounts in HRK millions)

9. FINANCE INCOME

	INA Group		INA, d.d.	
	2011	2010	2011	2010
Foreign exchange gains	87	39	75	27
Dividend received from subsidiaries	-	-	164	254
Interest received and other financial income	28	26	86	37
Gains from commodity price transactions	22	-	22	-
Income from dividends	8	3	8	4
	145	**68**	**355**	**322**

10. FINANCE COSTS

	INA Group		INA, d.d.	
	2011	2010	2011	2010
Foreign exchange losses	362	588	329	548
Interest payable on long-term loans	162	155	152	145
Other interest payable	124	149	90	92
Loss from commodity price transactions	117	55	104	33
Other financial expenses	194	209	409	335
Capitalized borrowing costs	(151)	(248)	(151)	(248)
	808	**908**	**933**	**905**

11. TAXATION

	INA Group		INA, d.d.	
	2011	2010	2011	2010
Current tax expense	948	214	947	210
Deferred tax charge/(benefit) related to origination and reversal of temporary differences	(375)	149	(349)	202
Income tax expense for the year	**573**	**363**	**598**	**412**

(all amounts in HRK millions)

11. TAXATION (continued)

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

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

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

	INA Group		INA, d.d.	
	2011	**2010**	**2011**	**2010**
Profit before tax	2,376	1,318	2,565	2,179
Income tax expense calculated at 20%	475	264	513	436
Unrecognized deferred tax assets	112	111	-	-
Tax effect of permanent differences	(14)	(12)	85	(24)
Current and deferred tax expense	**573**	**363**	**598**	**412**

In 2011, the Group did not recognise deferred tax assets in the amount of HRK 112 million with respect to unused tax losses of Prirodni plin d.o.o. (2010: HRK 111 million) because, based on the assessment, no taxable profits of the company will be available in the future to allow the losses to be utilised.

Movements in deferred tax assets are set out below:

(all amounts in HRK millions)

11. TAXATION (continued)

INA Group	**Impairment of current assets**	**Impairment of tangible and intangible assets**	**Impairment for impaired asset**	**Other provisions**	**Impairment of financial investments**	**Tax losses**	**Total**
Balance at 1 January 2010	**35**	**265**	**(41)**	**27**	**21**	**127**	**434**
Debit 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**
Debit to equity for the year	-	-	-	-	6	-	6
Reversal of temporary differences	(8)	(50)	(18)	(25)	-	(24)	(125)
Origination of temporary differences	246	142	-	26	47	40	501
Balance at 31 December 2011	**280**	**268**	**(99)**	**76**	**91**	**46**	**662**

INA, d.d.	**Impairment of current assets**	**Impairment of tangible and intangible assets**	**Impairment for impaired asset**	**Other provisions**	**Impairment of financial investments**	**Tax losses**	**Total**
Balance at 1 January 2010	**35**	**261**	**(41)**	**27**	**20**	**127**	**429**
Debit 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**
Debit to equity for the year	-	-	-	-	6	-	6
Reversal of temporary differences	(3)	(25)	(18)	(25)	-	-	(71)
Origination of temporary differences	239	142	-	12	41	-	434
Balance at 31 December 2011	**270**	**277**	**(99)**	**66**	**78**	**-**	**592**

12. EARNINGS PER SHARE

	INA Group		INA, d.d.	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Basic and diluted earnings per share (in HRK)	**181.5**	**96.1**	**196.7**	**176.7**

Earnings	INA Group		INA, d.d.	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Earnings used in the calculation of total basic earnings per share	1,815	961	1,967	1,767
	1,815	**961**	**1,967**	**1,767**

Number of shares	INA Group		INA, d.d.	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	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

13. INTANGIBLE ASSETS

	INA Group	INA, d.d.
Balance at 1 January 2010	**731**	**716**
Additions	205	204
Amortisation	(86)	(82)
Impairment	(8)	(8)
Disposal	(13)	(13)
Transfer from property, plant and equipment	11	10
Balance at 31 December 2010	**840**	**827**
Additions	121	121
Amortisation	(77)	(73)
Disposal	(38)	(35)
Foreing exchange translation of foreign operations	33	33
Reversal of impairment	1	1
Other movements	-	2
Balance at 31 December 2011	**880**	**876**

Impairment in amount of HRK 38 million in INA Group consist of impairment of exploration fields in amount of HRK 35 million and disposal in subsidiaries in amount of HRK 3 million.

(all amounts in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT

a) By business segment

INA Group

	Oil and gas exploration and production	Refining and marketing	Retail	Other	Total
Balance at 1 January 2010					
Cost	37,354	14,633	2,889	2,112	**56,988**
Accumulated depreciation	24,491	8,508	1,969	1,430	**36,398**
Net book value	**12,863**	**6,125**	**920**	**682**	**20,590**
Balance at 31 December 2010					
Cost	38,227	15,984	2,931	2,115	**59,257**
Accumulated depreciation	25,108	8,848	1,981	1,513	**37,450**
Net book value	**13,119**	**7,136**	**950**	**602**	**21,807**
Balance at 31 December 2011					
Cost	39,214	16,224	2,897	2,091	**60,426**
Accumulated depreciation	26,840	9,816	1,908	1,568	**40,132**
Net book value	**12,374**	**6,408**	**989**	**523**	**20,294**

INA, d.d.

	Oil and gas exploration and production	Refining and marketing	Retail	Other	Total
Balance at 1 January 2010					
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**
Balance at 31 December 2011					
Cost	35,176	15,781	2,693	923	**54,573**
Accumulated depreciation	24,052	9,484	1,777	705	**36,018**
Net book value	**11,124**	**6,297**	**916**	**218**	**18,555**

(all amounts in HRK millions)

14. 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	Assets under construction	Total
Cost							
Balance at 1 January 2010	**25,661**	**10,362**	**11,125**	**2,014**	**44**	**7,782**	**56,988**
Additions	-	-	-	-	-	2,686	2,686
Change in capitalised decommissioning costs	(357)	-	-	-	-	-	(357)
Transfer of inventories	-	-	-	55	-	-	55
Transfer to intangible assets	-	-	(13)	-	-	-	(13)
Capitalisation	1,194	103	306	37	(1)	(1,639)	-
Disposals	(1)	(22)	(33)	(38)	(1)	(1)	(96)
Other movements	1	(3)	(5)	1	-	-	(6)
Balance at 31 December 2010	**26,498**	**10,440**	**11,380**	**2,069**	**42**	**8,828**	**59,257**
Additions	-	-	-	-	-	1,409	1,409
Change in capitalised decommissioning costs	141	-	-	-	-	-	141
Foreign exchange translation of foreign operations	258	-	-	-	-	-	258
Capitalisation	3,992	428	2,615	177	-	(7,212)	-
Disposals	(1)	(30)	(98)	(105)	(1)	(1)	(236)
Write-off	-	-	-	(361)	-	-	(361)
Other movements	(1)	1	(35)	(7)	-	-	(42)
Balance at 31 December 2011	**30,887**	**10,839**	**13,862**	**1,773**	**41**	**3,024**	**60,426**

(all amounts in HRK millions)

14. 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	Assets under construction	Total
Accumulated depreciation							
Balance at 1 January 2010	**19,310**	**7,122**	**8,341**	**1,513**	**33**	**79**	**36,398**
Charge for the year	949	203	384	167	-	-	1,703
Reversal of decommissioning assets for a prior year	(46)	-	-	-	-	-	(46)
Transfer of inventories	-	-	-	1	-	-	1
Impairment	(43)	(458)	(6)	(4)	-	-	(511)
Transfers	1	-	3	(4)	-	-	-
Disposals	(1)	(20)	(32)	(34)	(1)	-	(88)
Other movements	-	(3)	(4)	-	-	-	(7)
Balance at 31 December 2010	**20,170**	**6,844**	**8,686**	**1,639**	**32**	**79**	**37,450**
Charge for the year	1,712	205	510	136	-	-	2,563
Reversal of decommissioning assets for a prior year	-	(7)	-	-	-	-	(7)
Impairment charges of investments	-	-	-	-	-	5	5
Impairment	(15)	48	500	28	-	-	561
Transfers	-	(51)	1	50	-	-	-
Disposals	(1)	(28)	(92)	(99)	(1)	-	(221)
Write-off	-	-	-	(194)	-	-	(194)
Other movements	(2)	(1)	(20)	(2)	1	(1)	(25)
Balance at 31 December 2011	**21,864**	**7,010**	**9,585**	**1,558**	**32**	**83**	**40,132**

(all amounts in HRK millions)

14. 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	Assets under construction	Total
Carrying amount							
Balance at 31 December 2011	9,023	3,829	4,277	215	9	2,941	20,294
Balance at 31 December 2010	6,328	3,596	2,694	430	10	8,749	21,807

(all amounts in HRK millions)

14. 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	Assets under construction	Total
Cost							
Balance at 1 January 2010	**25,660**	**8,501**	**7,501**	**851**	**33**	**7,717**	**50,263**
Additions	-	-	-	-	-	2,612	2,612
Change in capitalised decommissioning costs	(357)	-	-	-	-	-	(357)
Transfer to intangible assets	-	-	(12)	-	-	-	(12)
Capitalisation	1,194	87	268	35	(1)	(1,583)	-
Disposals	-	(20)	(14)	(15)	(1)	-	(50)
Balance at 31 December 2010	**26,497**	**8,568**	**7,743**	**871**	**31**	**8,746**	**52,456**
Additions	-	-	-	-	-	1,268	1,268
Change in capitalised decommissioning costs	141	-	-	-	-	-	141
Foreign exchange translation of foreign operations	258	-	-	-	-	-	258
Transfer to intangible assets	-	-	(1)	-	-	-	(1)
Addition by merger of Proplin	-	253	127	195	-	-	575
Transfer of inventories	-	-	-	1	-	-	1
Capitalisation	3,992	425	2,639	102	-	(7,158)	-
Disposals	(1)	(24)	(45)	(53)	(1)	(1)	(125)
Balance at 31 December 2011	**30,887**	**9,222**	**10,463**	**1,116**	**30**	**2,855**	**54,573**

(all amounts in HRK millions)

14. 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	Assets under construction	Total
Accumulated depreciation							
Balance at 1 January 2010	**19,310**	**5,838**	**6,221**	**663**	**32**	**79**	**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**	**6,453**	**700**	**29**	**79**	**32,934**
Charge for the year	1,712	162	391	59	-	-	2,324
Reversal of depreciation of decommissioning from a prior year	-	(7)	-	-	-	-	(7)
Impairment charges of investments	-	-	-	-	-	5	5
Addition by merger of Proplin	-	163	65	109	-	-	337
Transfer of inventories	-	-	-	2	-	-	2
Impairment (net)	(15)	32	500	28	-	-	545
Transfer	-	(51)	51	-	-	-	-
Disposals	(1)	(23)	(43)	(54)	-	(1)	(122)
Balance at 31 December 2011	**21,864**	**5,781**	**7,417**	**844**	**29**	**83**	**36,018**

(all amounts in HRK millions)

14. 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	Assets under construction	Total
Carrying amount							
Balance at 31 December 2011	9,023	3,441	3,046	272	1	2,772	18,555
Balance at 31 December 2010	6,329	3,063	1,290	171	2	8,667	19,522

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 2011 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)

14. 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 2011 the net book values of the Group's property, plant and equipment in Exploration and Production segment was HRK 12,375 million and for 31 December 2010 the amount was HRK 13,119 million. At 31 December 2011 the net book values of the Group's property, plant and equipment in Refining and Marketing segment was HRK 6,417 million and for 31 December 2010 the amount was HRK 7,136 million. At 31 December 2011 the net book values of the Group's property, plant and equipment in Retail segment was HRK 990 million and at 31 December 2010 the amount was HRK 950 million. At 31 December 2011 the net book values of the Group's property, plant and equipment in Corporate and other segment was HRK 524 million and at 31 December 2010 the amount was HRK 602 million. Eliminations equal HRK 12 million.

The Management Board has assessed the carrying values of its Exploration and Production, Refining & Marketing and Retail assets with reference to the discounted estimated future net cash flows from the refining and wholesale business, in accordance with the requirements of IAS 36. The total net impairment is HRK 561 million in 2011 which is compared to reversal of impairment in amount of HRK 511 million in 2010.

- The reversal of impairment increased Exploration and Production segment assets by HRK 33 million in 2011 and decreased by HRK 443 million in 2010.
- Refinery and Marketing segment recorded an impairment of property, plan and equipment in amount of HRK 654 million, in 2010 the correction was not posted in accordance with IAS 36 at Refinery and Marketing
- The reversal of impairment increased Retail segment assets by HRK 60 million in 2011, compared to increase in amount of HRK 68 million in 2010.

Discount rates used in the current assessment in 2011 and for 2010 are:

	2011	2010
Exploration and Production	9.82% (Cro) / 14.96% (Syria) /12.96% (Egypt and Angola)	10.76%
Refining and Marketing	10.91%	11.02%
Retail	10.17 % (Croatia), 14.31 % (Bosnia and Herzegovina)	11.02%

A risk factor is included in calculating the discount rates after considering the risk of each country.

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)

15. GOODWILL

	INA Group
Investment of Crosco, d.o.o. in Rotary Zrt. Hungary (100%)	191
Investment of INA, d.d. in Energopetrol d.d. Sarajevo (INA and 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 1 January 2010	**296**
Impairment of Energopetrol goodwill	(64)
Balance at 31 December 2010	**232**
Impairment of Energopetrol goodwill	(30)
Impairment of Rotary goodwill	(19)
Balance at 31 December 2011	**183**

On 28 March 2007, pursuant the agreement entered into by the Government of the Federation of Bosnia and Herzegovina and the INA-MOL Consortium, INA Group invested HRK 132 million in the acquisition of Energopetrol d.d., Sarajevo and became, together with MOL, a major shareholder of the investee (INA, d.d. and MOL Plc. hold an equity share of 33.5 % each). During 2010 and 2011, based on the calculation of the net present value of Energopetrol, a negative net present value was determined. As a result, the goodwill of Energopetrol was fully impaired as at 31 December 2011, and charged to the operating result.

During 2011 goodwill relating to the company Rotary Zrt. was tested for impairment and test showed that the impairment is required in the amount of HRK 19 million. Discount rates used for impairment test were 15.9 % and 10.76% in case of Energopetrol d.d. and Rotary Zrt., respectively.

(all amounts in HRK millions)

16. INVESTMENTS IN SUBSIDIARIES

	INA, d.d.	
	31 December 2011	31 December 2010
Equity investments in subsidiaries	1,033	1,224

	INA, d.d.	
	2011	2010
Equity investments in subsidiaries at 1 January	1,224	1,257
Polybit d.o.o. Rijeka - purchase 50% shares	-	2
Crobenz d.d. Zagreb - disposal	-	(20)
Proplin d.o.o. Zagreb- merger into INA, d.d.	(88)	-
Other subsidiaries - impairment	(103)	(15)
Total as of 31 December	**1,033**	**1,224**

Pursuant to the Merger Agreement of 23 May 2011, the Commercial Court in Zagreb entered the merger of PROPLIN d.o.o.; Zagreb, into INA - Industrija nafte d.d. to the court register on 3 October 2011. The investment in the former subsidiary PROPLIN d.o.o. in the amount of HRK 88 million was closed with the company's subscribed capital which was transferred to the accounts of INA, d.d.

At 31 December 2011 impairment of investment in subsidiaries was recorded in amount of HRK 103 million

Interina Ltd London, is in the process of liquidation, and the voluntary wind-up of Polybit d.o.o., Rijeka, is expected to be completed in 2012. As a result, the value of the investments in those companies has been adjusted (Interina Ltd., London - HRK 28 million; Polybit d.o.o. Rijeka - HRK 4 million).

14 June 2011 INA, d.d. Management Board passed a Decision on establishing a limited liability company Top Računovodstvo Servisi d.o.o. Zagreb.

Subsidiary TRS Top Računovodstvo Servisi d.o.o. is founded with a share capital of HRK 100.000,00 paid in cash. It is 100% owned by INA, d.d. and its main activity is accounting. Commercial court in Zagreb passed a Decision on registration of Subsidiary in court register on 30 August 2011.

(all amounts in HRK millions)

16. INVESTMENTS IN SUBSIDIARIES (continued)

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

Name of company	Activity	Shareholding 31 December 2011	31 December 2010
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%
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%
*TRS Top računovodstvo servisi d.o.o. za računovodstvene usluge	Accounting, buying and selling goods, foreign companies representation, advertising, IT and related activities	100%	-
Production and trading			
*Maziva Zagreb d.o.o. Zagreb	Production and lubricants trading	100%	100%
*Proplin d.o.o. Zagreb (merged into INA, d.d. 3 October 2011)	Production and LPG trading	-	100%

(all amounts in HRK millions)

16. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Activity	Shareholding 31 December 2011	Shareholding 31 December 2010
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 (until December 2011)	Foreign trading	100%	100%
*Holdina d.o.o. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%	100%
*INA d.o.o. Beograd, Serbia	Foreign trading	100%	100%
*INA Kosovo d.o.o. 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%

17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	INA Group			INA, d.d.	
	31 December 2011	**31 December 2010**	**1 January 2010**	**31 December 2011**	**31 December 2010**
Investments in associates and joint ventures	34	22	68	34	51
	34	**22**	**68**	**34**	**51**

(all amounts in HRK millions)

17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

			INA Group			INA, d.d.	
Name of company	Activity	Proportion of ownership	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Croplin d.o.o Zagreb	Gas trading	50%	12	-	35	12	-
SOL-INA d.o.o.	Industrial gas production	37.2%	22	22	22	22	22
ENERGOPETROL d.d., Sarajevo BiH	Retail (oil and lubricants)	33.5%	-	-	11	-	29
			34	**22**	**68**	**34**	**51**

Other investments in associates and joint ventures are as follows:

			INA Group and INA, d.d.	
Name of company	Activity	Place of incorporation and operation	31 December 2011	31 December 2010
Hayan Petroleum Company	Operating company (oil exploration, development and production)	Damascus, Syria	50%	50%
TERME Zagreb d.o.o., (from September 2008)	Recreation and medical tourism	Zagreb, Croatia	50%	50%
INAgip d.o.o. Zagreb	Gas exploration and production operator (joint	Zagreb, Croatia	50%	50%
ED INA d.o.o. Zagreb	Research, development and hydrocarbon production	Zagreb, Croatia	50%	50%
Genan Trading Services Co. WLL (in liquidation)	Maintenance and technical engineering services	Doha, Quatar	-	49%
Belvedere d.d.	Hotel trade	Dubrovnik, Croatia	32%	32%
Marina Petroleum Company	Oil exploration and production operator	Cairo, Egypt	25%	25%
Adria LNG Study Company Ltd	Oil exploration	Malta	22.2%	22.2%

(all amounts in HRK millions)

17. 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). A net asset of Croplin in amounting to HRK 12 million has been reclassified to assets classified as held for sale.

The sale of Croplin d.o.o. was not accomplished during 2011.

Currently a sale has been put on hold. As a result, the company has been reclassified from the held-for-sale into investments in associates and joint ventures.

The liquidation proceedings of Genan Trading Services WLL, Quatar, were completed. Pursuant to the Decision of a Quatar commercial court about the deletion of the company, INA, d.d. derecognised the investment in the liquidated company on 30 June 2011.

In 2011, the investment in Energopetrol d.d., Sarajevo was impaired by HRK 29 million. At 31 December 2011, the total investment in Energopetrol d.d. Sarajevo in the amount of HRK 132 million was transferred to the allowance account.

18. OTHER INVESTMENTS

	INA Group			INA, d.d.	
	31 December 2011	**31 December 2010**	**1 January 2010**	**31 December 2011**	**31 December 2010**
Long-term loan to Energopetrol	326	306	109	326	306
Other long-term loans	-	-	-	445	103
Deposits	23	22	23	23	22
Financial assets at fair value through profit or loss	6	6	6	5	6
Other investments	**355**	**334**	**138**	**799**	**437**

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

(all amounts in HRK millions)

19. LONG-TERM RECEIVABLES

INA Group	**31 December 2011**	**31 December 2010**	**1 January 2010**
Receivables for apartments sold	126	137	148
Prepayments for property, plant and equipment	22	61	210
Prepayments for intangible assets	12	39	24
Other long-term receivables	2	3	3
	162	**240**	**385**

INA, d.d.	**31 December 2011**	**31 December 2010**
Receivables for apartments sold	125	136
Long-term receivables from Proplin	-	69
Prepayments for property, plant and equipment	21	50
Prepayments for intangible assets	12	37
Long-term receivables from Crosco	33	32
Long-term receivables from STSI	15	15
Other long-term receivables	1	2
	207	**341**

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 32). 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.

(all amounts in HRK millions)

20. AVAILABLE-FOR-SALE ASSETS

Company available for sale

Name of the Company	% shareholding held by INA	Activity	INA Group and INA, d.d. 31 December 2011	31 December 2010	1 January 2010
Jadranski Naftovod d.d.	11.795%	Pipeline ownership and operations	321	321	321
OMV Slovenia d.o.o., Koper	7.75%	Oil trading	31	31	31
Plinara d.o.o. Pula	49.00%	Distribution and oil trading	17	17	17
HOC Bjelolasica d.o.o. Ogulin	7.17%	Operations of sports facilities	6	6	6
BINA-FINCOM d.d. Zagreb	5.00%	Construction of highways and other roads, airfields airports	12	12	12
Fair value adjustment			(62)	30	10
			325	**417**	**397**

As explained in note 40, a substantial portion of the trading income of JANAF d.d. is derived from INA, d.d.. The value of the equity share in JANAF was reported by reference to the market value of the shares as quoted on the Zagreb Stock Exchange as of 31 December 2011. The net book value of the equity investment in JANAF decreased by HRK 92 million compared to the balance as of 31 December 2010 due to a decrease in the market value of the JANAF shares on the Zagreb Stock Exchange. The market value of the shares (118,855 shares) as of 31 December 2011 amounted to HRK 2,230 per share (HRK 3,000 per share as of 31 December 2010).

21. INVENTORIES

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Crude oil	973	378	330	972	378
Work in progress	911	825	566	910	824
Refined products	763	660	685	695	592
Gas inventories	354	381	419	1	1
Raw material	287	293	293	192	202
Spare parts, materials and supplies	233	214	222	101	82
Merchandise	172	154	135	159	139
	3,693	**2,905**	**2,650**	**3,030**	**2,218**

(all amounts in HRK millions)

21. INVENTORIES (continued)

The cost of inventories recognised as an expense for the year amount to HRK 15.5 billion (2010: HRK 14.7 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 2011, most inventories were measured at cost, and, based on the comparison with future prices, no significant impairment was identified.

Pursuant to the Decision on quantity and structure of compulsory stocks of oil and oil derivates for 2011 dated 17 March 2011, the Croatian Compulsory Oil Stocks Agency (HANDA) is obligated to keep a total of 502,000 tons of stock, so INA has no compulsory stocks.

22. TRADE RECEIVABLES, NET

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Trade receivables	3,957	3,470	3,327	2,184	2,042
Impairment of receivables	(675)	(418)	(402)	(403)	(226)
	3,282	**3,052**	**2,925**	**1,781**	**1,816**

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

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
60-90 days	47	63	110	41	32
91-120 days	55	36	113	39	29
121+ days	240	190	214	63	78
	342	**289**	**437**	**143**	**139**

(all amounts in HRK millions)

22. TRADE RECEIVABLES, NET (continued)

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

Impairment of receivables:

	INA Group		INA, d.d.	
	2011	**2010**	**2011**	**2010**
Balance at beginning of the year	418	402	226	210
Impairment losses recognised on receivables	336	225	207	88
Amounts written off as uncollectible	(16)	(85)	(12)	(20)
Amounts recovered during the year	(63)	(124)	(18)	(52)
Balance at end of the year	**675**	**418**	**403**	**226**

The ageing analysis of impaired trade receivables:

	INA Group		INA, d.d.	
	31 December 2011	**December 2010**	**31 December 2011**	**31 December 2010**
less than 120 days	40	8	16	8
121-150 days	28	6	9	6
151-180 days	25	3	11	3
181-365 days	179	73	148	25
366+ days	403	328	219	184
	675	**418**	**403**	**226**

23. OTHER RECEIVABLES

	INA Group			INA, d.d.	
	31 December 2011	**31 December 2010**	**1 January 2010**	**31 December 2011**	**31 December 2010**
Tax prepayments	278	387	700	232	109
Other	178	199	105	147	178
	456	**586**	**805**	**379**	**287**

(all amounts in HRK millions)

24. OTHER CURRENT ASSETS

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Net receivables from commodity price transactions	48	-	-	48	-
Short-term loans and deposits	27	35	26	104	61
Current portion of long terms loans	1	2	3	156	186
Other	-	3	3	5	6
	76	**40**	**32**	**313**	**253**

25. PREPAID EXPENSES AND ACCRUED INCOME

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Prepayments for customs, duties and other charges	70	78	48	45	57
Accrued income	7	47	10	7	41
Other	2	17	14	2	1
	79	**142**	**72**	**54**	**99**

26. 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 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Cash in the bank	296	272	333	195	222
Cash on hand	3	3	3	-	-
Other	38	42	31	34	38
	337	**317**	**367**	**229**	**260**

(all amounts in HRK millions)

26 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 statement of financial position 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.

27. ASSETS CLASSIFIED AS HELD FOR SALE

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 net book value of the investment in Croplin d.o.o. amounts to HRK 12 million..

Currently a sale has been put on hold. As a result, the company has been reclassified its investments in Croplin from assets classified as held for sale to investments in associates and joint ventures.

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

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Overdrafts and short-term loans	1,918	1,659	2,104	1,784	838
Current portion of long-term loans (note 31)	1,904	1,295	655	1,817	1,233
	3,822	**2,954**	**2,759**	**3,601**	**2,071**

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Secured bank loans in USD	408	663	1,454	366	-
Secured bank loans in EUR	30	60	149	-	-
Secured bank loans in HRK	62	64	96	-	-
Secured bank loans in HUF	-	34	45	-	-
Unsecured bank loans in USD	439	75	159	439	75
Unsecured bank loans in EUR	979	548	-	979	548
Unsecured bank loans in HRK	-	215	201	-	215
	1,918	**1,659**	**2,104**	**1,784**	**838**

(all amounts in HRK millions)

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

The most significant short-term loans as at 31 December 2011 are framework agreements concluded with domestic banks for granting loans, issuing bank guaranties and opening LC's and trade finance agreements with the purpose of financing crude oil and petroleum products import.

INA Group subsidiaries short - term facilities are secured mostly by INA, d.d. corporate guarantees and in some cases by debenture notes and bills of exchange.

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

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Trade payables	2,032	3,786	4,286	1,111	1,611
Production and sales taxes payable and other taxes	1,437	698	1,670	1,303	596
Payroll and other	212	200	415	162	114
Payroll taxes and contributions	87	91	111	46	54
Net payables from commodity price transactions	32	-	-	32	-
Derivative financial liabilities	2	-	-	3	-
	3,802	**4,775**	**6,482**	**2,657**	**2,375**

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

30. ACCRUALS AND DEFERRED INCOME

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Accrued interest – long-term loans	38	52	21	38	51
Accrued expenses	1	65	136	1	1
Other	9	7	-	9	6
	48	**124**	**157**	**48**	**58**

(all amounts in HRK millions)

31. LONG-TERM LOANS

Long-term loans are denominated in a variety of foreign currencies and are subject to a range of interest rates. Long-term loans are unsecured and the majority of these loans contains financial covenants. INA Group subsidiaries long-term loans are in some cases secured by bills of exchange, debentures and by pledges consist of mortage on real estate properties which are in the process of restructuring and replacement with corporate guarentees.
Three long-term loans and leasing contracts are secured by a mortage in the amount of EUR 20.6 million.
The loans of the Group outstanding at 31 December 2011 and 2010 are analysed as follows:

Objective of loan	Loan currency	31 December 2011	31 December 2010	1 January 2010
General corporate purpose	USD, EUR	5,650	6,450	6,167
Project financing	USD, EUR	1,723	1,931	54
		7,373	**8,381**	**6,221**
Due within 1 year		(1,817)	(1,233)	(575)
Total long-term loans INA, d.d.		**5,556**	**7,148**	**5,646**
Loan (equipment)	EUR, HUF	72	193	173
Other long term loans		89	22	25
		161	**215**	**198**
Due within 1 year		(87)	(62)	(80)
Total long-term loans INA Group		**5,630**	**7,301**	**5,764**

(all amounts in HRK millions)

31. LONG-TERM LOANS (continued)

INA Group	Weighted average interest rate 31 December 2011	Weighted average interest rate 31 December 2010	Weighted average interest rate 1 January 2010	31 December 2011	31 December 2010	1 January 2010
	%	%	%			
Bank loans in USD	1.65	2.02	1.45	3,154	4,626	5,636
Bank loans in EUR	2.21	3.01	4.97	4,296	3,873	761
Bank loans in HUF	8.88	7.45	6.25	3	7	12
Bank loans in HRK	5.20	5.10	7.53	81	90	10
Total				**7,534**	**8,596**	**6,419**
Payable within 1 year				(1,904)	(1,295)	(655)
Total long-term loans				**5,630**	**7,301**	**5,764**

INA, d.d.	Weighted average interest rate 31 December 2011	Weighted average interest rate 31 December 2010	31 December 2011	31 December 2010
	%	%		
Bank loans in USD	1.65	2.02	3,154	4,626
Bank loans in EUR	2.16	2.97	4,219	3,755
Total			**7,373**	**8,381**
Payable within 1 year			(1,817)	(1,233)
Total long-term loans			**5,556**	**7,148**

The maturity of loans may be summarised as follows:

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Current portion of long-term debt	1,904	1,295	655	1,817	1,233
Payable within one to two years	4,547	1,757	562	4,490	1,749
Payable within two to three years	278	4,498	1,323	266	4,373
Payable within three to four years	267	271	3,842	266	258
Payable within four to five years	268	258	24	267	257
Payable over five years	270	517	13	267	511
Total	**7,534**	**8,596**	**6,419**	**7,373**	**8,381**

(all amounts in HRK millions)

31. 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 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
Balance at 1 January 2011	**8,596**	**8,381**
New borrowings raised	80	80
Amounts repaid	(1,313)	(1,261)
Foreign exchange losses	171	173
Balance at 31 December 2011	**7,534**	**7,373**
Payable within 1 year (included within bank loans and overdrafts – note 28)	1,904	1,817
Payable after more than 1 year	5,630	5,556

The principal long-term loans outstanding at 31 December 2011 and the principal new loans drawn down and repaid during 2011 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 and it is dormant.

Bayerische Landesbank

In 2007, the Company entered into revolving credit facility, agreement with banks 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).

INTESA Sanpaolo

In 2010, the Company concluded a Long-term Loan Agreement with Banca Intesa Sanpaolo, 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 alternative withdrawal in USD. The purpose of the loan is finalization of the phase I of modernization Sisak and Rijeka Refineries.

(all amounts in HRK millions)

31. LONG-TERM LOANS (continued)

ICF DEBT POOL LLP

In 2010, the Company concluded a Long-term Loan Agreement with the ICF DEBT POOL LLP 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 2011 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.

32. OTHER NON-CURRENT LIABILITIES

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Liabilities to Government for sold apartments	69	75	81	69	75
Deferred income for sold apartments	39	44	48	37	42
Liabilities for derivatives financial instruments	18	6	10	-	-
	126	**125**	**139**	**106**	**117**

The long-term payable to the government relates to obligation arising on the sale of housing units to employees under the government program (note 19). 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)

33. 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 2010	**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**
Charge for the year	-	-	33	-	44	63	-	3	**143**
Effect of change in estimates	(39)	141	-	-	-	-	-	-	**102**
Interest	16	118	-	-	-	-	-	-	**134**
Provision utilised during the year	(7)	(3)	(205)	(112)	(17)	(68)	-	(66)	**(478)**
Balance at 31 December 2011	**292**	**2,373**	**91**	-	**44**	**62**	**21**	**32**	**2,915**

The environmental provision recorded by INA Group is HRK 292 million on 31 December 2011(31 December 2010: HRK 322 million). The environmental provision covers treatment of accumulated waste generated by former activity, soil excavation and replacement during the reconstruction of filling stations and investigation to determine the extent of the contaminations. It does not cover the cost of remediation in lack of detailed National regulations.

(all amounts in HRK millions)

33. PROVISIONS (continued)

INA, d.d.	Environmental provision	Decommissioning Charges	Legal claims	Redundancy costs	Cost of unutilised holiday	Other	Total
Balance at 1 January 2010	**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**
Charge for the year	-	-	32	37	43	2	**114**
Effect of change in estimates	(39)	141	-	-	-	-	**102**
Interest	15	118	-	-	-	-	**133**
Provision utilised during the year	(7)	(3)	(178)	-	(48)	(44)	**(280)**
Balance at 31 December 2011	**279**	**2,373**	**74**	**37**	**43**	**27**	**2,833**

(all amounts in HRK millions)

33. PROVISIONS (continued)

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Analysed as:					
Current liabilities	200	394	229	168	201
Non-current liabilities	2,715	2,620	2,573	2,665	2,563
	2,915	**3,014**	**2,802**	**2,833**	**2,764**

Decommissioning charges

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

34. RETIREMENT AND OTHER EMPLOYEE BENEFIT

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 2011 by AON Hewitt. In 2011, the Company made a provision of HRK 43 million and HRK 23 million in respect of jubilee awards and regular retirement allowance, respectively.

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

(all amounts in HRK millions)

34. RETIREMENT AND OTHER EMPLOYEE BENEFIT (continued)

	Valuation at		
Key assumptions used:	**31 December 2011**	**31 December 2010**	**1 January 2010**
Discount rate	5.50%	5.50%	5.00%
Turnover rate	3-4%	1-3%	0-3%
Mortality table	HR2004 70,00%	HR2004 70,00%	HR2004 70,00%
Average expected remaining working lives (in years)	16.06	15.5	13.7

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

	INA Group			**INA, d.d.**	
	31 December 2011	**31 December 2010**	**1 January 2010**	**31 December 2011**	**31 December 2010**
Cost of current period	8	8	8	6	6
Interest	8	8	7	6	6
Actuarial (gains) or losses	(44)	(14)	4	(41)	(16)
	(28)	**2**	**19**	**(29)**	**(4)**

The amount included in the statement of financial position 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 2011	**31 December 2010**	**1 January 2010**	**31 December 2011**	**31 December 2010**
Present value of defined benefit obligations	117	145	143	66	92
Liability recognised in the statement of financial position	**117**	**145**	**143**	**66**	**92**

	INA Group			**INA, d.d.**	
	31 December 2011	**31 December 2010**	**1 January 2010**	**31 December 2011**	**31 December 2010**
This amount is presented in the balance sheet as follows:					
Current liabilities	13	16	17	5	8
Non-current liabilities	104	129	126	61	84
	117	**145**	**143**	**66**	**92**

(all amounts in HRK millions)

34. RETIREMENT AND OTHER EMPLOYEE BENEFIT (continued)

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

	INA Group		INA, d.d.	
	2011	**2010**	**2011**	**2010**
At 1 January	145	143	96	96
Recognised cost in the current period	8	8	6	6
Interest	8	8	6	6
Actuarial (gains) or losses	(35)	(5)	(35)	(8)
Payments	(9)	(9)	(7)	(8)
At 31 December	**117**	**145**	**66**	**92**

35. SHARE CAPITAL

	INA Group and INA, d.d.		
	31 December 2011	**31 December 2010**	**1 January 2010**
Issued and fully paid:			
10 million shares (HRK 900 each)	**9,000**	**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.

36. REVALUATION RESERVES

	INA Group and INA, d.d.		
	31 December 2011	**31 December 2010**	**1 January 2010**
Balance at beginning of year	27	10	(135)
Increase/ (decrease) arising on revaluation of available for sale securities (Janaf)	(34)	21	181
Deferred tax	7	(4)	(36)
Balance at the end of year	**-**	**27**	**10**

The balance of revaluation reserves at 31 December 2011 includes the impairment losses on financial assets available for sale (Janaf).

(all amounts in HRK millions)

36. REVALUATION RESERVES (continued)

Because of a significant drop in the value of the Janaf shares as of 31 December 2011, the cumulative loss on the revaluation reserves amounted to HRK 55 million.

IAS 39 requires that, if the fair value of financial assets available for sale is impaired and there is objective evidence of impairment, the cumulative loss recognised previously directly in equity is to be transferred to profit or loss.

A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

Thus, the cumulative loss on the revaluation was recorded in profit and loss as of 31 December 2011.

37. OTHER RESERVES

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

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

Movements on reserves during the year were as follows:

INA Group

	Combined reserves at 31 December 1993	Foreign currency translation	Other reserves	Total
Balance at 1 January 2010	2,132	(268)	447	2,311
Movements during 31 December 2010	-	29	-	29
Balance at 31 December 2010	2,132	(239)	447	2,340
Movements during 31 December 2011	-	276	-	276
Balance at 31 December 2011	2,132	37	447	2,616

INA, d.d.

	Combined reserves at 31 December 1993	Other reserves	Total
Balance at 31 December 2010	1,667	285	**1,952**
Balance at 31 December 2011	1,667	572	**2,239**

(all amounts in HRK millions)

38. RETAINED EARNINGS

	INA Group Retained earnings/ (Accumulated deficit)	INA, d.d. Retained earnings/ (Accumulated deficit)
Balance at 1 January 2010	**463**	**(211)**
Profit for the year	961	1,767
Balance at 31 December 2010	**1,424**	**1,556**
Profit for the year	1,815	1,967
Dividends paid	(480)	(480)
Balance at 31 December 2011	**2,759**	**3,043**

39. NON CONTROLLING INTEREST

	INA Group		
	31 December 2011	31 December 2010	1 January 2010
Balance at beginning of year	2	8	10
Share of loss for the year	(12)	(6)	(2)
Balance at end of year	**(10)**	**2**	**8**

40. 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)

40. 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	
	2011	**2010**	**2011**	**2010**
Foreign related companies				
Holdina Sarajevo	850	526	2	-
INA Crna Gora d.o.o Podgorica	91	55	-	-
INA Beograd d.o.o Beograd	59	100	-	-
Interina d.o.o. Ljubljana	21	27	-	-
Adriagas Milano	2	-	1	4
Interina Ltd Guernsey	-	2,815	-	280
Interina Ltd London	-	6	-	10,666
Domestic related companies				
Prirodni plin d.o.o. Zagreb	4,487	3,970	446	235
Osijek Petrol d.d.	135	399	-	-
Maziva Zagreb d.o.o. Zagreb	119	95	58	8
STSI d.o.o. Zagreb	15	19	457	258
Crosco Grupa	12	7	168	124
Sinaco d.o.o. Zagreb	4	3	122	124
TOP Računovodstvo Servisi d.o.o.	3	-	21	-
ITR d.o.o. Zagreb	2	1	24	24
Proplin d.o.o. Zagreb	-	498	-	-
Companies available for sale				
JANAF d.d. Zagreb	1	1	72	45
Strategic partner				
MOL Plc	458	347	823	941
Companies controlled by strategic partner				
Tifon d.o.o.	768	-	6	6
Energopetrol d.d.	468	418	1	-
MOL SLOVENIJA d.o.o.	16	1	-	-
IES-Italiana Energia e Servizi s.p.a.	13	-	6	2
Intermol d.o.o.	10	26	1	-
Slovnaft, Petrochemicals s.r.o.	1	-	-	-
Moltrade Mineralimpex Zrt.	-	-	1,141	10
Slovnaft, a.s.	-	-	48	16
Mol Lub Kft.	-	-	1	1
TVK Nyrt.	-	-	3	2
Geophysical services Ltd.	-	-	-	15

(all amounts in HRK millions)

40. RELATED PARTY TRANSACTIONS (continued)

INA, d.d.

	Sales of goods		Purchase of goods	
	2011	**2010**	**2011**	**2010**
Companies controlled by the State				
Hrvatska elektroprivreda	298	344	129	142
Croatia Airlines	234	158	-	-
Jadrolinija	143	111	5	5
MORH	53	51	-	-
Hrvatske željeznice	2	26	51	42
Podzemno skladište plina Okoli	2	1	-	-
Croatia osiguranje	-	2	34	44
Hrvatske vode	-	-	22	22
Hrvatska pošta	-	-	2	2
Hrvatske šume	-	-	1	-
Narodne novine	-	-	-	2
Petrokemija Kutina	-	6	-	-
Hrvatske autoceste	-	-	65	60

(all amounts in HRK millions)

40. RELATED PARTY TRANSACTIONS (continued)

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

INA, d.d.	**Amounts owed by related parties**		**Amounts owed to related parties**	
	31 December 2011	**31 December 2010**	**31 December 2011**	**31 December 2010**
Foreign related companies				
Holdina Sarajevo	117	81	7	5
INA Crna Gora d.o.o Podgorica	14	15	-	-
INA Beograd d.o.o Beograd	10	7	-	-
Interina d.o.o. Ljubljana	1	3	-	-
Interina Ltd Guernsey	-	-	137	128
Interina Ltd London	-	-	20	2,183
Adrigas Milano	-	-	1	1
Domestic related companies				
Prirodni plin d.o.o. Zagreb	1,551	2,271	20	346
Osijek Petrol d.d.	53	123	1	1
Maziva Zagreb d.o.o. Zagreb	19	21	24	28
STSI d.o.o. Zagreb	2	8	257	173
Crosco Grupa	1	2	57	50
TOP Računovodstvo Servisi d.o.o.	1	-	3	-
Proplin d.o.o. Zagreb	-	109	-	22
ITR d.o.o. Zagreb	-	-	10	14
Sinaco d.o.o. Zagreb	-	1	35	36
Companies available for sale				
JANAF d.d. Zagreb	-	-	25	4
Strategic partner				
MOL Plc	34	30	62	609
Companies controlled by strategic partner				
Tifon d.o.o.	42	99	1	6
Energopetrol d.d.	24	34	-	-
Intermol d.o.o.	8	-	-	-
MOL SLOVENIJA d.o.o.	2	-	-	-
Slovnaft, a.s.	-	-	5	-
Slovnaft, Petrochemicals s.r.o.	-	-	1	-
IES-Italiana Energia e Servizi s.p.a.	-	-	2	-
TVK Nyrt.	-	-	1	1

(all amounts in HRK millions)

40. RELATED PARTY TRANSACTIONS (continued)

INA, d.d.	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Companies controlled by the State				
Hrvatska elektroprivreda	186	209	14	7
Croatia Airlines	32	24	-	-
Jadrolinija	31	33	1	-
Hrvatske šume	6	5	-	-
Hrvatske željeznice	4	1	5	13
MORH	4	14	-	-
Hrvatska pošta	2	2	-	-
Hrvatske autoceste	1	1	5	5
Podzemno skladište plina Okoli	1	-	8	6
Croatia osiguranje	-	-	-	1
Hrvatske vode	-	-	4	3
Petrokemija Kutina	-	194	-	-

(all amounts in HRK millions)

40. RELATED PARTY TRANSACTIONS (continued)

Loan to and from related parties:

INA, d.d.	Amounts of loans owed by related parties		Amountsof loans owed to related parties	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Foreign related companies				
Holdina Sarajevo	4	9	-	-
INA Crna Gora d.o.o Podgorica	15	-	-	-
Interina d.o.o. Ljubljana	15	15	-	-
Adrigas Milano	-	-	8	-
INA Hungary	1	-	-	-
Domestic related companies				
Osijek Petrol d.d.	50	-	-	-
Maziva Zagreb d.o.o. Zagreb	-	-	57	57
STSI d.o.o. Zagreb	20	-	-	-
Crosco Grupa	496	261	-	-
Polybit	-	-	2	-
Hostin d.o.o.	-	-	5	3
Strategic partner				
MOL Plc	-	-	979	1,124
Companies controlled by strategic partner				
Energopetrol d.d.	326	307	-	-
Rotary	83	-	-	-

(all amounts in HRK millions)

40. 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	
	2011	**2010**	**2011**	**2010**
Companies available for sale				
JANAF d.d. Zagreb	1	1	72	45
Strategic partner				
MOL Plc	830	655	829	967
Companies controlled by strategic partner				
Tifon d.o.o.	769	442	6	6
Energopetrol d.d.	468	418	1	-
MOL SLOVENIJA d.o.o.	16	1	-	-
IES-Italiana Energia e Servizi s.p.a.	13	-	6	2
Intermol d.o.o.	10	26	1	-
Slovnaft, Petrochemicals s.r.o.	1	-	-	-
Moltrade Mineralimpex Zrt.	-	-	1,141	10
Slovnaft, a.s.	-	-	48	16
Mol Lub Kft.	-	-	3	1
TVK Nyrt.	-	-	3	2
Geophysical services Ltd.	-	-	-	15
Companies controlled by the State				
Hrvatska elektroprivreda	299	1,667	141	146
Croatia Airlines	234	158	3	5
Jadrolinija	148	115	5	5
MORH	55	51	-	-
Podzemno skladište plina Okoli	13	31	-	4
Hrvatske željeznice	11	29	51	42
Hrvatske šume	6	4	1	-
Petrokemija Kutina	1	937	-	1
Croatia osiguranje	-	7	34	67
Hrvatske vode	-	1	22	22
Hrvatska pošta	-	-	2	2
Narodne novine	-	-	-	2
Plinacro	-	7	-	258
Hrvatske autoceste	-	17	65	60

(all amounts in HRK millions)

40. RELATED PARTY TRANSACTIONS (continued)

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

INA Group	Amounts owed by related parties			Amounts owed to related parties		
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010	1 January 2010
Companies available for sale						
JANAF d.d. Zagreb	-	1	1	25	4	20
Strategic partner						
MOL Plc	114	100	110	66	614	662
Companies controlled by strategic partner						-
Tifon d.o.o.	42	103	6	1	6	-
Energopetrol d.d.	24	34	-	-	-	-
Intermol d.o.o.	8	-	-	-	-	-
MOL SLOVENIJA d.o.o.	2	-	-	-	-	-
Slovnaft, a.s.	-	-	-	5	-	-
Slovnaft, Petrochemicals s.r.o.	-	-	-	1	-	-
Mol Lub Kft.	-	-	-	1	-	-
IES-Italiana Energia e Servizi s.p.a.	-	-	-	2	-	-
TVK Nyrt.	-	-	-	1	-	-
Companies controlled by the State						
Hrvatska elektroprivreda	187	272	217	15	7	18
Jadrolinija	32	35	25	1	-	1
Croatia Airlines	32	24	30	1	1	1
Hrvatske željeznice	7	3	109	5	13	10
Hrvatske šume	7	6	5	-	-	-
MORH	4	14	14	-	-	-
Hrvatska pošta	2	2	2	-	-	-
Hrvatske autoceste	1	3	1	5	5	8
Podzemno skladište plina Okoli	1	4	12	8	6	61
Petrokemija Kutina	-	200	199	-	-	-
Plinacro	-	1	-	-	17	38
Croatia osiguranje	-	-	-	-	12	37
Hrvatske vode	-	-	-	4	3	6

(all amounts in HRK millions)

40. RELATED PARTY TRANSACTIONS (continued)

Loan to and from related parties:

INA Group	Amounts of loans owed by related parties			Amountsof loans owed to related parties		
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010	1 January 2010
Strategic partner						
MOL Plc	-	-	-	979	1,124	1,124
Companies controlled by strategic partner						
Energopetrol d.d.	326	307	307	-	-	-
Rotary	83	-	-	-	-	-

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

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

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

Compensation of key management personnel

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

	INA, d.d.	
	31 December 2011	31 December 2010
Short-term employee benefits	44.6	39.7
Termination bonuses	-	13.4
Total	**44.6**	**53.1**

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.

40. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel (continued)

Independence Statements with respect of related parties were provided by the following key employees of the Company:

- Supervisory Board Members (9),
- President of the Management Board (1),
- Management Board Members (5),
- Executive Directors (5),
- Sector Directors (30), and
- certain employees in the offices of Executive Directors - Executive Director Advisors/Assistants (7).

The analysis of the returned signed Statements has shown that neither the employees nor the close family members of the management of INA d.d.:

- held an interest in INA d.d. or the INA Group, or any other business entity operating with INA d.d. or the INA Group during 2011 in excess of 5 percent which would enable them to exercise significant influence or control over the entity during 2011;
- were members of key management of a business entity transacting with INA d.d. or the INA Group during 2011; and
- were involved in any related-party transactions during 2011.

The following members of key management at INA d.d. reported the existence of related parties within the INA Group during 2011:

- Mr. Daniel Stern, son of the President of the Supervisory Board, Mr. Davor Štern, was President of the Board of Directors of Pastor Group d.d. (fire products and services) which achieved certain transactions with INA, d.d. in 2011
- Member of the Supervisory Board, Mr. György Mosonyi, was a member of the Board of Directors of MOL Plc. (oil industry) until May 1, 2011 and President of the Board of Directors of TVK Plc. (petrochemical industry).
- Member of the Supervisory Board, Mr. József Molnár, was a member of the Board of Directors of MOL Plc. (oil industry)
- Member of the Supervisory Board, Mr. József Simola, was during 2011 a member of the Board of Directors of IES – Italiana Energia e Servici S.p.A. (oil industry)
- Member of the Supervisory Board, Mr. Oszkár Világi, was during 2011 the President of the Board of Directors of Slovnaft, a.s. (oil industry) and a member of the Board of Directors of MOL Plc. (oil industry)
- Member of the Management Board, Mr. Niko Dalić, was during 2011 a member of the ED INA General Assembly and shareholder of the company INAGIP (oil industry).
- Executive Director of Corporate Services, Mr. Berislav Gašo, in 2011 was the Chairman of the Supervisory Board of SINACO, Chairman of the Supervisory Board of STSI, Member of the Supervisory Board of Energopetrol d.o.o. and Chairman of the Supervisory Board Crosco d.o.o.
- The Executive Director Finance, Mr. András Huszár, was in 2011 year the Chairman of the Supervisory Board of TRS d.o.o., a member of the Supervisory Board of STSI, a member of the Supervisory Board of CROSCO d.o.o. and a member of the Supervisory Board in Prirodni plin d.o.o.

40. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel (continued)

- Executive Director for Retail, Mr. Darko Markotić, was during 2011 the President of the Management Board of TIFON d.o.o. (oil product retail), a member of the Supervisory Board of Belvedere, a member of the Supervisory Board of PROPLIN d.o.o. and a member of the Coordination Committee in INTERINA Ljubljana,
- Executive Director for Exploration and Production, Mr. Želimir Šikonja, was during 2011 a member of the Management Board of subsidiary Holdina Ltd. Guernsey, INA-NAFTAPLIN IE&P Ltd, Guernsey and INTERINA London, a member of the Management Board of INAGIP and ED INA, a member of the Supervisory Board of STSI and Prirodni plin d.o.o., and the INA representative at Hayan Petroleum Company, Damascus, Syria.
- Executive Director for Corporate Processes, Mr. Tomislav Thür, was during 2011 a member of the Supervisory Board of subsidiary Prirodni plin d.o.o., a member of the Management Board of Holdina Ltd. Guernsey and a member of the Management Board of ED-INA d.o.o. and the Chairmen of the Coordination Committee in INTERINA Ljubljana.
- Director of Treasury Sector, Mrs. Višnja Bijelić, was during 2011 a member of the Management Board of Maziva Zagreb and a member of the Supervisory Boards of the following subsidiaries: Proplin d.o.o., ITR d.o.o., HOSTIN d.o.o., Plinara Pula, INTERINA London, HOLDINA Guernsey, INTERINA Guernsey i INA-Naftaplin IE&PL, Guernsey.
- Director of Rafinery Sisak, Mr. Damir Butković converter, was in 2011 a member of the Supervisory Board in SOL-INA d.o.o.
- Director of Human Resources Sector, Ms. Zdravka Demeter Bubalo, in 2011 was a member of the Supervisory Board of t ITR.
- Director of Geology and Reservoir Management Sector, Mr. Miro Đureković was in 2011 a member of the Management Board of Adriagas, Milan.
- Director of South-East Europe E&P Sector, Mr. Laslo Farkaš Višontai was in 2011 a member of the Supervisory Board of CROPLIN d.o.o., Plinara Pula d.o.o.and Geopodravina d.o.o.
- Director of Retail Sales Management Sector, Mr. Mladen Ivković was in 2011 the director of Petrol d.d., a member of the Supervisory Board of INA Petrol Osijek and a member of the Coordination Committee of INTERINA Ljubljana.
- Director of International Exploration and Production O&G Sector, Mr. András Király, in 2011 was a member of the Management Board of the following entities: INAGIP Zagreb, INA ED, Adriagas Milan, INA Guernsey, London and HPC, Damascus, Syria.
- Director of Network Development and Asset Management Sector, Mr. Davor Knez, was in 2011 the Chairman of the Supervisory Board of Petrol d.d. and a member of the Coordination Committee of INTERINA Ljubljana.
- Director of Accounting and Tax Sector, Mrs. Nives Kompare, was a member of the Supervisory Board of subsidiary TOP RAČUNOVODSTVO SERVISI d.o.o.
- Director of the Asset and Service Management Division, Mr. Ivan Novaković, was the Chief Executive Officer of subsidiary ITR d.o.o. and a member of the Supervisory Board of HOSTIN d.o.o.
- The spouse of Director of Legal Affairs, Mrs. Marina Perić Blaić, was the executive director of TDR d.o.o. (tobacco industry)

40. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel (continued)

- Director of the Division for Sustainable Development, OHS and Environmental Protection, Ms. Adrijana Petrović, is a member of the Supervisory Board of subsidiary SINACO d.o.o. and Maziva d.o.o.
- Director of Procurement Sector, Mr. György Szűcs, in 2011 was the Chairman of the Supervisory Board of INA-SOL.
- Director of Maintenance Management, Mr. Josip Trupčević was in 2011 a member of Supervisory Board of STSI
- Director of the Corporate Security and Safety, Mr. Mladen Vulinec, was a member of the Supervisory Board of subsidiary SINACO d.o.o.

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 16), presented consolidated 2011 revenue in the amount of HRK 1,421 million (2010: HRK 1,531 million), of which HRK 295 million (2010: HRK 195 million) were generated from sale of technological services to INA, d.d.

The Company is also the major customer of STSI d.o.o., which is wholly owned subsidiary, (note 17), presented consolidated 2011 revenue in the amount of HRK 520 million (2010: HRK 605 million), of which HRK 455 million (2010: HRK 542 million) were generated from sale to INA, d.d.

The Company is also the major customer of Maziva Zagreb d.o.o. Maziva Zagreb d.o.o., which is wholly owned subsidiary, (note 17), presented consolidated 2011 revenue in the amount of HRK 214 million (2010: HRK 212 million), of which HRK 58 million (2010: HRK 64 million) were generated from sale to INA, d.d.

The Company is also the major customer of Sinaco d.o.o. Sinaco d.o.o., with the Company as its sole owner (note 17), presented consolidated 2011 revenue in the amount of HRK 127 million (2010: HRK 135 million), of which HRK 119 million (2010: HRK 127 million) were generated 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 21). In 2011, approximately HRK 67 million of the associated company's total revenue in the amount of HRK 440 million account for sales revenue in respect of INA, d.d. as user of the pipeline system of JANAF d.d. (2010: HRK 45 million out of HRK 469 million total revenue).

41. COMMITMENTS

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

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

Investment in refining assets

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 improve the product quality and reduce the level of environmental pollution.

For the purposes of the implementation of the refinery modernisation project, 207 contracts were concluded with vendors as at 31 December 2011, worth HRK 3.76 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.

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

41. COMMITMENTS (continued)

Investment in contract areas of North Adriatic (continued)

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). All development activities are completed during 2010 and Izabela South platform is ready for production start since 23 May 2010, while Izabela North platform since 13 July 2010. During September 2011 Ex-Agency and Croatian Register of Shipping performed regular annual surveys of platforms and extended all Safety Certificates. Final Technical Committee has been performed by Croatian Ministry of Economy in December 2011 and Operating license obtaining is expected at the beginning of 2012. 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 145 active contracts amounting in total to HRK 349.5 million and the remaining commitments under these contracts on the same date amounted to HRK 153.4 million.

Edina has, for the need of the development of the Izabela gas field from 1 January 2008 until 31 December 2011, concluded 68 (16 are still active) contracts amounting in total to EUR 140.3 million from which EUR 138.3 million was carried out on 31 December 2011.

Investments in Syria

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

Current situation

On Hayan Block INA has Oil and Gas Station (phasa 2) and Gas Treatment Plant Hayan (phasa 3) together with belonging oil, gas & condensate wells, transportation system and oil tanks.

In period from January until December 2011 the average daily production is:

- 13,463 boe/day of gas
- 6,791 boe/day of crude oil and condensate and
- 220 t of LPG.

On Aphamia Exploration Block where INA is Operator (100%), actual status is the extension of second exploration phase. INA has work obligation to drill 1 (one) exploration well which should start at least in October 2012.

Until 31 December 2011, Hayan Petroleum Company had 16 valid contracts. The total amounts of these contracts were HRK 2.8 billion. At 31 December 2011 remaining obligations due to these contracts were HRK 152.7 million.

41. COMMITMENTS (continued)

"Take or pay" contract

Starting from 1 January 2011 Prirodni plin d.o.o. concluded a new import Contract with ENI Gas&Power for procurement of app 2.25 bcm natural gas until 31 December 2013. As of 1 January 2012 future obligations are app HRK 4.7 billion until the contract expiry (31 December 2013).

Gas Transportation Contract

The Company concluded transportation agreements to ensure deliveries of the gas to the destination point (FCA Croatian border). Validities of transportation contracts are, 2015 for Slovenia and 2017 for Austria. These contracts are also transferred onto ENI Gas&Power and Gas Connect Austria but the transportation cost is reimbursed by Prirodni plin. Additionally, within existing contract for procurement of natural gas from ENI Gas&Power, there is an obligation of payment for transport for supply route through Hungary in period for 2,5 years (entry at Croatian border at Donji Miholjac from 1 July 2011 until 31 December 2013), which is monthly app HRK 9 million.

The future commitments contracted approximate to HRK 1.2 billion until 2017.

Gas sales Contracts

Group had following natural gas sale contracts from 1 October 2011 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 (Long-term contract is transferred to Prirodni plin d.o.o.)
   a) Contract period: from 1 January 1996 until 1 January 2016 (Annex 12 defines conditions for delivery in 2012 and 2013)
   b) Sales revenue from 1 October until 31 December 2011: HRK 640 million
   c) Contracted supply quantity: 3,008,320,000 m^3 from 1 January 2012 until 1 January 2016
   d) Estimated revenue for the remaining period: HRK 8.54 billion
2. Contract between Prirodni plin d.o.o. and Petrokemija d.d. Kutina
   a) Contract period: from 1 January 2012 until 31 December 2013
   b) Sales revenue from 1 October until 31 December 2011: HRK 430 million
   c) Contracted supply quantity: 1,306,000,000 m^3 from 1 January 2012 until 31 December 2013
   d) Estimated revenue for the remaining period: HRK 3,5 billion
3. Contracts between Prirodni plin d.o.o. and tariff-based customers (distributors - procurement)
   a) Contract period: from 1 October 2011 until 30 September 2012
   b) Sales revenue 1 October until 31 December 2011: HRK 480 million:
   c) Contracted supply quantity: 471,482,720 m^3 from 1 January 2012 until 30 September 2012
   d) Estimated revenue for the remaining period: HRK 802 million

41. COMMITMENTS (continued)

Gas sales Contracts (continued)

4. Contracts Prirodni plin d.o.o. – other tariff-based customers – distributors - sales
   a) Contract period: from 1 October 2011 until 30 September 2012
   b) Sales revenue from 1 October until 31 December 2011: HRK 454 million
   c) Contracted supply quantity: 307,707,478 m^3 from 1 January 2012 until 30 September 2012
   d) Estimated revenue for the remaining period: HRK 880 million

5. Contracts Prirodni plin d.o.o. – other tariff-based customers
   a) Contract period: from 1 October 2011 until 30 September 2012
   b) Sales revenue from 1 October until 31 December 2011: HRK 261 million
   c) Contracted supply quantity: 263,823,464 m^3 from 1 January 2012 until 30 September 2012
   d) Estimated revenue for the remaining period: HRK 721 million

6. Contracts INA, d.d. – DIOKI (ethane)
   a) Contracted supply quantity: 9.950 tons in 2012
   b) Sales revenue from 1 January until 31 December 2011: HRK 47.97 million
   c) Contract period: from 1 April 2008 until 31 March 2012
   d) Estimated revenue from 1 January 2011 – 31 March 2012: HRK 18.30 million

Water selling contracts

1. High quality process water
   a) Contracted supply quantity: 2,883,500 m^3 in 2011
   b) Sales revenue from 1 January until 31 December 2011: HRK 3.71 million
   c) Contract period: 2012
   d) Estimated revenue for 2012: HRK 4.55 million

2. Geothermal water
   a) Contracted supply quantity: 410,000 m^3 in 2011
   b) Sales revenue from 1 January until 31 December 2011: HRK 2.11 million
   c) Contract period: 2012
   d) Estimated revenue for 2012: HRK 2.20 million

42. CONTINGENT LIABILITIES

Environmental matters

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

Harmonisation of INA's operations with the IPPC Directive

The transposition of the IPPC Directive in Croatia has been accomplished by the Decree on Determining Integrated Environmental Protection Conditions (Official Gazette No. 114/08). To align its operations with the Decree requirements INA has prepared detailed as-is analyses for the sites Ethane, Central Gas Station Molve and the Sisak and Rijeka Refineries at the plant level to be able to undertake comprehensive preparations required for achieving compliance with the requirements. The reconciliation steps are included in significant investments. A series of projects at various implementation stages are under way to meet the requirements ensuring alignment of the existing technology with the Best Available Techniques (NRT or BAT). The harmonisation of the existing technology with NRT represents meeting the IPPC Directive requirements i.e. the creation of prerequisites for obtaining an environmental licence. In simple words, the IPPC Directive requires meeting the regulatory requirements applicable to soil, water, noise, waste management and increasing energy efficiency. Apart from large investments, the time and the pace of progress required to achieve compliance with the IPPC Directive are also key elements, which is why INA requested a transition period until full compliance until 2017, which has been approved as part of the Chapter on Environment within the EU Accession Agreement for Croatia.

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

According to the Regulation on Greenhouse Gas Emission Allowances and Emissions Trading (OG 141/08, 142/08, 113/10) and the Air Protection Act (OG 130/11), INA installations Rijeka Refinery, Sisak Refinery, Etan Facility and Central Gas Station Molve will be included in the European emission trading system (EU ETS) from 1 January 2013. Pursuant to the Air Protection Act (OG 130/11), installation operator is eligible to perform activities that emit greenhouse gases if the Ministry has issued a greenhouse gas permit. In June 2011, a request had been to the Ministry to update the greenhouse gas emission permits because of the newly constructed installations in Rijeka and Sisak refineries (hydrocracking, hydrogen unit and desulphurization plant in Rijeka and isomerization in Sisak), while the permits were received three months later, in September. For those installations, updated GHG Monitoring Plans were submitted as well. In accordance with European and national legislation, each installation covered by the emission trading system shall develop Annual CO_2 Emission Reports verified by an authorized verifier and submitted to the competent local authority. Annual CO_2 Emission Reports for Rijeka Refinery, Sisak Refinery, Central Gas Station Molve and Etan Facility, for the period 2005 until 2009 and for the year 2010, were submitted to the Croatian Environment Agency in December 2011. Reports on verification of Annual CO_2 Emissions Report for the same periods prepared by an authorized verifier, Ecoina, d.o.o., were also delivered.

42. CONTINGENT LIABILITIES (continued)

Environmental matters (continued)

Alignment of INA's operations with the air protection legislation

In line with the legal requirements, INA, d.d. has budgeted funds for the purpose of compliance with the Croatian air protection regulations over the next several years. These include primarily measures to bring emissions of air pollutants from stationary sources and technical environmental protection standards applicable to emissions of volatile organic compounds (VOC) during petrol storage and distribution in line with the requirements. The planned alignment with the VOC technical standards should be accomplished by the end of 2012, with numerous projects in this area being already completed or launched during 2011. As of the end of 2011, 301 petrol stations were reconciled with the provisions of the Decree on Environmental Protection Standards in the Area of Volatile Organic Compounds from Petrol Storage and Distribution (Official Gazette No. 135/06), accounting for 76 percent of the total number of petrol stations, with the remaining part to be completed during 2012. INA has substantially met the requirements to align its emissions from large combustion plants, a requirement set out in the Decree on Pollutant Emissions from Stationary Sources, by bringing natural gas as an energy source to the combustion plants during 2011.

Harmonisation of INA's operations with the REACH

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

Environmental provisions

Environmental obligations are the obligations of a company to recover pollutions caused by the company's operations. They can be divided into two categories: environmental provisions and contingencies. At 31 December 2011, INA, d.d. made environmental provisions in the amount of HRK 279 million, whereas the provisions at the Group level amounted to HRK 292 million. Contingencies at the INA Group and INA, d.d. levels were estimated at HRK 622 million and HRK 594 million, respectively. The estimates were not recognised because the timing of the event is uncertain and there is no evidence of pollution. A portion of the contingencies may be recognised as provisions by moving the time window or deciding to abandon the present business location of INA, d.d., or discontinuing further activities at a particular site.

42. CONTINGENT LIABILITIES (continued)

Litigations

Arbitration procedure initiated by EDISON INTERNATIONAL S.p.A

On 26 September 2011 INA, d.d. received the decision on the appointment of arbitration panel president in the arbitration procedure initiated by EDISON INTERNATIONAL S.p.A against INA, d.d., which represents the finalization of the procedure of arbitration panel appointment and formation, concerning the Production Sharing Agreement (PSA) in the Contract Area of the Republic of Croatia Offshore Adriatic Sea Izabela and Iris/Iva blocks (hereinafter: the Agreement). The seat of the arbitration procedure shall be in Vienna and the procedure shall be conducted in line with UNCITRAL rules.

EDISON INTERNATIONAL S.p.A bases its arbitration notice on the allegations that INA, d.d. did not fully comply with its contracting obligations as per the Agreement and it in the same notice claims damage compensation from INA, d.d. in the amount of cca EUR 140 million, as well as compensation for lost profit.

INA, d.d. delivered a response to the arbitration notice in which it fully contests the allegations of EDISON INTERNATIONAL S.p.A., and it also submitted a counterclaim against the company EDISON INTERNATIONAL S.p.A.

INA, d.d. is expecting that the recently-formed arbitration panel will in further procedure instruct and determine a deadline within which EDISON INTERNATIONAL S.p.A shall be obliged to file a lawsuit specifying and explaining the claims from the submitted arbitration notice.

EDISON INTERNATIONAL S.p.A. and INA, d.d. in 2002 entered into a Production Sharing Agreement (PSA) in the Contract Area of the Republic of Croatia Offshore Adriatic Sea Izabela and Iris/Iva blocks.

GWDF Partnership München and GWDF Limited Cyprus

The plaintiff GWDF Partnership, Gesellschaft Bürgerlichen Rechts, and GWDF Limited Cyprus claims compensation against INA, d.d. Zagreb and INA-Naftaplin in amount of 58 million HRK for damage incurred owing to the loss of rights resulting from the Joint Venture Agreement made with the company Saknavtobi, and which allegedly occurred by virtue of the defendant's behaviour, i.e due to its withdrawal from negotiations by which it should have become a party of the joint business venture. INA, d.d. filed in September 2007 the answer to the claim, in which both, the foundation and the amount of the claim statement are being contested in their entirety, stating amongst the other that the defendants abandoned the negotiations because of a business decision, and that exactly the plaintiffs were those who had been negotiating contrary to the principle of consciousness and fairness. Furthermore, INA, d.d. filed the objection to the lack of litigation capacity as regards GWDF Partnership, the objection to the misdirected passive personality in relation to INA, d.d., stating also that the court is not competent as regards GWDF Limited Cyprus.

The court of first instance must first of all decide on the law applicable to this legal dispute as well as whether it is competent or not in this case. Up to now several hearings were held during the years 2008, 2009 and in 2010, and it was discussed upon the procedural issues (capacity of parties, jurisdiction and competent law).

The last hearing held on 8 February 2011, after the parties repeated their standpoints, the court decided to request from the German Republic and the Republic of Cyprus by diplomatic ways the text of the law relevant for making decisions in this case.

42. CONTINGENT LIABILITIES (continued)

Litigations (continued)

Ljubljanska banka

The claims from plaintiff LJUBLJANSKA BANKA, Ljubljana, Slovenia against INA, d.d. in amount of HRK 61 million have arisen from two contracts of 1982 on the use of short-term foreign currency loan abroad which were concluded between INA- Rafinerija nafte Rijeka and Ljubljanska banka - Osnovna banka Zagreb.

The claims of Ljubljanska banka in the concerned dispute refer to default interest debt arising from the legally binding decision of the District Economic Court (the predecessor of Commercial Court) in Zagreb which was rendered in the earlier court procedure conducted on the same, above-stated, legal grounds.

The procedure was initiated by motion for execution which was filed by Ljubljanska banka on 13 September 1995. The Commercial Court in Zagreb rendered the Decision on execution, however INA, d.d. filed an objection against the decision regarding the statute of limitations, the merits and the amount of the claims, so the procedure was continued as a civil procedure initiated by a lawsuit.

INA objected regarding the prematurity of lawsuit, since a procedure is already being conducted on the same legal grounds for the unlawfulness of execution which has in the meantime been ended by a legally effective decision, with the plaintiff requesting for a retrial. INA is also objecting in relation to the plaintiff's capacity to sue.

The Commercial Court rendered the Decision of 24 November 2008 whereby it dismissed the lawsuit. The plaintiff lodged an appeal against the afore-stated decision, which was adopted by the High Commercial Court and returned to the court of first instance for a retrial.

During the retrial, the plaintiff by its application of 3 May 2010, along with the above-stated objections, also filed a claim preclusion (res iudicata) objection with reference to the above-stated procedure finalized by a legally effective decision.

The court of first instance found that the claim preclusion is applicable and, by its Decision of 29 September 2010, again dismissed the plaintiff's lawsuit. Pursuant to the plaintiff's appeal, the High Commercial Court in Zagreb rendered Decision whereby the above-stated Decision of the Commercial Court in Zagreb of 29 September 2010 was asserted. The plaintiff has applied for a review.

The outcome of the procedure is still uncertain due to the complexity of the legal matter (claims for altered default interest), however it is now more probable that the Supreme Court will take the same standpoint as the High Commercial Court.

(all amounts in HRK millions)

43. 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 28 and 31 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 35 to 38.

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.

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

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Debt:	**9,452**	**10,255**	**8,523**	**9,157**	**9,219**
Long term loans	5,630	7,301	5,764	5,556	7,148
Short term loans	1,918	1,659	2,104	1,784	838
Current portion of long-term borrowings	1,904	1,295	655	1,817	1,233
Cash and cash equivalents	(337)	(317)	(367)	(229)	(260)
Net debt	**9,115**	**9,938**	**8,156**	**8,928**	**8,959**
Equity	14,365	12,793	11,792	14,282	12,535
Equity and net debt	23,480	22,731	19,948	23,210	21,494
Gearing ratio	**39%**	**44%**	**41%**	**38%**	**42%**

Debt is defined as long – term and short-term borrowings (excluding derivatives and financial guarantee contracts), as described in notes 28 and 31.

Equity includes all capital and reserves and non controlling interests of the Group that are managed as capital.

(all amounts in HRK millions)

43. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Categories of financial instruments

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Financial assets					
Cash and cash equivalents	337	317	367	229	260
Financial assets designated as at fair value through profit and loss	-	6	6	5	6
Derivative financial instruments	7	5	56	-	-
Loans and receivables	4,364	4,275	4,285	4,979	5,355
Available-for-sale financial assets	325	417	397	325	417
Net receivables from commodity derivatives	48	-	-	48	-
Financial liabilities					
Amortised cost	11,484	14,063	12,809	10,931	13,908
Derivative financial instruments	22	6	10	3	1
Net payables from commodity derivatives	32	-	-	32	-
Financial guarantee contracts	-	-	-	-	1,638

Corporate guarantees include parent company guarantees for core business purposes. Since the Parent Company has been importing crude oil and refinery products directly since December 2010, all the guarantees for the commitments of Interina London to purchase crude oil and refinery products were cancelled during 2011. At 31 December 2011, the outstanding guarantees issued by INA, d.d. amounted to HRK 596 million.

Financial risk management objectives

INA Group, continuously determines and monitors finance risks (market risk, currency risk, interest rate risk). The policy of managing the market risks on the Group level provides basis within which INA, d.d. and all of Group subsidiaries manage its market, currency and interest rate risk on the acceptable level, making it possible for INA, d.d. to achieve all its strategic goals with protection of future finance stability and flexibility of the Group. INA, d.d. 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 report for the exposure to finance risks.

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

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

43. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk management objectives (continued)

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 Group 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. Derivative financial instruments used by INA, d.d. as a hedge against financial risks have been regulated by signing an ISDA (International Swaps and Derivatives Association) Agreement with counterparties. 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 formula in three-year contract for supply signed with the Italian ENI-operation.

In addition to exploration, production and refinery operations, marketing and sale of refinery products and natural gas are also among the main activities of INA, d.d. 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 repriced 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 the Croatian kuna to against the US dollars.

INA, d.d. may use commodity hedging transactions only for the purpose of achieving the above-mentioned corporate objectives and at the level of business segments. Available derivatives comprise swap and option instruments. In 2011 INA, d.d. entered into short-term commodity swap transactions to hedge its exposure from fluctuations in inventory quantities and changes in re-pricing periods. The transactions were initiated to reduce exposures to potential fluctuations in prices over the period of decreasing inventories at the refineries, as well as to match the repricing period while purchasing crude oil and refinery products with the oil processing and refinery product retail repricing periods. Because of the highly volatile prices of crude oil and refinery products resulting from uncertainties surrounding the global economy, INA, d.d. has purchased option instruments to hedge its exposure to potential losses arising from impairment of inventories of finished products and work in progress in case of unfavourable movements in their prices. These transactions were economic hedges and do not qualify as hedge accounting under IFRS.

At 31 December 2011 net receivables from commodity derivatives amounted to HRK 48 million (see Note 24), while net liabilities from such transactions amounted to HRK 32 million (see Note 29).

(all amounts in HRK millions)

43. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

The INA Group has an outstanding USD and EUR-denominated net debt and a net short exposure arising from HRK-denominated operating cash flows. Generally, the Group manages its currency risk using natural hedging that utilises a combination of currencies in the debt portfolio to reflect the currency position of the Group's free cash flow. Furthermore, in order to avoid excessive exposures to fluctuations in the foreign exchange rate with respect to a single currency (i.e. USD), INA, d.d. applies a portfolio-based approach while selecting the currency mix for its debt portfolio. In addition, the applicable Refinery Product Pricing Regulation allows passing a part of the effects arising from unfavourable fluctuations in foreign exchange rates onto the domestic market.

INA, d.d. may use a cross-currency swap to adjust its currency mix in the debt portfolio. At 31 December 2010 and 2011 there were no outstanding cross-currency transactions.

Because of the increased volatility in the exchange rate of the US dollar (USD) against the Croatian kuna (HRK), prevailing macroeconomic trends in the EU and globally, and in line with the above-mentioned currency risk management principles, during the last quarter of 2011 INA, d.d. reduced further its USD denominated debt exposure and increased its EUR-exposure.

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 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Currency USD	4,359	7,094	8,672	582	802
Currency EUR	5,384	4,727	913	444	450
	9,743	**11,821**	**9,585**	**1,026**	**1,252**

INA, d.d.

	Liabilities			Assets	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Currency USD	4,452	7,445	8,922	530	824
Currency EUR	5,286	4,350	782	934	502
	9,738	**11,795**	**9,704**	**1,464**	**1,326**

(all amounts in HRK millions)

43. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Foreign currency sensitivity analysis

The Group is mainly exposed to the currencies of the countries whose operations and liabilities functional currency is US dollar, which is the currency in oil and gas purchases on the international market are denominated in general. In addition, the Group is exposed to the fluctuations of the exchange rate of the Croatian kuna against the EUR, as a part of its debt portfolio is denominated in EUR.

The following table details the Company's sensitivity to a 10% strengthening in Croatian kuna in 2011 (in 2010: 10 %) against the relevant foreign currencies The sensitivity rates used represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a change in foreign currency rates expressed as percentage. The sensitivity analysis includes monetary assets and liabilities in foreign currencies. A negative number below indicates a decrease in profit where Croatian kuna changes against the relevant currency by the percentage specified above. For the same change of Croatian kuna versus the relevant currency in the opposite direction, there would be an equal and opposite impact on the profit.

INA Group

	Currency USD Impact			Currency EUR Impact	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Loss	(378)	(637)	(805)	(494)	(435)
	(378)	(637)	(805)	(494)	(435)

INA, d.d.

	Currency USD Impact			Currency EUR Impact	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Loss	(392)	(670)	(827)	(435)	(392)
	(392)	(670)	(827)	(435)	(392)

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) and EUR.

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.

(all amounts in HRK millions)

43. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest rate risk management (continued)

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, d.d. in accordance to the Policy for Commodity price risk management, can use interest swap transactions in order to manage the relative level of exposure to cash flow interest rate risk due to the possible change of the floating interest rates. As of 31 December 2011 there were no outstanding interest rate swap transactions.

Interest rate risk analysis

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

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

	INA Group			INA, d.d.	
	31 December 2011	**31 December 2010**	**1 January 2010**	**31 December 2011**	**31 December 2010**
Short-term interest expense change	38	33	41	36	17
Long-term interest expense change	143	165	128	140	161
Total change:	**181**	**198**	**169**	**176**	**178**

If interest rates had been 200 basis points higher/lower, the profit of the INA Group in 2011 would be decreased / increased by HRK 181 million, while the decrease/increase amounted to HRK 45 million with a change of 50 basis points, (2010: decrease / increase by HRK 198 million had the interest rates been 200 basis points higher/lower, and by HRK 50 million had the interest rates been 50 basis points higher / lower), and the profit of the INA, d.d. in 2011 would be decreased/increased by HRK 176 million, while the decrease/increase amounted to HRK 44 million with a change of 50 basis points (2010: decrease / increase by HRK 178 million had the interest rates been 200 basis points higher/lower, and by HRK 44 million had the interest rates been 50 basis points higher/lower).

43. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 2011 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 26 million (2010: increase by HRK 36 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.

Due to a significant impairment of financial assets available-for-sale during 2011, the cumulative loss recognised directly in equity was transferred to the income statement at 31 December 2011, in accordance with IAS 39.

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

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.

The exposure of the Group and the credit ratings of its counterparties are continuously monitored to mitigate the risk of default.

The INA Group transacts with a large number of counterparties from various industries and of various size. A portion of goods sold on credit includes government institutions and counterparties owned by the state and local self-governments that do not furnish any security instruments. As regards other customers, the collaterals they provide comprise mainly promissory notes, being the most frequently used security instrument on the Croatian market, bank guarantees and mortgages, whereas letters of credit and, to a lesser extent, corporate guarantees and exceptionally bills of exchange are sought from foreign customers.

43. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk management (continued)

There is no significant credit risk exposure of the Group that would not be covered with collateral, other than those to the above-mentioned institutions and entities controlled by the state, local self-government, and those arising from certain foreign concession agreements.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, 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 2011 the balance of contracted short term bank loans was USD 452 million (excluding overdrafts and credit lines for financing of oil and derivative purchases) for INA.

The main sources of finance for Ina Group are:

- Syndicated 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)
- Framework revolving credit line at the Group level and trade finance credit lines,

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 maximum 2 more years, with the prior approval of the creditor.

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.

During 2011 short-term Revolving Credit Line Framework Agreements were signed at INA Group level for general funding purposes of the Company i.e. approving loans, issuing guarantees and opening letters of credit, in total amount of USD 264 million (excluding overdrafts and trade finance lines).

During 2011 USD 200 million a multi-currency revolving credit facility was signed with parent company MOL for general funding purposes.

(all amounts in HRK millions)

43. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk management (continued)

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 2011 the available credit lines for purchase of crude oil and derivatives were USD 865 million and were ensured by the first-class world banks.

To diversify the sources of financing and to ensure sufficient liquidity level as well as financial stability of the Company, INA in involved in negotiations with other potential creditors on a constant basis.

Liquidity and interest risk tables

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

INA Group

	Less than 1month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2011					
Non-interest bearing	1,577	2,493	223	2,715	7,008
Interest bearing	637	3,185	5,360	270	9,452
	2,214	**5,678**	**5,583**	**2,985**	**16,460**
31 December 2010					
Non-interest bearing	3,522	1,787	300	2,574	8,183
Interest bearing	818	2,136	6,774	527	10,255
	4,340	**3,923**	**7,074**	**3,101**	**18,438**
1 January 2010					
Non-interest bearing	4,349	2,541	484	2,355	9,729
Interest bearing	1,378	1,385	5,779	4	8,546
	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 2011					
Non-interest bearing	1,185	2,336	161	2,674	6,356
Interest bearing	636	2,966	5,288	267	9,157
	1,821	**5,302**	**5,449**	**2,941**	**15,513**
31 December 2010					
Non-interest bearing	3,431	2,268	198	2,565	8,462
Interest bearing	205	1,926	6,567	521	9,219
Financial guarantee contracts	10	1,307	309	12	1,638
	3,646	**5,501**	**7,074**	**3,098**	**19,319**

43. 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 615 million in 2011 (2010: HRK 2,677 million) and taxes and contributions payable in the amount of HRK 478 million (2010: HRK 650 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 2,319 million in 2011 (2010: HRK 2,117 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.

Fair value of financial instruments

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

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

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

Fair value measurements recognised in the statement of financial position

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

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

(all amounts in HRK millions)

43. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair value of financial instruments (continued)

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

INA GROUP

				31 December 2011
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets available-for-sale	265	-	60	325
Assets classified as held for sale	-	-	-	-
Derivative financial assets	-	7	-	7
Financial assets held for trading	-	-	-	-
Net receivables from commodity derivatives	-	48	-	48
Financial liabilities at fair value				
Derivative financial liabilities	-	22	-	22
Net payables from commodity derivatives	-	32	-	32

				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

				1 January 2010
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets available-for-sale	336	-	61	397
Financial assets at fair value through profit or loss	-	-	-	-
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)

43. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair value of financial instruments (continued)

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

INA, d.d.

	31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Financial assets available-for-sale	265	-	60	325
Assets classified as held for sale	-	-	-	-
Derivative financial assets	-	-	-	-
Net receivables from commodity price transactions	-	48	-	48
Financial liabilities at fair value				
Derivative financial liabilities	-	3	-	3
Net payables from commodity price transactions	-	32	-	32

	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

Reconciliation of Level 3 fair value measurements of financial assets:

INA Group and INA, d.d.

31 December 2011

	Financial assets available for sale	Assets classified as held for sale	Total
Opening balance	64	12	76
Reclassification of interest in Croplin from investment in associate and joint ventures to assets classified as held for sale (see note 17)	-	(12)	(12)
Impairment	(12)	-	(12)
Closing balance	**52**	**-**	**52**

(all amounts in HRK millions)

43. 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 statement of financial position at fair value, with the fair value changes being reported through profit or loss.

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

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

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Fair value at 1 January	(2)	47	184	-	27
Financial income/loss relating to the net change in fair value in the year	(13)	(49)	(137)	-	(27)
Fair value at 31 December	**(15)**	**(2)**	**47**	**-**	**-**

(all amounts in HRK millions)

43. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair value of financial instruments (continued)

Derivative financial instruments (continued)

	INA Group			INA, d.d.	
	31 December 2011	31 December 2010	1 January 2010	31 December 2011	31 December 2010
Analysed as:					
Current portion	(15)	(2)	47	-	(1)
Non-current portion	-	-	-	-	-
	(15)	**(2)**	**47**	**-**	**(1)**

44. DISPOSAL OF SUBSIDARY

On 30 September 2010 INA 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**

45. SUBSEQUENT EVENTS

Findings Report received from the Ministry of Finance

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

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

- Corporate Income Tax Liability for the year 2008 in the amount of around HRK 63 million, plus late-payment interest of approximately HRK 26 million;
- Corporate Income Tax Liability for the year 2008 in the amount of around HRK 12 million, plus late-payment interest of approximately HRK 4 million;
- Excise duty for the year 2008 in the amount of around HRK 1 million, plus late-payment interest of approximately HRK 500 thousand;
- VAT liability for the year 2009 in the amount of around HRK 19 million, plus late-payment interest of approximately HRK 5 million.

INA d.d. challenges all the findings identified in the Report prepared by the Financial Police of the Ministry of Finance as well as all the additionally imposed liabilities and intends to file a complaint against the Report. Namely, INA d.d. considers that the Ministry of Finance, Financial Police, has determined the additional liabilities on the basis of wrongly determined factual findings and misapplication of substantive law and is confident of proving this in the pending administrative proceedings.

The Croatian government decision concerning restrictive measures against Syria

On 23 February 2012 Croatian government has passed Decision on the implementation of international restrictive measures established by the decision of the Council of the European Union 2011/782/ZVSP in relation to the Syrian Arab Republic.

The Decision prohibits purchase, import and transport of oil and other petroleum products from Syria, sell and transfer of oil and gas technology as well as providing financial or insurance services for such transactions.

INA will fully adhere to the Decision and will take all necessary steps to align its business activities in Syria after the analysis of adopted regulations and restrictions.

45. SUBSEQUENT EVENTS

Notice on "Force majeure" in Syria

In compliance with the Croatian Government Decision dated 23 February 2012 on the implementation of the EU Council Decision concerning restrictive measures against the Syrian Arab Republic issued on 1 December 2011, INA delivered 26 February 2012 the force majeure notice to the General Petroleum Company (GPC) of Syria related to the Production Sharing Agreement for the Hayan Block signed in 1998 and Production Sharing Agreement for the Aphamia Block signed in 2004. Based on the Croatian Government decision, as well as the overall security situation in Syria, INA is not able to continue performing its regular business operations and activities in Syria due to reasons which are beyond the control of the company. Therefore, the terms and conditions foreseen in the above stated Agreements have been met for announcing „force majeure", i.e. for temporarily suspending all business activities in Syria until further notice, i.e. until the „force majeure" circumstances cease to exist.

Force majeure is a legal term stipulated in the agreement that allows for suspension or temporary adjournment of obligations and activities coming due to the events which are beyond control of the agreement parties such as flood, earthquake, riots, unrests, state of war, etc. Announcing the "force majeure" is a regular mechanism and it doesn't mean termination of the agreement and the simultaneous exit from the project. It is a protection mechanism for the agreement parties in the event of unforeseeable circumstance with an aim of continuation of the Agreement execution after ceasing of these circumstances, without damages for the announcing party.

INA does not expect to receive any revenues neither to realize its production share from its Syrian project for the foreseeable future, i.e. until the termination of the "force majeure". Taking into consideration the difficulties with collection of receivables from the Syrian side in the last several months, the company used the conservative calculations regarding revenues from Syria in its impairment test. INA, d.d. regularly performs impairment test so revision of impairment test is not needed.

The aim of this decision is to protect INA's contractual rights and obligations and to fully comply with decision of the Croatian Government.

46. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 22 March 2012.

Signed on behalf of the Company on 22 March 2012 by:

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

INDUSTRIJA NAFTE, d.d.

REPORT ON COMPANY AND INA-GROUP STATUS FOR JANUARY-DECEMBER 2011

Zagreb, March 2012

INDUSTRIJA NAFTE, d.d.

CONTENTS

INDUSTRIJA NAFTE, d.d.

A Summary

INA has continued its positive trend in 2011 and recorded an EBITDA growth (excluding special items) of 48% and achieved 89% higher net profit compared to 2010. Net debt was reduced by 8% compared to 2010, leading to an improved but still high gearing ratio of 38.8% at 31 December 2011.

Stronger performance was primarily the result of the completion of a very heavy investment period between 2008 and 2011, in which a number of very large investments have been commissioned and started to contribute strongly to results. Our results also reflect the effects of continuation of efficiency improvement, strict cost control and business optimization and rationalization. These activities are becoming increasingly important, as INA cannot influence on its external operating conditions. It is especially important to mention here the political turmoil and uncertainty brought by the new events, primarily in Syria, but also in the rest of the Middle East and North Africa. Political situation, sanctions and resulting non-payment from Syria impacted our results adversely in the fourth quarter of the year, just like the reversal of price liberalization measures towards a large segment of Croatian industrial gas consumers from September 2011 (the introduction of a new price cap despite valid contractual commercial agreements between INA Group and the consumers).

Based in the Croatian Government decision, as well as the overall security situation in Syria, INA is not able to continue performing its regular business operations and activities in Syria due to reasons which are beyond the control of the company. Therefore, the terms and conditions foreseen in the Production Sharing Agreements have been met for announcing „force majeure", i.e. for temporarily suspending all business activities in Syria until further notice, i.e. until the „force majeure" circumstances cease to exist.

Taking into consideration the difficulties with collection of receivables from the Syrian side in the last several months, the company used the conservative calculations regarding revenues from Syria in 2012 business plan. The decision on "force majeure" does not endanger the implementation of other planned investment projects this year and was made with the aim of protecting INA's contractual rights and obligations. The company will put strong focus on operating efficiency of business operations, especially considering the very challenging and competitive environment, in order to preserve and strengthen its competitiveness and ensure the realization of investments and growth-oriented projects.

Production at Sisak Refinery restarted in November after the major rebuilding effort after the fire in June, but the decrease in crack spreads available on the international fuel markets, along with other factors led to strongly negative operative results in Refining and Marketing. INA is focused on the implementation of a new development concept in line with its approved strategy for the segment in order to create value for its shareholders.

Despite the revocation of licenses for exploration in the continental part of Croatia company will continue exploration activities in areas for which licenses are issued, both in Croatia and abroad. INA remains the leading entity currently in Croatia, which has the necessary equipment, experience, knowledge and projects prepared ready to drill to accelerate exploration activities in continental Croatia, pending decision of the new Government regarding licensing.

Difficult business conditions in the foreign concessions and reduced demand due to economic problems in the Eurozone are the main challenges in the coming period. Company continuously analyzes the developments will continue activities aimed at improving internal efficiency along with development activities.

Overview of the macro environment

The global economic environment remained challenging in Q4 2011 mainly because of the ongoing Eurozone crisis. Preliminary estimates of GDP growth in those Eurozone member states which have released data point to a slowing of growth in the final quarter of the year. Purchasing managers' indices (PMI) and other leading indicators of economic activity suggest that the worst of the slowdown in economic growth has passed. Nonetheless, the recovery in the developed world remains tentative and exposed to risk.

Economic weakness in the developed world, especially in the Eurozone, is constraining oil demand. Political uncertainty, driven mainly by events in Syria as well as the risk of deterioration in the situation in Iran is impacting on prices in the other direction. Despite a relatively fast recovery in Libyan production by December, its quarterly production was still 1m b/d below last year's level, while non-OPEC oil output stagnated yoy, all of which has not been compensated for by higher OPEC production. The combination of these factors resulted in relatively stable oil prices in Q4 2011.

After revealing growth in the second and third quarters of 2011, the Croatian economy likely contracted again in Q4 2011. Domestic demand remains weak with merchandise imports (ex oil) falling 12.8% yoy in this period. The reduction in capital goods' imports (excluding transport equipment) of 15.5% yoy over this period reflects weak investment activity. This partly the result of uncertainty ahead of the general election held on 4 December 2011, which saw a change of government, and even more so due to, in the lead up to the election, an understandable lack of clarity on the new government's economic policy initiatives. Unemployment continued to rise in Q4 2011, reflecting seasonal weakness as well as underlying factors. Real wage growth remained negative according to our estimates in Q4 2011 while credit growth to households in particular was very weak. Inflationary pressures also waned during Q4 2011. Consumer prices rose 2.3% for the whole 2011 and in Q4 2011 rose 2.4% yoy, partly reflecting a reduction in food prices despite an unfavourable base effect. At the same time while producer prices rose 6.3% yoy over this period and 7.1% in the whole of 2011 most of this increase reflects energy price movements – nonetheless, the discrepancy between consumer and producer prices reflects the limit weak domestic demand is having on business' ability to pass on price hikes to end consumers.

Industrial production in Q4 2011 was essentially flat in yoy terms (confirming what the trend data has suggested for a number of months). The reduction in underlying merchandise exports (ex oil and ships) of 2.5% yoy in this period points to the adverse impact of the weak external environment, especially in the Eurozone. Headline merchandise exports contracted 12.3% yoy in Q4 2011 with sharply lower ship exports the main driver of this outcome.

Towards the end of 2011 the currency came under increased pressure but did not see interventions in the currency market by the central bank until early 2012. However, the central bank raised mandatory reserve requirements by one percentage point to 14% in early October, withdrawing HRK liquidity by over HRK 3 bn to combat depreciation pressures. High debt service obligations of all sectors of the economy in Q4 2011 and uncertainty over the ongoing Eurozone crisis have underpinned HRK weakness even as the current account has shifted to a balance position during 2011.

In 2012 we continue to expect weak domestic demand especially in the first half of 2012 given the government's efforts to reduce the fiscal deficit, combined with a likely recession in the Eurozone this year.

INDUSTRIJA NAFTE, d.d.

INA Group financial results (IFRS)

HRK mln.	2010	2011	%
Net sales revenues	25,866	30,028	16
EBITDA (1)	4,080	6,522	60
EBITDA excl. special items (2)	4,583	6,776	48
Operating profit	2,158	3,039	41
Operating profit excl. special items (2)	2,955	4,078	38
Net financial expenses	(840)	(663)	(21)
Net profit/loss for the period (3)	961	1,815	89
Net profit for the period excl. special items (2)	1,593	2,634	65
Operating cash flow	1,815	3,282	81
Earnings per share			
Basic and diluted earnings per share (kunas per share)	96.1	181.5	89
Net gearing	43.72	38.82	(11)

USD mln (4)	2010	2011	%
Net sales revenues	4,703	5,620	19
EBITDA (1)	742	1,221	65
EBITDA excl. special items (2)	833	1,268	52
Operating profit	392	569	45
Operating profit excl. special items (2)	537	763	42
Net financial expenses	(153)	(124)	(19)
Net profit/loss for the period (3)	175	340	94
Net profit for the period excl. special items (2)	290	493	70
Operating cash flow	330	614	86
Earnings per share			
Basic and diluted earnings per share (USD per share)	17.5	34.0	94

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

(2) Excludes special items related to asset impairment, provision, severance payments and special items income. The 2011 EBIT was negatively influenced by HRK 1,039 million special items

3) INA Group net profit attributable to equity holder

(4) In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for Q1-Q4 2010: 5.5000 HRK/USD, Q1-Q4 2011: 5.3435

Year 2011 results

In 2011, INA Group achieved EBITDA (excluding special items) of HRK 6,776 million and operating profit (excluding special items) of HRK 4,078 million, both of them showing an increase over 2010 results. Improved results mostly reflected the favourable external environment through higher crude oil prices together with improved average daily hydrocarbon production in Exploration and Production segment. In spite of the positive contribution during the first nine months 2011, due to security situation and developments in Syria and in line with local requirements, INA reduced the crude oil and natural gas production. In addition, INA is still experiencing difficulties in collection of Syrian receivables. Refining and Marketing delivered negative result in 2011 predominantly coming from higher Brent crude oil price (increasing the energy costs), lower white products yield related to discontinuities in operation of new plants in the first half of the year, lower utilisation of refineries capacities together with increased own consumption and still depressed market demand.

Net profit reached HRK 1,815 million in 2011, which is an improvement of HRK 854 million compared to the last year. Main reasons for improved net profit were higher operating profit, together with lower financial loss compared to 2010. More favourable result was driven by the already mentioned positive drivers combined with results of the management efforts to improve efficiency and control costs. INA Group realised financial loss (due to higher interest expenses and FX losses related to HRK depreciation against USD during the year), which was HRK 177 million lower than 2010, reflecting improved indebtedness position.

- **Exploration and Production**: Operating profit, excluding special items, in 2011 showed a strong increase of HRK 1,552 million, over 2010 figure and amounted to HRK 6,129 million (USD 1,147 million). Improved operating profit resulted from 31% higher average realized hydrocarbon prices, reduced natural gas import quantities (-30%) and increased production volumes (14% higher average daily hydrocarbon production). Besides mentioned profit contributors, 6% lower unit OPEX resulting from the achievements in the Company's effort on cost reduction, also influenced the result positively. However, the positive contribution of the Syrian operations to the result was heavily impacted at the last quarter of the year due to lack of income from Syria in Q4 2011 for INA's share in hydrocarbon production in Syria.
- **Refining and Marketing**: HRK 1,637 million (USD 306 million) loss from operating activities, without special items, was recorded by the segment in 2011. This represents higher operating loss by HRK 814 million vs. 2010 as a result of lower than expected market demand in core markets combined with continuously rising production cost driven by higher than expected crude prices and lower than planed availability of refinery assets (Sisak Refinery with four months shutdown, slower start up of new units in Rijeka Refinery). The already started efforts on efficiency improvements including but not limiting to energy efficiency, own consumption reduction, loss management, crude oil selection optimization yielded positive effects through not balancing to market trends and moderating negative factors.
- **Retail segment:** In 2011, segment generated operating profit (excluding special items) in the amount of HRK 109 million (USD 20 million) or HRK 71 million more than in 2010. Despite lower sales, higher operating profit resulted from optimised fuel unit margin partially coming from introduction of premium CLASS fuel and decreased operating costs (mostly staff costs and costs of value adjustments and provisions).
- **Corporate and Other**[1]: The segment delivered an operating loss excluding special items of HRK 523 million (USD 98 million) in 2011. This represents lower operating loss by HRK 314 million compared to the last year, mainly due to lower staff costs related to decreased headcount and lower subcontractor maintenance costs reflecting the introduced efficiency measures and reduced scope of operations.
- **Net financial costs:** HRK 663 million net financial costs were recorded in 2011, compared to the net financial costs of HRK 840 million in 2010. The difference primarily reflects decreased net foreign exchange losses and slightly higher interest expenses and other financial expenses compared to 2010.
- **Capital expenditures:** INA Group CAPEX was at the level of HRK 1,530 million in 2011, coming from the natural investment cycle due to the consolidation of the financial position, compared to 2010 when capex level was above the financial capabilities of the company. Exploration and Production accounted for the majority of investments (HRK 799 million) primarily allocated in development projects in Syria and in Croatia. Within Refining and Marketing capital expenditures, investments were mostly related to the development of the refining system, while the Retail capex was directed to modernisation and revitalisation of the network.
- **Operating cash flow:** The operating cash-flow before changes in working capital amounted to HRK 6,456 million, in 2011, representing an increase of HRK 2,315 million, or 56%, compared to 2010, mainly as a result of higher EBITDA. Changes in working capital affected the operating cash flow negatively by HRK 2,712 million, primarily due to increased value of inventories by HRK 893 million (reflecting both higher prices and higher volumes) and lower liabilities by HRK 1,706 million related to re-established liquidity. Mentioned factors resulted in HRK 3,282 million net cash inflow from operating activities that INA Group generated in 2011.
- **Net debt** amounted to HRK 9,115 million, and was further reduced by 8%, which resulted in an improved **gearing ratio** that was at the level of 38.8% as at 31 December 2011 (compared to 43.7% as at 31 December 2010), reflecting a more favourable financial position of the company.

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

INDUSTRIJA NAFTE, d.d.

B Financial results

1. Management discussion

Exploration and Production*

Segment IFRS results (HRK mln)	2010	2011	%
Net sales revenues	10,882	13,329	22
EBITDA	5,413	8,053	49
EBITDA excl. special items**	5,514	8,122	47
Operating profit	4,572	6,141	34
Operating profit excl. special items**	4,577	6,129	34
CAPEX	1,473	799	(46)

* Exploration and Production refers to the Upstream of INA, d.d. and following subsidiaries: Crosco Group, INA Naftaplin IE&PL, Guernsey, Adriagas S.r.l. Milano, Prirodni plin d.o.o.
** The 2011 performance was positively influenced by HRK 12 million special items, of which HRK 81 million provisions had positive effects and HRK 69 million incentives had negative effects.

Hydrocarbon production*	2010	2011	%
Crude oil production (boe/d)*	16,336	15,285	(6)
Croatia	9,672	9,106	(6)
Syria	3,144	2,837	(10)
Egypt	1,943	1,762	(9)
Angola	1,577	1,579	0
Natural gas production (boe/d)	41,973	49,170	17
Croatia - offshore	22,700	21,784	(4)
Croatia - onshore	14,893	13,923	(7)
Syria	4,381	13,463	207
Condensate (boe/d)	7,170	9,912	38
Croatia	6,814	5,958	(13)
Syria	356	3,954	1,012
Total hydrocarbon production (boe/d)	65,480	74,366	14

Average realised hydrocarbon price**	2,010	2,011	%
Crude oil and condensate price (USD/bbl)	70	99	42
Average realised gas price (USD/boe)	55	71	27
Total hydrocarbon price (USD/boe)*	59	78	31

Natural gas trading - mln cm	2,010	2,011	%
Natural gas imports	1,214	876	(28)
Total natural gas sales - domestic market	3,026	3,033	0

Natural gas price differential to import prices (HRK/000 cm)	2,010	2,011	%
Eligible customers' price	(356)	(451)	27
Tariff customers' price	(397)	(993)	150
Total price	(370)	(581)	57

*Excluding separated condensate
** Calculated based on total external sales revenue including natural gas selling price as well

Year 2011 results

In 2011, operating profit, excluding special items, was HRK 6,129 million, representing a strong increase of HRK 1,552 million compared to the last year.

- The positive effects of (1) 14% higher hydrocarbon production, mainly due to strong Syrian contribution in first nine months 2011, (2) 31% better average realized hydrocarbon price, together with (3) 6% lower unit production OPEX influenced mostly the result.
- The result was negatively influenced by lack of Syrian revenues since October 2011, higher depreciation due to the activation of assets in Syira, higher royalty in Croatia and impairment of some receivables in Egypt.

Reported 2011 operating profit amounted to HRK 6,141 million and was positively influenced by HRK 12 million special items.

Average daily hydrocarbon production in 2011 was at 74,366 boe, reflecting an increase of 14% compared to the last year. Increasing contribution of recent development project in Syria, more than offset the decrease of the maturing domestic onshore oil and gas fields production. However, this Syrian increase was moderated by the two production cuts towards the end of the year

(September approximately 1.3 Mboed and December 1.5 bbl/d). Adriatic off-shore production decreased by 4% compared to the last year due to workover (capital maintenance) on Eni's part of transportation system at Aiza Laura contract area.

Proved and probable reserves for 2011 amounted to 278.4 MMboe representing a 8.6% decerase from 304.6 MMboe in 2010.

Croatian on-shore natural gas production decreased by 7%, due to the natural depletion of maturing fields, while yearly natural gas production in Syria significantly increased due to start up of Gas Treatment Plant in Q1 2011.

Croatian crude production declined by 6% in 2011 compared to the last year, due to natural depletion of the fields. International crude production was lower by 7%, compared to 2010, mostly because of lower production in Syria. Production cut in Syria effected crude oil and condensate production. Natural decline, postponed work over activities and development drilling resulted in lower production in Egypt.

Upstream sales revenues improved by 22% in 2011 compared to the last year. An increase of the revenues was mostly affected by (1) higher sales volumes and (2) higher average hydrocarbon prices, which were partially mitigated with the unfavourable effect of stronger kuna. Natural gas sales on the domestic market remained almost at the same level as in the 2010. However, the market demand for natural gas was met from own domestic natural gas production and from storage, while the imports decreased due to the higher level of natural gas in storage at the beginning of the period. The company continues to encounter significant obstacles in the collection of receivables from the Syrian partner for its share of hydrocarbon production; there has been no improvement in this situation since October 2011, except for one minor cash payment received.

In 2011 Upstream expenditures increased by 14% to the level of HRK 7 billion, compared to the previous year. Main drivers of the increased expenditures are (1) increased depreciation for over HRK 730 million due to the activation of assets in Syira in early April, (2) increased royalty and impairment. Royalty in Croatia amounted to HRK 344 mill and increased by 70% as a result of increased hydrocarbon prices and increased royalty rate to 5% from 3.6% as of April 2011. In 2011 unit production cost decreased by 6% to 6.2 USD/boe, compared to 2010, due to efficiency improvement measures and higher production quantities.

Exploration and Production capital expenditures

Exploration and Production segment's CAPEX in 2011 amounted to HRK 799 million. In Syria (exploration CAPEX HRK 16.4 million, development CAPEX HRK 279.1 million) on Hayan Block new gas well Jihar-11 was drilled with excellent results obtained during well testing with 625 000 m3/day of gas and 125 m3/day of condensate. Drilling of new oil well Mazrur-3 on Mazrur Field is finished, but well is temporary abandoned. Other investments on Hayan Block were related to production facilities regarding connection of new well to GPC Jihar and electrical interconnections between CGS and GPC Jihar. Also civil engineering activities regarding tie-in roads to facilities were done.

In Egypt (exploration CAPEX HRK 1.2 million, development CAPEX HRK 62.9 million) activities on West Abu Gharadig Concession were focused on drilling and putting in production two development wells at the beginning of the year. Two wells were drilled on Ras Qattara Concession by middle of the year. Exploratory well was P&A due to negative results, while development well was put on stream in July 2011. Sidi Rahman-3 well did not obtain positive results. Workover operations on Sidi Rahman-1 and Sidi Rahman-2 wells resulted in higher production of Sidi Rahman oil field. Workover activities continued on Rizk Development Lease where two wells, Rizk-1 and Rizk East-1, were completed and ready for production. However, start up of production is postponed until approvals from Egyptian authorities are issued.

In Angola (exploration CAPEX HRK 6.9 million, development CAPEX HRK 12.7 million), the activities planned for the first three quarters of 2011 related to Floating Storage Hull Repair on Palanca Terminal, Topside Structure overhaul and major painting and refurbishment campaign on all platforms, were postponed until partner's approval. At the same time, due to good production results, operator Sonangol P&P decided to also postpone annual workover to Q1 2012. Workower of Pac-410 well was finished in December, well was tested and oil production started.

In Croatia (exploration CAPEX HRK 26.1 million, development CAPEX HRK 156.3 million) on North Adriatic investments were related to finalization of first phase of existing system optimization and necessary equipment installation for accepting Izabela gas field production. Feasibility study for Ika SW, Božica and Ivana SW is finished. In the area of Middle and South Adriatic, with the mobilization of 3D Oceanic Challenger at Dubrovnik, 2D/3D seismic processing started in December. On onshore drilling of exploration well Hrastilnica started in December and on oil field Žutica, within the EOR project, testing activities of future injection and production wells were proceed. Total expenditures for this project in the following three years would amount to HRK 506 million.

Further business related developments

Syrian developments – decrease of production

Due to the developments in Syria, INA reduced the crude oil and natural gas production for approximately 1.3 thousand of boe/day in December 2011, in addition to already announced September crude oil production decrease of 1.5 thousand bbl per day.

The Croatian government decision concerning restrictive measures against Syria

On 23 February 2012 Croatian government has passed Decision on the implementation of international restrictive measures established by the decision of the Council of the European Union 2011/782/ZVSP in relation to the Syrian Arab Republic.

Syrian developments – notice on "Force majeure"

In compliance with the Croatian Government Decision on the implementation of the EU Council Decision concerning restrictive measures against the Syrian Arab Republic, INA delivered the force majeure notice on 26 February 2012 to the General Petroleum Company (GPC) of Syria related to the Production Sharing Agreement for the Hayan Block signed in 1998 and Production Sharing Agreement for the Aphamia Block signed in 2004.

Based on the Croatian Government decision, as well as the overall security situation in Syria, INA is not able to continue performing its regular business operations and activities in Syria due to reasons which are beyond the control of the company. Therefore, the terms and conditions foreseen in the above stated Agreements have been met for announcing „force majeure", i.e. for temporarily suspending all business activities in Syria until further notice, i.e. until the „force majeure" circumstances cease to exist. Announcing the "force majeure" is a regular mechanism and it doesn't mean termination of the agreement and the simultaneous exit from the project.

INA does not expect to receive any revenues neither to realize its production share from its Syrian project for the foreseeable future, i.e. until the termination of the "force majeure". Taking into consideration the difficulties with collection of receivables from the Syrian side in the last several months, the company used the conservative calculations regarding revenues from Syria in 2012 business plan.

Revoked exploration licenses

In spite of the revoked licenses for mineral resources exploration relating to the concessions for the hydrocarbon exploration area "Sava", "Drava" and "Northwest Croatia", significant efforts have been put into project preparation for Croatian onshore exploration activities and accordingly detailed work plans have been developed for those exploration areas. INA has identified a number of potential prospects suitable for further development, however, company activities would have to stay limited until the further licenses are obtained. The decision on revoking the licenses has been legally challenged by the company, but still remains without an answer. INA will continue with intensified exploration activities in the next years on the concession it holds in Croatia and abroad as well. Southern and Mid-Adriatic offshore licences have also expired at the end of 2011.

Croatian natural gas trading business environment

The application of the maximum level of the natural gas price for the eligible customers of 2.13 HRK per cm is extended until March 31, 2012. It is estimated that the three-month extension of the decision on the regulated gas price will have a negative effect on INA business operation of approximately HRK 160 million in Q1 2012. Stated price applies for eligible customers, with the exception of households, conducting production activities with annual consumption less than 100 million cm of gas, especially for customers that are purchasing gas for production of thermal energy for tariff customers, pursuant to provisions of the Act on production, distribution and supply of heating energy.

After concluding the contract for natural gas supply with Italian ENI, ensuring required quantities of natural gas for the domestic market, further improved the stability of energy supply in Croatia, gas supply contracts were signed with largest industrial consumers Petrokemija d.d. and HEP-proizvodnja d.o.o. in December 2011, for a period of two years (until 31 December 2013). Under these Contracts, a delivery of around 1.400 million m^3 of natural gas annually has been agreed (Petrokemija - 650 million; HEP - 750 million). The agreed conditions are considered as satisfactory for both parties.

Arbitration procedure initiated by EDISON INTERNATIONAL S.p.A

On 26 September 2011 INA, d.d. received the decision on the appointment of arbitration panel president in the arbitration procedure initiated by EDISON INTERNATIONAL S.p.A against INA, d.d., which represents the finalization of the procedure of arbitration panel appointment and formation, concerning the Production Sharing Agreement in the Contract Area of the Republic of Croatia Offshore Adriatic Sea Izabela and Iris/Iva blocks. The seat of the arbitration procedure shall be in Vienna, in accordance with the arbitration clause, and the procedure shall be conducted in line with UNCITRAL rules.

INDUSTRIJA NAFTE, d.d.

	Country	Wells	Q1 2011	Q2 2011	Q3 2011	Q4 2011	progress / result
exploration	Croatia	Selec-1					Oil & gas producer; 1st int. Qo=30m^3, Qg= 30.000m^3; 3rd Qc=3,6m^3, Qg= 45.000 m^3 (gas); Well equiped with production tubing and x-mas tree assembly- to be putted in production. Well location and access road finished in June 2011
	Croatia	Hrastilnica-3					Onshore, Oil producer expected
	Syria	Beer As Sib-1					The well will be put in production after NOCD signing
	Syria	Mudawara - 3					Drilling results and logging analyses indicate HC saturation
	Egypt	Zarif Deep-1					No testing, dry, P&A
	Egypt	Abrar South-1					X oil producer. Production start up in July 2011
development	Croatia	Molve-35R					Gas producer; work over in 2011 - removed production equipment, placed cement plugs, prepared for drilling in Q3 2012
	Syria	Mazrur-2					Oil and gas producer; Qo=448 m^3/day; Qg=165,344 m^3/day
	Syria	Mazrur-3					Suspended side track due to political situation
	Syria	Jihar-11					Gas producer; 620 554 m^3/day of gas and 161 m^3/day of condensate
	Angola	Pac-410					Oil producer; operations finished on 16/12/2011; well test showed Qoil (HH)=923.9 m^3/day. Ongoing production stable
	Egypt	Raml-23					X oil producer; production start up January 2011
	Egypt	Raml SW-17					X oil producer; production start up January 2011
	Egypt	Raml -24					X oil producer; direct putting into production without testing after finishing of completion; production start up January 2011
	Egypt	Sidi Rahman-3					End of drilling February 2011; not tested; dry hole; T&A; All targets reservoirs were found water bearing but due to possibility for additional works in Middle Bahariya interval - the well was temporary suspended
	Egypt	Zarif-41					X oil producer; direct putting into production without testing after finishing of completion; production start up July 2011
	Egypt	Abrar-2					X oil producer; tested in Q2 2011; production start up in July 2011
	Egypt	Abrar-3					Tested and drilled in Q3 2011; production start up in September 2011
	Egypt	Raml-25					X oil producer; drilled in Q4 2011; direct putting into production without testing, after finishing of completion; production start up in December 2011
	Egypt	Raml-26					Drilled in Q4 2011; water injector; completed in December 2011

drilling

test

Refining and Marketing*

Segment IFRS results (HRK mln)	2010	2011	%
Net sales revenues	15,777	17,926	14
EBITDA	(537)	(1,078)	101
EBITDA excl. special items**	(329)	(1,020)	210
Operating loss reported	(1,237)	(2,528)	104
Operating loss excl. special items**	(823)	(1,637)	99
Replacement modification	480	266	(45)
Impairment on inventories	(28)	(15)	(46)
Foreign exchange rate differences	(260)	69	n.a.
CCS-based R&M operating loss	(1,015)	(1,956)	93
CAPEX and investments (w/o acquisition)	1,328	575	(57)

*Refers to Refining & Marketing INA. d.d. and following subsidiaries: Maziva Zagreb, Proplin, Crobenz (until 30 September 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 2011 performance includes HRK 891 million negative special items of which HRK 13 million provisions, HRK 58 million incentives and HRK 820 million impairment[2].
***Starting from Q2 2011 effect of inventories impairment excluded from Estimated CCS-based Operating profit/(loss)

Refinery processing (kt)	2010	2011	%
Domestic crude oil	459	399	(13)
Imported crude oil	3,562	2,745	(23)
Condensate	138	129	(6)
Other feedstock	291	777	167
Total refinery throughput	4,450	4,051	(9)
Refinery production (kt)	**2010**	**2011**	**%**
LPG	249	214	(14)
Motor gasoline	958	877	(8)
Diesel	1,084	982	(9)
Heating oil	222	199	(10)
Kerosene	95	118	24
Naphtha	73	95	30
Fuel oil	628	545	(13)
Bitumen	66	49	(26)
Other products*	564	369	(35)
Total	3,939	3,448	(12)
Refinery loss	35	29	(16)
Own consumption	475	573	20
Total refinery production	4,450	4,051	(9)
Refined product sales by country (kt)	**2010**	**2011**	**%**
Croatia	2,049	1,923	(6)
B&H	443	539	22
Other markets	1,520	1,100	(28)
Total	4,012	3,561	(11)
Refined product sales by product (kt)	**2010**	**2011**	**%**
LPG	284	246	(13)
Motor gasoline	1,011	902	(11)
Diesel	1,266	1,247	(2)
Heating oil	232	201	(13)
Kerosene	109	116	6
Naphtha	74	95	29
Fuel oil	615	537	(13)
Bitumen	68	91	34
Other products*	355	127	(64)
Total	4,012	3,561	(11)
o/w Retail segment sales	1,125	1,023	(9)

*Other products = FCC gasoline, petrol components, other gasoline, benzene-rich cut, other diesel fuels and components, liquid sulphur, coke, motor oils. Ind, lubricants, base oils, spindle oil, waxes, blend. gas oil "M", atmosp, residue, intermediaries and other

Year 2011 results

Mixed external conditions had overall negative effect on Refining and Marketing reported results vs 2010:

- Negative effects of: (1) rising crude oil and natural gas price coupled with (2) overall depressed demand in the core markets.
- Positive effects of: (1) slightly higher average crack spread, even though it was under pressure of fuel oil crack spread worsening, (2) still higher Brent-Ural spread.

[2] This impairment relates to the treatment of gas bottles at Proplin and refinery assets impairment.

In 2011, Refining & Marketing segment realised 814 million higher operating loss (excluding special items) from operating activities compared to the previous year. Main drivers of the realised result are:

- Negative effects of: (1) higher price of Brent crude oil by 40% combined with higher volumes of own consumption, (2) less favourable yield of white products due to unbalanced in operation of new plants in the first half of the year and lower processing of Azeri type crude, (3) lower utilisation of refineries capacities and (4) lower sales volumes.
- Positive effects of: (1) improved efficiency due to crude procurement optimization and cost optimization, (2) higher average crack spread by 14% (increase in diesel and gasoline margin by 56% and 21% respectively was partially offset with lower fuel oils margin by 48%).

The reported 2011 operating loss amounted to HRK 2,528 million, including HRK 891 million negative effects of special items most of which relates to refinery assets impairment in the amount of HRK 655 million, based on IAS 36. Stated assets impairment is coming from unfavourable expectations combined with negative market trends and developments that would effect future operations.

Estimated CCS-based operating loss in 2011 compared to the previous year increased by HRK 941 million, as a combination of inferior refining environment and interruptions in operation of new plants, which deteriorated the segmental result.

Total refined product sales decreased by 11% in 2011 compared to the previous year. Market consumption decreases on domestic market by 11% and 10% in B&H (company estimations), mainly as a result of delayed impact of crises and high product price environment. Consumption of fuels (gasoline/diesel) declined, following non recovered GDP and reduced spending, which was stressed through industry, mostly construction and transport.
In line with Refining and Marketing segment's strategic aims and increased marketing efforts and developments together with increased yield of quality products, presence on key markets was increased as a result of improved competitiveness. In addition, bio fuels production in Rijeka Refinery began at the end of the year and will ascend during 2012. In spite of the decreased domestic sales, market share has been reinforced as the efforts of the company resulted in sales volumes decrease well below the contraction of the market.

Heating oil and LPG sales volumes decreased by 13% each. Downfall in heating oil sales mostly resulted from postponed heating season due to warm weather, while the LPG sales declined as a result of reduced product availability from our refineries.

In order to increase the efficiency, as a response to the negative trend in Croatia and region, it is decided to optimize the production process of lubricants. Production will be organized in one location, i.e. it will be moved from Rijeka to Zagreb.

Refining and Marketing capital expenditures

CAPEX spending of the segment in 2011 was HRK 575 million, as the large scale of the first phase of the modernisation programme has been completed. Successful start-up procedure of hydrocracking complex (hydrocracking, hydrogen generation, sulphur recovery and ancillary units) at Rijeka Refinery marked 2011 leading to producing only EURO V standard gasoline and diesel fuel. The Isomerisation unit in Sisak Refinery has reached mechanical completion with the test acceptance to run in 2012.

INDUSTRIJA NAFTE, d.d.

*Retail Services**

Segment IFRS results (HRK mln)	2010	2011	%
Net sales revenues	6,453	7,676	19
EBITDA	(9)	95	n.a.
EBITDA excl. special items**	35	140	300
Operating profit/(loss)	(186)	47	n.a.
Operating profit/(loss) excl. special items**	38	109	187
CAPEX and investments (w/o acquisition)	52	106	104

* Refers to Retail INA. d.d. and Petrol Rijeka and retail of subsidiaries: Proplin, Crobenz (until 30 September 2010), Osijek Petrol, Interina Ljubljana, Holdina Sarajevo, INA - Crna Gora
**The 2011 performance was negatively influenced by HRK 62 million special items

Refined product retail sales (kt)	2010	2011	%
Motor gasoline	411	386	(6)
Gas and heating oils	701	707	1
LPG	43	34	(19)
Other products	3	3	(5)
Total	1,159	1,131	(2)

Refined product retail sales (kt)	2010	2011	%
Croatia	1,103	1,079	(2)
B&H	40	39	(3)
Other markets	16	14	(17)
Total	1,159	1,131	(2)

* Excluding Crobenz's sales, to be able to compare with 2011 data

Year 2011 results

Compared to 2010, operating profit excluding special items in 2011 was HRK 71 million higher as a result of:

- Positive effects of: (1) introduction of premium CLASS fuel, (2) lower personnel costs due to lower number of employees and (3) lower costs of value adjustments and provisions.
- This was partially off-set with lower sales volumes.

The reported 2011 operating profit amounted to HRK 47 million, including HRK 62 million negative effects of special items.

Sales volumes amounted to 1,131 kt in 2011. Compared to the previous year (excl. Crobenz's sales volumes, a subsidiary sold in Q3 2010) sales were lower by 2%.

- Lower sales mainly derived from (1) lower purchasing power and lower standard of living compared to the previous year and (2) reduced number of filling stations within the retail network.
- The share of diesel in total sales increased steadily over 2011.
- Average throughput per site in 2011 maintained at the same level as in 2010.

On 31 December 2011 INA Group's retail network consisted of 454 filling stations, o/w in Croatia 402, the neighbouring Bosnia and Herzegovina 45, Slovenia 6 and Montenegro 1. Closure of non-profitable filling stations and the expiration of the lease contract for 11 Energoinvest's filling stations were reasons for the reduced number of filling stations compared to the previous year (22 filling stations less).

Retail capital expenditures

Capital expenditures in 2011 in the amount of HRK 106 million were twice the size of the investments realized in 2010. Apart from newly constructed filling stations, three filling stations have been fully reconstructed. Modernization program, which began in late 2010, has included 26 filling stations so far. Modernisation of the network would continue thorough 2012 with an increasing intensity, doubling the activities and capital expenditures compared to the 2011. Besides new visual identity of reconstructed and modernized filling stations, emphasis is also placed on wider offer of fuels and consumer goods, higher level of services and better technical features, which contribute to filling stations' attractiveness and makes them more comfortable places of purchase.

2. Financial overview

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.

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 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.

Management Board made a decision on the business restructuring of Proplin, a 100% owned subsidiary of INA d.d., member of INA Group. The decision on the business restructuring, which was prompted by the changes in market circumstances seen in the last years and by the growing need to respond appropriately to new challenges in order to ensure stable and profitable operations of this important part of the INA Group business, was made by INA Management Board in March 2011. This decision understood that all operations of Proplin d.o.o (principal activity being autogas, industry/bulk and cylinder sales of LPG in Croatia) are integrated back to INA and the company is merged with its mother company. In May 2011, Merger Agreement between INA d.d., as acquiring company and Proplin d.o.o., as merged company was concluded and at the beginning of October the full integration of Proplin was completed.
The Management Board of PROplin d.o.o. passed a decision on the start of launching the legally prescribed procedure with the objective to design a Workforce Redundancy Program. The program comprises 75 employees of the total of 345 employees in PROplin d.o.o. and it will be created respecting the social dialogue with the union.

Following INA Management Board decision, from September 2011, company Top Računovodstvo Servisi d.o.o. was established within INA Group as a shared service centre focusing on financial level service activities, including accounting, tax, payroll and partly treasury back-office activities. Top Računovodstvo Servisi d.o.o. is providing service type of activities that were up till now a part of INA Accounting and Tax and partly HR and Treasury Sector.
The long term strategy of the newly established company is the extending of financial service providing activities within INA Group in Croatia and abroad in order to enhance synergies and establish financial process excellence in all INA Group companies. The set-up of the shared service centre is in line with international trends and this would furthermore be one of the larger Shared service centres in Croatia. INA Group employees that were employed within the mentioned Sectors or STSI and Proplin in related service areas, are transferred to Top Računovodstvo Servisi d.o.o. in total number of 260. They are performing the same activities as they have been doing in INA Group and kept the same rights and responsibilities.

Significant accounting judgements and estimates

From the second quarter of 2010, INA Group reclassified income and costs of interests and foreign exchange differences of buyers and suppliers from financial activities to operating activities and from Q1 2011 to the business segments level. Also in Q2 2010 in North Adriatic, Egypt and Angola cash generating units are redefined in a way that the contract area has become cash generating unit.
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, therefore, since Q4 2010 the Company does not present the gas trading business results as the results from discontinued activities.
Company has recognized revenues in the income statement from hydrocarbon sales in Syria which had been realized, in line with international accounting standards, meaning that the cash principle has been applied since the beginning of 2011. Under current practice and in line with the international accounting standards the company adjusts its receivables that are 180 days or older. Accordingly the company has adjusted a significant amount of its receivables in Egypt that meet these criteria.

INDUSTRIJA NAFTE, d.d.

Year 2011 results

Income statement

INA Group generated **total sales revenues**[3] of HRK 30,028 million, up by 16% compared to 2010, as the drop in refined product sales were overwhelmed by increasing realized hydrocarbon prices as well as increasing hydrocarbon sales.

Costs of raw materials and consumables increased by 11% to the amount of HRK 13,657 million, along with rising sales revenues. The average import price of crude rose by 35% in-line with the 40% price increase of average Brent FOB crude in 2011, however, volume of imported crude was lower by 23% compared to 2010.

The **costs of goods sold** also increased by 32% to HRK 5,267 million due to higher purchased volumes of crude oil products as a result of lower production related to late start up of HCU in Rijeka Refinery (which resulted in much higher import of Eurodiesel) together with turnaround in Rijeka Refinery in November 2011 and the fire accident in Sisak Refinery in June 2011.

Within the **other operating costs** incurred in 2011:

- Other material costs decreased by 14% to HRK 1,801 million primarily as a result of lower subcontractor service costs at the Maintenance company due to reduced scope of operations
- Service costs amounted to HRK 1,217 million representing a decrease of 18% mainly due to HRK 454 million lower financial costs related to operations
- Depreciation of HRK 2,640 million represented an increase of 48% compared to 2010, after more assets were put in operation, i.e. new upstream facilities in Syria and new units at Rijeka Refinery.
- Adjustments and provisions of HRK 843 million were higher by HRK 710 million compared to 2010.

Staff costs decreased by 13% and amounted to HRK 2,752 million, as headcount were cut in the frame of Workforce Restructuring Programme launched at the end of 2010 and continued in 2011. The headcount as at 31 December 2011 was 14,217 which represent a 3% decrease compared to the 14,703 employees as at 31 December 2010.
In December 2010 INA Group implemented the redundancy programme in order to increase efficiency and for the purpose of stabilisation of economic operations and the needs of reorganisation in order to improve business processes in the next period. The programme is conciliated with the Croatian Employment Service and INA's trade union representatives. In 2011, INA terminated the contracts of 1,027 employees and severance payments in the total amount of HRK 254 million were made. Representatives of the labour unions present in INA have conceded to the Programme and no significant disputes arose as a result of its implementation.

Net financial costs in the amount of HRK 663 million were recorded in 2011, compared to the net financial costs of HRK 840 million in 2010. At this level the net financial cost indicates an average cost of financing at an approximate level of 7%.

- Net foreign exchange loss was HRK 275 million in 2011, mainly related to the appreciation of HRK against USD, however, it is lower than the 2010 loss due to lower indebtness of the company
- Interests payable were HRK 286 million in 2011, while interest received amounted to HRK 28 million in 2011. Interest costs on long term loans in 2011 increased due to: (1) utilization of two project loans with higher interests compared to the others, which were drawn down in H2 2010 so interests were booked only in H2 2010 and in the whole 2011 and (2) increase of reference rates (especially EURIBOR that almost doubled in 2011). Interest costs on short term loans decreased due to significant decrease of interest margins in 2011 compared to 2010.

In 2011 **income tax expense** increased by HRK 210 million to the amount of HRK 573 million.

OptINA 2 is a key tool for INA's business restructuring with the ultimate goal to improve Group operational efficiency. Initiatives are divided in two basic groups: cost saving and revenue improvement initiatives. OptINA 2 is led by a full-time team which supervises more than 250 initiatives, out of which 75% are already fully implemented.
Until December 2011, HRK 1,127 mln recurring cost savings and HRK 415 mln revenue improvements have been achieved compared to the 2008 baseline at INA Group level. Altogether, HRK 1,542 million recurring EBIT improvement has been delivered since the program's inception in 2010.
The positive decreasing trend of controllable costs continued in 2011 with a ~7% decline in controllable costs compared to 2010.

[3] Consolidated sales

New Regulation on compensation payment for concession for exploitation of mineral raw materials has been in force since April, 6th 2011 (Official Gazette 40/11). The amount of compensation is calculated as a percentage of the market value of the produced hydrocarbons and was increased from 3.6% to 5.0%, that could increase INA's fee by approximately HRK 70 million per annum.

Maximum selling prices for fuel products retail are determined by the regulation adopted by the Ministry of Economy, Labor and Entrepreneurship (Official Gazette 37/2011) of the Republic of Croatia, which provides formulae for setting prices relative to international market prices. From 4 April 2011 retail prices of fuel products are changing every 14 days and the oil companies are authorized to apply different retail prices within the maximum price set by the Ministry. Retail prices for gas stations located on highways and on the coast are deregulated, except for blue diesel. From June 21, INA started to apply differentiated prices at 37 petrol stations located on highways (for Eurosuper BS 95 and Eurodizel BS fuels, as well as Class fuels Eurosuper BS 95 Class and Eurodizel BS Class). In comparison to the stations which do not have the option of free formation of retail prices, the prices will be slightly higher, i.e. by HRK 0.02 to 0.05, depending on location. In addition, retail prices were changed on additional 20 petrol stations, where the mentioned fuels will be sold at reduced retail prices. The prices at these stations will be reduced by HRK 0.02 to 0.05, depending on location.

INA currently holds a Service Contract for the Exploration and Development of the Moghan-2 Block in Iran which was signed on 8 April 2008. As an ongoing process the company is constantly harmonizing its activities in line with the US/UN regulation regarding Iran and will continue to further organize its activities to comply with the mentioned regulation.

Balance sheet

As at 31 December 2011, INA Group **total assets** amounted to HRK 30,825 million, representing a decrease of 1% in comparison to 31 December 2010. **Property, plant and equipment** recorded a decrease of 7% because the depreciation was higher than the investments in non-current assets.

Inventories amounted to HRK 3,693 million, which is an increase of 27% compared to 31 December 2010, reflecting both higher volumes, but especially higher prices driven by the rising crude oil prices. Stored up finished products and work in progress inventories from own production increased by 31 kt, while crude oil inventories increased by 139 kt.
Trade receivables also increased by 8% in line with increasing price environment.

As at 31 December 2011 **total liabilities** decreased by 11% to the amount of HRK 16,460 million as an effect of both lower trade payables and lower indebtedness compared to 31 December 2010 level.

Trade payables decreased by 46% to HRK 2,032 million, mostly because of better liquidity which enabled the payment of liabilities. Long-term and short-term provisions amounted to HRK 2,915 million and were 3% lower compared to the end of 2010.

INA Group **net indebtedness** decreased by 8% and amounted to HRK 9,115 million, primarily because INA managed to reduce its long-term debt as a result of higher own cash generating capabilities. **Gearing ratio**[4] decreased from 43.7% as at 31 December 2010, to 38.8% as at 31 December 2011.

Cash flow

The **operating cash-flow before changes in working capital** amounted to HRK 6,456 million, in 2011, representing an increase of HRK 2,315 million, or 56%, compared to 2010, mainly as a result of higher EBITDA.

Changes in working capital affected the operating cash flow negatively by HRK 2,712 million, primarily due to:
- Increased value of inventories by HRK 893 million (reflecting both higher prices and higher volumes)
- Lower liabilities by HRK 1,706 million related to re-established liquidity.

Tax payment affected operating cash flow by HRK 462 million. Mentioned factors resulted in HRK 3,282 million net cash inflow from operating activities that INA Group generated in 2011.

Net outflows in investing activities amounted to HRK 1,339 million, in comparison with HRK 3,061 million outflows in 2010. A decrease is resulted by the nature of key projects, some of which are nearing completion, and for the reason of current market environment.

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

INDUSTRIJA NAFTE, d.d.

INA, d.d. financial results (IFRS)

HRK mln.	2010	2011	%
Net sales revenues	22,546	26,291	17
EBITDA (1)	4,385	6,602	51
EBITDA excl. special items (2)	4,787	6,752	41
Operating profit	2,762	3,143	14
Operating profit excl. special items (2)	3,228	4,019	25
Net financial expenses	(583)	(578)	(1)
Net profit/(loss) (3)	1,767	1,967	11
Net profit/(loss) excl. special items (2)	2,222	2,668	20
Operating cash flow	667	2,314	247
Earnings per share			
Basic and diluted earnings/(loss) per share (kunas per share)	177	197	11
Net gearing	41.68	38.47	(8)

USD mln (4)	2010	2011	%
Net sales revenues	4,099	4,920	20
EBITDA (1)	797	1,236	55
Operating profit	502	588	17
Operating profit excl. special items (2)	587	752	28
Net financial expenses	(106)	(108)	2
Net profit/(loss) (3)	321	368	15
Net profit/(loss) excl. special items (2)	404	499	24
Operating cash flow	121	433	257
Earnings per share			
Basic and diluted earnings/(loss) per share (USD per share)	32.1	36.8	15

(1) EBITDA = EBIT + Depreciation + Impairment + Provisions
(2) Excludes special items related to asset impairment, provision and severance payments. The 2011 EBIT was negatively influenced by HRK 876 million special items
(3) INA d.d. net income attributable to equity holder
(4) In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for; Q1-Q4 2010: 5.5000 HRK/USD, Q1-Q4 2011: 5.3435

Year 2011 results

INA d.d. improved its results in 2011 compared to 2010, delivering EBITDA (excluding special items) of HRK 6,752 million and operating profit (excluding special items) of HRK 4,019 million, which represents an increase of 41% and 25% respectively. Improved results mostly reflected the favourable external environment through higher crude oil prices together with improved average daily hydrocarbon production in Exploration and Production segment. In spite of the positive contribution during the first nine months 2011, due to security situation and developments in Syria and in line with local requirements, INA reduced the crude oil and natural gas production. In addition, INA is still experiencing difficulties in collection of Syrian receivables. Refining and Marketing delivered negative result in 2011 predominantly coming from higher Brent crude oil price (increasing the energy costs), lower white products yield related to discontinuities in operation of new plants in the first half of the year, lower utilisation of refineries capacities together with increased own consumption and still depressed market demand.

At the net profit level, 2011 was significantly better than 2010, with HRK 1,967 million net profit compared to HRK 1,767 million net profit realised last year. Besides already mentioned positive factors that contributed to INA d.d. results, net loss from financial activities was slightly lower in 2010, reflecting improved indebtedness position. Realised net loss in the amount of HRK 578 million was mainly affected with higher interest expenses and FX losses related to HRK depreciation against USD during the year.

INA d.d. capital expenditures amounted to HRK 1,389 million with majority spent on Exploration and Production activities (HRK 659 million) related to development investments in Syria and in Croatia. Refining and Marketing capital expenditures were HRK 577 million, mostly related to the development of the refining system, while Retail accounted for HRK 106 million spent on retail network modernisation and revitalisation.

INA d.d. Exploration and Production

Operating profit excluding special items in 2011 showed a strong increase of HRK 1,838 million, over 2010 figure, and amounted to HRK 6,613 million (USD 1,238 million) mainly due to 31% higher average realized hydrocarbon prices and increased production volumes (14% higher average daily hydrocarbon production). Besides mentioned profit contributors, 6% lower unit OPEX resulting from the achievements in the Company's effort on cost reduction, also backed the result. However, the positive contribution of the Syrian operations to the result was heavily impacted at the last quarter of the year due to lack of income from Syria in Q4 2011 for INA's share in hydrocarbon production in Syria. Reported 2011 operating profit amounted to HRK 6,547 million.

INA d.d. Refining and Marketing

An operating loss (excluding special items) of HRK 1,532 million (USD 287 million) was recorded in the INA d.d. Refining & Marketing segment in 2011. Compared to 2010, operating loss (excluding special items) was by HRK 1,056 million higher primarily reflecting lower than expected market demand in core markets, combined with continuously rising production cost driven by higher than expected crude prices and lower than planed availability of refinery assets (Sisak Refinery with four months shutdown, slower start up of new units in Rijeka Refinery). The already started efforts on efficiency improvements including own consumption reduction, loss management and crude oil selection optimization yielded positive effects and somewhat moderated negative factors. Reported 2011 operating loss amounted to HRK 2,238 million.

INA d.d. Retail segment

The segment generated significantly improved results in 2011, achieving operating profit excluding special items of HRK 119 million (22 million USD) or HRK 77 million better result compared to 2010. Despite lower sales, higher operating profit resulted from optimised fuel unit margin partially coming from introduction of premium CLASS fuel in early 2011 and decreased operating costs. The reported operating profit for 2011 amounted to HRK 61 million.

INA d.d. Corporate Functions

In 2011, an operating loss excluding special items of HRK 1,181 million (USD 221 million) was recorded, which represents 6% higher operating loss in comparison with 2010. Reported operating loss amounted to HRK 1,227 million in 2011.

Income statement

In 2011, INA d.d. total sales revenues increased by 17% to HRK 26,291 million compared to 2010, as a result of increasing realized hydrocarbon prices as well as increasing hydrocarbon sales, which offset the negative effect of the drop in refined product sales.

Costs of raw materials and consumables rose by 15% in 2011, in accordance with the rising sales revenues. The increase was a result of the 35% higher average import price of crude rose in-line with the 40% price increase of average Brent FOB crude in 2011, however, volume of imported crude was lower by 23% compared to 2010.

Costs of goods sold rose by 41% to HRK 2,644 million mainly due to higher purchased volumes of crude oil products as a result of lower production related to late start up of HCU in Rijeka Refinery (which resulted in much higher import of Eurodiesel) together with turnaround in Rijeka Refinery in November 2011 and the fire accident in Sisak Refinery in June 2011.

Within the other operating costs incurred in 2011:

- Other material costs in the amount of HRK 1,514 million increased by 3%.
- The costs of services decreased by 27% to HRK 965 million due to lower financial costs related to operations.
- Depreciation of HRK 2,397 million was at the higher level by 62% compared to 2010, after more assets were put in operation, i.e. new upstream facilities in Syria and new units at Rijeka Refinery.
- Adjustments and provisions in the amount of HRK 1,062 million were higher by HRK 922 million.

Staff costs decreased by 16% to HRK 1,666 million, as headcount were cut in the frame of Workforce Restructuring Programme launched at the end of 2010 and continued in 2011. The headcount as at 31 December 2011 was 8,876 which represent a 2% decrease compared to the 9,061 employees as at 31 December 2010.

Net financial costs in the amount of HRK 578 million were recorded in 2011, compared to the net financial costs of HRK 583 million in 2010. The difference primarily reflects decreased net foreign exchange losses and slightly higher interest expenses and other financial expenses.

In 2011 income tax expense increased by HRK 186 million to the amount of HRK 598 million.

Balance sheet

Total assets amounted to HRK 29,795 million as at 31 December 2011, representing a decrease of 1% compared to 31 December 2010. Property, plant and equipment recorded a decrease of 5% because the depreciation was higher than the investments in non-current assets.

Trade receivables decreased by 17% to HRK 3,369 million compared to 31 December 2010, as a result of lower intercompany trade receivables.

As at 31 December 2011 total liabilities amounted to HRK 15,513 million (12% lower than on 31 December 2010), mainly as an effect of lower trade payables compared to 31 December 2010 level. Trade payables decreased by 62% to HRK 1,757 million, mostly because of lower intercompany payables.

INA d.d. net indebtedness amounted to HRK 8,928 million as at 31 December 2011 and was almost at the same level as at 31 December 2010 when it amounted to HRK 8,959 million. Gearing ratio[5] was 38.5% as at 31 December 2011, decreasing from 41.7% as at 31 December 2010.

Cash flow

The operating cash-flow before changes in working capital amounted to HRK 6,682 million in 2011, representing an increase of HRK 1,893 million compared to 2010, mainly as a result of stronger EBITDA.

Changes in working capital affected the operating cash flow negatively by HRK 3,922 million, due to:

- Increased value of inventories by HRK 934 million
- Lower liabilities by HRK 863 million
- Higher receivables by HRK 2,125 million

Tax payment affected operating cash flow by HRK 475 million. Mentioned factors resulted in HRK 2,285 million net cash inflow from operating activities that INA d.d. generated in 2011.

5 Net debt / net debt plus equity incl. minority interests

3. Financial instruments and risk management

INA Group continuously detects and monitors financial risks (commodity risk, FX and interest rate risk) in its operation. Risk Management and Hedging Policy for INA Group 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 regularly Financial Risk Reports.
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 limited extent. Derivative financial instruments, which INA uses for the purpose of hedging the financial risks, are regulated by ISDA (International Swaps and Derivatives Association) Agreements signed with other counterparties. The Group does not use derivative financial instruments for speculative purposes.

a) Market risk

Commodity price risk management
INA purchases crude oil mostly through short-term arrangements in US dollars at spot market prices. The required quantities of gas are purchased at a price denominated in US dollars in accordance to 3-year supply contract with Italian ENI. In addition to oil exploration, production and refining, one of the INA's core activities is marketing and sales of refined products and 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, is hedging the Group from the changes in crude and oil product prices and the foreign currency risk, enabling refinery products to be reprised bi-weekly, with certain limitations, 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 2011 INA concluded short term commodity swap transactions for inventory changes and pricing period hedging purposes. These transactions were initiated to reduce exposure to potential price movements during the refinery inventory build down period, and for harmonisation of pricing periods for crude oil and oil products purchases with crude oil refining period and oil products sales pricing periods. Due to extreme volatility of crude oil and crude products prices caused by uncertainties surrounding World economy, INA executed a hedge in the form of buying option instruments, in order to protect against potential losses in values of inventory of finished products and work in progress in case of adverse price movement.

Foreign currency risk management
As the Group operates on the domestic market and abroad many transactions are priced and denominated in foreign currency and it is thus exposed to currency risk. The Group has net long USD and EUR, and net short HRK operative cash flow position.
Generally, the Group 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. Furthermore, in order to avoid a high exposure to volatility of individual currency (i.e. USD), INA applies portfolio approach in the process of selection of currencies in the debt portfolio. Additionally, the Refined Product Pricing Regulation enables the company to partly transfer the unfavourable movements of exchange rates to domestic products market.
The Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of December 31, 2011, there were no open cross currency transactions.

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 December 31, 2011, there were no open interest rate swap transactions.

Other price risk
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 affect results of the Group. According to existing Credit Risk Management Procedure, in dealing with its customers, Group applies risk categorisation, credit risk exposure analysis, sets up credit limits and obtains collaterals as a means of mitigating the risk of financial loss from defaults. Part of sales with deferred payment is towards state institutions state owned companies or companies owned by the local government which do not provide payment security instruments. Other customers provide us with debentures being the most common payment security instrument on the Croatian market. Other payment security instruments such as bank

guarantees and mortgages are provided in smaller extent, while foreign customers provide mainly letters of credit, in smaller extent corporative guarantees and in exceptional cases bills of exchange.
There is no significant credit risk exposure of INA Group that would not be covered with collateral, other than those to the institutions and entities controlled by the state and the local government, and exposure toward customers under certain concession agreements abroad. Given that the Republic of Croatia is a one of the major shareholders of the Group itself, credit risks to a significant extent depend on the policy of the Croatian Government.

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 funding sources with the goal of reaching sufficient frame of available credit lines to cover INA Group liquidity as well as investments needs.
As of December 31, 2011, INA had contracted short-term bank loans amounting to 452 million USD (excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products).
Till December 2010 crude oil and oil products were imported through INA, d.d. foreign subsidiaries Interina London and Interina Guersney, and since than directly by INA, d.d. In accordance with international practices for crude oil and oil products purchases INA has contracted short-term credit facilities ("trade financing") with first class commercial bank groups.

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.

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.

4. Investments in subsidiaries

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

		Shareholding	
Name of company	Activity	31 December 2011	31 December 2010
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%
Auxillary 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%
*TRS Top računovodstvo servisi d.o.o. za računovodstvene usluge	Accounting, buying and selling goods, foreign companies representation, advertising, IT and related activities	100%	-
Production and trading			
*Maziva Zagreb d.o.o. Zagreb	Production and lubricants trading	100%	100%
*Proplin d.o.o. Zagreb (merged into INA, d.d. 3 October 2011)	Production and LPG trading	-	100%

		Shareholding	
Name of company	Activity	31 Dec 2011	31 Dec 2010
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 (until December 2011)	Foreign trading	100%	100%
*Holdina d.o.o. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%	100%
*INA d.o.o. Beograd, Serbia	Foreign trading	100%	100%
*INA Kosovo d.o.o. 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%

INDUSTRIJA NAFTE, d.d.

5. Related party transactions

INA, d.d.	Amounts owed from related parties	Amounts owed to related parties
HRK mln	31 Dec 2011	31 Dec 2011
Foreign related companies		
Interina Ltd Guernsey	-	137
Holdina Sarajevo	117	7
Interina d.o.o. Ljubljana	1	-
Interina Ltd London	-	20
Adriagas Milano	-	1
INA – Crna Gora d.o.o. Podgorica	14	-
INA – Beograd d.o.o. Beograd	10	-
Domestic related companies		
Crosco Grupa	1	57
Osijek Petrol d.d.	53	1
STSI d.o.o. Zagreb	2	257
Maziva Zagreb d.o.o. Zagreb	19	24
ITR d.o.o. Zagreb	-	10
Sinaco d.o.o. Zagreb	-	35
Prirodni plin d.o.o. Zagreb	1,551	20
TOP Računovodstvo servisi d.o.o. Zagreb	1	3
Companies available for sale		
JANAF d.d. Zagreb	-	25
Strategic partner		
MOL Plc	34	62
Companies controlled by strategic partner		
Tifon d.o.o.	42	1
Slovnaft, a.s.	-	5
Slovnaft, Petrochemicals s.r.o.	-	1
MOL SLOVENIJA d.o.o.	2	-
IES-Italiana Energia e Servizi s.p.a.	-	2
TVK Nyrt.	-	1
Intermol d.o.o.	8	-
Energopetrol d.d.	24	-
Companies controlled by the State		
Hrvatske željeznice	4	5
Hrvatska elektroprivreda	186	14
Hrvatske vode	-	4
Hrvatska pošta	2	-
MORH	4	-
Hrvatske šume	6	-
Jadrolinija	31	1
Croatia Airlines	32	-
Hrvatske autoceste	1	5
Podzemno skladište plina Okoli	1	8

INA, d.d.	Sales of goods	Purchase of goods
HRK mln	31 Dec 2011	31 Dec 2011
Foreign related companies		
Holdina Sarajevo	850	2
Interina d.o.o. Ljubljana	21	-
Adriagas Milano	2	1
INA – Crna Gora d.o.o. Podgorica	91	-
INA – Beograd d.o.o. Beograd	59	-
Domestic related companies		
Crosco Grupa	12	168
Osijek Petrol d.d.	135	-
STSI d.o.o. Zagreb	15	457
Maziva Zagreb d.o.o. Zagreb	119	58
ITR d.o.o. Zagreb	2	24
Sinaco d.o.o. Zagreb	4	122
Prirodni plin d.o.o. Zagreb	4,487	446
TOP Računovodstvo servisi d.o.o. Zagreb	3	21
Companies available for sale		
JANAF d.d. Zagreb	1	72
Strategic partner		
MOL Plc	458	823
Companies controlled by strategic partner		
Tifon d.o.o.	768	6
Moltrade Mineralimpex Zrt.	-	1,141
Slovnaft, a.s.	-	48
Slovnaft, Petrochemicals s.r.o.	1	-
Mol Lub Kft.	-	1
MOL SLOVENIJA d.o.o.	16	-
IES-Italiana Energia e Servizi s.p.a.	13	6
TVK Nyrt.	-	3
Intermol d.o.o.	10	1
Energopetrol d.d.	468	1
Companies controlled by the State		
Hrvatske željeznice	2	51
Hrvatska elektroprivreda	298	129
Croatia osiguranje	-	34
Hrvatske vode	-	22
Hrvatska pošta	-	2
MORH	53	-
Hrvatske šume	-	1
Jadrolinija	143	5
Narodne novine	-	-
Croatia Airlines	234	-
Hrvatske autoceste	-	65
Podzemno skladište plina Okoli	2	-

INDUSTRIJA NAFTE, d.d.

6. Summary Segmental Results of Operations for INA Group and INA, d.d.

INA Group Summary Segmental Results of Operations

(HRK mln)	2010	2011	%
Sales			
Exploration & Production	10,882	13,329	22
Refining & Marketing	15,777	17,926	14
Retail	6,453	7,676	19
Corporate and Other	722	674	(7)
Inter-segment revenue	(7,968)	(9,577)	20
Sales	25,866	30,028	16
Operating expenses, net other income from operating activities			
Exploration & Production	(6,310)	(7,188)	14
Refining & Marketing	(17,014)	(20,454)	20
Retail	(6,639)	(7,629)	15
Corporate and Other	(1,713)	(1,295)	(24)
Inter-segment eliminations	7,968	9,577	20
Expenses	(23,708)	(26,989)	14
Profit/(loss) from operations			
Exploration & Production	4,572	6,141	34
Refining & Marketing	(1,237)	(2,528)	104
Retail	(186)	47	n.a.
Corporate and Other	(991)	(621)	(37)
Inter-segment eliminations	0	0	n.a.
Profit from operations	2,158	3,039	41
Share in the profit of associate companies			
Net loss from financial activities	(840)	(663)	(21)
Profit before taxation	1,318	2,376	80
Income tax expense	(363)	(573)	58
Profit for the year	955	1,803	89

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. Summary Segmental Results of Operations

(HRK mln)	2010	2011	%
Sales			
Exploration & Production	7,867	9,516	21
Refining & Marketing	14,928	17,450	17
Retail	5,810	7,057	21
Corporate and Other	22	21	(5)
Inter-segment revenue	(6,081)	(7,753)	27
Sales	22,546	26,291	17
Operating expenses, net other income from operating activities			
Exploration & Production	(2,955)	(2,969)	0
Refining & Marketing	(15,735)	(19,688)	25
Retail	(5,937)	(6,996)	18
Corporate and Other	(1,238)	(1,248)	1
Inter-segment eliminations	6,081	7,753	27
Expenses	(19,784)	(23,148)	17
Profit (loss) from operations			
Exploration & Production	4,912	6,547	33
Refining & Marketing	(807)	(2,238)	177
Retail	(127)	61	n.a.
Corporate and Other	(1,216)	(1,227)	1
Inter-segment eliminations	0	0	n.a.
Profit from operations	2,762	3,143	14
Share in the profit of associate companies			
Net loss from financial activities	(583)	(578)	(1)
Profit/(loss) before taxation	2,179	2,565	18
Income tax	(412)	(598)	45
Profit/(loss) for the year	1,767	1,967	11

INA Group Summary Segmental Results of Operations

Operating Profit Excluding Special Items (HRK mln)	2010	2011	%
Exploration & Production	4,577	6,129	34
Refining & Marketing	(823)	(1,637)	99
Retail	38	109	187
Corporate and Other	(837)	(523)	(38)
Inter-segment eliminations	0	0	n.a.
Total	2,955	4,078	38

Depreciation (HRK mln)	2010	2011	%
Exploration & Production	1,160	1,895	63
Refining & Marketing	370	502	36
Retail	93	92	(1)
Corporate and Other	166	151	(9)
Total	1,789	2,640	48

EBITDA* (HRK mln)	2010	2011	%
Exploration & Production	5,413	8,053	49
Refining & Marketing	(537)	(1,078)	101
Retail	(9)	95	n.a.
Corporate and Other	(787)	(548)	(30)
Inter-segment eliminations	0	0	n.a.
Total	4,080	6,522	60

EBITDA Excluding Special Items* (HRK mln)	2010	2011	%
Exploration & Production	5,514	8,122	47
Refining & Marketing	(329)	(1,020)	210
Retail	35	140	300
Corporate and Other	(637)	(466)	(27)
Inter-segment eliminations	0	0	n.a.
Total	4,583	6,776	48

INA, d.d. Summary Segmental Results of Operations

Operating Profit Excluding Special Items (HRK mln)	2010	2011	%
Exploration & Production	4,775	6,613	38
Refining & Marketing	(476)	(1,532)	222
Retail	42	119	183
Corporate and Other	(1,113)	(1,181)	6
Inter-segment eliminations	0	0	n.a.
Total	3,228	4,019	25

Depreciation (HRK mln)	2010	2011	%
Exploration & Production	1,008	1,765	75
Refining & Marketing	293	447	53
Retail	75	83	11
Corporate and Other	107	102	(5)
Total	1,483	2,397	62

EBITDA* (HRK mln)	2010	2011	%
Exploration & Production	5,782	8,119	40
Refining & Marketing	(265)	(1,059)	300
Retail	(14)	89	n.a.
Corporate and Other	(1,118)	(547)	(51)
Inter-segment eliminations	0	0	n.a.
Total	4,385	6,602	51

EBITDA Excluding Special Items* (HRK mln)	2010	2011	%
Exploration & Production	5,853	8,155	39
Refining & Marketing	(76)	(1,021)	1,243
Retail	29	130	348
Corporate and Other	(1,019)	(512)	(50)
Inter-segment eliminations	0	0	n.a.
Total	4,787	6,752	41

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

7. Income Statement for INA Group and INA, d.d.

INA-INDUSTRIJA NAFTE d.d.
INA-GROUP Consolidated Income Statement
For the year ended 31 December 2010 and 2011
(in HRK millions)

	2010	2011	%
Sales revenue			
a) domestic	15,712	18,115	15
b) exports	10,154	11,913	17
Total sales revenue	25,866	30,028	16
Income from own consumption of products and services	366	309	(16)
Other operating income	553	485	(12)
Total operating income	26,785	30,822	15
Changes in inventories of finished products and work in progress	260	394	52
Cost of raw materials and consumables	(12,249)	(13,657)	11
Depreciation and amortization	(1,789)	(2,640)	48
Other material costs	(2,087)	(1,801)	(14)
Service costs	(1,484)	(1,217)	(18)
Staff costs	(3,154)	(2,752)	(13)
Cost of other goods sold	(3,991)	(5,267)	32
Impairment and charges (net)	248	(1,256)	n.a.
Provisions for charges and risks (net)	(381)	413	n.a.
Operating expenses	(24,627)	(27,783)	13
Profit from operations	2,158	3,039	41
Share in the profit of associated companies			
Finance income	68	145	113
Finance costs	(908)	(808)	(11)
Net loss from financial activities	(840)	(663)	(21)
Profit before tax	1,318	2,376	80
Income tax expense	(363)	(573)	58
Profit for the year	955	1,803	89
Attributable to			n.a.
Owners of the Company	961	1,815	89
Non-controlling interests	(6)	(12)	111
	955	1,803	89
Earnings per share			
Basic and diluted earnings per share (kunas per share)	96.1	181.5	89

INA-INDUSTRIJA NAFTE d.d.
INA-GROUP Consolidated Statement of Comprehensive Income
For the year ended 31 December 2010 and 2011
(in HRK million)

	2010	2011	%
Profit for the year	955	1,803	89
Other comprehensive income:			
Exchange differences arising from foreign operations	29	276	852
Gains on available-for-sale investments, net	17	(27)	n.a.
Other comprehensive income, net	46	249	441
Total comprehensive income for the year	1,001	2,052	105
Attributable to:			
Owners of the Company	1,007	2,064	105
Non- controlling interests	(6)	(12)	111

INDUSTRIJA NAFTE, d.d.

INA-INDUSTRIJA NAFTE d.d. ZAGREB
INA, d.d. Unconsolidated Income Statement
For the year ended 31 December 2010 and 2011
(HRK millions)

	2010	2011	%
Sales revenue			
a) domestic	13,985	15,820	13
b) exports	8,561	10,471	22
Total sales revenue	22,546	26,291	17
Income from own consumption of products and services	6	5	(17)
Other operating income	482	560	16
Total operating income	23,034	26,856	17
Changes in inventories of finished products and work in progress	67	349	421
Cost of raw materials and consumables	(12,059)	(13,814)	15
Depreciation and amortization	(1,483)	(2,397)	62
Other material costs	(1,477)	(1,514)	3
Service costs	(1,327)	(965)	(27)
Staff costs	(1,978)	(1,666)	(16)
Cost of other goods sold	(1,875)	(2,644)	41
Impairment and charges (net)	55	(1,306)	n.a.
Provisions for charges and risks (net)	(195)	244	n.a.
Operating expenses	(20,272)	(23,713)	17
Profit from operations	2,762	3,143	14
Share in the profit of associated companies			
Finance income	322	355	10
Finance costs	(905)	(933)	3
Net loss from financial activities	(583)	(578)	(1)
Profit before tax	2,179	2,565	18
Income tax expense	(412)	(598)	45
Profit for the year	1,767	1,967	11
Attributable to			
Owners of the Company	1,767	1,967	11
	1,767	1,967	11
Earnings per share			
Basic and diluted earnings/(loss) per share (kunas per share)	176.7	196.7	11

INA-INDUSTRIJA NAFTE d.d. ZAGREB
INA, d.d. Unconsolidated Statement of Comprehensive Income
For the year ended 31 December 2010 and 2011
(HRK millions)

	2010	2011	%
Profit/(loss) for the year	1,767	1,967	11
Other comprehensive income:			
Exchange differences arising from foreign operations	0	287	n.a.
Gains/(loss) on available-for-sale investments, net	17	(27)	n.a.
Other comprehensive income, net	17	260	1,429
Total comprehensive income/(loss) for the year	1,784	2,227	25

INDUSTRIJA NAFTE, d.d.

8. Statement of Financial position for INA Group and INA, d.d.

INA-NDUSTRIJA NAFTE d.d.
INA-GROUP Consolidated Statement of Financial Position
At 31 December 2010 and 2011
(in HRK millions)

	31 Dec 2010	31 Dec 2011	%
Assets			
Non-current assets			
Intangible assets	840	880	5
Property, plant and equipment	21,807	20,294	(7)
Goodwill	232	183	(21)
Investments in associates and joint ventures	22	34	55
Other investments	334	355	6
Long-term receivables	240	162	(33)
Derivative financial instruments	4	5	25
Deferred tax	280	662	136
Available for sale assets	417	325	(22)
Total non-current assets	24,176	22,900	(5)
Current assets			
Inventories	2,905	3,693	27
Trade receivables net	3,052	3,282	8
Other receivables	586	456	(22)
Derivative financial instruments	1	2	100
Other current assets	40	76	90
Prepaid expenses and accrued income	142	79	(44)
Cash and cash equivalents	317	337	6
Current assets	7,043	7,925	13
Assets classified as held for sale	12	0	n.a.
Total current assets	7,055	7,925	12
Total assets	31,231	30,825	(1)
Equity and liabilities			
Capital and reserves			
Share capital	9,000	9,000	0
Revaluation reserve	27	0	n.a.
Other reserves	2,340	2,616	12
Retained earnings / (Deficit)	1,424	2,759	94
Equity attributable to equity holder of the parent	12,791	14,375	12
Non-controlling interests	2	(10)	n.a.
Total equity	12,793	14,365	12
Non-current liabilities			
Long-term loans	7,301	5,630	(23)
Other non-current liabilities	125	126	1
Employee benefits obligation	129	104	(19)
Provisions	2,620	2,715	4
Total non-current liabilities	10,175	8,575	(16)
Current liabilities			n.a.
Bank loans and overdrafts	1,659	1,918	16
Current portion of long-term debt	1,295	1,904	47
Trade payables	3,786	2,032	(46)
Taxes and contributions	789	1,524	93
Other current liabilities	200	246	23
Accruals and deferred income	124	48	(61)
Employee benefits obligation	16	13	(19)
Provisions	394	200	(49)
Current liabilities	8,263	7,885	(5)
Total liabilities	18,438	16,460	(11)
Total equity and liabilities	31,231	30,825	(1)

INA-INDUSTRIJA NAFTE, d.d.
INA, d.d. Unconsolidated Statement of Financial Position
At 31 December 2010 and 2011
(HRK millions)

	31 Dec 2010	31 Dec 2011	%
Assets			
Non-current assets			
Intangible assets	827	876	6
Property, plant and equipment	19,522	18,555	(5)
Investments in subsidiaries	1,224	1,033	(16)
Investments in associates and joint ventures	51	34	(33)
Other investments	437	799	83
Long-term receivables	341	207	(39)
Derivative financial instruments	0	0	n.a.
Deferred tax	223	592	165
Available for sale assets	417	325	(22)
Total non-current assets	23,042	22,421	(3)
Current assets			
Inventories	2,218	3,030	37
Trade receivables net	1,816	1,781	(2)
Intercompany receivables	2,229	1,588	(29)
Other receivables	287	379	32
Other current assets	253	313	24
Prepaid expenses and accrued income	99	54	(45)
Cash and cash equivalents	260	229	(12)
Current assets	7,162	7,374	3
Assets classified as held for sale	12	0	n.a.
Total current assets	7,174	7,374	3
Total assets	30,216	29,795	(1)
Equity and liabilities			
Capital and reserves			
Share capital	9,000	9,000	0
Revaluation reserve	27	0	n.a.
Other reserves	1,952	2,239	15
Retained earnings / (Deficit)	(211)	1,076	n.a.
Profit/loss for the year	1,767	1,967	11
Total equity	12,535	14,282	14
Non-current liabilities			
Long-term loans	7,148	5,556	(22)
Other non-current liabilities	117	106	(9)
Employee benefits obligation	84	61	(27)
Provisions	2,563	2,665	4
Total non-current liabilities	9,912	8,388	(15)
Current liabilities			
Bank loans and overdrafts	838	1,784	113
Current portion of long-term loans	1,233	1,817	47
Intercompany payables	3,056	646	(79)
Trade payables	1,611	1,111	(31)
Taxes and contributions	650	1,349	108
Other current liabilities	114	197	73
Accruals and deferred income	58	48	(17)
Employee benefits obligation	8	5	(38)
Provisions	201	168	(16)
Current liabilities	7,769	7,125	(8)
Total liabilities	17,681	15,513	(12)
Total equity and liabilities	30,216	29,795	(1)

9. Statement of Cash Flow for INA Group and INA, d.d.

INA-INDUSTRIJA NAFTE d.d.
INA GROUP Consolidated Statement of Cash Flow
For the year ended 31 December 2010 and 2011
(in HRK millions)

	2010	2011	%
Profit/(loss) for the year	955	1,803	89
Adjustments for:			
Depreciation and amortisation	1,789	2,640	48
Income tax (benefit)/expenses recognized in (loss)/profit	363	573	58
Impairment charges (net)	570	1,489	161
Reversal of impairment	(821)	(233)	(72)
Gain on sale of property, plant and equipment	(8)	(14)	75
Foreign exchange loss/(gain)	531	201	(62)
Interest expense (net)	156	140	(10)
Other financial expense recognised in profit	87	166	91
Increase in provisions	383	(389)	n.a.
Decommissioning interests	144	118	(18)
Other non-cash items	(8)	(38)	(30)
Operating cash flow before working capital changes	4,141	6,456	56
Movements in working capital			
(Increase)/decrease in inventories	(121)	(893)	638
(Increase)/decrease in receivables and prepayments	(57)	(113)	98
(Decrease)/increase in trade and other payables	(2,122)	(1,706)	(20)
Cash generated from operations	1,841	3,744	103
Taxes paid	(26)	(462)	1,677
Net cash inflow from operating activities	1,815	3,282	81
Cash flows used in investing activities			
Payments for property, plant and equipment	(2,636)	(1,281)	(51)
Payment for intangible assets	(205)	(121)	(41)
Proceeds from sale of non-current assets	10	14	40
Proceeds from sale of subsidiaries	(39)	22	n.a.
Dividends received from companies classified as available for sale and from other companies	3	8	167
Interest received and other financial income	21	28	33
Investments and loans to third parties, net	(215)	(9)	(96)
Net cash used for investing activities	(3,061)	(1,339)	(56)
Cash flows from financing activities			
Additional long-term borrowings	2,803	80	(97)
Repayment of long-term borrowings	(1,098)	(1,313)	20
Additional short-term borrowings	10,466	19,267	84
Repayment of short term borrowings	(10,921)	(19,081)	75
Dividends paid	0	(480)	n.a.
Interest paid on long-term loans	(32)	(66)	106
Other long-term liabilities, net	(8)	(8)	0
Interest paid on short term loans and other financing charges	(239)	(251)	5
Net cash from financing activities	971	(1,852)	n.a.
Net (decrease)/increase in cash and cash equivalents	(275)	91	n.a.
At 1 January	367	317	(14)
Effect of foreign exchange rate changes	225	(71)	n.a.
At the end of period	317	337	6

INDUSTRIJA NAFTE, d.d.

INA-INDUSTRIJA NAFTE d.d. ZAGREB
INA, d.d. Unconsolidated Statement of Cash Flow
For the year ended 31 December 2010 and 2011
(HRK millions)

	2010	2011	%
Profit/(loss) for the year	1,767	1,967	(10)
Adjustments for:			
Depreciation and amortisation	1,483	2,397	(38)
Income tax (benefit)/expenses recognized in (loss)/profit	412	598	(31)
Impairment charges	687	1,838	(63)
Reversal of impairment	(667)	(532)	25
Gain on sale of property, plant and equipment	(6)	(3)	100
Gain on sale investments and shares	(11)	0	n.a.
Foreign exchange loss/(gain)	620	50	(92)
Interest expense	218	231	(6)
Other financial expense recognised in profit	(53)	195	n.a.
(Decrease)/increase in provisions	195	(161)	n.a.
Merger of Proplin	0	(34)	n.a.
Decommissioning interests	144	118	22
Other non-cash items	0	18	n.a.
Operating cash flow before working capital changes	4,789	6,682	40
Movements in working capital			
(Increase)/decrease in inventories	107	(934)	n.a.
(Increase)/decrease in receivables and prepayments	(1,840)	(863)	(53)
(Decrease)/increase in trade and other payables	(2,351)	(2,125)	11
Cash generated from operations	705	2,760	291
Taxes paid	0	(475)	n.a.
Net cash inflow from operating activities	705	2,285	224
Cash flows used in investing activities			
Payments for property, plant and equipment	(2,459)	(1,267)	94
Payment for intangible assets	(218)	(121)	80
Proceeds from sale of non-current assets	8	0	n.a.
Payment related to sale of subsidiaries	(39)	0	n.a.
Acquisition of investments in associates and joint ventures and other companies	(1)	0	n.a.
Dividends received from companies classified under available for sale and other companies	4	8	(50)
Proceeds from profit of companies	254	164	55
Investments and loans to third parties	139	(159)	n.a.
Net cash (outflow) used for investing activities	(2,312)	(1,375)	68
Cash flows from financing activities			
Additional long-term borrowings	2,708	80	3,285
Repayment of long-term borrowings	(1,056)	(1,261)	19
Additional short-term borrowings	2,403	17,727	(86)
Repayment of short term borrowings	(2,148)	(16,818)	(87)
Payment dividends	0	(480)	n.a.
Interest paid on long-term loans	(22)	(56)	(61)
Other long-term liabilities	(9)	(9)	0
Interest paid on short term loans and other financing charges	(82)	(135)	(39)
Net cash from financing activities	1,794	(952)	n.a.
Net (decrease)/increase in cash and cash equivalents	187	(42)	n.a.
At 1 January	68	260	(74)
Effect of foreign exchange rate changes	5	11	(55)
At the end of period	260	229	14

10. Statement of Changes in Equity for INA Group and INA, d.d.

INA-INDUSTRIJA NAFTE d.d.
INA-GROUP Consolidated Statement of Changes in Equity
For the year ended 31 December 2010 and 2011
(in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Non controlling interest	Total equity
Balance as at 1 January 2010	9,000	2,311	10	463	11,784	8	11,792
Profit for the year	0	0	0	961	961	(6)	955
Other comprehensive income, net	0	29	17	0	46	0	46
Total comprehensive income, net	0	29	17	961	1,007	(6)	1,001
Dividends payable	0	0	0	0	0	0	0
Balance as at 31 December 2010	9,000	2,340	27	1,424	12,791	2	12,793

	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Non controlling interest	Total equity
Balance as at 1 January 2011	9,000	2,340	27	1,424	12,791	2	12,793
Profit for the year	0	0	0	1,815	1,815	(12)	1,803
Other comprehensive income, net	0	276	(27)	0	249	0	249
Total comprehensive income for the year	0	276	(27)	1,815	2,064	(12)	2,052
Dividends paid	0	0	0	(480)	(480)	0	(480)
Balance as at 31 December 2011	9,000	2,616	0	2,759	14,375	(10)	14,365

INA-INDUSTRIJA NAFTE, d.d.
INA d.d. Unconsolidated Statement of Changes in Equity
For the year ended 31 December 2010 and 2011
(HRK million)

	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total
Balance as at 1 January 2010	9,000	1,952	10	(211)	10,751
Profit for the year	0	0	0	1,767	1,767
Other comprehensive loss, net	0	0	17	0	17
Total comprehensive profit for the year	0	0	17	1,767	1,784
Dividends payable	0	0	0	0	0
Balance as at 31 December 2010	9,000	1,952	27	1,556	12,535

	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total
Balance as at 1 January 2011	9,000	1,952	27	1,556	12,535
Profit for the year	0	0	0	1,967	1,967
Other comprehensive loss net	0	287	(27)	0	260
Total comprehensive income for the year	0	287	(27)	1,967	2,227
Dividends paid	0	0	0	(480)	(480)
Balance as at 31 December 2011	9,000	2,239	0	3,043	14,282

11. Capital Expenditure for INA Group and INA, d.d.

INA Group Capital Expenditure

Capital Expenditures (HRK mln)	2010	2011	%
Exploration & Production	1,473	799	(46)
Refining & Marketing	1,328	575	(57)
Retail	52	106	104
Corporate & other	38	50	32
Total	2,891	1,530	(47)

Capital Expenditures - Tangible Assets (HRK mln)	31 Dec 2010	31 Dec 2011	%
Exploration & Production	1,293	726	(44)
Refining & Marketing	1,328	567	(57)
Retail	51	105	106
Corporate & other	14	11	(21)
Total	2,686	1,409	(48)

INA, d.d. Capital Expenditure

Capital Expenditures (HRK mln)	2010	2011	%
Exploration & Production	1,404	659	113
Refining & Marketing	1,328	577	130
Retail	48	106	(55)
Corporate & other	36	47	(23)
Total	2,816	1,389	103

Capital Expenditures - Tangible Assets (HRK mln)	31 Dec 2010	31 Dec 2011	%
Exploration & Production	1,224	586	109
Refining & Marketing	1,328	569	133
Retail	48	105	(54)
Corporate & other	12	8	50
Total	2,612	1,268	106

INDUSTRIJA NAFTE, d.d.

C Other data

1. Main external parameters

	2010	2011	%
Brent dtd (USD/bbl)	79.5	111.3	40.0
Premium unleaded gasoline 10 ppm (USD/t)*	728.9	978.1	34.2
Gas oil – ULSD 10 ppm (USD/t)*	681.8	957.0	40.3
Fuel oil 3,5% (USD/t)*	436.7	603.0	38.1
LPG (USD/t)*	731.1	903.3	23.6
Average crack spread	27.1	30.9	14.0
Crack spread – premium unleaded (USD/t)*	127.7	136.2	6.7
Crack spread – gas oil (USD/t)*	80.6	115.1	42.7
Crack spread - fuel oil 3,5% (USD/t)*	(164.5)	(238.8)	45.2
Crack spread - LPG (USD/t)*	129.9	61.4	(52.7)
HRK/USD average	5.50	5.34	(2.8)
HRK/USD closing	5.57	5.82	4.5
HRK/EUR average	7.29	7.43	2.0
HRK/EUR closing	7.39	7.53	2.0
3m USD LIBOR (%)	0.34	0.34	(1.9)
3m EURIBOR (%)	0.81	1.39	71.1

** FOB Mediterranean*

2. Announcements in 2011

January 19, 2012	Response to query
December 29, 2011	Annex to Long-term natural Gas supply contract
December 23, 2011	Management Board Decision
December 21, 2011	Syria update
December 19, 2011	CFSSA Resolution
December 7, 2011	Contract signed
December 02, 2011	Strategy approval
November 14, .2011	Syria announcement
November 09, 2011	Management Board decision
November 08, 2011	Announcement
November 08, 2011	Management Board meeting held
October 31, 2011	Third quarter 2011 report
October 25, 2011	Announcement
October 24,2011	Response
September 28, 2011	Hydrocarbon production change in Syria
September 27, 2011	Arbitration panel
September 15, 2011	Management Board meeting held
September 13, 2011	Supervisory Board meeting held
September 06, 2011	The EU Council decision concerning restrictive measures against Syria
August 31, 2011	Administrative court lawsuit
August 10, 2011	Establishing a company
August 04, 2011	Government Resolution on the maximum gas price level for eligible customers
August 04, 2011	Resolutions of the Ministry of Economy, Labour and Entrepreneurship
July 30, 2011	Semiannual report 2011
July 26, 2011	INA presented Optina 2 project
July 13, 2011	Proplin
July 12, 2011	Receivables collection procedure
June 21, 2011	Merger agreement
June 15, 2011	Management Board Meeting held
June 10, 2011	Reaction to the article
June 10, 2011	Retail network modernization
June 08, 2011	Management Board appointment
May 30, 2011	Supervisory Board Employee representative
May 27, 2011	Announcement
May 27, 2011	Crude oil transportation contract
May 23, 2011	Legal opinion
May 23, 2011	General Meeting decisions
May 23, 2011	Counterproposal to the Annual General Meeting
May 13, 2011	Shareholders notification
May 06, 2011	Annual report 2010
May 04, 2011	Management Board Meeting
April 29, 2011	First quarter 2011 report
April 15, 2011	General Meeting notice
March 30, 2011	Audited report
March 30, 2011	Supervisory board meeting
March 29, 2011	Appointment announcement
March 01, 2011	Announcement
February 15, 2011	Fourth quarter 2010 report
February 14, 2011	Rijeka refinery modernisation first phase completed
February 10, 2011	Management Board members appointed
January 17, 2011	Supervisory Board meeting held
January 17, 2011	Extraordinary general assembly held
January 07, 2011	Selec – 1 satellite oil field discovery
January 04, 2011	Shares disposal

3. Subsequent events after the balance sheet date

Findings Report received from the Ministry of Finance

On 20 February 2012 INA d.d. received from the Financial Police at the Ministry of Finance a Report on the findings in connection with the supervision of legality, correctness and timeliness of the calculation, declaration and payment of budgetary revenue for the period 1 January 2008 until 31 December 2009.
The inspection covered value-added tax and corporate income tax for the period 1 January 2008 - 31 December 2009. According to the Findings Report, the Company has been imposed additional tax liabilities as well as late-payment interest for the period from 2008 to 2009. The total additional tax liability amounts to approximately HRK 131 million.

INA d.d. challenges all the findings identified in the Report prepared by the Financial Police of the Ministry of Finance as well as all the additionally imposed liabilities and intends to file a complaint against the Report. Namely, INA d.d. considers that the Ministry of Finance, Financial Police, has determined the additional liabilities on the basis of wrongly determined factual findings and misapplication of substantive law and is confident of proving this in the pending administrative proceedings.

The Croatian government decision concerning restrictive measures against Syria

On 23 February 2012 Croatian government has passed Decision on the implementation of international restrictive measures established by the decision of the Council of the European Union 2011/782/ZVSP in relation to the Syrian Arab Republic.

The Decision prohibits purchase, import and transport of oil and other petroleum products from Syria, sell and transfer of oil and gas technology as well as providing financial or insurance services for such transactions.

Notice on “Force majeure” in Syria

In compliance with the Croatian Government Decision dated 23 February 2012 on the implementation of the EU Council Decision concerning restrictive measures against the Syrian Arab Republic issued on 01 December 2011, INA delivered the force majeure notice to the General Petroleum Company (GPC) of Syria on 26 February 2012 related to the Production Sharing Agreement for the Hayan Block signed in 1998 and Production Sharing Agreement for the Aphamia Block signed in 2004.

Force majeure is a legal term stipulated in the agreement that allows for suspension or temporary adjournment of obligations and activities coming due to the events which are beyond control of the agreement parties such as flood, earthquake, riots, unrests, state of war, etc. Announcing the “force majeure” is a regular mechanism and it doesn’t mean termination of the agreement and the simultaneous exit from the project. It is a protection mechanism for the agreement parties in the event of unforeseeable circumstance with an aim of continuation of the Agreement execution after ceasing of these circumstances, without damages for the announcing party.

INA does not expect to receive any revenues neither to realize its production share from its Syrian project for the foreseeable future, i.e. until the termination of the “force majeure”.

Convocation of the Extraordinary General Assembly

On 29 February 2012, the Management Board of the INA, d.d. rendered the decision on the convocation of the Extraordinary General Assembly to be held on 11 April 2012. On the Extraordinary General Assembly Mr. Ábel Galácz is to be recalled from the duty of the Supervisory Board member and M. Szabolcs Ferencz I. is to be elected as a new member of the Supervisory Board of INA, d.d.

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4. Corporate governance

Administrative, management, and supervisory bodies

INA's management structure is based on a two-tier board system, comprising a Supervisory Board and a Management Board. With the General Assembly, these constitute the three mandatory internal bodies of INA in accordance with INA's Articles of Association and the Companies Act.
At a meeting held on 10 June 2009, 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: five delegated by MOL, three by the Government of Croatia and one member the employees' representative.
The Management Board is made up of six members, three of which are delegated by MOL including the President, and three by the Croatian Government.

Management Board

The list below contains the names of current members of the Management Board and their respective positions on 31 December 2011. 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
Niko Dalić, Member of the Management Board
Pál Zoltán Kara, Member of the Management Board
Ivan Krešić, Member of the Management Board
Davor Mayer, Member of the Management Board
Péter Ratatics, Member of the Management Board

Executive Directors

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

List of Executive Directors as on 31 December 2011:

Peter Chmurčiak, Executive Director in charge of Refining and Marketing (Artur Thernesz appointed from 01 January 2012)
Berislav Gašo, Executive Director in charge of Corporate Services
András Huszár, Executive Director in charge of Finance
Darko Markotić, Executive Director in charge of Retail
Želimir Šikonja, Executive Director of Exploration and Production
Tomislav Thür, Executive Director in charge of Corporate Processes (Corporate Processes changed its name into Corporate Affairs as of 01 January 2012)

Supervisory Board

The list below contains the names of current members of the Supervisory Board and their respective positions (on 31 December 2011). 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 Imre, Deputy chairman of Supervisory Board
József Molnár Farkas, Member of Supervisory Board
Ábel Galácz, Member of Supervisory Board
Maja Rilović, Member of Supervisory Board
Gordana Sekulić, Member of Supervisory Board
József Simola, Member of Supervisory Board
Damir Vanđelić, Member of Supervisory Board
Oszkár Világi, Member of Supervisory Board

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Issuer's Audit Committee

Members of INA Audit Committee are:
Ljubo Jurčić, Chairman
József Simola, Member
Damir Vanđelić, 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)

Given the fact that the INA's shares are listed on a regulated market, INA – INDUSTRIJA NAFTE, d.d. applies the Corporate Governance Code which has been jointly prepared by the Croatian Financial Services Supervisory Agency (hereinafter: the Agency) and the Zagreb Stock Exchange (Zagrebačka burza d.d. Zagreb), and in effect as of Jan 1st 2011 and published on the Internet page of the Zagreb Stock Exchange (http://www.zse.hr).

In addition to the Corporate Governance Code, INA Group also applies its own Code of Ethics which defines the basic values and principles of the conduct of the management and the employees of INA Group regarding their attitude towards work, associates, business partners and the public. The Code also sets forth the obligations of INA Group of securing appropriate work conditions and professional development to employees as well as the avoidance of unacceptable forms of behaviour. The Code covers a broad area of business relationships and processes and has to be observed by all persons acting in the name and on the behalf of INA Group, including natural persons or legal entities who are in a contractual relationship with INA Group (business partners, consultants, suppliers, sellers etc.). These persons or entities can access the Code on the Internet page of INA d.d. (http://www.ina.hr).

INA d.d. in general abides to the provisions of the Corporate Governance Code, with exceptions stated in the Annual Corporate governance Questionnaire published on INAs web site. Some of the exceptions are as follows:

- INA, d.d. does not publish nor update the list of shareholders. The ownership structure is available on the Company's Internet page, while a detailed list of shareholders is kept by the Central Depository & Clearing Company Inc. which, in accordance with law, publishes a list of the ten largest shareholders on its Internet page.
    - INA d.d. does not publish data on the Company's shares held by the Management or Supervisory Board members on its Internet page. Instead all announcements in reference to the securities held by Management or Supervisory Board members can be found on the Company's Internet page.
- INA d.d. does not provide proxies to the Company's shareholders who, for any reason, would not be able to this themselves, without any additional costs for these shareholders who are obliged to vote at the General Assembly in accordance with the instructions of the shareholders. The shareholders who are not able to vote themselves should, at their own discretion, appoint appropriate proxies who are obliged to vote in accordance with their instructions. The Company did not receive any request of any shareholder in this respect.
- The Company sets the terms and formal conditions to the shareholders for their participation in the General Assembly in accordance with the Companies Act and the Company's Articles of Association, in order to protect the shareholders' rights in conditions of a large number of shareholders.

- The Supervisory Board is not composed of a majority of independent members. It is composed of major shareholders representatives and a workers representative in accordance with Company Act.
- The long-term succession plan has not been published, however, the existing systems of electing members to the Supervisory Board, Management Board and upper management take account of the continuity in performing supervisory, management and administrative functions.
- The Supervisory Board has not organized a remuneration and bonus committee. As part of the best practice harmonization process, in addition to the audit committee, INA d.d. also plans to establish the remaining proposed committees.
- The Company's bonus policy is part of the internal rules which are published on the Company's Internet page. Data on remunerations to the Management and Supervisory Board members are published in the annual report in their full amount. The current internal regulations do not envisage the possibility of public announcement of these data.
- The amounts of remunerations paid to independent auditors for rendered services have not been published and constitute a business secret.

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5. Sustainable development, health, safety and environment

Environmental performance

INA commitment of minimizing its impact to the environment is continuous and considering the fact that INA is engaged in exploration and production, processing, storing and selling of oil, oil derivatives and that all these activities can have a considerable impact on the environment and gas it is a challenging task. Combining the knowledge of our experts and best practices of the industry, following the strict regulatory environment, in combination with the introduction of new technologies INA controls its environmental footprint.

Occupational health and safety

The oil industry requires a high degree of health protection and safety at work, so these are among the top priorities and basic prerequisites for the successful operation of any oil company. INA 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.

In 2011 there were no fatalities of own staff in INA opera¬tions. Lost time injury frequency (LTIF) in 2011 on INA, d.d. level was 2.2 and Lost time injury (LTI) was 40 cases; which presents significant improvement, of 35% in respect to 2010. INA E&P with the LTIF of 1.3 had much better result than INA average and is within the OGP standards for Europe operations. INA R&M had LTIF 4.4; which is better than in 2010 by 12%, but is still above European average as presented by CONCAWE, although significant improvement is present in refining business. Retail had LTIF of 1.6 with a huge improvement of 47% in comparison to 2010.
The biggest improvement in safety statistics, regarding LTIF, is present in the Functional units, where improvement of 83%, from 3,0 to 0,6 was recorded.

Fire protection

Fire fighting drills and professional training drills, both announced and unannounced were organized all through the month of May (which is in Croatia a Fire protection month), and the current situation was analyzed in order to define priorities that will make it possible to upgrade the system of protection against fire and technology-caused explosions. The final fire protection drill was organized by the AM&FM in Sisak refinery on HQ building with the involvement of Sinaco firefighting professional brigade.

During 2011 12 fires were registered in INA d.d. Although several of them were with not relevant environment and low financial impact as well, two of them have to be mentioned separately.

March 2011 - Fire in Rijeka Refinery, on the HDS Unit due to leakage at the seals. Fire was extinguished with three hand-held fire extinguishers. The calculated loss of production was ~ 0.5 M€.

20th of June 2011 a major accident took place at Sisak Refinery when a fire broke out in open pipe trench between process and storage area when1,174. of spilled LSRN burned out. Fire was extinguished after 2hours and 50 minutes. Immediately after the incident, incident investigation and recovery teams were appointed. Preliminary and Final Reports were prepared, based on IRIS/Tripod methodology (root-cause analyses of the failed barriers and controls, preconditions, active and latent - system failures) Basic risk factors were identified and detail follow up prepared and supervised. Overall costs ~ 16 M€ (just repair cost was10.5 M€).

Sustainable development

As the leading energy company and one of the largest in Croatia, INA is committed to sustainable development and transparency. In the new Vision INA is declared to be the first choice in the region for customers and talents, creating superior value for its shareholders, growing strongly in exploration and production, and operating sustainable retail, refining and marketing businesses. INA, between the others, commits to adhere to the highest HSE standards, to be a trusted partner of the communities and to offer its employees the best working environment.

For INA sustainable development means the corporate commitment to the balanced integration of economic, environmental and social factors into everyday business operations, to maximise long-term stakeholder value and to safeguard licence to operate.

INA is signatory of the UN Global Compact and is thus committed to promote and support the Global Compact 10 principles in the area of human rights, labour rights, environment and combating corruption.
SD activities in INA Group are coordinated by central SD&HSE Sector. SD is incorporated in HSE activities and responsibilities (Description of Tasks and Responsibilities - DTR) and SD&HSE organization. Besides SD being incorporated into operations organizationally, SD working group continued its work through various activities.

During 2011 new projects, related to social or environmental component of sustainable development, were launched, like Corporate culture change, which includes Safe driving Catalyst project and HSE audit initiative, Corporate volunteering project etc. In addition, all the relevant businesses and functional units planed the actions for SD improvement, as a part of their business plans.

In 2011 INA issued its15th annual non financial SD Report, for the first time issued on INA Group level, and took a part in MOL Group annual report for 2011 too. Besides annual reporting we also took part in half year SD reporting on MOL Group level. All data provided for SD reporting purposes was audited by Ernst&Young.
Since 2010 the INA Group's Code of Ethics has been in force, in accordance with which acts the Ethics Committee, chaired by an external independent expert.

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6. Shareholders structure, changes in organization, Management and Supervisory Board

Shareholders structure by number of shares

	31 Dec 06	31 Dec 07	31 Dec 08	31 Dec 09	31 Dec 10	31 Dec 11
MOL Plc.	2,500,001	2,500,001	4,715,538	4,715,538	4,715,538	4,725,620
Government of the Republic of Croatia	5,180,367	4,484,918	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	790,828
Total	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000

Source: Central Clearing Depositary Company

Acquisition of own shares

Company does not own its own shares and there has been no acquisition of them during 2011.

Changes in organisation, Management Board or Supervisory Board

Supervisory Board

At the Extraordinary General meeting of INA-INDUSTRIJA NAFTE d.d. held on January 17, 2011 Ivan Šuker, Tomislav Ivić and Božidar Pankretić were recalled and Davor Štern, Gordana Sekulić and Damir Vanđelić were appointed supervisory board members with the term of office until June 13, 2013. At the meeting held on January 17, 2011 the Supervisory Board of INA-Industrija nafte d.d. Zagreb appointed Mr Davor Štern a new Chairman of the Supervisory Board.
In accordance with the article 163, paragraph 3. of the Labour Act (official Gazette 149/09), in connection with the article 256, paragraph 2 of the Companies Act (official Gazette 118/03) elections for the INA, d.d. Supervisory Board Employee representative were held on May 12, 2011. Mrs Maja Rilović was elected as the Employee representative in the Supervisory Board of INA, d.d. with the term of office starting from May 24, 2011.

Management Board

During the circular voting procedure on February 10, 2011 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 February 11, 2011 until April 1, 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 February 10, 2011. Besides, the term of office of Mr. Attila Holoda and Mr. Lajos Alacs as members of INA Management Board is extended for the period until April 1, 2015.
On the session of the Supervisory Board of INA-INDUSTRIJA NAFTE d.d. held on June 7, 2011, two new members of the Management Board were appointed. New Management Board members are dr. Pál Kara and Péter Ratatics, both appointed with the mandate starting as of June 9, 2011 until April 1, 2015. At the same session, Supervisory Board accepted the resignation of Attila Holoda and Lajos Alács from the position of the members of the Management Board as of June 8, 2011.
The Management Board of INA – Industrija nafte, d.d. at its session held on June 14, 2011 recalled Mr. Bojan Milković from the duties of CEO and Executive director for exploration and production as of June 14, 2011 at his own request. At the same session the Management Board appointed Mr. Želimir Šikonja to the position of Executive director for exploration and production of oil and gas for indefinite period of time.
The Management Board unanimously prolonged authorization of its President, Mr. Zoltán Áldott, for the supervision of functions directly subordinated to Chief Executive Officer for the period of 90 days or until further decision.
The Management Board of INA – Industrija nafte, d.d. at its session held on September 14, 2011 unanimously prolonged authorization of its President, Mr. Zoltán Áldott, for the supervision of functions directly subordinated to Chief Executive Officer until December 31, 2011.
At the Management Board meeting held on December 21, 2011, the Management Board of INA unanimously prolonged the authorization of its President, Mr. Zoltán Áldott, to perform the duties from the responsibilities of the Chief Executive Officer until March 31, 2012.
It was also decided that BF Corporate Processes changes the name to BF Corporate Affairs and sectors previously directly subordinated to the Chief Executive Officer have been placed under the competence of the Management Board and Corporate Affairs and Corporate Services business functions. Mr. Tomislav Thür and Mr. Berislav Gašo remain at their positions as Executive directors of BF Corporate Affairs and Corporate services respectively. The above mentioned organizational changes have become effective as of January 1, 2012.
Following the decision of INA's Management Board from November, Mr. Artur Thernesz has taken over the position of INA's Executive Director for Refining and Marketing BD from January 1, 2012. Mr. Thernesz has taken over the position from Mr. Peter Chmurčiak.

7. Expected development

Stronger performance in 2011 was primarily the result of the completion of a very heavy investment period between 2008 and 2011, in which a number of very large investments have been commissioned and started to contribute strongly to results. Results also reflect the effects of continuation of efficiency improvement, strict cost control and business optimization and rationalization. These activities are becoming increasingly important, as INA cannot influence on its external operating conditions. In recent period INA has significantly improved financial position by reducing the level of net debt and reducing the gearing ratio, securing future liquidity to finance new growth projects.

Majority of the planned investments are to be in Croatia which will secure INA's position as the largest investor of the country. One of major goals for INA is to ensure security and stability of energy supply in the challenging environment.

INA stays committed to further continuing to improve the efficiency of operations by controlling costs and further improvement of procurement processes, with an aim of reaching additional savings.

Difficult business conditions in the foreign concessions and reduced demand due to economic problems in the Eurozone are the main challenges in the coming period. Company continuously analyzes the developments and will continue adjusting to the new external conditions.

In Exploration and Production, as primary growth driver, INA is planning to pursue an exploration-led strategy by developing existing projects and through potential inorganic steps. INA is targeting a sustainable reserve replacement and compensating natural production decline from legacy assets with development of existing assets in the strategic period.
Despite the revocation of licenses for exploration in the continental part of Croatia INA remains the leading entity currently in Croatia, which has the necessary equipment, experience, knowledge and projects prepared ready to drill to accelerate exploration activities in continental Croatia, pending decision of the new Government regarding licensing.

The Company also sees possibilities, particularly in the Croatian market, in identifying opportunities to enter the power business in the strategic time horizon.

D Management representation

INA Group's consolidated financial statements for Q4, 2011 have been prepared in accordance with the International Financial Reporting Standards (IFRS). i.e. they present fairly, in all material aspects, the financial position of the company, results of its operations and cash flows of INA Group.

Management Board:

Zoltán Áldott	President of INA, d.d. Board
Niko Dalić	Member
Pal Zoltan Kara	Member
Ivan Krešić	Member
Davor Mayer	Member
Peter Ratatics	Member